Ius Comparatum - Global Studies in Comparative Law

Ewoud Hondius
André Janssen *Editors*

Disgorgement of Profits

Gain-Based Remedies throughout the World

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Editors

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Preface

Disgorgement of profits is not exactly a household word in private law. Particularly in civil law jurisdictions – as opposed to those of the common law – the notion is not well known. What does it stand for? Some examples may illustrate it. One of the best known examples is the British case of *Blake v Attorney General*, [2001] 1 *AC* 268. There a double spy had been emprisoned by the UK government before escaping and settling in the former Soviet Union. He there wrote a book on his experiences, upon which the UK government claimed the proceeds of the book. The House of Lords, as it then was, allowed the claim on the basis of breach by Blake of his employment contract. Other examples are the infringement of intellectual property rights, where the damages of the owner are limited, but the profits of the wrongdoer immense. In such cases, the question arises whether the infringing party should be disgorged of his profits.

This volume aims at establishing the notion of disgorgement of profits as a keyword in the discourse of private law. It does not purport to answer the question whether or not such damages should or should not be awarded. It does however intend to contribute to the discussion, the arguments in favour and against, and the organisation of the various actions.

This book collects the 24 national reports and the general report prepared for the XIXth congress of the International Academy of Comparative Law, held in Vienna, July 2014. It also includes both a table of cases and an index. Furthermore we included the original questionnaire. This is because some national reports enter into a discussion with the questionnaire and it therefore seems methodologically better to include that questionnaire.

We are grateful to our national reporters who were willing to submit their reports in time. We also thank the organisers of the conference, both at the Paris headquarters of the *International Academy of Comparative Law* and in Vienna. We also thank the publishers of Springer.

Utrecht, The Netherlands — Ewoud Hondius
Göttingen, Germany — André Janssen
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He is the author of *The Law of Equitable Remedies*, 2nd edn. (Irwin Publishing – Essentials of Canadian Law series, 2013), and is the coordinating editor and contributing author of Berryman et al., *Remedies: Cases and Materials*, 6th edn. (Emond Montgomery, 2012). His published articles have appeared in journals in Canada, Australia, New Zealand, the USA, and England. He has advised the New Zealand Ministry of Justice, Ontario Law Reform Commission, and the Federal Court of Canada. He is a member of the Law Society of Upper Canada and a barrister and solicitor of the High Court of New Zealand.

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Ewoud Hondius was born in 1942 in The Netherlands. He was raised in The Hague and in Princeton NJ. From 1960 to 1966 he read law in Leyden and New York (Columbia University). From 1966 to 1980 he was affiliated with Leyden University, from 1978 as Professor of Civil Law. From 1980 to present he has been affiliated with the University of Utrecht, currently as Professor of European Private Law. He has been a visitor or Visiting Professor in Baton Rouge (Louisiana State), Cambridge (Trinity College), Ghent, Hamburg (Bucerius University), Kyoto (Ritsumeikan), London (Queen Mary), Münster, Paris (Paris I), Stellenbosch and Sydney. He is a member of the Royal Netherlands Academy of Sciences and holds honorary doctorates from the Catholic University of Leuven and the University of Edinburgh. Ewoud Hondius has published widely on issues of comparative law and is the co-founder and joint Editor-in-chief of the *European Review of Private Law*.

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Abbreviations

ABGB	Allgemeines Bürgerliches Gesetzbuch (Austrian Civil Code)
ABQB	Alberta Court of Queen's Bench (electronic reports)
AC or A.C.	Law Reports, Appeal Cases (Third Series)
AcP	Archiv für die civilistische Praxis
ACT	Australian Capital Territory
ACTA	Anti-Counterfeiting Trade Agreement
ACTR	Australian Capital Territory Reports
Ad & El	Adolphus & Ellis' Queen's Bench Reports
AktG	Aktiengesetz (German Companies Act)
All ER	All England Reports
All ER (Comm)	All England Law Reports (Commercial cases)
AP	Areios Pagos (Greek Supreme Court)
App Cas	Law Reports, Appeal Cases (Second Series)
App.	Corte di Appello
Arm	Armenopoulos (Greek Law Review)
BayObLG	Bayerisches Oberstes Landesgericht
B & Ad	Barnewall & Adolphus' King's Bench Reports
BCC	British Company Cases
BCCA	British Columbia Court of Appeal (electronic reports)
B.C.L.R.	British Columbia Law Reports
BCSC	Supreme Court of British Columbia (electronic reports)
Beav	Beavan's Rolls Court Reports
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BGBl.	Bundesgesetzblatt
BGH	Bundesgerichtshof (German Federal Supreme Court)
BGHZ	Entscheidungen des Bundesgerichtshofs in Zivilsachen
B.L.R.	Business Law Reports
BT-Drs.	Bundestagsdrucksache
Bus LR	Business Law Reports
C.A.	Court of Appeal
CA	Civil Appeal

CanLII	Canadian Legal Information Institute (electronic reports at canlii.org)
Cass.	Cassazione
Cass. pen.	Cassazione penale
Cass., sez. un.	Cassazione sezioni unite
CC	Civil Case
c.c.	Codice Civile (Italian Civil Code)
C.C.Q.	Civil Code of Québec
Ch	Law Reports, Chancery Division (Third Series)
Ch D	Law Reports, Chancery Division (Second Series)
ChrID	Chronika Idiotikou Dikaiou (Greek Law Review)
c.i.i.	Codice di Proprietà Industriale (Italian Intellectual Property Rights Code)
CISG	United Nations Convention on Contracts for the International Sale of Goods
CJ (after a surname)	Chief Justice
CJEU	Court of Justice of the European Union
CLR	Commonwealth Law Reports
c.p.c.	Codice di Procedura Civil (Italian Civil Procedure Code)
c.p.	Codice Penale (Italian Criminal Code)
C.P.R.	Canadian Patent Reports
CP Rep	Civil Procedure Reports
C.Q.L.R.	Compilation of Québec Laws and Regulations
CSOH	Scotland Court of Session Outer House (neutral citation)
Cth	Commonwealth
D	Dunlop (part of the Session Cases reports)
DCFR	Draft Common Frame of Reference
DEE	Dikaio Epichiriseon kai Etairion (Greek Law Review)
DiMEE	Dikaio Meson Mazikis Enimerosis (Greek Law Review)
Div. Ct.	Divisional Court
DJT	Deutscher Juristentag (German Jurists' Forum)
d. lgs.	Decreto legislative
DLR or D.L.G.	Dominion Law Reports
DriZ	Deutsche Richterzeitung
ed.	Editors
EdinLR	Edinburgh Law Review
eds.	Editors
edn.	Edition
EEmpD	Epitheorisi Emporikou Dikaiou (Greek Law Review)
EfAD	Efarmoges Astikou Dikaiou (Greek Law Review)
e.g.	For example
EGLR	Estates Gazette Law Reports
EllDni	Elliniki Dikaiosyni (Greek Law Review)
ErmAK	Commentary to the (Greek) Civil Code

EMLR	Entertainment and Media Law Reports
Env LR	Environmental Law Reports
ER	English Reports
etc.	Et cetera
ETMR	European Trade Mark Reports
et seq.	And the following (singular)
et seqq.	And the following (plural)
EU	European Union
EWCA Civ	England & Wales Court of Appeal (Civil Division)
EWHC	England & Wales High Court (Administrative Court)
EWHC (Ch)	England & Wales High Court, Chancery Division (neutral citation)
EWHC (Comm)	England & Wales High Court, Commercial Court (neutral citation)
EWHC (QB)	England & Wales High Court, Queen's Bench Division (neutral citation)
EWPCC	Patents County Court (neutral citation)
FCA	Federal Court of Appeal (electronic reports)
FCAFC	Federal Court of Australia, Full Court
FCJ	Federal Court of Justice (electronic reports at LexisNexis Quicklaw)
FCP (or FC)	Federal Court Reports
FSR	Fleet Street Reports
GebrMG	Gebrauchsmustergesetz (German Utility Models Act)
GeschMG	Geschmacksmustergesetz (German Design Patent Act)
Giff	Giffard's Chancery Reports
GrCC	Greek Civil Code
GRUR	Gewerblicher Rechtsschutz und Urheberrecht
GRUR-RR	GRUR Rechtsprechungs-Report
GWB	Gesetz gegen Wettbewerbsbeschränkungen (German Act against Restraints of Competition)
HCA	High Court of Australia
HLR	Housing Law Reports
HGB	Handelsgesetzbuch (Austrian or German Commercial Code)
ibid or ibid.	Ibidem
ip-law	Intellectual property law
ip-right/IPR	Intellectual property right
J (after a surname)	Justice
JA (after a surname)	Justice of Appeal
Jac	Jacob's Chancery Reports
JBl	Juristische Blätter
JJ (after multiple surnames)	Justices

JR	Juridical Review
JZ	JuristenZeitung
KBB	Koziol/Bydlinski/Bollenberger (eds.), Kurzkommentar zum ABGB
K & J	Kay & Johnson's Vice Chancellor's Reports
KritE	Kritiki Epitheorisi Nomikis Theorias kai Praxis (Greek Law Review)
l.a.	Legge sul diritto d'autore
Ld Raym	Lord Raymond's King's Bench and Common Pleas Reports
LG	Landgericht (District Court)
LJ (after a surname)	Lord Justice
LJ Ch	Law Journal Reports, Chancery New Series
Lloyd's Rep	Lloyd's Law Reports
LR Ch App	Law Reports, Chancery Appeals
LR Eq	Law Reports, Equity Cases
LQR	Law Quarterly Review
M	Macpherson (part of the Session Cases reports)
Mac & G	Macnaugten & Gordon's Chancery Reports
MarkenG	Markengesetz (German Trademark Act)
Mur	Murray's Jury Court Cases
M & W	Meeson & Welsby's Exchequer Reports
NIQB	High Court of Justice Northern Ireland, Queen's Bench Division (neutral citation)
NJW	Neue Juristische Wochenschrift
NJW-RR	NJW-Rechtsprechungs-Report
no.	number(s)
NoV	Nomiko Vima (Greek Law Review)
N.R.	National Reports
NSW	New South Wales
NSWCA	New South Wales Court of Appeal
NSWLR	New South Wales Law Reports
NSWSC	New South Wales Supreme Court
NUCJ	Nunavut Court of Justice (electronic reports)
NZG	Neue Zeitschrift für Gesellschaftsrecht
NZLR	New Zealand Law Reports
NZSC	New Zealand Supreme Court
ÖBl.	Österreichische Blätter für gewerblichen Rechtsschutz und Urheberrecht
OGH	Oberster Gerichtshof (Austrian Supreme Court)
OLG	Oberlandesgericht (Higher Regional Court)
ONCA	Ontario Court of Appeal (electronic reports)
ONSC	Ontario Superior Court of Justice (electronic reports)
Ont.	Ontario
O.R.	Ontario Reports

OWiG	Ordnungswidrigkeitengesetz (German Administrative Offences Act)
P (after a surname)	President
p. or pp.	Page(s)
para or para.	Paragraph
PatG	Patentgesetz (German Patent Act)
PECL	Principles of European Contract Law
PEL Liab. Dam.	Principles of European Private Law: Non-contractual Liability Arising Out of Damage Caused to Another
PETL	Principles of European Tort Law
P & CR	Property and Compensation Reports
PD – Piskei Din	Collection of the Israel Supreme Court Judgments
Pol LR	Police Law Reports
PM	Pesakim Mehozi'im, Collection of Israeli District Court Judgments
PRC	People's Republic of China
P Wms	Peere-Williams' Chancery and King's Bench Cases
QB	Law Reports, Queens Bench (Third Series)
QCCA	Quebec Court of Appeal (electronic reports)
Qd R	Queensland Reports
Qld	Queensland
QSC	Queensland Supreme Court
R	Rettie (part of the Session Cases reports)
RabelsZ	Rabels Zeitschrift für ausländisches und internationales Privatrecht
RGZ	Entscheidungen des Reichsgerichts in Zivilsachen
RHDI	Revue Héllénique de Droit International
R.J.Q.	Recueil de jurisprudence du Québec
RLR	Restitution Law Review
RPC	Reports of Patent, Design and Trade Mark Cases
R.S.C.	Revised Statutes of Canada
s	Section
SA	South Australia
SASC	South Australian Supreme Court
S.B.C.	Statutes of British Columbia
SC	Session Cases reports
SCC	Supreme Court of Canada (electronic reports)
S.C.R.	Supreme Court Reports
SEAK	Brief Commentary to the (Greek) Civil Code
Sel Cas t King	Select Cases in Chancery tempore King
SLT	Scots Law Times
SLT (Notes)	Scots Law Times (Notes of cases)
SLT (Sh Ct)	Scots Law Times (Sheriff Court reports)
S.O.	Statutes of Ontario

So W	South Western Reporter
Ss	sections
Sup. Ct. J.	Superior Court of Justice
StGB	Strafgesetzbuch (Austrian or German Criminal Code)
SZ	Entscheidungen des österreichischen Obersten Gerichtshofes in Zivil- (und Justizverwaltungs-)sachen
Tas	Tasmania
Tib.	Tribunale
TRIPS	Agreement on Trade Related Aspects of Intellectual Property Rights
UKHL	United Kingdom House of Lords
UKPC	United Kingdom Privy Council (neutral citation)
UKSC	United Kingdom Supreme Court
ULIS	Convention relating to a Uniform Law for the International Sale of Goods
UrhG	Urheberrechtsgesetz (German Copyright Act)
US	United States Supreme Court Reports
UWG	Gesetz gegen den unlauteren Wettbewerb (Austrian or German Unfair Competition Act)
Vic	Victoria
VR	Victorian Reports
VSC	Victorian Supreme Court
VSRH	Vrhovni Sud Repubike Hrvatske (Supreme Court of the Republic of Croatia)
VTS	Visoki Trgovački Sud (High Commercial Court/Croatia)
WA	Western Australia
WASC	Western Australia Supreme Court
Wistra	Zeitschrift für Wirtschafts- und Steuerstrafrecht
WK StGB	Höpfel/Ratz (eds.), Wiener Kommentar zum StGB
WLR or W.L.R.	Weekly Law Reports
WM	Wertpapier-Mitteilungen
WRP	Wettbewerb in Recht und Praxis
WuM	Wohnungswirtschaft und Mietrecht
WTLR	Wills & Trusts Law Reports
ZEuP	Zeitschrift für Europäisches Privatrecht
ZGR	Zeitschrift für Unternehmens- und Gesellschaftsrecht
ZUM	Zeitschrift für Urheber- und Medienrecht
ŽS	Županijski Sud (Appellate Court in Zagreb/Croatia)

Part I
Original Questionnaire

Chapter 1
Original Questionnaire: Disgorgement of Profits

Ewoud Hondius and André Janssen

Abstract This Chapter sets out the original questionnaire submitted to the national reporters.

Keywords Contract • Competition law • Damages • Disgorgement of profits • Enforcement directive • Fiduciary duties • Gain-based remedies • Intellectual property right • Personality rights • Unfair commercial practices • Unjust enrichment

> This Court never allows a man to make profit by a wrong, (. . .).[1]

This famous sentence by *Lord Hatherly* in *Jegon v Vivian* is already more than 140 years old but still seems to be completely in line with today's rhetoric.[2] It is a timeless statement. Maybe even more than in Lord Hatherly's time there is a worldwide ideal that unlawful conduct (or more specific tort) should not pay and that for this reason the wrongdoer's illegal profits must be disgorged.[3]

In preparing this questionnaire we have profited from the various suggestions by the national reporters from Australia (Katy Barnett), Belgium (Marc Kruithof) and Israel (Talia Einhorn).

[1] *"This Court never allows a man to make profit by a wrong, but by Lord Cairns' Act the Court has the power of assessing damages, and therefore it is fairly argued here that this is a case in which damages ought to be reckoned (. . .).*" Lord Hatherly in Jegon v Vivian (1870–1871), Law Reports Chancery Appeal Cases VI, 742 (761).

[2] See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) § 3, 'Wrongful Gain': 'A person is not permitted to profit by his own wrong.'

[3] See e.g. Rookes v. Barnard [1964] AC 1129 (1227), per Lord Devlin: "*Exemplary damages can properly be awarded whenever it is necessary to teach a wrongdoer that tort does not pay.*"

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Unfortunately, the legal reality looks very different from the rhetoric. Infringements of e.g. competition law, unfair commercial practices law, capital market law, intellectual property rights or personal rights by mass media or the breach of fiduciary duties are generally highly profitable for the wrongdoer. Thousands of millions of Euros or dollars of unlawful profits remain with the wrongdoers every year.[4] Thus, in practice tort or in general unlawful conduct often pays.[5]

From a private law perspective the reasons why unlawful conduct at the end pays are at least threefold: The first and most obvious one is when the chance to detect the wrongdoer is very low. In these situations he is "speculating" that he will not be held liable for his unlawful behaviour. The second reason can be the rational apathy of the injured parties in cases of so-called 'trifling damages' or 'nominal damages'. These are cases in which the damage of each individual is low (and thus the incentive to claim damages is low as well) but as a lot of persons suffered these losses, the profit of the wrongdoers is (sometimes immensely) high. Another possible reason is that the wrongdoers' expected profits are higher than the legal sanctions (especially damages) for the infringement. In these cases the calculated breach of law remains profitable despite all sanctions (efficient or profitable breach of law). In common law countries, there is also a divide between private law actions which historically arose in common law courts and private law actions which historically arose in equity in the courts of Chancery. Although the account of profit (disgorgement) arose in the common law, it was taken up by the courts of Equity and became principally available for breaches of equitable wrongs.[6] Thus it was not traditionally awarded for breaches of common law wrongs such as contract and tort.

This decision has in fact limited exemplary damages in English law to just three cases. The limits of this decision were very well demonstrated in the later case of Broome v. Cassels, per Lord Denning, MR, in the Court of Appeal. Lord Denning suggested that the Rookes precedent, especially the limits it had set on exemplary damages, was given per incuriam. This decision, however, was later overturned by the HL. See also Ulrich Schmolke, Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, GRUR Int. 2007, 3: "*tort must not pay*".

[4]For instance, according to a study published in 2007 the yearly impact of cartels in Europe do amount up to € 261.22 billion. This would in turn mean an impact of 2.3 % of the EU GDP (see Centre for European Policy Studies/Erasmus University Rotterdam/Luiss Guido Carli, Making Antitrust Damages Actions more Effective in the EU: Welfare Impact and Potential Scenarios, Report for the European Commission, 2007, 96).

[5]See on that also Heinz-Dieter Assmann, Schadensersatz in mehrfacher Höhe des Schadens – Zur Erweiterung des Sanktionensystems für die Verletzung gewerblicher Schutzrechte und Urheberrechte, Betriebsberater 1985, 15; Hans Brandner, Die Herausgabe von Verletzervorteilen im Patentrecht und im Recht gegen unlauteren Wettbewerb, Gewerblicher Rechtsschutz und Urheberrecht 1980, 359 (363); Michael Lehmann, Präventive Schadensersatzansprüche bei Verletzungen des geistigen und gewerblichen Eigentums, Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil 2004, 763 (footnote 17).

[6]It arose with the writ of *praecipae quod reddat* in common law. See Mitchell McInnes, 'Account of Profits for Common Law Wrongs' in Simone Degeling and James Edelman (eds.), Equity in Commercial Law (Pyrmont: Lawbook Co, 2005), 405 et seq.; Gareth Jones, 'The Role of Equity in the English Law of Restitution' in E.J.H. Schrage (ed.), Unjust Enrichment: The Comparative History of the Law of Restitution (Berlin: Duncker & Humblot, 1995), 147, 168–69.

The initial question for the idea of disgorgement of illegal profits is which branch of law is or should be in charge and what instruments they offer to ensure that law infringements do not pay and that illegally gained profits are disgorged. In the majority of legal systems it seems to be accepted that this combat against unlawful profits is not just a task for one branch of law but that criminal, administrative and private law have to work closely together to achieve the best result possible.[7] For this reason criminal and administrative law often foresee a whole arsenal of more or less efficient particular instruments focussing on disgorgement of unlawful profits: They can e.g. either be confiscated,[8] skimmed-off by authorities,[9] or administrative or criminal fines can be calculated according to the illegal profits.[10]

For the private law sector however, it seems that possible remedies for disgorging unlawful profits are often less "obvious", sometimes even almost "hidden" under the banner of compensatory damages or other obfuscatory labels. Often they are widely spread all over the private law system, which normally complicates a common understanding of the problem. Arguably the most discussed and most distinct private law instrument are the so-called disgorgement, restitutionary[11] or gain-based damages.[12] In strong contrast to compensatory damages they are measured according to the defendant's gain based on the infringement of a right rather than the plaintiff's losses. Thus, the plaintiff might gain damages that exceed his suffered losses considerably; he receives what is sometimes called a "windfall profit".[13]

With regard to disgorgement damages national reporters have to face several problems: as already indicated above, there is the question of different terminology which complicates a uniform understanding. In addition, not every jurisdiction

[7] In German legal language the term "*wechselseitige Auffangordnung*" is used to describe this idea of combining branches of law to reach an overarchieving aim as the prevention of illegally gained profits (Wolfgang Hoffmann-Riem, Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen – Systematisierung und Entwicklungsperspektiven, in: Hoffmann-Riem, Wolfgang/Schmidt-Aßmann, Eberhard (eds.), Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen, Baden-Baden: Nomos, 1996, 261–336; Eberhard Schmidt-Aßmann, Öffentliches Recht und Privatrecht: Ihre Funktion als wechselseitige Auffangordnungen, in: Hoffmann-Riem, Wolfgang/Schmidt-Aßmann (eds.), Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen, Baden-Baden: Nomos, 1996, 7–40).

[8] See e.g. section 73 et sec. German Criminal Code or § 29a German Administrative Offences Act.

[9] See e.g. section 34 German Act against Restraints of Competition.

[10] See e.g. section 17(4) German Administrative Offences Act; section 81(5) German Act against Restraints of Competition.

[11] In the common law, restitution has two meanings: a giving back and a giving up, as Peter Birks has observed.

[12] See for the terminology and a possible differentiation between the mentioned terms James Edelman, Gain-based Damages – Contract, Tort, Equity and Intellectual Property (Oxford: Hart, 2002), 65 et seq.

[13] See e.g. Thomas Dreier, Kompensation und Prävention – Rechtsfolgen unerlaubter Handlungen im Bürgerlichen, Immaterialgüter- und Wettbewerbsrecht (Tubingen: Mohr Siebeck, 2002), 42 et seq.: Marc Kruithof, De vordering tot voordeeloverdracht, Tijdschrift voor Privaatrecht 2011, 13 (37 et seq.).

recognises this topic as a specific issue as such and this may also give difficulties to them.[14] They might also have the problem that damage multipliers as e.g. the American treble damages[15] in competition law or punitive or exemplary damages in Common Law[16] systems have a function of disgorging profits along with other functions such as; thus a functional overlap might occur.[17] In Australia, the historical division between equity and common law remains a significant barrier to the award of disgorgement damages in areas of private law which have their origins in the common law, such as contract and tort.[18] The melding of common law causes of action with remedies which historically arose in equity is said to produce 'fusion fallacy' by ignoring historical precedent.[19] By contrast, the US is unconcerned about a fusion of common law and equity,[20] and this is reflected in its much

[14]Compare Simon Whittaker, in: Fabrizio Cafaggi (ed.), Contractual networks, inter-firm cooperation and economic growth (Cheltenham: Elgar, 2011), 179: "*It is always difficult to discuss a topic from the point of view of a legal system where that legal system does not recognise the existence of the topic.*"

[15]See section 4 of the Clayton Antitrust Act. For a further example of treble damages in America see section 1964 (c) Racketeer Influenced and Corrupt Organizations Act (RICO-Act). Generally Richard Craswell, Damage Multipliers in Market Relations, 25 Journal of Legal Studies, 463–492 (1996); Richard Craswell, Deterrence and Damages: The Multiplier Principle and Its Alternatives, 97 Michigan Law Review, 2185–2238 (1999).

[16]Helmut Koziol, Punitive Damages – A European Perspective, 68 Louisiana Law Review, 741–764 (2008); Helmut Koziol/ Vanessa Wilcox (eds.), Punitive Damages: Common Law and Civil Law Perspectives (Vienna: Springer, 2009); Polinsky, A. Mitchell/Shavell, Steven, Punitive Damages: An Economic Analysis, 111 Harvard Law Review, 869–962 (1998).

[17]See e.g. for the treble damages in US competition law Antitrust Modernization Commission, Report and Recommendations, Washington D.C. 2007, 246 (treble damages also for "*disgorgement of profits*").

[18]Disgorgement for common law causes of actions such as tort and breach of contract has generally been rejected: Hospitality Group Pty Ltd v Australian Rugby Union Ltd (2001) 110 FCR 157 (FCA) 196 (Hill and Finkelstein JJ); Town & Country Property Management Services Pty Ltd v Kaltoum [2002] NSWSC 166 [85] (Campbell J); Biscayne Partners Pty Ltd v Valance Corp Pty Ltd [2003] NSWSC 874 [232]–[235] (Einstein J); Short v Crawley [2005] NSWSC 928 [24] (White J); PW Young, 'Recent Cases – Account of profits for breach of contract' 74 Australian Law Journal, 817 (2000); RI Barrett, 'The "Most Wrong" Equity Cases 1990–2003: Attorney General v Blake' (presented at the Supreme Court Judges' Conference, 24 August 2003). The only positive judicial comment in favour of such a remedy is that of Deane J in Hospital Products Ltd v United States Surgical Corp (1984) 156 CLR 41, 124–25 (HCA). There are also academic accounts which are favourable: see e.g. James Edelman, Gain-based Damages – Contract, Tort, Equity and Intellectual Property, (Oxford: Hart, 2002) (Edelman J is now a judge of the Supreme Court of Western Australia); Sirko Harder, Measuring Damages in the Law of Obligations: The Search for Harmonised Principles (Oxford: Hart, 2010); Katy Barnett, Accounting for Profit for Breach of Contract: Theory and Practice (Oxford: Hart, 2012).

[19]RP Meagher, JD Heydon and MJ Leeming, Meagher, Gummow and Lehane's Equity, Doctrines and Remedies, 4th edn. (Sydney: Butterworths Lexis Nexis, 2002), 61, 854.

[20]See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) § 4, 'Restitution May Be Legal Or Equitable Or Both'.

greater willingness to award disgorgement and punitive damages for a wide range of actions.

In most legal systems disgorgement damages are not considered as a general remedy for all kind of law infringements; thus often a general legal basis is lacking. E.g. in the US, traditionally it has been denied that disgorgement damages should always be awarded – see for instance *E. Allan Farnsworth*.[21] But more recently *Melvin Eisenberg* has argued that such damages are already accepted in American law[22] – see *Snepp v US*.[23] And in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognised that disgorgement may be appropriate in some cases.[24] Also in Germany a general instrument "disgorgement damages" is lacking in the Civil Code of 1900. However, recently well-known scholars as *Gerhard Wagner* do stick up for an inclusion of disgorgement damages in the law of damages (for intentional infringements).[25] In common law countries such as England and Wales and Australia, and New Zealand, disgorgement damages have traditionally been available only for equitable causes of action such as breach of fiduciary duty[26] and breach of confidence where they are known as the "account of profits".[27] However, it has been recognised by courts in England and Wales and Canada that disgorgement may be awarded outside the equitable sphere for other private law causes of action such as breach of contract.[28] Some other countries however, do prima facie have a general legal basis for disgorgement damages as for instance The Netherlands. Article 6:104 of the Dutch Civil Code of 1992 seems to provide a legislative basis for such damages, but in the case of *Waeyen-Scheers/Naus*

[21] E. Allan Farnsworth, Your loss or my gain?/The dilemma of the disgorgement principle in breach of contract, 94 Yale Law Journal, 1339–1393 (1985).

[22] Melvin Eisenberg, The disgorgement interest in contract law, 105 Michigan Law Review, 559–602 (2006).

[23] 444 US 507 (1980, Alaska).

[24] See Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) § 39, 'Profit From Opportunistic Breach', § 51, 'Enrichment By Misconduct; Disgorgement; Accounting' and § 53, 'Use Value; Proceeds; Consequential Gains'.

[25] Gerhard Wagner, Neue Perspektiven im Schadensrecht – Kommerzialisierung, Strafschadensersatz, Kollektivschaden (Munich: C.H. Beck, 2006), 96 et seq.

[26] See Murad v Al-Saraj [2005] EWCA Civ 959 (England and Wales); Warman v International Ltd v Dwyer (1995) 182 CLR 541 (Australia).

[27] Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109 (HL).

[28] See especially Attorney-General v Blake [2000] UKHL 45, [2001] 1 AC 268 (HL) and also Esso Petroleum Company Limited v Niad Limited [2001] EWHC Ch 458, [2001] All ER (D) 324 (Ch); Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323, [2003] 1 All ER (Comm) 830 (CA). Disgorgement is also available in Canada for wrongs such as breach of contract: see Bank of America (Canada) v Mutual Trust Co (2002) 211 DLR (4th) 385 (SCC) [25] (Major J); Amartek Inc v Canadian Commercial Corp (2003) 229 DLR (4th) 419 (Ontario SC) 467 (O'Driscoll J) (on appeal held there was no collateral contract: (2005) 5 BLR (4th) 199 (Ontario CA); Montreal Trust Co v Williston Wildcatters Corp (2004) 243 DLR (4th) 317 (SKQB) 122 (Vancise JA).

the Dutch Supreme Court only considered this a way of assessing damages.[29] *J.D.A. Linssen* considers unjustified enrichment a better ground.[30]

Despite the fact that there seem to exist reservations with regard to the acceptance of a general remedy "disgorgement damages" there are some branches of law where they are particularly discussed and often accepted. In contract law, often courts have characterised a breach of contract also constituting a concurrent breach of fiduciary duty in order to have recourse to disgorgement damages. In a lot of legal systems disgorgement damages in case of intellectual property rights infringements are accepted. [31] Also in the world of competition law – even though private enforcement is here with the exception of the US a relatively new phenomenon – in some legal systems the plaintiff may disgorge unlawful profits based on an infringement of competition law as damages.[32] Another very famous and important branch for disgorgement damages are the (intentional) infringements of personality right by mass media for gain. Several courts from different countries have decided that the profits e.g. a newspaper makes due to an intentional violation of personality rights should be disgorged by disgorgement damages as otherwise tort might pay.[33]

Thus, several national reporters might face the fact that the possibilities for receiving disgorgement damages might be wide-spread over several branches of law; sometimes based on case law and sometimes on statutory law, and the legal requirements might differ considerably. The question is nonetheless whether despite this diversity just mentioned a coherent theory of disgorgement damages exists. The question is for example whether the different kind of disgorgement damages do serve the same function and what function that would be. As possible underlying reasons for disgorgement damages are discussed: prevention, compensation, restitution, deterrence or also the "Rechtsfortwirkung".[34] However, in some legal systems

[29] Nederlandse Jurisprudentie 1995, no. 421.

[30] J.G.A. Linssen, Voordeelsafgifte en ongerechtvaardigde verrijking (PhD Diss. Tilburg, The Hague: Boom, 2001), 848 p.

[31] For Europe see article 13(1)(a) of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (known as the "Enforcement Directive") and the national implementation legislation. For America see e.g. § 504(b) Copyright Act. See more detailed about disgorgement damages in US intellectual property law Klaus Ulrich Schmolke, Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil 2007, 3 et seq. For England and Wales see e.g., Copyright, Designs and Patents Act 1988 (UK), s 96(2), s 229(2), Trademarks Act 1994 (UK), s 14(2), Patents Act 1977, s 61(1). For Australia see e.g., Patents Act 1990 (Cth) s 122(1), Copyright Act 1968 (Cth), s 115(2); Designs Act 1906 (Cth), s 32B(1); Trade Marks Act 1995 (Cth), s 126; Circuit Layouts Act 1989 (Cth) s 27(2); Plant Breeder's Rights Act 1994 (Cth) s 56(3).

[32] See e.g. section 33(3)3 German Act Against Restraints of Competition.

[33] See e.g. the leading German case "Caroline von Monaco" (German Supreme Court, 19 December 1995, BGHZ 131, 332 et seq.).

[34] Regarding the general functions of tort law still very readable Glanville Williams, 'The Aims of the Law of Tort', 4 Current Legal Problems, 137–176 (1951). See Katy Barnett, Accounting for Profit for Breach of Contract: Theory and Practice (Oxford: Hart Publishing, 2012), Chapter 2 for

the admissibility of disgorgement damages as such is disputed by several authors. In their eyes this remedy primarily serves to punish the wrongdoer, and this function is described as alien to their private law system.[35]

It would also be important to know whether there is a uniform interpretation of the different kinds of disgorgement damages (e.g. calculation of profits, whether they normally exceed the plaintiff's losses) and whether they are practically relevant. In the past it seemed that at least in some areas (e.g. intellectual property rights) plaintiffs seldom asked for disgorgement damages as they were too difficult to calculate or did not exceed the suffered losses substantially. If national reporters come from a legal system without a general legal basis for disgorgement profits, information about any movements to introduce one would be welcome.

However, within the private law sector disgorgement damages are not the only remedy which effects disgorgement of unlawful profits. They are or at least can be an important part of the solution, but normally they are not the only possible solution. There might be other instruments that are functionally equivalent to disgorgement damages. For instance, even though not in the centre of attention here, as already noted punitive or exemplary damages and damage multipliers could have a disgorgement function along with the other functions. And albeit not even a remedy in the strict sense, also class actions that are becoming increasingly popular in Europe and elsewhere, also aim at disgorgement of profits. However, arguably for several national reporters the most obvious further general remedy for disgorgement of profits can be found in the law of unjust enrichment respectively restitution.[36] If you make a profit by infringing somebody else's rights the plaintiff might ask for restitution of this gain. Another important general instrument for disgorging unlawful profits might at least for some legal systems be the benevolent intervention in another's affairs.[37]

Beside these remedies it is very likely that there are further functional equivalents for disgorgement damages in a lot of legal systems which cannot all be mentioned here. Some legal systems might for example contain specific legislation for breaches of fiduciary duties in order to disgorge unlawful profits (without imposing disgorgement damages). The German Commercial Code for instance contains several rules giving the principle a right to subrogation (so-called "*Eintrittsrecht*") in order to

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an account of the rationales of disgorgement (primarily – in her account – vindication, deterrence and punishment).

[35] Very critical for instance Heinrich Honsell, Der Strafgedanke im Zivilrecht – ein juristischer Atavismus, in: Lutz Aderhold/Barbara Grunewald/Dietgard Klingberg/Walter G. Paefgen (eds.), Festschrift für Harm Peter Westermann zum 70. Geburtstag (Cologne: Otto Schmidt, 2008), 315–336; Stephan Gregor, Das Bereicherungsverbot (Tubingen: Mohr Siebeck, 2012), 273 p.

[36] "*Beneath the cloak of restitution lies the dagger that compels the conscious wrongdoer to 'disgorge' his gains.*"(Warren v. Century Bankcorp., Inc., 741 P.2d 846, 852 (Okla. 1987)).

[37] See e.g. section 687(2) German Civil Code or article 423 of the Swiss "Obligationenrecht" (both on false agency without specific authorisation).

disgorge the agent's profits due to breach of fiduciary duties.[38] Another trend over the last years seems to be the creation of new sui generis private law remedies trying to combat unlawful profits. For instance section 10 German Unfair Competition Act or section 34a German Act against Restraints of Competition give the right to disgorge profits made under intentionally committed infringement of unfair commercial practices or competition law to among others associations.[39] However, and this is quite unique, the disgorged profit has to be surrendered to the Federal budget but neither to the plaintiff nor to the injured parties.

The task for the national reporters here is to provide information whether there are functional equivalents to disgorgement damages in their legal systems, under which circumstances they apply and how they are used in practice. The result might even be that for some legal systems these functional equivalents play a much bigger role than disgorgement damages. Ultimately, the question should be answered by the national reporters whether in their opinion their legal system is an efficient one when it comes to disgorgement of unlawful profits by private law mechanisms. And if not what are their suggestions to enhance the overall situation regarding the combat against illegal profits.

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[38] See section 61(1), 113(1) German Commercial Code.

[39] See more detailed Stefan Sieme, Der Gewinnabschöpfungsanspruch nach § 10 UWG und die Vorteilsabschöpfung gem. §§ 34, 34a GWB (Berlin: Duncker & Humblot, 2009), 291 p.

Part II
Common Law

Chapter 2
Disgorgement of Profits in Australian Private Law

Katy Barnett

Abstract This chapter discusses the availability of remedies effecting disgorgement of profit in Australian private law. It is noted that there are three main remedies which may effect disgorgement of profits: the account of profits, the constructive trust and restitutionary remedies. However, disgorgement of profit in Australian is generally only available for causes of action where equity allowed such a remedy prior to the English Judicature Acts of the nineteenth Century. In the exclusive jurisdiction, such remedies were available for breach of fiduciary duty, breach of trust, breach of confidence, and in the auxiliary jurisdiction, they were available for intellectual property breaches. The rationale of these awards is to deter breaches and to reverse unjust enrichment. Disgorgement of profit is not generally readily available for causes of action with a common law background including breach of contract and tort. Nor is it available for statutory breaches such as consumer law and competition law.

Keywords Account of profits • Disgorgement • Australia • Equity • Common law • Constructive trusts • Restitution

Introduction

In Australia, disgorgement is available only for equitable causes of action, intellectual property breaches and (arguably) some proprietary torts. Australian courts have been less willing to expand the availability of disgorgement of profits to other private law causes of action than the courts of other common law countries such as England, the United States and Canada.

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Australian courts tend to adhere strictly to the historical divide between the common law and equity which is inherited from English law.[1] This is particularly the case in the Australian State of New South Wales, where the law continued to be administered by separate courts of common law and equity until the early 1970s.[2] In other States, legislation was passed in the late nineteenth century which mirrored the UK Judicature Acts 1873 and 1875, and allowed a single judge to apply both common law and equity.[3]

To ignore the historical divide between common law and equity is said by some Australian judges in a prominent Australian textbook, *Meagher, Gummow and Lehane's Equity: Doctrines and Remedies* to be an instance of 'fusion fallacy'.[4] 'Fusion fallacy' is described as involving:

> the administration of a remedy, for example common law damages for breach of fiduciary duty, not previously available at law or in equity, or in the modification of principles in one branch of the jurisdiction by concepts that are imported from the other and thus are foreign, for example by holding that the existence of a duty in tort may be tested by asking whether the parties concerned were in fiduciary relationships.[5]

Meagher, Gummow and Lehane describe 'fusion fallacy' as an 'evil' practice.[6] The effect of this view is that a remedy which had its historical origin in one jurisdiction cannot be used in another jurisdiction where that was impossible before the Judicature Acts.[7] Thus, for example, an account of profits cannot be awarded for breach of contract because this was (arguably) impossible before the Judicature Acts.[8] Moreover, equity and common law are said to be unable to borrow concepts from each other. For example, the common law concept of exemplary damages cannot be used in the context of breaches of fiduciary duty.[9]

The continued adherence to a strict separation of common law and equity in Australiacan be explained by the fact that most of the authors of *Meagher, Gummow*

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[1]The complex history is described in Meagher et al. (2002), 11–30.

[2]See Supreme Court Act 1970 (NSW), ss 57–63; Law Reform (Law and Equity) Act 1972 (NSW), s 5.

[3]See now Supreme Court Act 1933 (ACT) ss 25–32; Supreme Court Act 1995 (Qld), ss 242–249 (previously Judicature Act 1876 (Qld), ss 4–5; Supreme Court Act 1935 (SA), ss 20–28; Supreme Court Civil Procedure Act 1932 (Tas), ss 10–11; Supreme Court Act 1986 (Vic), s 29; Supreme Court Act 1935 (WA), ss 24–25.

[4]Heydon et al. (2015).

[5]Ibid, 48–49.

[6]Ibid, 48.

[7]Tilbury (2003), 358–59.

[8]However, see Gleeson et al. (2005), 676–708, who argue that accounts of profits were available for breach of contract in equity's auxiliary jurisdiction prior to the Judicature Acts. They cite: M'Intosh v Great Western Railway Co (1850) 2 Mac & G 74; 42 ER 29; Barry v Stevens (1862) 31 LJ Ch 785; Shepard v Brown (1862) 4 Giff 208; 66 ER 681; Manners v Pearson [1898] 1 Ch 581 and Davis v Hueber (1923) 31 CLR 583.

[9]See Harris v Digital Pulse Pty Ltd (2003) 56 NSWLR 298 (Spigelman CJ and Heydon JA, Mason P dissenting).

and Lehane's Equity have subsequently been become judges in high level courts,[10] and two of the authors ultimately became Judges of the High Court of Australia,[11] although there were some on the High Court who felt otherwise.[12]

Nonetheless, a number of Australian academics have called for the principled extension of remedies effecting disgorgement of profits in private law.[13] One of those authors has also subsequently become a judge.[14]

The Rationales Behind Disgorgement in Australia

Profit-stripping for equitable causes of action such as breach of fiduciary duty is generally perceived as having a deterrent rationale whereby courts attempt to encourage defendants to maintain certain standards by stripping profits. By contrast, profit-stripping for intellectual property infringement has a stronger focus on reversing unjust enrichment. Where reasonable fees are concerned, courts sometimes conceive of them as compensatory and sometimes as restitutionary. The basis for their award is contested.

The Three Main Remedies Effecting Disgorgement of Profits

In Australia, disgorgement of profit is generally effected by three means: the remedy of account of profits, the constructive trust and finally, restitutionary awards made where a defendant has profited by use of the plaintiff's property.

Exemplary damages are very rarely awarded in Australia and are not generally used to strip profits when they are awarded,[15] but to punish and deter,[16] to assuage

[10]Meagher JA (New South Wales Supreme Court and New South Wales Court of Appeal); Gummow J (Federal Court and of the High Court of Australia); Lehane J (Federal Court); Heydon J (New South Wales Court of Appeal and High Court); Leeming JA (New South Wales Court of Appeal).

[11]Degeling and Edelman. (2004), 197.

[12]See e.g., Kirby (2008), 444–69 (then a High Court Judge) and Mason (1997–1998), 3 (former Chief Justice of the High Court).

[13]See e.g., Edelman (2002); Harder (2010); Barnett (2012).

[14]Edelman J formerly of the Western Australian Supreme Court now on the Federal Court of Australia.

[15]Cf Testel Australia Pty Ltd v KRG Electrics Pty Ltd [2013] SASC 91, [106]. Blue J reads Emmett J's suggestion that gain-based relief should be allowed for tort in Hospitality Group v Australian Rugby Union (2001) 110 FCR 157 as allowing for exemplary damages.

[16]Whitfield v De Lauret & Co Ltd (1920) 29 CLR 71, 77 (Knox CJ), 81 (Isaacs J); Rookes v Barnard [1964] AC 1129, 1221 (Lord Devlin); Uren v John Fairfax & Sons Pty Ltd (1966) 117 CLR 118, 129–30 (Taylor J), 149 (Windeyer J).

any urge for wrongdoing on the part of the plaintiff and to discourage plaintiffs from seeking self-help likely to breach the peace.[17]

Account of Profits

Availability

The equitable remedy of the account of profits explicitly seeks to strip profit from a wrongdoing defendant. Accounts of profits are clearly available for equitable causes of action such as breach of fiduciary duty,[18] breach of trust and breach of confidence,[19] and for intellectual property breaches. The availability of accounts of profits for intellectual property breaches originated in the auxiliary jurisdiction of equity,[20] but are now available pursuant to statute for many intellectual property rights.[21] However, these statutory accounts of profit retain characteristics which reflect their origins in the auxiliary jurisdiction of Equity.[22] The account of profits is also available in equity's auxiliary jurisdiction for passing off, a tort relating to intellectual property rights.[23]

Accounts of profit have been said to be unavailable for common law causes of action such as breach of contract and tort in Australia.[24] The only High Court of Australia authority on this issue, the dissenting judgment of Deane J in *Hospital Products Ltd v United States Surgical Corp*, held that a constructive trust stripping profits may sometimes be available for breach of contract absent a concurrent fiduciary obligation.[25] However, Deane J's judgment has not been applied subsequently and is regarded as insufficient authority to warrant an award of an account of profits for breach of contract.[26]

As an equitable remedy, accounts of profits are subject to equitable discretion.

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[17] Lamb v Cotogno (1987) 164 CLR 1, 9.

[18] Warman International Ltd v Dwyer (1995) 182 CLR 544.

[19] Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109.

[20] See Barnett and Harder (2014), 351.

[21] Patents Act 1990 (Cth), s 122(1), Copyright Act 1968 (Cth), s 115(2); Designs Act 1906 (Cth), s 32B(1); Trade Marks Act 1995 (Cth), s 126; Circuit Layouts Act 1989 (Cth), s 27(2); Plant Breeder's Rights Act 1994 (Cth), s 56(3).

[22] Hastie (1996), 13.

[23] My Kinda Town Ltd v Soll [1983] RPC 15.

[24] Hospitality Group v Australian Rugby Union (2001) 110 FCR 157, 197–99 (Hill and Finkelstein JJ).

[25] (1984) 156 CLR 41, 124–25.

[26] Testel Australia Pty Ltd v KRG Electrics Pty Ltd & Anor [2013] SASC 91, [101].

Calculation

The calculation of an account of profits is a two-stage process. The first stage provides an account to the plaintiff of the defendant's financial affairs insofar as they relate to her claim. Once a profit has been identified, it can be stripped from the defendant. This is the second stage of an account. The profits are generally the defendant's net profits, rather than the defendant's gross receipts.[27] The court will not punish the defendant by requiring him to account for more than he has received by reason of the breach of duty.[28] However, if it is impossible to work out whether the profit is the defendant's or the plaintiff's because the defendant has mixed them, or if the defendant's conduct has been fraudulent, courts may not apportion the gain.[29] Similarly, if a trustee makes a profit by misapplying trust money, it is likely that the plaintiff will be entitled to the entire profit.[30]

In assessing net profit, courts have traditionally made allowance for certain expenses incurred by the defendant in two ways.[31] First, they have sometimes allowed specific disbursements, such as expenditures of money and other capital, as well as skilled labour by the defendant.[32] Secondly, courts have credited the defendant with an allowance which is not specifically itemised, but more of an 'all things considered' allowance.[33]

The High Court of Australia has recognised the difficulties in calculating profit derived from wrongdoing, and noted that '"mathematical exactitude" is generally impossible'.[34]

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[27] Patel v London Borough of Brent [2003] EWHC 3081, [29] (Morritt V-C); Regal (Hastings) Ltd v Gulliver and Others [1967] AC 134, 154 (Lord Wright); O'Sullivan v Management Agencies & Music Ltd [1985] QB 428, 458 (Dunn LJ).

[28] Hospital Products Pty Ltd v United States Surgical Corporation (1984) 156 CLR 41, 108–09 (Mason J) referring to Vyse v Foster (1872) LR 8 Ch App 309, 333 (James LJ).

[29] Hospital Products Pty Ltd v United States Surgical Corporation (1984) 156 CLR 41, 109–10 (Mason J).

[30] Scott v Scott (1963) 109 CLR 649; see also Paul A Davies (Australia) Pty Ltd (in liq) v Davies [1983] 1 NSWLR 440.

[31] Harding (2009), 346–47.

[32] Brown v Litton (1711) 1 P Wms 140, 24 ER 329; Yates v Finn (1880) 13 Ch D 839; Chirnside v Fay [2007] 1 NZLR 433, [2006] NZSC 68 [153] (Tipping J).

[33] Brown v De Tastet (1821) Jac 284; 37 ER 858; Featherstonhaugh v Turner (1858) 25 Beav 382; 53 ER 683; Lord Provost of Edinburgh v Lord Advocate (1879) 4 App Cas 823; Phipps v Boardman [1964] 1 WLR 993; O'Sullivan v Management Agencies & Music Ltd [1985] QB 428.

[34] Dart Industries Inc v Décor Corporation Pty Ltd (1993) 179 CLR 101, 111 (Mason CJ, Deane, Dawson and Toohey JJ). See also Warman International Ltd v Dwyer (1995) 182 CLR 544, 558; Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25, 37 (Windeyer J).

Election

A plaintiff seeking an account of profits must generally elect between equitable compensation (a compensatory remedy) and an account of profits (which disgorges profit), and the election is binding.[35] In *Warman International Limited v Dwyer*, the High Court allowed the employer one week after judgment to elect between an account of profits and equitable compensation. A plaintiff must have sufficient information to enable her to make a fair choice between equitable compensation and an account of profits.[36]

Constructive Trusts

Availability

As Deane J's judgment in *Hospital Products Ltd v United States Surgical Corp* indicates, another remedy effecting disgorgement is the constructive trust over profits. It is awarded for equitable causes of action such as breach of fiduciary duty,[37] breach of trust or breach of confidence.[38] It gives the plaintiff an equitable proprietary interest in the profits. The defendant is said by the court to be a trustee of the profit and to be holding it for the benefit of the plaintiff. Some English and Australian commentators have suggested that courts should simply order the defendant to reconvey the property to the plaintiff rather than using the constructive trust mechanism.[39]

A controversial question arises where a dishonest fiduciary accepts a bribe. It is clear that the bribe should be stripped, but the question is whether a constructive trust or an account of profits should be used. There is no High Court of Australia authority on the issue. In *Grimaldi v Chameleon Minding NL (No 2)*[40] the Full Federal Court said in *obiter dicta* that dishonest fiduciaries should be stripped of their profit by means of a proprietary remedy in order to deter such behaviour.[41] However, in keeping with High Court authority suggesting constructive trusts should

[35] Warman International Ltd v Dwyer (1995) 182 CLR 544, 559. See also Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25, 32 (Windeyer J). See Watterson (2004), 471–494, who argues that the requirement to elect is a relatively recent phenomenon.

[36] Tang Man Sit (dec'd) v Capacious Investments [1996] AC 514.

[37] Keech v Sandford (1726) Sel Cas T King 61; 25 ER 223; Boardman v Phipps [1967] 2 AC 46; Chan v Zacharia (1984) 154 CLR 178.

[38] See e.g., Lac Minerals Ltd v International Corona Resources Ltd (1989) 61 DLR (4th) 14.

[39] Bant (2010), 286–311; Swadling (2011), 399–433; Bant and Bryan (2011), 171–198; Bant and Bryan (2012), 181–207; Bant and Bryan (2013), 211–228.

[40] [2012] FCAFC 6, (2012) 200 FCR 296, [569]–[584] (Finn, Stone and Perram JJ).

[41] [2012] FCAFC 6, (2012) 200 FCR 296, [576].

be awarded sparingly,[42] the court did not suggest that a constructive trust would automatically arise, particularly if the defendant was insolvent or third parties would be adversely affected.[43] Thus, the current Australian position is that a constructive trust may be available over bribes taken in breach of fiduciary duty, but that depending upon the interests of third parties, a lesser remedy such as a lien may be more appropriate. This approach is more flexible than the position in England and Wales. After vacillation between the two extremes of an immediate constructive trust[44] or no trust at all,[45] the English Supreme Court has recently decided that an immediate constructive trust should be available over bribes.[46] It must be queried whether a lien is really less intrusive to third party creditors than a constructive trust when there is insolvency, as it still gives the beneficiary of the fiduciary obligation priority over the unsecured creditors.[47] The only advantage is that it will not encompass any subsequent increase in value to the property. The better solution may be to award a personal remedy where there is insolvency.[48]

Sometimes courts obscure awards of disgorgement for breach of contract under an analysis which allows for stripping of profit on the basis that the defendant is a trustee under a constructive trust.[49]

Calculation

Because this remedy attaches to the property itself, its value depends on the value of the property itself from time to time, and is not set at a fixed rate. A constructive trust encompasses increases in the value of property after judgment. It also gives a plaintiff a distinct advantage where a defendant becomes insolvent, because it entitles the plaintiff to recover property to which the defendant has title not only as against the defendant, but also as against the defendant's unsecured creditors. By contrast, a personal remedy such as an account of profits simply entitles the plaintiff to share *pari passu* with the defendant's other unsecured creditors.

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[42] Bathurst City Council v PWC Properties Pty Ltd (1998) 195 CLR 566, [42]; Giumelli v Giumelli (1999) 196 CLR 101, [10], [49]–[50] (the Court); John Alexander's Clubs Pty Ltd v White City Tennis Club Ltd (2010) 241 CLR 1; [2010] HCA 19, [126]–[129].

[43] [2012] FCAFC 6, (2012) 200 FCR 296, [583].

[44] Attorney-General for Hong Kong v Reid [1994] 1AC 324.

[45] Lister v Stubbs (1890) 45 Ch D 1; Sinclair v Investments (UK) Ltd v Versailles Trade Finance Ltd [2011] EWCA Civ 347, [2012] Ch 453.

[46] Cedar Capital Partners LLC v FHR European Ventures LLP [2014] UKSC 45.

[47] Barnett (2015).

[48] Finch and Worthington (2000), 19.

[49] See e.g., Lake v Bayliss [1974] 1 WLR 1073; Bunny Industries Ltd v FSW Enterprises Pty Ltd [1982] Qd R 712; Luxe Holding Ltd v Midland Resources Holding Ltd [2010] EWHC 1908.

Reasonable Fees

Profit stripping may at least arguably be effected in common law for some proprietary torts (trespass to land, trespass to goods, conversion and detinue) where the defendant has profited by use of the plaintiff's property. Courts typically award a reasonable fee for the use of the good, but also sometimes strip profits derived from the sale of the property.

Historically, the plaintiff was said to be able to 'waive' the tort where a tort had been committed (i.e. give up an action for compensatory damages) in favour of an action for money had and received (a restitutionary remedy). 'Waiver' suggests that the right to sue in tort is entirely relinquished, but this is misleading. Instead, the plaintiff elects between a compensatory remedy and a restitutionary remedy. However, there is an ongoing controversy as to the nature of these damages. Academics and courts continue to debate whether these awards are compensatory, restitutionary or effect disgorgement, and whether they are based on the existence of property rights or property-like rights.[50]

Australian courts may grant 'reasonable fee' awards where defendants have used certain property or infringed certain rights in a tortious manner. These awards will be made where certain proprietary torts are committed,[51] or where there is an infringement of an intellectual property right. 'Reasonable fee' awards also overlap with the jurisdiction of Australian courts to award Lord Cairns' Act damages in lieu of an injunction.[52] The damages awarded in lieu of an injunction sometimes reflect the fee the plaintiff might have sought if the defendant had sought consent to relax the right in question.[53]

[50] See the extensive discussion of the various academic points of view in Barnett and Harder (2014), 360–63.

[51] See e.g., LJP Investments v Howard Chia Investments (1989) 24 NSWLR 499; Hampton v BHP Billiton Minerals Pty Ltd (No. 2) [2012] WASC 285; Strand Electric & Engineering v Brisford Entertainment [1952] 2 QB 246; Gaba Formwork Contractors Pty Ltd v Turner Corp Ltd (1991) 32 NSWLR 175; Bunnings Group Limited v Chep Australia Limited [2011] NSWCA 342.

[52] Supreme Court Act 1933 (ACT), s 20; Supreme Court Act 1970 (NSW), s 68; Supreme Court Act 1979 (NT), s 14(1)(b); Civil Proceedings Act 2011 (Qld), s 8; Supreme Court Act 1935 (SA), s 30; Supreme Court Civil Procedure Act 1932 (Tas), s 11(13); Supreme Court Act 1986 (Vic), s 38; Supreme Court Act 1935 (WA), s 25(1).

[53] See e.g., Wrotham Park Estates Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798; Jaggard v Sawyer [1995] 1 WLR 269; Bracewell v Appleby [1975] Ch 408.

Differences Between Private Law Causes of Action

Equitable Causes of Action: Breach of Fiduciary Duty, Breach of Trust and Breach of Confidence

Disgorgement remedies are readily awarded in Australian law for equitable causes of action such as breach of fiduciary duty, breach of trust and breach of confidence. Both accounts of profit and constructive trusts over profits may be awarded for these causes of action. Arguably, there is a strong deterrent flavour to the award of profit stripping remedies in this area.[54] It is no defence, for example, that the beneficiary of a fiduciary obligation was unwilling, unlikely or unable to make the profits for which an account is taken, nor is it a defence that fiduciary acted honestly and reasonably.[55] Nonetheless, the availability of an allowance for skill and effort in favour of the defendant may alleviate any harshness of an account of profits in some instances, and in Australia at least it appears these may be available even where a fiduciary deliberately and dishonestly breached his fiduciary duty.[56] The principles which govern their award are the ones which are discussed previously under the heading Accounts of profit.

Intellectual Property

It has been said that the purpose of the account of profits for intellectual property infringements is not to punish the defendant, but to prevent the defendant from being unjustly enriched.[57] Thus, its purpose is said to be different to that of account of profits for breach of fiduciary duty.[58]

In *Colbeam Palmer Ltd v Stock Affiliates Ltd*,[59] Windeyer J outlined three essential points about accounts of profit for intellectual property infringements. First, an account of profits is generally ancillary to an injunction. Thus, the plaintiff is generally only entitled to an account if it can also be shown that the plaintiff is also entitled to an injunction, although this is not an absolute requirement in trademark litigation, and in that case it was enough to show that an injunction *could*

[54] Edelman (2002), 83–86; Worthington (1999), 218–40; Conaglen (2010); Cooter and Freedman (1991), 1045–75.

[55] Warman International Ltd v Dwyer (1995) 182 CLR 544, 558.

[56] Warman International Ltd v Dwyer (1995) 182 CLR 544, 561. Cf Boardman v Phipps [1967] 2 AC 46, 104 (Lord Cohen), 112 (Lord Hodson); Guinness plc v Saunders [1990] 2 AC 663, 701 (Lord Goff).

[57] Dart Industries Inc v Décor Corporation Pty Ltd (1993) 179 CLR 101, 111.

[58] Warman International Ltd v Dwyer (1995) 182 CLR 544, 557.

[59] (1970) 122 CLR 25.

have been granted at the commencement of proceedings.[60] Secondly, generally, the plaintiff can only claim an account over profits derived from the period where it is shown that the defendant *knowingly* infringed the plaintiff's intellectual property right. This is known as the 'innocent infringement defence.' Thirdly, the general equitable discretionary factors operate to a degree in regard to accounts of profits based in intellectual property. In *Colbeam*, Windeyer J said that he thought delay and acquiescence could operate to a certain extent, particularly when considering when the defendant became aware of the infringement.[61]

The innocent infringement defence operates very differently in different areas of intellectual property as a result of the differing scope of the legislation in question.[62]

Damages calculated on a 'reasonable fee' basis are also available for intellectual property infringements, as wrongful use of intellectual property has been treated similarly to wrongful use of corporeal property.[63] If there is a single act of use, damages will be calculated on the basis of a licence fee,[64] but if there are multiple uses, damages are assessed on a royalty basis.[65] The court must ascertain 'what a willing licensee would have been prepared to pay and a willing licensor to accept' by reference to the actual characteristics of the parties in dispute.[66] Generally, courts and commentators have treated such damages as compensatory. The 'reasonable fee' is said to reflect the sales lost as a result of the infringement, not a fair market value of the use of the right.[67] Nonetheless, it has been argued that such damages have a restitutionary flavour.[68] Debate continues as to whether the nature of these damages is compensatory or restitutionary in nature, or perhaps a mixture of both.[69]

The defence of 'innocent infringement' may also be available for claims of reasonable fee damages, and generally operate in a similar way to the defence noted earlier in relation to the account of profits.[70]

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[60] Colbeam Palmer Ltd v Stock Affiliates Ltd (1970) 122 CLR 25, 31.

[61] Colbeam Palmer Ltd v Stock Affiliates Ltd (1970) 122 CLR 25, 33.

[62] See for a detailed consideration of the differences: Barnett and Harder (2014), 352–53.

[63] Brennan (2011), 214.

[64] Chabot v Davies [1936] 3 All ER 211, 228.

[65] Lewis Trusts v Bambers Stores [1982] FSR 281.

[66] General Tire and Rubber Co v Firestone Tyre and Rubber Co Ltd [1976] RPC 197, 221, 225 (Lord Wilberforce).

[67] Australasian Performing Rights Association v Grebo Trading Co Pty Ltd (1978) 23 ACTR 30, 31 (Blackburn J).

[68] Brennan (2003), 190.

[69] Edelman (2002), 217–42; Brennan (2011), 214–27.

[70] Patents Act 1990 (Cth), s 123; Plant Breeder's Rights Act 1994 (Cth), s 57; Designs Act 2003 (Cth) s 75; Copyright Act 1968 (Cth), s 115 (3); Circuit Layouts Act 1989 (Cth), s 27(3). See Barnett and Harder (2014), 352–53, 364.

Tort

As noted earlier, accounts of profit are said to be unavailable for tort in Australia according to a majority of the Full Federal Court in *Hospitality Group v Australian Rugby Union*.[71] However, Emmett J in the minority would have awarded an account of profits for torts where benefits were derived from property belonging to the plaintiff, or where it would be unjust to allow the wrongdoer to retain them.[72]

Remedies which effectively strip profit may be available pursuant to the doctrine of 'waiver of tort'. In old English cases, courts used the action for money had and received as a method of stripping defendants of the entire profits derived from the commission of proprietary torts, often where the defendant sold the plaintiff's property without authority.[73] The plaintiff was allowed to maintain an action for money had and received over the proceeds of sale of the property on the basis that there had been an 'implied contract' between the plaintiff and the defendant, but implied contract has now been recognised by the High Court of Australia as a fiction.[74]

Reasonable fee awards have been made for a number of proprietary torts in Australia including trespass to land,[75] and for trespass to goods, conversion and detinue.[76] Historically, courts awarded reasonable fees for trespass to land in the 'wayleave' cases[77] and the 'mesne profit' cases.[78] The 'wayleave' cases arise when the defendant uses the plaintiff's land without denying the plaintiff possession. The 'mesne profit' cases arise when the defendant wrongfully withholds possession of the land from the plaintiff, typically after the expiry of a lease, where a reasonable

[71] Hospitality Group v Australian Rugby Union (2001) 110 FCR 157, 197–99 (Hill and Finkelstein JJ). See also Esperance Cattle Company Pty Ltd v Granite Hill Pty Ltd [2014] WASC 279, [463]–[467], esp [464]. Cf USA: Edwards v Lee's Administrator 96 So W 2d 1028 (1936).

[72] ibid, 198–99.

[73] Oughton v Seppings (1830) 1 B & Ad 241; 109 ER 776; Lamine v Dorrell (1706) 2 Ld Raym 1216; 92 ER 303.

[74] Pavey & Matthews Pty Ltd v Paul (1987) 162 CLR 221, 227 (Mason and Wilson JJ); 255–56 (Deane J). See Roxborough v Rothmans of Pall Mall Australia Limited (2001) 208 CLR 516, [2001] HCA 6, [90] (Gummow J).

[75] LJP Investments v Howard Chia Investments (1989) 24 NSWLR 499; Hampton v BHP Billiton Minerals Pty Ltd (No. 2) [2012] WASC 285.

[76] Strand Electric & Engineering v Brisford Entertainment [1952] 2 QB 246; Gaba Formwork Contractors Pty Ltd v Turner Corp Ltd (1991) 32 NSWLR 175; Bunnings Group Limited v Chep Australia Limited [2011] NSWCA 342.

[77] Martin v Porter (1839) 5 M & W 351, 151 ER 149; Jegon v Vivian (1871) LR 6 Ch 742; Phillips v Homfray (1871) LR 6 Ch App 770; Whitwham v Westminster Brymbo Coal & Coke Company [1896] 2 Ch 538.

[78] Elliott v Boynton [1924] 1 Ch 236; Wilson v Kelly [1957] VR 147; Swordheath Properties Ltd v Tabet [1979] 1 WLR 285; Ministry of Defence v Ashman [1993] 2 EGLR 102; Ministry of Defence v Thompson [1993] 2 EGLR 107; Lollis v Loulatzis [2007] VSC 547.

fee is the standard measure.[79] Courts have also sometimes awarded reasonable fee damages in lieu of an injunction for a proprietary tort pursuant to Lord Cairns' Act.[80] As noted earlier, the categorisation of reasonable fee awards as effecting disgorgement or even as restitutionary is controversial, and often courts express the opinion that such awards are compensatory. There is no Australian case law on whether 'reasonable fee' damages should be available for non-proprietary torts.

Contract

Australian law does not allow accounts of profit, constructive trusts, or reasonable fee damages for breach of contract.[81] It has been argued by some Australian academics that gain-based relief should be available in exceptional circumstances, but no courts have adopted these analyses yet.[82]

The most likely way for such an award to be made in Australia would be through the Lord Cairns' Act provisions, where damages may be given in lieu of an injunction. Indeed the English case of this kind, *Wrotham Park Estate Co Ltd v Parkside Homes Ltd*[83] formed an essential plank of Lord Nicholls' reasoning in *Attorney-General v Blake*,[84] the case which led to the award of accounts of profit for breach of contract in England. This is because Lord Cairns' Act allows a limited statutory fusion between common law and equity.[85]

In some common law countries, courts achieve disgorgement for breach of contract by characterising the contractual relationship as fiduciary (albeit often unconvincingly).[86] This is particularly the case for breaches of negative covenant.[87] However, Australian courts do not do this.

[79] Balanced Securities Ltd v Bianco [2010] VSC 201, [16].

[80] Bracewell v Appleby [1975] Ch 408; Jaggard v Sawyer [1995] 1 WLR 269.

[81] Hospitality Group Pty Ltd v Australian Rugby Union Ltd (2001) 110 FCR 157, 196 (Hill and Finkelstein JJ); Town & Country Property Management Services Pty Ltd v Kaltoum [2002] NSWSC 166, [85] (Campbell J); Biscayne Partners Pty Ltd v Valance Corp Pty Ltd [2003] NSWSC 874, [232]–[235] (Einstein J); Short v Crawley [2005] NSWSC 928 [24] (White J); Hydrofibre Pty Ltd v Australian Prime Fibre Pty Ltd and Anor [2013] QSC 163, [91]–[94]; Testel Australia Pty Ltd v KRG Electrics Pty Ltd & Anor [2013] SASC 91, [99]–[109].

[82] Edelman (2002); Harder (2010); Barnett (2012).

[83] [1974] 1 WLR 798.

[84] [2000] UKHL 45, [2001] 1 AC 268.

[85] Jolowicz (1975), 227.

[86] Barnett (2012), 121, 126–28.

[87] Snepp v United States, 444 US 507 (1980); Reading v Attorney General [1951] UKHL 1, [1951] AC 507; Reid-Newfoundland Co. v Anglo-American Telegraph Co Ltd [1912] AC 555.

Statutory Schemes Other Than Intellectual Property Statutes

The Australian Consumer Law regulates unfair contractual terms, and misleading or deceptive conduct.[88] There is no explicit provision in the Australian Consumer Law allowing for disgorgement and nor was there any provision under the *Trade Practices Act 1974* (Cth), the predecessor of the Australian Consumer Law. Similarly, there are no provisions for profit stripping for breaches of competition law contained in the *Australian Competition and Consumer Act 2010* (Cth).

Directors of corporations are subject to fiduciary duties, and may be liable for an account of profits for their breach. The fiduciary and other duties owed by directors to companies under equity are buttressed by ss 180–183 of the *Corporations Act 2001* (Cth),[89] which are civil penalty provisions.[90] The *Corporations Act 2001* (Cth) provides that if civil penalty provisions are breached, the calculation of compensation to the corporation or scheme affected by the breach may include the profits made as a result.[91]

Conclusion

Presently, Australia is less willing than other common law jurisdictions to expand the availability of disgorgement in private law. It is quick to award disgorgement for breaches of fiduciary duty and for intellectual property breaches, and perhaps awards restitution for proprietary torts. Disgorgement is not available for breaches of contract or for non-proprietary torts.

The equitable and common law division inherited from English law continues to divide Australian law, with the focus of courts being on the historical origins of the cause of action rather than the nature of the conduct and whether it calls for deterrence of wrongdoing or prevention of unjust enrichment. English courts have been less conservative than Australian courts, and less concerned about the historical origins of causes of actions. For example, the House of Lords recognised that disgorgement may be available for breach of contract.[92] It is to be hoped that the Australian courts will free themselves from the shackles of history and interpret the law in a way which ensures that, in appropriate cases, wrongdoers are deterred from making profitable breaches.

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[88] Australian Consumer Law, Schedule 2 to the Competition and Consumer Act 2010 (Cth).

[89] Corporations Act 2001 (Cth), ss 180–183.

[90] 'Civil penalty provisions' are defined by Corporations Act 2001 (Cth), s 1317E.

[91] Corporations Act 2001 (Cth), ss 1317H(2), 1317HA(2), 1317HB(2).

[92] Attorney-General v Blake [2000] UKHL 45, [2001] 1 AC 268.

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Chapter 3
Gain-Based Remedies for Civil Wrongs in England and Wales

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Abstract English law undoubtedly recognises that gain-based remedies may be awarded as a response to civil wrongdoing. It is also now widely accepted that such remedies must be distinguished from restitutionary remedies based on the law of unjust enrichment, which may be concurrently available in certain settings. Less clear, and more controversial, is when such gain-based remedies can be awarded. It is impossible to account for the law on the basis that it straightforwardly implements a prescription that 'no man should profit from his wrong' – not every wrong currently appears to yield a gain-based remedy, let alone in the same circumstances, and in the same form.

Keywords Restitutionary awards • Profit-stripping awards • Account of profits

Introduction

English law undoubtedly recognises that gain-based remedies may be awarded as a response to civil wrongdoing. Less clear, and more controversial, is when such gain-based remedies can be awarded. It is impossible to account for the law on the basis that it straightforwardly implements a prescription that 'no man should profit from his wrong' – not every wrong currently appears to yield a gain-based remedy, let alone in the same circumstances, and in the same form.

For comparative purposes, several features of the English law's development and shape immediately stand out. First, as in other common law jurisdictions, the availability of gain-based remedies cannot be attributed to a single, code-like source. Instead, modern English law is the product of separate strands of judicially-developed doctrine, common law and equitable, and a patchwork of statutory interventions. This disparate development has inhibited the appreciation or development of common principles. Some notable recent efforts have been made to

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rectify this – drawing together and bringing order to the legal materials. However, the veracity of these accounts is contested, and the authorities remain resistant to easy rationalisation.

Secondly, English law does not exhibit any rigid jurisdictional divide between equity and common law when it comes to the availability of gain-based remedies for wrongs. In particular, the equitable remedy known as the 'account of profits', English law's primary and most transparently profit-stripping remedy, is not confined to equitable wrongs.

Thirdly, there is a general consensus today that gain-based remedies for civil wrongdoing are not part of the 'law of unjust enrichment': so-called 'restitution *for wrongs*' must be distinguished from 'restitution *for unjust enrichment*'. In the former case, the cause of action is the wrong; whether, in what circumstances, and in what measure the wrong yields a gain-based remedy is a matter for the law of wrongs. In the latter case, the cause of action that triggers the restitutionary remedy is the defendant's unjust enrichment at the claimant's expense.[1] Reflecting this division, leading works on the English law of unjust enrichment now exclude 'restitution for wrongs' from their ambit.[2]

Fourthly, although the normal gain-based remedy for a wrong is a personal, monetary remedy, there are important variations in the form that this remedy takes. Gain-based monetary remedies have been given for different wrongs by differently-labelled remedial forms, in a variety of measures, and arguably for different remedial aims.[3] More exceptionally, a wrongdoer may be compelled to give up his wrongful gains *in specie* via a proprietary remedy – commonly through the imposition of a trust over a specific asset in the wrongdoer's hands that represents his wrongful gains.

The following sections survey the current state of English law. Monetary remedies inevitably deserve most attention. They are considered first, in the section titled "Monetary Remedies", which begins by distinguishing three possible measures of gain-related award, before examining their underlying rationales, and then their availability for particular wrongs. Proprietary remedies are considered more briefly in the section titled "Proprietary Remedies".

[1]E.g. Mitchell et al. (2011), 1.01–1.05; Burrows (2011), 9–12.

[2]E.g. the recent re-naming and re-orientation of the landmark work first authored by Robert Goff and Gareth Jones, and titled Goff and Jones – The Law of Restitution, as Mitchell C, Mitchell P, Watterson S, Goff and Jones – The Law of Unjust Enrichment, 8th edn., Sweet and Maxwell, London 2011. See too Birks P, Unjust Enrichment, 2nd edn., Oxford University Press, Oxford 2005 (cf Birks P, An Introduction to the Law of Restitution, rvd edn., Clarendon Press, Oxford 1989); Burrows A, A Restatement of the English Law of Unjust Enrichment, Hart Publishing, Oxford 2012 (cf Burrows A, The Law of Restitution, 3rd edn., Oxford University Press, Oxford 2011).

[3]The fullest attempt to systematise the disparate remedial forms remains Edelman (2002).

Monetary Remedies

The ordinary monetary remedy for a civil wrong is undoubtedly a compensatory measure of damages. Nevertheless, a hard look at the case law reveals that English courts have also sometimes made available three measures of monetary award that can, at least arguably, be characterised as gain-based/-related. In rough order of severity, one can find support for the view that the courts make:

(a) overtly punitive awards;
(b) awards that strip a wrongdoer's actual profits, whatever their source;
(c) awards that require a wrongdoer to make restitution in money of the benefit that he immediately obtained from the claimant/at the claimant's expense.

The division between (b) and (c), in particular, is contested. Some scholars have insisted that this division is fundamental, and corresponds to a fundamental difference in aim.[4] Others, whilst conceding that there may be different measures of gain-based award, deny that there is such a clear cleavage in principle and/or as a matter of authority.[5]

Three Measures of Award

'Category Two' Exemplary Damages

English courts can undoubtedly award a punitive/quasi-punitive remedy directly and openly via an award of 'exemplary damages' – a form of non-compensatory damages specifically designed to punish, deter and express disapproval of the most outrageous examples of civil wrongdoing. Such awards have long been, and remain, highly controversial. In the modern landmark in their development, *Rookes v Barnard*,[6] the House of Lords regarded exemplary damages as an anomaly – an attempt to pursue, within civil proceedings, an aim that was primarily and most appropriately the preserve of the criminal law. Despite this, their Lordships felt unable to abolish exemplary damages altogether, and opted instead to confine their availability to two limited categories of cases, where it was considered that such awards might retain a useful role: (i) unconstitutional, arbitrary or oppressive action by servants of government ('category 1'); and (ii) wrongdoing calculated to make a profit which might well exceed any compensatory damages payable to the victim

[4] In particular, Edelman (2002), Chap. 3. See further section "Underlying Rationales".

[5] E.g. Rotherham (2007); Burrows (2011), 633–635. See further section "Underlying Rationales".

[6] [1964] AC 1129, esp 1220–1233 (per Lord Devlin). See too Cassell & Co v Broome [1972] AC 1027.

('category 2').[7] For some time, it was also thought that exemplary damages were further confined to the forms of wrong for which they had been awarded before the 1964 decision in *Rookes v Barnard*.[8] This arbitrary restriction was finally rejected in *Kuddus v Chief Constable of Leicestershire*.[9] Nevertheless, exemplary damages remain an exceptional, last resort remedy.[10] Thus, even if facts falling within 'category 1' or 'category 2' are shown, the remedy is limited to the most outrageous and punishment-worthy examples of this sort of conduct,[11] which cannot be adequately remedied by other means.

'Category 2' exemplary damages have obvious relevance for any account of gain-based remedies in English law. As Lord Devlin put it in *Rookes v Barnard*, "[w]here a defendant with a cynical disregard for a [claimant's] rights has calculated that the money to be made out of his wrongdoing will probably exceed the damages at risk, it is necessary for the law to show that it cannot be broken with impunity" – "to teach a wrongdoer that tort does not pay".[12] Some opponents of exemplary damages have argued that 'category 2' exemplary damages are redundant and should be abolished, in light of modern developments in the availability of gain-based remedies.[13] However, this may be an error. 'Category 2' exemplary damages are not strictly gain-based awards. They are a different, larger remedy, which aims to punish a defendant for his outrageous, profit-motivated wrongdoing, and to deter other, similarly-motivated parties. This different motive explains why such exemplary damages may be available whether or not any gain is actually made;[14] why their quantum is not necessarily limited to the amount of the gain actually made;[15] and why, more generally, the factors that bear on their assessment are different from those appropriate for 'pure' disgorgement.[16]

[7] [1964] AC 1129, 1226–1227 (per Lord Devlin). Lord Devlin also recognised a third possible basis for these awards – statute.

[8] Cassell & Co Ltd v Broome [1972] AC 1027, as interpreted in AB v South West Water Services Ltd [1993] QB 507 (CA).

[9] [2001] UKHL 29, [2002] 2 AC 122.

[10] See generally the analysis in Law Com No 247 (1997), Part IV (pre-Kuddus).

[11] Kuddus v Chief Constable of Leicestershire [2001] UKHL 29, [2002] 2 AC 122, [63], [68] (per Lord Nicholls), articulating an 'outrageousness' threshold strongly emphasised in later cases, including R (on the application of Lumba) v Secretary of State for the Home Department [2011] UKSC 12, [2012] 1 AC 245 [150], [166] (per Lord Dyson JSC) (a 'category 1' case) and Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion [2012] EWHC 3354 (Ch), [2012] CP Rep 35, [76], [77] (a 'category 2' case).

[12] [1964] AC 1129, 1226–1227 (per Lord Devlin).

[13] Esp Kuddus v Chief Constable of Leicestershire [2001] UKHL 29, [2002] 2 AC 122, [109] (per Lord Scott).

[14] E.g. Archer v Brown [1985] QB 401, 423; Design Progression Ltd v Thurloe Properties Ltd [2004] EWHC 324 (Ch), [2005] 1 WLR 1, [145]-[146].

[15] Cassell & Co Ltd v Broome [1972] AC 1027, 1130 (per Lord Diplock).

[16] See generally Law Com No 247 (1997), 4.16–4.19.

Whilst these 'category 2' exemplary damages are not therefore gain-based, their recognition may have wider relevance. In past cases, such awards have been made for some wrongs for which there is no authority for gain-based awards, in any form. Some scholars have contended that the availability of these exemplary damages provides good grounds for thinking that in circumstances falling within 'category 2' – i.e. where a defendant has committed a wrong deliberately and cynically with a view to profit – the courts should be willing to award a lesser, gain-based remedy which strips a wrongdoer's actual profits as a mechanism for deterrence.[17]

Awards Stripping a Wrongdoer's Actual Profits, Whatever Their Source ('Profit-Stripping Awards')

For a number of civil wrongs, English law also makes available monetary awards that are transparently profit-stripping – being measured by the positive gains that actually accrue to a wrongdoer, *whatever their source*. The additional words – "whatever their source" – are important in signifying that these profit-stripping awards can in principle require a wrongdoer to give up gains that are not acquired *from* the claimant. Thus conceived, these awards can effect 'disgorgement', rather than a more limited form of 'restitution' to the claimant.

Historically, such profit-stripping awards have been made via various remedial forms – equity's account of profits, the common law's action for money had and received, damages, and interest awards.[18] This continuing diversity makes little sense. Looking forwards, the account of profits may prove to be the focus for future development of English law's profit-stripping awards. It is the primary and most transparently profits-based remedy, and, despite its equitable origins, it is not limited to merely equitable wrongs. There is a long history of the remedy being given for some common law torts;[19] in 2001, the House of Lords decided that the remedy could exceptionally be awarded for breaches of contract;[20] and this has, in turn, reinforced an assumption in at least some recent cases that if a profit-stripping remedy is available for a wrong, of whatever quality, it is in this form.[21]

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[17] See esp Edelman (2002). Cf too Law Com No 247 (1997), 3.48–3.51. See further section "Underlying Rationales".

[18] For a full survey of what are labelled "disgorgement damages", see Edelman (2002). These profit-stripping forms are not mutually exclusive. E.g. in wrongful mining cases, involving the trespassory mining of another's coal, the stripping of unrealised or realised gains was effected, at differing times, via common law damages awards (e.g. Martin v Porter (1839) 5 M & W 351, 151 ER 149), the common law's action for money had and received (e.g. Powell v Rees (1837) 7 Ad & El 426, 112 ER 530) or a claim in equity for an account of profits (e.g. Powell v Aiken (1857) 4 K & J 343, 70 ER 144).

[19] E.g. copyright infringement, patent infringement, and trademark infringement/passing off.

[20] Attorney-General v Blake [2001] 1 AC 268. See further section "Breach of Contract".

[21] E.g. post-Blake discussion of accounts of profits in Forsyth-Grant v Allen [2008] EWCA Civ 505, [2008] Env LR 41 (nuisance); Douglas v Hello! Ltd (No 3) [2005] EWCA Civ 595, [2006]

As the authorities now stand, a profit-stripping measure of this sort is potentially available for, inter alia, (a) breaches of trust/fiduciary duty,[22] as well as the associated ancillary liabilities that may be incurred by third parties who are dishonest accessories to such breaches,[23] or by knowing recipients of assets that have been applied in an unauthorised manner by trustees, or without authority by other types of custodian;[24] (b) major intellectual property wrongs, in particular patent infringement,[25] copyright infringement,[26] trademark infringement,[27] and passing off,[28] (c) misuse of confidential information;[29] (d) the wrongful appropriation of/lesser interferences with rights to possess chattels or land;[30] and (e) breaches of contract.[31] As explained below, this is probably not an exhaustive list.[32] Indeed, the recent extension of this remedy to breaches of contract, long assumed to be a wrong that could not attract such an award, raises a question whether the courts might award a profit-stripping remedy for any type of wrong in an appropriate case.[33]

Taking the account of profits as the paradigm and primary profit-stripping remedy, several general principles of quantification appear from the cases. First, the remedy has so far been limited to positive gains, and does not extend to merely negative gains – where the wrongdoer merely saves himself from expense without

QB 125, [249] (misuse of private information); Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086, [2009] Ch 390 (breach of competition law).

[22]E.g. Boardman v Phipps [1967] 2 AC 46; Regal (Hastings) Ltd v Gulliver [1967] 2 AC 134. Although it is widely assumed that a fiduciary's liability is an instance of profit-stripping/disgorgement triggered by a wrong committed by the fiduciary – a breach of fiduciary duty – this analysis is not universally accepted: see Smith (2013) and Smith (2014), discussed in the text at notes 52–53 and section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

[23]Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [66]-[93]. See further section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

[24]E.g. as assumed in Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1577], and now Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [82]. See further section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

[25]E.g. Celanese International Corp v BP Chemicals Ltd [1999] RPC 203; Patents Act 1977, s 61(1)(d). See further section "Intellectual Property Wrongs".

[26]E.g. Potton Ltd v Yorkclose Ltd [1990] FSR 11; Copyright, Designs and Patents Act 1988, s 96(2). See further section "Intellectual Property Wrongs".

[27]E.g. Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419, [2013] Bus LR 428; Trade Marks Act 1994, s 14(2); Community Trade Mark Regulations 2006/1027, reg 5(2). See further section "Intellectual Property Wrongs".

[28]E.g. My Kinda Town Ltd v Soll & Grunts Investments [1982] FSR 147; Woolley v UP Global Sourcing UK Ltd [2014] EWHC 493 (Ch). See further section "Intellectual Property Wrongs".

[29]E.g. Attorney-General v Times Newspapers Ltd [1990] 1 AC 109. See further section "Breach of Confidence".

[30]See further section "Wrongful Interferences with Rights to Land or Chattels".

[31]Attorney-General v Blake [2001] 1 AC 268. See further section "Breach of Contract".

[32]See further section "Other Wrongs and Possible Future Developments".

[33]See further section "Other Wrongs and Possible Future Developments".

making any actual profit.[34] Secondly, the remedy is not limited to monetary gains, but can also extend to non-monetary gains not yet realised in money – as, for example, where a house, not yet sold, was built without permission to a copyrighted design.[35] Thirdly, a wrongdoer is generally only accountable for the amount of his wrongful profits net of the costs that he can prove are properly attributable to earning them.[36] Fourthly, the wrong must ordinarily be at least a 'but for' cause of the wrongdoer's profits.[37] Fifthly, a wrongdoer is not necessarily liable for 100 % of his net profits. The courts may well apportion his profits between multiple causes,[38] make 'just' allowances for the wrongdoer's skill and effort,[39] and disregard certain gains as 'too remote'.[40]

Despite what has just been said, it is important to recognise that the account of profits – as a profit-stripping mechanism – is far from uniform across all contexts in which it is potentially available. This is for several reasons.

First, in some settings, the quantification principles just outlined are applied, or perhaps disregarded, in a manner that may yield a larger award. This is certainly true of cases involving fiduciaries' profits.[41] For example, the courts show particular caution before apportioning profits or otherwise making allowances for a fiduciary's skill and effort;[42] and they have refused to allow a fiduciary to avoid or reduce his liability on the basis that he would have profited in any event, even if he had acted properly.[43] The best explanation for this greater rigour is debatable. A very plausible

[34]Esp Celanese International Corp v BP Chemicals Ltd [1999] RPC 203, [127]; for an attempt to justify this, see Edelman (2002), 74.

[35]E.g. Potton Ltd v Yorkclose Ltd [1990] FSR 11, 14–16.

[36]E.g. Hollister Inc v Medik Ostomy Suppliers Ltd [2012] EWCA Civ 1419, [2013] Bus LR 428.

[37]E.g. Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [94]-[115]; Celanese International Corp v BP Chemicals Ltd [1999] RPC 203, [37].

[38]Routine in intellectual property cases: e.g. Potton Ltd v Yorkclose Ltd [1990] FSR 11; Celanese International Corp v BP Chemicals Ltd [1999] RPC 203; Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd [2010] EWHC 628 (Ch).

[39]E.g. Boardman v Phipps [1967] 2 AC 446; Redwood Music Ltd v Chappell & Co Ltd [1982] RPC 109, 132.

[40]Cf e.g. Bayer Cropscience KK v Charles River Laboratories [2010] CSOH 158, 2011 SLT 145, [5]-[9]; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1588]; CMS Dolphin Ltd v Simonet [2002] BCC 600, [3].

[41]Cf too intellectual property cases, where the courts have refused to allow an infringer to argue that his liability should be limited to the difference between the profits actually earned from his infringing conduct, and the profits that he could have earned, had he taken an alternative, non-infringing course of action available to him: Potton Ltd v Yorkclose Ltd [1990] FSR 11, 16–18 (copyright infringement); Celanese International Corp v BP Chemicals Ltd [1999] RPC 203, [39]-[43] (patent infringement); Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd [2010] EWHC 628 (Ch), [8] (trademark infringement/passing off).

[42]E.g. Imageview Management Ltd v Jack [2009] EWCA Civ 63, [2009] 2 All ER 666, [54]-[60].

[43]Murad v Al-Saraj [2005] EWCA Civ 959, [2005] WTLR 1573. Cf now Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [94]-[115], which appears to reject the assumption adopted

narrow view is that it reflects the peculiar juristic nature and basis of a fiduciary's accountability.[44] An alternative view is that the courts might make such 'enhanced' profit-stripping awards in wider circumstances, to achieve a stronger measure of deterrence and/or for quasi-punitive motives.[45]

Secondly, although it is often said that the account of profits – reflecting the remedy's equitable origins – is a '*discretionary*' remedy,[46] the court's jurisdiction to award the remedy is neither radically, nor uniformly, discretionary. As one recent decision put it, the remedy is "not discretionary in the true sense" – it is "granted or withheld on the basis of equitable principles".[47] Consistently with this, there is inherent flexibility when interpreting and applying the quantification principles just highlighted, and an account of profits can be refused or limited by a court on a limited number of recognised equitable grounds.[48] Beyond this, in the absence of such disqualifying circumstances, not all species of wrongdoing are treated identically. A fiduciary is liable to account for unauthorised profits resulting from his position without further qualification – the account of profits is uncontroversially an automatic response in such cases. For other, non-fiduciary wrongdoing, the picture looks more varied. For example, the account of profits is a long-established, standard remedy for the major intellectual property wrongs, which is available more or less as a matter of course where the claimant elects for it.[49] In contrast, the courts seem inclined to more tightly confine the availability of such profit-stripping for other wrongs, whether by explicitly setting additional threshold conditions (e.g. the "inadequacy" of other remedies and/or the presence of "exceptional circumstances"), or by claiming the liberty to grant or withhold the remedy according to whether it is the "appropriate" response in all the circumstances[50] (e.g. whether it would be a 'disproportionate' response to the wrong).[51]

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in a line of earlier first instance decisions, that persons liable for dishonestly assisting another's breach of fiduciary duty should be similarly treated.

[44] See further section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

[45] E.g. Edelman (2002), 104–105.

[46] As assumed in Attorney-General v Blake [2001] 1 AC 268, 279, 284–285; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1579]; Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419, [2013] Bus LR 428, [55]; Walsh v Shanahan [2013] EWCA Civ 411, [64]-[66]; Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [116]-[120].

[47] Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1579].

[48] E.g. the claimant's unreasonable delay in bringing proceedings after becoming aware of the defendant's wrongful conduct – widely acknowledged in the context of certain intellectual property wrongs, at least. See esp Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419, [2013] Bus LR 428, [55]; Electrolux Ltd v Electrix Ltd (1953) 70 RPC 158; Lever Bros v Sunniwite Products (1949) 66 RPC 84; Young & Co Ltd v Holt (1947) 65 RPC 25.

[49] See section "Intellectual Property Wrongs".

[50] E.g. breach of contract and breach of confidence: see sections "Breach of Contract" and "Breach of Confidence".

[51] There is an under-examined idea emphasised in some recent cases that an account of profits should be refused if it would be a 'disproportionate' response to the wrong: Satnam Investments

Finally, some variations just highlighted arguably reflect a deeper feature of English law: that an order for an account of profits may not have a uniform juristic basis. In general, such awards are readily analysed as a profit-stripping/disgorgement remedy triggered by the defendant's wrong. However, it is more controversial whether a *fiduciary's* accountability for profits resulting from his position is properly analysed in this way. Although it is widely assumed that it is triggered by a wrong – a "*breach* of fiduciary duty" – a plausible alternative analysis is that the fiduciary's accountability actually reflects what has been labelled a "rule of primary attribution".[52] On this view, a fiduciary relationship inherently entails a primary duty for a fiduciary to render profits arising from his position to the relationship's beneficiary, and a corresponding primary right of the beneficiary to such profits.[53] As such, the account of profits is not strictly a remedy for any *wrong* committed by the fiduciary; it enforces performance of the fiduciary's primary duty. This alternative analysis is consistent with some unusual features of a fiduciary's accountability; and if correct, might mean that fiduciary cases are unsafe material from which to derive any general principles regarding the availability of a profit-stripping response to civil wrongs in English law.

Awards Requiring a Wrongdoer to Make Restitution of the Benefit Immediately Obtained from the Claimant/at the Claimant's Expense ('Restitutionary Awards')

The profit-stripping awards just described effect 'disgorgement' – they are measured by the profits that have actually accrued to the wrongdoer from his wrongful conduct, whatever their source. Another possible measure of gain-based award is different and more limited. It achieves 'restitution' to a claimant in a narrower sense – restoring to the claimant the value of the benefit immediately obtained by the wrongdoer from the claimant/at the claimant's expense. This category of awards is referred to here as 'restitutionary awards'.

Although one might expect these restitutionary awards to be more widely granted, it is surprisingly difficult to find unequivocal support for their availability. This could be attributed – to a large extent – to an inevitable overlap with other remedies, which means that even where such awards are theoretically available, they are not routinely resorted to, and/or that some awards that could be analysed as restitutionary awards for a wrong can also be explained in other terms. So, in particular: (a) in many cases of 'subtractive', wrongful enrichment, a claimant is likely to be able to obtain a similar sum from the defendant as compensatory damages for

Ltd v Dunlop Heywood & Co Ltd [1999] 3 All ER 652; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1579]-[1580]; Walsh v Shanahan [2013] EWCA Civ 411, [55]-[80]; Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [116]-[120].

[52] See Smith (2013); Smith (2014).

[53] See further section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

the wrong (potentially more, if consequential losses are also compensated); (b) on the same facts, the claimant may also be entitled to another remedy with similar restitutionary effects, most likely: (i) a personal restitutionary remedy for unjust enrichment;[54] or (ii) a proprietary restitutionary remedy, in the form of rescission of a transaction under which property has been transferred to the defendant, together with ancillary monetary orders; or the imposition of a trust over property transferred to the defendant which restores beneficial title to the claimant.[55]

Consider, for example, a case where the defendant obtains property from the claimant by fraudulent misrepresentations. The defendant commits the tort of deceit, for which he will be liable to pay compensatory damages, extending to all direct consequential losses – a measure that should exceed and subsume any award assessed on a restitutionary basis. Alongside this claim, the claimant may be entitled to a personal restitutionary remedy in unjust enrichment; he may be able to seek rescission of the transaction, bringing about a revesting of title to the property transferred in his favour; and in the absence of a transactional barrier, the law might achieve a similar effect by imposing an immediate constructive trust over the property transferred, in favour of the claimant, as a response to the defendant's fraud.[56] All of this means that it may be unusual to find a monetary award being claimed and made that is only explicable as a restitutionary award made specifically for the tort of deceit. Nevertheless, one way or another, restitution is what can be and is often being achieved, at least by functional equivalents.

The fact that a 'restitutionary award' may not often be required does not, of course, prove that English courts cannot make such awards in response to a civil wrong – requiring the defendant to repay money, the value of property, or the value of some other benefit obtained from the claimant by wrongdoing. Indeed, there is a reasonable amount of material to suggest that they can do so,[57] causing one leading scholar to suggest that the law should in principle respond to any wrong by a restitutionary award.[58]

In practice, the largest collection of cases that could be rationalised as restitutionary awards are those cases where the defendant commits a wrong against the claimant, and the courts order the defendant to pay a sum reflecting the reasonable value of the liberty to do as the defendant did (or in some cases, to do as he proposes to do in future).[59] These awards – referred to here as 'reasonable fee awards' –

[54] See further the text at note 211 and following.

[55] See further section "Proprietary restitution".

[56] See further the discussion of proprietary restitutionary remedies in section "Proprietary restitution".

[57] For a full exploration of the circumstances in which what are called "restitutionary damages" may be awarded, see Edelman (2002).

[58] Edelman (2002). See further the text at notes 73–74.

[59] The latter encompasses those cases where the court is asked to award damages on the assumption that it will not award specific relief to prevent a future/continuing wrongful interference with the claimant's rights: e.g. the cases cited in notes 158–160.

have several historic roots, and English courts have yet to develop consistent terminology for them. Depending upon the context and judicial preferences, such awards are made under a variety of labels – in particular, user damages, damages assessed by reference to a reasonable or notional royalty, mesne profits awards, wayleave awards, *Wrotham Park* damages, negotiation damages, and Lord Cairns's Act damages.

What these reasonable fee awards have in common is that they see the courts requiring a wrongdoer to pay a sum which represents the reasonable (objectively-determined) value of the liberty/right to do as he did (or in some cases, the value of the liberty/right to do as he proposes to do in future). The necessary valuation exercise can occur in various ways. Sometimes, a reasonable sum is simply plucked from the air. More often, the courts (a) identify an appropriate market rate, or (b) as a fall-back, adopt a 'hypothetical negotiations' approach, which is directed at identifying the price that might reasonably be agreed to legitimate the defendant's wrongful conduct. This last approach is inevitably more complex. The courts do not attempt to re-construct any actual bargaining process that might have occurred – in truth, the claimant might not have been prepared to bargain away his rights to the defendant at any price, or at least at a price that the defendant could or would pay. Instead, the courts imagine a bargain struck between two willing parties, acting reasonably, generally before the defendant's wrongful course of conduct begins, and without the benefit of hindsight. These parties are not assumed to share the personal characteristics of the claimant and defendant, but they are assumed to be situated as the claimant and defendant were. Accordingly, when determining the outcome of the hypothetical bargain, a court can factor in a wide range of circumstances that would strengthen or weaken either party's hands, or reasonably influence their preparedness to strike a deal.[60]

Such reasonable fee awards are widely available, and certainly, more readily awarded than profit-stripping awards. Thus, the cases support their availability for: (a) the major intellectual property wrongs (reflecting a reasonable/notional royalty for the relevant infringing act);[61] (b) breaches of confidence (reflecting the sum that could reasonably be demanded for relaxation of any confidentiality obligation);[62] (c) wrongful interferences with rights to possess chattels (typically in the form

[60]E.g. the profits that could have been expected to accrue to the defendant; the likelihood of the claimant being able to obtain a court order to prevent the defendant's conduct; and the availability and cost of alternative means to achieve the defendant's desired object.

[61]E.g. Catnic Components Ltd v Hill & Smith Ltd [1983] FSR 512 (patent infringement); Blayney (t/a Aardvark Jewelry) v Clogau St David's Gold Mines Ltd [2002] EWCA Civ 1007, [2003] FSR 19 (copyright infringement); Irvine v Talksport Ltd [2003] EWCA Civ 423, [2003] 2 All ER 881 (trademark infringement/passing off). See further the text at notes 126–129.

[62]E.g. Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370; Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch). See further the text at notes 142–144.

of a reasonable user fee for a period of temporary wrongful user);[63] (d) wrongful interferences with rights to possess land,[64] or lesser rights of use and/or control (in the form of a reasonable user fee for a period of temporary wrongful user or the sum that could reasonably be negotiated for permission to do as the defendant did);[65] and (e) breach of contract (reflecting the sum that could reasonably be demanded for relaxation of the relevant contractual obligation).[66]

An important obstacle to understanding exactly when these reasonable fee awards should be made, and on what assumptions, is a continuing controversy as to their nature. The cases and the literature divide on whether these awards are properly characterised as gain-based/restitutionary at all – many judges and scholars insist that they should be classified as 'compensatory' awards. On one analysis, they are compensatory in a conventional sense, being designed to compensate a real financial loss which consists of the claimant's genuinely lost opportunity to bargain with the defendant for the relaxation/exploitation of his rights.[67] According to another, now more popular analysis, they are compensatory in a different sense – a form of 'substitutive' compensation, reflective of the value of the infringed right, which does not depend on the presence or proof of consequential financial/material losses.[68]

If these awards are properly characterised as gain-based/restitutionary, as a number of cases assume,[69] they are nevertheless clearly distinguishable from the

[63]E.g. Blue Sky One Ltd v Mahan Air [2010] EWHC 631 (Comm), [133]-[134]. See further the text at notes 148–151.

[64]Typically, in the form of temporary occupation or user (e.g. Ministry of Defence v Ashman (1993) 66 P&CR 195 (CA); Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC); Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co [2011] EWHC 2856 (Ch), [2012] 1 P&CR 7). See further the text at notes 148–151.

[65]E.g. interferences with easements (e.g. Carr-Saunders v Dick McNeil Associates Ltd [1986] 1 WLR 922 (right to light)) and breaches of restrictive freehold covenants (e.g. Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798). See further the text at notes 158–160.

[66]Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323, [2003] EMLR 25; Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370; Giedo van der Garde BV v Force India Formula One Team Ltd [2010] EWHC 2373 (QB), [499]-[560]. See further the text at notes 170–171.

[67]See classically, Sharpe and Waddams (1982); persuasively criticised by, inter alia, Burrows (2011), 635–638; Rotherham (2008); Edelman (2002), 99–102.

[68]The most extreme version of this thesis is Stevens (2007), Chap. 4. Cf the more limited explanation offered by others, including McBride (2013), 272–275 (arguing that such damages may be justified to compensate a claimant for the non-material, "normative loss" that occurs when "liberty oriented rights" are infringed). For a variation on this approach, stressing the 'vindicatory' role of such damages, in relation to certain wrongs, see Varuhas (2014).

[69]E.g. Strand Electric & Engineering Co Ltd v Brisford Entertainments Ltd [1952] 2 QB 246 (CA), 255 (per Denning LJ); Attorney-General v Blake [2001] 1 AC 268, 278 (per Lord Nicholls); Kuwait Airways Corp v Iraqi Airways Co (Nos 4 and 5) [2002] UKHL 19, [2002] 2 AC 883, [87] (per Lord Nicholls); Ministry of Defence v Ashman (1993) 66 P&CR 195, 201 (per Hoffmann LJ); Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC), 718 (per Lord Lloyd); Blue Sky One Ltd v Mahan Air [2010] EWHC 631 (Comm), [133]-[134]; Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co [2011] EWHC 2856 (Ch), [2012] 1 P&CR 7, [69]; Enfield LBC v

profit-stripping awards exemplified by the account of profits. For some wrongs, where a wrongdoer has profited and an account of profits is an available remedy, the courts often opt to make a reasonable fee award instead.[70] It might then appear tempting to view this measure as a lesser form of partial profit-stripping/disgorgement. However, that would risk missing the distinctive nature of reasonable fee awards, if properly understood as gain-based awards. As an objective measure of the benefit that immediately accrues to the wrongdoer from the unlicensed appropriation or infringement of the claimant's rights, these reasonable fee awards are available whether or not the wrongdoer actually makes any profits consequent on his wrong, and regardless of the extent of the profits which he does actually make.

For example, where courts quantify a reasonable fee award by adopting a market basis for valuation (e.g. requiring a defendant who has wrongfully possessed the claimant's land to pay a reasonable rental) the wrongdoer can be liable to pay a substantial sum, reflecting the market value of this benefit, whether or not this reflects any actual profitable use during the period of wrongful possession.[71] So too, when the courts quantify a reasonable fee award by assessing damages on a 'hypothetical negotiation' basis, an important factor bearing on the readiness of a person in the defendant's position to strike a deal, and on the price that could reasonably be agreed, is the extent of the profits which the defendant could reasonably have anticipated. For this purpose, however, it is the anticipated profits that are crucial. Any award assessed on this basis might therefore exceed the profits that, with hindsight, can be seen actually to have accrued to the defendant, if the defendant's conduct is less profitable than expected or, in fact, unprofitable.[72]

Outdoor Plus Ltd [2012] EWCA Civ 609, [2012] CP Rep 35, [47]; Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion SA [2013] EWCA Civ 1308, [2014] HLR 4, [20]-[25].

[70] See esp breach of contract and many instances of breach of confidence.

[71] E.g. Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC), where the defendant was in wrongful possession for 15 years of 30 apartments within a hotel complex, of which the claimant was lessee; the defendant used the apartments as part of its hotel, with average occupancy rates of 35–40 %, but had to pay as 'mesne profits' for its trespass, a reasonable rent for each apartment for every day of the year.

[72] E.g. Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370, involving breach of a confidentiality and exclusivity agreement entered between two parties in connection with an oilfield development project. The project, ultimately proceeded with by the defendant alone, proved much less profitable than the defendant anticipated. Only US$1 m-$1.8 m profit was ultimately made, but $2.5 m was awarded to the claimant using the hypothetical negotiations approach, in view of what would have contemporaneously been viewed as the likely profitability.

Underlying Rationales

What sense might made of this range of remedial measures? It seems plausible that the different measures of award may implement different remedial aims, and that identifying these aims is a necessary first step to understanding when they should be available.

This was indeed the key premise of Edelman's important and influential book, *Gain-Based Damages*. Writing in 2002, Edelman argued that, properly interpreted, English law recognises two different measures of gain-based award, each with different remedial aims. The first, which Edelman termed "*disgorgement damages*", strip a wrongdoer's actual profits, whatever their source, as a mechanism for deterrence. The second, "*restitutionary damages*", have the different and more limited aim, of effecting restitution of a benefit wrongfully obtained by the defendant "at the claimant's expense". As such, they effect "restitution" in a similar sense to restitutionary awards designed to reverse unjust enrichment – reversing a (wrongful) "transfer of value" between claimant and defendant.[73] This distinction necessarily brings implications for the availability of the two measures of "gain-based damages". According to Edelman, so-called "disgorgement damages" should in principle be available when compensatory damages would be inadequate to deter wrongdoing. Edelman identified two situations where this was the case: (i) fiduciary wrongdoing, where there is a heightened need to deter even inadvertent breaches of duty; and (ii) where any other wrong was committed deliberately or recklessly, with a view to profit. In contrast, Edelman argued that the law should in theory respond to any wrong, without more, by an award of "restitutionary damages": "[i]f conduct is deemed a wrong, the law should always be prepared to reverse a transfer of value that is the result of that conduct. To do otherwise would be to legitimate the wrong".[74]

At least at first sight, this account looks like a promising basis for rationalising English law. In particular, Edelman's two-fold division seems to correspond closely to the distinction, observable in the cases, between: (i) 'profit-stripping awards', which strip a wrongdoer's actual profits, whatever their source (= Edelman's "disgorgement damages"?); (ii) 'restitutionary awards', best exemplified by 'reasonable fee awards', which reflect the reasonable value of the liberty to do as the defendant did (= Edelman's "restitutionary damages"?).[75] Nevertheless, the veracity of Edelman's account, which purports to offer an interpretative theory of English law, has been contested.[76]

[73] Edelman (2002), esp Chap. 3.

[74] Edelman (2002), 81.

[75] See sections "Awards Stripping a Wrongdoer's Actual Profits, Whatever Their Source ('Profit-Stripping Awards')" and "Awards Requiring a Wrongdoer to Make Restitution of the Benefit Immediately Obtained from the Claimant/at the Claimant's expense ('Restitutionary Awards')".

[76] Cf also, inter alia, Burrows (2011), 633–635; Rotherham (2007); Barnett (2012), Chap. 6.

Profit-Stripping Awards

Deterrence is undoubtedly a popular explanation for profit-stripping awards,[77] and might provide a plausible explanation for some important features of English law. In particular, (a) strongly prophylactic concerns are widely assumed to underlie the core duties and strict accountability of fiduciaries;[78] (b) outside of the fiduciary sphere, some level of deliberate wrongdoing may often be required before a profit-stripping remedy is awarded;[79] and (c) the presence of 'category 2' exemplary damages supports the view that deliberate and cynical wrongdoing, committed with a view to profit, is conduct that can and should be deterred.[80]

Nevertheless, English law does not yet precisely match Edelman's vision of when so-called "disgorgement damages" should be awarded. On the one hand, despite the existence of 'category 2' exemplary damages, English courts have not yet clearly accepted that deliberate or reckless wrongdoing with a view to profit is a sufficient, general basis for a profit-stripping award. There are many examples of such wrongdoing that have not yet attracted a profit-stripping award, or are remedied only by a reasonable fee award, at least in the absence of further "exceptional circumstances".[81] On the other hand, deliberate or reckless wrongdoing with a view to profit is not invariably required for a profit-stripping award. For example, there are several intellectual property wrongs for which profit-stripping awards can be made against defendants who are not conscious/deliberate infringers.[82]

It may be tempting to dismiss this unevenness as the accidental product of English law's ad hoc development. However, there are other inferences that might be drawn. They include:

(a) that deterrence is not a sufficient or necessary explanation for all profit-stripping awards – *purely* deterrence-focused accounts may be too reductionist, and ignore other bases for profit-stripping in certain contexts;[83]

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[77] Besides Edelman (2002), see also the notable recent contributions by Barnett (2012) and Rotherham (2012).

[78] See section "Breach of Fiduciary Duty/Trust and Related Wrongdoing".

[79] See generally section "Particular Forms of Wrongdoing".

[80] But note the further limits on these awards mean that, today, these damages are very far from automatic, even against cynical profit-seekers: see section "'Category Two' Exemplary Damages".

[81] See generally section "Particular Forms of Wrongdoing".

[82] See section "Intellectual Property Wrongs".

[83] As argued by McBride (2013). For example, (a) what may seem to be a profit-stripping remedy awarded for wrongdoing may sometimes reflect a primary duty owed by the defendant, to render up certain benefits to the claimant (see the explanation for fiduciary accountability developed by Smith (2013) and Smith (2014), and discussed in section "Breach of Fiduciary Duty/Trust and Related Wrongdoing"); or (b) the law might take the position that, as a concomitant of a particular right held by the claimant, certain benefits accruing to a wrongdoer should be attributed to the claimant as a matter of right – a position which, if taken, would of course require some deeper justification (an explanation sometimes offered to explain the basis on which an owner of an asset which is misappropriated might trace into, and recover, its proceeds).

(b) that even if deterrence can provide a legitimate justifying goal for profit-stripping awards, its implications are more complex than Edelman's account assumes;[84]
(c) that some English judges may be uncomfortable about the instrumentality of deterrence-focused reasoning, and at least outside the clearest of cases, its dictates may not be sufficiently apparent to provide workable, explicit reference-points for judicial decision-making;[85]
(d) that English judges are strongly influenced by various countervailing concerns, which incline them to more tightly limit the availability of profit-stripping even when a prima facie argument, based on individual or general deterrence, might be made out – most obviously, the perception that a profit-stripping award might produce an unwarranted windfall for a *particular* claimant,[86] and/or represent a disproportionate sanction for a *particular* defendant's conduct.[87]

Restitutionary Awards

Different issues arise in relation to what have been labelled as 'restitutionary awards' – best exemplified by 'reasonable fee awards'. This is a fragile category of gain-based award because of the continuing controversy regarding whether they should be understood, exclusively, in different terms – as compensatory awards.[88] If they *are* gain-based, then they are manifestly different in quantum from profit-stripping awards. However, there is no clear consensus as to the implications of this. Two broad lines of opinion are identifiable.

One view, reflecting Edelman's analysis,[89] is that the reasonable fee awards are one manifestation of a wider species of gain-based award that is different in nature and underlying rationale from awards that effect disgorgement of a wrongdoer's actual profits, whatever their source, in order to deter. These 'restitutionary' awards effect restitution of a benefit wrongfully obtained by the defendant from the claimant/at the claimant's expense, in the same sense as restitutionary remedies

[84] A sophisticated analysis would need to factor in, inter alia, the availability and adequacy of alternative sanctions, and countervailing concerns, including the high risk, in particular settings, of costly over-deterrence. See e.g. the recent, highly-nuanced discussion of when deterrence might justify a profit-stripping award offered by Rotherham (2012), which reaches the interesting conclusion that deterrence may not justify profit-stripping awards very much more widely than is presently accepted. See also Barnett (2012), examining the circumstances in which deterrence might justify a profit-stripping remedy for breaches of contract.

[85] See, in particular, the complexity of analysis offered by Rotherham (2012).

[86] E.g. Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086, [2009] Ch 390, [147], [158].

[87] E.g. Walsh v Shanahan [2013] EWCA Civ 411, [55]-[80]; Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [116]-[120].

[88] See the text at notes 67–68 above.

[89] See section "Underlying Rationales".

awarded to reverse an unjust enrichment. They should in principle be available for any wrong, without more.[90]

A different view is that the reasonable fee/restitutionary awards are not susceptible to such simple, separate rationalisation: they merely represent a lower point on a single spectrum of possible gain-based awards. On this view, the availability of a reasonable fee/restitutionary award, and the choice between such an award and an award that removes all or part of a wrongdoer's actual profits, turns on the interplay of a more complex set of considerations – including the importance and vulnerability of the claimant's protected interest, the extent and culpability of the defendant's wrongful conduct, the extent to which any profit accruing to the defendant is causally attributable to the defendant's wrong, the adequacy of alternative remedies/sanctions, and the strength of concerns to deter.[91]

Particular Forms of Wrongdoing

Turning now to the detail of English law, it is immediately clear that not all wrongs are alike from the point of view of the availability of gain-based remedies.

Breach of Fiduciary Duty/Trust and Related Wrongdoing

Profit-stripping, via an account of profits,[92] is the/a *primary* response where a fiduciary contravenes the 'no conflict' and 'no profit' rules that underpin the core requirement for undivided loyalty to the beneficiary of the fiduciary relationship – the closely-related rules that demand that a fiduciary must not find himself in a position of unauthorised conflict of interest and duty, and that he must not make any unauthorised profit from his position. The stringency of these proscriptions is such that it is no defence that the fiduciary acted in good faith, in the best interests of the beneficiary, without breaching any other duty owed to the beneficiary, and without causing him any loss.[93] These rules are widely justified as strictly prophylactic in aim – designed to prevent a fiduciary from finding himself in a position where he might be tempted by the prospect of personal gain to act inconsistently with his

[90] Edelman (2002), Chap. 3, esp 66–68, 80–81.

[91] Cf e.g. Burrows (2011), 633–635; Rotherham (2007); Rotherham (2010).

[92] Profit-stripping can also be achieved in this context via the imposition of a trust; see section "Proprietary disgorgement".

[93] E.g. Boardman v Phipps [1967] 2 AC 46; see too Regal (Hastings) Ltd v Gullifer [1967] 2 AC 134, 144–145 (per Lord Russell of Killowen).

duty.[94] The ready availability of profit-stripping mechanisms, in robust form, is the obvious remedial counterpart of these stringent rules. As recently put in *Murad v Al-Saraj*,[95] "the law imposes exacting standards on fiduciaries and an extensive liability to account" "in the interests of efficiency and to provide an incentive to fiduciaries to resist the temptation to misconduct themselves".

Closely related is the ancillary wrong committed by a person who dishonestly assists or otherwise participates in another's breach of trust or fiduciary duty.[96] Recent authority confirms that where a 'dishonest assistant' profits by such wrongdoing, an account of profits may also be awarded, whether or not the beneficiary suffered loss, and even though the trustee's/fiduciary's wrong may not have involved any misapplication of assets held for the beneficiary.[97] Given the high level of conscious wrongdoing required, and the high degree of protection generally afforded to trust/fiduciary relations, this liability might be readily explained as a deterrent/prophylactic measure.[98]

There are, however, some important differences between the position of a dishonest assistant and that of a defaulting fiduciary – a fiduciary's accountability is stricter and more extensive.[99] In particular, (a) unlike a fiduciary's liability, the liability of a dishonest assistant is necessarily limited to circumstances demonstrating a high degree of conscious fault; (b) the courts have refused/limited accounts of profits against dishonest assistants using causal reasoning that does not appear to constrain

[94]For a leading recent account, see Conaglen (2010). Cf the alternative account recently developed in Smith (2013) and Smith (2014), which involves an important re-conceptualisation of the nature and operation of the 'no conflict' and 'no profit' rules.

[95][2005] EWCA Civ 959, [2005] WTLR 1573, [74].

[96]Royal Brunei Airlines v Tan [1995] 2 AC 378 (PC).

[97]See Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [66]-[93], recently endorsing the position assumed in a line of earlier first instance decisions: Fyffes Group Ltd v Templeman [2000] 2 Lloyd's Rep 643, 668–672; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1589]-[1601]; Tajik Aluminium Plant v Ermatov [2006] EWHC 7 (Ch), [23]; OJSC Oil Company Yugraneft v Abramovich [2008] EWHC 2613 (Comm), [377] and [392]; Fiona Trust & Holding Corp v Privalov [2010] EWHC 3199 (Comm), [66]; Otkritie International Investment Management Ltd v Urumov [2014] EWHC 191 (Comm), [79].

[98]Explicitly rationalised in these terms in Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [76]. See too Fiona Trust & Holding Corp v Privalov [2010] EWHC 3199 (Comm), [66], and the earlier discussions in Fyffes Group Ltd v Templeman [2000] 2 Lloyd's Rep 643, 668–672, and Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1589]-[1601]. Cf Royal Brunei Airlines v Tan [1995] 2 AC 378 (PC), 387, where Lord Nicholls explicitly justified the existence of the wrong itself in terms of the "dual purpose" of "making good the beneficiary's loss should the trustee lack financial means and imposing a liability which will discourage others from behaving in a similar fashion". Cf the alternative rationalisation, featuring in the same judicial discussions, that it would simply be inequitable or unconscionable for a third party to retain the fruits of his dishonest assistance.

[99]This is particularly evident from Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908.

a fiduciary's accountability;[100] (c) as with other non-fiduciary wrongdoers, the availability of an account of profits against a dishonest assistant is said to be subject to the court's "discretion", whereas a fiduciary's accountability is peremptory and follows automatically where a relevant profit is made;[101] and (d) a fiduciary is accountable for any relevant profit *in specie*, whereas the dishonest assistant's liability seems to be a merely personal, monetary liability.[102]

These differences almost certainly reflect the distinctive juristic nature and basis of a fiduciary's accountability. Although often said to be liable in the same manner as a trustee,[103] a dishonest assistant is not, without more, a *fiduciary*. This means that dishonest assistants are not subject to the proscriptive rules, and associated disabilities and liabilities, that are fundamental incidents of a fiduciary relationship – including the so-called "inflexible" rule that requires a fiduciary to account for any unauthorised profit resulting from his position. If an account of profits is ordered against a dishonest assistant, this is naturally viewed as a profit-stripping/disgorgement remedy, triggered by the wrong committed by the dishonest assistant. In contrast, the fiduciary's accountability may be more satisfactorily understood in different terms: not as a profit-stripping remedy for any wrong committed by the fiduciary, but the result of a distinctive *primary* duty, which is peculiar to the fiduciary relationship and a concomitant of the core requirement of loyalty, *to render any relevant profit to the relationship's beneficiary*.[104] On this view, a fiduciary cannot make any unauthorised profit from his position because of a "primary rule of attribution", which means that anything that the fiduciary tries to extract from the relationship is attributed to the relationship's beneficiary, *as a matter of primary right/duty*.

In practice, in situations involving unauthorised dealings with trust assets by trustees, and unauthorised dealings with assets managed by other forms of custodian for another's benefit, equity often achieves the functional equivalent of a gain-based remedy more widely, without this needing to be characterised as a gain-based liability for wrongdoing. For example, where assets held on trust are disposed of without authority, English law is generous in affording the trust's beneficiaries an ability (i) to assert equitable proprietary rights to any unauthorised traceable substitute asset in the trustee's hands; and (ii) corresponding rights to the original asset or traceable substitute in the hands of a third party recipient.[105] Such a third

[100] Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [94]-[115]. Cf Murad v Al-Saraj [2005] EWCA Civ 959, [2005] WTLR 1573.

[101] Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [116]-[120].

[102] See further section "Proprietary disgorgement".

[103] E.g. Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [82].

[104] For a fuller elaboration of this argument see, in particular, Smith (2013) and Smith (2014). Cf the slightly different reasoning (such as reliance on 'good man theories') used by others to support a similar conclusion – in particular, Millett (1993) and Millett (2012).

[105] Esp Foskett v McKeown [2001] 1 AC 102. The legal basis for these rights is a matter of ongoing debate: e.g. Mitchell et al. (2011), 8.17–8.19, 8.83–8.93.

party recipient, once he acquires sufficient knowledge of the misapplication as to make it unconscionable for him to retain the benefit of his receipt,[106] may also incur an equitable personal liability for "knowing receipt", which ordinarily involves an immediate liability to restore the misapplied assets or their value to the trust,[107] but might also generate a further liability to account for his profits.[108]

Intellectual Property Wrongs

English law has also long made available the remedy of an account of profits for major intellectual property ('IP') wrongs, originally via proceedings in courts of equity as an adjunct to a claim for injunctive relief. This practice pre-dates modern IP statutes, which now expressly confirm the remedy's availability for patent,[109] copyright,[110] and trademark[111] infringements, as well as for the infringement of a number of other rights.[112] Passing off remains a common law wrong, for which an account of profits is undoubtedly available.[113] Three features of these profit-stripping awards, when awarded in IP cases, stand out.

First, it is widely assumed that an account of profits is readily available for these wrongs, as an alternative to ordinary compensatory damages, at the election of the claimant. In practice, claimants rarely make this election. Nevertheless, where it is made, the courts apparently exercise only a very limited discretion to refuse the remedy and leave the claimant with ordinary compensatory damages in lieu.[114]

Secondly, there is unevenness in relation to the degree of fault needed to justify an account of profits. Conscious/deliberate wrongdoing is certainly not universally required. For trademark infringement or passing off, the courts may refuse an account of profits against an infringer who did not knowingly infringe the claimant's

[106] BCCI (Overseas) Ltd v Akindele [2001] Ch 437 (CA).

[107] There is an ongoing debate about the proper characterisation of this liability: see Mitchell and Watterson (2009); Mitchell et al. (2011), 8.123–8.130. There is also an ongoing debate about whether the law might impose a strict personal liability in unjust enrichment in these circumstances: see Mitchell et al. (2011), 8.50–8.68. See now Mitchell (2014).

[108] E.g. Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [2007] WTLR 835, [1577]; Novoship (UK) Ltd v Mikhaylyuk [2014] EWCA Civ 908, [82].

[109] Patents Act 1977, s 61(1)(d).

[110] Copyright, Designs and Patents Act 1988, s 96(2).

[111] Trade Marks Act 1994, s 14(2); Community Trade Mark Regulations 2006, reg 5(2).

[112] In particular: performers' property rights (Copyright, Designs and Patents Act 1988, s 191I(2)); (unregistered) design right (Copyright, Designs and Patents Act 1988, s 229(2)); registered design right (Registered Designs Act 1949, s 24A(2)).

[113] E.g. My Kinda Town Ltd v Soll & Grunts Investments [1982] FSR 147; Woolley v UP Global Sourcing UK Ltd [2014] EWHC 493 (Ch).

[114] Cf the position today for breaches of confidence, discussed in the text at notes 137–144.

rights.[115] In contrast, an account of profits seems to be available for merely negligent patent infringement: a statutory "innocent infringement" defence protects an infringer from liability for damages or an account of profits if he proves that "at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed".[116] For copyright,[117] performers' property rights,[118] (unregistered) design right,[119] and in future, registered design right,[120] an infringer who neither knew nor had reason to believe that the rights existed is only protected from liability for "damages"; other remedies, including an account of profits, are expressly preserved.[121]

Thirdly, whilst many commentators emphasise deterrence as the primary basis for profit-stripping awards, this has not been an explicit feature of judicial reasoning in modern IP cases. Where a substantial explanation is articulated, it is typically the prevention of the infringer's "unjust enrichment"[122] – perhaps implying that in the IP context, a profit-stripping award is thought warranted without any need to refer to the aim of deterrence. The absence of any general requirement for conscious/deliberate wrongdoing may also reinforce the view that deterrence is not a necessary premise on which these awards are made; or it may suggest that some commentators[123] are wrong to assume that conscious/deliberate wrongdoing is always a necessary condition for profit-stripping to be warranted on deterrent-grounds. Either way, English courts may well make more explicit reference to the requirements of deterrence in future, in light of EU law requirements embodied in the recent EU Enforcement Directive.[124] These require Member

[115] See Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419, [2013] Bus LR 428, [55]; Gillette (UK) Ltd v Edenwest [1994] RPC 279, 290; Conran v Mean Fiddler Holdings Ltd [1997] FSR 856, 861; AG Spalding & Bros v AW Gamage Ltd (1915) 32 RPC 273, 283.

[116] Patents Act 1977, s 62(1).

[117] Copyright, Designs and Patents Act 1988, s 97(1); Wienerworld Ltd v Vision Video Ltd [1998] FSR 832; see too Microsoft Corp v Plato Technology [1999] FSR 834 (account of profits from innocent sale of copied software conceded).

[118] Copyright, Designs and Patents Act 1988, s 191J.

[119] Copyright, Designs and Patents Act 1988, s 233(1) (innocent primary infringement).

[120] Registered Designs Act 1949, s 24B (as amended by the Intellectual Property Act 2014, s 10(1)) (now in force); the pre-amendment provision expressly excluded both damages and an account of profits.

[121] As decided in Wienerworld Ltd v Vision Video Ltd [1998] FSR 832 (copyright infringement).

[122] E.g. Spring Form Inc v Toy Brokers Ltd [2002] FSR 17, [7] (patent infringement); Potton Ltd v Yorkclose Ltd [1990] FSR 11, 15–16 (copyright infringement); My Kinda Town v Soll & Grunts Investments [1982] FSR 147, 156 (passing off).

[123] See esp Edelman (2002), Chap. 7, arguing that for non-fiduciary wrongdoing – including IP wrongs – deliberate/reckless wrongdoing, committed for profit, is required before a deterrent-based award can be made. He criticises the uneven fault requirements for an account of profits for IP wrongs as inconsistent with this.

[124] EU Enforcement Directive, 2004/48/EC.

States to provide remedies to enforce IP rights that are, inter alia, "effective", "proportionate" and, crucially, "*dissuasive*".[125]

Where a claimant elects to recover damages rather than an account of an infringer's profits, the basic premise on which these damages are assessed and awarded is that they are intended to compensate the claimant's losses – e.g. lost sale or licensing profits. However, in patent cases, it has long been assumed that every infringement is a wrongful act for which substantial damages should be payable by reference to a reasonable or notional royalty, in the absence of other proven losses, and apparently even though the claimant would not have licensed the defendant's acts.[126] This is an example of the 'reasonable fee' measure. Similar awards have been accepted for copyright infringement;[127] as well as more recently, with more equivocation, for trademark infringement and passing off.[128] As in other contexts, the cases remain ambivalent as to whether this measure is properly classified as 'compensatory' or 'restitutionary'.[129]

It is worth noting, finally, that this general picture is complicated by the fact that Parliament has expressly provided for a sui generis measure of award, known as "additional damages", for copyright infringement[130] and a number of other

[125] Art 3(2). Art 13 provides for a "damages" remedy against an infringer who engaged in infringing activity, knowingly or with reasonable grounds for knowing, which is implemented into English law by the Intellectual Property (Enforcement etc.) Regulations 2006/1028, reg 3. It is not clear that reg 3 dictates any major change to English law's remedial regime; but in the wake of these developments, concerns for deterrence do seem to be filtering into judicial discourse. E.g. Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 319, [69]. See too counsel's argument in Pendle Metalwares Ltd v Page [2014] EWHC 1140 (Ch), [18].

[126] See the classic statement of Lord Shaw in Watson Laidlaw & Co Ltd v Pott Cassels & Williamson (1914) 31 RPC 104, 118–120, echoing earlier suggestions of Fletcher-Moulton LJ in Meters Ltd v Metropolitan Gas Maters Ltd (1911) 28 RPC 157. On this basis, the courts have been prepared to award damages calculated by reference to the lost profits from infringing sales that would otherwise have accrued to the patent owner, and a notional royalty for every other infringing sale: Catnic Components Ltd v Hill & Smith Ltd [1983] FSR 512; Gerber Garment Technology Inc v Lectra Systems Ltd [1995] RPC 383.

[127] Esp Blayney (t/a Aardvark Jewellery) v Clogau St David's Gold Mines Ltd [2002] EWCA Civ 1007, [2003] FSR 19, where the court rejected the suggestion that the different nature of the monopoly conferred by copyright dictated a difference in approach to damages in this respect.

[128] Cf the differing views expressed as to whether the notional royalty measure is automatically available for trademark infringement/passing off, at least when the 'mark' is not the sort of mark available for hire, or whether these cases should be treated in the same way as patent cases: Roadtech Computer Systems Ltd v Mandata Ltd [2000] ETMR 970, 974; Irvine v Talksport Ltd [2003] EWCA Civ 323, [2003] 2 All ER 881; Reed Executive Plc v Reed Business Information Ltd [2004] EWCA Civ 159, [2004] ETMR 56, [165]; National Guild of Removers & Storers Ltd v Silveria [2010] EWPCC 15, [2011] FSR 9, esp [17]; National Guild of Removers & Storers Ltd v Jones [2011] EWPCC 4, [10]-[16]. Cf earlier, Dormeuil Frères SA v Feraglow Ltd [1990] RPC 449.

[129] E.g. Attorney-General v Blake [2001] 1 AC 268, 278–279 (per Lord Nicholls).

[130] Copyright, Designs and Patents Act 1988, s 97(2). It was first introduced for copyright infringement by the Copyright Act 1956, s 17(3).

wrongs.[131] These damages can be awarded in addition to ordinary compensatory damages[132] in an appropriate case, "as the justice of the case may require", "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". This is an unusual, hybrid remedy, which occupies an uncertain status as between (a) aggravated compensatory damages, (b) a gain-based measure, and (more doubtfully) (c) exemplary damages.[133] It remains a live question whether, post-*Kuddus*, 'category 2' exemplary damages could be awarded for an IP wrong.[134]

Breach of Confidence

Liability for breach of confidence has a wide reach in English law, encompassing actions for misuse of information in breach of an obligation of confidentiality assumed by contract or imposed by law, without formal distinction between types of information – e.g. technological, commercial, political, or personal. Courts of equity have had long-running involvement in these cases, both in restraining breaches by injunctions, and in imposing confidentiality obligations in the absence of any contract. There is a long-running debate about the proper classification of the action available in the latter cases – if not a common law claim in contract or in tort, then it looks like an equitable wrong, prompting some arid debates about the jurisdictional basis for courts to make compensatory awards.[135] More immediately important, however, is the long-standing assumption that a profit-stripping remedy, via the equitable remedy of an account of profits, may be awarded for breach of confidence.[136]

It has sometimes been argued that the victim of a breach of confidence, much like the victim of an IP wrong, has a free election between damages and an account of profits, subject only to the court's discretion to refuse the remedy on general

[131] Performers' property rights (Copyright, Designs and Patents Act 1988, s 191J(2)); (unregistered) design right (Copyright, Designs and Patents Act 1988, s 229(3)).

[132] Redrow Homes Ltd v Bett Brothers plc [1999] 1 AC 197, holding that such additional damages could not be claimed in addition to an account of profits, and overruling the earlier decision in Cala Homes (South) Ltd v Alfred McAlpine Homes East Ltd (No 2) [1996] FSR 36.

[133] E.g. Pendle Metalwares Ltd v Page [2014] EWHC 1140 (Ch); Peninsular Business Services Ltd v Citation plc [2004] FSR 17; Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd [2002] EWHC 409 (Ch), [2002] RPC 49.

[134] Cf Catnic Components Ltd v Hill & Smith Ltd [1983] FSR 512, 541 (patent infringement).

[135] For a very good recent discussion, see Force India Formula One Team Ltd v 1 Malaysia Racing Team [2012] EWHC 616 (Ch), [2012] RPC 29, [374]-[424], where the conclusion is reached that compensation is available either under Lord Cairns's Act or as equitable compensation, and that in either case, it should be not be assessed differently from common law damages for breach of a contractual confidentiality obligation.

[136] E.g. Attorney-General v Times Newspapers Ltd [1990] 1 AC 109.

equitable grounds.[137] However, recent cases suggest that this is mistaken, and that the courts are taking a more discriminating approach to the availability of this remedy – refusing it altogether where it is not regarded as the "appropriate" response to the breach.[138] It would seem that the line is not simply a line between conscious/deliberate and non-deliberate wrongdoing, although conscious/deliberate wrongdoing may be a necessary condition for an award.[139] Instead, and consistently with the wide range of circumstances embraced within actions for breach of confidence, the courts appear to be assuming a spectrum of cases, with the extent of the law's remedial response graded, inter alia, according to importance of the interest in confidentiality, the extent to which any profit accruing to the defendant is causally attributable to the defendant's wrong, and the strength of the need for deterrence. [140] For example, confidential information obtained within a fiduciary relationship, or state secrets,[141] may be given the highest level of protection in the form of an account of profits. In contrast, for breaches of confidence between parties to a purely commercial relationship, the courts appear likely, at least in the absence of (as yet undefined) "exceptional circumstances", to regard the more appropriate remedy as a lesser 'reasonable fee' award – i.e. damages assessed on a hypothetical negotiation basis, reflecting the price that the claimant could reasonably have demanded as the price for agreeing to relax the confidentiality obligation.[142] As in other contexts, the cases remain equivocal as to the true characterisation of this latter remedy, as 'compensatory' or 'restitutionary';[143] and as in the IP cases, there may be a tendency to treat the measure as a residual measure, awarded if the claimant cannot prove that he has suffered financial loss in the form of lost profits from exploiting the information, by sale or licensing, or a genuinely lost opportunity to bargain with the defendant.[144]

[137] An argument advanced and rejected in both Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch) and Walsh v Shanahan [2013] EWCA Civ 411.

[138] Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch), esp [334]-[345], endorsed by the Court of Appeal in Walsh v Shanahan [2013] EWCA Civ 411, esp [55]-[73].

[139] Cf Edelman (2002), 213–215.

[140] Esp Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch), esp [334]-[345]; Walsh v Shanahan [2013] EWCA Civ 411, esp [55]-[73].

[141] Cf Attorney-General v Blake [2001] 1 AC 268.

[142] See Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch); Jones v Ricoh Ltd [2012] EWHC 348 (Ch); Walsh v Shanahan [2013] EWCA Civ 411.

[143] E.g. Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370 (where the language of 'compensation' dominates). Cf Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd [2013] EWCA Civ 780, [2013] RPC 36, [97]-[104] (where a similar award is clearly treated as benefit-based).

[144] See recently Force India Formula One Team Ltd v 1 Malaysia Racing Team [2012] EWHC 616 (Ch), [2012] RPC 29, [424], after a comprehensive review of the authorities.

Wrongful Interferences with Rights to Land or Chattels

English law is robustly protective of rights to possess chattels or land. An unauthorised, wrongful appropriation of another's chattel is likely to result in strict liability for a common law tort – most likely, the tort of conversion. Such wrongdoing readily yields a liability to pay damages measured by the market value of the chattel (if the chattel is not returned),[145] or if it has been sold, a liability for the proceeds of sale.[146] In principle, a similar position applies to land, where it is permanently expropriated.[147]

Where another's chattel or land is merely wrongfully used – most likely, amounting to the tort of trespass to goods or land – the courts have also routinely held the defendant liable to pay a reasonable sum for the wrongful use. This is another example of the reasonable fee measure, variously described as 'user damages',[148] 'mesne profits',[149] a 'wayleave' award,[150] or 'hypothetical negotiation damages'.[151] It is harder to find cases where the courts have gone further, and made a profit-stripping award that captures part or all of the profits actually earned by

[145]Depending on the circumstances, this is obviously susceptible to explanation as compensatory and/or restitutionary in nature. See further the Torts (Interference with Goods) Act 1977, s 3 (forms of judgment against a defendant in possession of goods).

[146]Historically achieved via a variety of routes; in particular, the old common law action for money had and received (e.g. Oughton v Seppings (1830) 1 B & Ad 241, 109 ER 776) or in some cases, an accounting in equity (e.g. Powell v Aiken (1858) 4 K & J 343, 70 ER 144).

[147]Cf the damages award made in Horsford v Bird [2006] UKPC 3, [2006] 1 EGLR 75 (the price that could reasonably be agreed, to acquire the expropriated area), where the court refused to order a mandatory injunction to restore an area of land expropriated from a neighbour; similarly, Ramzan v Brookwide Ltd [2010] EWHC 2453 (Ch), [2011] 2 All ER 38. See too early wrongful mining cases, where nineteenth century courts were prepared to award, as a remedy for the trespassory extraction of coal from the claimant's land, (i) the market value of the coal, as if purchased in the ground (e.g. Wood v Morewood (1842) 3 QB 440, 114 ER 575; Jegon v Vivian (1871) LR 6 Ch App 742), or (ii) the market value of the coal at the surface, less the costs of raising but not the costs of severing (e.g. Llynvi Co v Brogden (1870) LR 11 Eq 188; Phillips v Homfray (1871) LR 6 Ch App 770, 780–781). The choice between these two measures seems to have depended on whether the defendant acted in good faith, or was a wilful wrongdoer.

[148]E.g. Kuwait Airways Corp v Iraqi Airways Co (Nos 4 and 5) [2002] UKHL 19, [2002] 2 AC 883, [87]-[90].

[149]E.g. Ministry of Defence v Ashman (1993) 66 P&CR 195 (wrongful occupation by former tenant); Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC) (wrongful deprivation of possession of lessee by reversioner).

[150]E.g. Whitwham v Westminster Brymbo Coal and Coke Co [1896] 1 Ch 894, [1896] 2 Ch 538 (CA) (value of use of land for tipping colliery waste); Phillips v Homfray (1871) LR 6 Ch App 770, 780–781 (value of use of underground passages for transporting coal).

[151]E.g. Stadium Capital Holdings (No 2) Ltd v St Marylebone Co [2011] EWHC 2856 (Ch), [2012] 1 P&CR 7 (value of use of airspace above land for placement of advertising hoarding).

wrongful use.[152] The most recent cases imply that such a remedy may be available against a conscious wrongdoer in (as yet undefined) "exceptional circumstances".[153]

There is no doubt that the most outrageous examples of this variety of wrongdoing can attract 'category 2' exemplary damages.[154] Mention must also be made of the special statutory tort of unlawful eviction of a "residential occupier", created by the Housing Act 1988.[155] The "landlord" is liable for a statutory measure of gain-based damages, reflecting the increase in the market value of the landlord's interest in the property as a result of the eviction.[156] This was specifically designed, in part, to provide a powerful deterrent for landlords tempted to evict their tenants with a view to gain.[157]

Interferences with lesser rights to land, short of rights to possession, have also attracted what look like reasonable fee awards. In particular, breach of a restrictive freehold covenant will readily yield an award of damages assessed on a hypothetical negotiation basis where injunctive relief is not awarded to undo a past breach and/or to prevent future breaches.[158] Interference with an easement, such as a right to light[159] or right of way[160] – actionable via the tort of nuisance – has attracted a similar measure of award. As yet, there are no cases in which an account of profits has been awarded in these situations. Indeed, it remains unclear whether a nuisance

[152]Cf where the relevant property was in fact held as trustee for the claimant: as in Ramzan v Brookwide Ltd [2010] EWHC 2453 (Ch), [2011] 2 All ER 38; [2011] EWCA Civ 985, [2012] 1 All ER 903.

[153]Esp Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co [2010] EWCA Civ 952, [13], [17]; Enfield LBC v Outdoor Plus Ltd [2012] EWCA Civ 608, [53]. For a possible example of sufficient facts, see Ramzan v Brookwide Ltd [2010] EWHC 2453 (Ch), [2011] 2 All ER 38. Cf previously, Re Simms [1934] Ch 1 (CA); Strand Electric & Engineering Co Ltd v Brisford Entertainments Ltd [1952] 2 QB 246 (CA), 255 (per Denning LJ).

[154]E.g. Ramzan v Brookwide Ltd [2011] EWCA Civ 985, [2012] 1 All ER 903 (expropriation of land from freehold owner); Drane v Evangelou [1978] 1 WLR 455 (unlawful eviction of tenant); Guppys (Bridport) Ltd v Brookling (1984) 14 HLR 1, 27 (harassment of tenant); Borders (UK) Ltd v Commissioner of Police of the Metropolis [2005] EWCA Civ 197, [2005] Pol LR 1 (large-scale trading in stolen chattels).

[155]Housing Act 1988, s 27.

[156]Housing Act 1988, s 28.

[157]E.g. Mehta v Royal Bank of Scotland (2000) 32 HLR 45, 60.

[158]E.g. Wrotham Park Estate Co v Parkside Homes Ltd [1974] 1 WLR 798; Gafford v Graham (1999) 77 P&CR 73; AMEC Developments Ltd v Jury's Hotel Management (UK) Ltd (2001) 82 P&CR 22.

[159]E.g. Carr-Saunders v Dick McNeil Associates Ltd [1986] 1 WLR 922; Tamares (Vincent Square) Ltd v Fairpoint Properties (Vincent Square) Ltd [2007] EWHC 212 (Ch), [2007] 1 WLR 2167. But cf Lawrence v Fen Tigers Ltd [2014] UKSC 13, [2014] 2 WLR 433, [128]-[131], [172]-[173], [248].

[160]E.g. Kettel v Bloomfold Ltd [2012] EWHC 1422 (Ch).

can ever attract a profit-stripping award, via an account of profits or otherwise.[161] It seems to be assumed again that (as yet undefined) "exceptional circumstances" will at least be required.[162]

Breach of Contract

Until remarkably recently, it was a long-standing assumption that damages for breach of contract were compensatory only; neither exemplary damages[163] nor gain-based damages[164] could be awarded for a 'pure' breach of contract. However, in 2001, in the landmark decision in *Attorney-General v Blake*,[165] a majority of the House of Lords held that an account of profits could be awarded against a contract-breaker, albeit only in "exceptional circumstances". Lord Nicholls, giving the leading judgment, said that the remedy would not be awarded unless normal contractual remedies (compensatory damages and specific remedies) would be an "inadequate" response to a breach. Beyond that, no "fixed rules" could be prescribed for identifying what would qualify as "exceptional circumstances", although a "useful" but "not exhaustive" guide was "whether the [claimant] had a legitimate interest in preventing the defendant's profit-making activity and, hence, in depriving him of his profit".[166]

Blake was an extreme case,[167] and much ink has been spilt in an attempt to give further content to Lord Nicholls's words. It is certainly clear that an account of profits was expected to be highly unusual; that it was viewed primarily as a mechanism for deterrence; and that it is not sufficient to warrant the remedy that

[161] Cf Stoke-on-Trent City Council v W&J Wass Ltd [1988] 1 WLR 1406 (CA); Forsyth-Grant v Allen [2008] EWCA Civ 505, [2008] Env LR 41; Lawrence v Fen Tigers Ltd [2014] UKSC 13, [2014] 2 WLR 433, [128]-[131], [172]-[173], [248]. For discussion, see Rotherham (2009).

[162] Cf Forsyth-Grant v Allen [2008] EWCA Civ 505, [2008] Env LR 41.

[163] Addis v Gramophone Co Ltd [1909] AC 488; Law Com No 247, 4.28. Also assumed in e.g. Crawfordsburn Inn Ltd v Graham [2013] NIQB 79; WWF-World Wide Fund for Nature v World Wrestling Federation Entertainment Inc [2006] EWHC 184 (Ch), [2006] FSR 38, [114]. For the suggestion that this line cannot hold, see e.g. McKendrick (2003), 119–122.

[164] Esp Surrey County Council v Bredero Homes Ltd [1993] 1 WLR 1361 (CA).

[165] [2001] 1 AC 268.

[166] [2001] 1 AC 268, 284–285.

[167] Blake was a former member of the UK's intelligence services and a notorious Russian spy, who was imprisoned, but escaped; during years of exile in Russia, he wrote an autobiography, substantially based on information acquired during his time working for the UK's intelligence services. The proceedings were brought with a view to preventing Blake from profiting pursuant to a publishing contract. Since any fiduciary relationship had long since ended, and the information disclosed was no longer confidential, the claim rested on Blake's breach of a contractual obligation, assumed to the Crown when he signed an Official Secrets Act declaration prior to commencing his employment, not to divulge any official information gained by him as a result of his employment, during or after his employment.

the breach of contract was deliberate and cynical, with a view to profit.[168] Precisely what more is required remains unsettled. Some commentators plausibly suggest that a key to identifying when such awards may legitimately be available as a mechanism to deter breaches of contract is whether the obligation which the defendant breached is one for which courts might be prepared to order specific performance.[169] Post-*Blake* decisions are not straightforwardly explained in these terms; nevertheless, two things, at least, are clear. First, an account of profits is very rarely awarded.[170] Secondly, where the necessary "exceptional circumstances" cannot be identified, the courts often make a more limited reasonable fee award instead – assessing damages on a hypothetical negotiations basis, reflecting the price that could reasonably be agreed for the relaxation of the defendant's contractual obligation – at least if ordinary compensatory damages would be an inadequate remedy.[171]

Other Wrongs and Possible Future Developments

What about other wrongs? English courts clearly do not regard profit-stripping awards/disgorgement as an automatic, or even common, response to every wrong. Nevertheless, the recognition in *Attorney-General v Blake*[172] that an account of profits may be awarded for breach of contract suggests that the list of wrongs that may yield a profit-stripping award is not closed.[173] *Blake* even seems to pave the way for allowing a similar remedy, in an appropriate case, for other wrongs for which

[168] See Attorney-General v Blake [2001] 1 AC 268, 286, where Lord Nicholls expressly acknowledged that it was not sufficient, to justify an award, that, inter alia, a breach was deliberate and cynical; that the defendant did the very thing he contracted not to do; or that the breach enabled the defendant to enter into a more profitable contract elsewhere.

[169] E.g. Cunnington (2008); Barnett (2012).

[170] A lone decision is Esso Petroleum Co Ltd v Niad [2001] EWHC 458 (Ch); cf too Luxe Holding Ltd v Midland Resources Holding Ltd [2010] EWHC 1908 (Ch). Cases in which an account of profits has been sought but rejected include: AB Corp v CD Co (The Sine Nomine) [2002] 1 Lloyd's Rep 805; Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323, [2003] EMLR 25; WWF-World Wide Fund for Nature v World Wrestling Federation Entertainment Inc [2006] EWHC 184 (Ch), [2006] FSR 38; Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch).

[171] Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798; Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323, [2003] EMLR 25; WWF-World Wide Fund for Nature v World Wrestling Federation Entertainment Inc [2007] EWCA Civ 286, [2008] 1 WLR 445; Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370; Giedo van der Garde BV v Force India Formula One Team Ltd [2010] EWHC 2373 (QB), [499]-[560].

[172] [2001] 1 AC 268.

[173] E.g. the obiter suggestion that an account of profits might be available for the newly-recognised wrong of invasion of privacy/misuse of private information, in Douglas v Hello! Ltd (No 3) [2005] EWCA Civ 595, [2006] QB 125, [249].

there is no present authority for profit-stripping awards[174] – mostly, a significant number of common law torts[175] – at least where "exceptional circumstances" are shown.[176]

It is currently far from clear whether, in developing the law in future, the English courts will adopt Edelman's simple criterion, that a profit-stripping award should be available to deter non-fiduciary wrongdoing which is committed deliberately or recklessly, with a view to profit.[177] An analogy can obviously be drawn from the availability of 'category 2' exemplary damages, which have been awarded for various wrongs for which there is no authority for profit-stripping awards, such as the tort of defamation.[178] Nevertheless, this may not be a completely safe analogy. Exemplary damages continue to divide English judges, who generally show little appetite – despite *Kuddus*[179] – to extend their ambit;[180] indeed, a future Supreme Court might well opt to abolish them altogether. Even whilst they remain part of English law, there are further thresholds that dramatically restrict their availability even where 'category 2' facts are prima facie made out.[181] As such, 'category 2' exemplary damages may not be safe material from which to extract any general principle that deliberate, profit-seeking wrongdoing, without more, merits a profit-stripping award as a means to deter. Perhaps the most that can be said at this stage is that in developing the law in a principled way, the courts are likely to have regard to the importance and vulnerability of the claimant's protected interest, the extent and culpability of the defendant's wrongful conduct, the extent to which the defendant's profits were causally attributable to his wrongdoing, and the adequacy of other remedies/sanctions, to overcome any qualms they might have about the

[174] But cf Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086, [2009] Ch 390 (breach of competition law); Forsyth-Grant v Allen [2008] EWCA Civ 505, [2008] Env LR 41 (nuisance). For critical discussion of these decisions, see Rotherham (2010).

[175] Even after Blake, some judges still sometimes assume – implausibly, once the law is viewed as a whole – that a firm line can be drawn between "proprietary" and "non-proprietary" torts/wrongs, when it comes to the availability of gain-based awards, in principle and/or as a matter of authority. See e.g. the discussion in Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086, [2009] Ch 390; and in Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch), [2007] 2 All ER (Comm) 993, [128]. For critical discussion of this exercise in line-drawing, see esp Rotherham (2009).

[176] Cf Rotherham (2010), who is critical of the assumption that the "exceptional circumstances" threshold articulated in Blake should be straightforwardly transferred from breach of contract cases, to tort cases.

[177] See section "Underlying Rationales".

[178] E.g. Cassell & Co Ltd v Broome [1972] AC 1027; Riches v News Group Newspapers Ltd [1986] QB 256 (CA); John v MGN Ltd [1997] QB 586 (CA).

[179] Kuddus v Chief Constable of Leicestershire [2001] UKHL 29, [2002] 2 AC 122. See further the text at notes 8–11.

[180] E.g. Mosley v News Group Newspapers Ltd [2008] EWHC 1777 (QB), [2008] EMLR 20 (not available for newly-recognised wrong of invasion of privacy).

[181] See section "'Category Two' Exemplary Damages".

redistributive nature of a profit-stripping award, and justify a profit-stripping award as a proportionate deterrent sanction.[182]

Restitutionary awards require different treatment. It is quite possible that these awards should be more often awarded than profit-stripping awards, for several reasons: (a) this narrowly restitutionary measure is less easily characterisable as a windfall to the claimant than a profit-stripping/disgorgement measure, which strips a wrongdoer's profits, whatever their source; (b) deterrence may not be a necessary foundation for these awards, with the result that lesser culpability may be required from the defendant; (c) a restitutionary measure, exemplified by a 'reasonable fee' award, is available even where the defendant's conduct was not profitable; and (d) where the defendant's conduct is profitable, a restitutionary measure may be the better measure, in some circumstances, of the limited extent to which the defendant's profits are attributable to his wrongdoing, and therefore the appropriate gain-based measure in the absence of a compelling argument for a stronger measure of deterrence.

Edelman's thesis is more expansive – what he calls 'restitutionary damages' should in theory be available for any wrong, without more; otherwise, the law would "legitimate" the wrong.[183] However, English law currently seems some way from this point. One obstacle may be an enduring assumption that the 'normal' remedy for a civil wrong is compensation for loss, and that other monetary remedies must have a more residual role.[184] Another obstacle is the continuing equivocation about whether many arguable examples of restitutionary awards are truly explicable as compensatory.[185] Expansive visions of when "substitutive" compensatory awards can be made rob advocates of gain-based damages of some of the most promising material from which to construct any general theory about the availability of restitutionary awards. The better answer may well be that these approaches are not mutually exclusive – that dual rationalisation is legitimate.[186] Nevertheless, whilst that remains in doubt, the status of these restitutionary awards, and their extension to other wrongs in English law, will be insecure.

Even if the 'restitutionary' analysis does ultimately prevail, it has inherent limits. In particular, it is implausible to suggest that *every* wrongful infringement of a claimant's rights warrants a restitutionary award on a reasonable fee basis. Such

[182]Cf the sophisticated discussion of Rotherham (2012), who concludes that if deterrence is the justification for profit-stripping awards, this may not justify the remedy's availability in very much wider circumstances than is presently accepted. As Rotherham's account makes clear, an all-encompassing inquiry would have regard, inter alia, to the costs that might result from the use of such remedies (e.g. the risk of over-deterrence).

[183]See section "Restitutionary Awards", esp the text at notes 73, 89–90.

[184]Cf e.g. the assumptions reflected in the controversial anti-restitution decision in Stoke-on-Trent City Council v W&J Wass Ltd [1988] 1 WLR 1406 (CA).

[185]See section "Awards Stripping a Wrongdoer's Actual Profits, Whatever Their Source ('Profit-Stripping Awards')", esp the text at notes 67–68.

[186]Cf e.g. the dual rationalisation reflected in the analysis in Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC), 718 (per Lord Lloyd).

awards seem possible only if the claimant's interest is one which it is possible to regard as the object of bargaining. Only then does it seem possible to imagine a court identifying an objective 'benefit' to the defendant, consisting of the unlicensed appropriation or infringement of the claimant's rights, which can be quantified in money by reference to a market valuation or hypothetical negotiation. All awards classifiable as reasonable fee awards so far involve interests that one might not have qualms about monetising in this way, and where it is therefore feasible to identify an objective benefit to the defendant, quantifiable in money, that might be the subject of a 'restitutionary' award. There are, however, clearly other interests which it would be surprising to find courts treating similarly – e.g. a claimant's interest in his bodily integrity. In such cases, any concern that a defendant should not be permitted the 'benefit' or 'advantage' of unlicensed, wrongful interference, without incurring any substantial liability, must be met in other ways.

Proprietary Remedies

The previous section surveyed the circumstances in which monetary gain-based remedies might be awarded for a civil wrong. A missing dimension is whether English law ever affords what might be called 'proprietary restitution for wrongs' – affording the victim some form of entitlement to an asset in the wrongdoer's hands that represents the proceeds of his wrongful conduct. Some important benefits may follow for a claimant, depending upon the basis and form of the right – in particular: (a) improved status in the wrongdoer's insolvency; (b) an ability to trace into and assert title to substitute assets; (c) an ability to seek relief against third party recipients; (d) an increased measure of recovery that can capture additional, post-receipt gains accruing to the wrongdoer (typically, from profitable investment of the original wrongful gains).

This area is fraught with difficulty. One clear point of departure is that, unlike some other common law jurisdictions, English courts have not yet adopted any form of remedial constructive trust.[187] As such, it is not yet open to English courts, exercising a broad remedial discretion in proceedings before them, to impose a trust or lien over an asset in the wrongdoer's hands, either retrospectively or prospectively from the date of the court's order. If English law ever achieves 'proprietary restitution for wrongs', it only does so by so-called 'institutional' mechanisms –

[187]Esp Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 714–716 (per Lord Browne-Wilkinson); Polly Peck International plc (in administration) (No 5) [1998] 3 All ER 812 (CA); Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd (in administrative receivership) [2011] EWCA Civ 347, [2012] Ch 453, [37]; FHR European Ventures LLP v Mankarious [2013] EWCA Civ 17, [2014] Ch 1, [76]; and recently, FHR European Ventures LLP v Cedar Capital Holdings [2014] UKSC 45, [2014] 3 WLR 535, [47].

proprietary entitlements that are generated by operation of law, in accordance with legal rules, as the right-justifying facts occur.[188]

Beyond this starting-point, clear generalisations become difficult. Three points nevertheless stand out. First, on any view, proprietary gain-based remedies are far more restricted than personal gain-based remedies. Secondly, there are undoubtedly mechanisms in English law by which such proprietary restitution might be achieved – most obviously, by the imposition of a trust or an equitable lien. Nevertheless, there is currently no simple alignment between proprietary responses and either (i) conduct that would qualify as a wrong under the general law (e.g. a tort, equitable wrong, or breach of contract), or (ii) circumstances that would establish a cause of action in unjust enrichment. Thirdly, in the realm of proprietary restitution, a robust look across the authorities suggests a stark distinction between: (i) the availability of proprietary restitutionary mechanisms in the 'narrow' sense, which reverse essentially 'subtractive' gains accruing to the defendant at the claimant's expense; and (ii) the availability of proprietary disgorgement mechanisms, which can go further and strip a wrongdoer of the proceeds of his wrongdoing, whatever their source.

Proprietary Restitution

Proprietary restitutionary mechanisms, in the 'narrow' sense just described, seem widespread in English law. That is, where a defendant gains by receiving an asset directly from the claimant, or otherwise at the claimant's expense, the law routinely 'reverses' this transfer via a proprietary response. Sometimes this is via an immediate trust for the claimant. In other circumstances, it is via a 'power in rem' that once exercised, operates to vest in the claimant either legal title, or more often, a merely equitable title under some form of trust. For example:

(a) a wholly unauthorised taking of another's asset ordinarily has no effect on the original owner's title, and if there are further unauthorised substitutions by the recipient, English law is generous in affording the original owner an interest in any newly acquired asset that represents the traceable substitute for the previous asset.[189]
(b) a transfer of title to property under a contract or by way of gift can be rescinded on various grounds including duress, undue influence, and misrepresentation (fraudulent or non-fraudulent); depending on the origin of rescission, the effect

[188] For this distinction, see esp Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 714–716 (per Lord Browne-Wilkinson).

[189] E.g. Foskett v McKeown [2001] 1 AC 102.

is to revest legal title, or alternatively, a merely equitable title under what is variously regarded as a resulting[190] or a constructive trust[191] in favour of the transferor.

(c) property obtained by simple theft or by fraud may be held on constructive trust for the victim which arises immediately in the absence of any transactional barrier.[192]

(d) property transferred by mistake, or arguably, in other circumstances that generate a restitutionary liability in unjust enrichment (e.g. some failure of consideration), may be held on constructive trust at least once the recipient has acquired knowledge of the restitution-justifying facts, so as to render his subsequent retention of the property 'unconscionable'.[193]

Beyond this, there are other, miscellaneous examples of constructive trusts imposed by equity in response to a wider range of unconscionable conduct that in some manifestations may have some form of restitutionary effect.[194]

There is scope for debate about the basis of these proprietary restitutionary mechanisms. Some might certainly be characterised as responses to wrongdoing; however, a number of English unjust enrichment scholars contend that many could be better analysed as restitutionary responses to the defendant's subtractive unjust enrichment at the claimant's expense.[195] This is some appeal in this analysis. It is consistent with the limited 'restitutionary' remedial orientation of these mechanisms; the right-generating facts often disclose circumstances that could found a cause of action in unjust enrichment (e.g. non-consensual/unauthorised acquisition, mistake, duress, undue influence etc.);[196] many of the right-generating facts do not disclose conduct of the defendant that would be regarded as 'wrongful' under the general law; and even where there may be a concurrent cause of action

[190] E.g. El Ajou v Dollar Land Holdings plc [1993] BCC 689, 712–713 (per Millett J).

[191] E.g. Lonrho plc v Fayed (No 2) [1992] 1 WLR 1, 11–12 (per Millett J).

[192] Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 716 (per Lord Browne-Wilkinson). See subsequently e.g. Niru Battery Manufacturing Co v Milestone Trading [2002] EWHC 1425 (Comm), [55]-[56]; Papamichael v National Westminster Bank plc (No 2) [2003] EWHC 164 (Comm), [2003] 1 Lloyd's Rep 341, [231]-[243]; Armstrong DLW GmbH v Winnington Networks Ltd [2012] EWHC 10 (Ch), [2013] Ch 156, [127]-[129], [276]. Cf Shalson v Russo [2003] EWHC 1637 (Ch), [2005] Ch 281, [110].

[193] Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 714–715 (per Lord Browne-Wilkinson), explaining Chase Manhatten Bank NA v Israel-British Bank (London) Ltd [1981] Ch 105; followed in e.g. Papamichael v National Westminster Bank plc (No 2) [2003] EWHC 164 (Comm), [2003] 1 Lloyd's Rep 341, [221]-[231]; Commerzbank AG v IMG Morgan plc [2004] EWHC 2771 (Ch), [2005] 2 All ER (Comm) 564, [36]. And see too Nesté Oy v Lloyds Bank plc [1983] 2 Lloyd's Rep 658; Re Farepak Food & Gifts Ltd (in administration) [2006] EWHC 3272 (Ch), [2008] BCC 22; [2009] EWHC 2580 (Ch), [2010] BCC 735.

[194] For general discussion, see e.g. Hayton et al. (2010), Chap. 9.

[195] E.g. Chambers (2007); Birks (2005), Chap. 8; Burrows (2011), Chap. 8. Cf the very different vision offered in Virgo (2006).

[196] E.g. Mitchell et al. (2011), Chaps. 8, 9, 10, and 11.

for such a wrong (e.g. the tort of deceit or conversion), the wrong is not obviously a necessary basis for the right. This analysis nevertheless remains highly contested, and as things stand, it can only by adopted by glossing or ignoring what some judges have said.[197]

Proprietary Disgorgement

Proprietary disgorgement is, at best, a very unusual phenomenon in English law. For a long time, the only firm support for proprietary disgorgement has been in the area of fiduciary accountability: it is widely accepted that a fiduciary, who is liable to account for unauthorised benefits resulting from his position, will ordinarily be a trustee for the fiduciary relationship's beneficiary, if those profits are represented by an asset identifiable in the fiduciary's hands. For some years, the high-water-mark was *Attorney-General for Hong Kong v Reid*,[198] where the Privy Council controversially held that a bribed public prosecutor held the bribes received on an immediate constructive trust for his employer, the Crown, and reasoned in terms that suggested that any unauthorised benefit accruing to a fiduciary by virtue of his position would potentially be held on trust for his beneficiary. In 2011, the English Court of Appeal signalled a retreat from this position,[199] deciding that a fiduciary would only be a trustee if the asset in his hands represented the beneficiary's property, the proceeds of exploiting the beneficiary's property, or the proceeds of an opportunity that properly belonged to the beneficiary. However, the Supreme Court has since held, in *FHR European Ventures LLP v Cedar Capital Holdings Ltd*,[200] that the availability of a proprietary remedy is not limited in this way. Authority, policy and practicality are said to require the conclusion that a fiduciary holds *any* unauthorised benefits resulting from his position on trust for his beneficiary.

It is doubtful that any wider principles can be extracted from this important body of decisions. The extensive availability of proprietary disgorgement in the fiduciary context is best attributed to the peculiar nature of a fiduciary's position, and to a robust working-out of the fiduciary relationship's core requirement of loyalty. On this view, a fiduciary is altogether disabled from profiting from his position, without due authorisation, because the fiduciary relationship entails a duty immediately to

[197] E.g. in Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669 (re: the relationship between unjust enrichment and the imposition of resulting or constructive trusts); and in Foskett v McKeown [2001] 1 AC 102 (re: the extent to which unjust enrichment provides an explanation for rights to substitute assets).

[198] [1994] 1 AC 324 (PC).

[199] Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd (in administrative receivership) [2011] EWCA Civ 347, [2012] Ch 453; followed, with some reservations, in FHR European Ventures LLP v Mankarious [2013] EWCA Civ 17.

[200] [2014] UKSC 45, [2014] 3 WLR 535.

account *in specie* to his beneficiary for any unauthorised benefits that he receives. There is, in contrast, no significant evidence that English law will supplement the personal liability of a *non-fiduciary* wrongdoer to disgorge their wrongful profits by imposing a constructive trust, whether 'remedial' or 'institutional'. The authorities suggest, for example: (a) that an IP infringer is only personally liable to account for his profits, and is not a constructive trustee of the proceeds of any infringement;[201] (b) that a non-fiduciary, who misuses confidential information in breach of an obligation of confidentiality, may only be personally liable to account for his profits;[202] (c) that a third party who dishonestly assists a breach of trust or fiduciary duty, and may be liable to account for his profits, is not a constructive trustee of his profits without more;[203] and (d) that a trespasser who profitably uses another's land, and who might exceptionally be held liable to account for his profits from doing so, is nevertheless not a constructive trustee.[204] The very restricted availability of proprietary disgorgement should help to allay the concerns of some commercial lawyers, at least, who have often argued that there is no justification for the special priority on insolvency (or other advantages) that may accrue as a result of proprietary disgorgement.[205]

The Wider Legal Landscape

The law on gain-based remedies for civil wrongdoing does not exist in isolation: there are other routes by which, in English law, some or all of their purposes might be achieved. This is true of profit-stripping awards, and a fortiori, restitutionary awards.

Where permitted, profit-stripping/disgorgement is primarily achieved in ordinary civil proceedings via an order for an account of profits in favour of the victim of the wrong, or more exceptionally, the imposition of a trust. 'Category 2' exemplary damages offer an alternative means to similar ends. Beyond this, where the wrongdoing also amounts to *criminal* activity, English law provides various routes to *state* confiscation of the proceeds in both criminal and civil proceedings.

[201] Twentieth Century Fox Film Corp v Harris [2013] EWHC 159 (Ch), [2014] ETMR 46; Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch), [2007] 2 All ER (Comm) 993, [128].

[202] Cf dicta in e.g. Attorney-General v Observer Ltd [1990] 1 AC 109. For discussion, see Tang (2003); Conaglen (2008).

[203] Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch), [2007] 2 All ER (Comm) 993. See too Tajik Aluminium Plant v Ermatov [2006] EWHC 7 (Ch), [23]; OJSC Oil Co v Yugraneft v Abramovich [2008] EWHC 2613, [377], [392]. Cf if he actually received the misapplied assets/traceable proceeds.

[204] Re Polly Peck International plc (in administration) (No 2) [1998] 3 All ER 812 (CA); Twentieth Century Fox Film Corp v Harris [2013] EWHC 159 (Ch), [2014] ETMR 46, [18].

[205] E.g. Goode (1998); and more recently, Goode (2011).

Criminal courts have a wide-ranging jurisdiction under the Proceeds of Crime Act 2002[206] to make a "confiscation order" after a criminal conviction on the application of the prosecutor or on the court's own initiative, which can extend to the "available amount" of the defendant's "benefit" from particular criminal conduct or a "general criminal lifestyle".[207] A designated enforcement body can also seek a civil "recovery order" in High Court proceedings against any person whom it thinks holds "recoverable property", broadly meaning "property" obtained by conduct which the court is satisfied, on the balance of probabilities, is criminally unlawful conduct.[208]

The natural domain of restitutionary awards is more obviously crowded. Within the law of wrongs, ordinary compensatory damages often subsume any possible restitutionary award in cases of subtractive wrongful enrichment. This is even more true on wider analyses that rationalise reasonable fee awards as 'substitutive' compensatory awards.[209] Otherwise, much of the work of restitutionary awards can be achieved, beyond the law of wrongs, by personal restitutionary remedies that arise within the law of unjust enrichment to reverse the defendant's unjust enrichment at the claimant's expense,[210] or in a sub-set of cases, by proprietary restitutionary mechanisms.[211] 'Unjust', as it is used here, is a generic term for a limited set of grounds or 'unjust factors' that are recognised by English law as justifying a restitutionary remedy. Some rest on the fact that the claimant's intention to benefit the defendant was absent, vitiated or conditional;[212] whilst others reflect limited policy objectives.[213] On the now-dominant view, the fact that a benefit is obtained by committing a wrong does not make it an unjust enrichment for this purpose: 'restitution *for wrongs*' must be distinguished from 'restitution *for unjust enrichment*'. Nevertheless, in practice, many situations of *subtractive* wrongful enrichment also reveal an alternative claim in unjust enrichment: the claimant can show facts establishing both a civil wrong *and* an independent cause of action that supports a restitutionary remedy for unjust enrichment, based on some recognised

[206] There are other, more specific provisions – e.g. Prevention of Social Housing Fraud Act 2013, s 4 (unlawful profit order). Cf the more limited jurisdiction for a criminal court to make a 'restitution order', directing the restoration of stolen goods or their value to the person who would be entitled to recover them – Powers of Criminal Courts (Sentencing) Act 2000, s 148.

[207] Proceeds of Crime Act 2002, Part 2, esp ss 6–10.

[208] Proceeds of Crime Act 2002, Part 5, esp ss 243, 266, and 304, read with ss 316 and 241.

[209] See the text at notes 67–68 above.

[210] See Mitchell et al. (2011), Chap. 1 and generally.

[211] See section "Proprietary restitution", discussing proprietary restitution.

[212] E.g. lack of consent/want of authority, mistake, duress, failure of basis.

[213] E.g. ultra vires receipts by public bodies.

unjust factor (e.g. mistake[214] or duress).[215] Where this is the case, a claimant is allowed a free election between claims – English law is generous in allowing for the possibility of concurrent causes of action and in generally allowing a claimant a free choice to select that which suits him best.[216]

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[214] E.g. where fraudulent misrepresentations by the defendant amounting to the tort of deceit induce the conferral of benefits on the defendant; the same facts could support claim in unjust enrichment to restitution of the value of these benefits on the ground of mistake.

[215] E.g. where wrongful pressure is exerted by the defendant amounting to a tort (e.g. a tortious detention of the claimant's goods), which induces the conferral of benefits on the defendant; the same facts could support a claim in unjust enrichment to restitution of the value of these benefits on the ground of duress.

[216] For explicit recognition of this in other contexts, see e.g. Henderson v Merrett Syndicates Ltd [1995] 2 AC 145, 193–194 (contract and tort); Kleinwort Benson v Lincoln City Council [1999] 2 AC 349, 387 (different grounds of action in unjust enrichment); Deutsche Morgan Grenfell Group plc v Inland Revenue Commissioners [2006] UKHL 49, [2007] 1 AC 558, [136]-[137] (different grounds of action in unjust enrichment).

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Chapter 4
Disgorgement in Ireland

Niamh Connolly

Abstract Ireland is a common law jurisdiction whose private law largely resembles that of England and Wales. Irish law recognises disgorgement as a remedy in a variety of ways. Certain statutes provide for disgorgement of profits wrongfully achieved through intellectual property infringements or stock market abuses. The law of equity has long recognised disgorgement, or liability to account, for breaches of fiduciary duty. In addition, Irish common law allows for disgorgement in both contract and tort scenarios. Domestic case law has envisaged disgorgement for contractual breaches done in bad faith since before the United Kingdom House of Lords introduced disgorgement in *Attorney-General v Blake*. However, cases of direct disgorgement for breach of contract remain vanishingly rare, resulting in uncertainty about the standard of misconduct required. Disgorgement more commonly occurs in tort cases. The Irish Law Reform Commission has approved the availability of disgorgement in both contract and tort as a means of preventing people from profiting from their wrongdoing. Besides direct recognition of disgorgement, Irish law also contains a number of functional equivalents, including notably the remedial constructive trust. In addition, claims for compensation or exemplary damages may in some cases take account of profits made by the defendant. However, it is not possible to bring class actions in claims for damages and this may erect a practical obstacle to full disgorgement taking place where wrongdoing has affected many victims. Beyond the realm of private law, the Criminal Assets Bureau is an administrative body empowered to strip wrongdoers of the proceeds of criminal activity.

Keywords Disgorgement in Ireland • Restitution for wrongs

Introduction

Ireland is a common law jurisdiction, whose private law has diverged slowly from that of England and Wales since independence in 1922. Consequently, there is a broad similarity between the responses given in Irish courts to cases concerning

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disgorgement and those articulated in England or other common law jurisdictions, such as Canada. Irish law recognises various pure disgorgement remedies as well as functional equivalents, created by statute, equity and the common law. In this paper, I will consider: statutory disgorgement; equitable account of profits; common law disgorgement damages; constructive trusts; compensation for loss calculated by reference to the defendant's gain; punitive or exemplary damages, and forfeiture to the State of the proceeds of crime. Distinctive features in this landscape include the recognition of disgorgement damages for certain cases of breach of contract before the English decision in *Attorney General v Blake*,[1] and a liberal application of the new model remedial constructive trust.

Despite the diversity of doctrines connected to disgorgement, the prevention of unjust enrichment through wrongdoing emerges as a unifying objective. The Irish Law Reform Commission examined the issue in 2000. It approved of restitutionary damages as an "important supplement" to compensation in both tort and contract, considering it an interest "well recognised by the law of damages" to ensure that wrongdoers do not profit by their actions.[2] It recommended the continued development of disgorgement remedies through case law.

Terminology

"Account of profits" is the dominant phraseology concerning disgorgement in Irish case law and statute. Terms such as "disgorgement" and "restitutionary damages" appear in a tiny handful of Irish cases, although the latter is the term chosen for the Law Reform Commission Report on the subject.[3] "Restitution for wrongs" does not figure.

The language of "account" reflects the historical roots of this form of damages in equity. However, the rationale for various remedies espouses the logic of stripping wrongful gains, so that a transition to the language of disgorgement would not require a change in thinking. If the language were to change, "disgorgement" would be preferable to "restitution" because these cases do not involve handing back to the plaintiff a benefit received from him, but giving to the plaintiff a benefit received from a third party.[4]

[1] Attorney General v Blake [2000] UKHL 45; [2001] 1 AC 268 (United Kingdom House of Lords).

[2] Law Reform Commission of Ireland Report (LRC 60–2000) Aggravated, Exemplary and Restitutionary Damages (2000), para 6.37–6.38.

[3] Law Reform Commission n 2 above, Chap. 6.

[4] Ibid para 6.03; Smith (1994), 121–140, 123.

A Rationale Based on Unjust Enrichment

Irish cases consistently explain disgorgement in terms of unjust enrichment.[5] The statutory right in intellectual property or market abuse cases is regarded as one instance of the broader right developed in the common law.[6] This fits with a conception of unjust enrichment law as designed to remove from the defendant wealth which he should not be entitled to retain.[7] Likewise, the Law Reform Commission Report on Aggravated, Exemplary and Restitutionary Damages characterises restitutionary damages as "a particular application of the principle of unjust enrichment, whereby the law can strip away profit wrongfully acquired at the expense of another."[8] Their purpose is not to compensate the plaintiff, but "to restore the position of the defendant, by removing the profits earned by the wrong"[9] This objective is also one possible rationale for the common law rules on illegality: to prevent a person benefitting from illegal conduct.[10]

The Law Reform Commission considers disgorgement damages easier to justify than exemplary damages.[11] Because it views the purpose of disgorgement as simply to prevent wrongdoers from profiting from wrongdoing, it says, "the basis of restitutionary damages awards is not in the moral quality of the defendant's behaviour."[12] This conception implies that a low threshold of misconduct could suffice to trigger disgorgement.

Distinction from Subtractive Unjust Enrichment

Although Irish law clearly views the rationale for disgorgement as a species of unjust enrichment, disgorgement is conceptually distinct from subtractive unjust enrichment. Invoking unjust enrichment to explain disgorgement remedies suggests a broader conception of unjust enrichment which encompasses encroachment or restitution for wrongs.

It is readily apparent why Irish judges relate the concept to unjust enrichment: it is "unjust" to profit from wrongdoing. However, this is "unjust" in a different sense to that in which "unjust" is defined within the English and Irish law of unjust

[5]House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611 (Irish Supreme Court), 707; Duhan v Radius Television Production Limited [2007] IEHC 292 para 43 (Irish High Court).

[6]Duhan v Radius Television Production Limited [2007] IEHC 292 para 43 (Irish High Court).; Quinn v Irish Bank Resolution Corporation Limited [2012] IEHC 36, G11 (Irish High Court).

[7]Criminal Assets Bureau v JWPL [2007] IEHC 177, para 3.2 (Irish High Court).

[8]Law Reform Commission n 2 above, para 6.01.

[9]Ibid para 6.01.

[10]Quinn v Irish Bank Resolution Corporation Limited [2012] IEHC 36, G11 (Irish High Court).

[11]Law Reform Commission n 2 above, para 6.41.

[12]Ibid para 6.43.

enrichment. In unjust enrichment law, we channel the unjust question through the unjust factors, which generally reflect the impairment of the plaintiff's consent to a transfer. The defendant's "wrongfulness" or culpability is not a concern within the unjust factors approach.

Secondly, we require that the enrichment of the defendant be "at the expense of" the plaintiff. This requires a direct transfer from plaintiff to defendant, whereby the value is subtracted from the plaintiff's assets and added to the defendant's. When a person profits by encroaching on the rights of the plaintiff, or wrongly attracting to himself a benefit which ought properly have flowed instead to the plaintiff, it might be "at the plaintiff's expense" in a broader, colloquial sense, that the plaintiff has lost out, but it does not fit the pattern of subtractive enrichment. While restitution for wrongs is certainly contiguous with unjust enrichment, it seems proper within the modern taxonomy of the common law to maintain the distinction between restitution for unjust enrichment and disgorgement of wrongful gains.[13]

Disgorgement in Irish Law

Statutory Disgorgement

Statutes provide for disgorgement in cases concerning intellectual property and breaches of share trading rules.

Breach of Copyright

The Copyright and Related Rights Act 2000 provides that the remedies for knowing infringement of copyright include an account of profits.[14] The courts also enjoy wide statutory discretion to award such damages as they consider just, including aggravated or exemplary damages.[15] The Act's predecessor made greater express reference to the concept of disgorgement. It envisaged "an account of profits" for unwitting infringements, and identified the benefit gained by the defendant's infringement as an indicator of when additional damages were needed to offer "effective relief".[16]

The case law applying the statute turned on whether, in each case, compensation was an adequate and effective remedy. In *Folens v Ó Dubhghaill*, an author reused material in breach of the publisher's copyright: he gained a commercial advantage,

[13] Smith (2001), 2115–2176, 2116.

[14] Section 127, Copyright and Related Rights Act 2000 (Ireland).

[15] Section 128, Copyright and Related Rights Act 2000 (Ireland).

[16] Section 22(4), Copyright Act 1963 (Ireland).

but the plaintiff had not lost much money.[17] The Supreme Court overturned the award of additional damages under the Copyright Act: such an award was authorised only where necessary to provide an effective remedy, and in the circumstances, an injunction and compensatory damages sufficed. In *House of Spring Gardens Ltd v Point Blank Ltd*, the Supreme Court upheld an award of disgorgement damages, described as an account of profits, for breach of contract, breach of confidence through misusing confidential information, and infringement of copyright.[18]

Insider Trading and Market Abuse

The Companies Act 1990 requires a person who commits prohibited insider dealing to compensate other parties to a transaction for their loss, and to account to the company that issued the shares for any profit resulting from the prohibited dealing.[19] These orders do not displace any common law liability that may apply; the amounts can be reduced to reflect any other payments ordered by the court. There is similarly statutory provision for disgorgement in cases of market abuse.[20] Those who breach the regulations are liable to compensate other parties who trade in shares for the loss they suffer due to price distortion, and to account to the issuing body for any profit acquired by acquiring or selling the instruments.[21]

Account of Profits: Equitable Disgorgement, But Not Damages

Liability to account for profits requires a person to cede to another the proceeds of certain actions. Account is "an equitable remedy, given in lieu of an order for the payment of damages."[22] Its function is clearly disgorgement: "the defendant is going to be required to disgorge profits made by it in the course of unlawful activity."[23]

Sometimes the expression "liability to account as a constructive trustee" is used.[24] This means that the liability is analogous to a constructive trust, not that it is a constructive trust: it is personal, not proprietary. Liability to account as a

[17] Folens v Ó Dubhghaill [1973] 1 IR 255 (Irish Supreme Court).

[18] House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611 (Irish Supreme Court).

[19] Section 109, Companies Act 1990 (Ireland).

[20] The Investment Funds, Companies and Miscellaneous Provisions Act 2005 (Ireland); Quinn v Irish Bank Resolution Corporation Limited [2012] IEHC 36 (Irish High Court).

[21] Section 33, Investment Funds, Companies and Miscellaneous Provisions Act 2005 (Ireland), implementing Council Directive 2003/6/E.C. of the 28th January, 2003 on insider dealing and market manipulation.

[22] House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611, 685 (Irish Supreme Court).

[23] McCambridge Ltd v Joseph Brennan Bakeries [2013] IEHC 569, para 60 (Irish High Court).

[24] See Smith (1999), 294–302.

constructive trustee can also be triggered by dishonest assistance in a breach of trust, even though the defendant has not in this case received the misapplied property.[25]

Both statute and case law expressly distinguish the remedy of an account of profits from damages. In *McCambridge Ltd v Joseph Brennan Bakeries*, the court refused to allow the defendants, who had breached copyright, to use the lodgement procedure, on the ground that a claim for an account of profits is not an action for damages.[26] The plaintiff could not be expected to predict in advance the amount of profits which the defendant would be ordered to pay him, since the remedy of account involves the defendant revealing the amount of his profits.[27] However, if it has sufficient information, the court may itself calculate the amount due in an account of profits, rather than ordering the defendants first to make an account and then pay over the resulting amount.[28]

Disgorgement Damages in the Common Law

Categories of Damages

The Supreme Court has identified three main categories of damages for wrongs: compensatory damages, aggravated damages (compensatory damages increased by reference to the defendant's conduct),[29] and punitive or exemplary damages. Compensatory damages "must always be reasonable and fair and bear a due correspondence with the injury suffered."[30] In principle, damages for breach of contract should be compensatory. The Law Reform Commission does not approve of exemplary damages in contract, as being inconsistent with the nature of contract law.[31] It concedes that where the contractual issue is accompanied by a tort or other wrong, the courts can award punitive damages based on the wrong.[32] However, Irish case law has also endorsed disgorgement damages, and did so in a breach of contract case. The Law Reform Commission approves of this principle.[33]

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[25] Keane (2011), 241.

[26] Section 22(3), Copyright Act 1963 (Ireland); McCambridge Ltd v Joseph Brennan Bakeries [2013] IEHC 569, paras 39, 41 (Irish High Court).

[27] McCambridge Ltd v Joseph Brennan Bakeries [2013] IEHC 569, para 60 (Irish High Court).

[28] House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611, 708 (Irish Supreme Court).

[29] Law Reform Commission n 2 above, para 5.15.

[30] Barrett v Independent Newspapers Ltd. [1986] IR 13, 24 (Irish Supreme Court).

[31] Law Reform Commission n 2 above, para 1.55.

[32] Clark (2013), 675; Garvey v Ireland (Unreported, Irish High Court, 19 December 1979) (Irish High Court); Kennedy v Allied Irish Banks Ltd (Unreported, Supreme Court, 29 October 1996) 46 (Irish Supreme Court).

[33] Law Reform Commission n 2 above, para 6.48.

Disgorgement Damages in Contract: Hickey v Roches Stores[34]

In *Hickey v Roches Stores*,[35] the High Court ruled that there could be disgorgement damages arising from both contractual and tortious wrongs, in cases where the defendant acted in bad faith by calculating and intending to achieve a gain by his wrongdoing.[36] The parties contracted for the plaintiffs to sell their drapery products in the defendants' store. The defendants terminated unlawfully and began selling their own drapery products. Finlay P accepted that, although the general purpose of damages in contract and tort is compensatory, contract damages need not always be strictly limited to compensation. He indicated that the circumstances giving rise to disgorgement could vary between different causes of action.[37] He set out a general principle that,

> Where a wrongdoer calculated and intended by his wrongdoing to achieve a gain or profit which he could not otherwise achieve and has in that way acted mala fide then irrespective of whether the form of his wrongdoing constitutes a tort or a breach of contract the court should, in assessing damages, look not only at the loss suffered by the injured party by also to the profit or gain unjustly or wrongfully obtained by the wrongdoer.

Where the profits obtained by such a wrongdoer exceed the plaintiff's loss, "damages should be assessed so as to deprive him of that profit."

However, emphasising the need for the extent of contractual obligations to be certain, Finlay P carefully circumscribed the availability of disgorgement damages in contract cases to "*mala fides*". In this instance he did not apply the disgorgement principle because the defendants' *mala fides* were not pleaded: it was not shown that the defendants designed the breach to usurp the goodwill which should have benefited the plaintiffs.

The criterion of *mala fides* is a "significant limitation".[38] It is not clear what conduct is required. There has never been a case in which Finlay P's criterion for the award of disgorgement damages has been met.[39] Certainly, where a person believes his conduct to be lawful, the *Hickey* test is not met.[40] In *Vavasour v O'Reilly*, the plaintiff was wrongfully excluded from a jointly-held franchise.[41] He sought "additional damages" based on the defendant's *mala fides* as well as compensation.

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[34] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196 (Irish High Court).

[35] Ibid; Law Reform Commission n 2 above, para 6.32.

[36] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196 (Irish High Court); Clark n 32 above 668; see also Maher v Collins [1975] IR 232, 238 (Irish Supreme Court).

[37] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196 (Irish High Court), 208.

[38] Law Reform Commission n 2 above, para 6.34.

[39] Clark (2013), 677.

[40] Conneran v Corbett and Sons Limited [2006] IEHC 254 (Irish High Court).

[41] Vavasour v O'Reilly and Windsor Motors Ltd [2005] IEHC 16 (Irish High Court).

Clarke J accepted that *Hickey* provides for disgorgement damages, but found that they were only relevant where the defendant gains more from his breach than the plaintiff loses.

The *Hickey* disgorgement principle predates the English decision in *Attorney General v Blake*.[42] Sometimes in Irish law, domestic innovations are later subsumed by the adoption of similar precedents from England and Wales. *Blake* is probably part of Irish law, but has not yet been the basis of any decision.[43] This is unsurprising, given the paucity of cases in which disgorgement rather than compensation would be appropriate. The relationship between the *Hickey* and *Blake* tests for disgorgement is therefore uncertain. The Law Reform Commission considers that the *Hickey* test is probably broader than *Blake*.[44] Because it views the purpose of disgorgement as simply to prevent wrongdoers from profiting from wrongdoing, the Commission, perhaps surprisingly, argues against the strict circumscription of the disgorgement remedy.[45] More case law is needed to delimit the contours of disgorgement damages in Irish common law.

Constructive Trusts

Constructive trusts are an equitable proprietary remedy. In some cases they are pure disgorgement remedies, because a remedial constructive trust may be declared over property which did not originate in the hands of the plaintiff, on grounds of wrongful conduct. In other cases, they are a functional equivalent which, as proprietary remedies, extend to the full measure of any gain received by the defendant, and thereby effect full disgorgement.

Constructive Trusts for Breach of Fiduciary Duty or Knowing Receipt of Trust Property

As in English law, a fiduciary must account to his beneficiary for any advantages he gains by his position.[46] This disgorgement required of fiduciaries does not depend on the beneficiary having suffered a loss.[47] Constructive trusts also arise where a person receives trust property in breach of trust with either actual or constructive

[42] Attorney General v Blake [2000] UKHL 45 (United Kingdom House of Lords).

[43] Victory v Galhoy Inns Ltd [2010] IEHC 459 (Irish High Court).

[44] Law Reform Commission n 2 above, para 6.6.34.

[45] Ibid para 6.413.

[46] Regal (Hastings) Ltd v Gulliver [1942] UKHL 1; [1942] 1 AER 378 (United Kingdom House of Lords); Phipps v Boardman [1966] UKHL 2; [1967] 2 AC 46 (United Kingdom House of Lords).

[47] Fyffes plc v DCC plc [2005] IEHC 477, [2006] IEHC 32, [2007] IESC 36; [2009] 2 IR 417 (Irish Supreme Court).

notice of the breach. Ireland's Supreme Court endorsed the *Belmont Finance*[48] constructive trust, which responds to the misapplication of corporate assets, in *Re Frederick Inns*.[49]

Remedial Constructive Trusts in Ireland

The remedial constructive trust is imposed by law in response to unconscionable conduct. The archetypal example is to prevent a person from benefiting from the proceeds of fraud. The imposition of a constructive trust does not necessarily reflect the continuation of a plaintiff's pre-existing property right.[50] It is a discretionary remedy. Whereas English law has not recognised the new model constructive trust,[51] cases such as *Murray v Murray*[52] and *Kelly v Cahill*[53] are clear authority that the remedial constructive trust is recognised in Irish law. These trusts are sometimes called a "new model constructive trust"[54] or a "remedial constructive trust".[55] While the constructive trust was applied in some cases prior to the 1990s, it has become more established in this jurisdiction since then.[56]

In principle, the causative event that gives rise to a constructive trust should be a wrong, as opposed to unjust enrichment. In *NAD v TD*, Barron J articulated the orthodox view:

> the question is not [. . .] even what is fair, but whether or not the conduct of the owner of the property has been such that equity ought to impose a trust for the benefit of the contributor.[57]

In *Re Custom House Capital Limited (In Liquidation)*, the High Court found that there was a constructive trust over money invested in a scheme on foot of fraudulent representations.[58] Finlay Geoghegan J identified fraudulent conduct as the criterion required for a constructive trust.

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[48] Belmont Finance Corporation v Williams Furniture Ltd. (No. 2) [1980] 1 All ER 393 (England & Wales Court of Appeal).

[49] In Re Frederick Inns [1994] 1 ILRM 387 (Irish Supreme Court); see also Fyffes plc v DCC plc [2009] 2 IR 417 (Irish Supreme Court).

[50] Dublin Corporation v Building and Allied Trade Union (Unreported, High Court, 6 March 1996) 117 (Irish High Court).

[51] In Re Polly Peck International (No. 2): Marangos Hotel v Stone [1998] 3 AER 812 (England & Wales Court of Appeal).

[52] Murray v Murray [1996] 3 IR 251 (Irish High Court).

[53] Kelly v Cahill [2001] 2 ILRM 205 (Irish High Court).

[54] Mee (1996), 9–13.

[55] O'Dell (2001), 71–96.

[56] HKN Invest OY v Incotrade PVT Ltd. [1993] 3 IR 152 (Irish High Court); Kelly v Cahill [2001] 2 ILRM 205 (Irish High Court).

[57] NAD v TD [1985] ILRM 153, 162 (Irish High Court).

[58] In Re Custom House Capital Limited (In Liquidation) [2013] IEHC 559 (Irish High Court).

In practice, however, the courts do not always adhere strictly to the requirement of misconduct, and sometimes constructive trusts are imposed to remedy unjust enrichment.[59] Lord Denning's judgment in *Hussey v Palmer*[60] has influenced the development of the constructive trust in Ireland. In *Murray v Murray*, Barron J articulated a liberal view of the court's discretion to impose a constructive trust, stating,

> the law will impose a constructive trust in all circumstances where it would be unjust and unconscionable not to do so.[61]

Accordingly, he declared a trust in the absence of misconduct or any factor affecting the conscience of the legal owner.[62] Similarly, in *Kelly v Cahill*, Barr J identified the purpose of the remedial constructive trust as being to prevent unjust enrichment, and applied it in a liberal manner which threatens the fundamental criterion of unconscionability.[63] A deceased testator intended to leave his land to his wife, but his attempted transfer was ineffective. The court ruled that his nephew was constructive trustee of property which he legally owned. These developments show that the remedial constructive trust is a tool to order disgorgement, but that, controversially, it can arise in the absence of wrongdoing.

Functional Equivalents to Disgorgement in Irish Law

Calculating Loss by Reference to Gain

There are a number of circumstances in which compensation for loss is calculated taking into account the gains made by the defendant. These offer a functional equivalent to disgorgement, even though they are conceptually distinct.

Wrotham Park Damages

The first example is Wrotham Park Damages for encroachment, which exists in Irish as in English law. In *Conneran v Corbett*, Laffoy J accepted that *Wrotham Park* damages are an alternative to the normal measure of diminution in value

[59] See East Cork Foods Ltd v O'Dwyer Steel Co Ltd [1978] IR 103 (Irish Supreme Court); In the Matter of Irish Shipping Ltd (In Liquidation) [1986] ILRM 518 (Irish High Court); Murphy v Attorney General [1982] 1 IR 241, 317 (Irish Supreme Court); Gill (1986), 97–99; Keane (2011), 253 et seq.

[60] Hussey v Palmer [1972] EWCA Civ 1; [1972] 3 AER 744 (England & Wales Court of Appeal).

[61] Murray v Murray [1996] 3 IR 251, 255 (Irish High Court).

[62] Mee (1996), 9–13.

[63] Kelly v Cahill [2001] IR 56, 62; O'Dell (2001), 71–96; Hourican (2001), 49–50, 50.

for trespass.[64] In *Victory v Galhoy Inns Ltd*, the High Court awarded damages for an innocent encroachment onto the plaintiffs' property, calculated in part by the defendants' profit. The defendants ran a nightclub and, mistakenly believing they had a right of way, trespassed on the plaintiffs' property in order to create a legally-required fire exit. The defendants argued for damages to be limited to the diminution in value of the plaintiffs' property. However, McMahon J ruled that the plaintiffs were entitled to "an enhancement" of their damages, "related to the value of the exit to the defendants' enterprise, and in particular to the profits which the enterprise generates for the defendant."[65] This was regarded as a fair proportion of the profits from the defendants' business, which could not operate without the infringement. The Law Reform Commission considers that, while the conceptual basis of *Wrotham Park* damages[66] in English law is uncertain, it is more "straightforward and realistic" to view them as "restitution of the gain".[67]

Losses Measured by the Defendant's Gain: Hickey v Roches Stores (No. 2)

The first judgment in *Hickey v Roches Stores* established the existence of pure disgorgement damages, but these were not applicable on the facts. As an alternative head of damages, Finlay P was willing to award aggravated damages to represent the loss suffered by the plaintiffs in losing customers to the defendants, even after the contract would have ended, because of their breach of the non-compete clause. In a second hearing, Finlay P calculated this award as a proportion of the defendants' business.[68]

Although the damages under this head in Hickey were compensatory in objective, they were calculated by reference to the wrongdoer's gain, and therefore from a practical perspective resemble disgorgement. This leads Clark to conclude that the award of aggravated damages to take full account of the loss suffered by the plaintiff will combine both compensatory and disgorgement functions, without introducing inappropriate "quasi-criminal" remedies to contract law.[69]

These aggravated damages, allowed to compensate the plaintiffs for their loss due to the wrongful competition by the defendants, are different to exemplary or punitive damages.[70] The difference is that exemplary damages are based on the intention of the wrongdoer at the time of his misconduct to make a profit, whereas the calculation

[64] Conneran v Corbett and Sons Limited [2006] IEHC 254 (Irish High Court).

[65] Victory v Galhoy Inns Ltd [2010] IEHC 459, para 45 (Irish High Court).

[66] Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 2 AER 321 (England & Wales High Court).

[67] Law Reform Commission n 2 above, para 6.08.

[68] Hickey v Roches Stores [1980] ILRM 107 (Irish High Court).

[69] Clark (1978), 128–133, 132.

[70] Ibid 131.

of the claimant's loss by reference to the defendants' profit envisaged in Hickey is retrospective, guided by the amount of profit actually made by the wrongdoing.

Exemplary Damages

Punitive or exemplary damages may provide another functional equivalent to disgorgement, even though they have a distinct objective. The Law Reform Commission identifies the purposes of exemplary damages as to punish and deter, with the incidental benefit of compensating the plaintiff.[71] Exemplary damages mark the court's "particular disapproval" of the defendant's conduct.[72] In *Shortt v Commissioner of An Garda Síochána*, which concerned the outrageous persecution of an innocent citizen by the police, Murray CJ affirmed that, given their distinct purpose of disapproving of egregious conduct, it was not necessary to relate them to the amount of the plaintiff's loss.[73] However, exemplary damages are not awarded where the amount payable in the form of compensatory damages constitutes a sufficient public disapproval of and punishment for the form of wrongdoing.[74]

Exemplary damages may be appropriate where a party acts in "wilful and conscious wrongdoing in contumelious disregard of another's rights".[75] In *Rookes v Barnard*, one of the circumstances in which Lord Devlin proposed that exemplary damages should be available was where the defendant has calculated that he will profit from his wrongdoing. In *O'Brien v Mirror Group Newspapers Ltd*,[76] the Supreme Court approved the House of Lords ruling in *Broome v Cassell & Co* that exemplary damages are an appropriate response where a defendant wilfully defames a plaintiff on foot of a calculation that its profits from doing so will exceed any compensatory damages which it must pay out.[77] Irish law does not limit exemplary damages to the categories outlined in *Rookes v Barnard*.[78]

The *Hickey* test of *mala fides* for disgorgement damages might seem to bring restitutionary damages within the rubric of exemplary damages. It seems to subsume the *Rookes v Barnard* heading of exemplary damages for calculatedly profitable wrongdoing. However, it is preferable to recognise disgorgement damages as a distinct category, their rationale and measure being fully to deprive the defendant of wrongful gains (even if they might be triggered by a cynical breach). Moreover,

[71] Law Reform Commission n 2 above, para 1.01.

[72] Conway v Irish National Teachers Organisation [1991] 2 IR 305, 317 (Irish Supreme Court).

[73] Shortt v Commissioner of An Garda Síochána [2007] 4 IR 587, 619 (Irish Supreme Court).

[74] Noctor v Ireland [2005] 1 IR 433 (Irish High Court).

[75] Conway v Irish National Teachers Organisation [1991] 2 IR 305, 323 (Irish Supreme Court).

[76] O'Brien v Mirror Group Newspapers Ltd [2001] 1 IR 1 (Irish Supreme Court).

[77] Broome v Cassell & Co [1972] AC 1027 (United Kingdom House of Lords).

[78] Rookes v Barnard [1964] UKHL 1; [1964] AC 1129 (United Kingdom House of Lords).

exemplary damages are viewed as inappropriate in pure contract cases, whereas disgorgement is permitted.[79] This is another good reason to differentiate these forms of damages.

Restitution of Unjust Enrichment

Restitution of unjust enrichment logically involves an incidental element of disgorgement. When a plaintiff recovers a transfer which he made to the defendant with impaired consent, the defendant must give up this benefit to him. However, there are several reasons why this is not true disgorgement. The hallmark of disgorgement is that its purpose is to remove assets from the defendant, and, accordingly, its measure corresponds to the defendant's gain. The purpose of the action in unjust enrichment is to restore the value to the plaintiff, not to strip it from the defendant.[80] The reason for restitution is the plaintiff's lack of consent, not any wrongdoing on the part of the recipient. Its measure is the value transferred by the plaintiff. The identity of the plaintiff's loss and the defendant's gain is at the heart of the corrective justice rationale for unjust enrichment, but this correspondence does not mean that unjust enrichment is gain-based.[81] Lastly, the remedy is usually a personal one, not a proprietary one. For all these reasons, subtractive unjust enrichment should not be regarded as a disgorgement tool.

Procedural Issue: Class Actions in Ireland

From a procedural perspective, the availability of class actions may be a useful tool to ensure full disgorgement in cases where wrongful conduct affects a large number of people. The Law Reform Commission issued a report on multi-party litigation in 2005, which highlighted the restrictions on the mechanisms for class actions in the Irish legal system.[82] Where multiple persons have a shared interest in a matter, one person may bring a representative action on behalf of the others.[83] Crucially, the representative action is unavailable in actions for damages, because it is considered that the parties' interests are no longer identical. Furthermore, the procedural rules for the circuit courts explicitly exclude representative actions in

[79] Law Reform Commission n 2 above, para 6.41.

[80] Cf Criminal Assets Bureau v JWPL [2007] IEHC 177, para 3.2 (Irish High Court).

[81] Smith (2001), 2115–2176, 2116.

[82] Law Reform Commission of Ireland Report (LRC 76–2005) Multi-Party Litigation (2005), para 1.19.

[83] Oder 15, Rule 9, Rules of the Superior Courts 1986 (Ireland).

tort cases.[84] The Law Reform Commission noted that the exclusion of multi-party actions for damages makes it impossible to bring collective actions for damages which would not individually be economically viable. This is a barrier to class actions providing a vehicle to achieve disgorgement.

The unofficial alternative in practice is a test case, with other prospective parties waiting to see the outcome. In such a case, the judge decides on remedies without taking into consideration the other prospective claims and there is uncertainty as to the total liability which will result from all the claims.[85] In *Conway v INTO*, Barron J estimated the number of other actions arising from the same violations, proposed a global sum for exemplary damages, and allocated a share of this to the plaintiff.[86] The Supreme Court upheld this speculative assessment of a likely global figure for exemplary damages.

Beyond Civil Law: Ireland's Criminal Assets Disgorgement Regime

The disgorgement rationale has an important incidence outside civil law. The Criminal Assets Bureau is a public body empowered to seize property resulting from crime.[87] This has the "public policy objective of depriving beneficiaries of criminal conduct of proceeds of such conduct".[88] In *Criminal Assets Bureau v JWPL*, the plaintiff applied to seize assets deemed to be the result of corrupt enrichment. The defendant disputed the jurisdiction of the Irish courts, invoking the Brussels Regulation. The case turned on the distinction between disgorgement to the State and civil remedies. The defendant argued that the State's claim was equivalent to a civil law action for restitution for wrongs. Feeney J held that even if *AG v Blake* reflects Irish law, the powers of the Criminal Assets Bureau are more extensive: it must not show that the assets were derived at the expense of any party, and there is "no suggestion of any breach of duty fiduciary or otherwise".[89] Consequently, Feeney J found that the powers of the Criminal Assets Bureau were not comparable to any private law right.

[84] Order 6, Rule 10, Circuit Court Rules 2001 (Ireland).

[85] Law Reform Commission n 82 above, paras 1.25–1.26.

[86] Conway v Irish National Teachers Organisation [1991] 2 IR 305, 310 (Irish Supreme Court).

[87] Proceeds of Crime Acts 1996 and 2005 and Criminal Assets Bureau Acts 1996 and 2005 (Ireland); see Murphy (1999), 160–175.

[88] Criminal Assets Bureau v JWPL [2007] IEHC 177, para 4.4 (Irish High Court).

[89] Ibid para 3.6.

Conclusion

Irish civil law recognises a number of tools which directly pursue disgorgement. The remedial constructive trust is relatively frequently used, as are statutory disgorgement provisions, especially for intellectual property infringements. While the law has for many years allowed for disgorgement damages arising from *mala fides* transgressions in contract and tort, this principle is rarely used and there is uncertainty about the criteria for its operation. Besides these true disgorgement remedies, there are other circumstances in which compensatory or exemplary damages may be calculated by reference to the defendant's gain from a breach. However, despite the availability of mechanisms to achieve disgorgement, the exclusion of class actions in claims for damages may be a practical obstacle to disgorgement taking place in circumstances where wrongdoing has affected many individuals.

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Part III
French Legal Systems

Chapter 5
Disgorgement of Profits in Belgian Private Law

Marc Kruithof

Abstract The traditional rendition of Belgian law does not list disgorgement as a remedy. In reality, however, disgorgement is ordered in certain circumstances, but it is generally not recognized as such. For example, case law on personality rights and intellectual property rights contains examples where courts, under the banner of loss compensation, in fact set damages at a level higher than the actual losses to force the wrongdoer to hand over his profits. Also, non-compliance penalties are set at a level to provide an incentive to obey a court order, requiring the amount to be equal to the profits that can be made by ignoring the order. On the other hand, some instances of primary proprietary rights to profits can alternatively be understood as examples of disgorgement as a remedy for infringements of rights. Examples are the right of an owner to the fruits a *male fide* possessor realizes from his property and the right of the *solvens* to the income the bad faith *accipiens* has earned from an undue payment. In the view of the national reporter, Belgian private law apparently includes a (hidden) general principle that gives the holder of a subjective right a claim for disgorgement of profits realized by another person who in bad faith infringed the exclusive authority of the rightholder. This general principle has not (yet) been explicitly recognized by the courts, but it helps to understand what courts are actually doing in cases that cannot be explained under standard rules of civil liability.

Keywords Agent • Bad faith • Civil liability • Compensation • Compliance penalty • Confiscation • Damages • Duty to account • Good faith • Disgorgement • Fraud • Fruits • Infringement of right • Intellectual property right • Loss • Moral damages • Personality right • Profit • Proprietary claim • Undue payment • Unjust enrichment

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Introduction

While loss compensation is considered to be a "horizontal system" called civil liability, based on general principles applicable to all legal relations independently of their legal qualification,[1] the standard narrative of Belgian private law does not contain a similar chapter on disgorgement of profits, providing an overview of the conditions under which this remedy is available.[2] However, if one searches Belgian legal reality for gain-based remedies, they can be discovered here and there, even though they tend to be camouflaged under the (misleading) banner of compensation (civil liability) or as a material rule of law giving the claimant a primary right to the profits, and hence not presented as a remedy (proprietary claims).

Civil Liability

No Disgorgement in Theory

General Rules

Belgian civil liability is based on three constitutive elements: (a) a loss, (b) a fact recognized as a basis for liability – such as negligence or breach of statutory or regulatory duty[3] for the fault-based liability of Article 1382 of the Belgian Civil Code ("CC") – and (c) causation, showing that the loss was caused by the fact that serves as the basis for the liability. A loss is a negatively valued difference between the actual situation the harmed party is in and the hypothetical position it would have been in if the fact would not have occurred.[4] Establishing the existence of a loss is a necessary condition: without a loss, no claim in civil liability arises.[5]

[1]Under Belgian law, a differentiation is recognized between contractual and extracontractual liability. However, practice shows that the historically different principles governing both systems have grown very close together, so that nowadays on most issues contractual and extracontractual liability are governed by the same rules, even though some minor differences remain. See Cornelis (2013), no. 10, p. 993; Van Ommeslaghe (2010), no. 799, p. 1136; Dubuisson (1998), 99; Biquet-Mathieu (2000), 461–464; Wéry (2010), no. 536, p. 472; no. 560, pp. 496–497.

[2]For a proposed theory of disgorgement under Belgian private law, see Kruithof (2011). See also infra the text accompanying notes 150–151.

[3]In Belgium, breach of statutory or regulatory duty is as such considered to be a wrong under Article 1382 CC. See Cour de Cassation 16 May 2011, no. 320, *Pasicrisie Belge* 2011, 1339, *Arresten van het Hof van Cassatie* 2011, 1230; Cour de Cassation 8 November 2002, no. 591, *Pasicrisie Belge* 2002, 2136, *Arresten van het Hof van Cassatie* 2002, 2417; Bocken et al. (2014), no. 148–152, pp. 92–95; Vansweevelt and Weyts (2009), no. 190–193, pp. 137–139.

[4]Dirix (1984), no. 5–7, pp. 15–17; no. 27, p. 33; Ronse et al. (1984), no. 5.1 and 5.2, pp. 7–8 and no. 22, p. 27; Simoens (1999), no. 6, p. 15; Cornelis (2001), no. 1, p. 21.

[5]Dirix (1984), no. 1, p. 13; Ronse et al. (1984), no. 2, pp. 2–4; Simoens (1999), no. 5, p. 13.

Civil liability results in an obligation to "undo" the loss.[6] The injured party is restored into the situation it would have been in if the event would not have occurred.[7]

In principle, the harmed party has a right to specific restoration,[8] but it is also obliged to accept such restoration if it is offered.[9] In case of reputational harm, for instance, the imposed remedy often takes the form of apologies or a retraction of the wrongful insult or the unwarranted accusation, or the publication of the court's decision.[10]

In practice, however, civil liability almost always results in damages. Still, the Belgian standard theory of liability considers damages to be a subsidiary remedy, only available if specific restoration is not possible in fact or would place an extremely unreasonable burden on the person held liable, so that by claiming this remedy, the victim would abuse its right to restoration.[11] In this view, damages are functionally a substitute for specific restoration and thus must be "equivalent" to restoration, usually referred to as "integral compensation" (*restitutio in integrum*). The damages compensate the loss and nothing but the loss.[12]

In setting damages, courts are not supposed to take into account other elements such as the seriousness of the wrong, whether a party is insured, or the fact that the tortfeasor obtained a gain.[13] Belgian law does not know punitive damages.[14] The idea is that civil liability is *not supposed to punish the wrongdoer*.[15] Integral

[6]Cornelis (2001), no. 3, p. 24; Simoens (1999), no. 9, p. 20.

[7]Cour de Cassation 9 April 2003, no. 235, *Pasicrisie Belge* 2003, 765, *Arresten van het Hof van Cassatie* 2003, 919; Cour de Cassation 2 May 1974, *Pasicrisie Belge* 1974, I, 906, *Arresten van het Hof van Cassatie* 1974, 633; Ronse et al. (1984), no. 220, pp. 163–165.

[8]Cour de Cassation 21 April 1994, no. 189, *Pasicrisie Belge* 1994, I, 388, *Arresten van het Hof van Cassatie* 1994, 392; Cour de Cassation 26 June 1980, no. 686, *Pasicrisie Belge* 1980, I, 1341, *Arresten van het Hof van Cassatie* 1979–1980, 1365; Ronse et al. (1984), no. 278, pp. 211–212.

[9]See e.g. Commercial Court Antwerp 22 April 1993, *Rechtspraak van de Haven van Antwerpen* 1994, 176; Dirix (1984), no. 58, p. 49.

[10]For examples, see Van Oevelen et al. (2007), no. 15, p. 978; Van Oevelen (1982), no. 16–17, pp. 435–436; see also de Callataÿ and Estienne (2009), 481–482.

[11]Schuermans et al. (1994), no. 1.2, pp. 858–859.

[12]Ronse et al. (1984), no. 220, pp. 162–164; no. 230–232, pp. 172–174; Dirix (1984), no. 28, p. 33; Simoens (1999), no. 10, pp. 21–23; Nordin (2014), no. 34–35, pp. 19–20; Weyts (2011b), no. 2, p. 174; Weyts (2005–2006), no. 5, p. 1642; see Cour de Cassation 17 January 1929, *Pasicrisie Belge* 1929, I, 63; Cour de Cassation 15 May 1941, *Pasicrisie Belge* 1941, I, 195; Cour de Cassation 26 October 2005, no. 542, *Pasicrisie Belge* 2005, 2044, *Arresten van het Hof van Cassatie* 2005, 2046; see the case law reported in Schuermans et al. (1984), no. 26, pp. 606–608; Schuermans et al. (1994), no. 1.6, pp. 884–900; Van Oevelen et al. (2007), no. 14, pp. 975–976.

[13]Ronse et al. (1984), no. 267–275, pp. 200–208; Weyts (2011b), no. 2, p. 174; Weyts (2005–2006), no. 5 and 6, 1642; Cauffman (2007), no. 28, p. 818; specifically about the seriousness of the wrong, see Nordin (2014), no. 97 et seq., pp. 64 et seq.

[14]Schuermans et al. (1994), no. 1.2, pp. 857–858; Baeteman et al. (2001), no. 214, p. 1704.

[15]This principled objection to punitive damages is shared by several authors. See e.g. Simoens (1999), no. 139, pp. 263–264; Cornelis (1989), no. 7, p. 12. Some others do not agree with this

compensation means that the loss is not only the minimum but also the maximum a judge can grant.[16] So in determining the amount of damages, the court has to deduct the profits the injured party has gained from the loss he suffered.[17] The idea is that civil liability is *not supposed to enrich the injured party*.[18] The combination of these principles seems to leave no room for any gain-based damages.

There is one rule in Belgian private law – which itself is not an element of liability law as such, as it has a much more general application – that when applied in a liability dispute causes the rules of liability law to result in a disgorgement.[19] Under liability law, if a loss is caused both by a tort committed by a third person and a wrong committed by the victim itself, the burden of the loss is split among them: in such a case, third party liability is limited to part of the loss, which is called "divided liability".[20] However, this result is considered inacceptable when the third party committed an intentional wrong taking advantage of the negligence of his victim. In such a case,[21] the highest court, specifically invoking the general principle *fraus omnia corrumpit*, ruled that a person that has committed an intentional wrong is precluded from invoking the negligence of the injured party in order to have the damages he owes reduced: one should not be able to profit from one's fraud or dishonesty with the aim of hurting another or gaining a profit in an illegitimate manner.[22]

objection, and would prefer some form of punitive damages, without however having elaborated under which conditions they would organize such remedies. See e.g. Weyts (2011b), no. 6 and 7, pp. 176–177; Weyts (2005–2006), no. 3, p. 1641; no. 16, p. 1646; Verjans (2013–2014), no. 28, p. 536; Cauffman (2007), no. 28, p. 818; Baeteman et al. (2001), no. 213, p. 1704; Guldix and Wylleman (1999), no. 44, pp. 1653–1655. Recently a PhD dissertation was defended trying to develop a theoretical framework for punitive damages under Belgian civil liability law, basing this remedy on the general principle of *fraus omnia corrumpit*. See Nordin (2014), no. 113, pp. 85–86.

[16] Cauffman (2007), no. 28, p. 818.

[17] Weyts (2005–2006), no. 8, 1643; Ronse et al. (1984), no. 519 et seq., pp. 360 et seq.; Simoens (2005), 389–393; Schuermans et al. (1984), no. 86, p. 851; Schuermans et al. (1994), no. 122.1, p. 1401; Van Oevelen et al. (2007), no. 126, pp. 1496.

[18] Supercompensatory damages would result in an unjust enrichment of the victim. See Nordin (2014), no. 76 et seq., pp. 50 et seq.; Ronse et al. (1984), no. 173.

[19] See Nordin (2014), no. 107, p. 80.

[20] See Bocken et al. (2014), no. 117, pp. 76–77; Vansweevelt and Weyts (2009), no. 1292 et seq., pp. 821 et seq.

[21] The case in which the principle was stated (Cour de Cassation 6 November 2002, no. 584, *Pasicrisie Belge* 2002, 2103, *Arresten van het Hof van Cassatie* 2002, 2383), involved criminal fraud by a manager of a collective investment scheme which had been able to succeed because of the lack of supervision by the bank promoting the scheme. See also Cour de Cassation 9 October 2007, no. 465, *Pasicrisie Belge* 2007, 1739, *Arresten van het Hof van Cassatie*, 2007, 1883.

[22] See Lenaerts (2013–2014), no. 14–18, pp. 369–372; Lenaerts (2014), no. 15–19, pp. 104–107.

No Specific Rules for Violations of Competition Law

Belgian law does not contain specific rules with respect to the private enforcement of competition law.[23] Therefore, questions relating to the annulment of agreements between companies or decisions of associations of companies that restrict competition, injunctive relief in the form of a cease and desist order against restrictive practices or abuses of a dominant position, or private pecuniary remedies in cases of violations of competition rules are to be answered on the basis of the general principles of private law.[24] As Belgian law considers any violation of a statutory or regulatory behavioral rule to constitute a wrong in the sense of Article 1382 CC,[25] the claimant only has to prove the violation of competition law and the fact that he has suffered a loss as a consequence of this violation.[26] As mentioned, the remedy under these general rules is purely compensatory in nature.[27]

The Belgian general rules[28] allow for courts to follow the guidelines that were issued in the Oxera Study[29] as well as those included in the Practical Guide the European Commission has published.[30] In particular, Belgian civil liability allows the so-called passing on defense, reducing the damages owed to the injured party if that party has been able to pass the higher price it paid to its supplier on to its own customers. The principle of integral damages requires the court to take into account not only the loss but also any gains the injured party may have realized because of the loss occurring event,[31] and in establishing the actual loss, the court has to take

[23] The statutory provisions containing competiton rules, codified in Book IV of the new Economic Law Code, contain no explicit basis for bringing private actions for breaches of competition law and provide no specific private remedies.

[24] Taton et al. (2013), no. 34, p. 21; Schoors et al. (2011), no. 13, p. 201.

[25] See supra note 3.

[26] Waelbroeck et al., 5; contra: Schoors et al. (2011), no. 15, p. 202; for a more nuanced view, see Gilliams and Cornelis (2007/2), 16–17; see also Verougstraete and A. Bossuyt (2009), 18.

[27] Weyts (2011b), no. 36, p. 198. However, recently a PhD dissertation has been defended arguing that damages, awarded based on civil liability, not only have an enforcing *effect* but can be considered as civil sanctions having the *function* of enforcing certain legal behavioral rules. See Nordin (2014), no. 187, p. 143.

[28] For a specific application of the general rules of Belgian civil liability relating to economic losses to the situation of violations of competition law, see Taton (2013), 1051–1056.

[29] Quantifying Antitrust Damages: Towards Non-Binding Guidance for Courts, Study prepared for the European Commission, Oxera and a multi-jurisdictional team of lawyers led by Assimakis Komninos, December 2009, <http://ec.europa.eu/competition/antitrust/actionsdamages/quantification_study.pdf>; see on this conclusion Schoors et al. (2011), no. 18, p. 203.

[30] See Practical Guide Quantifying Harm in Actions for Damages Based on Breaches of Article 101 or 102 of the Treaty on the Functioning of the European Union accompanying the Communication from the Commission on Quantifying Harm in Actions for Damages based on Breaches of Article 101 or 102 of the Treaty on the Functioning of the European Union, Commission Staff Working Document, SWD(2013) 205, C(2013) 3440, 11 June 2013.

[31] See supra note 17 and accompanying text.

into account all developments relating to the loss, even if they took place after the loss occurrence.[32]

Almost no actual court decisions have been reported.[33] Based on general principles, however, I see no basis under Belgian law for awarding a party injured by an anti-competitive practice anything more than full compensatory damages. I also have not observed any indication that Belgian courts in such cases would be prepared to impose any remedy which in effect would result in a disgorgement of profits.[34]

Hidden Disgorgement Possible in Practice (but Rare)

Deciding on the extent of the loss is a question of fact,[35] to be answered by the trial court. The Belgian highest court for civil disputes (*Cour de Cassation – Hof van Cassatie*) has no jurisdiction to establish facts or to review the factual findings of lower courts: it only can reverse and remand judgments of lower courts that contain procedural errors or errors on questions of law.[36] So while the highest court will reverse a judgment if it awards higher damages than the loss it established,[37] it cannot intervene if a lower court were to award damages equal to the loss it establishes, but in reality has valued this *factual loss* at an inflated amount.

In principle, the courts have to establish the loss as it occurred (*in concreto*). However, if the pecuniary equivalent of this loss cannot be determined, the court is allowed to estimate the damages *ex aequo et bono* and award a lump sum.[38] This creates a margin within which a trial court can in reality set damages at a higher level

[32] Schoors et al. (2011), no. 25, p. 205. On this principle in general, see Bocken et al. (2014), no. 346–347, pp. 209–210. On this basis, the highest court has for instance ruled that the court has to take into account that the injured party who claims damages for the loss caused to his house in fact has been able to sell that house without any depreciation: Cour de Cassation 3 December 1981, *Pasicrisie Belge* 1982, I, 460, *Arresten van het Hof van Cassatie* 1981–1982, no. 224, 465.

[33] Taton et al. (2013), no. 52, p. 27; see also Waelbroeck et al., 1.

[34] Cf. Waelbroeck et al., 11, who answer the question whether damages are assessed on the basis of the profit made by the defendant or on the basis of injury suffered by the plaintiff by only referring to the general principle of integral damages, including material and moral losses.

[35] Cour de Cassation 20 February 2006, no. 100, *Pasicrisie Belge* 2006, 413, *Arresten van het Hof van Cassatie* 2006, 414; Van Oevelen et al. (2007), no. 21, p. 1003.

[36] Article 608 of the Code of Civil Procedure.

[37] Such a decision violates the legal principle of the compensatory nature of liability. See Van Oevelen et al. (2007), no. 21, p. 1004.

[38] Cour de Cassation 3 March 2008, no. 149, *Pasicrisie Belge* 2008, 597, *Arresten van het Hof van Cassatie* 2008, 623; Cour de Cassation 9 October 1997, no. 395, *Pasicrisie Belge* 1997, I, 995, *Arresten van het Hof van Cassatie* 1997, 948; Schuermans (1969), no. 10, p. 81; Schuermans et al. (1977), no. 14, p. 463; Schuermans et al. (1984), no. 18, p. 555; Schuermans et al. (1994), no. 18.1, pp. 1019–1020; Van Oevelen et al. (2007), no. 17, p. 979; Ronse et al. (1984), no. 356–365, pp. 255–261.

than the actual loss in order to punish the wrongdoer[39] or to force him to in effect disgorge the whole or part of his illegitimately obtained gains, without presenting it as such.

This is most clearly possible in cases awarding moral damages, compensation for losses that do not consist of a reduction of the pecuniary situation of the victim.[40] Under Belgian civil liability, moral losses are fully compensated.[41] The highest court has ruled that moral damages only serve to compensate for pain or any other moral suffering, and in particular cannot be used to punish the wrongdoer.[42] However, courts can only estimate moral damages *ex aequo et bono*.[43] In doing so, they can set the damages at a higher level than the actual loss, by holding the losses to be higher than they are in reality. Such a decision is a finding of fact, which is as such "cassation proof".

Even though most moral damages awarded by Belgian courts can be characterized as relatively low, one cannot escape the impression that sometimes courts set the amount not merely based on the suffering by the victim, but also on the seriousness of the wrong.[44] Moral damages aim to compensate for suffering and pain, and it can easily be reconciled with the compensatory nature of civil liability to justify higher damages by pointing out that the intensity of suffering is in fact influenced by the seriousness of the wrong.[45] Hence, courts can and sometimes do take the type of wrong and the intentions of the wrongdoer into account when setting moral damages.[46] Most cases involving amounts of damages more probably linked

[39] See also Nordin (2014), no. 294, p. 221; no. 298, pp. 223–224.

[40] Dirix (1984), no. 86, p. 62.

[41] See already Cour de Cassation 17 March 1881, *Pasicrisie Belge* 1881, I, 163; Simoens (1999), no. 136, pp. 257–258; Van Oevelen (1982), no. 10, p. 431.

[42] Cour de Cassation 20 February 2006, no. 100, *Pasicrisie Belge* 2006, 413, *Arresten van het Hof van Cassatie* 2006, 414; Cour de Cassation 10 October 1972, *Pasicrisie Belge* 1973, I, 147, *Arresten van het Hof van Cassatie* 1973, 146; e.g. Court of First Instance Hasselt 14 June 2010, *Auteurs & Media* 2011, 250; Court of First Instance Brussels 7 April 2009, *Auteurs & Media* 2010, 99; Weyts (2005–2006), no. 13, p. 1644.

[43] Weyts (2005–2006), no. 13, p. 1644; Schuermans et al. (1984), no. 18, p. 556; Schuermans et al. (1994), no. 18.2, pp. 1025–1026; Van Oevelen et al. (2007), no. 17, p. 980.

[44] See e.g. Court of First Instance Brussels 16 November 1999, *Auteurs & Media* 2000, 132.

[45] Jocqué (2007), no. 75, p. 79; Cauffman (2007), no. 33, p. 820. See e.g. Court of Appeal Liège 16 January 1962, *Revue Générale des Assurances et des Responsabilités* 1964, no. 7204; Court of First Instance Antwerp 14 January 1960, *Revue Générale des Assurances et des Responsabilités* 1963, no. 7084; see also Schuermans (1969), no. 51, p. 126; see also Schuermans et al. (1977), no. 31, p. 506; no. 32, p. 509.

[46] A clear example is the decision of the Ghent Assize Court in the case of Kim De Gelder, who was convicted for his "Dendermonde nursery attack", killing three and wounding twelve more, ordering him to pay moral damages to the victim's next-of-kin far exceeding the usual amounts, stating that his atrocious attack was not comparable to traffic violations and more middle of the road delicts. See "De Gelder moet slachtoffers hogere schadevergoeding betalen", *De Standaard Online*, 30 September 2013; "Zaak De Gelder: Eén miljoen euro schadevergoeding", *De Standaard* 1 October 2013, 12.

to the profits made by the wrongdoer, involve the infringement of personality rights, and they will be dealt with *infra*.[47]

Non-Compliance Penalties Can in Fact Disgorge Profits

Some Belgian scholars object to supercompensatory damages because in their view such a remedy would create an "unjust" enrichment of the injured party.[48] Framing it that way, the descriptively correct statement that civil liability does not give an injured party a right to more than compensation, is turned into a broader normative principle that would exclude an injured party from having any right to anything different or more than compensation on any another basis. By generalizing such a principle outside the realm of civil liability law, the appearance is created that private law in general would never allow an injured party to obtain a "windfall profit" from an occurrence.

This, however, is descriptively not correct, as courts for instance can and do impose a non-compliance penalty, to be paid when the court's order is not complied with.[49] Such a penalty has to be paid to the claimant,[50] and in no way reduces that person's right to full compensation of losses suffered.[51]

Although such civil penalty is not possible for orders for the payment of a sum of money,[52] and therefore liability decisions seldom include such penalties,[53] one can find judgments based on liability including a non-compliance penalty if they award specific restoration. Most such cases involve orders of a person that has infringed a personality right of the victim to refrain from further infringements, or involve the court ordering the publication of the judgment as a form of specific restoration of the loss consisting of reputational harm suffered by the injured party because of the wrongful act of the person held liable.[54]

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[47] See infra text accompanying notes 105–136.

[48] Weyts (2005–2006), no. 8, p. 1643; no. 30, p. 1651; Guldix and Wylleman (1999), no. 44, p. 1655; Schuermans et al. (1984), no. 86, p. 850; Schuermans et al. (1994), no. 122.1, pp. 1399–1401; Van Oevelen et al. (2007), no. 125, pp. 1494–1495.

[49] Article 1385*bis-nonies*, Code of Civil Procedure, introduced by Act of 21 January 1980 ratifying the Benelux-Convention holding a Uniform Statute on a Non-Compliance Penalty, Moniteur belge 20 February 1980.

[50] Article 1385*quater*, Code of Civil Procedure.

[51] Article 1385*bis*, Code of Civil Procedure; see Cour de Cassation 28 April 1987, no. 502, *Pasicrisie Belge* 1987, I, 1002, *Arresten van het Hof van Cassatie* 1986–1987, 1135.

[52] Article 1385*bis*, Code of Civil Procedure.

[53] Schuermans et al. (1994), no. 24, p. 1055.

[54] Civil liability does not impose a duty to abstain from committing a wrong. Liability is therefore no basis to order a person to refrain from committing a wrong. See Cornelis (2001), no. 2, p. 22; Cour de Cassation 4 January 1984, no. 227, *Pasicrisie Belge* 1984, 468, *Arresten van het Hof van Cassatie* 1983–1984, 493 (holding that an order not to repeat a wrong cannot constitute

It is clear that courts in practice tend to set the penalty high enough for it to have a dissuading effect. Although this is almost never specifically stated in the court's reasoning, this means that the gains the wrongdoer can expect from refusing to comply are taken into account.[55] Civil non-compliance penalties in this way can and in reality very often do function as a form of disgorgement of profits realized by ignoring a court order, with the aim of providing an incentive to abide by the court's decision.[56]

Confiscation of Proceeds of a Criminal Offence

Belgian criminal law contains a general system of so-called "special confiscation".[57] Traditionally, this sanction was applicable to goods directly resulting from the criminal offence.[58] In cases involving the more serious types of criminal offences – felonies and misdemeanors, called "*crimes*" or "*misdaden*" and "*délits*" or "*wanbedrijven*" – such confiscation is always mandatory; in cases involving the

compensation for losses already suffered); see also Schuermans et al. (1994), no. 24, p. 1055. As a right based on civil liability only arises if all constituent elements are present and the existence of a loss is such an element, declaring somebody liable for "future infringements" – which *per se* cannot have caused any losses yet – is in my view not possible. A right, however, can provide the basis for the rightholder to ask for injunctive relief, confirmed by Article 18 of the Code of Civil Procedure. Such a claim does not require the presence of any loss: the infringement of a right or the threat of such an infringement suffices. This explains why judgments in cases where the wrong consisted of the infringement of a right (e.g. a personality right) can impose injunctive relief while judgments in cases where the wrong did not consist of the infringement of a right because only an interest of the victim was hurt can only impose restoratory or compensatory remedies. Belgian courts, however, do not always specify the exact legal basis for their orders, which explains why some authors have considered such orders a remedy based on civil liability. See e.g. Bocken (1986).

[55] See e.g. Court of First Instance Ghent 19 November 2003, *Auteurs & Media* 2004, 384 (penalty of €12,400 for Omega Pharma if it reuses Kim Clijsters' name in publicity, but granting Kim only €1 damages for the infringement that had already taken place); Court of First Instance Brussels 17 May 2002, *Auteurs & Media* 2003, 138 (€300 in damages for unauthorized use of photographs of girls by Christian Dior, but setting a non-compliance penalty of €2,480 per violation of the order prohibiting further use); Court of First Instance Brussels 19 May 2000, *Auteurs & Media* 2000, 338 (702,000 BEF in damages for unauthorized broadcasting of secretly filmed private conversation, adding a penalty of 5,000,000 BEF for each instance violating an order to refrain from reusing the footage).

[56] While most authors recognize that non-compliance penalties create incentives, they still tend to see them more as civil penalties for wrongdoing, much akin to punitive damages, and they do not explicitly recognize the disgorgment function these penalties in fact perform and have. See e.g. Nordin (2014), no. 291, pp. 218–219. In my opinion, this is the result of Belgian scholars being familiar with the concept of punitive damages but much less so with the concept of disgorgement.

[57] See about this system Rozie (2005); Desterbeck (2007), 51–71; Dejemeppe (2004).

[58] See Article 42, 2°, Belgian Penal Code (hereinafter referred to as "PC"), providing confiscation of "choses qui ont été produites par l'infraction".

least serious types of offences – infractions, called "*contraventions*" or "*overtredingen*" – such confiscation is only ordered if specifically provided by statute.[59]

Over the last decades, this system has been extended to all advantages obtained because of the offence,[60] so that not only the direct product of the crime itself (*productum sceleris*) but more general any advantage gained because of the offence (*lucre sceleris*) can be taken from the convicted offender.[61] Strictly speaking, such a "taking" is really an obligation of the convicted offender to disgorge his profits from the offence. This type of confiscation can be ordered in any criminal conviction, but only if it is claimed by the public prosecutor.[62]

The proceeds of special confiscation go to the Belgian State. However, the confiscated goods can be given to the civil party – a victim of the committed offence – if this person has a proprietary claim on these goods based on civil law.[63] Criminal special confiscation itself, therefore, does not grant civil parties any claims on illegally gained profits.

Proprietary Claims for Profits

In traditional Belgian doctrine, some forms of disgorgement are conceptually not understood to be a remedy for certain wrongs, but seen as a proprietary claim of a rightholder under a material rule of law.

Fruits of Property

Belgian property law states that the owner of a good also becomes the owner of its fruits.[64] This rule does not only apply to natural fruits of plants and in a broader sense the young of animals or increase in livestock, but also to so-called "civil fruits", such as for instance interest on capital or rental income from an asset. The

[59] Article 43, PC.

[60] See Article 42, 3°, PC, providing confiscation of "avantages patrimoniaux tirés directement de l'infraction, aux biens et valeurs qui leur ont été substitués et aux revenus de ces avantages investis", inserted in the PC in 1990. See Deruyck (1998). In the context of fighting money laundering, the text was again adapted in 2002 and now special confiscation is even possible for advantages for which there are serious indications that they result from the offence or from identical acts for which the defendant does not supply a credible alternative explanation. See Article 43*quater*, §2, PC. See De Samblanx et al. (2004).

[61] See Van Den Wyngaert (1999), 362.

[62] Article 43*bis*, first paragraph, PC.

[63] Article 43*bis*, third paragraph, PC.

[64] Article 547 CC.

person contributing the labor that has made it possible to produce these fruits is only to be compensated for his costs.[65]

However, while the owner can always revindicate his good, the same is not true for the fruits. Only a possessor *mala fide* is obliged to give the fruits he produced to the owner of the good.[66] A *bona fide* possessor can keep the fruits he has produced up to the moment he discovered his possession was tainted, at which moment he ceases to be in good faith.[67] With respect to fruits, the *bona fide* possessor is thus legally treated in the same way as an usufructuary.[68]

Although the traditional theory or narrative of Belgian law presents this as a rule of material property law, including in the concept of property a *ius fruendi*, understood as a property right in the fruits, it can also be understood as a remedy: any person who in bad faith uses someone else's property to produce a gain, can be forced to hand over (disgorge) the "civil fruits" (profits) realized through this illegitimate use.[69] Apparently, this disgorgement of profits is available to the owner against someone else in bad faith trying to realize gains by using his good and thereby infringing his subjective right of ownership, specifically aimed at preventing such bad faith infringement to be lucrative, and possibly providing the owner with a windfall profit.[70] Against a possessor in good faith realizing the same profits, the owner has no such claim.

Interest on Undue Payment

One can recognize a similar remedy in the rules relating to undue payments.[71] According to the basic principle, the *accipiens* – i.e. the person who has received a payment by error – is bound to make restitution to the *solvens* – i.e. the person from whom he has unduly received it.[72] However, the *accipiens bona fide* does not have to pay interest and can keep the fruits gained from the undue payment.[73] The *accipiens*

[65] Article 548 CC.

[66] Article 549 CC. See Dekkers and E. Dirix (2005), no. 473, p. 173; De Page (1942), no. 154, pp. 133–134; Van Neste (1990), no. 250–253, pp. 429–433; Van Oevelen (1990), no. 17, pp. 1109–1110; Court of Appeal Brussels, 11 March 1969, *Pasicrisie Belge* 1969, II, 134.

[67] Article 549–550 CC.

[68] Article 585–586 CC.

[69] See e.g. Cour de Cassation 2 October 2008, no. 521, *Pasicrisie Belge* 2008, 2119, *Arresten van het Hof van Cassatie* 2008, 2125.

[70] See Kruithof (2011), no. 17–18, pp. 32–36.

[71] Cf. Van Oevelen (1990), no. 17, p. 1109, who notes the similarity of the relevance of good and bad faith in both the rules on undue payment and on proprietary claims on fruits.

[72] Article 1376 CC. See Sagaert (2007), 79–88.

[73] Cour de Cassation 20 June 1996, no. 247, *Pasicrisie Belge* 1996, 673, *Arresten van het Hof van Cassatie* 1996, 625; Cour de Cassation 18 May 1995, no. 245, *Pasicrisie Belge* 1995, 1044,

mala fide, on the other hand, is not only required to return the undue payment itself, the capital, but also has to pay interest and hand over the fruits he has gained from the day of payment.[74] Again, if one looks at it from our analytic perspective, this is an example of a remedy of disgorgement of profits (fruits or interests) imposed when a person in bad faith infringes on the rights of another, to make sure this person does not earn any gains from its bad faith.[75]

Cases on the Border: Civil Liability or Proprietary Claims?

In some circumstances, it is theoretically debatable whether the sum awarded by a court is to be considered a form of compensation based on liability or a proprietary claim to profits based on a subjective right. In these cases, mostly involving infringements of intellectual property rights or personality rights, one can see courts and doctrine struggling with remedies that seem opportune and appropriate in the given circumstances but that do not really fit theoretically into the frame of civil liability. Although most courts and literature continue to treat these cases under the umbrella of civil liability, I have suggested that they can be better understood as examples of bad faith infringements of subjective rights, giving the rightholder not only a claim to compensation based on civil liability but also a remedy consisting of disgorgement of profits based on the infringed right itself.[76]

Arresten van het Hof van Cassatie 1995, 495; see e.g. Court of Appeal Mons 17 March 1995, *Journal des Tribunaux* 1995, 684; Court of Appeal Brussels 19 November 1971, *Jurisprudence Commerciale de Belgique* 1972, 22, *Pasicrisie Belge* 1972, II, 23, *Revue de la Banque* 1972, 357.

[74] Article 1378 CC. Court of Appeal Brussels 13 December 2007, *Tijdschrift voor Fiscaal Recht* 2008, 445; Court of First Instance Mons 10 September 2003, *Courrier Fiscal* 2003, 684; Court of Appeal Brussels 20 June 2003, *Jurisprudence Fiscale* 2004, 705. Recently, the highest court has ruled that the accipiens has to pay interest from the moment he was asked to return the unduly paid sum, and cannot be ordered to pay interest for the period between the moment of the undue payment and the moment he was summoned to restitution unless the court establishes that he accepted the payment in bad faith: Cour de Cassation 12 November 2012, no. 609, *Pasicrisie Belge* 2012, 2192, *Arresten van het Hof van Cassatie* 2012, 2504.

[75] See Kruithof (2011), no. 35, p. 52.

[76] There is no rational reason why the principle should be restricted to infringements of the right of property. If the holder of a property right has a claim of disgorgement of the profits realized by another person that has realized these gains through his bad faith infringement of the property right (Article 549 CC), such a remedy should also be available to the holder of a personality right or the holder of an intellectual property right or the holder of any kind of subjective right that has been infringed in bad faith in order to realize a profit. Whether one calls this a primary right or a remedy is not the main concern here, the point is that the principle should not (and in my view, in the light of constitutional equal treatment requirements, cannot) be limited to property rights alone.

Infringement of Intellectual Property Rights

The Belgian rules on intellectual property contain several remedies against infringements. Apart from injunctive relief,[77] the rightholder can claim damages, and in case of bad faith infringement,[78] he can claim civil confiscation or some form of disgorgement of profits.

Compensatory Damages

The statutory provisions on intellectual property rights explicitly state that the rightholder can demand compensation for the losses he has suffered from an infringement,[79] a claim he under Belgian law also has based on the general principles of civil liability.[80]

An infringement of an intellectual property right can cause different types of losses.[81] First, there is the *lucrum cessans*, i.e. the profits the rightholder normally would have gained from the exploitation of his right but that now are no longer available to him because the infringer appropriated opportunities that should have been exclusively enjoyed by the rightholder. Second, there is the *damnum emergens*, usually consisting of the costs the rightholder had to make in investigating and

[77] Article XI.334, Code of Economic Law. Article 2.22 and 3.18 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005; see De Meyer (2008); Michaux and De Gryse (2007), no. 25–31, pp. 633–637.

[78] Bad faith means that the infringer knew or had to know that the idea was protected by an intellectual property right and that his use without permission boiled down to an infringement of that right. See Court of Appeal Brussels 4 April 2007, *Auteurs & Media* 2007, 466. However, all relevant circumstances have to be taken into account, including the attitude of the right holder after he learns of the infringement which creates doubt about the extent of his right. See Cour de Cassation 25 February 2010, no. 131, *Pasicrisie Belge* 2010, 574, *Arresten van het Hof van Cassatie* 2010, 555.

[79] Article XI.335, §1 and 2, second paragraph, Code of Economic Law; Article 2.21.1 and 3.17.1 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005.

[80] Michaux and De Gryse (2007), no. 40, pp. 640–641; Buydens (1995); Janssens (2007–2008), no. 21, p. 938; Keustermans and De Maere (2009), 388–389. Although there has been some discord in Belgian case law and doctrine, the majority position has traditionally held that any infringement of an intellectual property right is as such a sufficient basis for liability: based on the principle that any breach of a statutory or regulatory duty constitutes a wrong (see supra note 3), the infringement of an intellectual property right is a fault, irrespective of whether it was committed in good or in bad faith. Court of Appeal Antwerp 23 January 2012, *Intellectuele Rechten – Droits Intellectuels* 2012, 374; Court of First Instance Ghent 10 January 2007, *Intellectuele Rechten – Droits Intellectuels* 2007, 13; see Ronse (2008), no. 8–11, pp. 228–231; Aelbrecht (2005), 380–382.

[81] Michaux and De Gryse (2007), no. 41, p. 641; Aelbrecht (2005), 376–379; see also Nordin (2014), no. 446–448, pp. 346–349.

prosecuting the infringement and potentially also the reputational harm he suffers as a consequence of the infringement.[82] Third, there can be moral losses.

According to the general principle of liability, the awarded damages have to equal the actual losses ("integral compensation").[83] The extent of the loss has to be judged *in concreto*.[84] However, in practice it can be very hard to exactly establish the extent of the losses. Therefore, damages in cases of infringement of intellectual property rights are very often set as a lump sum.[85] Several judgments have awarded damages set at a multiple of the normal or usual license fee, considered necessary to avoid it being lucrative to systematically infringe on intellectual property rights, knowing that one will not always be caught and therefore still be better off if one only risks having to pay the avoided fee.[86] Some courts have explicitly stated that they set the amount of damages so that the infringer will not be able to keep gains from his infringement.[87]

However, the highest court has recently reaffirmed the general principle that damages cannot be set higher than the actual loss. It ruled that awarding 25 % on top of the avoided licensing fee to finance the *global* battle against violations of intellectual property or to provide for an *incentive* to seek the permission of the rightholder, is not consistent with Belgian civil liability law.[88] But as already pointed out, the trial courts sovereignly establish the facts and thus the extent of the loss.[89] Therefore, nothing keeps a court from for instance finding that the *actual losses* of the company whose copyright on professional software that had been illegally

[82]Reputational harm can also be considered to be *lucrum cessans*, as the pecuniary value of reputation in a business context is a present value of potential future earnings. A decrease in the present value of an intellectual property right can be seen as *damnum emergens* as it lowered the actual market price of this right, but this lower price is nothing but a reflection of the diminished prospect earnings from this right, a *lucrum cessans.*

[83]Court of Appeal Brussels 3 May 2005, *Auteurs & Media* 2005, 419; Court of First Instance Brussels 8 December 2004, *Auteurs & Media* 2005, 249; Ronse (2008), no. 12, p. 231; Janssens (2007–2008), no. 21, p. 938; Aelbrecht (2005), 375–376; see also supra note 12.

[84]This means, for instance, that a court is not bound by tariffs unilaterally set by collecting societies, even if these tariffs have been communicated to the government in accordance to author rights legislation. Van Oevelen et al. (2007), no. 14, p. 977; see also Puttemans (2004), no. 40, pp. 38–39; no. 96–97, pp. 72–74.

[85]Schuermans et al. (1984), no. 18, p. 556; Van Oevelen et al. (2007), no. 3, p. 954.

[86]See e.g. Court of First Instance Louvain 2 May 2006, *Auteurs & Media* 2006, 457; Court of First Instance Brussels 20 April 2006, *Auteurs & Media* 2006, 335; Court of First Instance Kortrijk 20 April 2004, *Auteurs & Media* 2005, 57; Court of Appeal Brussels 23 March 2001, *Auteurs & Media* 2001, 373; Court of Appeal Brussels 23 March 2001, *Auteurs & Media* 2001, 373; see Ronse (2008), no. 12, pp. 231–232; Aelbrecht (2005), 373–374; Weyts (2011b), no. 26, pp. 190–191; Keustermans and De Maere (2009), 390.

[87]Court of Appeal Brussels 4 April 2007, *Auteurs & Media* 2007, 466; Court of Appeal Antwerp 21 December 2009, *Auteurs & Media* 2011, 182.

[88]Cour de Cassation 13 May 2009, no. 314, *Pasicrisie Belge* 2009, 1167, *Arresten van het Hof van Cassatie* 2009, 1254.

[89]See supra text accompanying note 35–37.

copied and used by the employee of another company amounts to much more than the originally avoided license fee,[90] thereby using the concept of compensation to in effect impose some form of disgorgement of profits.

Civil Confiscation: Optional Disgorgement

The infringer in bad faith can be forced to hand over any goods infringing the intellectual property right ("civil confiscation"). If these goods are no longer in his possession, the court can award the rightholder a payment equivalent to the price the infringer has received in return for these goods.[91]

Civil confiscation is to be distinguished from the possibility courts have to order the transfer of the infringing goods to the rightholder as a form of compensation, in which case the rightholder has to compensate the infringer if these goods have a higher value than his losses.[92] Under civil confiscation, the value of the confiscated goods is counted towards the damages owed,[93] but the rightholder never has to compensate the infringer if the value he receives through civil confiscation is higher than the losses he suffered because of the infringement.[94] The amount the court can award in cases of infringement in bad faith based on the civil confiscation provisions is therefore "noticeably greater" than the amount in damages based on civil liability, applicable in case of infringement in good faith.[95]

The similarity between this civil confiscation and the rule on fruits of general civil law property discussed earlier[96] is striking: the infringing goods can be considered to

[90] Court of Appeal Ghent 19 January 2009, *Auteurs & Media* 2009, 384; see also Court of Appeal Antwerp 13 October 2008, *Auteurs & Media* 2009, 391. See also the examples of more recent not (yet) published decisions reported in Deene and De Cort (2012), no. 31, and in Deene (2011), no. 49, p. 449.

[91] Article XI.335, §3, Code of Economic Law. Before the amendment of this provision by the Act of 9 May 2007 on the Private Enforcement of Intellectual Property Rights, which has adjusted Belgian law to Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, the statutes imposed mandatory civil confiscation in case of bad faith infringement. However, courts were reluctant to establish bad faith because this would force them to impose this remedy. See the Explanatory Memorandum accompanying the Draft Statute on Private Enforcement of Intellectual Property Rights, *Documents Parlementaires* Chambre 2006–2007, no. 51 K2943/001, 26 February 2007, 31; Michaux and De Gryse (2007), no. 46, p. 642; Ronse (2008), no. 28, pp. 247–248. Now, the statute leaves it up to the court to decide whether it is appropriate to impose this remedy.

[92] See Article 2.21.3 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005; Article XI.335, §2, second paragraph, Code of Economic Law; See Fossoul (2007), 957; Ronse (2008), no. 21, p. 241.

[93] Article XI.335, §3, Code of Economic Law. See Michaux and De Gryse (2007), no. 46, p. 642; Ronse (2008), no. 28, p. 248.

[94] See Janssens (2007–2008), no. 29, p. 940.

[95] Court of First Instance Brussels 8 December 2004, *Auteurs & Media* 2005, 249.

[96] See supra text accompanying notes 64–70.

be "fruits of the intellectual property", and only the possessor in bad faith is required to hand them over to the owner, the rightholder. A possessor in good faith has to compensate the rightholder for his losses based on civil liability if he infringed the intellectual property right, but he does not have to hand over the "fruits" he realized.

Disgorgement of Profits (or Is It Loss Compensation?)

In case of bad faith infringement, the statutory provisions on intellectual property rights also provide that the court can order the disgorgement of all or part of the profits realized by the infringer.[97] The aim of this remedy, which following the example of German law was first introduced in the former Benelux Uniform Trademark Act and subsequently kept in the Benelux Convention on Intellectual Property (Trademarks and Designs) and then generalized for all intellectual property rights – but unfortunately, as shall be shown, in a distorted manner – is to avoid that the wrongdoer who willingly and knowingly infringes someone else's intellectual property right would be able to keep his gains even after having been held liable by a civil court.[98]

In the structure of the Belgian statute on intellectual property rights, this specific remedy is placed in a provision that in its first paragraph clarifies how the court can establish the amount of (compensatory) damages in cases where the exact extent of the loss cannot be determined. The statutory provision also explicitly states that the court can order this type of disgorgement "by way of compensation of the losses", suggesting that this remedy is not really a true disgorgement of profits.[99]

However, if this were the correct understanding of this statutory provision, it is difficult to explain why this remedy is limited to cases of bad faith. Under Belgian law, *any* infringement of an intellectual property right is a wrong[100] and therefore under civil liability gives a right to full restoration, which can always take the form best fit for the circumstances. Understood as nothing more than a specific manner of estimating damages for actual losses, this provision is therefore

[97] Article XI.335, §2, third paragraph, Code of Economic Law. In calculating this profit, only the costs directly related to the infringing production activity will be deducted from the returns earned by the infringor. Ronse (2008), no. 23, p. 243.

[98] See the Explanatory Memorandum accompanying the Protocol of 2 December 1992 that introduced this remedy in Article 13, A, paragraph 5, of the Benelux Uniform Trademark Act, that preceeded the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005; Benelux Court of Justice 11 February 2008, *Revue de Droit Commercial Belge* 2008, 413; Cauffman (2007), no. 18–19, pp. 812–813.

[99] See Ronse (2008), no. 23, p. 244; Weyts (2011b), no. 30, p. 193; Explanatory Memorandum accompanying the Draft Statute on Private Enforcement of Intellectual Property Rights, *Documents Parlementaires* Stukken Chambre 2006–2007, no. 51 K2943/001, 26 February 2007, 30; Nordin (2014), no. 449, p. 352. For an example, see Commercial Court Antwerp 2 July 2010, reported in: Deene (2011), no. 50, p. 449.

[100] See supra note 80.

completely superfluous.[101] The only rational explanation why this particular remedy would be limited to bad faith infringements is that this form of "damages" would possibly be greater than the losses, as it is based on the illegitimate profits made.[102] This alternative interpretation would also bring the Belgian statute on intellectual property in line with the provision on disgorgement of profits in the Benelux Convention on Intellectual Property (Trademarks and Designs),[103] which allows for disgorgement of profits in cases of bad faith infringements as a separate remedy, independent of compensation.[104]

Infringement of Personality Rights

An area where some deviation from general civil liability principles can be observed going into the direction of some form of disgorgement of profits under the guise of damages,[105] is the field of personality rights.[106] Although such rights are not statutorily defined or protected in Belgium,[107] they are recognized by most authors

[101] Cf. Ronse (2008), no. 23, pp. 244–245, who does subscribe to the view that this remedy is a type of compensation only, but then realizes that this means this remedy in reality will never be invoked, as it does not offer anything extra over what the rightholder can already obtain by way of restoration based on Article 1382 CC.

[102] For an example, see Commercial Court Liège 18 October 2000, *Revue de Droit Commercial Belge* 2000, 386.

[103] Article 2.21.4 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005: "In addition to or instead of the action for compensation, the holder of a trademark may institute proceedings for transfer of the profits made following the use referred to in Article 2.20 (1), and for the provision of accounts in this regard. The court shall reject the application if it considers that this use is not in bad faith or the circumstances of the case do not justify such an order." See also Article 3.17.4. of this Convention. Cf. Ronse (2008), no. 25, p. 246, who suggests that the interpretation which reduces the disgorgement of profits remedy in other statutes on intellectual property to a form of compensation leads to a different protection of brand names and designs on the one hand versus the other intellectual property rights on the other, which might not pass the constitutional equal treatment test.

[104] See for a recent application Court of Appeal Brussels 12 June 2012, *BMM Bulletin*, Beneluxvereniging van Merken- en Modellengemachtigden 2012, 174; see also Puttemans (2004), no. 40, pp. 38–39; no. 44, pp. 41–42.

[105] One author has called it "un certain utilitarisme dans l'application faite des règles de la responsabilité civile: le résultat recherché semble parfois commander la solution retenue." Langenaken (2011), no.28, p. 436.

[106] These rights give the holder legal control and authority in relation to other persons over the protection and the use of the intrinsic elements or expressions of his personality. Guldix (1986), no. 195–200; Guldix and Wylleman (1999), no. 3, p. 1594; Y.-H. Leleu (2010), no. 102.

[107] Belgian law does not know a provision like the one found in Article 9 of the French Civil Code, protecting the privacy of persons. There is, however, an indirect recognition of the portrait right in Article XI.174, Code of Economic Law, which limits the intellectual property right of a photographer with respect to portraits, by stating that the author or owner of a portrait or any other

as being part of existing positive law,[108] as the highest court recognizes them to be based on the general principle of law that prohibits the intrusion into someone else's personality.[109]

Restoration in case of an infringement of a personality right in Belgium often takes the form of damages.[110] Analysis of the case law shows that although plenty of judgments continue to apply the general principles of civil liability, requiring the showing of specific losses caused by a wrongful act for liability to attach and imposing an obligation to pay damages equal to losses suffered, some systematic deviation from this pattern can be discerned.

First, in many cases the infringement of the personality right is in itself considered to be a sufficient basis for liability.[111] Some scholars have defended this, arguing that the infringement of a subjective right is as such a wrongful act.[112] That this theory correctly reflects practice, is witnessed by the fact that often courts require showing that harming someone's reputation – which is not a subjective right but a mere legitimate interest, only protected by civil liability – was done in a wrongful way for liability to attach,[113] but do not require such showing when the

person possessing a portrait does not have the right to reproduce it or to make it public without the permission of the portrayed person or, during 20 years after his death, without permission of his heirs.

[108] There are, however, some authors that dispute this characterization and that qualify them not as rights but as mere liberties. See e.g. Langenaken (2011), no. 16, pp. 430–431; see also Rigaux (1990), no. 660 et seq., pp. 734 et seq.; Rigaux (1992), no. 133 et seq., pp. 134 et seq.; Gutwirth (1993), 647 et seq.; Gutwirth (1998).

[109] Cour de Cassation 17 December 1998, no. 525–526, *Pasicrisie Belge* 1998, 1233, *Arresten van het Hof van Cassatie* 1998, 1141. The first court decisions mentioning such rights date from the seventies, the first doctrinal studies of personality rights date from the eighties. See Guldix and Wylleman (1999), no. 2, p. 1592.

[110] de Callataÿ and Estienne (2009), 481.

[111] I write "in many cases", as this is not always the case. For the continuing line of Belgian court decisions requiring the finding of a wrong separate from the infringement of the personality right itself, for liability to attach, see Langenaken (2011), 426.

[112] As opposed to under Dutch law (see Article 6:162(2) New Dutch Civil Code), infringement of a right is in the traditional rendering of Belgian law not recognized as a separate type of wrong. However, Hubert Bocken has shown that an infringement of a subjective right is also a wrong under Belgian law, as the negation of a subjective right in itself implies the violation of a specific behavioral rule existing in objective law that requires respect for the rights of others. An infringement of a subjectif right is therefore a violation of a specific behavioral rule, and as such a wrong in the sense of Article 1382 CC. See Bocken (2000); Vandenberghe (1984), no. 2, p. 130; see also Verjans (2013–2014), no. 9, pp. 525–526.

[113] See Court of First Instance Tournai 22 November 2010, *Auteurs & Media* 2011, 109 (court distinguishes harming somebody's reputation, only resulting in liability if it was done in a wrongful way, and violating somebody's right to privacy, which in itself is sufficient for liability); Court of First Instance Brussels 20 September 2001, *Auteurs & Media* 2002, 77 (explicitly recognizing the right to one's portrait as a subjective right but holding the interest one has in one's good name and reputation not to be a subjective right, so compensation in case of reputational harm is only due when the good name or reputation was harmed in a wrongful way).

privacy of a person is infringed or his name, image[114] or voice are exploited without his permission.[115] As opposed to his reputation or good name, a person's privacy, name, image and voice are protected by a personality right, and the infringement of this right is in itself a wrong.

While the traditional view remains that the private law protection of personality rights once they are infringed is limited to the remedies offered by civil liability,[116] some authors have argued that the personality right itself can serve as a basis for a claim of damages.[117] Under this theory, damages can be awarded without the requirements of civil liability having been met. And indeed, while some courts explicitly state that the infringement of the personality right is a wrong on which civil liability can be based, there are plenty of court decisions that go straight from the establishment of the fact of the infringement to the conclusion that damages are due, without referring to a tort and without even mentioning Article 1382 CC.[118]

[114] As portrait rights are explicitly recognized in Article XI.174, Code of Economic Law, infringing such right is a violation of a statutory rule and as such generally recognized as a wrong under Belgian law. See Verjans (2013–2014), no. 10, p. 526.

[115] See e.g. Court of First Instance Brussels 28 September 2010, *Auteurs & Media* 2011, 334 (use of portrait without permission is an infringement and in itself wrong, even if person was acting in good faith); Court of Appeal Ghent 21 February 2008, *Auteurs & Media* 2008, 318 (use of pictures of Kim Clijsters for commercial purposes without permission); Court of Appeal Ghent 5 January 2009, *Auteurs & Media* 2009, 413; Court of Appeal Brussels 16 May 2007, no. 2005/AR/2710 (use of picture of celebrity for promotion of travel products marketed by television is wrong even when picture was taken with permission to use for promoting television show), reported in: Deene (2008), 523; Court of First Instance Ghent 19 November 2003, *Auteurs & Media* 2004, 384 and Court of First Instance Hasselt 19 December 2003, *Auteurs & Media* 2004, 388 (use of Kim Clijsters' name for commercial purposes without her permission is in itself a wrong warranting civil liability); Court of First Instance Dendermonde 26 October 2001, *Rechtskundig Weekblad* 2002–2003, 1068 (use of a nobel family name for a restaurant without permission of family is wrong); Court of First Instance Brussels 19 January 2001, *Auteurs & Media* 2002, 450, *Rechtskundig Weekblad* 2001–2002, 207 (immitation of voice of singer Rocco Granata in commercial is violation of his personality right and serves as a basis for awarding damages). For other examples, see Guldix et al. (2009), no. 104, pp. 872–873; Dubuisson et al. (2009), no. 36, p. 47.

[116] See e.g. Weyts (2011b), no. 10, p. 179. This author explains the fact that courts very easily conclude that an infringement of a personality right in itself constitutes a wrong on which liability can be based by pointing out that personality rights are "special" rights or "important" rights that need extra sensitive protection. See also Weyts (2011b), no. 12, p. 180; Vansweevelt and Weyts (2009), no. 195, p. 140. However, no criteria are given allowing to decide which rights are special and why, nor is shown what the link would be between this special character and the different remedy available in case of infringement. For other authors taking this position, see Milquet (1989), 46–47; Cornelis (1989), 150–151; Langenaken (2011), no. 12, p. 429; Verjans (2013–2014), no. 4, pp. 523–524.

[117] Guldix and Wylleman (1999), no. 9, p. 1607; no. 22, pp. 1629–1630; see e.g. Court of First Instance Ghent 24 June 2002, *Auteurs & Media* 2003, 143 (exploiting somebody's picture without permission is a violation of a personality right, giving the right holder a claim for compensation independent of any civil liability so also without requirement of a fault established).

[118] Guldix and Wylleman (1999), no. 43, p. 1652.

An infringement of a personality right can cause pecuniary losses, for instance when the infringement results in a loss of opportunity for the rightholder to earn income from exploiting the aspect or expression of his personality that the wrongdoer used without his permission.[119] Because in practice many court decisions award a lump sum, they do not give much insight in the elements that in fact determine the height of the damages, so we cannot verify if the profits the wrongdoer realized were taken into account.[120] Occasionally, however, a court hints that the amount of damages awarded was in fact based on the profits the wrongdoer had been able to realize thanks to the illegitimate use of an aspect or expression of the personality of the rightholder.[121]

An infringement of a personality right can also cause moral losses, such as psychological suffering or discomfort, physical pain or emotional distress.[122] As was already mentioned, such damages are set as a lump sum, as there is no way to exactly establish the pecuniary equivalent of such losses.[123] A historically very important author on Belgian civil law has written that the mere fact that a subjective right of a person was infringed or not respected constitutes a moral loss, irrespective of any other interest of the rightholder being hurt.[124] While nowadays few authors still invoke such a general principle,[125] it is generally agreed that in

[119] Although historically the Belgian courts considered the personality right to one's image to be aimed at protecting the moral, psychological or emotional interests of a person, since the eighties the courts have come to recognize that the portrait right also serves to protect economic interests of the portrayed person. See Voorhoof (2009), 152. See e.g. Court of First Instance Brussels 19 January 2001, *Auteurs & Media* 2002, 450, *Rechtskundig Weekblad* 2001–2002, 207 (awarding the singer Rocco Granata 500,000 BEF as compensation for lost income when his voice was immitated in a recording of a commercial, explicitly based on an estimation of the fee he could have charged for singing the song, which he had refused); for a much older case, see Court of First Instance Brussels 29 June 1981, *Rechtskundig Weekblad* 1981–1982, 2616 (awarding 20,000 BEF to an amateur whose picture taken dressed up in a clown character was used without permission in a published calendar and in publicity for such calendars, specifically referring to the income he could have earned when asked to pose for that picture).

[120] Guldix and Wylleman (1999), no. 39, p. 1650.

[121] See e.g. Court of Appeal Ghent 21 February 2008, *Auteurs & Media* 2008, 318 (Court awarded Kim Clijsters damages set at €790 or 10 % of the return – i.e. price times number of circulation – the publisher of a poster-magazine had realized through the sale of an issue of the magazine including a poster with Kim together with Justine Henin, after noting that this was the only picture of Kim in the magazine, while all other pictures and posters showed Justine Henin. Kim had asked €25,000 in damages, but the court refused that amount as it was more than the total return of the magazine, which was circulated at 2,000 copies and sold at €3.95 per copy).

[122] Cour de Cassation 3 February 1987, no. 322, *Pasicrisie Belge* 1987, I, 646, *Arresten van het Hof van Cassatie* 1986–1987, 724.

[123] Guldix and Wylleman (1999), no. 41, p. 1651.

[124] De Page (1964), no. 951*bis*B.5°, p. 955; see also De Page and Masson (1990), 955.

[125] The highest court has ruled that the infringement of a subjective right in itself does not necessarily constitute a loss under Article 1382 CC, so that no liability attaches if the claimant does not show that his interests were violated, separately from the violation of his right. See Cour de Cassation 21 June 1990, no. 615, *Pasicrisie Belge* 1990, 1204, *Arresten van het Hof van Cassatie*

case of infringement of personality rights, the rightholder feels his value as a person diminished by the negation or dismissal of his legal power of self-determination.[126] However, there remain authors that object to this automatism and who protest against this conflation of the concepts of wrong and loss.[127]

Some authors have argued that the claim for damages in case of infringement of a personality right can be based directly on the right itself and does not need to be based on civil liability, so that the requirement under liability of an actual loss is not applicable here, allowing the courts to award damages while the injured party in fact did not suffer a loss.[128] In effect, the conceptually different constituent elements of civil liability, fault and loss, are "merged" into one single requirement in cases involving personality rights, consisting of the infringement of the right. Based on this sole requirement, some courts impose a remedy of damages.[129]

While up to the seventies, such awards tended to be very low and courts in fact only awarded nominal damages to allow for the principled establishment that a wrong had occurred but did not use the instrument of civil liability to try to create incentives to promote the recognition of personality rights,[130] analysis has shown that since the eighties and definitely since the mid-nineties,[131] Belgian courts

1989–1990, 1358; Cour de Cassation 19 March 1991, no. 376, *Pasicrisie Belge* 1991, 670, *Arresten van het Hof van Cassatie* 1990–1991, 755; Simoens (1999), no. 8, pp. 18–20.

[126]Guldix and Wylleman (1999), no. 41, p. 1651; Guldix (1986), no. 312; Baeteman et al. (2001), no. 210, p. 1700; de Callataÿ and Estienne (2009), 495, criticizing a judgment by the Court of First Instance Brussels 20 February 1996, *Auteurs & Media* 1998, 259, that found the right to one's portrait infringed but refused to award any damages as in the eyes of the Court no loss had been caused, because according to these authors the absence of prior approval by a person for the publication of their nude picture in itself is moral loss. See e.g. Court of Appeal Ghent 20 September 2006, *Auteurs & Media* 2007, 386; Court of Appeal Antwerp 11 October 2005, *Auteurs & Media* 2006, 202; Court of First Instance Antwerp 12 June 2008, *Auteurs & Media* 2008, 321, *Rechtspraak Antwerpen Brussel Gent* 2008, 1267; Court of First Instance Liège 12 December 1997, *Revue de Jurisprudence de Liège, Mons et Bruxelles* 1998, 819.

[127]See e.g. Langenaken (2011), no. 23, p. 434; Cornelis (1989), 150; see e.g. Court of First Instance Brussels 17 April 2004, *Auteurs & Media* 2005, 81; Court of Appeal Antwerp 5 May 2003, *Rechtskundig Weekblad* 2004–2005, 1145, *Auteurs & Media* 2004, 67, *Nieuw Juridisch Weekblad* 2003, 1193; Court of First Instance Kortrijk 17 November 1989, *Tijdschrift voor Gentse Rechtspraak* 1990, 116; Court of First Instance Brussels 20 February 1996, *Auteurs & Media* 1998, 259.

[128]Guldix and Wylleman (1999), no. 22, pp. 1629–1630.

[129]Guldix and Wylleman (1999), no. 25, pp. 1632–1633. For a very explicit example, see Court of First Instance Antwerp 24 June 1985, *Rechtskundig Weekblad* 1985–1986, 2645; see also Court of First Instance Brussels 28 September 2010, *Auteurs & Media* 2011, 334 (use of a portrait without permission gives person right to moral damages without specific loss to be shown); Court of First Instance Dendermonde 26 October 2001, *Rechtskundig Weekblad* 2002–2003, 1068 (family members have a moral interest to protest against the illegitimate use of their name).

[130]Schuermans et al. (1977), no. 1, p. 439 and court decisions cited there; Van Oevelen (1982), no. 20, p. 438; see also de Callataÿ and Estienne (2009), 484.

[131]Some have remarked that the change was triggered by the Dutroux-case, involving the kidnapping and murder of several children, that as a side effect brought several high profile cases

have been more willing to award higher amounts of moral damages in cases of infringements of personality rights.[132] Specifically, it must be noted that such moral damages are regularly higher than the amounts Belgian courts award for the loss of a loved one or a next-of-kin. As it is hard to accept that the actual moral loss that a person suffers from the infringement of a personality right is much graver than the grievance and emotional distress one suffers when losing a parent, partner or child, one cannot help but feel that the courts in fact base the amounts of damages in cases of infringement of personality rights also on other elements than the extent of the actual loss.

Most often, commentators have interpreted the high awards as attempts of courts to punish for the wrong, independent of its consequences.[133] Occasionally, however, one can find court decisions awarding high moral damages not so much as a reaction to the seriousness of the wrong but rather to tackle the profits the wrongdoer has realized by negating the exclusive rights of the injured party.[134] But even if this is

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of people involved with the criminal investigation that were wrongly accused of improprieties in a hysteric media atmosphere. See de Callataÿ and Estienne (2009), 484–485; see also Verjans (2013–2014), no. 27, p. 535.

[132] See e.g. Court of First Instance Brussels 11 January 2011, *Auteurs & Media* 2013, 263 (€2,000 for publishing nude photograph of celebrity on vacation); Court of First Instance Antwerp 12 June 2008, *Auteurs & Media* 2008, 321, *Rechtspraak Antwerpen Brussel Gent* 2008, 1267 (€9,000 for publishing picture taken for purposes of book about breast cancer above review of the book in a magazine traditionally having a scarcely dressed woman on its cover); Court of First Instance Brussels 30 April 2006, *Auteurs & Media* 2007, 390 (€2,500 for infringement of right of privacy of a private person mentionned by name and address as probably having an affair with a politician); Court of Appeal Antwerp 5 May 2003, *Rechtskundig Weekblad* 2004–2005, 1145, *Auteurs & Media* 2004, 67, *Nieuw Juridisch Weekblad* 2003, 1193 (€2,500 for commercial use without permission of nude photograph taken with permission); see for older cases Schuermans et al. (1984), 517.

[133] See e.g. Langenaken (2011), no. 26, p. 435, and sources cited there.

[134] See e.g. the decision by the Court of First Instance Brussels in the case of the wife of the singer Helmut Lotti, which was described in "'Dag Allemaal' en 'Het Laatste Nieuws' veroordeeld voor publicatie naaktfoto van 'Mevrouw Lotti'", *Knack* 11 September 2013, 44–45. The case involved a nude photograph taken with permission to be published in a poetry book, but shown without permission in a very popular humoristic television quiz, and afterwards several printed media reported about that incident, again publishing the photograph without permission. The court reportedly awarded moral damages of no less than €25,000. The amount is so high compared to other decisions involving nude photographs published without permission (see supra note 132), and the wrong committed by the newspaper and magazine was comparably light, as they in fact were reporting on a row after a television show and therefore could be argued to have been bringing "news", that the only plausible justification for such an amount is to assume that the court was in fact reacting to tabloid style newspapers and gossip magazines earning money on the back of people whose right to privacy and right to their portrait they knowingly violate, and that by setting the damages so high, the court in a way was trying to create incentives so this segment of the press will have less reason to behave in this way. The only fact the court mentioned in its judgment that can be understood as an element helping to set the amount of damages owed to the woman whose personality right was infringed, is the fact that photograph was being published in a newspaper and magazine with (according to Flemish standards) a very high circulation.

the case, it is clear that Belgian courts are very timid in applying this method. In general, they refrain from imposing high damages, even if this would be necessary to have the wrongdoer disgorge the profits he realized through the negation of a personality right of the injured party.[135]

As a matter of theory, the consensus seems to remain that even if one accepts the theory that the remedy in case of infringement of personality rights is not based on civil liability but can directly be based on the personality right itself, this does not change the character of the remedy available, which in the eyes of most authors and courts remains compensatory and therefore not aimed at disgorging profits as such.[136]

For another example, see Court of First Instance Brussels 19 May 2000, *Auteurs & Media* 2000, 338, awarding 702,000 BEF to a woman who had participated in the audience of a television show and whose private conversation in a bar after the apparent ending of the recording of the show had been secretly filmed and included in the show as it was broadcasted, an amount the court explicitly based on the number of viewers of the show, remarking this was appropriate "given the great importance apparently attached to television ratings nowadays". This judgment has been criticized for being punitive, which is considered to be inconsistent with general principles of Belgian civil liability law, by de Callataÿ and Estienne (2009), 500. See also Weyts (2011a), no. 11, 272.

[135]The cases involving Kim Clijsters show this very well. I already referred to one decision supra in note 121 estimating her lost earning opportunity because of the use of her name or picture without her permission as a fraction of the return the wrongdoer realized in sales. In Court of First Instance Hasselt 19 December 2003, *Auteurs & Media* 2004, 388, she was awarded €2,000 in moral damages for a telecommunications company having placed an add in newspapers congratulating her with her reaching her first grand slam final, in fact trying to attract attention to their brand name using Kim's fame. The court holds that Kim had not convinced them that she had potentially lost earnings because of this infringement. In these circumstances, the awarded amount can hardly be understood to only reflect the moral or psychological distress Kim actually must have felt because her personality was not recognized by the outside world and therefore more likely is an attempt by the court to order the company to at least partially disgorge her profits. However, if one looks at the decision in Court of First Instance Ghent 19 November 2003, *Auteurs & Media* 2004, 384, involving exactly the same infringement of Kim's personality rights by Omega Pharma, Kim was only awarded €1 in moral damages, as the Court found that apart from the infringement of her personality right, she had not shown any additional losses. In fact, the moral or psychological distress Kim has felt from both infringements must have been exactly the same, and the difference in awards can only be attributed to the willingness of the Hasselt court to take the illegitimately gained profits of the wrongdoer into account and the unwillingness of the Ghent court to do the same.

[136]Guldix and Wylleman (1999), no. 38, p. 1650; see also Court of First Instance Brussels 20 September 2001, *Auteurs & Media* 2002, 77; Court of First Instance Tournai 22 November 2010, *Auteurs & Media* 2011, 109.

No Disgorgement Based on Unjust Enrichment (*Actio de in Rem Verso*)

Claims based on unjust enrichment are relatively rare in Belgium.[137] As opposed to several other legal systems, Belgian law contains no explicit statutory recognition of this action. It is based on case law, going back to a decision of the highest court of 27 May 1909.[138] Since the eighties, the highest court specifically refers to it as a general principle of law.[139]

As opposed to a claim based on liability, this action is only available if the defendant has been enriched.[140] On this basis one might expect that the claim would result in a duty to disgorge profits. However, this action just as much requires the claimant to be impoverished.[141] The mere infringement of a subjective right of the claimant by itself is under the standard rendition of Belgian law not considered to be an impoverishment, so the claimant has to show that he suffered a disadvantage that has pecuniary value.[142] Without such disadvantage, no action based on unjust enrichment is available, so under Belgian law[143] this action cannot truly be considered to be a disgorgement of profits.[144]

The remedy in case of unjust enrichment may at first sight look like disgorgement, as it is usually referred to as restitution. However, the sum awarded can never exceed the loss suffered, so the claimant can receive no more than compensation.[145] Unjust enrichment is therefore often referred to in Belgian literature as "patrimonial shift without legal cause", stressing that it is the value that shifted from the defendant

[137] Baeck (2012), no. 1, p. 199.

[138] Cour de Cassation 27 May 1909, *Pasicrisie Belge* 1909, I, 272.

[139] Cour de Cassation 17 November 1983, no. 149, *Pasicrisie Belge* 1984, 295, *Arresten van het Hof van Cassatie* 1983–1984, 315; more recently, Cour de Cassation 19 January 2009, no. 43, *Pasicrisie Belge* 2009, 153, *Arresten van het Hof van Cassatie* 2009, 176.

[140] Baeck (2012), no. 8, p. 203; Van Gerven and Covemaeker (2006), 289; De Page (1967), no. 37, pp. 47–48; Sagaert (2007), no. 27, pp. 88–89.

[141] Baeck (2012), no. 13, p. 207; De Page (1967), no. 38, p. 48; Van Gerven and Covemaeker (2006), 289; Sagaert (2007), no. 28, p. 89.

[142] Sagaert (2007), no. 28, p. 89. So an action based on unjustified enrichment is under Belgian law as it is generally understood in the literature today not available under the conditions that it would be under German law (see Dannemann (2009)) or the Draft Common Frame of Reference, which only requires the enrichment to have been attributable to another's disadvantage, which includes another's use of that person's assets (see Articles VII.–1:101 and VII.–3:102(1)(c) DCFR).

[143] This difference between the Belgian understanding of this action and the content of such action in other legal systems has to be stressed. See Zimmermann (1995), 418–421.

[144] Baeck (2012), no. 13, p. 207.

[145] De Page (1967), no. 47, 60–62, who links this to the reticence of the courts to allow for this remedy based on equitable principles; Baeck (2012), no. 67, p. 232; Van Gerven and Covemaeker (2006), 291; Maes (2010), no. 23, p. 210; Van Ommeslaghe (2010), no. 792, pp. 1127–1129; Cauffman (2007), no. 101, pp. 859–860; Sagaert (2007), no. 34, p. 93.

to the claimant that has to be restored, not the enrichment as such.[146] As a result, unjust enrichment under Belgian law is an alternative to civil liability to obtain compensatory relief, damages, in cases where no fault can be established. As it is understood today, it is not a basis for disgorgement of profits without this amount serving to compensate the claimant for an actual loss suffered.[147]

An Agent's Duty to Account: Disgorgement

Under a contract of agency, the agent is bound to account for his management, and to return to the principal everything he received because of his assignment, even if what he received was not owed to the principal.[148] This rule represents the basic principle that agency can never become a source of enrichment for the agent in his relations to third parties.[149] If apart from the agreed remuneration an agent were to obtain any other personal gain because of the way he performs his tasks or uses the power of attorney he has received under the agency agreement, he is not only bound to report this gain but he is also required to hand over these profits to the principal. This means that a principal can force his agent to disgorge his profits if he has used his powers for his personal gain in violation of their agency agreement.

Does Belgian Law Contain a (Hidden) General Rule on Disgorgement of Profits?

Based on an analysis of the examples of disgorgement spread throughout positive law, I have proposed a theory that Belgian private law apparently includes a general principle of law that gives the holder of a subjective right a claim for disgorgement of profits realized by another person because of his bad faith infringement of the exclusive authority the subjective right grants to its holder.[150] This remedy is clearly available in cases of infringement of property rights to physical goods, as the possessor in bad faith has to turn over the fruits he produced. This remedy can

[146] The highest court referred to the general principle of law according to which no one is allowed to enrich himself at the expense of another: Cour de Cassation 27 September 2012, no. 493, *Pasicrisie Belge* 2012, 1746, *Arresten van het Hof van Cassatie* 2012, 2040.

[147] Ronse et al. (1984), no. 275, p. 208, pointing out that the claimant who has been compensated for his loss no longer is impoverished.

[148] Article 1993 CC. See Paulus and Boes (1978), no. 160, pp. 164–166; no. 168–169, pp. 101–104; De Page (1952), no. 420 and 422, pp. 412–417; Foriers (1990), no. 52, p. 68; Foriers (1994), 166.

[149] De Page (1952), no. 422, p. 416; see also Van Ryn and Heenen (1988), no. 27, p. 24; Fredericq (1976), no. 233, p. 268.

[150] Kruithof (2011), no. 37–42, pp. 54–60.

also be recognized in the statutory provisions on intellectual property rights, which allow for civil confiscation of "fruits" of the intellectual property right and thus disgorgement of profits in cases of bad faith infringements. This concept can also help understand what a lot of courts actually are doing in cases of infringement of personality rights that can be economically exploited.

It is too early to tell whether this theory will find any support in Belgium. I hope that this comparative project might shed some light on the question whether the hidden general horizontal principle I think to have recognized in Belgian private law can also be found in other legal systems.[151]

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[151] In my Ph.D. dissertation on conflicts of interest in financial institutions offering investment services I have tried to show that this principle, as I found it hidden in Belgian civil law, can also help to explain the concept of fiduciary duties as it is understood in the United States. See Kruithof (2009), no. 238–243, pp. 251–257.

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Chapter 6
The Disgorgement of Illicit Profits in French Law

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Abstract In some sectors, such as intellectual property law, French substantive law explicitly provides that illicit profits may be disgorged, but there is no provision of general scope that enables such disgorgement damages. Many scholars and commentators criticize this sectoral approach, and advocate for a reform of the sanctions regarding profitable tort, as well as for a general provision regarding disgorgement damages. However, the proposals of reform differ from each other in many ways. Meanwhile, trial courts use roundabout means to avoid that profitable tort remain unpunished. For the sake of legal certainty, a provision in the Civil Code, preferably of a general scope, is needed.

Keywords Disgorgement of illicit profits • French law • Lack of general provision • Sectoral approach

How does French law order the disgorgement of illicit profits? The means it uses and intends to use are currently to the fore.

Here is a recent illustration. In September 2013, a number of major Do-It-Yourself stores wanted to open their doors on Sundays, even though this is prohibited by law, and despite the fact that they did not meet the conditions to benefit from a derogation to this. One of their competitors, which complied with this prohibition, filed emergency proceedings to stop what it deemed to be unlawful disturbance.

The court in interlocutory proceedings ordered the respondent companies to close their stores on Sundays and imposed an "*astreinte*", ie a daily monetary penalty. Reiterating the terms of Article 873 paragraph 1 of the Code of Civil Procedure,[1]

[1] Art. 873 paragraph 1 of the French Code of Civil Procedure (hereafter CPC): 'The presiding judge [of the commercial court] may (. . .) provide for by way of a summary procedure such protective measures or rehabilitation measures that the case justifies, either to avoid an imminent damage or to abate a manifestly unlawful disturbance'; while these powers are granted to the presiding judge

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the presiding judge of the commercial court ruled as follows: "The judge ruling in interlocutory proceedings must stop a manifestly unlawful disturbance and (. . .) to do this, *the fine must be set at a level that renders it economically unfeasible to continue with such infractions* (. . .); using our discretion, we hereby set the amount of the provisional fine at EUR 120,000 per store and per day of infringement noted on Sundays".[2]

However, as soon as the penalty was imposed, the major stores announced that they would refuse to abide by this ruling. The following Sunday, over a dozen stores opened for trading, as the turnover made every Sunday was significantly higher than the amount of the fine.[3]

Many lessons may be learned from this example, but two in particular merit specific attention.

Firstly, although the court had a legal basis to prevent illicit profits being made, this did not resolve all the issues. It also needed to be able to correctly assess the extent of the profit to avoid partial disgorgement, which would have no deterrent effect. The example of DIY stores shows clearly that respondent companies were not concerned about a court conviction if it meant that they could make more profits. Undoubtedly, the French courts do not have sufficient experience in assessing the amount of profit or savings made due to engaging in misconduct. The reason they don't is perhaps because until very recently, proceedings for disgorgement of illicit profits were informal. It is only in recent years that French law has acquired legislation allowing for the confiscation or disgorgement of illicit profits, and this only in certain sectors. But we need time for the courts to acquire sufficient economic expertise to effectively combat the tricks used by businesspeople in all sectors. This very variety of sectors in which illicit profits are made leads us to the second lesson.

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of the commercial court, but they also belong to the presiding judge of the Tribunal de Grande Instance: see art 809, paragraph 1 CPC: 'The presiding judge [of the Tribunal de Grande Instance] may always, even where confronted with a serious challenge, order in a summary procedure such protective measures or measures to restore (the parties) to (their) previous state as required, either to avoid an imminent damage or to abate a manifestly unlawful disturbance.'

[2]Commercial court of Bobigny, 26 September 2013, claim no. RG 2013R00400, available online. The italics are ours.

[3]See 'Ouverture le dimanche, Leroy Merlin et Castorama bravent l'interdiction', Le Parisien, 27 September 2013; adde 'Leroy Merlin et Castorama ouvrent leurs portes malgré l'interdiction', Le Figaro, 28 September 2013. On 29 October 2013, the Paris Court of Appeal overturned the interim order from the presiding judge of the commercial court of Bobigny. Finally, decree no. 2013-1306 of 31 December 2013 (Official Journal of the French Republic (JORF, Journal Officiel de la République française), no. 0304 of 31 December 2013, p 22411, text no. 65) granted DIY stores a temporary derogation, from 1st January 2014 to 1st July 2015, enabling them to open on Sundays. See for further information regarding 'astreinte' (daily monetary penalty) Viney and Jourdain (2011), no. 6-5.

The topic of disgorgement of illicit profits is not the sole preserve of tort and contract law.[4] A number of authors have even argued that it be *set aside* from the area of tort law and some of their arguments are convincing. In particular, some have argued that in accordance with the concept of commutative justice advocated by Aristotle, the purpose of obliging the perpetrator can only be to *indemnify* the victim or unsatisfied creditor, by making good the loss incurred.[5] It is true that this is the exact meaning of the term "indemnity". Consequently, any mechanism that aims to do more than compensate losses should be developed *outside* the sphere of tort law, whether its purpose is to *punish* the perpetrator or to disgorge illicit profits, even where such profits are higher than the losses incurred.[6] At first sight, substantive law confirms this view, the only *official* purpose assumed by tort law being "full reparation" of the damage.[7] Compensating losses, returning the victim or unsatisfied creditor to their position prior to when the loss occurred is the stated aim of the Civil Code[8] and is regularly restated by the Court of Cassation.[9]

However, as long as strict compliance with this equivalence between loss and compensation is not supplemented by another mechanism, perpetrators of harmful activities have an incentive to expand these because what they make in profits or savings outweighs the loss incurred.

The same thing occurs in counterfeit, unfair competition, unfair trade practices, environmental damage, infringement of personality rights through the media, overbooking in transport, non-compliance with safety rules that must be observed by professionals but breaches of which allow them to save considerable sums – the list has no limit other than that of human greed.

In some sectors, where the opportunities to make illicit profits are more often seized than in others, the public authorities have timorously attempted to introduce

[4]Strictly speaking, interlocutory proceedings are not part of tort law, although interim orders aim at putting an end to an unlawful disturbance ("trouble illicite"), ie at preventing the damage suffered by the plaintiff from becoming more serious.

[5]See in particular Chénedé (2008), no. 499 et seq.

[6]See among other publications, Piedelièvre (2001), in particular no. 5 and no. 22; adde Chénedé (2008), no. 502.

[7]See for a recent and insightful study, Coulon (2012), 679 et seq.

[8]See especially for delictual liability, article 1382 of the Civil Code: "*Every act whatever of man that causes damage to another, obliges him by whose fault it occurred to repair it*"; adde, for contractual liability, art 1149 of the Civil Code: "*Damages owed a creditor are, in general, for the loss he sustained and the profit of which he was deprived, subject to the exceptions and the modifications below.*"

[9]See the following two cases, where the ruling was held in view of art 1382 Cciv: 1) Première Chambre civile de la Cour de cassation, 9 November 2004, appeal no. 02-12.506, Bulletin civil I, no. 264, JurisClasseur Périodique 2005, part I, 114, no. 1 et seq, obs. Grosser: "*Whereas, however, the reparation of damage, which must be integral, may not exceed the amount of the damage incurred*"; and 2) Chambre commerciale de la Cour de cassation, 11 mai 1999, appeal no. 98-11.392, Bulletin civil IV, no. 101: "*Whereas the reparation of damage may not exceed the amount of the damage incurred.*" As a result, if trial judges were to explicitly allocate damages in order to disgorge illicit profits instead of repairing the damage incurred, their decision would be inevitably quashed by the Court of cassation: see Fabre-Magnan (2013), 55.

mechanisms for disgorging such profits. However, as each of these instruments of disgorgement was drawn up in reaction to a particular situation, their scope is very limited. What's more, there is not always legislation or a general principle to order the disgorgement of illicit profits outside these sectors. While this does not mean that disgorgement is impossible, when it happens it is covert and has no legal framework, giving rise to issues of legal certainty, which a number of reform proposals are attempting to remedy.

It must be noted that it is not always easy to delineate the topic of disgorging illicit profits. What is certain is that disgorgement requires restitution. The topic is therefore more restricted than simply *penalising* illicit profits. But the distinction itself also gives rise to questions. For example, when an independent professional and an individual client agree on manifestly excessive fees for a service provided by the professional, does the court-ordered reduction of such fees –which courts have felt free to make rulings on since the "*Ancien Régime*"[10] – come within the scope of this study? I believe the answer must be no, for two reasons. The first reason is that the concept of disgorgement is missing: disputes most often arise *before* the client has paid the fees, meaning that there is no illicit profit to be "disgorged" per se. The second reason is that unlawfulness is not clearly characterised: the binding force of agreements would suggest that unless special provision is made, the courts have no power to order any such revision. Moreover, unlawfulness does not occur in the same terms as suggested by the topic. The topic of disgorging illicit profits covers profits made in contravention of a prohibition which, although clearly defined, has not been sufficiently dissuasive. However, with a court-ordered reduction of agreed fees, while the attitude of service providers may smack of knavery, their behaviour does not amount to persistent infringement.[11] Regardless, these hesitations show that the disgorgement of illicit profits has no legal framework as such.[12]

This is what is shown by this study of the means used to achieve the disgorgement of illicit profits. This study will be followed by an investigation, in terms of prospective law, of potential means of disgorgement.

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[10]"Ancien Régime": the political and social system in France before the Revolution of 1789" (Oxford Dictionary of English, 2014). See for further information on court-ordered reduction of fees, among numerous references, van Dievoet (1963), 911 et seq.; as for case-law, see in particular Chambre des Requêtes de la Cour de cassation, 11 March 1824; Sirey 1822-1824, chronologie, 413; Chambre des Requêtes de la Cour de cassation, 12 January 1863, Dalloz périodique 1863, Part I, 302, especially 304: '*Considering all these findings, the trial court had the right and the duty to assess, as it did, the proportion between the agents' actual activity and the agreed fees, and to reduce it in case the fees appeared to be immoderate*'; Chambre civile de la Cour de cassation 29 January 1867, Capitant et al. (2008), no. 280.

[11]Likewise, when the organizers of a prize draw who promise winnings which reveal to be fallacious, the situation does not call for the "disgorgement" of illicit profits. Neither the amount of a fine, nor the money paid by the organizers to the addressee can be considered as "disgorgement" money. They merely represent a sum of money paid, not disgorged.

[12]See also, from a tort law standpoint, Nussenbaum (2005),78 et seq.; from a contractual liability standpoint, and in particular as regards breach of contract, see Fauvarque-Cosson (2005), 479 et seq.

The Means Currently Used

To report on the current state of French substantive law in this regard, two observations come to mind. Illicit profits can be disgorged by both official (A) and roundabout (B) means.

Disgorgement by Official Means

There are three sets of official mechanisms for confiscating profits for restitution. What they have in common is their sectoral character: none of them could be used as a basis for a more general approach.

The first series of provisions derives from the Act of 29 October 2007 to counteract counterfeiting, transposing the European Directive of 29 April 2004 on intellectual property rights.[13]

A number of articles offer the applicant two alternatives, both of which openly mention illicit profits acquired by the counterfeiter, enabling "the applicant to include the full or flat-rate disgorgement of profits in the sum to be paid by the perpetrator".[14] These texts, drafted along the same model, relate mainly to intellectual property,[15] drawings and models,[16] patents,[17] topographies of semiconductor products,[18] plant variety rights[19] and brands.[20]

Other provisions created by the same act clearly mention the confiscation of illicit profits. Article L. 331-1-4(4) of the Intellectual Property Code provides as follows: "The court may also order *the confiscation of all or part of the receipts* obtained by reason of counterfeiting, infringement of a right related to copyright or to the rights of database producers' rights, such confiscated receipts to be handed over to

[13] Act no. 2007-1544 of 29 November 2007, Official Journal of the French Republic no. 252 of 30 October 2007, 17775; Directive 2004/48/CE of 29 April 2004 on the enforcement of intellectual property rights. For further information on the relation between this 2007 act and tort law, see: Gautier (2008), 727; Huillier (2009), 245 et seq.; Maréchal (2012), 245 et seq.

[14] Viney and Jourdain (2011), no. 6-7, p 24.

[15] Art L331-1-3 of the Intellectual Property Code (hereafter CPI): "For assessing damages, the court shall take into account the negative economic consequences – including the loss of profit – sustained by the injured party, the profits made by the infringer of the intellectual property rights and the non-pecuniary damage caused to the owner of the said rights because of the infringement. However, the court may, alternatively and upon request by the injured party, award damages as a lump sum which may not be lower than the amount of the royalties or fees that would have been due if the infringer had requested authorization for the use of the right it has infringed."

[16] Art L521-7 CPI.

[17] Art L615-7 CPI.

[18] Art L622-7 CPI.

[19] Art L623-38 CPI.

[20] Art L716-14 CPI.

the victim or his successors in title". Is this type of confiscation a mechanism of tort law or a criminal measure?[21] It is difficult to answer this, but it suffices to note that there are two other articles drafted in the same manner inside a chapter entitled "Criminal Provisions".[22] These are articles L. 335-6 and L. 335-7 of the same code, which, with similar clarify, that the court may order "*the confiscation of all or part of the receipts* (. . .)" from infringers. Interestingly, confiscation can be ordered in addition to damage,[23] indicating that in this particular case, the confiscation of illicit profits is not considered sufficient indemnity. Finally, the fact that this legislation is quite recent and the number of convictions low makes it difficult to assess the effectiveness of this mechanism: how many offenders have had their profits confiscated and how many have been ordered to disgorge their illicit profits? It is not currently possible to answer these questions.[24]

In any case, some authors have expressed doubts about the effectiveness of all these mechanisms arising out of the 2007 Act.[25] It is true that parliamentary work involves ambiguities, in that it implies that these mechanisms should not violate the principle of full reparation deriving from tort law.[26] In addition, a response issued in 2009 by the Minister for Justice aggravated this ambiguity, by asserting that these provisions existed "*without calling into question the principle of full reparation for loss*".[27] Finally, the information report assessing the 2007 Act submitted in 2011 to the Speaker of the Senate, perpetuates the idea that the disgorgement of illicit profits should not exceed the threshold of full reparation.[28]

However, counterfeiting is not the only area where the disgorgement of illicit profits is officially accepted. On the other hand, the 2007 Act is the only one that creates a mechanism exclusively devoted to disgorgement. This is what makes the difference between the first mechanism and the other two, which I will now go into in detail.

The second mechanism is the *civil fine*,[29] levied for anti-competitive practices. Since the Act of 4 August 2008,[30] the Commercial Code provides that the Minister

[21] See for a series of reflection on this particular topic, Dreyer (2011), 487; adde Borghetti (2009), 55 et seq, in particular no. 12.

[22] Chapter V (Criminal Provisions) of Title III (Prevention, Proceedings and Sanctions) of Book III (General Provisions relative to copyrights, to neighbouring rights and to the rights of database producers).

[23] See Art L335-6 para 3 CPI: "[The court] may also order, at the cost of the convicted party, the destruction or the restitution to the harmed party of the objects and things withdrawn from trade channels or confiscated, *without prejudice to any damages.*" The italics are ours.

[24] See for critical comments on the Act of 2007, Stasiak (2009).

[25] See in particular Maréchal (2012); and Mésa (2012b), especially no. 3.

[26] See Maréchal (2012).

[27] Official Journal of the French Republic, 12 November 2009, 2651.

[28] Béteille and Yung (2011), 28 et seq.

[29] See on the theme of civil fines ("amendes civiles") Behar-Touchais (2002).

[30] Act no. 2008-776 of 4 August 2008, art 93-I, 3°.

for Economic Affairs and the public prosecutor may ask the court to which the case is referred to order the "recovery of the undue sum" and to impose a penalty which, while not exceeding two million Euros, "*may be raised to three times the sums unduly paid*" (Commercial Code, Art. L. 442-6, III). It is noteworthy that this fine *comes on top of* compensatory damages, and the existence of a threshold means that profitable tort can be maintained when the illicit profit exceeds two million Euros. This fine is therefore considered a "penalty". And yet, as Prof. Viney reminds us, "a penalty is not generally determined *according to the profits made* but according to the gravity of the offence".[31] Most importantly, despite its name, a "civil" fine is subject to the basic requirements of criminal law, as confirmed by the Constitutional Council in 2011.[32] These requirements notably include: (i) the principle of legality, which prohibits analogical reasoning by reducing the scope of application of the text to what is strictly laid out; (ii) the right to a fair trial, which has developed considerably around Article 6 of the European Convention on Human Rights; (iii) and the presumption of innocence, set out in Article 6(2) of the European Convention on Human Rights, which prohibits the presumption of liability so favoured by civil law.[33]

The third series of measures comes under criminal law in its entirety. An example of this is the issue of insider trading. The Monetary and Financial Code provides for a fine of 1.5 million Euros "*which amount may be increased to a figure representing up to ten times the amount of any profit realised and shall never be less than the amount of said profit*" (Art L465-1). This mechanism largely exceeds the objective of disgorgement of illicit profits, because it also provides for the *punishment* of the party responsible. This therefore is an official means of disgorging illicit profits but it is not exclusively designed for this purpose. The same observation could be made as regards the penalties provided under the Criminal Code for handling stolen goods ("*recel*", ie receiving) and money laundering,[34] where a fine can amount to up to half of the value of the gains from the offence: disgorgement of illicit profits is not the primary objective of these penalties but increases the punishment for such offences.

Any one of these three official means can be used to disgorge illicit profits but disgorgement is not guaranteed. It is even less certain when roundabout means are used.

[31] Viney (2005), 89 et seq.

[32] See in particular Constitutional Council's ruling no. 2010-85 of 13 January 2011, Question prioritaire de constitutionnalité (QPC), Établissements Darty et Fils; Mainguy (2011); Behar-Touchais (2011).

[33] See on all these aspects Carval (1995), no. 206 to 214; adde Mésa (2009).

[34] For handling stolen goods, see Art 321-3 of the Penal Code: 'The fines provided by articles 321-1 and 321-2 may be raised beyond €375,000 to reach half the value of the goods handled'; for money laundering, see Art 324-3 of the Penal Code: 'The fines referred to under articles 324-1 and 324-2 may be raised to amount to half the value of the property or funds in respect of which the money laundering operations were carried out.'

Disgorgement by Roundabout Means

Many means can be used to disgorge illicit profits, even though they were not designed for that purpose. Despite their diversity, what they have in common is that they have developed behind the screen of the inherent authority of judges to decide on the merits of the case.

Practitioners have noted, for example, that in civil proceedings, the losing party is often ordered to pay discretionary costs (Art. 700 of the Code of Civil Procedure) on the grounds of equity[35] in order to punish the perpetrator,[36] but also to disgorge illicit profits.[37]

Another roundabout means of disgorgement is the coercive progressive fine, which was also not designed to prevent illicit profits being made. Its purpose is rather to ensure the execution of a conviction. In this, it has a dissuasive rather than a corrective role. However, as we have seen with the DIY store case, *if the proceedings against the infringement continue despite the imposition of a coercive progressive fine*, the latter no longer has a preventive role but becomes a means of *disgorging* illicit profits. Of course, we can assume that in this case, there would not be full disgorgement. But there would all the same be partial disgorgement, through roundabout means.

More often, where disgorgement of illicit profits is not expressly provided for by a text, it happens covertly, under the guise of civil liability, which is not designed to achieve any aim other than full compensation for damages.

Illicit profits are thus disgorged by bending the principle of civil liability.

The most obvious assumption is compensation for non-pecuniary damages, which is very difficult to assess in monetary terms. As judges deciding on the merits of a case have inherent discretionary authority to determine the extent of the loss,[38] the assessment of non-pecuniary damages is not subject to review by the Court of Cassation, meaning that damages may be awarded that serve in fact to disgorge illicit profits.[39] This is particularly true in the case of infringement of personality rights through the press, where the Court of Cassation has ruled for almost 20 years, based on Article 9 of the Civil Code that a finding of loss is not even required for compensation to be ordered. Damages are therefore detached from the assessment of loss because the infringement on its own is sufficient to justify their being awarded.[40] In addition, a single infringement may give rise to

[35] Art 70 CPC: "(. . .) the judge will take into consideration the rules of equity and the financial condition of the party ordered to pay".

[36] See in particular Anziani and Béteille (2009), 82.

[37] Martin (1976).

[38] See Chambre Civile de la Cour de cassation, 23 May 1911, Dalloz Périodique 1912, part 1, 421.

[39] See in particular Pierre (2010), especially 1120.

[40] See in particular Première Chambre civile de la Cour de cassation, 5 November 1996, no. 94-14.798, Société Prisma Presse, Bulletin civil I, no. 378; note by Laulom (1997); observations by Jourdain (1997); Hauser (1997); Ravanas (1997); Viney (1997); adde Première Chambre civile de la Cour de cassation, 12 December 2000, appeal no. 98-21.161, Bulletin civil I, no. 321; Note

two series of compensation: one based on upholding the right to privacy and the other based on upholding the right of personal portrayal.[41] This does not make it easy to assess damages, an assessment that is even less transparent by the fact that it is rare that the media instrument infringing the right to privacy is entirely devoted to this infringement, such that "it would appear difficult to establish an accurate causal link between such publication and the gains made on that occasion".[42]

The difficulties of compensating non-pecuniary damages thus provide a pretext for modifying – discreetly and imperfectly – the function of damages, by assigning to them the role of disgorging illicit profits. But non-pecuniary damages are not the only entry point for this development.

Another area where civil liability is used to make up for a lack of legislation is that of "micro damage"[43] caused to a large number of victims.[44] At the time of writing, the draft Consumer Act appears to have been approved by the French parliament,[45] thus finally allowing class action suits to be brought.[46] But case-law has long been thinking about the ways of getting around the absence of legislation to avoid perpetrators of such micro disabilities continuing to make money through the proliferation of cases where the damage caused to victims is so minimal that it is not viable for the latter to pay significant legal fees to seek compensation. Recently, faced with an internet access provider that continued to require full payment for subscriptions while subjecting subscribers to repeated malfunctions, the Court of Cassation conceded that a consumer protection association could seek redress for infringement of "a collective interest".[47] This extension of the concept of infringement of collective interests for which a consumer association may seek redress opens up the possibility that the gains or savings made by the perpetrator of micro damage can be returned to the applicant.

The above developments show that the absence of a legal framework leads to legal confusion and uncertainty. This prompts an investigation of prospective law.

Saint-Pau (2001); Caron (2001); Hauser (2001); Première Chambre civile de la Cour de cassation, 17 September 2003, appeal no. 00-16.849; observations Bakouche (2003).

[41] See especially Première Chambre civile de la Cour de cassation, 12 December 2000, references in the previous footnote.

[42] Dreyer (2008).

[43] Fabre-Magnan (2013), 437.

[44] See in particular Bouthinon-Dumas (2011); adde Viney (2009), in particular the third part of her publication.

[45] The Parliament gave its approval on 13 February 2014 ("Projet de loi relatif à la consommation", serial no. EFIX1307316L).

[46] Article 1 of this draft bill elaborates on how this French version of class actions could be filed. Commentators often emphasize the relationship between class actions and disgorgement of illicit profits: see, for a recent publication on this subject, Nussenbaum (2011).

[47] Première Chambre civile de la Cour de cassation, 13 November 2008, appeal no. 07-15.000; observations Stoffel-Munck (2009).

The Potential Means

De lege ferenda, the disgorgement of illicit profits is the subject of in-depth scholarly debate, surfacing in many proposals to reform contract and tort law.

The Means Envisaged in the Scholarly Debate

The disgorgement of illicit profits is the subject of much scholarly debate. Whatever their views, sometimes widely diverging, authors have some points in common.

Firstly, they all argue for a legal framework to end the legal uncertainty resulting from the lack of transparency in disgorging illicit profits. Secondly, they all pin their hopes on tort law as an instrument for disgorging illicit profits. A trend is therefore developing, moving away from the monopoly of full compensation and towards other purposes assigned to tort law and assumed in broad daylight. The third point authors have in common is the idea that to effectively combat illicit profit-making, legislation with general scope rather than a sectoral approach is required that leads to a proliferation of texts with limited scope.[48] Finally, the fourth point on which authors agree is the term chosen to refer to the offence warranting disgorgement of illicit profits: "profitable tort".

This is where agreement ends. Because as soon as the issue of how tort law should frame the disgorgement of illicit profits, differences abound.

These differences go right back to the question of how to define "profitable tort". Two very different definitions have been proposed.

One school of thought sees it as an offence "generating a gain or saving for its perpetrator, in addition to or independently of the loss it causes".[49] According to this school of thought, profitable tort is assessed according *solely to the illicit profits* made, whether these are gains or savings. Therefore, the gravity of the offence and its moral dimension are what are important: there is no reference to the *intention* of the perpetrator. Consequently, damages corresponding to profitable tort thus defined have no punitive value, they are merely "restorative".[50] Mr Rodolphe Mesa in particular proposes establishing the principle of "full disgorgement" to "return the offending party to the position it would be in if the offence had not been committed, in the same way that the principle of full compensation returns the victim to the position it would have been in if the act causing the loss had not taken place".[51]

[48] See, however, the "Rapport d'information du Sénat" (Anziani and Béteille (2009)), in which a sectoral approach is preferred to a text with a general scope.

[49] Mésa (2012a); see also Viney and Jourdain (2011), no. 6-7; adde Stark et al. (1996), no. 1335. From a general standpoint, see Mésa (2006); Fasquelle (2002).

[50] Mésa (2012a).

[51] Mésa (2012a); with a diverging view, see Vignolle (2010).

This view has a number of advantages.

By clearly separating the area of *punishment* from that of *disgorgement*, this view allows the law of disgorgement of illicit profits to develop fully within civil law, with no recourse to criminal law. Thus, the presumption of liability can be restored, because the principle of presumed innocence is side-lined.

It would be then easier to calculate compensatory restitution because this would be exactly equal to the amount of the illicit profits, without including aggravating factors relating to tortious intent or the gravity of the offence. Compensatory restitution could only be capped in the case of a penalty clause duly agreed in advance. Instead of extending the court's remit, which would raise the spectre of arbitrariness, the court's margin of manoeuvre would be extremely limited: it would not be able to order disgorgement *that was lower* than that of the illicit profits.

On the other hand, even among supporters of this purely restorative view, two differences appear.

The first relates to the possibility for the beneficiary of the illicit profits to have the conviction covered by an insurance policy. Some authors believe that this guarantee is "quite acceptable where the conviction tends to disgorge illicit profits",[52] while others are opposed, arguing the dissuasive role of liability and the difficulty of designing an insurance policy which is, most often, intentional.[53] The future will perhaps bring a compromise, already observed in liability insurance, which "reconciles both insurance cover and a tightening of its introduction".[54]

The second difference concerns the disgorgement of damages. Some authors have no serious objection to the disgorgement of profits in favour of the victim or unsatisfied creditor, even suggesting that the Treasury should be the beneficiary.[55] Others, however, dismiss this possibility. They argue that the victim should not be allowed to benefit from the committing of an offence, because this would mean that the illicit profits would simply change sides. Furthermore, if the money were returned to the Treasury, could one continue to say that the penalty was purely "private" and thus does not require the application of criminal law? These authors suggest that the money be repaid into guarantee funds designed to compensate the interests affected.[56]

According to a second and contrary school of thought, the definition of profitable tort is too restrictive if it is limited to simple self-enrichment allowed by the committing of an offence. For example, Ms Laureen Sichel holds that the decisive factor is the "strategy implemented in order to make a profit or saving".[57] Profitable tort

[52] Viney and Jourdain (2011), 28.

[53] Mésa (2012a).

[54] Pierre (2010), 1126.

[55] Viney and Jourdain (2011), 28.

[56] See in particular Mésa (2009).

[57] Sichel (2012), no. 551.

would therefore be classified under intentional, fraudulent[58] and even inexcusable offences.[59]

The result of this would be that private penalty is the only appropriate response to the committing of profitable tort. The punitive dimension is thus significant in this second school of thought. Simply disgorging illicit profits is not sufficiently daunting: the amount of the damages must be "higher than the gain – or saving – made from the harmful activity, which amounts to depriving it of all interest".[60] The solution in this case would be to make an award for damages that are not simply restorative but "exemplary". These would comprise "the equivalent profit that the unlawful behaviour procured to the offender and a percentage aimed at dissuading any repeat of the offence".[61] While the intentional nature of profitable tort excludes any insurance cover under this scenario, it should be noted that the inexcusable nature of the offence does not. Ms Sichel thus suggests, rightly in our view, that insurers could be ordered to pay exemplary damages to the victim or unsatisfied creditor *and that they could then pursue the offender*.[62]

These areas of convergence and divergence also appear in various texts aimed at reforming tort law.

The Means Envisaged in the Proposals for Reform

As far back as 2005, Article 1371 of a preliminary bill to reform contract law and the statute of limitations ('the Avant-Projet *Catala*') stated that profitable tort should be penalised through the awarding of punitive damages.[63] This text, however, was

[58] See also Méadel (2007), in particular no. 10 and 11.

[59] Sichel (2012), no. 551.

[60] Sichel (2012), no. 555.

[61] Sichel (2012), no. 560.

[62] Sichel (2012), no. 560.

[63] Catala et al. (2005), 182, draft article 1371: '*L'auteur d'une faute manifestement délibérée, et notamment d'une faute lucrative, peut être condamné, outre les dommages-intérêts compensatoires, à des dommages-intérêts punitifs dont le juge a la faculté de faire bénéficier pour une part le Trésor public. La décision du juge d'octroyer de tels dommages-intérêts doit être spécialement motivée et leur montant distingué de celui des autres dommages-intérêts accordés à la victime. Les dommages-intérêts punitifs ne sont pas assurables.*'; see the English translation in Levassuer and Gruning (2011), 460: '*One whose fault is manifestly premeditated, particularly a fault whose purpose is monetary gain, may be ordered to pay punitive damages besides compensatory damages. The judge may direct a part of such damages to the public treasury. The judge must provide specific reasons for ordering such punitive damages and must clearly distinguish their amount from that of other damages awarded to the victim. Punitive damages may not be the subject of a contract of insurance.*'; compare with the translation by Cartwright and Whittaker (2010), 697: "*A person who commits a manifestly deliberate fault, and notably a fault with a view to gain, can be condemned in addition to compensatory damages to pay punitive damages, part of which the court may in its discretion allocate to the Public Treasury. A court's decision to order payment of*

severely criticised for mixing civil and criminal law, distorting the restorative nature of tort law by inserting a repressive mechanism.

Senators Anziani and Beteille then recommended, in a report delivered in 2009, that these same *punitive* damages addressed profitable tort[64] and this later appeared in a bill to reform tort law.[65] But again, the draft article 1386-25 did not fulfil the objective of disgorging *all* illicit profits, because the text provided that the total amount of the damages could never exceed double what was provided for compensation. Therefore, there is no deterrence for illicit profits that amount to over twice the damage caused.

In parallel, Article 120 of a preliminary draft bill to reform contract law, led by Prof. Terré under the auspices of the Academy of Moral Sciences, was aimed at combating "lucrative fraud", "i.e. where a party wilfully fails to comply with the law, preferring to risk a conviction and damages so as to be able, for example, to conclude contracts elsewhere, at more advantageous conditions".[66] However, this article also provided for the partial disgorgement of illicit profits,[67] which was also criticised.

Finally, in 2011, another group led by Prof. Terré proposed a preliminary bill to reform tort law, Article 54 of which aimed to include profitable tort.[68] This time, illicit profits were no longer penalised with "punitive damages" as the article provided merely for the disgorgement "*of the profit made by the defendant*". In other words, the "full disgorgement" that Rodolphe Mesa is calling for. However, it is not

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damages of this kind must be supported with specific reasons and their amount distinguished from any other damages awarded to the victim. Punitive damages may not be the object of insurance."; adde Carval (2006).

[64] Anziani and Béteille (2009), Recommendation no. 24, p. 100.

[65] Draft Bill from the Parliament ('Proposition de loi'), no. 657, introduced by Senator Laurent Béteille, 9 July 2010; see especially, draft article 1386-25.

[66] Rémy (2008).

[67] Art 120 of the 'avant-projet de réforme Terré du droit des contrats': 'Toutefois, en cas de dol, le créancier de l'obligation inexécutée peut préférer demander au juge que le débiteur soit condamné à lui verser *tout ou partie* du profit retiré de l'inexécution' (the italics are ours). 'However, in the case of fraud, the creditor of the unperformed obligation may prefer to ask the judge that the debtor be ordered to pay him *all or part of* the profit made from the non-performance.' (the translation and the italics are ours).

[68] Article 54 of the 'avant-projet de réforme Terré du droit de la responsabilité civile': '*Lorsque l'auteur du dommage aura commis intentionnellement une faute lucrative, le juge aura la faculté d'accorder, par une décision spécialement motivée, le montant du profit retiré par le défendeur plutôt que la réparation du préjudice subi par le demandeur. La part excédant la somme qu'aurait reçue le demandeur au titre des dommages-intérêts compensatoires ne peut être couverte par une assurance de responsabilité*'; '*When the perpetrator of a damage has intentionally committed a profitable tort, the judge has the ability, provided he states the specific reasons of his decision, to order a payment of the same amount as the profit made by the defendant instead of ordering the reparation of the damage suffered by the plaintiff. The part exceeding the amount that the plaintiff would have been awarded as compensatory damages may not be covered by a liability insurance.*' (translation is ours).

certain that the wording of this text would enable the penalisation of *savings made* as well as the gains.[69] But the argument is not unassailable, because the word "profit" could be interpreted in a wider sense, as there is no longer any repressive dimension imposing a strict interpretation. It is also regrettable that this text requires the courts to choose between compensating the damage and disgorging the illicit profits.[70]

None of these reform proposals has to date given rise to any true change. The simplicity of the *Digest* is far behind us. To quote Pomponius, cited therein: "nobody should enrich himself at the expense of others".[71] Who would have believed that it would be so difficult to disgorge the fruit of illicit profits?

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[69] See Mésa (2012b).

[70] See also Mésa (2012b).

[71] Digest, Pomponius, 50-17.

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Chapter 7
An Italian Way to Disgorgement of Profits?

Paolo Pardolesi

Abstract One *locus classicus* of comparative analysis, with regard to different approaches to the problem of *quantum* of damages, is the consistent gap between remedial solutions available in the Italian legal context and those adopted in common law. In the Italian judicial system, as in the majority of civil law systems, the concept of compensation is prevalent, to the exclusion of any function of punishment or sanction; whereas a salient feature of the common law is the principle that no-one should be able to benefit or profit from illicit conduct, so that the use of remedial instruments which include a considerable element of punishment and/or sanction has become over time indispensable. However, setting out a framework which can adapt to unforeseen exigencies, while remaining deeply rooted in the fundamental quest for 'actual' justice, calls for a mode of thinking 'outside the square', if necessary beyond the usual models. Therefore, although in Italy the area of the law concerned with the workability of a legal instrument capable of giving the victim the possibility to recover the profit accrued by the perpetrator of the illicit act must be compatible with the 'macro-area' of compensation for damages, it must be acknowledged that the role of forerunner has been assumed by industrial law that has demonstrated a propensity for investigating and developing innovative legal solutions. For these reasons our field of enquiry will necessarily focus on aspects related to the relationship between the infringement of IPRs and compensatory damages.

Keywords Disgorgement damages • Compensation for damages enrichment by illicit means • Restitution of the illicit profit • Functional equivalents

Introduction

In the Italian judicial system, as in the majority of civil law systems, the concept of compensation is prevalent, to the exclusion of any function of punishment or sanction; whereas a salient feature of the common law is the

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principle that no-one should be able to benefit or profit from illicit conduct, so that the use of remedial instruments which include a considerable element of punishment and/or sanction has become over time indispensable.

However, it cannot be taken for granted that the certainties of the past, with all their authoritative weight, will inevitably determine the direction of current developments, much less those of the future. Setting out a framework which can adapt to unforeseen exigencies, while remaining deeply rooted in the fundamental quest for 'actual' justice (commensurate with the interests of those concretely involved), calls for a mode of thinking 'outside the square', if necessary beyond the usual models.

The area of the law concerned with the workability of a legal instrument capable of giving the victim the possibility to recover the profit accrued by the perpetrator of the illicit act must be compatible with the 'macro-area' of compensation for damages. Yet, it must be acknowledged that the role of forerunner has been assumed by industrial law that has demonstrated a propensity for investigating and developing innovative legal solutions. In fact, as will be seen in the course of this survey, our field of enquiry will necessarily focus on aspects related to the relationship between the infringement of IPRs and compensatory damages.

In this context, particular attention should be devoted to the academic and jurisprudential elaborations regarding the modifications [introduced with the *decreto legislativo* (hereinafter d. lgs.) of March 16 2006, no. 140, relating to the implementation of Directive 2004/48/EC of the European Parliament and the Council of April 29, 2004 on the enforcement of IPRs] of the new remedies provided by so-called restitution of the illicit profits (otherwise: *retroversione degli utili*). To put it more clearly, the mode of operation of this remedial instrument has been completely assimilated, and has become a necessary step in the process to be followed by a judge in the determination of the *quantum* of compensation. A new dimension has been added to the 'normal' dynamics of the assessment of damages for actual loss and loss of profit; in relation to the latter, it is similar to the general rule, but is nevertheless absolutely innovative, even eccentric, when compared with past approaches. The calculation now covers not only the earnings lost by reason of the illicit activity of another, but also includes an estimate of the amount that such activity earned for the perpetrator of the illegal conduct.

The Legal Problems Related to the Concept of 'Enrichment by Illicit Means'

Beyond the first impression that there is nothing in the Italian legal system similar to the range of remedies provided by the common law[1] (and in particular nothing like the institution of disgorgement damages), traces of what could take on the character

[1]Knowing full well that the Italian legal system differs considerably from the ensemble of remedies provided by the common law, some of my previous work has given me insight into how, adopting a more flexible approach, it is possible to identify at least two paths [(1) one based on an alternative

of a progressive change in the Italian legal system can be found in an analysis of so-called enrichment by illicit means, which relates to any circumstance in which the economic advantage gained by the person who has acted illicitly is much greater – in terms of profit – than the direct loss suffered by the right-holder.[2] In Italy, the traditional approach to the complex matter of compensation for damages (whether in relation to contracts or not) has been based on the idea that the perpetrator of the illegal action should be required to compensate the victim for the damage suffered. Nevertheless, this principle – even though it is based on the accepted tenet that no-one should be permitted to have a negative effect on the legal rights or assets of another, without the consent of the owner of those rights and/or assets – clearly involves a level of inconsistency when the question at issue is the very notion of enrichment by means of an illicit act. In fact, with the law anchored in the traditional system of remedies (where the perpetrator of the illicit act is required 'merely' to compensate for the loss), the result would be to 'reward' the perpetrator of the illicit conduct. Hence, it is reasonable to wonder whether it would not be opportune to provide for the restitution to the right-holder of an amount equal either to the loss, or to the profit realized by means of the illicit conduct, whichever is the greater.[3] These problematic issues, accentuated by the 'deafening silence' of the legislature, have pushed scholars and courts to interrogate themselves as to the need to find 'alternative' solutions, aimed not only at making restitution for the misappropriation, but at obliging the perpetrator of the illicit act to award the injured right-holder the profit resulting from the illegal conduct.

Doctrinal Developments

On a doctrinal level, a first attempt to overcome the legislative impasse in our legal system has been to recognize "the effectiveness … of a principle under which to require the restitution of profits obtained 'by means of an unjust action', independently both of the impoverishment inflicted and of the subjective state of the perpetrator of the act at the time of the injurious action".[4] Ultimately, a tangible response to the need to avoid such a (serious) grey zone in our remedial mechanisms should come from a systematic analysis of the discipline provided for in Art. 2032

reading of Art. 1223 c.c., and (2) one relating to the institutions which govern the 'crisis in contract law'] capable of arriving at a remedial framework which has many similarities with that operating in Anglo-American judicial systems (see P. Pardolesi (2005), 138 et seq.; see also P. Pardolesi (2003), 748 et seq.).

[2]On the concept of enrichment by illicit means, see P. Pardolesi (2012a), 129 et seq.; Trimarchi (2010), 104 et seq.; P. Pardolesi (2006a), 523; P. Pardolesi (2003), 713 et seq.; Trimarchi (1994), 1147.

[3]On this point, see Floridia (2012), 5, 7.

[4]Sacco (1959), 114 et seq. On this profile see also Sirena (2000); Guglielmetti (2000), 174.

civil code (hereinafter c.c.) in relation to the *negotiorum gestio* (management of the affairs of another). On closer inspection: (*a*) it is assumed that the ratification of the interested party may produce, in relation to such management, the effects that would have resulted from an actual mandate, even if the management was carried out by someone who believed himself to be acting in his own interests; (*b*) the above represents "the manifestation of a more general principle, according to which the owner of assets may always claim from another who takes or uses such assets, the profit which thereby accrues".[5] It follows that whoever enriches himself by means of actions injurious to the rights of another shall be required to transfer to the victim of the injury the entire profit realized therefrom, independently of the impoverishment caused (and therefore independently of the possibility that absolutely no impoverishment was caused). This unwritten principle – beyond the consideration of the subjective nature of intentionality – has its roots in the objective element of the infringement (or injury) committed by the perpetrator of the illicit conduct to the detriment of the victim of the injury.[6] Using such a framework, the rules concerning disposal, damage or destruction of the assets of others, as well as those relating to the enjoyment of the proceeds of such actions, and to their rehabilitation, addition and reparation, "would be reduced ... to a mere extension and/or elaboration of that principle".[7] This would possibly have a double effect: removal of the profit realized by the perpetrator of the illicit act and pursuit of the objective of prevention/deterrence.[8]

A further cause for reflection comes from that aspect of legal doctrine according to which the essential assumption underlying provisions for the restitution of profits illegitimately achieved can be found in the principle of unjustified enrichment.[9] In short, starting from the concept that the net profit of an economic activity should accrue to the person who in good faith was the author of the initiative, that authoritative doctrinal position recognized the obligation, for the individual who had acted in bad faith, to restore the unjustified profit to the victim of the injury, even beyond the limits of the harm suffered.[10]

Finally, to conclude this brief exploration of theoretical/doctrinal developments aimed at overcoming the inadequacies of civil responsibility which result from the possibility that the benefits accruing to the tortfeasor are much greater than the losses suffered by the injured party, mention should be made of the position of those who – basing their reasoning on the discipline of revenues deriving from goods[11]

[5] See Sacco (1959), 114 et seq.

[6] For an in-depth examination of these aspects see, once again, Sacco (1959), 114 et seq.

[7] See Lo Surdo (2000), 700, 701.

[8] The effectiveness of the principle of restitution theorized in this way has not failed to arouse strongly critical comments: see, as one example among many, Lo Surdo (2000), 702 et seq.

[9] Trimarchi (1962), 54. On this point see also Troiano (2000), 207; Castronovo (2003), 7, 15.

[10] See Trimarchi (1962), 54.

[11] On this point see Barcellona (1970); Gitti (2000), 152.

and on the means of acquiring property on the basis of an original endowment[12] – felt that a more efficacious solution was available, which would not only guarantee to the victim compensation for the injury suffered due to the illicit conduct, but also function as a real deterrent for the 'violator' or 'usurper', preventing him from retaining the profits realized by means of injury to the rights of others.

Jurisprudential Solutions

Shifting our attention to the jurisprudential aspects of the matter, the outcome does not change: given the necessity of overcoming the often cited legislative *impasse*, the Italian courts have seen fit to devise a number of different (and complicated) solutions, amongst which stands out, without a shadow of a doubt, the attempt to perform an extensive exegesis of Art. 158 of the Act of 22 April 1941 no. 633 (otherwise: *legge sul diritto d'autore* – copyright law, hereinafter l.a.),[13] by means of which the expression "damages award" could be interpreted as being in conformity with Art. 45 TRIPS.[14]

More prosaically, the question has been raised as to whether compensatory techniques could be actually directed to the recovery of the earnings/profits illegitimately realized by the 'usurper'. The affirmative position rested on two arguments. The first was based on the conviction that disgorgement damages constitutes a minimal, indeclinable rule [to be inferred from, amongst other factors, an interpretation of the fact that in the preparatory proceedings of copyright law it was decided to omit, as superfluous, Art. 161 of the bill in Parliament according to which "the owner of a right of use (copyright) can request the restitution into his assets of the pecuniary benefits obtained by its improper use, by means of a sentence, against the violator of the right, to payment of a sum equivalent to those benefits, as well as interest at the legal rate from the date of the judgment"].[15]

The second argument rested on the particular interpretation of Art. 158 l.a. formulated by the Tribunal of Modena in relation to a charge of unintentional

[12] See Barcellona (2002).

[13] See App. Bologna 22 April 1993, in: Foro it., Rep. 1996, item Diritti d'autore, no. 121, and also in: AIDA, 1995, 429. In this sense see also Cass. 24 October 1983 no. 6251, in: Foro it., Rep. 1984, item Diritti d'autore, no. 49 and also in: Dir. autore, 1984, 52; App. Roma 15 February 1958, in: Foro it., Rep. 1958, item Diritti d'autore, no. 21, 22, 86; Cass. 7 August 1950 no. 2423, id., 1951, I, 17. In its original draft Article 158 l.a. states that "*a person whose exercise of economic rights to which he is entitled is infringed can take legal action to ensure that the state of affairs that resulted in the infringement be annulled or eliminated or to obtain compensation for the damage*". For the new text of Article 158 l.a. as modified by the d. lgs. of 16 March 2006, no. 140, see, infra, paragraph 3.2.

[14] For an interesting reconstruction of the Italian case law in relation to compensation see Plaia (2005), 29 et seq.

[15] Cass. 6251/1983 cit., 52. On this point see Greco and Vercellone (1974), 347; De Sanctis and Fabiani (2000), 2000, 150; Troiano (2000), 221.

falsification of copyright.[16] In short, the expression "damages award" can refer either to the action of compensation (*ex* Art. 2043 c.c.), or to enrichment without just cause (*ex* Art. 2041 c.c.), which – without the need to establish extreme malice or negligence –gives rise to the transfer to the copyright owner of the economic benefits obtained by the illegitimate user.[17] This interpretation was confirmed on appeal on the assumption that, in case of unintentional infringement of copyright, the only possible solution available to the victim of the injury was to seek compensation equal to the enrichment obtained by the perpetrator from the illegitimate use of the work of another.[18] Restitution of profits thus came to be defined as "a rule not infrequently applied in cases of compensation for damage due to infringement of copyright": a possible alternative remedial resource in relation to the criterion, widely applied in jurisprudence, of the so-called 'just price for consent', *i.e.* consideration for allowing use.[19]

A case in the same vein is a recent decision of the Court of Appeal of Rome, relating to compensation for damage for copyright infringement: the case concerned the infringement – claimed by the company possessing the license – of the contractual obligation to reproduce and distribute the works of the singer-songwriter Renato Zero, based on curatorial sub-division of the published collections of his work in accordance with its artistic evolution and maturation.[20] Also in this case, the appellate court (confirming in its entirety the decision of the lower judge) established that the appellant company had, by means of the illicit production of a 'new' collection, "obtained a profit it was not entitled to", at the same time inflicting on the author "damages corresponding to the profit he could have obtained if he himself had produced the composition, as was his right". The argument on which this decision stands (confirming the decision of the trial court) is based on the principle that "the damage can be compensated, at a minimum, and in the absence of proof of greater damage, with a sum equal to the net profit obtained by the illicit use of the copyright, for the reason that this profit could have been gained by the owner of the copyright if he/she had directly used the composition".[21]

Along the same lines there is the case concerning a company which – offering services in the electronic collection of authoritative news dailies and journals – was sued by these latter "because it reproduced on-line in electronic form whole articles from their newspapers, put systematically at the disposition of its clientèle from 6 o'clock in the very morning of publication, providing the entire text in the

[16] This judgment, brought down on 2 October 1990, appears – as far as can be discovered – not to have been published.

[17] See App. Bologna 22 April 1993 cit., 429. On this profile see Attolico (1988), 417 et seq.

[18] App. Bologna 22 April 1993 cit., 430.

[19] In this regard see Cass. 6251/1983 cit., 54 et seq.

[20] See App. Roma 18 April 2005, in: AIDA, 2006, 511.

[21] See App. Roma 18 April 2005 cit., 514.

same format as the printed hard-copy journal".[22] The Court of Appeal of Milan, recognizing the illegality of the activity undertaken by the company being sued, sentenced it to pay damages corresponding to the financial advantage derived from the illegal act. In particular the appeal emphasized the fact that, in the specific case of extra-contractual responsibility for the illicit economic use of a literary or other creative work, or the illegal reproduction of the qualities of the competitive product, the profit thereby lost must be compensated for taking into account the element of greatest significance for determining the severity of the offense and the loss sustained by the business affected, that is, the profit obtained by the perpetrator of the illegal act.[23]

Of course the proposition of developing an equitable determination of damages, given that the underlying assumption is strained at the very least, has entailed a trade-off in terms of certainty of outcome. It is not in fact uncommon for Italian courts to opt for diametrically opposed solutions.[24] In one relevant decision concerning the unauthorized commercialization of the texts of lectures given by a university professor, the court, far from using definite and available information which would have allowed for easy recourse to the criterion of the profit gained by the perpetrator of the illicit act (in other words, the price at which the notes were available in a bookshop),[25] preferred to opt for the evaluation of the damages in terms of the profit lost to the injured party.[26]

[22] App. Milano 26 March 2002, in: AIDA, 2003, 799.

[23] In the same vein (in other words, favorable to the application of the criterion of profit obtained by the counterfeiter in the quantification of damages in judgments on industrial property), see App. Milano 22 January 2002, in: AIDA, 2002, 794; Trib. Firenze 9 January 2001, in: Giur. It., 2002, I, 339; Trib. Vicenza 4 September 2000, in: Giur. ann. dir. ind., 2001, 4235; Trib. Milano 31 May 1999, in: AIDA, 2000, 732; Trib. Milano 16 April 1998, id, 564; Trib. Milano, 18 December 1997, in: Dir. autore, 1999, 127; Trib. Roma 9 June 1993, in: Dir. informazione e informatica, 1993, 972.

[24] In this regard, a sentence brought down in the Court of Appeals is emblematic: the case related to the market in welding machines (see App. Milano 15 February 1994, in: Giur. ann. dir. ind., 1995, 3222). The court, aware that the case had to do with a limited and specialist market sector, ruled that "those who acquired the machines in question from [the company which carried out the counterfeiting, Fimer], which had neither produced the machines nor brought them to market, would have purchased them from the [company which brought the counterfeiting case, Gen Set]". Therefore, "*although the company had recourse to a criterion of an equitable settlement — legitimated by the evident impossibility of demonstrating with precision how the market would have behaved in a situation different from what actually occurred — it is correct to hypothesize that Gen Set had suffered an injury, due to the loss of sales, equal to the profit obtained by Fimer through the sale of machines which it should not have marketed.*". In other words: "*since the number of machines sold by Fimer during the period under consideration (verified by the technical consultant in the lower court) is not contested, it appears to be easy to estimate the liquidated damages (. . .) by referring to the profit which Fimer itself has obtained (at the expense of Gen Set) by the sale of that number of machines*".

[25] Trib. Milano 12 October 1998, in: AIDA, 1999, 618.

[26] See Plaia (2005), 45.

The Role of Disgorgement Damages in Italian Legal System: A General Remedy for All Kind of Law Infringements?

In the Italian judicial system, disgorgement damages cannot be considered a general remedy for any hypothetical infringement of copyright. As we will see set out in more detail below (see paragraphs 5. and 5.1.), the inclination towards punishment and sanction, evident within the 'interstices' of the institution we are discussing, effectively collides with the strongly compensatory and remedial approach characterizing the Italian judicial system. However, the phenomenon of 'convergence' that we have already noted between the doctrinal and jurisprudential 'souls 'of Italian law, in the direction of bridging the *lacuna* in relation to enrichment resulting from illegal activity, represents the basis for legislation which offers an opportunity (in one sector at least, industrial law, which has always shown itself open to finding innovative solutions) to develop a legal remedy capable of achieving the double objective of punishing the perpetrator of the illicit act while dissuading anyone else from emulating such illegal conduct: here I refer to 'restitution of the illicit profits', see Articles 125 Codice di Proprietà Industriale (C.P.I.) and 158 l.a. as revised by Art. 5 of the d. lgs. of 16 March 2006, no. 140, covering the response to Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on intellectual property rights (henceforth the Enforcement decree).

Restitution of the Illicit Profits ex Art. 125 C.P.I.

The opportunity for the much-invoked change in direction (mainly but not solely at the legislative level) materialized when – by virtue of the mandate provided by Art. 15 of the Act of 12 December 2002 no. 273 – the Government entrusted to a dedicated inter-ministerial commission the task of drawing up a new legal code on industrial property rights, the C.P.I.. The avowed objective was to simplify and reorganize the multiple laws currently in force (of national, international and European community origin) which had become ever more complex in interpretation, not only due to the diversity of languages used, but chiefly because of the unraveling of systematic linkages and of the necessary coherence of the individual legal systems.[27] One of the most interesting (but arduous) dispositions in this new codification is the section of Art. 125 which addresses the delicate problem of compensation for damages in relation to hypothetical enrichment from an illicit act (see paragraph "The Tormented Adventure of Art. 125 C.P.I.". on the genesis of this regulation).[28] In fact, with this rule the ministerial Commission – responding to the common

[27]For a careful analysis of Articles 5–18 of Act 273/2002 see Floridia (2003), 22 et seq.

[28]For an incisive analysis of the evolution and logical implications of this article see Floridia (2012), 5 et seq.

charge that the remedial system in Italian law was insufficient, or rather inadequate in addressing hypothetical enrichment from illicit acts – introduced a new remedial solution, which equates the amount of compensation due to the profits obtained by the counterfeiter in violation of the copyright.[29]

The Tormented Adventure of Art. 125 C.P.I.

In its original draft (completed 22 July 2003), the provisional text of the C.P.I. dedicated Article 134 to the discipline of compensation for damages. With this disposition the legislature had a double aim. On the one hand, it guaranteed an essential continuity with the guiding principles in relation to compensation (*ex* Articles 1223, 1226, 1227 c.c.). On the other, drawing on the many instances of complaint (as well as the demand for the upgrading and modernization of the law from both the academic and professional legal communities), it gave owners of industrial property rights the concrete possibility of claiming "in addition" the profits obtained by the counterfeiter.

Such a legislative intervention, however, constituted only the first in a series of moves that characterized the introduction of the legal instrument of disgorgement damages into the range of Italian legal remedies. In December of the same year the legislature again amended the regulations in question (meanwhile renumbered as Art. 125), calling for both a formal modification (by which the expression "profits obtained by the counterfeiter" in the second clause of Art. 125 was replaced by the formulation "profits obtained by means of copyright infringement"), and the addition of a third clause (of less interest in terms of this discussion), which introduced a financial penalty.

An effective reformulation of the article in question took place only following the third provisional draft of the Code (dated 10 September 2004), which – by means of an outright compression of the conclusions to the first and second clauses of the original Art. 125 – produced the following result: to the original wording

[29]This is the text of Article 125, as modified by Article 17 d. lgs. on enforcement: "1. *The compensation due to the injured party is calculated according to the provisions of Articles 1223, 1226 e 1227 of the civil code, having regard to all relevant aspects of the injured right-holder, such as the negative economic consequences, including loss of earnings, the gains realized by the tortfeasor and, in appropriate cases, elements other than the purely economic, such as moral damage to the proprietor of the right which has been infringed. 2. The judgment awarding compensation can base the calculation of its global amount on the proceedings of the case and the assumptions deriving from them. In this case the lost of profits is in any case determined at an amount not less than the fee that the perpetrator of the infringement would have had to pay had he obtained a license from the injured right-holder. 3. In any case the injured right-holder can ask for disgorgement damages as restitution of the profits obtained by the perpetrator of the infringement, as an alternative to compensation for the loss of profit or by the amount by which those profits exceed such compensation*". For a more in-depth scrutiny of the new addition introduced by the enforcement decree see Floridia (2012), 9 et seq.; Colangelo (2011), 274 et seq.; Albertini (2010), 1149; Di Sabatino (2009), 442; Barbuto (2007), 172; Savorani (2007), 500; Bonelli (2007), 195; Menzetti (2006), 1881; Vanzetti (2006), 323; P. Pardolesi (2006b), 1605.

(according to which "the compensation due to the injured party is to be calculated in accordance with the terms of Articles 1223, 1226 and 1227 of the civil code") was added the directive that the lost profits be calculated "also taking into account the profits obtained by means of copyright infringement".

Nevertheless, Art. 125 (in this new formulation) underwent a further modification with the definitive draft of the C.P.I. (d. lgs. of 10 February 2005, no. 30). It is not by chance that the legislator in this case – having stated that in determining the lost earnings the judge should also take into account the profits gained in violation of copyright – makes clear that this calculation should also take into account the so-called price of consent. As a consequence, the earnings gained by the perpetrator of the illicit conduct should be calculated taking into account not only the illicit profit but also (if only virtually) the costs avoided by means of that specific conduct.

The tormented 'adventure' of Art. 125, however, was still far from its conclusion. The formulation envisaged in d.lgs. 30/2005, in fact, triggered two doggedly critical reactions. On the one hand, the ministerial commission emphasized that the wording of the draft entailed a notable divergence from the objective of filling the considerable legislative gap in the matter of illicit enrichment. On the other hand, a careful interpretation finds that the domestic legislature, working in this way, has the effect of discarding the instrument of 'disgorgement damages', limiting itself to producing "a measure which is functional in terms of recovering lost profits but is aimed at compensation (. . .) rather than an 'objective' measure on the model of the 'TRIPS'". In other words, according to the same author, it represents a lost opportunity: the legislature, rather than adopting an autonomous legal instrument (disgorgement damages), capable – in accordance both with international rules (Art. 45 TRIPS) and with the less forceful rules of the European Community (Art. 13 of Directive 2004/48/EC) – of excluding the subjective element, apparently preferred to include it within the possible instruments of damages award.

Finally – with the bill on enforcement – arrives the last 'restyling' (at least for the moment, given the need for the law to be rendered less insecure) of the Article under consideration. The reformulation brings three relevant innovations: (1) in the first place, it foreshadows – in the introduction to the Article in question – a decisive separation between the remedial instruments for damages award and "restitution of profits"; (2) secondly, there is provision for a minimum limit to global liquidation corresponding to the price of consent to the exploitation of the intellectual property being protected; and, lastly, (3) there is the possibility that the restitution of the profits obtained by the perpetrator of the copyright infringement can be claimed as an alternative to compensation for damages, or – only in the event that the profits to be restituted exceed the amount of compensation due – be combined with lost profits.

Restitution of the Illicit Profits ex Art. 158 l.a.

In this survey of the statutory provisions, it is worth mentioning Art. 158 of the law on copyright (as updated by Art. 5 of the decree on enforcement). In the article in question the legislator, having conveniently cited the need to calculate damages in

accordance with the dispositions of clauses 1223, 1226 and 1227 *c.c.*, states that the judge – in calculating the value of lost profits – must also take into account the "profits gained by means of the copyright infringement".[30]

At first blush, given the 'counter-intuitive' choice not to include copyright law within the ambit of the legislation on industrial intellectual property,[31] it is not surprising that there is a substantial similarity between the article under discussion and Art. 125 C.P.I. (and, in particular, one of its last versions; that is, the draft formulated in the bill dated February 10 2005, no. 30).[32] Art. 158 l.a. also expresses the clear intention, on the one hand, of guaranteeing continuity with our system of legal remedies (by means of the reference to the principles of loss of profit, of actual loss, of fair assessment of damage, as well as the contributory negligence of the creditor), and on the other hand, actually overcoming the reluctance to innovate in proposing recourse to a remedial solution capable of satisfying simultaneously the multiple functional requirements arising from violation of copyright. Not by chance, Art. 158 l.a. would also appear to have been intended to fulfill the double function (prevention/deterrence and punishment/sanction) to be found in Art. 125 C.P.I.

More specifically, loss of profit may be quantified in two ways. Firstly, by means of an equitable settlement, based on an impartial evaluation of the circumstances of the case (Art. 2056 *c.c.*), which include the profits obtained by the counterfeiter. To achieve this, therefore, the judge 'is obliged' to include in the process of calculation of damages the profits obtained by the counterfeiter. In contrast to the provisions of Art. 45 of the TRIPS Agreement (in which the legislature affords to the member states – "in appropriate cases" – the capacity to "authorize the judicial authorities

[30]This is how the 'new' Art. 158 reads: "*1. Whoever is injured in the exercise of a right to economic utilization to which he is entitled may take legal action to ensure, not only that he receive compensation for the damage, but that the state of affairs which led to the infringement be destroyed or removed at the perpetrator's expense. 2. The compensation due to the injured party is calculated in accordance with the provisions of Articles 1223, 1226 and 1227 of the civil code. The lost of profits is assessed by the judge in accordance with Article 2056 of the civil code, second clause, also taking into account the profits obtained by the infringement of the right. The judge can moreover assess damages as a lump sum on the basis at least of the value of the rights which would have been recognized, if the perpetrator of the infringement had asked the right-holder for authorization to use the right. 3. Non-pecuniary damages are also due in accordance with Article 2059 of the civil code.*" For a more in-depth analysis of the issues related to Art. 158 l.a. see Colangelo (2011), 93 et seq.; Casaburi (2010), 1194; Di Sabatino (2009), 442; Menzetti (2006), 1881.

[31]On this point see Casaburi (2010), 1194.

[32]The text of Art. 125 (in the version given by the d. lgs. of 10 February 2005, no. 30) provides that: "*the compensation die to the injured party is assessed according to the provisions of Articles 1223, 1226 and 1227 of the civil code. The loss of profit is evaluated by the judge also taking into account the profits obtained by the infringement of the right and the fee that the perpetrator of the infringement would have had to pay in the event that he had obtained authorization from the right-holder.*" I seems hardly necessary to point out that in the second clause (of the same Article) it is stated that: "*the sentence which awards compensation can, at the request of one of the parties, set the amount as a lump sum established on the basis of the proceedings of the case and of the assumptions deriving from them.*"

to order the recovery of profits and/or the payment of pre-established sums" even in the absence of guilt), the national legislation seems to incline towards a complete 'assimilation' of the new remedial approach.

More in detail. The use of the expression "also taking into account the profits obtained", thus overcoming the extreme limitation expressed in Art. 45 of the Agreement with the phrase "in appropriate cases" (limiting the cases in which it would appear possible to take advantage of the remedy offered by disgorgement damages), would seem to offer a wider range of remedial solutions or, better still, greater room to maneuver in the Italian remedial system. In other words, within the 'normal' dynamics of the assessment of actual loss and loss of profit, in the same manner as the general rule, in relation to the second item, a really innovative dimension has been inserted, which is quite revolutionary in relation to the reference model. This no longer covers only the profits lost due to the illegal activities of others, but also a modified computation of the proceeds that such illicit activities have provided to the counterfeiter.

Secondly, as an alternative to the "ordinary criterion", Art. 158 l.a. provides that lost profits can be quantified by means of a fixed rate settlement based at a minimum on the rights that would have been recognized if the perpetrator of the copyright infringement had asked the copyright owner for authorization for the use of the right.[33] Therefore compensation for the damage is to be determined "by quantifying the fee usually sought in the market for that specific type of use of the work" (that is, measuring it against the objective or market value of the work").[34]

The Main Differences Between the Two Provisions

In the light of these premises, let us attempt to outline succinctly the principal differences between Articles 158 l.a. and 125 C.P.I.[35]

To this end, it is important to start by considering the absence of a consistent literature on copyright law. In other words, in the absence of such a body of preventive information, there is ample space for hypotheses of unintentional infringement such as to justify the burden on the injured party to prove not only that the tortfeasor had benefited from the action, but also that the infringement was negligent or malicious.[36] Furthermore, "while for patents, brands etc. the monopoly arises out of legally enacted regulations and there is a system of legal publicity

[33] "*This is a criterion – at least in principle (. . .) – which is marginal with respect to disgorgement damages, and essentially equitable*": Casaburi (2010), 1208. On this point, see also Menzetti (2006), 1883.

[34] Casaburi (2010), 1208. In this sense see Guglielmetti (2002), 251; Frassi (2000), 93 et seq.; Auteri (2004), 353 et seq.

[35] On this point see Casaburi (2010), 1194 et seq.

[36] See Menzetti (2006), 1884.

(. . .), this does not apply to copyright. In the case of the former, therefore, the perpetrator of the infringement would be hard pressed to declare himself totally free of guilt, given that in any case there exists the duty to inform; thus, even if there is no concrete proof of his malice or negligence, it is not unfair that he be required to pay a compensation restitution commensurate with the economic benefit he has obtained. In the second case, on the other hand, a completely unintentional infringement is possible (. . .), and in the absence of a system of publicity the alleged perpetrator could not even be required to inform himself in advance of the existence of pre-existing rights which his activities may infringe". Therefore, the same careful analysis points out – combining the absence of constitutive proceedings and of publicity with the substantial difference in treatment between original and derivative creation that characterizes copyright generally, and patents in particular – that "in the province of copyright not only does unintentional infringement exist, but (i) it is far from improbable, (ii) it can involve an autonomous 'investment' both in terms of creativity and in terms of the 'dissemination' of the work; (iii) it can even take on the guise of a worthy act, by bringing to the market a product which may not be absolutely new, but which nevertheless makes a contribution to cultural progress, to the sum of available information, or of available entertainment etc. The absence of an obligation for compensation (or restitution) to be borne by the innocent person thus appears efficient from the point of view of the public interest in the diffusion of creative works".[37]

A further element of differentiation between the two dispositions under discussion can be seen in the determination of loss of profit. On closer inspection, in fact, Art. 125 C.P.I. – following the indications provided by 45 TRIPS and Art. 13 of Directive 2004/48/EC[38] – recalls the wider concept (in the case of negligent infringement) of "profits obtained by the perpetrator of the violation" as an autonomous element in the evaluation process highlighted by its similarity to lost earnings.[39] In Art. 158, in the other hand, without having recourse to the optional provisions of Directive 2004/48/EC concerning disgorgement damages, reference is made to the more restricted concept of "profits obtained by means of copyright infringement" as the criterion for equitable restitution (which, as previously pointed out, the judge on the bench is required to take into account in the evaluation of lost profits) to be employed in relation to a negligent infringer of copyright.

From this it follows that the tool of disgorgement damages represents the "optimal method, but the legal procedure which results from it appears milder, and lacks the gradation of 'sanctions' between someone who has violated private rights with negligence or malice, as opposed to someone who has done so without such negligence or malice. The first will be required to pay compensation for the lost profits only; the second appears to bear no duty to compensate".[40]

[37] Menzetti (2006), 1885.

[38] For a more in-depth analysis of this profile see Menzetti (2006), 1884.

[39] Casaburi (2010), 1199.

[40] Menzetti (2006), 1884.

The Problems Relating to the Functional Characteristics of the Italian Remedial System

In the Italian legal context – although it is possible to conceive of a substantial convergence of theoretical, jurisprudential and legislative approaches toward the adoption of remedial instruments capable of guaranteeing both punishment and sanction[41] – there does not seem to be a coherent theory relating to their functional nature. To put it more clearly: we must consider how problematic it is for the Italian remedial system to acknowledge the need for a role beyond that of mere reparation/compensation. Not be chance, this difficulty has found specific confirmation in the alternating positions manifested in a number of very recent decisions of the Supreme Court which, after an initial period of effective standstill, would seem to have proposed an authoritative change in attitude in the functional characteristics of the Italian remedial system.

The Fluctuating Orientations of the Italian Supreme Court

In 2007, the Supreme Court, in a decision strongly criticized by scholars,[42] denied legal recognition to a sentence passed by the Jefferson County District Court which called for punitive damages of one million dollars against the Italian manufacturer of a protective helmet which at the moment of collision, due to a defect in the design and construction of the buckle, came off the victim's head. This decision was based on the assumption that objectives in terms of punishment and sanction of such compensation were in clear conflict with public policy, given that the regulatory principles of our civil law system regarding civil responsibility in relation to illegal extra-contractual actions set the payment by the perpetrator as equivalent to reparation for the damage suffered by the injured party.[43] In particular, besides

[41] I refer, in particular, to the above-mentioned remedial instrument of disgorgement damages ex Articles 125 C.P.I. and 158 l.a. which is capable of taking as a reference point the profit obtained rather than the loss alone.

[42] A concise criticism in relation to Cass. 19 January 2007 no. 1183, in: Foro it., 2007, I, 1460, can be found in Ponzanelli (2007), 1461; P. Pardolesi (2007), 1125. On this profile see also Fava (2007), 497; Giussani (2008), 395; Miotto (2008), 188. For an overall analysis of the vigorous debate about punitive damages I would refer to my own paper P. Pardolesi (2011a), 59.

[43] "*[I]n the current system the idea of punishment and sanction is extraneous to compensation, as is the conduct of the person causing the injury. Civil responsibility is required to take on the principle task of restoring the assets of the person who has suffered the injury, by means of the payment of a sum of money intended to eradicate the consequences of the injury suffered. And that is the case for any type of injury, including non-economic or moral injury; for compensation for this type of injury, precisely because it may not involve punitive objectives, not only are the state of need of the injured party and the economic capacity of the respondent irrelevant, but there also must be proof of the existence of suffering caused by the wrongful act, through the identification of*

the way in which the judges of the Supreme Court had rejected the rationale for the appeal, many questions were raised by the opinion, which not only ignored the provisions pointing in the opposite direction,[44] but excluded the possibility of taking advantage of the opening in the Italian remedial system (in relation to punishment and sanctions) offered by legal literature and jurisprudential practice acting jointly.[45]

Nevertheless, and although everything seemed to confirm the trend towards the 'crystallization' of our civil responsibility in relation exclusively to compensation, the Supreme Court, with two almost contemporaneous decisions (the first relating to illicit use of image copyright[46] and the second concerning infringement of author's copyright),[47] became the protagonist of an unexpected change in direction.

With the first decision, the Court established that, in the case of compensation for the illicit use of the image of a young and unknown dancer (made for profit by the dancing school where he had been a pupil for a number of years), the settlement could have been determined "by reference to the profit presumably made by the perpetrator of the illegal act".[48] On this basis the Court opted for the application of the instrument of disgorgement damages in a way which resembles the 'almost punitive' steps of disgorgement damages. Thus, taking to heart the modifications introduced by Art. 5 of the enforcement decree to Art. 158 l.a.,[49] the Cassazione has established that the victim of the illicit conduct, above and beyond the traditional techniques of quantification (such as the price of consent, the dilution of the image, and moral damage), could be offered the opportunity to obtain compensation adequate, on one hand, to simplify the critical issues related to the determination of the amount of restitution and, on the other hand, to overcome the risks implicit in the traditional concept that the perpetrator of the illegal act is required to compensate the victim only for the damage caused to him.

This position was confirmed a few months later when the Supreme Court – addressing a controversy about the quantification of damages for infringement of copyright[50] – returned to pronounce in favor of the employment of disgorgement damages (to address the critical issues implicit in the so-called hypothesis of enrichment by illicit means).[51] Pursuing the objective of "preventing the illegal

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concrete circumstances from which to presume cause, given that such a proof cannot be assumed to be self-evident in re ipsa": Cass. 1183/2007 cit., 1460.

[44] See infra, paragraphs 6., 6.1., 6.2., 6.3. and 6.4.

[45] On this point see P. Pardolesi (2012a), 132 et seq.

[46] Cass. 11 May 2010, no. 11353, in: Foro it., 2011, I, 540 (with a note by P Pardolesi (2011b)).

[47] Cass. 15 April 2011 no. 8730, in: Foro it., 2011, I, 3073 (with a note by P. Pardolesi (2011c)).

[48] Cass. 11353/2010 cit., 540.

[49] On this point see, supra, paragraph 3.2.

[50] Specifically, the controversy in question consisted of the unlawful broadcasting of a television series by companies which colluded at the expense of the plaintiff company which had acquired the exclusive rights of economic utilization over the whole country (see Cass. 8730/2011 op. cit., 3073).

[51] In relation to the concept of unlawful enrichment by means of illicit actions see paragraph 2.

user from obtaining advantage from his illicit conduct, withholding the profits in the place of the holder of the legitimate right of appropriation", the Court seems to have marked a decisive rehabilitation in a multi-functional sense of the remedial system (a perspective too often sacrificed on the altar of the systematic guaranteed coherence of the most moderate function of compensation) "bending the institution of compensation for damages to perform a partly sanctioning function, (. . .), rather than compensation for the loss of assets".[52]

A Drastic Change in the Approach to Reparation for Damages: The Need to Rediscover the Multi-functional Character of the Italian Tort System

In this context, the novelty is not of slight moment: the idea, first simply foreshadowed in theory (and, successively, validated, if only tangentially, by the legislature), that the range of relevant remedies available could extend, on the basis of suggestions arising from the experience of the common law, as far as to include restitution of the illicit profits, would appear to have been validated by the Supreme Court.[53] This implies that compensation with a nuance of punishment and sanction no longer constitutes a chimera.[54] Naturally, taking a critical stance, one can reply that the reference to the profits of the perpetrator of the illicit action represents a mere *proxy* in support of an attitude which is problematic to define. The fact is that, faced with an injury which is impalpable or of limited dimensions, one can proceed to measure the more evident advantage accruing to the infringer of the right: going

[52]Cass. 8730/2011 cit., 3073.

[53]Nevertheless, it should be pointed out that a very recent judgment (see Cass. 17 February 2012 no. 1781, in: Corriere giur., 2012, 1068, with a note by P Pardolesi (2012b)) saw a counter-intuitive about-face by our Supreme Court in denying the exequatur of a judgment brought down by the Supreme Court of Massachusetts (which called for compensation for injury suffered by a worker, in the amount of five million dollars—raised to more than eight million dollars due to a very high rate of interest—against an Italian company which produced a defective machine) which had been approved by the Court of Appeal of Torino. More specifically, what raised much perplexity were the reasons given by the Supreme Court for its decision to deny the exequatur: in fact, irrespective of the lack of any reference to the concept of punitive damages, granting such a large sum would appear in any case to manifest a punitive leaning foreign to the Italian legal system (not forgetting, furthermore, that the absence of any indication as to the criteria adopted in the North American judgment to arrive at the amount of compensation made it impossible to verify whether the judgment did or did not contain aspects in relation to damages not admitted in the Italian system). For an incisive analysis of the critical aspects of this judgment, see Ponzanelli (2012), 613.

[54]In this regard it is useful to point out how recently not only legal scholarship but also the Supreme Court (cfr. Cass. 19499/2008 op. cit., 2786) have been moved to re-consider the applicability of the instrument of disgorgement damages in the context of contracts as well. For a closer examination of the peculiarities underlying such a decision see, infra, paragraph 6.4.

beyond interpretative contortions, this is in fact the logic of private punishment, or, if you will, of punitive damages and 'disgorgement damages'.

Nevertheless, the need/demand to assure systematic coherence requires a drastic change in approach to the matter of reparation for damages, rediscovering (and fortifying) its multi-functional character, permanently rooted in its DNA but, in the last half-century, overshadowed by the predominance of compensation.

It therefore appears evident that the cases just examined constitute a first important step in the direction of legitimizing an approach different from the merely compensatory; nevertheless, only future developments will permit to ascertain whether the Italian juridical landscape is really mature enough to develop a coherent theory of disgorgement damages capable of envisaging remedial instruments (encompassing punishment and sanction) capable of assuming the legal response roles which in the common law are occupied by disgorgement damages.

The Modus Operandi of the Italian Courts in the Quantification of Disgorgement Damages: Are They Practically Relevant?

Beyond the jurisprudential efforts cited above,[55] there is no large body of case law from which to identify the *modus operandi* of the Italian courts in the quantification of disgorgement damages. Recently, however, the Tribunal of Genoa, in a pronouncement on the improper use of a registered trademark, speculated on the concrete practicability of disgorgement damages (*ex* Art. 125 C.P.I.), as well as the difficulties inherent in their calculation. Despite their apparent conceptual simplicity, the actual quantification of disgorgement damages is a rather controversial subject: "the profits must be given back, but it is certainly not necessary for the restitution to be equal to what appears in the books of the perpetrator of the infringement because these accounts could include not only the competitive advantage deriving from the copyright infringement but also a number of other factors which have nothing to do with the competitive advantage".[56] The trajectory of the argument therefore becomes very complex.

It must be remembered, above all, that any form whatever of calculation/evaluation raises very delicate critical issues; in this specific case, apart from the 'evidentiary' difficulties in relation to compensation for injury,[57] the applicability

[55] On this point see, supra, paragraph 2.2.

[56] Floridia (2003), 10.

[57] Proof of this can be seen in the fact that the court pointed out in strong terms that the effects of the injury arising from the illicit use of a registered trademark (that is "*the loss of market share, in terms of diminishing – or more slowly increasing – turnover", as well as the "tarnishing of the brand caused by the commercialization – with the counterfeit label – of products of inferior quality*") must be "*alleged and proved by the injured right-owner*" (as in the judgment of the Trib. Genova of 23 February 2011, in: Danno e resp., 2012, 788, with a note by P Pardolesi (2012c)).

of disgorgement damages was excluded by the Tribunal on the basis of the absence of two essential prerequisites: (1) "the verification of the profits obtained" and (2) "the necessary causal relationship between the infringement and the resulting profit".[58] Furthermore, it is essential to clarify what is meant by 'profit realized by the perpetrator of the infringement' (and thus what is the structural 'profile' to be taken into consideration), to avoid the risk of a worrying over-punishment of the counterfeiter. Not by chance, as attentive legal scholarship observed, while "counterfeiting the patent on a drug which is unique and irreplaceable for therapy gives rise to profits which can be completely restored precisely because they are totally due to the competitive advantage illicitly exploited by the counterfeiter", the matter becomes 'slippery' when "the copyright infringement concerns a brand and does not involve the illicit application of the brand to products commercialized by the right-holder but the use of the brand on similar products; or else when the brand being counterfeited is very well-known and is illicitly used in a merchandising operation, in a situation in which there is no relationship between the products thus branded by the counterfeiter and those of the right-holder".[59]

To sum up, it appears evident that the efficacy as 'para-sanction' of the instrument of disgorgement damages (which is recommended as a prudent measure to deal with the possibility of enrichment by illicit means) may be counterbalanced by the possible difficulties in calculating the amount of the restitution according to the specificities of the case in question. As mentioned previously, it is one thing to identify the profits made in relation to a unique and irreplaceable patent; it is quite another to follow this trajectory when – as in the case under examination – the target of the infringement is a brand and, more specifically, its illicit application to related products. In short, the game could be not worth the legendary candle.

Again, a valuable suggestion could be drawn from the experience of the common law, in which the courts are in a position to adopt one of a number of available solutions for calculating damages ('restitutory', 'reliance', 'expectation' and 'disgorgement' damages), choosing from time to time the solution they consider most appropriate in view of the actual circumstances, convenience, and the objective difficulty of calculation. Put more clearly, in the presence of a serious risk of under-compensation for the victim of the infringement (due, for example, to an abuse of contract in which the injured party is left with defective performance, with absolutely no possibility of recuperating the damage resulting from the loss actually suffered),[60] compensation is calculated by means of disgorgement damages, an

[58]Trib. Genova 23 February 2011 cit., 788.

[59]Floridia (2003), 10.

[60]Consider of the case in which a builder – having signed a contract with a client for the construction of a building, setting a high contract price because it involved using a particularly high quality material – decides to substitute for it a material of much lower, even shoddy, quality (thus realizing a substantial cost saving), without however reducing the contract sum. In such a context problems arise when the buyer, at the moment of selling the building, finds out that, because of the use of the alternative material 'cunningly' chosen by the builder, not only has the market price of the building been substantially reduced, but that replacing it eventually with the material originally

instrument permitting the injured party to 'recover' the whole of the profit from the counterpart. Such a solution, however, would be completely subverted if the injury suffered (which, let us suppose, corresponds to the diminution of the market value of the asset in question) was much greater than the profit realized by the perpetrator of the illicit action: the victim would choose to claim 'expectation damages' precisely because, in the hypothetical case, that instrument guarantees more appropriate compensation.

The decision of the Tribunal of Genoa bears witness (once again) to the fact that notwithstanding the significant steps forward made by our legislature in relation to compensation for damages, there is still a long way to go.

Functional Equivalents to Disgorgement Damages in the Italian Legal System: Are They Applied and How Are They Used in Practice?

In the light of the above considerations it appears possible to identify certain techniques which – moving beyond mere compensation – present interesting analogies with disgorgement damages, demonstrating that the notion of a remedial instrument with clear utility in terms of punishment and sanction is not completely foreign to our legal system.

In this context emphasis should be placed on the principal statutory provisions in which it is possible to read the will of the legislature to introduce legal instruments capable of guaranteeing the double objective of sanctioning the perpetrator of illicit acts and of dissuading anyone else from emulating such illegitimate actions: (1) in the first place, disgorgement damages as discussed previously, *ex* Articles. 125 C.P.I. and 158 l.a.; (2) the sanction measures *ex* Art. 709 *ter* c.p.c. (otherwise: Codice di Procedura Civile); (3) pecuniary reparation *ex* Art. 12 of the Act of 8 February 1948, no. 47 (subsequently known as the 'press law'); (4) compensation for environmental damage *ex* Art. 18 of the Act of 8 July 1986 no. 349; and, lastly, (5) damages for monetary devaluation *ex* Art. 1224, clause 2, c.c.

specified would entail spending an amount equal to half the total cost of the building itself, because of the costs involved in the partial demolition and reconstruction of the building. This is how, as described by Farnsworth (1985), 1382, on the assumption that the court would in all probability decide to exact compensation in a sum corresponding to the reduction in the market price of the building, the plaintiff would run the serious risk of ending up with a defective building and with the practical impossibility of achieving any compensation for the damage.

The Sanction Measures ex Art. 709 c.p.c.

Returning to the preceding paragraphs for further analysis of the instrument of disgorgement damages,[61] in this context attention should first be paid to the measures in Art. 709 *ter* c.p.c., which, by virtue of the possibility they provide for both punishment and sanction, present notable analogies with the common law instrument.[62]

In reforming the discipline on joint custody of children and on cooperation between parents,[63] Art. 709 *ter* c.p.c. introduces "a special procedure aimed at regulating the conflicts arising between spouses in relation to the implementation of procedures for the custody of minors, and at managing in a positive way the relationship between parents and children; this now sanctions breaches and non-fulfillment of judicial provisions during the pathological phase of a relationship, within the framework of the final objective of better and more effective achievement of outcomes compatible with the pre-eminent interests of the minor involved, inevitably affected by the breakdown of the family unit".[64] Starting with the "principle of shared parenting [*bigenitorialità*]", it recognizes the need for more effective protection of the interests of the minor which will guarantee the essential continuity of the child-parent relationship in the most balanced and harmonious way possible.[65]

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[61] On this profile see, supra, paragraphs 3.1. and 3.2.

[62] This is the substance of Article 709 ter c.p.c. (Resolution of disputes and provisions in the case of default or infringement): "*(1) For the resolution of disputes between the parents in relation to the exercise of parental authority or the arrangements for custody the competent authority is the judge presiding in the proceedings underway. For proceedings referred to in Article 710 the competent forum is the tribunal of the minor's place of residence. (2) When a case is brought to court, the judge summons the parties and adopts the most appropriate provisions. In the case of serious breaches or of actions which might be prejudicial to the welfare of the minor, or constitute obstacles to the correct implementation of the arrangements for child custody, can modify the existing arrangements and can, do any or all of the following: 1) reprimand the defaulting parent; 2) make a compensation order against one of the parents on behalf of the minor; 3) make a compensation order against one of the parents on behalf of the other; 4) sentence the defaulting parent to the payment of a pecuniary administrative fine, from a minimum of 75 euro to a maximum of 5.000 euro to be paid into the Cassa delle ammende. The provisions laid down by the presiding judge can be appealed in the normal way.*"

For a more in-depth analysis of the measures related to Art. 709 ter c.p.c. see Figone (2008), 799; La Rosa (2008), 64; Facci (2008), 1026; Cassano (2008), 498; Farolfi (2009), 610; Astiggiano (2011), 574; De Salvo (2012), 613; Paladini (2012), 853.

[63] The rationale for this is the objective of guaranteeing that children can grow up in a balanced and harmonious way in an environment of family collaboration, no longer centered on the continuity of the family unit but focused on the enhancement of their relationships with their parents. For an incisive analisys of the provision introduced by the Act of 8 February 2006, no. 54, see Patti and Rossi Carleo (2006); Graziosi (2006), 1856; De Filippis (2006); Marino (2007); Finocchiaro and Poli (2007), 532.

[64] La Rosa (2008), 64.

[65] See La Rosa (2008), 70.

The mechanism hinges on the seriousness of any conduct which damages the rights of the children employing a punitive logic which, with the aim of preserving and protecting the interests of the minor, disregards the compensation of the injury suffered by the latter (as well as the proof of their existence):[66] "the relevant issue is not the injured party, that is, the injury concretely suffered by the minor; it is the conduct of the perpetrator of the illicit act, which because it serves as an example, evaluated *a priori* by the legal system, dictates recourse to instruments of sanction and deterrence. Therefore, with the conduct in question evaluated by the law in terms of its potential dangerousness, the judge has only to ascertain the actual existence of the relevant prerequisites for the application of the legal remedy".[67]

From this it follows that, by virtue of such a logic of punishment and sanction,[68] the compensation measure provided for in Art. 709 *ter* c.p.c. (as well as the various cases considered within it) should be proportionate and commensurate to the seriousness of the conduct detrimental to the value to be protected.

These observations find timely confirmation in a very recent pronouncement made by the Tribunal of Messina about what is known as illegal intra-familial conduct.[69] This makes quite clear the Tribunal's intention to exercise a deterrent function, by means of 'afflictive' measures *ex* Art. 709 *ter* c.p.c., which would dissuade the defaulting parent from continuing in seriously obstructive or retaliatory behavior likely to psychologically damage the minor. Therefore, based on the need to guarantee an equal exercise of parental authority and balanced fulfillment of parental educational responsibilities, even though in the field of a heated and conflicted relationship with the spouse, this punitive instrument can be employed in an effectively intimidatory fashion to induce the mother to stop obstinately obstructing the father's parental role.[70]

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[66] "*[I]n setting the level of compensation it is necessary first to consider the seriousness of the defaulting parent's conduct, taking into account also the fact that the remedies set out in Art. 709 ter c.p.c. have essentially punitive objectives, and there is no requirement for a specific proof of the existence of injury, which can be considered a natural consequence of the unacceptable behavior of one of the parents.*" Trib. Messina 8 October 2012, in: Danno e resp., 2013, 409 (with a note by P Pardolesi (2013).

[67] La Rosa (2008), 72.

[68] For an introduction to how the payment of compensation can enhance the function of both punishment and sanction ex Art. 709 ter c.p.c. see D'Angelo (2006), 1048; Casaburi (2006), 565; Graziosi (2006), 1884; Salvaneschi (2006), 152; De Marzo (2006), 90. However, it should be noted that alongside this interpretive option it is also possible to identify two different approaches: I) the first emphasizes the pre-eminence of an approach based on compensation (on this point see Greco (2006), 1199)) the second on the other hand, adopting an intermediate position, not only recognizes the restorative function of compensation but at the same time does not deny its purpose as sanction [see Trib. Reggio Emilia 5 November 2007 no. 1435, in: Fam. pers. succ., 2008, 74].

[69] Trib. Messina 8 October 2012 cit., 409.

[70] Trib. Messina 8 October 2012 cit., 409.

The Pecuniary Reparation ex Art. 12 of the 'Press Law'

Another remedial tool to which we should turn our attention is pecuniary reparation as provided by Art. 12 of the 'press law', which states: "in the case of libel by press, the injured person can demand, in addition to damages in accordance with Art. 185 Codice penale (c.p.), a sum by way of restitution. The sum is determined in relation to the seriousness of the offense and the dissemination of the libelous printed matter". In other words, given the possibility of submitting to judicial scrutiny under the criminal code, the injured person can ask not only for compensation for financial losses (*ex* Art. 2043 c.c.) and moral injury (*ex* Art. 2059 c.c.), but also for so-called pecuniary damages.

Besides the problematic nature of its status in the civil law (as opposed to the penal code), we should identify its effective scope in functional terms (in other words, whether it can also have the punitive/deterrent character of disgorgement damages).

From this perspective, it is worth pointing out the presence of a vigorous confrontation between courts and scholarly literature. While the first academic opinions stated that pecuniary damages constituted a sort of duplication of criminal moral injury,[71] there has been a subsequent change in direction. In fact, some authors – relying upon the preparatory work for, and the literal wording of, the provision in question[72] – have identified in the monetary redress a punitive/deterrent function aimed at 'draining away' the economic advantage realized by means of willful injury to the reputation of another, and discouraging behavior of this type.[73] In the light of these observations, the reference made by our legislature – as far as the severity of appropriate sanctions is concerned – to the "seriousness of the offense" and to the "dissemination of the libelous printed matter" legitimates a level of reparation significantly greater than the injury suffered by the victim. This interpretation found timely jurisprudential endorsement.[74] After an initial disbanding, the Supreme Court stated that "Art. 12 of the law cited does not confuse restoration with compensation for damages, whether monetary or non-monetary [. . .], but defines and configures it differently from compensation, as can be clearly understood from the text of the regulation".[75] It then added, in two subsequent judgments, that pecuniary reparation can be asked for in a civil suit even when "the injured party intends, without filing charge, to take the matter directly to court (provided that the constitutive elements of the libel have been substantiated in the

[71] See Janniti-Piromallo (1957), 121.

[72] On this profile see Baratella (2001), 287 et seq.

[73] On this point see Zeno Zencovich (1983), 40.

[74] Cass. 10 June 2005, no. 12299, in: Foro it., Rep. 2005, item Responsabilità civile, no. 225; Cass. 7 November 2000, no. 14485, in: Giur. it., 2001, 1360; Cass. 3 October 1997, no. 9672, in: Giur. it., 1998, 2276; Trib. Roma, 31 October 2002, in: Giust. Civ., 2003, 1936.

[75] Cass. 29 January 1965, no. 2300, in: Giur. it., 1966, I, 726.

case)";[76] and, again, that the 'private penalty' (the amount of which is "determined in relation to the seriousness of the offense and to the dissemination of the libelous printed matter") can also be sought from the publisher of the newspaper, "given that damages are due not only from the writer of the libelous matter but from anyone who has contributed to causing the action constituting the crime, whether by committing it, or by having failed to stop it, being legally required to do so".[77]

The Compensation for Environmental Damage ex Art. 18 of the Act of 8 July 1986 No. 34

In this survey, it is worth referring to the compensation for environmental damage *ex* Art. 18 of the Act of 8 July 1986 no. 349, which – before very recent legislative events[78] – testified to the uncertainties and difficulties which our legislator has to address whenever it is called upon to introduce measures of a definitely punitive/inhibitory nature. In fact, before it came into force, Art. 18 of Act 349/1986 was seen as a regulatory measure extending beyond the logic of mere compensation for injury in order to guarantee a real opportunity for punitive sanctions with the objective of discouraging such actions.[79] This trajectory found convincing confirmation precisely from the criteria laid down by the legislator to provide for the quantification of damages: where it is not possible to proceed to a precise quantification of the environmental damage, the judge would determine the amount in an equitable manner, taking into account not only the expenditure necessary for rehabilitation, but above all the "seriousness of the offense" and the "profit obtained by the perpetrator".[80] In this way, beyond the affinity with punitive damages assessed on the criterion of serious negligence (which, making a pair with the concepts of malice and gross negligence at common law, set itself up as a subjective paradigm for establishing the *an* and the *quantum* of compensation/punishment due

[76] See Cass. pen. 11 April 1986, in: Foro it., Rep. 1987, item Stampa ed editoria, no. 85, and in full in: Resp. Civ., 1987, 85.

[77] Cass. pen. 15 March 2002, in: Foro it., Rep. 2002, item Ingiuria, no. 68. In this sense see App. Milano 16 April 2004, id., Rep. 2004, item Stampa ed editoria, no. 11.

[78] See d. lgs. 3 April 2006 no. 152 [known as the Environmental Law (Codice dell'Ambiente)] setting out the "*regulations for compensatory protection against environmental damage*", which implemented the legge delega no. 308/2004 on the environment as well as the directive 2004/35/EC of the European parliament and Council of 21 April 2004, on environmental responsibility in relation to the prevention and reparation of environmental damage.

[79] See Gallo (1996). In this sense see Busnelli (1988), 667. For an opposite point of view see Patti (1995), 335.

[80] This is the text of the Clause Six of Art. 18 of Act 349/1986: "*the judge, when a precise assessment of the damage is not possible, shall determine the sum equitably, having regard to the seriousness of the individual culpability, to the necessary cost of reparation, and to the profit obtained by the law-breaker as a result of his environmentally destructive behavior.*"

from the perpetrator), the affinity with disgorgement damages was made clear by reference to the profit obtained by the perpetrator of the illicit conduct.

Nevertheless, with the passing into law of the d.lgs. of 3 April 2006 no. 152 (known as the Environmental Code) the situation has been radically reversed. Ignoring the difficulties inherent in the transformation "[of the] special case of environmental damage contained in the now abrogated Art. 18 into a real hotch-potch of definitions, concepts and principles often absolutely antithetical one to another",[81] it is necessary to point out how, back-tracking drastically, the legislator has ended up with closing off any glimmer of hope for a workable system of punitive sanctions furthering the aim of discouraging illicit conduct. Not by chance, in the new Art. 311, relating to compensation for environmental damage, the reference to the criteria of gross negligence and to the profit obtained by the perpetrator (with the objective of accurate quantification of the environmental damage) has disappeared; there remains only the criterion of the cost of "rehabilitation to the pristine situation and, in the absence of such rehabilitation, of compensation at an equivalent financial level in favour of the State".[82] In other words, the legislator – opting for a more traditional solution – has eliminated in a single stroke the punitive/inhibitory approach that for years had characterized compensation for environmental damage. In short, environmental offenses – losing the 'typicality' provided by Act 349/1986[83] – were patterned on the model of tort (see Art. 2043 c.c.): thus "environmental damage also becomes an 'atypical' offense, which could thus have to do with any behavior whatever, whether intentional/malicious or unintentional/negligent".[84]

[81] The innovations introduced by the d.lgs. 152/2006 do not convince Prati (2006), 1049.

[82] This is the text of Art. 311 contained in Section III of Part Six of the d.lgs. 152/2006: "*1) The Minister for the Environment and the Protection of the Territory [Ministro dell'ambiente e della tutela del territorio] acts, even taking civil action in the penal justice system, in the interests of the restoration of the actual environmental damage and, if necessary, by a pecuniary equivalent, or else proceeds in accordance with the provisions of Part Six of the present decree. 2) Whoever, by committing an illegal act, or by neglecting to carry out an obligatory activity or behavior, constituting a violation of a law, of a regulation, or of a technical rule, causes damage to the environment, altering it, despoiling it or destroying it in whole or in part, is required to restore it to its preceding condition and, if this is not possible, to provide compensation in terms of a pecuniary equivalent in favor of the State. 3) For the assessment of the damage, the Minister for the Environment will apply the criteria enunciated in Attachments 3 and 4 of Part Six of the present decree. For the assessment of the responsibility for compensation and for the collection of the sums due as pecuniary equivalent the Minister for the Environment follows the procedures as set out in Section III of Part Six of the present decree*."

[83] On this point see Feola (1996), 1078.

[84] For an analysis of these aspects, see, once again, Prati (2006), 1052 et seq.

The Damages for Monetary Devaluation ex Art. 1224, Paragraph 2, c.c.

To conclude this survey of legal instruments akin to disgorgement damages which have actually been applied in practice, it is worth analyzing a recent decision of the Supreme Court (sitting in joint session, its most authoritative mode) which among other matters – though it had been called upon to make a pronouncement not specifically on the level of reparatory damages but on the burden of proof required to claim such reparation – rationalized in a radical manner the criteria applicable in determining further damage caused by currency devaluation *ex* Art. 1224, second clause, c.c.[85] Overturning two famous pronouncements from the past,[86] the joint session chose to rewrite the entire discipline in relation to breach of pecuniary debt, thus causing the collapse of the regime which – not without some difficulty[87] – had held sway for a quarter of a century.

More specifically, starting with the statement that the operational orientations developed in the wake of the two above pronouncements do not appear to be aligned with the original intention,[88] the Joint Session updated the framework of the relevant data. It is true, in fact, that starting from the doubling of the official interest rate in 1990, and the later introduction of a flexible rate-setting methodology, starting from 1 January 1997, its level has always been higher than the increase of the cost-of-living index (with the exception of 2000 and what is likely for the current year). But it is just as evident that the gross return on the most common forms of investment – exemplified by the median gross return on Treasury bonds with terms under 12 months – has always been constantly higher than the official interest rate (with the sole exception of 1994). Thus there is always the concrete danger that, for the debtor, it is profitable to choose to defer meeting his obligations as long as possible.[89] To counteract this perverse incentive, the Joint Session rediscovered the deterrent value of contractual responsibility: the unsatisfied creditor is entitled to receive a larger sum, corresponding at least to the minimum economic profit that the debtor obtained or could have obtained from retaining the money that he should have paid

[85]Cass., sez. un., 16 July 2008, no. 19499, in: Foro it., 2008, I, 2786 (with a note by R. Pardolesi (2008)).

[86]I refer to Cass., sez. un., 4 July 1979, no. 3776, in: Foro it., 1979, I, 2622 (with a note by R Pardolesi (1979)) and to Cass., sez. un., 5 April 1986, no. 2368, in: Foro it., 1986, I, 1265 (with a note by R. Pardolesi (1986)) in which the Italian Supreme Court – seeking, on the one hand, to put an end to a heated argument and, on the other, to reduce the evident embarrassment of the relevant area of jurisprudence about an approach which, characterized by a rigorous attitude to the evidence to be provided by the disappointed creditor, ended by removing from consideration the damage caused by devaluation – dictated the conditions for consideration of "further damage" according to paragraph 2 of Art. 1224 c.c., due to the debased purchasing power of the currency.

[87]For an incisive analysis of this matter, see, once again, R. Pardolesi (2008), 2789 et seq.

[88]For an in-depth examination of these aspects see R. Pardolesi (2008), 2789.

[89]On this point see R. Pardolesi (1979), 2624 et seq.

and has not paid. This is a minimum which, on the basis of the updated text of Art. 1284 c.c., is in fact related to annual net earnings (after tax) of Treasury bonds (a parameter that the Minister of the Treasury must utilize, bearing in mind meanwhile the rate of inflation, to determine the legal rate). Provided that the rate of inflation is not higher, as has happened only in 1994, in which case it is necessary to take the latter parameter into account. In short – overturning the traditional approach in which compensation for contractual default had the effect of placing the creditor in the same 'indifference curve' in which he/she would have found himself/herself if the obligation had been respected in a timely fashion – the Joint Session, in a belated intervention calling for the application of equitable evaluation *ex* Art. 1226 c.c., suggested instead the adoption, as a term of reference for compensation, the profit that the perpetrator of the illicit action obtained (or should have obtained in minimally normal circumstance) by the choice to delay fulfillment of his contractual obligation and retain the sum owed for himself.

The impact of such a decision is very evident: disgorgement damages (or, more accurately, the remedial instrument of restitution of the illicit profits) in contractual matters are no longer a mirage; on the contrary, the idea that the range of remedies available in this context could be extended, following the suggestions coming from the experience of common law, to include the restitution of the illicit profits, receives the unhesitating approval of the highest judicial body in Italy.

Final Remarks

The analysis of the Italian legal experience leads to a necessary conclusion: the problematics inherent in quantifying damages do not lend themselves to being crystallized into a simplistic regulatory directive. Even while recognizing the synecdochical tendency typical of the civilian approach to regulation, one should not ignore its inappropriateness to the issue of confronting the range of situations in which reference to the notions of actual loss and loss of profit does not [succeed in itself to] assure the victim of the illicit conduct (whether in a contractual or an extra-contractual context) effective compensation for the damage suffered. Therefore, if we remain anchored to the traditional regulatory approach according to which the perpetrator of the illicit action is required to compensate the victim within the limits of the damage suffered, we must resign ourselves to being mired in desperate situations in which 'the damage exists, but cannot be seen'.[90]

[90]In this type of controversy, the prize probably goes to the celebrated Meroni case (Cass. 26 January 1971 no. 174, Foro it., 1971, I, 342; 29 May 1978 no. 1459, id., 1979, I, 827), which relates to the issue of extra-contractual liability, but is symptomatic of a more general concern. This painful affair had a double outcome: on the one hand (in the perspective whether there existed liability), it affirmed and consolidated the possibility of bringing the protection of credit as one of the interests safeguarded by Art. 2043 c.c., while, as far as the quantum was concerned, the result was a total failure. The Supreme Court did not succeed in establishing any type of compensation:

Thus, comparison with the experience of the common law is very valuable. In fact, the theme of compensation for breach of contract belongs in a legal context in continual evolution, aimed at assuring for victims of breach of contract the best form of compensation in relation to the specific characteristics of each kind of situation. The inclusion of disgorgement interest in the ambit of contract law (making it an issue worthy of legal protection) attests, once again, to a propensity to confront without fear the difficulties inherent in the delicate matter of quantifying damages.[91]

Naturally, the effectiveness of the common law experience in widening the range of techniques for evaluating the loss amount, betrays the 'straight jacket' effect of regulatory indicators entrenched in the principle of compensation (as in Art. 1223 c.c. or Art. 2043 c.c.). From this perspective, one very important move would be to decisively overcome these regulatory restrictions (for example, in the context of the law of contract, making use of the opportunity for compensation which would result from a more dynamic use of the concept of lost opportunity). In fact there is clearly a need to (re)define what is meant by compensation or, better still, what functional outcomes it should aim for: with the result of directing attention towards logical approaches (in part already known from the formative theoretical and jurisprudential sources of the law) on the basis of which the courts could apply techniques for calculating liquidated damages with subtle variations according to the specific nature of each case. Therefore, looking at the more elastic model provided by the common law, we can get closer to the possibility of overcoming the traditional (but no longer acceptable) limits of an exclusively compensatory approach, which the Italian legal system itself now puts at issue when it appears to opt resolutely for a move towards punishment and sanctions.[92]

The door is open, but most of the work is still to be done.

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in the first place, because – compared with the year in which Meroni played – subscriptions had increased, and, secondly, since the Torino football club, replacing a famous (and expensive) player such as Meroni with the more modest Facchin, saved money by the engagement, and thus ended up with an economic advantage.

[91]For an in-depth examination of these issues two theoretical models deserve attention – at least as far as the response they have elicited is concerned: those set up, on the one hand, by Kull, around the appropriation and extension of the concept of restitution (Kull (2008)), and on the other, by Eisenberg, on a broad interpretation of section 344 of Restatement Second of Contracts (Eisenberg (2006), 599). It would also be useful to highlight the acceptance at a more specifically pragmatic level of the instrument of disgorgement damages as a remedy for breach of contract. In fact, section 39 emerges in the interstices of the Restatement [Third] of Restitution and Unjust Enrichment (American Law Institute (2011)); the section expressly provides for the 'bold remedy' of disgorgement damages to address the possibility of "*profit derived from opportunistic breach*".

[92]Think of the predictability of the injury and its irrelevance in the event that the breach is found to be criminal.

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Chapter 8
Disgorgement of Profits in Portugal: A Journey Between the Present and the Future

Henrique Sousa Antunes

Abstract In Portuguese private law, as it happens in other legal systems in continental Europe, the removal of the benefits obtained by the injuring party as a result of his committing the unlawful act do not fall within the scope of civil liability. In general, the restitution of patrimonial advantages obtained via intervention in the legal rights of another has been dealt with in law according to the rules of unjust enrichment. However, in our view, there is a relationship between the presuppositions of civil liability and the recognition of the duty to disgorge illegal profits and, even, of punitive effects. According to Article 496 (1) of the Portuguese Civil Code, any non-patrimonial damage which, due to its severity, warrants legal protection is indemnifiable. We advocate that a relevant non-patrimonial damage occurs whenever an economic benefit for a third party is the result of the culpable sacrificing of rights of the injured party. It is damage which is born out of a rupture in the fair patrimonial relationship between individuals. Compensation for this damage may only, naturally, be achieved by passing into the sphere of the injured party the advantages that the third party obtained unlawfully. The restitution of profit as a consequence of civil liability is nothing more than complying with the need to *satisfy* the injured party, both with regard to the fixing of compensation for other non-patrimonial damage, and in the autonomous restoring of the situation prior to this harm.

Keywords Disgorgement Portugal • Restitution Portugal • Damages Portugal • Unjust enrichment • Negotiorum gestio • Non-patrimonial damages • Punitive damages • Administrative offences • Private enforcement

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The Alleged Missing Link Between Civil Liability and Disgorgement of Profits

The debate as to the pertinence of the means for remedying the consequences of harmful action has been widely discussed in the writings on civil liability within the Anglo-Saxon legal systems. There is a somewhat different scenario in the legal orders from the Roman-Germanic family, where harm constitutes the presupposition and the limit of the agent's obligations. Review of the reach of fault, reinterpretation of causation and re-examination of the concept of relevant harm are themes which have been the primary focus of attention of these legal systems, in which the issue of the conditions of liability is given precedence over the remedies that this justifies.

In Portuguese private law, as it happens in other legal systems in continental Europe, the removal of the benefits obtained by the injuring party as a result of his committing the unlawful act do not fall within the scope of civil liability. In the words of Júlio Gomes[1]: "(. . .) when the party committing the unlawful act gains profit from his conduct which is greater than the harm caused, the legal theory which is clearly dominant in the civil law countries shrugs its shoulders, in resignation, and repeats, as if evident, the principle that the obligation to indemnify may not be transformed into a source of enrichment for the injured party. In the expressive words of Pereira Coelho one injustice should not be committed in order to avoid another". Unlawfulness does not pay. The principle that one who engages in illegal behaviour should not benefit from this conduct is common to all areas of Law.[2]

[1] Gomes (1998), 795.

[2] On the issue of contractual liability Weinrib (2003), 71 writes: "Favoring gain-based awards are strong ethical intuitions that promises should be kept and that those who breach their contracts should not profit from their wrongs". In Israel and in England, the Supreme Court and the House of Lords, respectively, on the basis of the marked moral significance, ruled in favour of restitution of the profits obtained as a result of breach of contract. It is, however, recognized that, within this area, the solution is not unquestionable, both from the point of view of the economic analysis of the law, and from the perspective of corrective justice. In Adras Building Material v. Harlow & Jones (1988), the Supreme Court ruled on the consequences of the breach of the obligation to sell steel, which in the meantime had been sold to a third party for a higher price than that agreed with the buyer, due to a change in market conditions. The existence of damage was not proven, since the claimant did not acquire steel, paying more than the amount agreed with the defendant. The court ordered the defaulting party to restore the amount corresponding to the difference between the price agreed and the price at which the steel was sold to the third party. In Attorney General v. Blake (2000), the House of Lords ruled on the behaviour of a former employee of the secret services who, having been found guilty of espionage and having escaped from prison, published his memoirs, in breach of, amongst others, the obligations arising out of the employment contract he had entered into with the Crown. The House of Lords awarded the latter the amount owed to Blake by the publisher, alleging the legitimate interest of the Crown in preventing the defaulting party from benefiting from his behaviour (cf., for example, Weinrib (2003), 72 et seq.).

As has been highlighted, there are two directions which, with different arguments and reach, contest the restitution to the creditor of gains obtained via breach of an obligation. In an economic assessment of the imposition of the duty to disgorge, the solution goes against the efficiency of the default. The breach is justified when the advantage it gives to the debtor is greater than the loss

There are very few legal situations which allow the judge to consider the economic advantage gained as a result of the practice of the harmful action in his calculations of the indemnity. This basically occurs in situations where there is an undetermined level of damage, in some cases, via the transposing of European legislation.

This is what happens, particularly, in the field of compensation for non-patrimonial damage. Article 496(1) of the Portuguese Civil Code rules on this issue. The law refers to any damage which, due to its severity, warrants protection under the law, and it lays down that, by reference to the criteria of Article 494 of the same Civil Code (on the reduction of indemnity in the case of mere recklessness), the amount due is established equitably, considering the level of fault of the injuring party, the economic situation of both parties and the other circumstances in the case. There is no limit in the legislation regarding the type of non-patrimonial damage to be compensated, and the judge is responsible for assessing the seriousness of the

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to the creditor, thus contributing to increase the common good: "in this way, the self-interested preferences of the parties tend to the production of the greatest social good. From the economic point of view, therefore, no reason exists for the law to discourage such a breach" (Weinrib (2003), 73). From the perspective of corrective justice, one may question the legitimacy of the injured party as the receiver of the restitution. Weinrib (2003), 76 highlights the need for a normative link between the gain obtained by the debtor and the creditor's right to that gain: "the vindication of the morality of promise-keeping against the amorality of economically efficient breach is insufficient to ground a legal entitlement in the promisee to the promisor's gains". According to Weinrib (2003), 77 et seq., the duty to disgorge is only an appropriate remedy when the default constitutes a breach of a right of ownership of the injured party. It is, therefore, innate to extra-contractual liability: "just as the owner's exclusive right to the object implies a duty on others to abstain from it, so the owner's right to the profits that accrue from its alienation imports a correlative duty in others to abstain from such profits or, if there was a failure to abstain, to yield these profits to the owner" (Weinrib (2003), 77).

Thus, it can be concluded that it is improper to impose the duty to restore to the creditor as a sanction for breach of an obligation: "(. . .) nothing is available for the promisor to expropriate or alienate, since these verbs are inapplicable as descriptions of what the promisor does with respect to an entitlement that consists of his own actions. Consequently (. . .) disgorgement is an inappropriate remedy for contract breach" (Weinrib (2003), 81). In Portuguese law, this is the position held by Júlio Gomes (Gomes (1998), 767 et seq.): "In contractual liability, there are other means of dissuading and punishing the practice of harmful unlawful acts: in addition to the advantages that each of the parties seeks to obtain from an onerous contract, they may set out penalty clauses and even, inclusively, genuinely punitive penalty clauses. Up to a point, it might even be said that the level of protection that each of the parties has, given the opportunistic behaviour of the other party, is the level of protection that he wishes to have, and that he was careful enough to ensure, in the contract, for himself. One might add that the rights arising out of a contract do not necessarily have the same status as the legitimate rights and interests safeguarded by tort liability. In our opinion, there may be good reasons for the protection afforded to absolute rights, in terms of tort liability, to be different to and more intense than the protection afforded to contractual rights".

Also in Portuguese law, Manuel Carneiro da Frada (Carneiro da Frada (2006), 71) has written on this topic, advocating respect for the fulfilment of obligations and, given circumstances which justify the restitution of the profits from the non-compliance, emphasizing among them the particular censurability of the agent's conduct and the type of relation in question, the consequent application of the institution of unjust enrichment.

harm which has occurred. In a Judgment of the Coimbra Court of Appeal issued in 5 June 1979, one may read that serious damage "is considerable damage, which, at least, reflects the intensity of pain, of anguish, of heartbreak, of moral suffering which, according to the rules of experience and good sense, one cannot be required to resign oneself to".

The Portuguese courts base their decisions, with some consistency, on the simultaneously compensatory and punitive nature of the indemnity provided for in Article 496. In line with this classification, which is, in fact, permitted by the criteria set out in Article 494, the advantage obtained by the injuring party via the practice of the harmful act forms the basis for some compensation for non-patrimonial damage, namely regarding infringement of the right to privacy and the right to honour, credit and good name. Thus, the Supreme Court of Justice ruled in 12 January 2000 that "profit from sales achieved at the expense of including material which offends the dignity of the persons concerned, as well as the economic capacity of the respondents" should affect the calculation of the indemnity claimed.

Profit is also considered in Article 73(3) of Decree-Law No. 236/98, of 1 August, on the subject of protection of the aquatic environment: where it is not possible to accurately quantify the damage caused, the judge, using fairness criteria, should establish the amount of the indemnity, considering, in particular, the harm to the environment, the estimated cost of restoring the situation prior to the practice of the harmful act and any possible economic gain obtained as a result of the infringement.

According to Article 211 of the Code of Copyright and Related Rights, "when determining the amount of indemnity for loss and damage, whether patrimonial or non-patrimonial, the court should pay attention to the profit obtained by the infringing party, to the lost profits and resulting harm suffered by the injured party and the costs borne by the latter in order to protect the copyright and related rights, and also to investigate and cease the conduct which harmed his right" (paragraph 2) and "when calculating the compensation due to the injured party, it should pay attention to the amount of the proceeds derived from the unlawful conduct of the infringing party, namely from the performance or performances which have been unlawfully held" (paragraph 3). Article 338-L (2) and (3) of the Industrial Property Code also provides in the same sense.

In this context, it is worth highlighting Law No. 83/95, of 31 August, on the right of popular action in civil liability. The passing of this law provided the civil law with the means of overcoming its proverbial lack of efficacy in compensating harm to diffuse interests or to homogeneous individual interests or rights. Interests protected by the Constitution, such as public health, the environment, quality of life, consumers' rights, cultural heritage and the public domain (Article 1(2)) justify the specific nature of the intervention, due to the nature of the protected interests or the lack of proportion between the individual impact of the harm and the collective repercussions of the damage. In this last case, the classic substantive and procedural forms of civil liability prove to be inadequate regarding compensation that only acquires expression when, due to the nature of the characteristics they take on, it is possible to combine them into a single sum.

The damages actions provided for in Law No. 83/95 relate to damage caused to transindividual and indivisible rights (for example, harm to the natural environment, which benefits all the persons in a community, due to the discharge of pollution by a company) and harm, with a common origin, to individual rights (personal or material damage suffered by the members of the aforementioned community).

Once the action has been admitted, Article 22(2) of the law in question provides that compensation shall be fixed globally. Given that the harm has evident social repercussions and, also, that the lack of determination of the damage is innate to compensation of supra-individual rights or interests, we are of the opinion that the obligation to compensate should, in this situation, follow a clearly preventive function. In this context, and regarding homogeneous individual interests, Miguel Teixeira de Sousa writes[3]: "(. . .) the rules on popular action, when they define a global compensation which is intended to be shared by the injured parties, (. . .) are more concerned with preventing the injuring party from gaining any advantage from the harmful act than with ensuring that each of those injured parties is really compensated in the exact measure of the loss suffered. The global compensation seeks to distribute the injuring party's gains among the injured parties, although the result of this may be a certain breach of corrective justice, since this distribution cannot guarantee that all the damage suffered is effectively compensated in its exact amount. In order to quantify the global compensation the (global) gain obtained by the injuring party is used more than the (equally global) loss inflicted by him, which means that in quantifying it the criterion of restoring the hypothetical situation which is established in Article 562 of the Civil Code is not followed".

Lastly, it is of interest to refer to the rules contained in Article 1271 of the Civil Code, on the fruits of possession in bad faith: "The possessor in bad faith shall restore the fruits that the thing has produced up to the end of the possession and respond, in addition to this, for the value of those that a diligent owner could have obtained". The law determines that the gains are restored and punishes the agent with the duty of handing over the amounts which correspond to a diligent action. In both cases, this is regardless of the alternative behaviour of the owner.

The Traditional Framework for the Disgorgement of Profits

In general, the restitution of patrimonial advantages obtained via intervention in the legal rights of another has been dealt with in law according to the rules of unjust enrichment. This is what happens with the unlawful use of certain personal rights or immaterial rights. This understanding is summarised by Manuel Carneiro da Frada[4]: "(. . .) the sensitive task of eliminating the profit obtained by the party committing the unlawful act already falls, in theory, to unjust enrichment, although the idea of

[3]Teixeira de Sousa (2003), 169 et seq.

[4]Carneiro da Frada (2006), 67.

prevention may also corroborate the need for that elimination in the form of civil liability. The distinction between the two institutions will be difficult to establish in some cases, but it is important to respect it: we may note that disgorging the profit does not present any intrinsic connection of meaning with the idea of prevention in the form of liability for damage. Since what is at issue is the interference by the party committing the harm with rights which grant a reserved sphere of action to their holder (rights of exclusivity), the doctrine of allocation (*Zuweisungsgehalt*) will be charged with justifying, according to the principles of unjust enrichment (and not forgetting here the rules of the arrogated management of another's affairs), the obligation to disgorge the profits obtained as a result of the harm".

Much has been written on this subject, and there appears to be a predominant opinion which is inclined towards restricting the obligation to disgorge to the impoverishment, if this is less, or, according to those who do not agree with this limit, to the amount which corresponds to the market value of the good that the debtor has unlawfully appropriated. In support of this latter idea, Luís Menezes Leitão writes[5]: "(. . .) what should be restored is always the value of the exploitation and not the patrimonial gains of the intervener. The restitution of the patrimonial gains obtained by the intervener is an admissible solution within the frameworks of the arrogated management of another's affairs, but it does not correspond to a solution provided for within the scope of unjust enrichment. It is sufficient to confirm that, in Article 479 (of the Civil Code), there is only an obligation to restore that which has been obtained at the expense of the impoverished party and not the profits obtained by the enriched party".[6]

The disgorgement of profits resulting from the interference in the proper order of things is, therefore, governed by recourse to other institutions, namely to the law on *negotiorum gestio* or, in more serious situations, to rules provided for in criminal law or the law of administrative offences. The legitimacy for applying the rules on the benevolent intervention in another's affairs is found in the interpretation of Article 472 of the Civil Code, on the management of another's affair in the mistaken belief it is one's own. Thus, Júlio Gomes writes[7]: "We believe that the possibility granted therein to the principal to approve the management and call for the gains made by the "manager" will apply, and all the more so, to whoever has acted with wilful intent".

The proposals appear to be clearly unsatisfactory, for a number of reasons.

In the first place, obtaining an advantage of a patrimonial nature at the expense of a third party does not always correspond to the use of the right of another which may be assessed in monetary terms. This is the case, for example, with an environmental disaster which, caused by an ill-considered business decision to reduce costs, has led to serious physical injury to members of a given group. Manuel Carneiro da

[5]Menezes Leitão (1996), 910 et seq., and note 38 on p. 911.

[6]Differently Pinto Oliveira (2011), 775 et seq.

[7]Gomes (1998), 801.

Frada highlights this difficulty, by means of another example[8]: "In the situation (. . .) of gains obtained by a magazine as a result of its defamation of someone, the doctrine of allocation presents certain difficulties since this is not, obviously, a case of taking advantage of the benefits of a right reserved to its holder and from whom these have been deflected. Here it appears that the disgorgement of the profit may be based on the idea, which is persuasive and easy to formulate, but which it is not easy to include within a simplifying theory of the enrichment in question, that nobody should be allowed to keep for himself the gain from an unlawful act which he has committed. In any case, it seems that this obligation to disgorge the profits depends on the fault – on the type of fault -, it being plausible in the case of wilful intent. This means we are confronted with the preventive and punitive functions of the actual unjust enrichment".

Secondly, the fiction on which the recourse to the law on *negotiorum gestio* is based transforms it into a fragile basis for the injured party's claim for restitution. The duties of the principal to waive his right to compensation, to reimburse the intervener for the expenses incurred and to compensate him for the loss he has suffered (Article 469 of the Civil Code) are somewhat of a paradigm.

Thirdly, the decision to disgorge, in whole or in part, the gain resulting from the unlawful act may also be conceived as a natural effect of civil liability. This is our own theory, which will be described below.

Lastly, the legitimacy that the State gives itself and other public and private entities to receive benefits obtained from the practice of crimes and administrative offences is open to question. This receipt should respect the subsidiarity of heteronymous intervention in private legal relations. In continental Europe, the legislator and case law have given civil liability the role of protecting personal rights, involving methods which, implicitly, frustrate, either totally or partially, the practical effects of criminal law or administrative law. Although the phenomenon of conforming civil law to constitutional law, or, even, of the immediate regulation of private legal relations by constitutional law, appears to be more extensive, the use of civil liability via the principle of effective protection of fundamental rights has the characteristic of being one of its most significant expressions, without prejudice to the limits that other principles impose on it.

It should be highlighted that, in Portuguese law, Article 18(2) of the Administrative Offences Act lays down that "if the agent gains from the infringement an economic benefit which can be calculated as being higher than the upper limit of the fine, and there are no other means to eliminate it, the latter may be raised up to the amount of the benefit, although this increase may not be more than one third of the upper limit established by law". The fine may, therefore, not actually disgorge the gain. Given that the determination of the sanction also depends on the seriousness of the administrative offence, the fault and the economic situation of the agent (Article 18(1)) it is possible, at least in theory, to calculate an amount which, inclusively, is below the established upper limit.

[8]Carneiro da Frada (2006), 67 et seq.

Review of the Theme

In a recently published text, we demonstrate the relationship between the presuppositions of civil liability and the recognition of the duty to disgorge illegal profits and, even, of punitive effects.[9] In our opinion, it is, therefore, necessary to review the theme, even in terms of the present law.

We may recall the extent to which the Portuguese legal system allows compensation for non-patrimonial damage. According to Article 496(1) of the Civil Code, any non-patrimonial damage which, due to its severity, warrants legal protection is indemnifiable.

In our view, relevant non-patrimonial damage occurs whenever an economic benefit for a third party is the result of the culpable sacrificing of rights of the injured party. It is damage which is born out of a rupture in the fair patrimonial relationship between individuals. Compensation for this damage may only, naturally, be achieved by passing into the sphere of the injured party the advantages that the third party obtained unlawfully.

What is at issue is the passage, either in whole or in part, from the sphere of the injuring party to the sphere of the injured party of the advantages obtained, thus seeking to satisfy the offended person. The grounds for awarding the profit to the injured party lie in the fact that the exercise of his rights has been encroached upon. This is the reason for the loss, whether the other damage is non-patrimonial, patrimonial or even non-existent.

In this regard, we may speak of an injury of a non-patrimonial nature, because the sense of justice is offended. The preparatory work on the Portuguese Civil Code clarifies that the direction of Article 496 followed a clear aim to grant the victim satisfaction for a range of different non-patrimonial grievances. We may recognize within the duty to indemnify the task of enabling "a *satisfaction* to be provided to the injured party for the pain and offence caused to him, a satisfaction that does not provide real redress, a *measurable equivalent* of the "*joie de vivre*" lost, but rather a certain compensation for the offence suffered and, with this, for the *unlawfulness caused to him personally*. Seen in this light, the money for the pain is not, therefore, only related to the harm to the injured party, but essentially also to the actions of the injuring party, that is, to the more or less offensive and culpable nature of his actions".[10] The assumptions of the duty set out give it a significant extension, based on the provision of a general clause, since "a list of the acts capable of giving rise to compensation for non-patrimonial damage has the disadvantage of potentially leaving out some acts which are just as worthy of inclusion as others which are included in the list, or even more so".[11]

The intention of obtaining advantages by unlawfully intervening in the legal sphere of another is, certainly, innate to the history of Man. Modern times

[9] Sousa Antunes, 2011.

[10] Vaz Serra (1959), 82.

[11] Vaz Serra (1959), 89.

appear, however, to have multiplied the phenomenon of "parasitism". Nowadays, the diversification of patrimonial property and the patrimonialization of personal property explain this phenomenon, in part. The protection granted to creations of human intellect and the economic use of image, voice or name provide new instruments for the unlawful use of the property of others. If we add to this the technological evolution of modern society and the expansion of the human and geographical impact of the offences committed, the intervention of civil liability in the moralization of social relations seems justified. The magnitude of the actions has demonstrated the inappropriateness of recourse to *negotiorum gestio* and unjust enrichment and has shown the severity of the non-patrimonial injury that the unlawfully obtained profit constitutes.

In the legal systems which contain a principle of typifying indemnifiable non-patrimonial damage, the extension of the social reach of offences has added new grounds to that duty to indemnify. The reference in Article 496 to the severity of the damage may not be interpreted otherwise. If the choice of a general clause sought, amongst other aims, to prevent the rules from becoming obsolete, then, given how ideas change over time, and that "non-patrimonial damage which the legal conscience of today does not consider worthy of compensation may tomorrow come to warrant it",[12] the solution includes injuries which the requirement of social peace has made worthy of consideration.

The culpable enrichment of a third party wounds the injured party's sense of justice. In the absence of consent for this intervention in his legal sphere, the behaviour of the wrongdoer upsets the just order of things. The judge should, therefore, presume non-patrimonial damage and indemnify the victim in line with the severity of the act. The claimant is not required to prove that his sense of justice has been offended, since this will have been shown once the existence of profits for the injuring party has been established. Nobody may benefit from unlawful and wrongful behaviour.

It is only this understanding which also allows for an adequate response to be given to the need for prevention which underlies the highlighted principle. The conclusion is strengthened by the opinion of those who, despite supporting the application of unjust enrichment to the duty to disgorge, stress the *reassuring* complementary nature of the duty to indemnify for non-patrimonial damage. Pereira Coelho's position,[13] in relation to this, is a significant example. It is worth quoting some parts of that text. Regarding whether limiting the duty to disgorge the profits to the real damage suffered by the injured party, or rather, the objective value of the use or of the goods consumed or sold, is in line with the wrongful nature of the intervention in the legal sphere of another, he writes: "(. . .) it may be said that the solution proposed will encourage the intervener to interfere in the legal sphere of another or, at least, not to be too concerned about whether the goods which are the object of his intervention are his own or are the property of another,

[12] Vaz Serra (1959), 89.

[13] Pereira Coelho (1999), 69 et seq.

since he knows that, even if they belong to another, he will make a profit from the intervention and only has to pay to the holder of the right the current value of those goods. (. . .)". Pereira Coelho then goes on to state "we should not overestimate the fear that encroachments on and interference with the rights of others will thus multiple and that unlawful intervention will go unpunished. In this context – and not to mention the criminal sanctions which may apply – we may immediately note that the intervention will often cause *non-patrimonial damage* (. . .). The threat of that compensation for non-patrimonial damage may therefore be an effective counter-stimulus to the unlawful intervention".

We consider that the proposal to limit the duty to disgorge to real damage, if applied to unlawful and wrongful acts, demonstrates weak foundations, in its terms. Making the virtue of the solution depend on the hypothetical recourse to the preventive effect of indemnifying for non-patrimonial damage means recognizing that, in the absence of that duty, the restitution of the objective value of the use or of the goods consumed or sold is unsatisfactory. Besides anything else, it appears that the need to determine the existence of non-patrimonial damage, which serves as an impulse for removing the profit, perhaps using the gain obtained as a criterion for establishing the indemnity, "hides" the real aim of the compensation. This, strictly speaking, is intended to remove the advantage acquired in an unlawful and wrongful manner.[14]

The inadequacy of Pereira Coelho's position is clearly revealed in the Judgment of the Supreme Court of Justice of 22 April 1999: the defendant, a construction and repairer of industrial machinery company, manufactured and sold devices with the characteristics of the claimant's invention patent. According to the Court, the latter's "exclusive right" was unlawfully and wilfully offended: "indeed, the defendant/respondent has been manufacturing industrial machinery which it then markets, and which it well knows has the characteristics of the claimant's invention, and it was requested by the latter to cease the unlawful activity". The Court of Appeal, when pronouncing on the defendant's obligation to indemnify, concluded that there had been no damage and, as a consequence, confirmed the ruling of the court of first instance in favour of the defendant. The decision was based on the circumstance that the claimant had never placed his invention on the market, either via the direct manufacture and marketing of the product which was the object of the patent, or via the sale of his "exclusive right". The judgment demonstrates the lack of sensitivity of the case law, regarding patrimonial rights, in considering the profit obtained by the party which committed the unlawful act.

The Supreme Court partially conceded the appeal: "yet, the fact still remains that the defendant unlawfully gained economic advantages from the use of an invention the patent for which he knew belonged to the claimant, and he interfered unlawfully

[14] We may allow ourselves to conclude that if "any respectable person would suffer a great shock on seeing their name or image printed on large posters, advertising toothpaste on the walls of the city" (Pereira Coelho (1999), 72, note 166), even more of a "great shock" would result from becoming aware of the profit obtained, in that way, by another at their expense.

and unjustifiably with the industrial property of the claimant, and from which he took advantages which were only intended for the claimant, according to the legal order on property". The decision followed the legal theory of Pereira Coelho: "while it is established that the defendant/respondent should pay the claimant the amount of his enrichment, it remains to be said that the measure for such restitution is not given, as the appellant intends, by the profit obtained by the intervener in the marketing of the machinery, but rather by that which some legal theory calls the objective value of the good, and which, in this case, would be the price which, normally, the patent holder would receive for granting its use, and which, in some way, is demonstrated in the established matter of fact, where it is stated that the claimant would obtain "a commission of 15–20 % of the sale price of the machinery".

The Judgment is clearly unsatisfactory, since, although the Supreme Court of Justice recognized the existence of the defendant's wilful intent, the obligation to indemnify for unjust enrichment, calculated in line with the objective value of use of the good, was not accompanied by any other sanction. In short, the decision becomes an incentive to the forceful appropriation of the goods of another.

The pursuit of justice and the need to prevent offences against the rights of others are objectives which require a different understanding of the reach of compensation for non-patrimonial damage. It was accepted as proven that "the defendants and their staff comment on the situation in a jocular fashion!" The intentional nature of the offence appears to justify the success of the claim for disgorgement of profits. That was the aim of the claimant, who, despite providing incorrect grounds for his claim in terms of compensation for patrimonial damage, undoubtedly deserved such protection. This was an autonomous non-patrimonial damage. The Supreme Court of Justice, despite being called on to rule on compensation for non-patrimonial damage suffered by the claimant, not only failed to make any reference to the complementarity of that means when applying the rules of unjust enrichment to unlawful and wrongful acts, considering, in relation to this, the advantages obtained by the infringer, but also, clearly in discord with the seriously culpable conduct of the defendant, gave no attention to the claim for compensation for non-patrimonial damage: "regarding the alleged non-patrimonial damage, we may say that, although it is not difficult to imagine the upset caused by the defendant's abusive action, on the other, we should not forget the rule in Article 496(1) of the CC, in the part where it limits the damage to that which "due to its severity, warrants the protection of the law". In line with the Court of Appeal, we consider that there is no non-patrimonial damage which deserves the protection of the legal order".

With due respect, it appears unacceptable to reduce the non-patrimonial harm noted to an *upset*. We may reiterate that it is the offence to the sense of justice which legitimizes the inclusion of the gaining of advantages, in the noted terms, within the category of non-patrimonial damage. The lesson is an old one and has its roots in the Aristotelian understanding of corrective justice: "The equal is the mean between the more and the less of a particular feeling. The more of good and the less of pain produce a gain, and the opposite situation triggers a loss. A wrongdoing causes an excess of gain on the agent's part and an excess of pain on the victim's part, for

the one has done injustice and the other has suffered it. The just is a mean between loss and gain. Doing injustice and suffering injustice forges a link – a *synallagma* – between the parties and nobody else".[15]

A metaphoric sense can be recognized in the Aristotelian concepts, with no correspondence in patrimonial disadvantage or advantage: "Consider Aristotle's example of a man who strikes a blow against another: the gain and the pain are correlative, but they are not identical, for a gain can also consist in the agent's satisfaction for having performed the action which caused pain. Aristotle did not refer to patrimonial advantages or disadvantages. If justice can be attained if the victim has suffered a financial loss but the agent has not obtained a corresponding financial gain, one can infer that it will also be attained if the agent has obtained a financial gain which does not correspond to a patrimonial loss of the agent".[16]

If, considering Aristotle, gain may merely mean the satisfaction of the injuring party and, accepting his thinking, there is no need for an economic benefit of the agent for compensation of the injured party, loss, devoid of any patrimonial equivalence with the gain, may be non-patrimonial in nature, thus justifying, with the same aim of corrective justice, the restitution of the economic gain of the injuring party. The synallagma which requires the practice of corrective justice includes, in this respect, both compensation for patrimonial loss and restitution of unlawful profit.[17]

There needs to be a reconsideration of the concept of non-patrimonial damage, stripping it of the characteristic which makes it incapable of being assessed in monetary terms. The harm has repercussions in the extra-patrimonial sphere of the injured party, and, although it may be measured, it is different from a patrimonial loss or the frustration of a profit. The injustice of non-patrimonial damage and, as a result, its need to be attended are gauged according to a two-sided consideration of the interests in conflict, against the backdrop of the regular characteristics of existence and cohabitation of human beings.

The Compensatory Nature of Restitution of Profits

In most continental legal systems, there is common reference to the punishment of the actor via removal of a part or the whole of the gain associated with the act committed. The uncritical manner in which that statement is so often accepted is a cause of clear discomfort to us. The formula is used indiscriminately. The *label* is attached, in this way, to any duty to *indemnify* the injured party, provided for in law or imposed by the judge, with no regard for the impact of the award on the injuring party's patrimony. The sense of punishment is distorted when no more is required

[15] Giglio (2007), 150 and 151.

[16] Giglio (2007), 194.

[17] Giglio (2007), 231.

than the restitution of the profit obtained. What justification is there to confirm the assertion of the punitive nature of a duty which puts the injuring party in the situation he would have been in but for his committing the unlawful act?

Retribution of the actor is based on the assumption of a disadvantage which is added to the loss resulting from the compensation of the damage. It is in this sense, as we have seen, that Anglo-Saxon law distinguishes, in the field of civil justice, between restitutionary damages, without any harm to the patrimony of the actor as it was before the practice of the unlawful act, and punitive or exemplary damages. Thus, any award of compensation for non-patrimonial damage which is confined to the limits of the profit of the party causing the harm only satisfies, without punishing.

Advocating restitution of profit as a consequence of civil liability is nothing more than complying with the need to *satisfy* the injured party, both with regard to the fixing of compensation for other non-patrimonial damage, and in the autonomous restoring of the situation prior to this harm.

The legal theory which refers to private penalties, perhaps influenced by the punitive nature which it attributes to them, often suggests that the amounts paid by the injuring party should revert to public funds or entities, distorting, in part, the private nature of the sanction. The difficulty with this theory lies in an inadequate understanding of the aim associated with suppressing the gain which has been unlawfully obtained. The sanction satisfies the interest of the person who bears the profit of the third party.

We may immediately consider the patrimonial advantage gained by the party causing the harm with the sacrificing of personal, unmarketable, goods of the third party. Consider, for example, the physical harm caused by the discharge of pollution from a factory which wilfully fails to comply with a duty of safety. The suppression of the economic benefit of the injuring party, in the form of reduced expenses, is, in all probability, regarded by the injured party as a necessary consequence of the sanctioning of the unlawful act, which should be added to the compensation for patrimonial damage and to the reparation for physical suffering. Only then is he fully satisfied. This is a scenario different to unjust enrichment. The protection lies, therefore, in the field of compensation. We may also consider the trafficking of human beings, for prostitution, adoption or other illegal activities, or the removal of organs without the consent of the offended person, or a murderer's publication for sale of the details of his crime. The answer is no different when we are dealing with the use of goods, whether personal or material, which can be assessed in monetary terms.

The Theory as an Expression of the Time of Private Enforcement

In our view, the theme of the aims of civil liability serves as a paradigm of the dysfunctional evolution of law in a globalized world, where the lack of conformity of legal concepts is safeguarded by the sovereignty of the States.

Our thinking is based on the following premises: recognition and protection of fundamental rights, the crisis of the Social State and growing exposure of individuals to disputes between private parties, for the time being, is still very scarcely mirrored in the phenomenon of the delegation of public powers. The philosophical or political ideologies and the historical and social circumstances which formed the basis for the rules separate the Anglo-Saxon family, where the individual is an important agent of social transformation, from the Roman-Germanic family, where the distinction between public action and private action appears to be clearly formulated. Yet, the complexity of today's world, and the universality, severity and repeated nature of offenses between private parties, warrants that the physical person or the private legal person be rediscovered, as well as the collective extent of their action within the systems of continental Europe.

The opening up of the common law system to social evolution explains the creativity of legal solutions, even in branches with a strong historical tradition such as that of private law. Some inspiration is to be found in Rafael Domingo's perspective[18]: "The new legal order must above all be a jurisdictional law and not an interstate jurisdictional model: consensual, not bureaucratic, positive, or official. It should be proposed and not imposed – based more on mutual agreement than on laws and codes and led by a civil society protected by global institutions and not by hierarchical and technocratic state entities. From this perspective, the common law system – because of its proximity to the quotidian and its own methodology and system of sources – is better suited to globalization than European civil law, which is one reason why common law finds itself at such ease in the world of international business and transnational arbitration. With the new global law, the public would be identified more with social issues than with matters of state, which certainly is not now the case in Europe and Latin American contexts".

The State ought to recognize that globalization has redefined its role in applying the law and adjust sovereignty to the idea that private enforcement lends to social regulation. In overt contrast to the extension of the powers of certain American courts, some European decision-makers consider it to be contrary to public order to recognize and enforce foreign decisions which order payment of punitive damages, even if the degree of intensity regarding connection of the procedure with the jurisdiction is said to be weak. Quoting Helmut Koziol, though, "punitive damages do not have to be admitted into the seventh legal heaven but neither would eternal damnation be appropriate. I think they should be condemned to purgatory and after a due period of purification some may graciously be admitted to the first legal heaven".[19]

There is a tendency to identify penalties with the characteristics and aims of the solemnity of criminal repression which, certainly, provides an argument in favour of the impropriety of private law. The primarily bilateral and relational nature of the sanctions resulting from civil liability justifies that some caution be exercised in

[18] Domingo (2010), xviii.

[19] Koziol and Wilcox (2009), 308.

defending private penalties. What cannot be disputed, however, is the historical and conceptual archaism of the expansive phenomenon of the intervention of public law sanctions, namely in the form of administrative sanctions. These sanctions benefit the Public Administration without attending to the essentially individual nature of the goods harmed. The Public Administration's powers to sanction have exceeded the original limits which justified them and now include relationships in which private interest is paramount.

The protection of intellectual property, consumer rights, competition relations, or the collective exercise of rights has revealed the importance of the issue of private enforcement. There has therefore been a greater openness of the courts and lawyers towards a new understanding of the function of the traditional legal systems, such as compensation for moral damages. We may consider the illegal profit gained from publicly exposing the private life of a public figure. The greed shown by the party causing the injury and the profit gained from the action have led to judicial decisions which include the profits in the calculation of damages. Compensation is also an expression of the patrimonial benefit acquired from the illegal use of actual utilities. It is a gain which corresponds to a loss of the injured party.

Recognition of the virtues of permitting private individuals to initiate proceedings, in their own name or via a representative, and, of course, of the need to stimulate this initiative, establishes an important approximation between European law and American Law and contributes decisively to relieving the pressure on recourse to jurisdictions which are more favourable to the individual.

At a time when harmful actions have global repercussions, the exposing of illegal practices and general and special prevention of reprehensible behaviour is a path more easily trodden by the injured party, who is thus called on to exercise an important social function. Considering law from a transnational perspective means reviewing the reach of retributive sovereignty and adapting it to the geographically dispersed nature of the interests involved and, also because of this, to the essentially individual nature of the harm caused.

Accordingly, we may object to some of the options taken in the Commission Recommendation of 11 June 2013 on common principles for injunctive and compensatory collective redress mechanisms in the Member States concerning violations of rights granted under Union Law (2013/396/EU), in particular, and insofar as this harms the provision of disgorgement damages, the terms in which a prohibition of punitive damages is established (31.): "The compensation awarded to natural or legal persons harmed in a mass harm situation should not exceed the compensation that would have been awarded, if the claim had been pursued by means of individual actions. In particular, punitive damages, leading to overcompensation in favour of the claimant party of the damage suffered, should be prohibited". There is, primarily, an underlying philosophy which, in the light of what has been written above, ought to be reconsidered (recital 6): "It is a core task of public enforcement to prevent and punish the violations of rights granted under Union law. The possibility for private persons to pursue claims based on violations of such rights supplements public enforcement".

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Chapter 9
Legal Mechanisms Enabling Disgorgement of Profits in Romania

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Abstract The legal instruments affected to the recovery of losses in the Romanian legal system are based on tort and performance restitution (applicable in unjust enrichment, annulment or rescission of contracts, impossibility to perform a contractual obligation and others). Criminal, respectively administrative, liability may be cumulated with tort, and the procedural rules applicable enable the victims to recover the damages incurred within the criminal action frame or by means of separate action. The principles applicable to disgorgement ensued by tort are: the reparation of direct damnum emergens or lucrum cessans entirely. A hypothesis of performance restitution can be completed with a request of paying damages, if the restitution in itself does not cover the entire damage suffered by the claimant, and the defendant meets all the conditions provided by the civil tort.

Keywords Tort • Unjust enrichment • Performance restitution • Recovery of losses • Liability

The legal instruments affected to the recovery of losses are *numerus clausus* in the Romanian legal system and they are based on tort (I), as well as performance restitution (II), applicable in unjust enrichment, annulment or rescission of contracts and others. The restitution may result from the recovery of losses, as well as profits, not all of the instruments entailing disgorgement being grounded on misconduct from the defendant. Presently, all the sources entailing disgorgement of profits/damages are provided in the Civil Code of 2009[1] (the Civil Code); however the recovery mechanisms are limited to *actio de in rem verso*, action for damages and action for restitution, depending on the obligation legal source.

[1]Entered into force on October 1, 2011.

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Tort

The previous Romanian Civil Code of 1864 merely provided six ineffective articles (articles 998 through 1003) for the entire tort system; most of the rules applicable to tort resulted from the doctrine and jurisprudence. Compensation further to tort is governed by several principles that have been developed in case law and obfuscator prior to the entry into force of the Civil Code and that are nowadays regulated *per se*. The principles applicable to disgorgement ensued by tort are[2]: the reparation of direct *damnum emergens* or *lucrum cessans* entirely, predictable and unpredictable at the moment it is done, joint liability of the perpetrators. In order to compensate the victim of an animal attack for the encountered damage, the entire damage must be certain in order to restore the *status quo* prior to the damaging act or deed.[3] In addition, the restitution is based on the specific economic situation of the wrongdoer and the amount that has been rendered may be subject to modification if circumstances alter.

Special rules apply for the "loss of chance" that is covered proportionally with the probability obtaining a profit or avoiding a loss and for moral damages[4] in which the law courts may render nominal reparation (especially in media case law), or render damages valuated according to the specific case circumstances. The act of publishing a creation by a publishing house established by a university through the authorisation of the publisher's company that is part of the university's foundation, without the authors' consent, represents a breach of the author right entailing the liability of the university as well as the obligation for the latter to pay compensation for moral damages.[5] The moral damage is a variety of general damage and also a relatively independent factor in order to trigger a tort action; these specific damages regard the individual moral values of a person.[6] Even though the moral damages cannot be pecuniary determined, damages inflicted have particular forms and the court has the possibility to assess the damage intensity and gravity and in order to rule in favour of compensating the moral damage.[7] Due to the fact that the victim (an underage girl) was hospitalized in several medical unities it was necessary to determine the moment when the victim was infected with HIV in order to trigger the action in damages against the culpable hospital.[8]

Criminal, respectively administrative, liability may be cumulated with tort, and the procedural rules applicable enable the victims to recover within the criminal action frame or by means of separate action the damages incurred.

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[2]Dumitrache in: Nouveau Code Civil Roumain, Traduction commentee (2013), 342.

[3]Supreme Court, Civil Section I, Decision no. 1130 of 21 February 2012.

[4]The literature refers to *pretium doloris*, *pretium affectionis*. See Boroi et al. (2009).

[5]Supreme Court, Civil and Intellectual Property Section, Decision no. 4614 of 13 May 2011.

[6]Supreme Court, Civil and Intellectual Property Section, Decision no. 6416 of 5 October 2007.

[7]Supreme Court, Civil and Intellectual Property Section, Decision no. 1534 of 21 February 2011.

[8]Supreme Court, Civil and Intellectual Property Section, Decision no. 3607 of 3 June 2008.

Particular cases where tort is applicable include recovering damages incurred form the breach of competition law rules (antitrust law), as well as unfair business conduct (unfair competition), administrative and intellectual property infringements. The usage by an ex-employee of a label that has been registered with OSIM (the national trademarks registrar), knowing that the patentee has been producing under that specific label for a long period of time, is an act of unfair competition and ensues disgorgement of profits.[9] A simple material contact is neither sufficient nor able of causing damages to the author of the intellectual property creation, unless it is of a considerable consistency and gravity in order to affect the author's reputation and honour.[10] When determining the damages encountered by the patentee, the unjust profit obtained by the wrongdoer as well as the revenue that the patentee has been deprived of, due to act of infringement of a patent, are relevant criteria.[11] Until it has been proven that the derived creation is not the translator's fruit of creation, the performed translation is protected as an author's right and ensues disgorgement of profits.[12] The use of a commercial name that is similar or identical with a trademark registered by another can create confusion regarding the background of the products or services of both the entrepreneurs and this could result in a conflict between the two intellectual property rights; in this case, the victim could file an action with the court in order to recover damages.[13]

However, in comparison with the intellectual property infringements practice that has reached an efficient level of applicability, the competition law disgorgement of profits is scarce to none in Romanian judicial practice. Despite the fact that the special law affords the possibility to obtain disgorgement, the practical difficulties in fulfilling the conditions for tort, especially the damage valuation and the direct causality of the damages, have strong dissuasive effect on victims of antitrust conduct. More specifically, the calculation of losses and profit is important and has to be precisely determined in order for damages to be awarded. In addition, the causality between the deed and the damage has to be direct, which triggers a difficulty in principle. The recent entering into force of the vast amendment of the Law on unfair trading practices no. 11/1991[14] reforms the administrative and criminal liability by de-incriminating some of the misconducts. This policy has immediate consequences on tort, as well; the condition that the unjust profit would result from an unjust practice being more difficult to be proven if the illicit behaviour is not provided in a legal norm. Consequently, the successful claims related to unfair practices may even more diminish in the future.

[9] Supreme Court, Civil Section II, Decision no. 240 of 26 January 2012.

[10] Supreme Court, Civil Section I, Decision no. 606 of 3 February 2012.

[11] Supreme Court, Civil and Intellectual Property Section, Decision no. 7041 of 12 June 2009.

[12] Supreme Court, Civil and Intellectual Property Section, Decision no. 963 of 2 February 2007.

[13] Supreme Court, Civil and Intellectual Property Section, Decision no. 3828 of 11 May 2007.

[14] Government Ordinance no. 12/2004 has entered into force on September 5th, 2014.

Tort may be applied for personal wrongdoing or for another person falling into a certain category (parents are liable for the deeds of their children, employers for their employees, teachers for pupils). In the latter, subrogation is availed to the person liable for another, the perpetrator bearing the entire liability. Even though the victims decided to claim damages from the employer of the actual perpetrator, eventually the personal liability prevails, and the wrongdoers must be held personally liable for their actions; the employer has the right to recourse with an actions against the employees (wrongdoers) in order to recover the paid amounts of money.[15]

The recovery of losses and profit is in most of the cases solved by individual claims. Class actions are possible in principle, according to the Code of Civil Procedure of 2013; however in practice the applicability of the Code of Civil Procedure is subject to corroboration with special provisions that have not been enacted in any material. The practice record encompasses odd solutions, seldom made use of and with little success.

In case the liability is sourced from contract but may also be qualified as tort, the representative Romanian doctrine considers that both forms of civil liability – contractual and tort liability – "*are forms of civil liability, being dominated by the fundamental idea of remedying the monetary damage caused by an unlawful and guilty deed",* with the specification that *"the tort civil liability forms the common law of the civil liability, as long as the contractual liability is a liability with special derogatory feature"* but "*there is no difference of essence between the two forms.*"[16]

As a practical matter, cumulating the tort civil liability with the contractual liability means the following situations:

(i) the victim is not entitled, in case of the same unlawful and harmful deed, to obtain two remedies, one based on contractual ground and the other on tort ground, by exceeding the full value of the incurred damage
(ii) the victim is not entitled to initiate a hybrid, mixed legal action, by claiming simultaneously both the rules related to the contractual liability and to the tort liability, in order to benefit by a more favourable regime, since the tort liability is more severe in comparison with the contractual liability, and, finally
(iii) the use of the tort legal action is not admissible after having used the contractual legal action, based on which the remedies have been obtained.[17]

Nonetheless, the overlap between contract and tort is not possible.[18] The differences between the two liability forms for which the cumulus is forbidden refer to the following issues: the capacity of the perpetrator of the unlawful deed; the delay notification sent to the debtor of the indemnification obligation; the value of the remedy; the joint and several feature of the tort liability. The simple act of

[15] Supreme Court, Civil Section I, Decision no. 290 of 20 January 2012.

[16] Stștescu and Bîrsan (2009), 135–136.

[17] Stștescu and Bîrsan (2009), 140; Pop (1998), 356.

[18] Zamsa (2013).

inserting the possibility of supplementing the circulation of a publication in the initial contract cannot represent sufficient basis in order to consider that the act of not publishing a new circulation is a predictable damage at the time of the execution of contract.[19] However, unpredictable damage is to be disgorged in case of tort.

Performance Restitution

Following the model of the Quebec Civil Code, the new Romanian Code sets a distinct chapter/title named Performance Restitution, at the end of the Book V (Obligations). Under this title (art. 1635–1649), the Romanian Code establishes the general rules governing the performance restitution, regardless the cause generating the restitution. These provisions in the Civil Code represent the main legislation (*ius commune*), applicable whenever no special law concerning restitution is in place, or in addition of an insufficient special law provision. As a rule, the right of restitution belongs to the person that performed the disbursement – subject to restitution, or to another person entitled by the law (pursuant to article 1636 Civil Code) which is, by force of law, the creditor of the restitution from the very moment generating the restitution. When a debt has been paid further to the issuance of a court order and afterwards a different court order invalidates the act that represented the grounds for the enforcement order, the payer is entitled to disgorgement due to the fact that the nullity has retroactive effect and the payment has become undue.[20]

The institution of the performance restitution does not overlap the hypothesis of the damages caused by a civil tort. In case of tort, damages are granted whereas in case of restitution, no misconduct is taken into consideration. Nonetheless, a hypothesis of performance restitution can be completed with a request of paying damages, if the restitution in itself does not cover the entire damage suffered by the claimant and the defendant meets all the condition provided by the civil tort. For example, in case of contract rescission there are three possible solutions rendered by the court: cancelation of the contract, performance restitution (thereby granted) and the payment of the damages.

Each one of these measures obeys – partially or entirely – to specific rules:

- annulment of the contract follows the art. 1549–1551 of the Civil Code in respect to the conditions implied for annulment or rescission, by case, and the art. 1639 of the Civil Code (ruling the performance restitution) in respect with the effects of the annulment, if a disbursement is already obtained
- payment of the damages follows the rules of tort in respect to the conditions (illicit deed, damage, direct causality between the deed and the damage, the guiltiness of the defendant) and to the rules applicable for repairing the damage.

[19] Supreme Court, Civil and Intellectual Property Section, Decision no.7982 of 23 November 2007.

[20] Supreme Court, Civil Section I, Decision no. 917 of 22 February 2013.

In article 1638 of the Civil Code it is stipulated that the disbursement performed or enforced based on a contract annulled for illegal or immoral cause is always subject to restitution. Traditionally, in this situation it is applicable the *nemo propriam turpitudinem allegans* principle. Thus, the Romanian Civil Code has chosen, among the several mechanisms used by other law systems, to apply the principle of *restitution in integrum,* considering that the scope of the action in annulment of a contract is the restitution.[21]

Restitutions may only be enforced for legally binding disbursement and the restitution may have the form of a good (asset), tangible or intangible property, whenever the good was obtained:

(a) with no legal basis or unrightfully*:* in case of breaching the promise to marry (article 268), in the cases of contract termination (as mentioned in art. 1321: term expiry, waiver of contract, non-performance of the obligation etc.); in case of an unjust enrichment (art. 1345–1348) etc. There cannot apply a waiver of tort.
(b) by mistake*:* in case of the payment not due at the date of disbursement (art. 1341–1344);
(c) based on a contract terminated with retroactive effect*:* as an effect of annulment (art. 1254) or resolution (article 1554) of a contract;
(d) in case of an impossibility to perform the contractual obligation*:* hypothesis issued in art. 1634, as a result of occurring a force majeure or fortuity case situations;
(e) in case of a future event that cannot occur if the contract is affected by such condition precedent (art. 1407 par. 4).

The principles governing the restitution are set in art. 1639–1649 of the Civil Code. We emphasize that there are many sources of restitution, albeit only one set of rules and principle for restitution, regardless the source.

As a general rule, the restitution operates in nature (allowance in kind) or by equivalent (payment of an amount of money), according to article 1637. In particular, the value of the restitution depends on many aspects, following article 1639–1649 of the Civil Code:

– the good or bad faith of the *accipiens* (the recipient of disbursement, thereby being deemed as debtor of the restitution),
– the nature of the good (asset), object of the disbursement: immovable good/property or personal estate
– the material possibility of restitution of the asset (depending if the good perishes fortuitously or not)
– the legal possibility of restitution of the asset (the good has already been transferred to a third person by the time of restitution, depending if the third party is in good or bad faith). The revocative court order of the dispossession

[21] Dumitrache in: Nouveau Code Civil Roumain, Traduction commentee (2013), 356.

for public purposes, issued after the registration of damages and the effective payment of damages, is null and void if the proprietorship (right) has already been transferred from the expropriated person to the state.[22]

Unjust Enrichment

Unjust enrichment represents the particular application of restitution where special rules apply, in addition to the general rules. The Romanian case law and literature avail to the person that has suffered an unjust diminishment of patrimony *actio de in rem verso* against the person that profited thereof. The representative civil doctrine has always considered the legal institution of unjust enrichment in the chapter on the origins of the obligations and presents it as "*another lawful legal act considered by the unanimity of the legal literature as origin of the obligations and established as such by the judicial*" and defines it as "*being the legal act whereby the assets of a person are increased by using the assets of another person, there being no legal ground for such event*."[23]

Even though there are no available statistics of existing unjust profits or their recovery, it is self evident that most of the practice in tort and *negotiorum gestio*, as well as in infringements of competition law, unfair competition practices, intellectual property rights, or for victims of criminal deeds are resolved by disgorgement of profits or damages, by case.

The former Romanian Civil Code enacted at 1864 that was vastly based on the Napoleon Code regulated solely applications of the legal institution of unjust enrichment, providing the restitution obligation for the one that increased its assets by decreasing the assets of another person (possession – art. 484 of the Civil Code, artificial confusion of immovable assets – art. 494 of the Civil Code, undue payment – art. 997 of the Civil Code, deposit agreement – art. 1618 of the Civil Code etc.). That Civil Code did not regulate disgorgement of profits or the disgorgement of damages as a principle, in a legal text with general value. Despite the lack of legal specific provisions, the practice was unequivocally decided on the application of the theory of action de *in rem verso* and *neminem laedit* in order to recover profits or damages, by case.

The actual Civil Code entered into force on October 1st 2011 regulates the legal situations occurred subsequent to that date and it remedies this legislative gap, by expressly establishing of such institution in article 1345 and the pursuant of the Civil Code. The rule applied is however the same as the theory applied prior to the enactment of the Civil Code, i.e. whenever it is established a legal relationship whereby the person that suffers an unjust decrease of its patrimony (assets) is entitled to recover its loss by a specific action – *actio de in rem verso* – against the

[22] Supreme Court, Civil Section I, Decision no. 491 of 6 February 2013.

[23] Stștescu and Bîrsan (2009), 117–119.

person that benefits from an increase of patrimony (assets) and the disgorgement of profits is due within the limits of such increase. It results that the legal institution of unjust enrichment represents a source of obligations whose applicability to the Romanian law system is beyond any doctrinal or jurisprudential dispute.

Conditions for the successful filing of *actio de in rem verso* are (i) factual and (ii) legal:

Factual conditions: (a) the increase of the assets or the defendant's enrichment, which can consist in: the obtaining of an asset, rendering of work or services etc.; (b) the decrease of the assets or claimant's impoverishment, which can consist in: the exit of certain valuables of the patrimony, making of expenses not reimbursed, performance of activities or services not having been paid etc.; (c) there should be a direct connection between the defendant's enrichment and the claimant's impoverishment, which means that both of them should have a joint cause or origin, irrespective whether the same result from the deed of the impoverished person, of the enriched person, of a third person or of a fortuitous event, it being sufficient that the enrichment and the impoverishment have a joint cause – an act or event. Also, in spite of the fact that the increase or decrease conditions are factual conditions of the institution of unjust enrichment they should be understood as a matter of law. Therefore, these factual conditions of the unjust enrichment shall also be fulfilled when the increase or decrease of the assets results indirectly, pursuant to the same act or event.[24]

Legal conditions:

(a) the absence of a legitimate cause of the increase of assets of a person to the detriment of another, the legitimate causes of the enrichment being deemed: the existence of an agreement, court decision etc.[25] For instance, in case of a *negotiorum gestio*, the *gestor* can act both in his personal interest as well as in the interest of another person and the ratification of the *negotiorum gestio* retroactively converts it into a mandate contract.[26] Under article 1346 of Civil Code, examples of just enrichment are provided, with the scope to determine the unjust ones by means of *per a contrario*: the performance of a valid obligation, failure in exerting a right by the impoverished person, the execution of a voluntary act of impoverishment, such as gratification of another.
(b) the absence of any other legal mean for recovering the incurred loss; to this effect, it is discussed the subsidiary feature of *actio de in rem verso*. In case the claimant has the action based on agreement, tort or another origin of obligations, the action based on unjust enrichment cannot be initiated.[27]

[24]To the same effect please refer to Pop (1998), 144–145; Stștescu and Bîrsan (2009), 119.

[25]The Romanian case law has assimilated the absence of the legitimate cause and the hypothesis of exceeding the contractual framework between the parties. Decision no. 5197/2004 of the High Court of Cassation and Justice, the Commercial Section provides "*The co-existence possibility of the unjust enrichment and contractual relationship*".

[26]Supreme Court, Civil Section I, Decision no. 271 of 20 January 2012.

[27]To the same effect Pop (1998), 145; Stștescu and Bîrsan (2009), 120.

The Co-existence Possibility of Unjust Enrichment and Contractual Relationship

Upon mentioning the first legal condition of the initiation of *actio de in rem verso*, we specified that the Romanian case law has assimilated the absence of the legitimate cause and the hypothesis of exceeding the contractual framework between the parties. The preeminent case where this matter has been solved in this sense is Decision no. 5197/2004 of the High Court of Cassation and Justice, the Commercial Section, which, in the context of the existence of a construction agreement between the parties, admitted *actio de in rem verso* for recovering the costs by performance of required additional works not specified upon contracting. This case has been noticed by the relevant legal writings and commented distinctly by several important civil law authors, just because of the fact that it "broke" and rendered peculiar a certain tradition and automatism in the field of preventing any *actio de in rem verso* in the hypothesis of the existence of an agreement: "*the practice of the Supreme Court approved the admissibility of an action based on the unjust enrichment principle, initiated by the constructor against the beneficiary, having as object the ordering of the latter to pay the additional repair work, besides those representing the subject of the construction agreement and of the additional works . . . .It has also been held that such repairing, additional and un-contracted works have been required since, if absent, the works representing the subject of the construction agreement could no longer be performed, fact which would have caused the failure to complete and deliver the objectives, on the contractual term provided therefore . . . It has been concluded that the only way to recover the amounts related to the additional repairing works consisted in initiating a legal action based on the unjust enrichment principle, by considering that the works had been performed on the decision ruling date, so that, given that the beneficiary accepted and thereafter, confirmed the works performance, it was groundless to retain that the contractor could benefit by the conclusion of a new procurement agreement, for recovering the value thereof*."[28]

Based on such hypothesis, there is no contradiction between the existence of a contractual relationship and the admission of *actio de in rem verso*, since the institution of unjust enrichment represents the legal ground of the recovery of the expenses made for the performance of additional works not provided by the parties upon the execution of the agreement, fact which is equivalent to exceeding of the initial contractual framework. As long as the necessity of the performance of additional works is admitted, it is obvious that the constructor incurred a loss and the beneficiary enjoyed a profit; given that this situation is not findable in the contractual provisions agreed by the parties and that it is not covered by the initially stipulated price, the sole settlement manner consists in the application of the mechanism of *actio de in rem verso*. Therefore, the subsidiary feature of *actio de in rem verso* is not ignored, as long as the unjust enrichment does not constitute a ground that might be overlapping with the contractual ground of the costs recovery. In such hypothesis, the claimant does not enjoy the contractual legal action for recovering

[28] Deak (2006), 213.

the costs, as long as the additional and compulsory performed works required for the performance of the object of the agreement have not been stipulated in the agreement.

In the conditions of the hypothesis of the application of the unjust enrichment principle while an agreement between the parties exists, with its limits exceeded, the jurisdictional body must assess the de facto and de jure situation through reference to the content of the agreement submitted to it (respectively, to analyze the clauses thereof and to verify whether there is an applicable mechanism for considering the additional works) and to the effective performed works (for estimating whether the contractual framework has actually been exceeded). As regards this issue, we stress that the existence of an agreement as an impediment for the application of the unjust enrichment principle contemplates the existence, under legal form, of an agreement valid and efficient from legal point of view.

Therefore, in case one of the parties has limited its liability, by a clause, with respect to the occurrence of the necessity of additional works, such clause shall be part of the agreement and shall prevent the application of the unjust enrichment principle solely to the extent such liability limitation clause has been validly assumed. According to the legal writings, any liability limitation clause is valid in the Romanian civil law solely insofar the party benefiting by the liability limitation had not previously breached, in bad faith (namely, deliberately) or by gross negligence, its obligations related to the liability limitation.[29] Same solution is sustained further to the applicability of the principle *nemo propriam turpitudinem allegans*, i.e. the beneficiary of the liability limitation clause is not entitled to claim it, in case the fault is ascertained or, more serious, its misrepresentation, in connection with the circumstances of such clause activation.

This category also includes the obligation to inform the co-contractor upon the conclusion of the agreement. In case the party failed to fulfil accordingly such obligation to inform and to make available to the adverse party all data required for outlining the performance obligation, e.g. certain works, the clause whereby the party limits its liability related to additional works can no longer receive the legal efficiency and the value of the additional works can be recovered by way of *actio de in rem verso*.

The effects of unjust enrichment:

(a) the enriched person (the defendant) is bound to disgorge to the impoverished person the value of his benefits. He shall be bound to pay legal interests solely if he acted in bad faith; this situation involves differences in the doctrine solely with respect to the legal ground for granting interest (i) by application, through analogy with the undue payment, the case of the bad faith creditor (art. 994 of the Civil Code 1864) or (ii) by the triggering of the tort liability of the defendant.[30]

[29] To the same effect Stștescu and Bîrsan (2009), 338.

[30] Pop (1998), 146.

(b) the impoverished person (the claimant) is entitled to obtain disgorgement solely in the value of his impoverishment, and also in the hypothesis in which the enriched person (the defendant) acted in bad faith; the claimant shall obtain interests, as well.[31] The disgorgement is limited on a two tier level, i.e. the enrichment upper level and the impoverished lower level.

The Civil Code in force brought to this instrument for disgorgement of profits (*actio de in rem verso*) several amendments deemed to improve the conditions and to expedite the process. Due to the fact the Civil Code is not retroactively enforceable; the case law grounded on it is yet scarce and is difficult to assess at this moment its impact on the jurisprudence. Also, the doctrine has commented little on the new legislation that regulates *actio de in rem verso* in the same fashion as the judicial practice and scholars have interpreted the Roman law principle applied prior to the current Civil Code. A novelty of the Civil Code, the non compliance of fiduciary obligations may lead to contractual liability and, in subsidiary to unjust enrichment applicability.

Conclusion

In conclusion, the disgorgement of profits/damages is duly regulated in the Civil Code, being functionally applicable, including the class action instrument. The mechanisms availed to disgorgement creditors vary depending on the nature of their title/receivable. Tort entails different rules than unjust enrichment and contractual restitutions (in case of rescission or annulment). In practice, the most convenient mechanism pertains to performance restitution, the conditions being more lenient than for recovery pursuant to tort.

Due to the little time lapsed from the entry into force of the Civil Code in 2011 (and – in regard to class action – of Code of civil Procedure of 2013), a proper impact assessment in jurisprudence of the newly regulated institutions such as *actio popularis* is unlikely. In respect with the newly regulated instruments (unjust enrichment and performance restitution), since they are the result of prior stable and unequivocal practice in law courts and in accordance with the scholar opinions, it is improbable that it might have different result than the already established practice in these regards.

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Chapter 10
Disgorgement of Profits Under Spanish Law

Carlos Gomez Ligüerre

Abstract Spanish Civil Code rejected the idea of including a general regulation on unjust enrichment. Hence, restitutionary remedies have been usually understood as a by-product of a proper compensation in cases of tort and breach of contract. Spanish private law has set aside unjust enrichment claims, mostly designed by the case law as a subsidiary remedy only available in specific cases. Such particular view of the restitution explains that Spanish private law lacks a general theory on disgorgement. Disgorging profits is just possible in a couple of specific situations statutorily established. In addition, disgorgement is understood as a proxy of compensation in cases in which the asses of damages is unfeasible.

Keywords Unjust enrichment • Implied contracts • Remedies

The Legal Distinction Between Contracts and Torts

The Spanish Civil Code was enacted in 1889 and it followed the model of the French Civil Code of 1804. Like in the French case, the Spanish Civil Code abhorred limitations to the freedom of contract and the freedom of transfer the property rights. There is no duty to transfer the assets by their fair or accurate price. According to the liberal view of the Spanish Code, the market should be the only way of determining the transferability of assets and their price.[1] Under such a way of understanding private relationships within the market, the contract is the best way for conveying assets voluntarily, while torts are the proper means for redressing the involuntary transfers of wealth.

Following the pattern of the French Civil Code, the Spanish Civil Code drafted a system of remedies mostly based in a clear distinction between breach of contract and tort. The former tries to grant to the victim of a breach of contract with the

[1]For a general explanation of the formation of Spanish private law see Vaquer Aloy (2006).

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expectation damages, while the latter is limited to the reliance damages. In other words, remedies for breach of contract intend to leave the victim in the same position he should enjoy if the contract would have been duly performed. Tort remedies aim to compensate to the victim for loss or injury by reverting the victim, as far as possible, to the position before such loss or injury occurred.[2]

Although the most of the parts of the Spanish Civil Code have been modified since its enactment, the aforementioned distinction has remained unaltered. Accordingly, rights as well as remedies for their protection arise under Spanish private law either from a contract or from a tort. Hence, the Spanish Civil Code provides remedies for the protection of contractual rights and general tort remedies as well. The two categories should always fit in the real cases since the scope of the Spanish tort law includes all kind of harms and losses. As was done before by article 1382 of the French Civil Code,[3] the article 1902 of the Spanish Civil Code sets forth the general rule on tort law in very broad and general terms.[4] Tort claim does not require the breach of specific statutory duties or a reckless behavior against particular rights. The tort claim is not restricted to specific situations.[5] Under Spanish law, the tort claim may include any kind of harm or loss suffered by the victim, economic as well as non-economic, with no other limits than those required by the cause-in-fact and the proximate causation (*objektive Zurechnungslehre*) links.

Therefore, in the structure of liabilities and remedies designed by the drafters of the Spanish Civil Code what should not be claimed as a result of a contractual breach, should be protected by a tort claim. The loss should be only the consequence of either a wrongful breach of contract or the causation of harmful consequences by a tortfeasor.

The only exception to the dual system of liability and remedies envisaged by the Spanish Civil Code consists of the regulation of the so-called "quasi-contracts" or "implied-contracts". Spanish Civil Code includes two of them: the management of another business (*negotiorum gestio*) and the payment or collection of undue debts (*indebiti solutio*).

Differently from the remedies designed for breach of contract and tort situations, "quasi contracts" deserved just a restitutionary remedy based on the devolution of, first, what was unduly paid or, second, the payment of what was done without

[2]In the same way that the rest of Civil law systems, Spanish tort law does not apply *punitive or exemplary damages*. Anyway, non-pecuniary damages tend to be higher when the tortfeasor has caused the harm intentionally or the accident has been caused with gross recklessness, slight or scant care. Otherwise, the legal mandate attached to the tort recovery encompasses losses with compensation, without taking into account the tortfeasor's intention. See Gómez Pomar (2000).

[3]Article 1382 of the French Civil Code sets forth that: "Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate it."

[4]Article 1902 of the Spanish Civil Code sets forth that: "The person who, as a result of an act or omission, causes damage to another by his fault or negligence shall be obliged to repair the damage caused."

[5]It is not a remedy attached to a specific and typified taxonomy of cases or protected interests. See Pantaleón Prieto (1991). See also Wagner (2006).

a previous order or assignment. In any case, the restitution is limited to the real advantage provided as a consequence of the management or the payment done outside a contractual relationship.

Legal scholars agree on the exceptional nature of the «quasi contracts». They are uncommon means of recovery in specific situations that cannot be applied analogically.[6] They are exceptions to the general idea according to which the explanation of the transfer of assets has to do only either with valid contracts or with the compensation due to torts.

The Case of the Unjust Enrichment. Restitutionary Versus Compensatory Remedies

The legal system should enhance enrichments and all of them are fair, unless they have been obtained as a consequence of a void or invalid contract or as a consequence of a wrong. If the contract is invalid or it has been not duly performed, contractual remedies will arise. If there is no contractual relationship between the tortfeasor and the victim, redresses in case of tort will apply. There is no place, at least in theory, for a third way of imposing liability, a *tertium genus*, concerned with unfair attributions of assets. Everyone benefitted at another's expense is committing either a breach of contract or a tort.

In fact, by introducing the requirement of a valid "causa", a legal ground that gives validity to the contract,[7] the Spanish Civil Code is widening the realm of the contractual remedies. Each and every transfer should correspond with a valid and legal ground.[8] Contracts as well as the transfer of assets made by virtue of them are valid only to the extent that they correspond with a legal ground. Contracts made against mandatory rules or pursuing illegitimate goals will be void because of the unfairness of its "causa". The necessity of a legal ground for a valid contract introduces into the scope of the contractual remedies situations that otherwise would be covered by the traditional doctrine of the unjust enrichment.

However, Spanish private law has traditionally faced problems when dealing with situations that have two common features: First, they imply a transfer of assets; and second, they are neither contract nor tort. Such situations can arise from a different

[6]Díez-Picazo (2007), 113–114.

[7]According to article 1261 of the Spanish Civil Code: "There is no contract unless the following requirements are present: (1) Consent of the contracting parties; (2) A certain object which is the subject matter of the agreement; (3) Cause of the obligation established."

[8]The Spanish legal regime follows the pattern given by the French Civil Code. See among others Visser (2006); Gordley and von Mehren (2006), 555. There is nothing in the Spanish contract law like the German *Abstraktionsprinzip*. Then, cases in which someone becomes the owner of something as the result of an invalid contract are much less frequent than in Germanic legal systems. See Zweigert and Kötz (1996), 538–567.

set of situations. Some of them come up as a consequence of the breach of fiduciary duties. Some are consequences of the unauthorized use of a thing or right vested to another. Some, finally, refer to enrichments obtained by chance, like some kinds of encroachment.

All of them have in common that someone has got some enrichment. Since such a transfer of assets has been made beyond or independently of the performance of a specific contract, compensatory remedies based on expectation damages are not an accurate redress. Since such enrichment is not a consequence of a wrongful action, the situation cannot be dealt with as a tort. However, since the enrichment has been obtained without a legal ground it can be deemed as unjust or unjustified and a restitutionary remedy should apply.

Hence, despite the absence of a general regulation of the unjust enrichment in the Civil Code, Spanish case law has traditionally considered the victim of an unjust enrichment entitled to relief.[9] The claim is subject to three requirements:

(a) Firstly, the absence of a legal explanation that allow the defendant to retain the enrichment. In such cases, the enrichment cannot be considered as unjust or unfair and therefore there is no reason to give it back to the plaintiff.
(b) Secondly, the absence of any contractual or tort remedy that can redress the wrong. It means that the unjust enrichment claim is subsidiary, as it is usually referred by the Spanish case law. There is place for an unjust enrichment claim only in cases in which there is no other relief based on contractual or tort remedies.
(c) Thirdly, the victim is entitled to claim only for the loss he had suffered. The defendant's enrichment should correspond with the loss suffered by the plaintiff, who is entitled to claim exactly for the amount of his loss.

Therefore, under Spanish law, restitution is conceived as a subsidiary remedy limited to the amount of the impoverishment unduly suffered by the claimant. In addition to the lack of a legal ground, to qualify the enrichment as unjust, it has to amount to the loss that the plaintiff aims to recover.

Unjust Enrichment Mirrors Claimant's Losses. The Problem of Disgorgement

Under Spanish law, unjust enrichment refers to restitution, that is to say, to the act of giving back what was unduly earned or obtained. The unjust enrichment claim also works when the defendant has saved something that otherwise he should pay. The key issue is, in any case, that the plaintiff has experienced a loss or has lost a benefit and that both can be deemed as unfair or unjustified. From the point of view of the

[9]See Schlechtriem (2000). For a general explanation of the Spanish cause of action for unjust enrichment see Díez-Picazo (1988).

defendant, the unjust enrichment claim can be based on an unduly increase of his assets (*lucrum emergens*) as well as in an unfair saving of a due payment (*damnum cessans*). In both cases, the unjust enrichment doctrine compares the current plaintiff and defendant assets with those assets that each of them would have in absence the unjust conveyance of assets.

The unjust enrichment claim may follow situations in which the plaintiff has given something to the defendant expecting some kind of activity by the latter. Being the activity not carried out, the plaintiff is entitled to be recovered. Usually, the best way for recovering will be the restitution *in natura*. Without such restitution, the defendant would retain with no legal ground the assets given by the plaintiff. When specific restitution (*in natura*) is not possible, monetary relief should apply.

Payments of another's debts per mistake or investments in another's projects may also entail an unjust enrichment claim. The frustration of contracts for conveying ownership rights as a consequence of the application of rules governing the protection of the third parties' good faith is also an unjust enrichment case. In all of these cases, the legal system usually entitles the plaintiff with a right to enter as a surrogate in an alien legal relation.

In any case, it is generally understood that the claim of action for unjust enrichment requires that the plaintiff suffered an impoverishment that corresponds to the equivalent enrichment gained by the defendant.

In addition, the unjust enrichment doctrine asks for the proof of the causation link between the enrichment and the impoverishment. The latter should be the consequence of the former. What the plaintiff done or how much he did pay should correspond with the amount the defendant earned or obtained. The burden of proof rests on the plaintiff, and his cause of action is limited to the extent that his impoverishment equals the benefit unduly obtained by the defendant. The exact amount of the claim will be quantified according to the *Saldotheorie*: the calculation should deduct the costs made by the defendant that the plaintiff ought to face in case he would obtained the same benefit that he is claiming for by the unjust enrichment doctrine.

The relationship between the enrichment and the impoverishment poses a real problem in cases in which the wrongdoer has made an unduly use of another's right or legal position. In such cases, the wrongdoer may have obtained some benefits that do not correspond with a real loss experienced by the rightholder. Giving up the profits illegally or wrongly obtained when the plaintiff has not suffered losses is something that does not fit with the purpose traditionally attached to the unjust enrichment claims under Spanish law.

When the Profits Amount to Damages

When a wrongdoer makes profit by using another's right, the rightholder is entitled to claim for redress. Under Spanish law, the problem in such cases is to identify the kind of remedy that can be claimed. Since there is no contract between the wrongdoer and the rightholder, con contractual remedies apply. At the same time,

since there are no losses, neither tort nor unjust enrichment doctrines give to the rightholder a clear way for protecting his legal position. What these situations have in common is the existence of an unduly obtained benefit, although it does not correspond to any loss suffered by the plaintiff.

In spite of the aforementioned limitations, it seems clear that when someone is legally vested with a right, specifically a property right, the legal system is attributing to the rightholder the entire economic content of the right and the freedom to decide how to use and to invest it. Then, the rightholder should be entitled to get back the benefits obtained by profiting his right without or beyond his consent.

Under Spanish law such situations have been solved statutorily. A handful of legal provisions set forth that the rightholder is entitled to receive the profits unduly obtained by the wrongdoer that used or took advantage of the plaintiff's rights. This is the case in the article 9.3 of the Spanish Freedom of Speech Act.[10] The provision allows the plaintiff to receive the profits earned by the publisher of false or illegitimate obtained information. The article 140 of the Spanish Intellectual Property Act[11] establishes the same principle regarding the violation of copyrights. In the same way, the article 43 of the Spanish Trademark Act[12] also allows the rightholder to get compensated according to the profits obtained by the offender.

These are the most prominent examples of disgorgement of profits under Spanish private law. Regarding them, three issues should be highlighted:

(a) First, all the legal provisions that foresee disgorgement attach it to intentional wrongs affecting property rights. Then, it seems that no disgorgement should follow to pure negligence.
(b) Second, since such disgorgements are provided by specific statutes, it seems clear that, under Spanish law, disgorgement is a specific remedy that is only feasible when a legal provision allows the plaintiff to ask for wrongdoer's profits.
(c) Third, and most relevant, the mentioned examples are legally qualified as cases of damages, and the profits unduly obtained by the wrongdoer are used as a basis for quantify the compensation that the victim of a false information or a violation of the copyright or of a trademark is entitled to claim for. The legal cases of disgorgement are presented, in fact, as a mean of calculating damages instead of as a specific case of unjust enrichment.

Hence, there is no general principle of disgorging profits under Spanish private law, and the specific legal provisions deal with disgorgement cases as damages. Disgorgement is just a way for calculating damages in cases in which the absence

[10]Ley Orgánica 1/1982, de 5 de mayo, de protección civil del honor, la intimidad personal y familiar y la propia imagen.

[11]Real Decreto Legislativo 1/1996, de 12 de abril, por el que se aprueba el Texto Refundido de la Ley de Propiedad Intelectual.

[12]Ley 17/2001, de 7 de diciembre, de Marcas.

of a loss or injury suffered by the victim makes him very difficult to prove the extent of the compensation he is entitled to receive. They are statutory torts cases and damages are statutorily established.

There is a dogmatic critique to this situation. The mentioned legal provisions, at the end, blur the distinction between restitution and compensation. Spanish legal scholars have largely stand for the categorization of disgorgement within the scope of the unjust enrichment doctrines and they are reluctant to conceived disgorgement as compensation remedy.[13] Dealing disgorgement as unjust enrichment would make clear its restitutionary nature. At least in theory, nothing prevents the victim of such statutory torts from claiming for higher damages than those calculated according to the profits obtained by the wrongdoer. Then it seems accurate to distinguish restitution from compensation and to place disgorgement within the scope of the unjust enrichment doctrines, though the profits to be disgorged do not correspond with claimant's losses.[14]

It is generally understood among legal scholars[15] that the solution provided by the article 32 of the Spanish Unfair Competition Act[16] suits technically much better with the goals pursued by the disgorgement remedy as a mere restitutionary way of redress. The article allows the victim of an unfair competition activity to claim for disgorging profits obtained by the wrongdoer in addition to damages, provided that they can be assessed.

Final Remarks

Spanish private law does not have a general principle on disgorgement. In fact does not have a general regulation on unjust enrichment, neither. Restitution is a remedy enclosed in the general compensatory remedies in case of breach of contract or tort.

The traditional category of the "quasi contracts" is exceptional and case law has made a very restrict interpretation of the legal provisions regarding such category. They have not been understood as a general mean of allowing claims for unjust enrichment. At its turn, unjust enrichment itself has been traditionally considered subsidiary to claims for breach of contract or tort. The few legal provisions that allow disgorging profits acknowledge the remedy as a substitute of the damages that otherwise should pay the wrongdoer. Disgorgement is statutorily understood as a proxy of compensation.

[13] See Basozabal Arrue (1998).

[14] "As a general rule, damages are based on loss to the claimant and not on gain to the defendant", Peel (2011). Thus, the normal field of disgorgement seems to be the unjust enrichment doctrine rather than damages.

[15] See Massaguer Fuentes (1999).

[16] Ley 3/1991, de 10 de enero, de Competencia Desleal.

Probably because of the abovementioned reasons, disgorgement has been traditionally seen as an elusive institution, a last legal response to difficult cases. A better understanding of the disgorgement remedy could make it more common in cases in which the legal system tries to promote the benefits of a legal position to its rightholder. A broader concept of disgorgement could apply the principle in all cases of wrongdoing in which the wrongdoer has taken advantage of the wrong. For instance, in cases compensating the possession of another's property or as a way for assessing the compensation for breach of contract.

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Part IV
German Legal Systems

Chapter 11
Disgorgement of Profits Under Austrian Law

Maximilian Brunner and Stefan Perner

Abstract Although Austrian criminal law contributes to the idea of disgorging unlawfully gained advantages, Austrian law places the main focus of attention on remedies arising under private law. Given that the Austrian Civil Code does not expressly provide a general legal basis for disgorgement damages, claims under the law of unjust enrichment play an important role regarding profit disgorgement. However, at least in special areas of private law an instrument is available that appears to be at least closely related to disgorgement damages.

Keywords Disgorgement • Profit • Austria • Confiscation • Forfeiture • Unjust enrichment • Damages • Disgorgement damages • Intellectual property law • Competition law

Introduction

The idea that unlawful conduct should not pay is very common in Austrian law. It underlies various statutory provisions and also appears in legal literature. In assessing to what extent Austrian law provides for the disgorgement of unlawfully gained advantages criminal and private law mechanisms both have to be considered.

Criminal Law

As a start, Austrian criminal law provides regulations aiming at disgorgement of unlawful profits gained in connection with criminal offenses. In the context of the present topic sections 19a and 20 of the Austrian Criminal Code are of special interest.

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Section 19a regulates confiscation of items and thereby determines that *inter alia* items generated through a deliberate crime have to be confiscated. Examples cited in literature constitute goods produced by an environmentally hazardous factory.[1] These products may be confiscated by virtue of section 19a which to some extent serves the aim of disgorging unlawfully gained advantages.

Even more relevant is section 20.[2] It states that assets received *for* committing a criminal act or acquired *through* a criminal act are subject to forfeiture. Other than section 19a, section 20 provides that the asset must already exist at the time the criminal act is committed. In contrast, an item generated through a crime in the meaning of section 19a comes into existence only through the crime.[3] Accordingly, the forfeiture under section 20 captures various kinds of unlawfully gained advantages: Examples are proceeds due to trading with arms or illegal narcotics, bribes an office holder received and generally the remuneration the offender received from a third party for executing his offense. The forfeiture does not only lead to disgorgement of the offender's net profits as his expenses do not reduce the amount subject to forfeiture. Therefore, more than the actual profit has to be given away. This is why forfeiture under section 20 is regarded as a punishment rather than a compensation claim among legal scholars.[4] In addition, interests arising from the asset subject to forfeiture and substitutions that replaced the relevant asset (e.g. consideration for the sold stolen good) may be disgorged by virtue of section 20. Plus, also assets belonging to third parties are subject to forfeiture. However, it is questionable whether expenses the offender saved himself due to the offense may be disgorged by way of section 20. Also, for instance the advantage somebody gained due to bribing an office holder is (as against the bribe itself) not subject to forfeiture. Moreover, naturally section 20 as well as section 19a only encompasses criminal acts and thereby does not capture profits due to unlawful but non-criminal conduct.

The aforementioned restrictions of the scope of application show the limited reach of the provisions: Although sections 19a and 20 do aim at profit disgorgement[5] and thereby encompass certain important kinds of unlawful advantages, the provisions are everything but comprehensive. Therefore, Austrian criminal law contributes to the idea that unlawful conduct should not pay but does not suffice by itself. Concerning disgorgement of unlawful profits Austrian law places the main focus of attention on remedies arising under private law.

[1] Fuchs and Tipold, in: Höpfel and Ratz (2012), § 19a para. 4, 15 and § 20 para. 16.

[2] See as to the following Fuchs and Tipold, in: Höpfel and Ratz (2012), § 20 para. 1 et seqq.

[3] Fuchs and Tipold, in: Höpfel and Ratz (2012), § 19a para. 3 and § 20 para. 12.

[4] Fuchs and Tipold, in: Höpfel and Ratz (2012), Vor §§ 19a-20c para. 13.

[5] Compare Fuchs and Tipold, in: Höpfel and Ratz (2012), Vor §§ 19a-20c para. 3.

Private Law

Unjust Enrichment

When an Austrian private lawyer discusses profit disgorgement, the law of unjust enrichment comes to his mind first. The fundamental principle underlying this branch of law is that nobody is allowed to enrich oneself at another's expense without legal cause; enrichment gained in violation of this principle must be disgorged.[6] Therefore, disgorgement of unlawfully gained advantages through the law of unjust enrichment is a typical legal consequence for illegalities.[7]

Austria's law of unjust enrichment is split into two categories of claims: Firstly, claims that aim at undoing willful benefits the claimant provided for the plaintiff without legal cause and secondly, all other kinds of unjust enrichment.[8]

Given that in typical cases where disgorgement damages are discussed (e.g. infringements of competition law, ip-law or personal rights by mass media) the claimant did not provide a direct benefit for the plaintiff, the latter category is of special interest in this context. The elementary provision here (and of the law of unjust enrichment on the whole) is section 1041 of the Austrian Civil Code of 1811.[9] Its relatively broad interpretation leads to the following understanding of the provision: Whenever a legal interest allocated to a person by the legal order is used by somebody else in a way that contradicts the right of the entitled person, the enriched person has to disgorge the advantages gained by the unlawful usage.[10]

As examples for cases that create disgorgement claims in virtue of section 1041 are cited: Selling another's property, grazing of one's cattle at another's land, infringement of another's hunting right, using another's trademark for own goods, building on another's land while mistaking it for one's own land, infringing the privilege as to one's own image by publishing photos of a famous dancer, making use of a competitor's business secret that was found out unlawfully and outcompeting competitors by providing wrong information.[11]

Therefore, section 1041 serves as the legal basis for disgorgement claims in many cases. However, section 1041 is not all-embracing;[12] it is held that claims in

[6] Bydlinski (1996), 235.

[7] Compare e.g. Welser (2007), 273 et seqq.; Koziol in: Koziol et al. (2014), § 1041 para. 4; Enzinger (2012), para. 640.

[8] See e.g. Perner et al. (2014), 368 et seqq.

[9] Koziol in: Koziol et al. (2014), § 1041 para. 1; Bydlinski (1996), 240.

[10] Fundamentally Bydlinski (1996), 239 et seqq.; Perner et al. (2014), 377 et seqq.

[11] Wilburg (1934), 36 et seqq.; see also Perner et al. (2014), 377 et seqq.

[12] Compare Rummel (1971), 385, 394.

unjust enrichment would not encompass profits gained by destruction of another's property because destruction would not constitute "usage" in the meaning of section 1041. Accordingly, whenever an entrepreneur destroys a competitor's machine and thereby is able to increase his profit, the competitor could not demand this profit by a claim under the law of unjust enrichment. Also, when an entrepreneur hurts his competitor physically or in cases where a media company considerably increases its profits by publishing a faked interview with a celebrity[13], the law of unjust enrichment would – according to that opinion – not take effect.[14] It is also held that profits due to the obstruction of competitors would not trigger a claim in virtue of section 1041.[15] Accordingly, not every unlawful advantage may be disgorged by way of a claim in unjust enrichment; the law of unjust enrichment leaves gaps that could imaginably be filled by the law of damages.

Disgorgement Damages

Starting Point: The Civil Code

The Austrian law of damages is mainly governed by the Austrian Civil Code of 1811 and especially by its sections 1293 et seqq. These sections do not contain any provisions that expressly establish a general legal basis for disgorgement damages. For a plaintiff who claims damages under Austrian law the Civil Code offers (at the most[16]) only two ways of calculating the extent of his damages: They may be assessed either abstractly or concretely, which means that the plaintiff may either claim the current market price of e.g. his destroyed good (abstract calculation) or the difference between his actual wealth and his hypothetical wealth he would have without the damaging event (concrete calculation).[17] There is no indication for a third kind of calculation in the Civil Code. Therefore, the Civil Code does not (at least expressly) offer the possibility to demand by claim for damages the advantages gained by the wrongdoer through his unlawful conduct. That is the situation in the Austrian Civil Code of 1811. However, there are special areas of private law where the statutory situation seems to be quite different.

[13] Contrary Wilburg (1934), 44, who supports a claim in unjust enrichment in a comparable case.

[14] Koziol (2009), 237 et seqq., particularly 239; Koziol (2010), para. 2/33 et seqq.; see also Rummel in: Rummel (2000), § 1041 para. 3; again Koziol in: Koziol et al. (2014), § 1041 para. 9.

[15] Enzinger (2012), para. 638.

[16] If damage is not caused by an act of gross fault the plaintiff even has only recourse to one single way of assessing damages (namely the abstract calculation), see e.g. Perner et al. (2014), 298.

[17] Karner in: Koziol et al. (2014), § 1293 para. 8 et seqq.

Intellectual Property Law (Ip-Law)

Remedies Available Under Ip-Law

Austrian ip-law is governed by several statutory acts. Depending on the kind of ip-right infringed following statutes may for example be applicable: The Protection of Trademarks Act of 1970 if trademark rights are held to be violated, the Copyright Act in case of copyrights being infringed and the Patent Act concerning patent right violations. However, although it seems that every ip-right is subject to different, special rules and has its own statutory act, in terms of potential remedies the difference is insignificantly small. All statutes in question give recourse to the same identical remedies.[18]

Besides the right to forbearance and the right to abatement, statutory ip-law especially provides different rights to claim money.[19] At first, it enables plaintiffs to claim an appropriate license fee. This right is held to be a claim belonging to the law of unjust enrichment rather than to the law of damages. Accordingly, the claim is independent from fault.[20] Although this remedy obviously already aims at disgorging an unlawful advantage from the wrongdoer (namely the saved license fee)[21], statutory ip-law still goes further in case of the wrongdoer having acted culpably: It provides (alternatively to the appropriate license fee) the right to either claim regular compensatory damages or to disgorge the whole profit the violator gained through the infringement. Also, if the violator acted deliberately or at least gross negligently (for copyright infringements even slight negligence suffices), the injured party is enabled to claim even double license fee. This is held to be lump sum damage compensation in order to avoid difficulties arising from proving the concrete loss.[22] In order to prepare his actions the infringed party is entitled to claim for submission of accounts.[23]

In Particular: The Claim to Disgorge the Violator's Profits

The nature of the title to disgorge the violator's profits is highly controversial. While some commentators consider it to be a claim within a specific branch of the law

[18] See Heidinger in: Wiebe (2012), 234 et seqq.

[19] See regarding this paragraph Koppensteiner (2012), 184 et seqq. (in particular regarding trademark law) and Heidinger in: Wiebe (2012), 234 et seqq.

[20] Koziol (2009), 244; Koziol (2010), para. 2/38; Koppensteiner (2012), 189; Kodek in: Kletečka and Schauer (version 1.01), § 1293 para. 27.

[21] Compare Torggler (1971), 8 et seqq.; Heidinger in: Wiebe (2012), 234 et seqq.

[22] Heidinger in: Wiebe (2012), 234 et seqq.; Guggenbichler in: Kucsko and Schumacher (2013), § 53 para. 47 et seqq., especially para. 49.

[23] Compare Kucsko (2003), 532.

(unjust enrichment, damages etc.),[24] others are of the opinion that it is a title sui generis.[25] In spite of that discussion and independent from the legal category the claim belongs to, it appears that intellectual property law (in contrast to the Civil Code) provides for an instrument that is at least closely related to disgorgement damages: It requires fault and entitles the violated party to claim the net profit arising from the infringement. The net profit amounts to the whole proceeds the violator earned reduced by variable costs. Fixed costs do not reduce the claim. However, the violator is not obliged to hand over those parts of his proceeds that are due to other reasons than the law infringement (e.g. quality of sold products, intensity of advertisement). Given that difficulties in proving the concrete amount of net profits can arise, the Austrian Code of Civil Procedure allows that the deciding judge estimates the amount of net profits.[26]

Although ip-law is the only branch of law where a claim in disgorgement damages (or at least a closely related remedy) is implemented in such a general and distinct way by the applicable statutes, there are some indications for the same kind of remedy in another field too.

Competition Law

Basically, the relevant statutory act aiming at avoiding unfair competition (namely the Act Against Unfair Competition of 1984) does not include any provision that expressly establishes disgorgement damages in general.[27] In this regard, the statutory situation seems to be just like in the Civil Code.[28] However, section 9 para. 4 of the Unfair Competition Act provides recourse to disgorgement damages (or a closely related remedy) under certain circumstances:[29] The provision refers to the Patent Act and thereby declares applicable the remedy to claim the profits gained by the wrongdoer in case of violations of company symbols. Hence, statutory competition law recognizes sort of disgorgement damages to some extent.

[24] Implicitly for a claim in law of damages Kodek in: Kletečka and Schauer (version 1.01), § 1293 para. 26 et seqq.; for a claim in law of unjust enrichment Koppensteiner (2012), 191; see also Guggenbichler in: Kucsko and Schumacher (2013), § 53 para. 38; inconsistently OGH (= Austrian Supreme Court) 14.10.1986, 4 Ob 376/86 (available on http://www.ris.bka.gv.at/Jus).

[25] Compare Koziol (2010), para. 2/45.

[26] Guggenbichler in: Kucsko and Schumacher (2013), § 53 para. 42 et seqq.; see as to variable and fixed costs also OGH 20.01.2014, 4 Ob 182/13p.

[27] Compare section 16 Act Against Unfair Competition of 1984; Kodek and Leupold in: Wiebe and Kodek (2012), § 16 para. 67 et seqq.; OGH 13.07.1953, 3 Ob 417/53 = SZ 26/189.

[28] See above.

[29] Schmid in: Wiebe and Kodek (2012), § 9 para. 178; compare also Kodek and Leupold in: Wiebe and Kodek (2012), § 16 para. 67.

However, the scope of the aforementioned provision is quite narrow and does not include all acts of unfair competition; it only encompasses abuses of names[30], firms[31], special company designations, domain names, titles of print work, special configuration of companies and/or products and non-registered trademarks.[32] Regarding acts of unfair competition going beyond the scope of section 9 para. 4, a legal basis for disgorgement damages is lacking under statutory competition law. Even more surprising, in two judgments[33] the Austrian Supreme Court nonetheless indicated that disgorgement damages were principally available for breaches of competition law. Indeed, the said decisions are relatively old (they date back to 1953 respectively 1962). However, the Court expressly held that beside claiming the plaintiff's missing profit or missing license fee, a third mean of assessing damages was available by resorting to the profit gained by the defendant. The court also referred to the situation under ip-law where explicit provisions provided for disgorgement claims.[34] Both judgments referred to section 273 Austrian Code of Civil Procedure (already indicated above) that allows estimation of the amount of damages in case of difficulties in proving the actual amount of damages.[35] The court argued that by way of section 273 disgorgement damages may be awarded.

The academic echo following this judicial advance was mainly negative.[36] *Honsell* for instance states that the profit gained by the wrongdoer does not constitute the plaintiff's loss. Therefore, by awarding disgorgement damages the fundamental principle of the law of damages – the plaintiff must not be enriched by the award of damages – would be violated. However, he supports that the violator's profits gained by violation of business secrets may be awarded by way of a claim in unjust enrichment.[37] In contrast, *Enzinger* recently argued for a third way of

[30]Compare section 43 Austrian Civil Code.

[31]Compare section 17 et seqq. Austrian Enterprise Code.

[32]Enzinger (2012), para. 420 et seqq.

[33]OGH 13.07.1953, 3 Ob 417/53, although the judgment is about an infringement governed by section 9 Act Against Unfair Competition the court could not argue with paragraph 4 (and the express claim to disgorge the violator's profits therein contained) because the said paragraph was not enacted until 1999 (see Markenrechts-Novelle BGBl. I 111/1999; compare also the research of Torggler (1971), concerning the old legal situation); OGH 08.05.1962, 4 Ob 319/62 = ÖBl 1962, 69.

[34]OGH 13.07.1953, 3 Ob 417/53.

[35]See as to the application of section 273 in competition law Kodek and Leupold in: Wiebe and Kodek (2012), § 16 para. 37 et seqq.; see also Enzinger (2012), para. 625.

[36]Honsell (1980), 61 et seqq.; Torggler (1971), 2, 4, 6; Kodek and Leupold in: Wiebe and Kodek (2012), § 16 para. 70 et seqq. and para. 38; Rummel (1971), 391; see also Kodek in: Kletečka and Schauer (version 1.01), § 1293 para. 26 et seqq.; differing opinion Enzinger (2012), para. 624.

[37]Honsell (1980), 62 et seqq.; see also Wilburg (1934), 44; see also Torggler (1971), passim, who also sticks up for a claim of unjust enrichment as against a claim in law of damages in order to disgorge the violator's profits (concerning company symbol violations).

assessing damages and states that for some kinds of competition law infringements plaintiffs have recourse to disgorgement damages.[38] In addition, he supports the opinion that by way of a claim in unjust enrichment disgorgement of profits is – in some cases – possible.[39] Ostensibly, he deems – in principle – both ways being available.

Given this state of opinions and the statutory situation, it is doubtful whether disgorgement damages (or an at least closely related remedy as it exists under ip-law) do exist under Austrian competition law. Plus, the fact that in 1999 the legislator amended the Act Against Unfair Competition and thereby enacted an express disgorgement claim in section 9 exclusively for company symbol violations[40] could be used as a counter argument. However, it seems that concerning some[41] kinds of competition law violations scholars at least do support profit disgorgement by way of claims in unjust enrichment.[42] In any case, implementation of an express provision providing or excluding disgorgement claims by the legislator would clarify the situation. In 2008, the Austrian minister for consumerism stuck up for an amendment of the Act Against Unfair Competition concerning this matter by including an express disgorgement claim for acts of unfair competition.[43] Apparently, the attempt failed.

Disgorgement Claims in General?

In recent literature indication is visible as to the tendency of Austrian private law being to acknowledge disgorgement claims in general: Recently, *Helmut Koziol*[44] analyzed cases in which the infringer gains profit by destroying another's legal interest (e.g. by physically hurting a competitor so that the competitor has to shut down his business or by destroying machines of a competitor) and cases where a media company considerably increases its profits by publishing a faked interview with a celebrity. He holds that under such circumstances it was not possible to claim the unlawful profits by way of a claim in law of unjust enrichment.[45] Neither a claim in law of damages would result in profit disgorgement because law of damages focused exclusively on the disadvantage of the infringed party. Consequently, only disadvantages of the infringed party (as against advantages of the infringing party) could be claimed; the problem would remain that the advantages of the wrongdoer

[38] Enzinger (2012), para. 624.

[39] Enzinger (2012), para. 636 et seqq.

[40] Markenrechts-Novelle BGBl. I 111/1999.

[41] Compare Rummel (1971), 385, 394.

[42] Compare also Wilburg (1934), 44 et seqq.

[43] See *inter alia* the press release on http://www.sozialministerium.at from 13.04.2008 and the report on http://diepresse.com from 25.03.2008.

[44] Koziol (2009), 237 et seqq.; again Koziol (2010), para. 2/33 et seqq.

[45] See already above.

could still be considerably higher. Therefore, *Koziol* argues for the admission of disgorgement claims in general under private law for cases like those mentioned above where the law of unjust enrichment does not take effect. As against the law of unjust enrichment, a breach of duty was precondition for this special kind of claim. In order to back up his argumentation he refers to the provisions under ip-law that explicitly contain disgorgement claims and holds that by way of analogy these provisions applied in general. *Koziol* does not classify this disgorgement claim into the law of damages or into the law of unjust enrichment but holds that it constituted a *sui generis* claim that is situated in between the law of damages and the law of unjust enrichment. It remains to be seen whether his thesis will be adopted by the courts.

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Chapter 12
Disgorgement of Profits in German Law

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Abstract The rules for the disgorgement of profits in German Law cannot be traced back to a general principle. Three different approaches can be distinguished. Under certain circumstances the justification for ordering a disgorgement of profits is found in the infringer's intentional and calculated way of proceeding since a specific danger is posed by intentional perpetrators which is not adequately addressed by the mere prospect of (normal) liability for damages. In other cases, however, an order for the disgorgement of profits can arise from the specific nature of the legal duty that has been infringed (liability for the breach of fiduciary duties being an important example). Lastly, disgorgement of profits is also employed as a means of a comprehensive compensation for the damages suffered, as far as intangible property or personality rights are concerned; in these two instances mere liability for damages that can specifically be proved typically turns out to be inadequate, resulting in a structural under-compensation of the aggrieved party.

Keywords Disgorgement of profits in Geman Law

Definition and Concepts of Disgorgement

Disgorgement of profits can be viewed as the opposite of a damages claim. While damages compensate the loss that an aggrieved party has suffered, disgorgement of profits serves to restore the benefit gained by a person who illegally encroached on another person's rights. However, the concept of disgorgement of profits is not as clear as it seems at first glance because the profits gained from the infringement can be assessed in two different ways: on the one hand, an illegal benefit can be seen as the entirety of the assets that have accrued to the infringer as a result of the infringement; alternatively, an illegally gained benefit can be seen in the sum of money the infringer avoided paying by using another person's right without

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authorisation. In German law the term ‘disgorgement of profits’ usually only refers to the first form of – comprehensive – disgorgement of profits[1] and will therefore only be used in this manner in the following article.

Private Law

Intentional Acts in One’s Own Interest

De Lege Lata

Disgorgement of profits is explicitly enshrined in statute law in section 687(2) in connection with sections 681 and 667 Civil Code (BGB). According to these provisions, any person knowingly treating another person’s affairs as his own must surrender anything he obtained as a result of his actions. This form of liability is known as ‘non-genuine’ *negotiorum gestio (unechte Geschäftsführung ohne Auftrag* or *Geschäftsanmaßung)*. This concept is based on the traditional rules for ‘genuine’ *negotiorum gestio (echte Geschäftsführung ohne Auftrag)*, which prescribe that any person enforcing the interests of another person without having been authorised to do so is liable to surrender any proceeds of his actions in the same manner as an agent *(actio negotiorum gestorum directa)*. However, liability for ‘genuine’ *negotiorum gestio* is dependent on the *animus negotia aliena gerendi* – on a person knowingly managing another person’s affairs with the intention of benefiting that other person, since liability along contractual lines requires that the parties have reached a quasi-contractual concurrence of their intentions. But German law went a step further and developed the concept of ‘non-genuine’ *negotiorum gestio* which is laid down in section 687(2) BGB: in instances where someone intentionally takes advantage of another person’s legally protected interests to his own benefit, the lack of *animus negotia aliena gerendi* does not present an obstacle to an *actio negotiorum gestorum directa*: for equitable reasons the unauthorised person can be treated as if he had acted with *animus negotia aliena gerendi (unechte Geschäftsführung ohne Auftrag or Geschäftsanmaßung)*.[2]

But Section 687(2) BGB is actually not particularly relevant in practice: the prevailing opinion is that it does not apply to intentional breaches of contract[3], while the most important instance where it might apply – the infringement of intangible property rights – is covered by other, more specific claims which already

[1] König (1978), 179 et seq.; Rusch (2003), 2; Köndgen (1992), 696 et seq.; Köndgen (2000), 661 et seq.; Helms (2007), 6.

[2] Helms (2007), 120 et seq.

[3] Bundesgerichtshof (BGH) Neue Juristische Wochenschrift (NJW) 1988, 3018; BGH NJW-Rechtsprechungs-Report (NJW-RR) 1989, 1255, 1256 et seq.; Sprau (2014), § 687 no. 5; Beuthien (2011), § 687 no. 17.

provide for disgorgement of profits where the infringement was merely negligent. The practical use of the provision is further diminished by the fact that, according to the wording of section 687(2) BGB, *Geschäftsanmaßung* is not given with just any intentional infringement of another person's rights, but in fact requires the management of another person's affairs *("Führung eines fremden Geschäfts")*. An example of this deficiency is the Caroline of Monaco decision from 1994, where this requirement – according to the prevailing opinion – was not fulfilled. The case involved an infringement of the right of personality through the publishing of a contrived interview.[4] A further example can be seen in another decision of the Federal Supreme Court from 2006, in which it rejected a claim under section 687(2) BGB.[5] In that case a landlord had initially rented out an 8,000 m^2 property as a parking lot, but then later rented out part of the same property again to third parties for the use of market stalls without the initial tenant either noticing or suffering any concrete losses from this action. The first tenant's claim for the disgorgement of the profits which the landlord had accrued through this second rental was rejected by the Federal Supreme Court. The Court's decision turned on the fact that the landlord had not managed the first tenant's affairs within the meaning of section 687(2) BGB by renting out part of the property a second time as, according to their tenancy agreement, the first tenant would not have been permitted to rent out the property to a third party himself.

Although its practical importance is rather limited under the current state of German law, the approach to disgorgement of profits under section 687(2) BGB is based on the convincing idea that disgorgement of profits should be made available where the rights of another person have been intentionally infringed. On the one hand, this is because the belief of the intentional infringer that he will be allowed to keep his illegally gained profits is not worthy of protection. On the other hand, the intentional infringer poses a specific potential danger in light of the fact that he is in a position to weigh up whether the benefit he will receive from the infringement is greater than the damage he will cause (and may have to pay for).

De Lege Ferenda

In light of section 687(2) BGB's limited practical relevance it would appear congruous to give up on the provision's historically obsolete limitation to cases where the infringer had managed another person's affairs. Instead one could base the claims for disgorgement of profits specifically on the intentional infringement of another person's rights. This is precisely what was proposed by *Gerhard Wagner* at the 66th German Jurists' Forum *(Deutscher Juristentag)* in 2006 when he advocated

[4]Entscheidungen des Bundesgerichtshofs in Zivilsachen (BGHZ) 128, 1. On the question of a possible claim based on section 687(2) BGB in this case cf. Canaris (1999), 86; Köndgen (2000), 661, 666 and 670.

[5]BGH NJW 2006, 2323. Cf. also BGH NJW 2012, 3572, 3573.

deleting section 687(2) BGB and adding the following subsection 3 to section 251 BGB: "Where the person liable in damages has intentionally infringed the obligee's [= the injured party's] right, the obligee can – instead of compensation – demand disgorgement of the profits achieved by the person liable in damages and that he renders account of those profits." *("Hat sich der Ersatzpflichtige vorsätzlich über die Berechtigung des Gläubigers [= des Geschädigten] hinweggesetzt, so kann dieser statt des Schadensersatzes die Herausgabe des Gewinns, den der Ersatzpflichtige erzielt hat, und Rechnungslegung über diesen Gewinn verlangen.")*.[6]

However, the participants at the German Jurists' Forum reacted to this suggestion in a contradictory fashion: although there was widespread agreement over disgorgement of profits being the preferred solution for deterring intentional infringements of others' rights for the sake of profit[7], *Wagner's* suggested amendment of section 251 BGB was rejected by an overwhelming majority.[8] The overly broad wording of *Wagner's* provision was probably partly responsible for this rejection. It would not be appropriate for any and all intentional infringements of another's right to automatically entitle him to a disgorgement of profits, even where that action only played a very minor part in achieving that profit. Or should a thief be required to surrender game shot with a stolen gun?[9] It could still be argued from a theoretical perspective that such cases would only lead to a partial disgorgement of profits, but dividing profits is immensely difficult in practice.

It would be preferable to develop more precise rules for determining which intentional infringements of another person's rights can justify a disgorgement of profits. I am of the opinion that the deciding factor therein is whether the infringement merely amounts to usurping another person's right without having been authorised to do so, or whether the injured party was additionally deprived of the opportunity to profit from that right because he had the option to refuse to permit another to make use thereof on strategic grounds in order to realise the opportunities for profit granted by that right himself.[10] Such a constellation would almost necessitate the disgorgement of the illegal profits in favour of the rightholder.

Breach of Fiduciary Duties

Further justification for an order to disgorge profits can derive from the particular nature of the infringed duty. This applies specifically to fiduciary duties, which

[6]Wagner (2006b), A 97.

[7]Ständige Deputation des Deutschen Juristentages (ed.) (2006), L 91, Proposal VI.1., adopted with 50:24:15 votes.

[8]Ständige Deputation des Deutschen Juristentages (ed.) (2006), L 91, Proposal VI.3.a., rejected with 18:58:13 votes.

[9]Example offered by von Monroy (1878), 160.

[10]Helms (2007), 156 et seq.

obligate the fiduciary to exclusively pursue the interests of the beneficiary, as is the case with, for example, partners, directors or administrators. The most common infringements of these duties which are of great practical importance are the acceptance of bribes from third parties,[11] the pursuit of economic activities in competition with those of the beneficiary[12] or the use of the entrusted goods and resources for one's own purposes.[13]

Although explicit provisions for disgorgement of profits only exist in relation to prohibition of competition (*Wettbewerbsverbote*, cf. section 61(1) Commercial Code (HGB); section 113(1) HGB; section 88(2) Companies Act (AktG)), a general principle that mandates that breaches of fiduciary duties lead to disgorgement of profits can be found in German law:[14] if the (intentional or negligent) infringement of a fiduciary duty creates a conflict of interests, the profits attained are to be restored to the beneficiary even if the latter has not suffered any measurable damage and would never have made the profits himself.

In this instance the liability to surrender all illegal profits can be seen as a natural consequence of the specific nature of the duty that has been infringed: where an autonomous and influential position is entrusted to someone, there is inevitably a risk that he will exploit it to his own benefit. At the same time, the possibility of supervising the fiduciary's activities is limited by the autonomous nature of his position. Unconditional trust in the loyalty and trustworthiness of the fiduciary is therefore essential for granting such an influential position. However, this trust is destroyed where the fiduciary exploits his position to his own benefit. Where a breach of duty is constituted by the breaching party achieving a benefit for himself the law's reaction cannot be anything other than to deprive him of that benefit.

Reaction to the Inadequacy of Compensation

Intangible Property Rights

Disgorgement of profits also plays an important role in Germany as a special form of compensation. German law explicitly provides for disgorgement of profits as a special form of compensation for a number of different types of infringements,

[11] Entscheidungen des Reichsgerichts in Zivilsachen (RGZ) 99, 31; BGHZ 38, 171; BGH Wertpapier-Mitteilungen (WM) 1992, 879 et seq.; BGH NJW-RR 1987, 1380.

[12] RGZ 45, 31; BGH WM 1957, 1128; BGH WM 1976, 77; BGH WM 1977, 194; BGHZ 38, 306; BGHZ 80, 69, 74; BGHZ 89, 162, 171; BGH NJW-RR 1989, 1255, 1257.

[13] BGH WM 1967, 679; BGH WM 1979, 1328, 1330; BGH WM 1971, 412, 414; Bayerisches Oberstes Landesgericht (BayObLG) Wohnungswirtschaft und Mietrecht (WuM) 1996, 653; Fleischer (2003a), 1045, 1050 and 1056; Fleischer (2003b), 985, 986 et seq.

[14] Rusch (2003), 242 et seq.; Fleischer (2003a), 1045 et seq.; Hopt (2004), 1, 48 et seq.; Helms (2007) 369 et seq., especially 472 et seq.

such as copyright infringements (section 97(2) UrhG),[15] patent infringements (section 139(2) PatG),[16] design patent infringements (section 42(2) GeschMG),[17] infringement of utility models (section 24(2) GbmG)[18] and trademark infringements (section 14(6) MarkenG).[19] The current wording of the respective provisions is based on the EU Directive on the enforcement of intellectual property rights of 29 April 2004 (Dir 2004/48). According to Art. 13(1)2 lit. a of this Directive, in case of an infringement of intellectual property rights the 'actual prejudice' (Art. 13(1)1) is to be compensated whilst taking all 'appropriate aspects' into account, including 'any unfair profits made by the infringer'.[20]

Claims of this type are also recognised as being part of legal custom where other kinds of rights have been infringed, such as the right of personality,[21] insofar as economic value can be attributed to the right of personality, the same applies to the infringement of naming rights and company name rights.[22] Other types of cases in which disgorgement of profits has been recognised as a remedy include certain forms of unfair competition, as long as a legal status similar to an absolute legal interest has been infringed.[23]

Conceptually, the idea of disgorgement of profits being a special type of compensation appears contradictory at first glance since disgorgement of profits is defined as the conceptual opposite of compensation (cf. the definition of disgorgement of profits above). However, a closer look reveals important similarities between the two approaches. To begin with, it is evident that illegal gains made through the infringement of another person's right can correspond to the damage suffered by the aggrieved party. But even where the profits made do not correspond to the damages suffered, the profit made through the illegal exploitation of another person's legal interest indicates the potential for pecuniary exploitation inherent in that interest. Moreover, demanding precise evidence of actual damages suffered by the aggrieved party is sometimes unrealistic. Particularly problematic in this context is the infringement of intangible rights. If, for example, a patent or a right of personality is infringed the aggrieved party suffers no direct tangible damage (unlike with damage to a material object). Indeed, the patent or personality right can still be used and/or exploited unreservedly by its holder. It is also often difficult to prove what gain the aggrieved party has foregone through the unauthorized use of the right

[15] BGH Gewerblicher Rechtsschutz und Urheberrecht (GRUR) 1959, 379.

[16] RGZ 43, 56; RGZ 156, 65, 67; BGH GRUR 1962, 401, 402.

[17] BGH GRUR 1963, 640, 642.

[18] RGZ 50, 111, 115 et seq.

[19] BGHZ 34, 320; BGH GRUR 2006, 419.

[20] On the impact on German law see Meier-Beck (2012), 503.

[21] BGH NJW 2000, 2195, 2201; cf. also BGHZ 20, 345, 352 et seq. and BGH NJW 2007, 689, 690.

[22] BGHZ 60, 206, 208 et seq.

[23] BGHZ 57, 116, 117 et seq.; BGHZ 122, 262; BGH GRUR 1995, 349. On the exploitation of trade secrets see BGH GRUR 1977, 539, 541 et seq.

by the other person. If compensation were to be confined to specific damages that can be shown by the aggrieved party this would run the risk of having no effective sanction for such infringements in the abovementioned types of cases.

Nonetheless, until 2000 disgorgement of profits had almost no role to play in practice in cases such as these. Firstly, this was down to the fact that only that part of the profits that directly resulted from the exploitation of the infringed legal interest could be reclaimed.[24] Secondly, the infringer could deduct not only any and all costs associated with the particular infringing act from the profit, but also a proportion of his general overhead.[25] This burdened the calculation of that profit with so many uncertainties that it was much simpler for the injured party to demand compensation in the amount that the infringer would have had to pay if he had acquired a licence to exploit the respective legal interest (cf. the second profit calculation method mentioned above). This was fundamentally changed by a decision of the Federal Supreme Court in 2000 in which it was held that when calculating the profit to be disgorged the flat proportion of the infringer's general overhead could no longer be deducted. Instead, only those costs that were specifically caused by his actions that led to the accrual of the illegal gains, e.g. materials, production, administrative and distribution costs would be deductible.[26] This decision completely changed the importance of claims for disgorgement of profits – in some fields it has even become predominant in practice.[27]

Rights of Personality

Case law has followed a similar tack in relation to the calculation of compensation for the infringement of rights of personality,[28] for example where photographs are published without permission,[29] false or derogatory accusations are made[30] or contrived interviews are published.[31] In the year 1994, the Federal Supreme Court expressly emphasized that the award of damages must also reflect the

[24] RGZ 35, 63, 75; BGH GRUR 1962, 509, 512; BGH NJW 1992, 2753, 2757 et seq.; BGHZ 150, 32, 42 et seq.; on the practice of the division of profits cf. Grabinski (2009), 260, 264 et seq.

[25] BGH GRUR 1962, 509, 511; Oberlandesgericht (OLG) Köln GRUR 1983, 752.

[26] BGHZ 145, 366, 372.

[27] Grabinski (2009), 260, 262 (on infringements of patents and utility models); comprehensive on this issue Janssen (yet unpublished), Part 3, Chapter 1, E.III.2. However, disgorgement of profits continues to be irrelevant where financially valuable rights of personality have been infringed.

[28] Where a financial value is attributed to the right of personality, the rules relating to disgorgement of profits as a special form of compensation take effect, cf. footnote 22.

[29] BGH NJW 2005, 215.

[30] OLG Hamburg GRUR-Rechtsprechungs-Report (GRUR-RR) 2009, 438; OLG Hamm GRUR 2004, 970; Landgericht (LG) Ansbach NJW-RR 1997, 978; OLG Köln Zeitschrift für Urheber- und Medienrecht (ZUM) 1999, 948.

[31] BGHZ 128, 1.

fact that the rights of personality were infringed in order to attain a profit. The Court stated that a 'real deterrent effect' must be inherent in the damages such that they can 'counterbalance' the perpetrator's illegal gain.[32] This case law has led to a (moderate) increase in the amounts awarded for compensation where media organisations in particular infringe rights of personality in contemplation of profiting therefrom.[33]

Even though the Federal Supreme Court does not prescribe a true disgorgement of profits where rights of personality have been infringed, rather treating the illegal profit as a mere factor in the calculation of compensation for the infringement, the similarity to disgorgement of profits as a special form of compensation for the infringement of intangible property rights is immediately apparent: in both situations disgorgement of profits is employed as a measure to ensure extensive compensation of the injury, thus allowing the sanction to fulfil its role as a deterrent. However, achieving that goal in relation to infringements of rights of personality would necessitate the courts having the ability to order a genuine disgorgement of profits in particularly egregious cases of systematically calculated infringement.[34]

Competition Law

Similar to infringements of intangible property rights, under section 33(3)3 of the Act against Restraints of Competition (GWB), which was reformed in 2005, profits made by a corporation in intentional breach of antitrust law can be taken into account when calculating damages. Disgorgement of profits was also introduced in this instance in reaction to the fact that a precise calculation of the concrete loss suffered is not always feasible, since it is difficult to determine how market prices would have developed if antitrust law had not been breached.[35] However, asserting claims under section 33(3)3 GWB is plagued by severe evidentiary difficulties as only the profit that directly resulted from the breach of antitrust law must be disgorged. The provision currently appears to be of little relevance in practice.[36]

In addition to the abovementioned provision, section 10(1) Unfair Competition Act (UWG) allows certain organisations and institutions to demand the disgorgement of illegal profits achieved through intentional breaches of competition law at the expense of a multitude of consumers. A parallel provision can be found in section 34a GWB for intentional breaches of antitrust law. The legislature hereby intended to compensate for sanction deficits in relation to dispersed and

[32] BGHZ 128, 1, 16; cf. also BGH NJW 2005, 215, 216.

[33] Helms (2007), 295 et seq.

[34] Cf. similarly Dreier (2002), 132 and 348; Schlechtriem (1995), 362, 364; Wagner (2006a), 352, 385 et seq.; Wagner (2006b), A 89; Helms (2007), 309.

[35] Bundestagsdrucksache (BT-Drs.) 15/3640, 35, 54; cf. Janssen, Präventive Gewinnabschöpfung, Part 3, Chapter 3, E.I. (unpublished).

[36] Van Raay (2012), 100; Janssen (yet unpublished), Part 3, Chapter 3, F.II.

petty losses.[37] Thus far these claims have been of little relevance in practice[38] because, firstly, an intentional breach of law must be proven and, secondly, the disgorged profit has to be surrendered to the Federal budget, which means that the organisations and institutions entitled to assert these claims have no incentive to shoulder the risks of litigation.[39]

Criminal Law and the Law of Administrative Offences

Not allowing a perpetrator to illegally profit from his actions is not only an important purpose of criminal law, but also of the law of administrative offences. In some respects disgorgement of profits is easier to effect in these branches of law than it is in private law, particularly since the offender has perpetrated a very grave wrong and is to be punished in any event.

Under section 73 et seq. of the Criminal Code (StGB), a criminal court can order the disgorgement of any profits accrued by an offender from the commission of a criminal offence *(Verfall)*. This instrument has become very important in practice.[40] However, under section 73(1)2 StGB the claims of individually injured persons take priority. This leads to, for example, drug dealers and arms dealers being subjected to disgorgement of profits while priority is given to the return of stolen property when punishing thieves. Criminal law disgorgement of profits is also much simpler than its private law equivalent because the 1992 change in the law provides for the disgorgement of the entire profit without enabling the offender to subtract any costs incurred in his illegal endeavour *(Bruttoprinzip)*.[41]

A similar option of ordering disgorgement of profits is also given where an administrative offence has been committed (section 29a Administrative Offences Act (OWiG), cf. also section 34(1) GWB for antitrust law). However, unlike its criminal law equivalent, this is merely a subsidiary instrument that may only be employed where no fine has been ordered.[42] The law of administrative offences prioritises fines as a means of indirect disgorgement of profits.[43] Section 17(4) OWiG explicitly provides that a fine must exceed the economic advantage that the offender achieved through the commission of the administrative offence.

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[37] BT-Drs. 15/1487, 23 and BT-Drs. 15/3640, 36.

[38] Examples of successful proceedings under section 10 UWG to date mostly relate to online "traps", OLG Frankfurt GRUR-RR 2010, 482 und OLG Frankfurt GRUR-RR 2009, 265; cf. also OLG Stuttgart GRUR 2007, 435.

[39] Goldmann (2013), § 10 no. 5: "§ 10 ist praktisch totes Recht"; similar Emmerich (2007), § 34a no. 4.

[40] Retemeyer (2012), 56 "heute Standard"; Mainzer (2002), 97, 98 and 103.

[41] BGH NJW 2002, 3339; Rönnau (2003), no. 182 et seq.

[42] Rönnau (2003), no. 27.

[43] Retemeyer (2012), 56, 57.

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Chapter 13
Disgorgement of Profits in Greece

Eleni Zervogianni

Abstract Disgorgement of profits, as a remedy, is not alien to Greek private law, but the relevant legal framework seems to be rather fragmented. Disgorgement damages are confronted with skepticism, since according to the (still) prevailing opinion in Greece the aim of damages is primarily compensatory. Pragmatic approaches, though, led to the enactment of special provisions in the late 1980s and early 1990s for the infringement of certain immaterial goods, following the German model of the so-called 'triple damage calculation' (*dreifache Schadensberechnung*). The protection of intellectual property rights has been further enhanced through substantive and procedural rules, enacted for the transposition of Directive 2004/48/EC into Greek law. Disgorgement of profits may be attained, at least in theory, through other private law institutions as well, namely agency without authorization (*negotiorum gestio*) and unjust enrichment, but in practice few claims are brought on these legal bases. When there is a contractual relation between the parties, the creditor may claim the gain that arises out of the impossibility of performance as a 'substitute', while special provisions regulate the disgorgement of profits in case of breach of fiduciary duties. Finally, further private law instruments, such as collective claims, may lead to results functionally comparable to disgorgement damages, even if this is not their main aim. The paper concludes that from a *de lege ferenda* perspective the adoption of disgorgement damages as a general remedy, following the pattern of Art. 6:104 of the new Dutch Civil Code, would serve better the practical needs.

Keywords Damages • Disgorgement of profits • Immaterial goods • Negotiorum gestio • Personality rights • Right of publicity • Tort remedies • Unjust enrichment

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Introduction

There can be little doubt that Lord Hatherly's famous quote "*This Court never allows a man to make profit by a wrong*",[1] reflects an imperative of justice and is thus in principle shared by all legal systems. The disgorgement of illegal gains is essential not only from a moral, but also from a deterrence perspective: If the wrongdoer anticipates that he will not be able to keep his profits, he will have no incentives to engage in such an activity in the first place. Nevertheless, this approach has been proven to be quite a challenge in its implementation, as it seems that in reality wrongful conduct often does pay at the end. This is especially so when the behavior of the wrongdoer does not lead to physical damage of a resource but rather to the infringement of immaterial goods (such as intellectual property rights, the right of publicity of a person or trade secrets) or to the breach of other statutory provisions which, among other objectives, aim at the protection of legal interests of private persons as well (such as regulations on competition law, unfair business practices or insider trading).

Under Greek law, an unlawful behavior may give rise to both criminal and administrative sanctions as well as to civil liability.[2] This notwithstanding, it is not seldom that the expected benefits from the unlawful act outweigh the expected costs of the wrongdoer either because the sanctions are themselves inadequate or because the probability that they will be imposed (and enforced) is low. This can be attributed to a number of factors, varying from informational asymmetry leading to difficulties regarding the identification of the wrongdoer, the proof of the conditions of liability or the assessment of the extent of the accrued profits, to the inertia as to the initiation of the relevant proceedings. Given that each of the instruments for the disgorgement of profits has different strengths and weaknesses a combination of all seems desirable.[3]

This paper focuses on disgorgement remedies in Greek private law. Such remedies are not based on a single legal ground, but are rather dispersed over the private law system. Special provisions on disgorgement damages exist as to certain types of infringements, especially to intellectual property rights (section "Disgorgement Damages"). The claim for disgorgement of profits may be also based on institutions of civil law other than damages, namely on false (or non-genuine) agency without authorization (*negotiorum gestio*),[4] on unjust enrichment or, if the

[1] See Jegon v. Vivian (1870–1871) Law Reports. Ch. 6, 742 et seq., at 761.

[2] See e.g. Arts. 65, 65A and 66 of Law 2121/1993 on civil, administrative and criminal sanctions for infringements of copyrights; Arts. 1 (in combination with Art. 914 GrCC), 25 and 44 of Law 3959/2011 on civil liability as well as on administrative and criminal sanctions in case of violation of the law on free competition through forming cartels.

[3] This issue has been examined in Greece especially within the framework of private enforcement of competition law. For an overview of the relevant discussions see Athanassiou (2013), § 24 no. 1 et seq., especially no. 37–50.

[4] In Greek 'μη γνήσια διοίκηση αλλοτρίων' (Art. 739 GrCC), which is the equivalent to the German term 'unechte Geschäftsführung ohne Auftrag' (§ 687 [2] BGB).

gains arose out of breach of contract, on the creditor's claim for the 'substitute' (section "Legal Grounds for the Disgorgement of Profits Beyond Damages"). In addition, further instruments may indirectly skim-off the wrongdoer from unlawful profits. The special collective redress mechanism established in consumer law provides such an example and may thus qualify as a functional equivalent to disgorgement damages (section "Functional Equivalents to Disgorgement Damages in Private Law"). Following this analysis, the paper concludes with a *de lege ferenda* proposal for the adoption of disgorgement damages as a general remedy, following the pattern of Art. 6:104 of the new Dutch Civil Code.

Disgorgement Damages

The Aim of the Law of Damages

According to the traditional approach, which is still the prevailing one in Greece, the main aim of damages is to compensate the victim.[5] Following the principle of *restitutio in integrum* the plaintiff is entitled to full compensation for his (pecuniary) losses, meaning that he should be placed in the position he would have been in, had the damage not occurred.[6] Compensation is thus in principle tailored to meet the exact needs of the specific victim, who is at the focal point of the whole procedure, while the circumstances under which the damage occurred or the degree of fault of the wrongdoer are in principle immaterial.[7] This rule, which is primarily meant to protect the victim, sets at the same time an upper limit on damages, in the sense that these shall not exceed the loss that the victim has actually incurred.[8]

The deterrence effect of compensation is widely acknowledged, but it is considered as a positive side-effect rather than as an aim in itself.[9] To the extent

[5]See Stathopoulos (2004), § 8 no. 7; Filios (2011a), § 168 B 1; Georgiades (2011), § 5 no. 4; Georgiades (1999), § 10 no. 3; Kerameus et al. (2000), 31 et seq. at 33; Valtoudis (2009), 203 et seq., at 204; Roussos (2013), 81 et seq. at 81. Cf. Kornilakis (2012), § 81 no. 2; Doris (2007), 673 et seq., at 679.

[6]Pecuniary losses are assessed on the basis of the 'theory of difference', as formulated by Mommsen (1855). On the application of this theory in Greece see, among many others, Stathopoulos (2004), § 8 no. 47 et seq.; Spyridakis (2004), no. 63.3; Georgiades (2011), § 5 no. 10; Georgiades (1999), § 10 no. 6. From case law see the following decisions of the Greek Supreme Court (Areios Pagos – hereinafter: AP): 416/2012, available at the databank, Intrasoft-Nomos; 1054/2011, Intrasoft-Nomos, 1432/2009, ChrID 2010, 440.

[7]Damage is in principle assessed on the basis of the 'concrete calculation method'. Deviations to this rule are foreseen by special provisions. On this issue see, among many others, Stathopoulos (2004), § 8 no. 7-8 and 93 et seq.; Georgiades (2011), § 5 no. 72; Georgiades (1999), § 5 no. 5 and § 10 no. 3.

[8]See especially Stathopoulos (2004), § 8 fn. 4; Filios (2011a), § 171 A; Valtoudis (2009), 204; Roussos (2013), 81. See also AP 839/2012, Intrasoft-Nomos.

[9]See Stathopoulos (2004), § 8 no. 13; Filios (2011a), § 168 B 1; Georgiades (2011), § 5 no. 7; Panagopoulos (2000), 195 et seq., at 225 and 228; Valtoudis (2009), 205. Cf. however Kornilakis

that full compensation of the victim serves both purposes, as it is usually the case in negligently inflicted damage to property assets, no difficulties arise. This is no longer the case when deterrence considerations advocate for the imposition of damages, which exceed the victim's actual loss. Based on the primacy of the compensatory aim of damages, the prevailing opinion objects to this possibility, unless an exception to this rule is explicitly provided by the law.[10] Hence remedies such as punitive damages are considered alien to the Greek legal system, though not per se contrary to the Greek *ordre public*.[11]

The Particularities of Immaterial Goods and the Shortcomings of the Traditional Approach

The application of the traditional approach to damages does not lead to satisfactory results in case of infringement of rights on immaterial goods, such as copyrights, patents, trademarks, trade secrets, or even aspects of a person's identity. Such goods are non rival in their use, in the sense that the use by one person does not prevent the simultaneous use by another person, which comes at zero marginal cost.[12] Moreover, their enforcement, i.e. the exclusion of third parties from making use of them, comes at high cost. It is for this reason that, when it comes to such goods, the free-riding problem is acute.[13]

On this premises, and especially because the consumption of immaterial goods is non-rival, their infringement does not lead to the reduction of the rightholder's assets, but rather to lost profits, like e.g. the decrease of the sales of the original

(2012), § 81 no. 4; Doris (2007), 679; Spyridakis (2004), no. 62.3; Zervogianni (2006), 9 stressing the importance of both aims. Cf. also Marinos (2009a), 2029 et seq. at 2035 and 2042 et seq., referring to the aim of compensation for infringement of immaterial goods in particular.

[10] Art. 65 Law 2121/1993 provides an example of such a provision. See in more detail infra section "Before the Directive 2004/48/EC on the Enforcement of Intellectual Property Rights". On the possibility of the legislator to deviate from the compensatory aim of damages and proceed to the enactment of such provisions see especially Stathopoulos (2004), § 9 no. 9; Doris (2007), 678. Contra Papanikolaou (2007), 289, especially at 290 et seq. and Roussos (2013), 82 who claim that the legislator should provide special justification when enacting such provisions.

[11] See the landmark decision AP (full bench) 17/1999, published in DEE 2000, 181. This decision regarded the enforcement in Greece of a punitive damages award of the court of Houston, Texas. Areios Pagos ruled that punitive damages are not *per se* contrary to the Greek *ordre public*, unless they are excessive. This decision has been in principle well-received in the literature. See Nikolaidis (2000), 319 et seq., especially at 321 and 332; Panagopoulos (2000), especially 231-232; Doris (2007), 679; Stathopoulos (2010b), 609 et seq., especially at 621; Themeli (2011), 1399 et seq., especially at 1416; cf. Dellios (2013), no. 75. Contra Valtoudis (2009), 205; cf. Kerameus et al (2000), especially at 35. Cf. also Roussos (2013), 82.

[12] On the notion of non-rival use see, among many others, Hall and Lieberman (2009), 477; Besanko and Braeutigam (2010), 719; Cooter and Ulen (2012), 40.

[13] See, among many others, Hall and Lieberman (2009), 477; Besanko and Braeutigam (2010), 723.

product due to the availability of counterfeit products or the loss of royalties that the rightholder would earn in order to provide his consent for the use of his right by another person.[14] Setting evidentiary difficulties aside and assuming that these lost profits are indeed refunded to the rightholder, he will then be indeed placed in the position he would have been in, had the infringement not occurred. Nevertheless, only by coincidence will his loss match the profits of the wrongdoer. Often the wrongdoer's profits are higher than the lost profits of the rightholder, especially if the former had greater skills regarding the exploitation of the right, as compared to the latter.[15] The issue is even thornier in cases in which the holder of the right did not wish to exploit it commercially. Typical such cases arise when it comes to the violation of the right of publicity of a person. Namely, according to Greek case-law, if the person whose image has been unlawfully published in the press claims that he would not have consented to its commercial use, he is not entitled to compensation for pecuniary harm, on the grounds that, had he not given his consent, he wouldn't have derived any profit from the use of his image anyway.[16] In such cases the victims may be only granted damages for their non pecuniary losses.[17]

In all preceding cases, the specific damage inflicted to the rightholder, more often than not, does not correspond to the benefit of the wrongdoer and thus the unlawful behavior of the wrongdoer pays. As a result compensation for lost profits it is not a suitable remedy to confront violations of immaterial rights.

Special Provisions on Damages for the Infringement of Intellectual Property Rights

Before the Directive 2004/48/EC on the Enforcement of Intellectual Property Rights

In view of the particularities of immaterial goods, special provisions regarding their protection were gradually enacted in Greece in the late 1980s-early 1990s, following the German model of the so-called 'triple damage calculation' (*dreifache Schadensberechnung*).

[14] See Art. 298 GrCC which defines lost profits as the profits that would be expected with a high degree of probability in the usual course of events, taking into account the special circumstances, and particularly the preparatory measures taken.

[15] See Marinos (2009a), 2042; Karagounidis (2011), 93 et seq., at 95.

[16] See AP 940/1995, NoV 1997, 1109; decision 4661/2004 of the Multi member Court of First Instance of Athens, NoV 2005, 114. On this issue see Synodinou (2007), 295; Fountedaki (2012), 417 et seq. Cf. Karakostas (2011), 335, who confronts this approach of case law with skepticism and Karagiannis (2007), 83 et seq., especially at 86 who heavily criticizes it.

[17] On the function of such damages, especially in cases of infringement of the right of publicity by the mass media, see infra section "Monetary 'Satisfaction' for Non-pecuniary Loss for Infringement of the Right of Publicity".

Law 1733/1987 on patents grants to the patent holder whose right has been culpably infringed the choice to claim, alternatively, damages based on his actual loss (in the form of lost profits), the license fees he would have been entitled to, or the profits of the wrongdoer.[18] Similar provisions have been enacted for the protection of topographies of semiconductor products,[19] as well as for industrial designs.[20]

Law 2121/1993 on copyrights went even a step further as compared to the aforementioned provisions. Namely, it provides that when a copyright is infringed the rightholder shall claim both pecuniary and non pecuniary damages for his loss, while it also stipulates that compensation for pecuniary damages shall not be less than double the license fees that are due in such cases. Hence the legislator opted for the assessment of damages on the basis of the abstract calculation method, in order to facilitate the victim to ground his claim.[21] It further stipulates that instead of compensation, the copyright holder can claim the enrichment of the wrongdoer or the profits the latter derived from his unlawful activity, even if he did not act culpably.[22]

From a legal-dogmatic point of view it has been debated whether the plaintiff's claims for the license fees and for the profits of the wrongdoer qualify as compensation claims, assessed according to the abstract calculation method, or whether they rather constitute special claims based on unjust enrichment or false agency without authorization.[23] Given that the conditions of these claims are explicitly stated in the law, their legal categorization is of rather limited practical significance.[24] In any

[18] See Art. 17 para. 2 of Law 1733/1987.

[19] See Art. 17 para. 2 of Presidential Decree 45/1991.

[20] See Art. 28 of Presidential Decree 259/1997.

[21] In Art. 65 para. 2.

[22] Art. 65 para. 3.

[23] This debate refers mainly to the provisions of Art. 17 para. 2 of Law 1733/1987 on patents. According to the prevailing opinion the options provided in this article constitute alternative ways of assessment of damages. See Rokas (2011), § 12 no. 8; Antonopoulos (2005), no. 1013–1015; Panou (1999), 1109 et seq. who refers to three ways of assessing damages. See also decisions 478/2008 of the Piraeus Court of Appeals, DEE 2008, 1371; 454/1990 of the Athens Court of Appeals, EllDni 1991, 198; Multi member Court of First Instance of Athens 1808/2010 Intrasoft-Nomos. Contra (rightly, in my opinion) Valtoudis (2009), 206–207. Cf. also Karagounidis (2011), 100. The wording of Art. 65 of Law 2121/1993 on copyrights is clearer, as it states that the wrongdoer's enrichment or his profits may be claimed instead of compensation. It is therefore accepted that the law provides special claims of unjust enrichment and false agency without authorization respectively. See Stamatoudi (2011), 21 et seq. at 21-22; Garoufalia (2003), 102 et seq.; Kallinikou (2008), no. 269; Kotsiris (2010), no. 419. Cf. also Valtoudis (2009), especially 211, according to whom both claims should be rather based on unjust enrichment.

[24] The most important issue where the practical significance persists pertains to the prescription of the rightholder's claims. The claim for damages in tort is prescribed in 5 years (Art. 937 GrCC), the claim for unjust enrichment in 20 years (Art. 249 GrCC), while, according to the prevailing opinion claims deriving from false agency without authorization are prescribed in 20 years. See Sakketas (1952–1987), Art. 739 GrCC no. 6; Papanikolaou (1980), Art. 739 GrCC no. 11; Georgiades (2007), § 36 no. 70; Tasikas (2010), Art. 739 GrCC no. 13. Contra Kallimopoulos (1978), 206,

case, these provisions are well justified from a policy perspective, have a strong deterrence effect and, despite evidentiary difficulties especially regarding the proof of the wrongdoer's profits, they have considerably enhanced the protection of the rights they apply to. Where no such provisions exists, like e.g. in trademarks (until 2012), the right of publicity or even trade secrets, it has been maintained in the legal literature that the existing provisions should apply by analogy.[25] Nevertheless, courts have been rather reluctant to do so.[26]

Changes Brought About by the Transposition of Directive 2004/48/EC into Greek Law

Directive 2004/48/EC 'on the protection of intellectual property rights' has further enhanced the protection of these rights through both substantive and procedural rules, the most significant of which, for the aims of this analysis, are the following:

Damages According to Art. 13 of the Directive

Art. 13 of the Directive grants to the holder of the right that has been infringed a claim for damages and provides that:

> When the judicial authorities set the damages: (a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement or (b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.

In order to comply with the Directive, the Greek legislator repeated the provision of Art. 13 of the Directive (with the exact same wording) in the special law on

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according to whom the claim prescribes in 5 years. Differences may also arise as to the extent of the profits which the plaintiff can claim. On this point see and infra sections "False Agency Without Authorization" and "Unjust Enrichment".

[25] See Liakopoulos (1974), 596 et seq.; Panou (2000), 1254 et seq.; Antonopoulos (2005), no. 778; Marinos (2009b), no. 819 who are all in favor of the application of Art. 17 para. 2 in all cases of violations of immaterial goods. See also Marinos (2007), 577 et seq.; Karagiannis (2007) 123 et seq., especially 140 et seq. pleading for the application by analogy of the provisions of Law 2121/1993 on copyrights in cases referring to the right of publicity. Contra Fountedaki (2012), 424.

[26] See decisions Piraeus Court of Appeals 478/2008, DEE 2008, 1371; Athens Court of Appeals 454/1990, EllDni 1991, 198; Multi member Court of First Instance of Athens 1808/2010, Intrasoft-Nomos. Cf. however decision 1726/2013 of the Single member Court of First Instance of Athens, available at Isokratis databank, which seems to accept the application (by analogy) of the provisions of Law 1733/1987 for the protection of trademarks as well.

patents,[27] which applies also for industrial designs and semiconductor products.[28] Similar provisions, have been included in the new law on trademarks which entered into force in 2012.[29] As regards copyrights, no amendment to Law 2121/1993 was deemed necessary, since it already granted greater protection to the holder of the copyright, as compared to Art. 13 of the Directive.[30] This enhanced protection of copyrights under Greek law is considered compatible with Directive 2004/48/EC, since this Directive is of minimum harmonization.[31]

The provisions of Directive 2004/48/EC leave no doubt that for the European legislator the primary aim of damages, at least in cases of infringements of intellectual property rights, is deterrence. Art. 13 of the Directive, as well as the provisions which incorporated it in Greek law, move past the traditional approach, according to which in the assessment of damages it is the victim who stands at the focal point, and turn their attention to the wrongdoer. As Professor Marinos aptly put it *"(. . .) the European legislator is neither interested in legal-dogmatic, national categories nor thinks in this way, but he is almost exclusively orientated to the efficient realization of his aims in each national legal system (. . .)"*.[32]

Measures Addressing the Informational Asymmetry Between the Parties

In intellectual property rights' infringements, the plaintiff faces considerable problems as to the proof of his damage and/or the profits of the wrongdoer. In order to achieve its goal, Directive 2004/48/EC includes procedural rules regarding the

[27] See Art. 53 of Law 3966/2011 which amended Law 1733/1987 on patents. This reform has been criticized as hasty, since it introduced in Law 1733/1987 a new article (namely Art. 17Δ), which repeats the wording of Art. 13 of the Directive, without nevertheless repealing the already existing provisions of the same law (Art. 17 para. 2), which contains very similar rules. On this point see Karagounidis, in Association of Greek Commercialists (2011) 97–98.

[28] See Art. 17 para. 3 of Presidential Decree 45/1991 on semiconductor products and Art. 28 para. 2 of Presidential Decree on industrial designs, that were also amended by Art. 53 of Law 3966/2011.

[29] See Art. 150 of Law 4072/2012 and especially para. 7 that reads: "When assessing damages the court takes into consideration, among other factors, the negative financial consequences and the loss of profits of the rightholder, as well as the profits derived by the person who infringed the trademark" and para. 8 according to which "If the wrongdoer did not act culpably, the rightholder has a claim for the amount by which the wrongdoer has profited from the exploitation of the trademark without his consent, or for the gains that the wrongdoer derived from this exploitation".

[30] See Art. 65 of Law 2121/1993.

[31] See Marinos (2009b), 2048; Marinos (2010), 601 et seq., at 603; Karagounidis (2011), 102. Nevertheless, both claim that a restrictive interpretation of Art. 65 of Law 2121/1993 is necessary, in the sense that only if the wrongdoer acted with gross negligence or intent should compensation amount to double the license fees. Cf. also Kallinikou (2008), no. 269; Valtoudis (2009), 205, however, expresses his reservations as to the compatibility of Art. 65 of Law 2121/1993 with the Directive.

[32] See Marinos (2009b), at 2029.

presentation to the court of evidence which lies in the control of the wrongdoer,[33] while it also grants to the plaintiff the right to information on the origin and distribution networks of the goods or services which infringe his intellectual property right.[34]

The Greek law on copyrights has been amended in order to comply with the Directive already in 2007,[35] while the reform of the laws regarding other intellectual property rights followed in 2011–2012.[36] It is worth noting that the relevant Greek provisions go a step further than the Directive, stating that if the party who has been ordered to present evidence to the other party refrains from doing so, without due reason, the allegations of the latter are considered admitted. After the incorporation of these provisions in Greek law, the overall level of protection of intellectual property rights has indeed increased.[37]

Legal Grounds for the Disgorgement of Profits Beyond Damages

In the absence of a special provision on disgorgement of profits, the civil law instruments which are better fit for this aim are false agency without authorization and unjust enrichment. Notwithstanding the difficulties as to the proof of the wrongdoer's profits, both possibilities have been thoroughly examined in the context of the right of publicity and it is therefore on these cases that lays the focus of the analysis. Contract law remedies may be also of interest if there is a contractual relation between the parties.

False Agency Without Authorization

Agency without authorization (*negotiorum gestio*) is a legal institution that deals with cases in which a person manages another's affairs without being instructed by the latter, or otherwise entitled, to do so. In such a case the intervenor (*gestor*) shall act in the benefit of the principal and according to his actual or presumptive will.[38] If,

[33] See Art. 6 of Directive 2004/48/EC.

[34] See Art. 8 of Directive 2004/48/EC.

[35] Art. 2 para. 3 of Law 3524/1997 introduced a new article in Law 2121/1993, namely Art. 63A.

[36] Art. 53 of Law 3966/2011 introduced a new article in Law 1733/1987 (namely Art. 17 Α), which applies also in industrial designs and semiconductor products (see supra note 28). In addition, the new law on trademarks (Law 4072/2012) includes these rules in Art. 151.

[37] On this issue see in detail Apostolopoulos (2008), 179 et seq.

[38] See Art. 730 of the GrCC.

on the contrary, the *gestor* knowingly[39] treats the affairs of another person as his own and in his own benefit, the agency without authorization is characterized as 'false' (or non-genuine). The *gestor* is then liable in tort,[40] but he also bears all obligations that stem from the law in cases of agency without authorization, i.e. he is obliged to restitute to the principal whatever he acquired by reason of the management of the latter's affairs as well as render account for the affair he managed.[41]

On these premises, false agency without authorization can be used as a legal basis for the disgorgement of unlawful profits. According to the prevailing opinion, every infringement of an absolute (*erga omnes*) right of another (e.g. intellectual property rights or, more importantly given the lack of special provisions, the right of publicity) constitutes an intervention in another's (i.e. the rightholder's) affair.[42] However, the field of application of this provision is constrained by the fact that the *gestor* must have acted intentionally.[43] Hence, unlike the special claims for disgorgement of profits in case of violation of intellectual property rights, the provisions on false agency without authorization do not apply if the infringement has been negligent (even grossly negligent).[44]

Case-law on disgorgement of profits on the legal basis of the general provisions on false agency without authorization is rather poor. It seems that in practice

[39] According to the rather prevailing opinion, false agency without authorization exists when the gestor acted with intension (no matter if this intention had been immediate or eventual). See Papanikolaou (1980), Art. 739 GrCC no. 4; Oikonomopoulou (2008), Art. 739 GrCC no. 3; Tasikas (2010), Art. 739 GrCC no. 3. Contra Kallimopoulos (1978), 61, who restricts the application of this provision only in cases of immediate intention.

[40] On the tort liability of the gestor in case of false agency without authorization see Kallimopoulos (1978), 81-82; Sakketas (1952–1987), Art. 739 GrCC no. 1; Papanikolaou (1980), Art. 739 GrCC no. 12; Oikonomopoulou (2008), Art. 739 GrCC no. 3; Tasikas (2010), Art. 739 GrCC no. 9. See also decision 3488/2004 of the Multi member Court of First Instance of Piraeus, ChrID 2005, 30.

[41] See Arts. 739, 734 and 719 GrCC. According to the prevailing opinion the gestor has to return to the principal all profits, even if these are partially due to the former's special capabilities. See Filios (2011b), § 101; Georgiades (2007), § 37 no. 66-67; Tasikas (2010), Art. 739 GrCC no. 7. Contra Kallimopoulos (1978), 189 et seq.; Papanikolaou (1980), Art. 739 GrCC no. 10; Karagiannis (2007), 102, who claim that the profit should be distributed between the gestor and the principal, depending on the circumstances. Cf. also Karakostas (2011), 333, who claims that the provisions on false agency without authorization are stricter for the gestor compared to the provisions of unjust enrichment and torts.

[42] See Kallimopoulos (1978), 52; Papanikolaou (1980), Art. 739 GrCC no. 3; Georgiades (2007), § 37 no. 63; Tasikas (2010), Art. 739 GrCC no. 1; Karakostas (2011), 332. Cf. also Christodoulou (2007), 180 et seq. at 196, with specific reference to the application of Art. 739 in case of infringement in immaterial goods.

[43] If the gestor did not knowingly manage the affairs of another, the provisions on false agency without authorization do not apply and he is therefore only liable on unjust enrichment, or probably also on torts. See Art. 740 GrCC as well as Papanikolaou (1980), Art. 740 GrCC no. 4; Tasikas (2010), Art. 740 GrCC no. 4-5.

[44] See also Art. 740 GrCC, as well as supra note 39. On the comparison of the provisions of Art. 739 GrCC with Art. 65 of Law 2121/1993 on copyrights see in detail Garoufalia (2003), 102 et seq.

few claims are brought on this basis. Even if such a claim is brought, the courts acknowledge the possibility of disgorgement of profits on this legal basis, but they then seem rather reluctant to proceed to its application.[45] This is evident in the decision 4661/2004 of the Multi member Court of First Instance of Athens. In this case the plaintiff, who was a model, brought a claim against the owner of a magazine for the unauthorized publication of (half-naked) photos of hers and demanded damages for her non pecuniary harm, as well as 60 % of the profits from the circulation of the issue of the magazine in which her photos were included. The court ascertained that in acting so the magazine had infringed the plaintiff's right on her own personality, and in particular it had violated her right on her own image. It thus granted the plaintiff damages for her non pecuniary harm. It nevertheless rejected her claim for the disgorgements of the magazine's profits, on the ground that the magazine did not manage the plaintiff's affairs, but rather the affairs of the photographer, who had the copyright over the photos. This line of argumentation is hard to follow and has been thus heavily criticized in the literature.[46]

Unjust Enrichment

An alternative legal basis for the disgorgement of profits is unjust enrichment. According to Art. 938 of the Greek Civil Code, whoever is liable in tort shall grant to the victim whatever he acquired from his tortious activity on the basis of the provisions on unjust enrichment. Following Art. 904 of the Greek Civil Code "*whoever has become richer without legal cause from the property or at the cost of another person shall return the benefit*". It is generally accepted that enrichment from the property of another does not occur only when a person has used a property asset of another, but also when he has employed means which fall within another's legal sphere, like e.g. the unauthorized use of the name or the image of another for advertising purposes.[47] Disgorgement of profits on the basis of unjust enrichment is possible even if the beneficiary did not act culpably.

Nevertheless it will often not be possible to disgorge the full profits of the beneficiary on the basis of unjust enrichment. According to the prevailing opinion the beneficiary shall retain the part of the profits which he acquired due to his

[45] See Athens Court of Appeals 3346/1996, EllDni 1998, 667; Multi member Court of First Instance of Athens 1912/2010, Intrasoft-Nomos; Multi member Court of First Instance of Athens 4661/2004, NoV 2005, 114. See also Karagiannis (2007), 77 and 107-108. Cf. also Karakostas (2006), 193 et seq. at 196.

[46] See especially Karagiannis (2007), 78; Karakostas (2011), 332-333.

[47] See Stathopoulos (2004), § 16 no. 40, 42 and 84; Kornilakis (2012), § 64 no. 3; Georgiades (1999), § 55 no. 10; Karagiannis (2007), 111; Fountedaki (2012), 422.

own efforts and capabilities (e.g. using of his networking and know-how).[48] The distinction between the profits that should be returned on the basis of unjust enrichment and the profits that the beneficiary is entitled to keep is particularly difficult and is, ultimately, decided on the basis of experience-based knowledge. In addition, unless the defendant acted in bad faith, he shall return the enrichment only to the extent he was still richer at the time he was served the claim.[49] He shall thus subtract the expenses that he incurred before he had been served, provided that they are directly related to the object of his enrichment (e.g. hiring of specialized staff for the commercial exploitation of the infringed right).[50]

In practice the significance of unjust enrichment in the disgorgement of profits is rather limited. This is mainly due to the fact that according to the prevailing opinion in case-law, the claim of unjust enrichment is subsidiary to other claims,[51] meaning that it can be brought only if no other claim is available. This opinion has been heavily, and rightly, criticized in the legal literature for lack of legal foundations.[52]

The Claim for the 'Substitute' as a Contract Law Remedy

The 'Substitute' in Case of Impossibility of Performance

If the performance of a contract is impossible through no fault of the debtor, the latter is released from his obligation.[53] Even so, the debtor shall grant to the creditor any eventual 'substitute' (*surrogatum*), i.e. everything that has devolved upon him as a result of the impossibility of performance.[54] If the impossibility of performance is due to the fault of the debtor, as it is presumed, the creditor is entitled to damages instead.[55] Nevertheless, according to the prevailing opinion, if the creditor 'waives' his right to compensation, he can still claim the substitute.[56]

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[48] See Stathopoulos (2004), § 16 no. 103; Kornilakis (2012), § 69 no. 7; Georgiades (1999), § 57 no. 12; Valtoudis (2010), Art. 908 no. 17 and Valtoudis (2009), 209.

[49] See Art. 909 GrCC.

[50] See *ad hoc* Valtoudis (2009), 210 and in detail Stathopoulos (2004), § 16 no. 109; Valtoudis (2010), Art. 909 no. 9 et seq.

[51] See among many others AP 1326/2011 Intrasoft-Nomos; AP 1468/2010, EfAD 2011, 100; AP 493/2010, ChrID 2011, 338.

[52] See Stathopoulos (2004), § 23 no. 25; Kornilakis (2012), § 62 no. 17; Valtoudis (2009), 211.

[53] See Art. 336 GrCC. See also Art. 363 GrCC on the initial impossibility of performance, i.e. the impossibility which existed already at the time of the conclusion of the contract. See also Art. 380 GrCC on reciprocal contracts.

[54] See Art. 338 GrCC.

[55] See Arts. 335 and 362 GrCC on the subsequent and on the initial impossibility of performance respectively. Cf. Art. 382 GrCC on reciprocal contracts.

[56] See Stathopoulos (2004), § 19 no. 44. See also A. Gazis, Art. 338 GrCC no 2; Spyridakis (2004), no. 120.5; Koumanis (2010), Art. 338 GrCC no. 3.

Given that this 'substitute' may arise out of a subsequent contract that the debtor has concluded, which eventually led to the impossibility of performance of the initial contract, e.g. when the debtor transfers the object of the sale to a third person (*lucrum ex negotiatione*),[57] it can serve for the disgorgement of the debtor's profits that arise out of breach of contract.[58] It is immaterial whether the debtor is still in possession of the gains at the time he is served the claim.[59] It is debated, though, whether the creditor is entitled to the whole substitute, even if he could not have acquired such gains himself, e.g. because the debtor acquired this profit due to his own special skills or due to extraordinary circumstances.[60]

The Right of Subrogation in Case of Breach of Fiduciary Duties in Particular

In case of breach of fiduciary duties the law often provides special remedies for the disgorgement of the wrongdoer's profits. A characteristic such example can be retrieved from the legislation on limited companies and on public limited companies. Namely, the relevant laws include special provisions according to which the directors or/and managers of such companies shall refrain from any activity which is competing with the company's business, unless the general assembly of the company has consented to this activity. If the directors or/and managers fail to get this consent, but they nevertheless enter into a transaction in their own name or in the name of a third party, the company can claim either compensation or the benefits they derived from this activity.[61]

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[57] See Stathopoulos (2004), § 19 no. 38; Georgiades (2011), § 20 no. 30; Georgiades (1999), § 24 no. 32; Kornilakis (2009), 426; Koumanis (2010), Art. 338 GrCC no. 8.

[58] On the function of the claim for the substitute see in detail Kornilakis (2009), 428 et seq., and especially at 430, referring the significance of this claim as a means for the disgorgement of the debtor's profits.

[59] See Stathopoulos (2004), § 19 no. 39; Georgiades (1999), § 24 no. 33; Georgiades (2011), § 20 no. 31; Koumanis (2010), Art. 388 GrCC no. 4.

[60] See Stathopoulos (2004), § 19 no. 46; Georgiades (2011), § 20 no. 30; Spyridakis (2004), no. 120.5; Koumanis (2010), Art. 338 GrCC no. 9, according to whom in such cases the creditor shall receive only part of the substitute, similarly as in cases of unjust enrichment (see supra section "Unjust Enrichment"). Contra Filios (2011b), § 125 B, according to whom the creditor is entitled to the whole substitute. Cf. also Kornilakis (2009), 427-428, who concludes that the claim for the substitute differs functionally from the claim of unjust enrichment.

[61] See Art. 23 para. 2 of Law 2190/1920 on companies limited by shares and Art. 20 para. 3 of Law 3190/1955 on limited liability companies. This is equivalent to the German *'Eintrittsrecht'*, provided in Art. 113 HGB. In is worth noting that in case of limited liability company, the company has a claim for the profits only if the director entered into a transaction in the name of a third party. If he did so in his own name, he is only liable to pay damages to the company. See also Marinos (2009a), 2044 noting the deterrence effect of these provisions.

Functional Equivalents to Disgorgement Damages in Private Law

Apart from the remedies that aim specifically at the disgorgement of unlawful profits, further mechanisms may lead to comparable outcomes. The most significant ones in Greek law are the following:

Monetary 'Satisfaction' for Non-pecuniary Loss for Infringement of the Right of Publicity

In all cases of infringement of the right to one's personality, as well as in all torts, the law provides that the victim shall seek monetary 'satisfaction' for his non pecuniary loss.[62] According to the prevailing opinion, the function of this remedy is compensatory.[63] The reason that it is named 'satisfaction' rather than compensation relates to the difficulties as to its assessment. Indeed, it lies upon the judge to decide on the amount that will be granted to the victim, after taking into consideration all relevant circumstances.[64]

Despite the fact that the punitive aim of such damages is in principle rejected, a closer look into the criteria on the basis of which judges assess these damages may lead to a different conclusion. More concretely, the judges do not only look at the victim, but also at the wrongdoer. Factors such as the degree of fault of the wrongdoer, his motives, the nature of his activity as profit or non-profit, as well as his financial situation in general, are often taken into account.[65] This assumption regarding the latent punitive aim of monetary satisfaction for non pecuniary losses seems to be reinforced by special laws which set minimum amounts of damages for such losses, sometimes exceedingly high, for certain types of violations, such as e.g. in case of libel by the mass media.[66]

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[62] See Arts. 59 and 932 GrCC.

[63] See Stathopoulos (2004), § 8 no. 63; Georgiades (2011), § 5 no. 7; Filios (2011a), § 168 B 2; Kornilakis (2012), § 106 no. 4; Karakostas (2005), 107 et seq., at 109, (2011), 381.

[64] In Greece there exist no tables regarding damages for non pecuniary losses, and thus the amounts granted to the victim may diverge significantly from one case to the other.

[65] See, among many others, AP 109/2012; Intrasoft-Nomos; AP 284/2012, Intrasoft-Nomos; AP 1007/2011, ChrID 2012, 256; AP 654/2009, Intrasoft-Nomos. For a detailed analysis of these criteria see Paterakis (2001), 314 et seq., especially 320-321 and 340.

[66] See Art. 4 para. 10 of the only Art. of Law 2328/1995 on infringements by Radio and TV. See also para. 2 of the only Art. of Law 1178/1981, as amended by para. 1 of the only Art. of Law 2243/1994 referring to minimum compensation of the non pecuniary loss of the victim in case of libel by the press. It has been debated in case law whether these minimums amounts may be reduced by the courts, if in a specific case, considering all the relevant facts, the prescribed amount of minimum compensation is inconsistent with the constitutional principle of proportionality (see Art. 25 para. 1

On these premises, and out of equity considerations, judges seem sometimes to employ monetary satisfaction for non pecuniary losses in order to remedy legal deficiencies, especially in cases in which the legal framework is not comprehensive.[67] Thus the high amounts that are granted to the victims as non pecuniary damages for the infringement of their right to publicity may factually lead to the disgorgement of the profits of the wrongdoer. In the aforementioned case of the model whose photos have been published by the magazine without her consent,[68] the court rejected the plaintiff's claim for the profits of the magazine, but granted her 40.000 Euros for her non pecuniary loss. Even though this approach can be applauded as to the result, it is flawed from a methodological perspective, while it also lacks in transparency.

Collective Redress Mechanisms

Collective redress mechanisms do not technically qualify as remedies but rather as means to facilitate the enforcement of the rights of individuals. These instruments are particularly useful when the loss is dispersed over many persons, each one of whom has suffered a minimal loss. Such instances may arise especially in cases of violation of competition law, unfair business practices or insider trading regulations to the detriment of consumers or investors, respectively. In such cases it is highly unlikely that each individual separately will bring a claim for damages, since his costs for doing so exceed his expected benefit. Collective redress mechanisms can function as a counter-balance for the rational apathy of the victims, ensuring that the gains will not stay with the wrongdoer. Their aim seems thus to be deterrent rather than compensatory.[69]

Collective Action in Consumer Law

Law 2251/1994 on consumer protection grants consumer associations the right to file actions for the protection of consumer interests. Such actions can take two forms: First, consumer associations are entitled to pursue the legal protection of

of the Greek Constitution). Decision 6/2009 of the full bench of Areios Pagos, published in Arm 2009, 1162, decided in the negative, on the ground that the principle of proportionality is primarily addressed to the legislator and not to the judge. This decision has been (rightly, in my opinion) heavily criticised. See among many others, Stathopoulos (2010a), 833 et seq.; Fountedaki (2012), 379 et seq.

[67] See also Karagiannis (2007), 120 fn. 250.

[68] See supra section "False Agency Without Authorization".

[69] Cf. however Athanassiou (2013), § 24 no. 84 who discusses the aims of private enforcement of competition law to conclude that they are primarily compensatory.

the rights of the member of the association.[70] Second, consumer associations with at least 500 active members may bring a suit in their own name for the protection of the interests of consumers in general.[71] In this last suit, the consumer organization may, along with other claims, demand monetary 'satisfaction' for the non pecuniary losses suffered because of the wrongful behavior of the supplier. The law explicitly stipulates that in assessing these damages the court shall take into consideration the intensity of the violation, the size of the supplier's business, and its annual turnover in particular, as well as the need of general and special deterrence.[72] In order to avoid inequitable results the law provides that such monetary satisfaction for non pecuniary harm shall be granted only once for each violation.[73] Such collective claims can be also filed by the chambers of commerce, manufacturing and industry as well as by professional chambers.[74]

While all forms of collective redress address the issue of rational apathy of the consumers, it is this last possibility, namely the collective actions claiming 'satisfaction' for non pecuniary losses, that is of utmost interest for the disgorgement of profits of the wrongdoer. Consumer associations have made widely use of collective claims and courts have granted to them considerable damages.[75] Given the traditional approach that damages aim at the protection of the victim, the aforementioned provision seems to have initially puzzled both the courts and the legal literature. Almost 20 years after the enactment of this provision it is no longer debated that monetary satisfaction for non pecuniary loss functions as a 'civil sanction',[76] aiming primarily at deterrence. This conclusion is reinforced by the fact that consumer associations are not free to dispose of this amount in any way they wish. Namely, according to the law, damages shall be spent for the education, information and in general for the protection of consumers.[77] In addition special legal provisions regulate the distribution of this amount: 35 % shall stay with the consumer association which brought the claim, another 35 %

[70] Art. 10 para. 15 of Law 2251/1994.

[71] Art. 10 para. 16 of Law 2251/1994.

[72] Art. 10 para. 16 (β) of Law 2251/1994.

[73] Art. 10 para. 22 of Law 2251/1994.

[74] Art. 10 para. 24 of Law 2251/1994.

[75] See among many others AP 652/2010, DEE 2010, 943; AP 430/2005, DEE 2005, 460; AP 1219/2001, DEE 2001, 2001.

[76] See Nikolaidis (2000), 326; Panagopoulos (2000), 226; Doris (2007), 677; Georgiades (2005), 145 et seq., at 156; Dellios (2013), no. 74; Apalagaki (2008), Art. 10 of Law 2251/1994 no. 70; Stathopoulos (2010b), 616; Athanassiou (2013), § 24 no. 176. See also Papanikolaou (2007), especially at 292 with heavy criticism of this provision. On case law see supra note 75; contra Karakostas (2008), especially no. 1013-1018, who insists on the compensatory aim of this claim, claiming further (at no. 1026) that deterrence is just a positive side effect. Nevertheless Karakostas seems in the meanwhile to have adopted a more moderate approach. See Karakostas (2011), 381 fn. 1147, accepting the punitive aim of such damages.

[77] Art. 10 para. 22 of Law 2251/1994.

is granted to consumer associations of second degree (i.e. associations of consumer associations), while the rest 30 % ends up in the state budget.[78]

Collective Action for Violations of Competition Law?

Similarly to consumer law violations, the consequences of competition law, may spread over a large number of persons, leading to considerable profits for the wrongdoer. Nowadays there is no longer much doubt on the importance of private enforcement of competition law.[79] Nevertheless, when it comes to compensation claims, the opinion in favor of disgorgement damages does not seem to have prevailed. This can be mainly attributed to the practical difficulties as to the assessment of the profits of the wrongdoer as well as to concerns regarding over-deterrence.[80] Even under a regime of compensation for the concrete damages suffered by the plaintiffs in each specific case, collective redress mechanism could significantly contribute to the enforcement of competition law.

The introduction of collective redress mechanism has been thoroughly discussed on a European level. However, the final draft of the proposal of a Directive "on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union" refrained from including any relevant provision.[81] In addition, no such provisions have been adopted in the new Greek competition law of 2011.[82]

This notwithstanding, when competition law violations lead to damage to the consumers, the collective redress mechanism which is provided in consumer law can apply. Namely it is accepted that consumer associations, as well as other professional organizations, are entitled to both pursue the claims of their members and file collective claims in their own name, even when these pertain to violation of competition law.[83] Nevertheless, the legal framework of the collective action for

[78] Ibid.

[79] See in detail Athanassiou (2013), § 24 no. 1 et seq., especially 37 et seq.

[80] See Athanassiou (2013), § 24 no. 84-87.

[81] See para. 11 of the preamble of the proposal. On such provisions in the White Paper and previous drafts of the Directive see Papadelli (2010), 662 et seq.

[82] See Law 3959/2011.

[83] See Athanassiou (2013), § 24 no. 177-178. Cf. Karakostas (2008), no. 978 who also claims that collective claims of consumer associations are not restricted in cases where the provisions of consumer law are violated, but they can be filed in case of violations of other legal provisions as well, provided that the relation between the parties is a consumer-supplier relation. Cf. also Athens Court of Appeals 147/2004, NoV 2005, 289 and Koumanis (2005), 502 et seq.

consumer law violations does not fit well the needs of cases on competition law violations.[84] It is thus doubtful whether such a claim has been filed to date.[85]

Concluding Remarks

Disgorgement damages are confronted with skepticism in Greece. They are often rejected as a matter of principle, since according to the (still) prevailing opinion in Greece the aim of damages is primarily compensatory. Pragmatic approaches in the literature, though, led to the enactment of special provisions on disgorgement damages for infringements of intellectual property rights. In cases which do not fall within the field of application of these provisions disgorgement of profits is in theory possible through other institutions, namely false agency without authorization and unjust enrichment, provided that their respective conditions are met. In practice, however, few claims are brought on these legal bases. The issue seems less thorny when there is a contractual relation between the parties. The creditor can then claim the gain that arises out of the impossibility of performance as 'substitute', while special provisions regulate the disgorgement of profits in case of breach of fiduciary duties. Finally, further private law instruments, such as collective claims, may lead to results which are functionally comparable to disgorgement damages, even if this is not their main aim.

Although disgorgement of profits, as a remedy, is not alien to Greek private law, the relevant legal framework seems to be rather fragmented. The adoption of disgorgement damages as a general remedy would considerably enhance the deterrent effect of damages, which is logically prior to its compensatory aim. From a *de lege ferenda* perspective a flexible provision on the pattern of Art. 6:104 of the new Dutch Civil Code, which enables the judge to take into account the profits of the wrongdoer in the assessment of damages, depending on the circumstances of each case, would serve practical needs. In order to avoid inequitable results, which would also lead to over-deterrence, the judge should consider eventual administrative or criminal sanctions which have been imposed on the same wrongdoer for the same violation.[86] Finally, the enactment of such a provision should come with special rules to facilitate the proof of the wrongdoer's profits, as this would greatly enhance its applicability.

[84] See in more detail Athanassiou (2013), § 24 no. 179 et seq., referring especially to the very short prescription time for this claim.

[85] See Athanassiou (2013), § 24 no. 184.

[86] See especially Stathopoulos (2010b), 621.

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Chapter 14
Non-genuine Benevolent Intervention in Another's Affairs and Disgorgement of Profits Under Turkish Law

Başak Başoğlu

Abstract This chapter discusses the availability of disgorgement of profits as a private law remedy under Turkish Law. It provides an account of legal spaces that eventually allow disgorgement of profits as a private law remedy. To a great extent these stem from the general rule of non-genuine benevolent intervention, which is stipulated in article 530 of Turkish Code of Obligations.

Keywords Non-genuine intervention to another's affairs • Infringement of personality rights • Liability of an illegal possessor in bad faith • Infringement of intellectual property rights • Unfair competition

Introduction

Disgorgement of profits is a remedy, which provides illegally gained profits to be disgorged. Under Turkish law, disgorgement of profits is an available remedy in Penal Law and Administrative Law.[1] However, as a private law remedy, disgorgement of profits is also available in cases of benevolent intervention in another's affairs. Benevolent intervention in another's affairs is not regulated via a general provision in the General Part of the Turkish Code of Obligations. Controversially,

[1]For example in articles 158/2 and 235/4 of the Turkish Criminal Code, it is stipulated that the criminal fines should be calculated with regard to the illegal profit. In article 18 of the Law of Misdemeanours and article 17 of the Law on Prevention of Laundering of Proceeds of Crime, it is stipulated that the illegal profits are to be confiscated by State.

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it is regulated in the second part (Special Provisions) of the Turkish Code of Obligations[2] between articles 526 and 531.

The main objective of the remedial system in private law is to compensate the loss. Accordingly, loss is the most important element for determining the compensation since the loss determines the maximum limit of the compensation.[3] However, disgorgement of profits is a remedy that is independent from loss. Therefore, one view in the Turkish legal literature, the private law remedy of disgorgement of profits has a punitive character.[4] In other words, the remedy of disgorgement seems to penalize those who have wrongfully attacked another's rights with her/his own fault and for her/his own benefits. This view would bring the compensatory character of the private law remedies into question.

Although, under Turkish Law, as a rule, private law remedies do not have a punitive character, it may be further observed that certain provisions have a punitive character.[5] For example, a view in the Turkish literature claims that,[6] article 7 of

[2]The Republic of Turkey is a country that follows the civil law tradition. Accordingly, the primary feature of the Turkish legal system is that laws are written as comprehensive codes. The Turkish Civil Code consists of five books: the Law of Persons, Family Law, the Law of Inheritance, the Law of Property and the Code of Obligations. Although the Turkish Code of Obligations is separate from the Turkish Civil Code, as stated in article 646 of the Turkish Code of Obligations, it is the fifth book and complementary part of the Turkish Civil Code. The Turkish Code of Obligations is divided into two main parts: General Part and Special Part. Contracts, torts, unjust enrichment and other provisions with general application, are regulated in the First Part (General Part). Sales-, rental-, loan-, service-, and work contracts, mandate and other types of special contract provisions are regulated in the second part (Special Part).

[3]However, treble damages are regulated both in article 68 of the Law on Intellectual Property and article 58 of the Law on the Protection of Competition. The major difference is that gross negligence or intent is required to claim treble damages under article 58 of the Law on Protection of Competition, whereas treble damages can be claimed independent of fault under article 68 of the Law on Intellectual Property (see Özden Merhacı (2013), 199) Both provisions are of a punitive character under the influence of American Law. For article 58 of the Law on the Protection of Competition, see İnan (2004), 51; Özden Merhacı (2013), 189–190. For article 68 of the Law on Intellectual Property, see Öztan (2008), 649. Nonetheless, it should be noted that due to its punitive character, article 68 of the Law of Intellectual Property has been brought before the Constitutional Court. It has been discussed whether treble damages is against the proportionality principle or not. The Court held that treble damages is not against the proportionality principle since it determines a limit for compensation. [Decision of Constitutional Court dated 28.02.2013, numbered 133/33]. In other words, the Constitutional Court did not find treble damages regulated under article 68 of the Law on Intellectual Property as being of punitive character. It should be further noted that there are certain differences between these two rules which are considered to be the examples of treble damages under Turkish Law.

[4]Serozan (2015), I § 1 N 50.

[5]Serozan (2015), I § 1 N 22. Punitive provisions can also be found in Inheritance Law. For example, grounds for disinheritance and unworthiness to inherit stipulated in articles 510 and 578 of the Turkish Civil Code are of punitive character. Likewise, article 610 of the Turkish Civil Code which regulates that heirs who have already appropriated or concealed objects belonging to the inheritance, are not entitled to disclaim the inheritance, is a punitive sanction.

[6]Serozan (2015), I § 1 N 22.

Turkish Code of Obligations, which stipulates the sending of unsolicited goods, has a punitive character.[7] According to the said article, the sending of unsolicited goods does not constitute an offer and the recipient is not obliged to return or keep such goods.[8] Furthermore, in accordance with article 81 of the Turkish Code Obligations, it is not possible to make restitution for things given to produce an illegal or immoral outcome.[9] The court may decide to assign these goods to the State Treasury.[10] This provision aims to prevent the restitution of acquisitions made in order to produce an illegal or immoral outcome. It has been claimed in the legal literature that this provision has a punitive purpose.[11] Likewise the remedy of disgorgement of profits could be considered as a unique remedy that has a punitive character.

Outlook of Non-genuine Benevolent Intervention in Another's Affairs

The General Rule of Non-genuine Benevolent Intervention

Benevolent intervention in another's affairs is regulated in the second part (Special Provisions) of the Turkish Code of Obligations between articles 526 and 531. However, these provisions have general character. In other words, these are actually general provisions, which are erroneously situated in the Special Part of the Turkish

[7]For an opposing view, see İnceoğlu and Başoğlu (2010), 981–1027.

[8]It is accepted that this provision is applicable when the price of the unsolicited goods is indicated since otherwise an offer does not exist. Moreover, the contract shall not be formed upon the express acceptance of the recipient, but the sender must expressly or implicitly accept this declaration. This provision is adopted from the article 6a of the Swiss Code of Obligations. This article is actually designed for the consumer sales since in Switzerland there is not a separate code for the protection for the consumers. However, under Turkish Law, it is stipulated as a general provision applicable to all types of sales. For detailed information on the sending of unsolicited goods; see İnceoğlu and Başoğlu (2010), 981–1027.

[9]This provision is comparable to Article 27 of the Turkish Code of Obligations, which regulates that a contract is void if its terms are impossible, unlawful or immoral. However, it should be noted that article 27 is applicable when the scope of the contract or the aim of both parties is illegal or immoral whereas article 81 is applicable when the aim of the person who delivers the things is illegal or immoral.

[10]The Judge's right to assign the goods to the State Treasury, has been brought to this provision with the new Turkish Code of Obligations dated 2011. This amendment was made following criticism of the old provision. For critics see Öz (1985), 130. The Judge's right to assign the goods to the State Treasury is a confiscation rule. However, the right to confiscation is to be decided by the judge considering the merits of the case. Nonetheless, it should be noted that the judge's discretion is limited to confiscation of the goods to the State Treasury. The judge may not decide on the restitution of the acquisitions made in order to produce an illegal or immoral outcome (Oğuzman and Öz (2013), 362).

[11]Hatemi (1976), 613; Öz (1985), 108.

Code of Obligations. It is generally accepted in the legal literature that benevolent intervention in another's affairs should have been regulated in the General Part of the Turkish Code of Obligations.[12]

There are two types of benevolent intervention in another's affairs: traditional benevolent intervention in another's affairs (*negotiorum gestio*), which is known as "genuine benevolent intervention in another's affairs" and "non-genuine benevolent intervention in another's affairs". Genuine benevolent intervention in another's affairs[13] is considered to be a quasi-legal transaction whereas non-genuine benevolent intervention in another's affairs is considered to be an illegal act.[14]

Non-genuine benevolent intervention in another's affairs is stipulated in article 530 Turkish Code of Obligations. Accordingly, the principal has a right to appropriate any resulting benefits even if the intervener did not carry out the activities for the predominant interest of the principal. In other words, the intervener should (1) carry out activities (2) for her/his own interest (3) without an authority given by the Principal. Although it is controversial in the legal literature, the prevailing view claims that intervener must also be in bad faith.[15] Existence of all these conditions enables the principal to disgorge the profits gained by the intervener.

The most important remedy for the benevolent intervention in another's affairs is the disgorgement of profits (benefits).[16] According to article 530, the principal has a right to appropriate any resulting benefits even if the intervener did not carry out the activities for the predominant interest of the principal. The right to claim for disgorgement of profits is specific to the Principal. When it is claimed by the Principal, the intervener is obliged to transfer all benefits that have been obtained via benevolent intervention and have pecuniary value to the Principal.[17] Accordingly, net profits may be claimed. Net profit is calculated by adding interest to the gross profit and subtracting expenses from the total amount.[18]

As stated above, non-genuine benevolent intervention is considered to be an illegal act and it constitutes a separate source of liability.[19] Although benevolent

[12] Gümüş (2012), 237; Yavuz et al. (2012), 801.

[13] Tandoğan (2010), 677.

[14] Genuine benevolent intervention in another's affairs is stipulated in article 529 of the Turkish Code of Obligations. Accordingly, any person enforcing the interests of another without having been authorised is liable to relinquish any proceeds of such action in the same manner as an agent in return of compensation of the expenses.

[15] Arkan Akbıyık (1999), 38–40; Hatemi (1992), 495; Serozan (2014), § 24 N 23. It should be noted that bad faith means that the intervener knew or should have known that she/he intervened in the rights of others. However, it is alleged in the legal literature that mere fact of knowing the intervention is not enough to consider the intervener in bad faith, she/he must act in conscience about the illegal act (Serozan (2014), § 24 N 23).

[16] Arkan Akbıyık (1999), 47.

[17] Tandoğan (1957), 192; Yavuz et al. (2012), 801.

[18] Tandoğan (1957), 193.

[19] Arkan Akbıyık (1999), 20.

intervention seems similar to tort and unjust enrichment claims, they have major differences. First of all, claim for disgorgement of profits due to benevolent intervention, is independent from the remission of injured party's assets whereas tort and unjust enrichment only focuses exclusively on the remission of injured party's assets and therefore only such loss could be claimed.

Disgorgement of profits is a unique remedy since it is independent from the conditions of loss and impoverishment.[20] Therefore, it is different from claims of compensation and restitution. Undoubtedly, there should be a causal link between the gained profits and the benevolent intervention.[21] The principal has the right to claim profits which he himself would not have acquired or thought to acquire and this is so even if the intervener has acquired more profits than usual due to intervener's own talent and efforts.[22]

The amount is calculated without considering the personal efforts of the intervener. It is calculated with respect to the actual profits gained. However, in some cases it could be difficult to determine or prove the actual profits since the intervener holds all the information regarding the actual profits. In such cases, it is accepted that the method of calculation for compensation shall be applied by analogy.[23] Accordingly, in cases where it is not possible to determine or prove the actual profit, the judge decides on the amount of profit considering all relevant circumstances. However, the profit that the intervener failed to gain is controversial.[24] Such profit shall not be considered. Only actual profit could be subject to the claim of disgorgement of profits.[25] However, loss of profits due to benevolent intervention of another's affairs could be claimed as a tort claim. It should be further noted that disgorgement of profits could be claimed even if the intervener has disposed of all of the profits. In such cases, a claim for actual profits may not be limited by the remaining amount.

It is alleged by one view in the legal literature that claims for disgorgement of profits could only be accepted if the claims for pecuniary and non-pecuniary damages are deducted from this claim.[26] However, it is the author's opinion that claims for disgorgement of profits should be accepted along with the claims for pecuniary and non-pecuniary damages. Nonetheless, in the case where the scope of the pecuniary damages is limited with the loss of profits, then either loss of profits or disgorgement of profits should be claimed since both claims coincide.

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[20] Arkan Akbıyık (1999), 47. It should be further noted that it is alleged by one view in the legal literature that impoverishment is not a required condition for the unjust enrichment claims (Serozan (2014), § 24 N 7).

[21] Tandoğan (1957), 195.

[22] Serozan (2014), § 24 N 23.

[23] Arkan Akbıyık (1999), 49.

[24] For this debate, see Arkan Akbıyık (1999), 45.

[25] Arkan Akbıyık (1999), 48.

[26] Serozan (2015), I § 5 N 58 fn. 63.

However, the gained profits could be more than or less than the loss suffered by the Principal. Generally, the gained profits of the intervener are considered to be corresponding to Principal's loss of profits. Therefore, damages for loss of profits (*lucrum cessans*) and disgorgement of profits are competing claims. For example, in the case where the scope of the pecuniary damages is limited with the loss of profits, then either loss of profits or disgorgement of profits should be claimed since both claims coincide.[27] In other words, Principal may not claim damages for loss of profits along with disgorgement of profits based on benevolent intervention. On the other hand, if Principal's loss of profits is more than the gained profits of the intervener, then the Principal shall claim for damages for loss of profits instead of disgorgement of profits. However, in such claim, the Principal should be able to prove damages.

On the other hand, in case of damages for actual loss (*damnum emergens*), it is accepted that the damages for actual loss and the disgorgement of profits could be claimed together since the gained profits of the intervener may not correspond to the actual loss of the Principal. Likewise, non-pecuniary damages may also be claimed together with the claim for disgorgement of profits since the aim of the non-pecuniary damages is different than other damage claims.

One controversial and important issue regarding the disgorgement of profits is whether the claim for disgorgement of profits is accepted only in breach of absolute rights[28] or also in breach of relative rights.[29] In other words, is it possible to claim for disgorgement of profits in breach of contracts? This issue is highly debated in the legal literature.[30] It is the author's view that disgorgement profits could be claimed in breach of both and relative rights. However, a restriction should be made for the relative rights. Breach of relative rights shall enable the claim for disgorgement of profits only if such a breach intervenes with an exclusive and direct area of dominance that typically corresponds to the absolute rights.

It should be noted that a specific statute of limitation is not regulated for claims arising from the non-genuine intervention in another's affairs. Thus the applicable statute of limitation is debated in the legal literature. It is alleged by one view in the legal literature that the claims arising from the non-genuine intervention in another's affairs should be subject to general statute of limitation of 10-years stipulated under

[27] In case where the Principal suffered loss due to the benevolent intervention, the relationship between the damage and the disgorgement of profits would depend on whether the loss of the Principal appeared as suffered profits (lucrum cessans) or as actual loss (damnum emergens).

[28] Absolute rights are the rights that enable its holder to enforce against everyone who breaches such a right and therefore, oblige all other persons to refrain from interfering. e.g. personal rights, rights in rem, intellectual rights.

[29] Relative rights are the rights that enable its holder to enforce against a specified person or a group.

[30] For this debate see Arkan Akbıyık (1999), 29; Gümüş (2012), 245; Tandoğan (1957), 111.

article 146 of Turkish Code of Obligations[31] where another view suggests that 5-years statute of limitation foreseen for the mandate in article 147/5 of Turkish Code of Obligations.[32] The prevailing view in the legal literature alleges that the statute of limitation foreseen for the tort claims in article 72 of Turkish Code of Obligations should be applicable.[33] Accordingly, the statute of limitation is 2 years from the date the Principal becomes aware of both the intervention and the intervener. In any event, tort actions are time barred for 10 years from the date of the act.

Infringement of Personality Rights

Claims of an injured party in the case of infringement of personality rights are dealt with by Article 25 of the Turkish Civil Code. Accordingly, the rights of injured parties to claim for disgorgement of profits is reserved as clear reference is made to benevolent intervention in another's affairs in the second paragraph of the aforementioned article. Thus, the application of the law on benevolent intervention in another's affairs is not limited to the rights to assets, but it is also applicable in the case of infringement of personality rights.

It should be noted that the law on benevolent intervention in another's affairs is not applicable in all cases of infringement of personality rights. Therefore, the conditions of benevolent intervention in another's affairs must be demonstrated in each case of infringement of personality rights before those rules of benevolent intervention apply. Also, the intervener must have gained profits due to the benevolent intervention in order for the injured to claim for disgorgement of profits. If the intervener has not gained any profits due to the benevolent intervention, the injured party only has the right to claim compensation.

According to the wording of Article 25/II, the injured party has the rights to claim compensation for both pecuniary and non-pecuniary loss as well as disgorgement of profits. However, this is controversial in the legal literature. According to the first view in the legal literature,[34] which is in line with the wording of the provision, it is possible to claim both compensation for pecuniary and non-pecuniary loss and disgorgement of profits. According to another view,[35] compensation for pecuniary or non-pecuniary loss and disgorgement of profits may not be claimed together. For the third view,[36] it is possible to claim both the compensation for non-pecuniary

[31] See, Decision of the Joint Chambers of the Court of Cassation, dated 4.6.1958 and numbered 15/16.

[32] Hatemi (1992), 496.

[33] Arkan Akbıyık (1999), 59; Tandoğan (2010), 683; Tandoğan (1957), 317; Tekinay et al. (1989), 238; Yavuz et al. (2012), 801.

[34] Dural and Öğüz (2012), 156–157.

[35] Arpacı (2000), 162.

[36] Hatemi (2001), 97.

loss and the disgorgement of profits together while the claims for pecuniary loss and the disgorgement of profits are competitive claims; it is only possible to claim one of them. As for the final view in the legal literature,[37] it is possible to claim both the compensation for non-pecuniary loss and the disgorgement of profits together. As for the claim for the compensation of pecuniary loss, this view distinguishes the compensation for the actual damage and compensation for loss of profits. Accordingly, in the case of actual damage, both the compensation for pecuniary loss and the disgorgement of profits may be claimed together, while in the case of loss of profits, either compensation for pecuniary loss or disgorgement of profits may be claimed.

Liability of an Illegal Possessor in Bad Faith

For claims depending on rights or presumption of possession, the scope of the restitution obligation of the illegal possessor is stipulated under articles 993–995 of the Turkish Civil Code depending on whether the possessor is in good or bad faith.[38] According to article 993, an illegal possessor in good faith is not liable for the perishing of or damage to the possessed goods. An illegal possessor in good faith is not liable even she/he destroys the goods intentionally.[39] Moreover, an illegal possessor in good faith is not liable for utilization of the possessed goods or profits gained or failed to have been gained.[40] It is controversial in the legal literature whether it is possible to claim for the disgorgement of profits depending on the non-genuine benevolent intervention of another's affairs. However, as stated above, the prevailing view claims that article 530 of the Turkish Code of Obligation is only applicable for the intervener in bad faith.[41] Therefore, gained profits may not be claimed from the illegal possessor in good faith according to article 530 of the Turkish Code of Obligation.

The scope of the restitution obligation of the illegal possessor in bad faith is stipulated in article 995 of the Turkish Code of Obligations. Accordingly, an illegal possessor in bad faith is strictly liable for the perishing of or damage to the possessed

[37] Arkan Akbıyık (1999), 79–80.

[38] Oğuzman et al. (2009), 106–107; Özen (2003), 99.

[39] Oğuzman et al. (2009), 109; Özen (2003), 123; Tekinay et al. (1989), 206–208.

[40] Oğuzman et al. (2009), 109; Özen (2003), 123; Tekinay et al. (1989), 212.

[41] Arkan Akbıyık (1999), 82. For opposing view, see Tandoğan (1957), 314. It should be further noted that possessor in bad faith in this context is one who knew or should have known that she/he had no right to acquire possession. See decision of the 4th Civil Chamber of Court of Cassation dated 26.3.1974 and numbered 16426/1516. Furthermore, it is possible that a possessor in good faith becomes a possessor in bad faith during her/his period of possession. See decision of the Assembly of Civil Chambers of the Court of Cassation dated 07.03.2012 and numbered 3-834/127.

goods.[42] Accordingly, liability of an illegal possessor in bad faith is independent of fault.[43] In cases where the illegal possessor in bad faith has sold the possessed goods, it is controversial in the legal literature whether it is possible to claim compensation from the illegal possessor in bad faith if there is chance to make restitution for the goods from the buyer. According to one view in the legal literature, it is not possible to claim for compensation of the value of the goods from the illegal possessor in bad faith,[44] while another view accepts the claim for the value of the goods from the illegal possessor in bad faith.[45] According to the second view, such a claim would be a claim for disgorgement of profits since it is independent from the loss and impoverishment.

Moreover, an illegal possessor in bad faith is liable for the utilization of the possessed goods or profits gained or failed to have been gained. This is not a claim for compensation but disgorgement of profits. In other words, this provision is a special application of the law of benevolent intervention to another's affairs and so an illegal possessor in bad faith is liable for the profits independent from the loss. It should be noted that the Court of Cassation has given controversial decision on this issue.[46]

Consequently, in a case where the possessor in bad faith has acquired profit from that which is possessed, the owner could claim such profit independent of loss. As far as the profits that the possessor in bad faith failed to gain are concerned, the objective market value of such profits may be claimed in accordance with the law on benevolent intervention in another's affairs.[47]

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[42] Özen (2003), 202. In such a case, gained profits may be claimed due to article 530 of the Turkish Code of Obligations instead of compensation. It is more beneficial to claim for gained profits when the market price of the possessed goods are lower than the sale price. Arkan Akbıyık (1999), 48.

[43] Özen (2003), 193.

[44] Oğuzman et al. (2009), 114.

[45] Tekinay et al. (1989), 210–211.

[46] In 1950, the Court of Cassation rendered that in order to claim for profits gained or failed to have been gained from an illegal possessor in bad faith, it should be proven that the legal possessor would have gained the profits if she/he had possessed the goods. According to this decision, loss is required in order to claim for compensation from an illegal possessor in bad faith for utilization of the possessed goods or profits gained or failed to have been gained. see, Decision of the Joint Chambers of the Court of Cassation, dated 8.3.1950 and numbered 22/4. Lately in various decisions, the Court of Cassation has rendered that in order to claim for profits gained or failed to have been gained from an illegal possessor in bad faith, it should be only proven that profits could be gained from the possessed the goods. Accordingly, the Court of Cassation does not require the profits to be actually gained by an illegal possessor in bad faith. See Decisions of the Assembly of Civil Chambers of the Court of Cassation dated 15.12.1980 and numbered 1708/2632; dated 30.9.1981 and numbered 1715/645 and 3rd Civil Chamber of Court of Cassation dated 16.10.1980 and numbered 5174/5268. This view is also supported by the legal literature; see Tekinay et al. (1989), 220.

[47] Özen (2003), 263–264.

Infringement of Intellectual Property Rights

According to article 70/III of the Law on Intellectual and Artistic Works, the person whose intellectual property rights are infringed may, as well as damages, also claim the profits gained by the infringing party.[48] This provision is one application of the benevolent intervention to another's affairs in the Law on Intellectual and Artistic Works. Thus, a claim for gained profits is subject to fault.[49]

The first two paragraphs of article 70 stipulate the rights of the infringed party to claim non-pecuniary and pecuniary compensation. In line with the above explanations, gained profits may be claimed alongside non-pecuniary compensation.[50] As for the claim for the compensation of pecuniary loss, this view distinguishes the compensation for the actual damage and compensation for loss of profits. Accordingly, in the case of actual damage, both the compensation for pecuniary loss and the disgorgement of profits may be claimed together, while in the case of loss of profits, either compensation for pecuniary loss or disgorgement of profits may be claimed.

It should also be noted that disgorgement of profits is also addressed in article 66 of Decree-Law Numbered 556 regarding the Protection of Trademarks,[51] article 140 of Decree-Law Numbered 551 regarding the Protection of Patent rights,[52] and article

[48] Decision of 11th Civil Chamber of Court of Cassation dated 01.12.2003 and numbered 4292/11261.

[49] Arkan Akbıyık (1999), 85; Arslanlı (1954), 211. For opposing view, Erel (2009), 307.

[50] Öztan (2008), 678. Also see decision of 11th Civil Chamber of Court of Cassation dated 25.02.2004 and numbered 10070/1592.

[51] *"The injury suffered by the owner of the trademark includes not only the value of the actual loss but also the loss of profits incurred due to the infringement of the trademark rights. The loss of profit shall be calculated in accordance with one of the following methods, to be chosen by the injured trademark owner:*

a) According to the possible income that the proprietor of the trademark would have generated if the competition of the infringing party did not exist;

b) According to the profit generated by the infringing party from the use of the trademark;

c) According to a license fee that would have been paid if the party infringing the trademark right would have utilized the trademark under a legal licensing contract." (English text of the Decree-Law is available at http://www.tpe.gov.tr/dosyalar/EN_khk/Trademark_DecreeLaw.htm*).*

[52] "The damage/prejudice suffered by the proprietor of the patent includes, not only the value of the effective loss, but also includes the income non-realized because of the infringement of the patent right. The non-realized income shall be calculated in accordance with one of the following evaluation methods, on the option of the proprietor of the patent who has suffered damage/prejudice:

a) According to the income that the proprietor of the patent might have possibly generated if the competition of the infringing party did not exist;

b) According to the income generated by the infringing party from the use of the patent;

c) According to a license fee that would have been paid if the party, infringing the patent right, would have lawfully utilized the patent under a licensing contract." (English text of the Decree-Law is available at http://www.tpe.gov.tr/dosyalar/EN_khk/Patent_DecreeLaw.htm)

52 of Decree-Law Numbered 554 regarding the Protection of Industrial Design.[53] All three provisions are similar to each other.

Unfair Competition

Unfair competition is dealt with by article 54–62 of the Turkish Commercial Code. According to article 56 (e), the judge may also decide on the payment of the value of profits that the defendant might have acquired due to unfair competition, as compensation on behalf of the injured party and in accordance with the provision in paragraph (d).[54] Essentially, this provision is the application of the law on benevolent intervention in another's affairs in the Law on Intellectual and Artistic Works. However, the wording of this provision is controversial.

Firstly, the wording of "[the] judge may decide" is misleading.[55] Such wording would mean that it is at the judge's discretion to award disgorgement of profits as compensation. However, that is an unacceptable interpretation since the judge is bound by the claims. Thus, an award of disgorgement of profits may only be awarded when it is claimed.

Secondly, the wording of "the value of profits, which the defendant might have acquired due to unfair competition" is also ambiguous.[56] Such wording could mean that even if the defendant did not acquire any profits, the profits that she/he might have acquired due to unfair competition may be claimed. However, as explained above in the liability of the illegal possessor in bad faith, only actual profits could be claimed under benevolent intervention to another's affairs.

Thirdly, the wording of "as compensation" is confusing since such wording could mean that awards of disgorgement of profits are available when it is not possible to

[53] "The injury suffered by the design right holder include not only the value of the actual loss but also the income loss incurred because of the infringement of the design rights. The loss of income shall be calculated in accordance with one of the following evaluation methods, on the option of the design right holder who has suffered the injury:

a) according to the possible income that the design right holder would have generated if the competition of the infringing party did not exist;

b) according to the income generated by the infringing party from the use of the design;

c) according to a license fee that would have been paid if the party infringing the design right would have utilized the design under a legal licensing contract. (English text of the Decree-Law is available at http://www.tpe.gov.tr/dosyalar/EN_khk/IndustrialDesign_DecreeLaw.pdf)

[54] According to article 56 (d), injured may claim for compensation of damages if there is fault. However, it should be noted that it is the Court of Cassation's opinion that claim for disgorgement of profits is accepted only if the existence of damages or its amount could not be demonstrated. See 11th Civil Chamber of Court of Cassation dated 16.6.1997 and numbered 4268/4721.

[55] Arkan Akbıyık (1999), 89.

[56] Arkan Akbıyık (1999), 90.

calculate compensation.[57] However, such an interpretation should not be accepted since this provision is an application of the general rule of benevolent intervention in another's affairs. Disgorgement of profits is a claim that is independent from loss. This is the most important difference between the claims of disgorgement of profits and compensation. Accordingly, depending on the benefits of the claimant, either disgorgement of profits or compensation for the loss of profits should be claimed in a case of unfair competition. In cases where the profits acquired by the defendant are more than the damages; it would be more beneficial for the claimant to claim for the disgorgement of profits. However, this would fall to be determined in each case.

Finally, the wording of this provision leads to the erroneous understanding that in all types of unfair competition it is possible for the claimant to claim disgorgement of profits.[58] Rather, disgorgement of profits may not be claimed in all types of unfair competition since this provision is the application of the law on benevolent intervention in another's affairs in the Law on Intellectual and Artistic Works. Therefore, in order to claim disgorgement of profits, there should have been a benevolent intervention in another's affairs. However, not all types of unfair competition constitute benevolent intervention in another's affairs. Acts, which are examples of unfair competition, are counted in article 55 of the Turkish Commercial Code. Among these examples, taking an illicit advantage from trading or manufacturing secrets obtained, or trying to create confusion with the goods and products of the work, activity, or commercial undertaking of another person would constitute benevolent intervention in another's affairs.

Conclusion

Under Turkish Law, disgorgement of profits is not stipulated as a general provision. However, it is stipulated under the Special Part of the Turkish Code of Obligations as seen in article 530 of the Turkish Code of Obligations, which, stipulating the benevolent intervention in another's affairs is general. In other words, this provision is actually a general provision, which is improperly placed under the Special Part of the Turkish Code of Obligations. Accordingly, it is generally accepted in the legal literature that benevolent intervention in another's affairs and disgorgement of profits should have been dealt with under the General Part of Turkish Code of Obligations, instead of the Special Part.[59]

[57] Arkan Akbıyık (1999), 88.

[58] Tandoğan (1957), 344.

[59] Gümüş (2012), 237; Yavuz et al. (2012), 801. Even if such view is not accepted, it is still possible to accept a general concept of disgorgement of profits by collective analogy (*Rechtsanalogie*) regarding article 530 of the Turkish Code of Obligations, article 25/II of the Turkish Civil Code; article 995 of the Turkish Civil Code; article 70/III of the Law on Intellectual Property and article 56/I (e) of the Turkish Commercial Code. Accordingly, it is possible to deduce the general principle

Finally, it should be noted that the application of this provision may be problematic in cases where multiple people are harmed due to the benevolent intervention. In such cases, all of the people who are harmed have a right to claim disgorgement of profits. Accordingly, it is possible that these people file different lawsuits at different times since a model of class action is not available under Turkish Law. In such a case, distribution of the profits may be challenging for the courts.

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that one who is harmed due to the intentional illegal act of another should have a right to appropriate any resulting benefits arising from such harm. However, in order to claim such a view, one should not accept the view that the remedy of disgorgement of profits has a punitive character. Otherwise, such a view would contradict the fact that the analogy could not be applied to the punitive remedies.

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Part V
Nordic Legal Systems

Chapter 15
Disgorgement Damages in Norwegian Law

Erik Monsen

Abstract Norwegian law does not acknowledge a general rule similar to for instance the German § 812 BGB providing that a person who has been unjustly enriched at the expense of another is under a duty to make restitution to him. Nor does Norwegian law acknowledge a general rule on disgorgement damages. However, Norwegian law contains several specific rules that are providing for the disgorgement of profits obtained by a wrong. This is so, in particular, within the sphere of intellectual property rights and infringement of such rights. In this author's view the legal material in Norwegian law now offers sufficient basis for at least discussing the acknowledgement of a general rule on disgorgement damages and the development of a separate branch of law dealing with unjustified enrichment.

Keywords Disgorgement damages • Restitutionary damages • Unjustified enrichment • Norwegian law • Enrichment by subtraction

No Separate Branch of Law Dealing with Unjustified Enrichment

In Norwegian law there is no separate branch of law dealing with unjustified enrichment. There are, however, numerous rules giving grounds for enrichment claims. As in jurisdictions that have a "law of unjustified enrichment", Norwegian law contains rules concerning e.g. claims based on enrichment by subtraction ("restitusjonskrav"), restitutionary damages (reasonable royalty) and disgorgement damages ("vederlagskrav" og "vinningsavståelseskrav", respectively).[1] Notwithstanding the existence of such rules, the legal doctrine has not been preoccupied with systematization of enrichment claims and development of such a separate branch of law.

[1] On the Norwegian terms, see Monsen (2007), 46–56 and Monsen (2005), 162–168.

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The lack of a separate branch of law dealing with unjustified enrichment undoubtedly has had an effect on the development of enrichment claims, since such claims, and the connections between them, have for the most part not been analysed in depth in Norwegian law. For instance, in books on tort law there are some traces of restitution damages and disgorgement damages being dealt with, but since tort law's main focus have been and still is personal and property damage the legal writing has only to a very limited extent analysed restitutionary damages and disgorgement damages. Furthermore, a rather specialized legal discipline called "the law of monetary claims" ("pengekravsrett") deals with some claims concerning enrichment by subtraction, e.g. *condictio indebiti* and recourse. However, this legal discipline does not purport to give a systematized account of claims based on enrichment by subtraction. For instance, a cohabitant's claim for remuneration upon breakup for contributing to the other party's capital increase is dealt with in family law.

Some writers have been preoccupied with the so-called law of obligations. The main work within the law of obligations is Viggo Hagstrøm's book "Obligasjonsrett". In this book, Hagstrøm analysed enrichment as a legal ground for monetary claims. He seemed to argue in favour of the existence of a general reasonableness rule that gives grounds for enrichment claims.[2] Such a rule has not been acknowledged by the Norwegian Supreme Court ("Høyesterett"), and Hagstrøm's point of view has not been adopted by the legal doctrine as a starting point for establishing a separate branch of law dealing with unjustified enrichment.

No General Legal Basis for Disgorgement Damages

In Norwegian law there is no general rule providing that a person who is unjustly enriched at the expense of another is under a duty to make restitution to him. Surely, the Supreme Court has recognised the existence of broad principles concerning unjustified enrichment. For instance, the Supreme Court made reference to "general principles of restitution and enrichment" ("alminnelige restitusjons- og berikelsesprinsipper") in 1984 in a case concerning a cohabitant's claim for remuneration upon breakup for contributing to the other party's capital increase,[3] and later in a similar case in Retstidende 2000 p. 1089. In the same vein, the Supreme Court has awarded restitution damages on the basis of a general rule ("alminnelige rettsgrunnsetninger") which it recognized on grounds of adjacent positive law.[4]

However, the Supreme Court has not acknowledged the existence of a general enrichment rule comprising enrichment by subtraction and restitution for wrongs, nor has it acknowledged a general rule concerning disgorgement damages. In fact,

[2]Hagstrøm (2011), 687.

[3]Retstidende 1984 p. 497.

[4]Retstidende 2009 p. 1568.

there are few case law examples concerning disgorgement damages. In effect this means that it is quite uncertain if and to what extent disgorgement damages may be awarded on the basis of non-statutory law.

In 2005, the Supreme Court decided a case concerning unlawful passing off in which the plaintiff claimed damages for loss and, alternatively, disgorgement damages, arguing that the defendant should not be allowed to make a profit from a wrong, notwithstanding any proof of the plaintiff having suffered a loss as a consequence of the wrong.[5] The Supreme Court awarded only damages for loss. The Court did not find it necessary to decide whether or not there is a non-statutory legal basis for disgorgement damages in cases concerning passing off, since disgorgement damages, according to the Court, would not provide any better result for the plaintiff than the claim for damages for loss. Without acknowledging any legal basis for disgorgement damages, the Supreme Court stated that the profits *from* the wrong would consist of only profits that were a consequence of the customers by mistake having bought the defendant's product instead of the plaintiff's.

In my mind this cannot be correct, since the profits obtained by passing off surely may exceed the profits that are obtained by sales that are caused by such mistake by the customers. One may argue that the case illustrates the uncertainty in Norwegian law when it comes to disgorgement damages.

The same can be said about a Supreme Court decision which was handed down in 2007.[6] In this case, the plaintiff claimed disgorgement damages for violation of a non-competition clause. The Supreme Court pointed out that the case law, in particular one of its own judgements from 1966,[7] gave some support for the existence of a non-statutory legal basis for a claim for disgorgement damages in cases concerning violation of non-competition clauses. However, the Court found in favour of the defendant since he had acted only negligently. The Court did not decide whether Norwegian law contains a non-statutory legal basis for awarding disgorgement damages in cases concerning violation of non-competition clauses. It only stated that such a claim in any event would be conditional upon the defendant having acted with gross negligence or maybe even in bad faith.[8]

Whilst the non-existence of a general legal basis for enrichment claims is quite symptomatic of the lack of a separate branch of law dealing with unjustified enrichment, the latter surely does not exclude the existence of a general legal

[5]Retstidende 2005 p. 1560.

[6]Retstidende 2007 p. 817.

[7]Retstidende 1966 p. 305.

[8]It should be noted here that shortly prior to this Supreme Court decision, Borgarting Appeal Court ("Borgarting lagmannsrett") handed down a judgement, in a case concerning patent infringement, which clearly indicates a general non-statutory basis for disgorgement damages. The Patent Act ("patentloven") at that time did not give legal basis for disgorgement damages. The Appeal Court stated that the Act needed to be supplemented by "non-statutory principles concerning disgorgement of profits" ("må suppleres med ulovfestede prinsipper om fraleggelse av berikelse"), and hence that the damages claim could equal the defendant's "unjustified enrichment" ("den uberettigede vinning").

basis for disgorgement damages. As will be shown below, the statutory law on disgorgement damages has undergone quite considerable development lately, and this development can turn out to be important for a possible recognition of a general legal basis for disgorgement damages.

Arsenal of Instruments Focussing on Unlawful Profits

Norwegian law contains several rules, both in penal, administrative and private law that are focussing on the disgorging of profits obtained by a wrong. The Penal Code ("straffeloven") § 35 provides that profits resulting from criminal acts may be confiscated. The confiscated profits will in general accrue to the Norwegian state. The Penal Code § 37d does however authorize judgements stating that the confiscated profits shall be used to cover a claimant's claim for damages.

Also administrative law contains regulations providing for disgorgement of unlawful profits for the benefit of the state. For instance the Securities Act ("verdipapirhandelloven") § 17-2 states that profits resulting from unlawful inside trading may be the subject of such confiscation. A similar provision in the Competition Act ("konkurranseloven") was deleted in 2004, the reasons being, according to the preparatory works, that the provision had never been applied and that fines would be a sufficiently effective sanction.

In the private law sector there are numerous rules regarding disgorgement of unlawful profits. In July 2013 important new legislation came into force: In cases of intentional or negligent intellectual property infringement the right holder may claim damages for loss, restitution damages or disgorgement damages, whichever gives the highest amount. The legislator has taken a pragmatic approach to the labelling, treating restitution damages and disgorgement damages as ways of calculating the monetary claim. If the infringer has acted intentionally or grossly negligent the infringed party may, in cases of intellectual property infringements, choose to claim double restitution damages.[9] Also in cases of passing-off and misuse of trade secret the infringed party may choose between damages for loss, restitution damages and disgorgement damages.[10]

The background for the legislator's acknowledgement of restitutionary damages and, in particular, disgorgement damages is in general an assumption that a claim for damages for loss does not offer sufficient compensation, partly because the loss may be very difficult to prove. Moreover, the legislator assumes that restitutionary damages and disgorgement damages may have deterrent effect, because the wrongdoer's profits may not only be easier to prove than the right holder's loss, but it will

[9] See Patent Act ("patentloven") § 58, Trademark Act ("varemerkeloven") § 58, Design Act ("designloven") § 40, Circuit Pattern Act ("kretsmønsterloven") § 6 and Plant Breeder Act ("planteforedler") § 23.

[10] See the Marketing Act ("markedsføringsloven") §§ 28–30.

often also be higher than the loss. More specifically in relation to the rule concerning double restitution damages, the legislator assumes that it may serve a useful purpose in terms of disgorgement of profits in cases in which the profits are difficult to prove and assess, and thereby it may have an important deterrent effect.[11]

The new legislation was adopted by the legislator based on a proposal worked out by the Ministry of Justice and Public Security and does not affect the Copyright Act ("åndsverkloven"), since this Act falls under the Ministry of Culture's field of responsibility. The Copyright Act § 55 does, however, contain a provision regarding disgorgement of profits resulting from infringement of copyright. Disgorgement according to this provision is not conditional upon the infringer having acted negligently, whereas the abovementioned new legislation sets out negligence as a pre-condition for disgorgement damages.

A case decided in 1987 by the Supreme Court can serve as an example of the application in practice of the Copyright Act § 55.[12] The case was about unlawful use of a picture in Norway's biggest newspaper. On the basis of the predecessor to the disgorgement rule in the Copyright Act § 55, the Court laid down that the use of the picture clearly influenced the infringer's financial results, and that this was sufficient to conclude that the infringed had a claim for disgorgement of profits. Since the disgorgement damages could not be calculated exactly based on some form of commercial analysis, the calculation, the Court stated, had to be based on a discretionary assessment by the Court.

With respect to invasions of privacy by way of unlawful use of pictures, case law shows that an alternative route for the injured party may be to allege the Penal Code § 390 and redress according to the Damages Act ("skadeserstatningsloven") § 3-6. This was done in Retstidende 2007 p. 687, a Supreme Court case concerning a celebrity magazine's unlawful use of pictures of two participants in the tv-show "Big Brother". The court put much emphasize on the magazine's profits when it calculated the claim.

Regarding unlawful use of real estate and chattel there is no legislation in force which directly deals with disgorgement of unlawful profits. In 1981, the Supreme Court ruled that the owner can claim restitution damages in cases of intentional unlawful use of real estate.[13] The legal doctrine argues that the same goes for unlawful use of chattel, and that negligence on the part of the infringer suffices. The Supreme Court expressly stated that it did not decide whether the owner could claim disgorgement damages, since such a claim had not been put forward. Hence, it is uncertain whether the owner can claim disgorgement damages in these cases.

There is legislation dealing with different issues concerning real estate and the owner's rights which to a certain extent can serve as legal basis for disgorgement of unlawful profits. The Neigbour Act ("naboloven") § 11 regulates *inter alia* situations concerning unlawful construction of buildings on adjoining land. As a main rule

[11] See preparatory work, Prop. 81 L 2012–2013, 42.

[12] Retstidende 1987 p. 1082.

[13] Retstidende 1981 p. 1215.

such a building shall be torn down. However, there is room for exceptions to this rule, and an exemption is conditional upon the owner of the adjoining land receiving a compensation that normally must not be less than the profits obtained by building on adjoining land.

In the Easement Act ("servituttloven") § 17 there is a provision concerning persistent default. If either the owner or the right holder acts unlawfully in such a way, the innocent party can claim "adequate compensation" ("høveleg skadebot"). When applying this provision the courts have taken into account and put emphasize on the defaulting party's profits as a result of the default. In 2011, the Supreme Court decided a case concerning construction of a building contrary to a negative obligation. For the compensation to have preventive effect, the Court stated, it is appropriate that the infringer disgorges "some of the profits" gained from the project.[14]

Norwegian law also has an act concerning so called random ownership (the Random Ownership Act ("lov om hendelege eigedomshøve")), which deals with both compensation to a party that randomly loses ownership due to *inter alia* incorporation, and possession of another man's assets. In general a party that loses ownership may claim compensation from the party that has acquired ownership due to for instance incorporation, and such compensation shall as a main rule at least correspond to the value that the former party has contributed with. Regarding possession of another man's assets by way of accident (random), the Random Ownership Act § 15 provides that a possessor who is in good faith will be entitled to keep so called "fruits", whereas he will be obliged to hand the "fruits" over to the owner as from the point in time where the owner sues him for the return of the asset.

With respect to disgorgement damages for breach of contract there is much uncertainty. Norwegian contract law concerning what can be called traditional goods and services contracts will in general offer the purchaser the possibility to claim *inter alia* a price reduction, which may serve the purpose of obliging the seller to disgorge profits. The uncertainty is more evident when it comes to contracts concerning other types of obligations. This is illustrated by the abovementioned Supreme Court case from 2007 concerning violation of a non-competition clause and disgorgement of profits.[15] As mentioned above, the Court laid down that disgorgement damages is conditional upon the defaulting party having acted grossly negligent or even in bad faith. This judgement was of course handed down prior to the adoption of the abovementioned legislation concerning disgorgement of profits in cases concerning *inter alia* misuse of trade secret and passing-off.

Regarding disgorgement of profits in cases concerning breach of contract one can also refer to the Companies Act ("selskapsloven") § 2-23. According to this provision a participant in a company is prohibited from taking part in competing business, and in cases of violation of this prohibition the defaulting party is obliged to hand over to the company "an amount corresponding to the benefits he has received as a

[14]Retstidende 2011 p. 228.

[15]Retstidende 2007 p. 817.

consequence of the unlawful act". Here, one can also refer to the (Public) Limited Liability Companies Act ("aksjeloven") § 6-17: A company representative may not when acting on behalf of the company receive any remuneration from any other than the company. Any remuneration which is agreed or received by the representative accrues to the company. The same goes for profits from, or any surrogates for, the remuneration. These rules do arguably deal with disgorgement damages in fiduciary relationships.

Is the Norwegian System an Efficient One When It Comes to Disgorgement of Unlawful Profits by Private Law Mechanisms?

That part of the legal doctrine that has been preoccupied with disgorgement damages has mainly discussed restitution damages and disgorgement damages within the sphere of intellectual property rights.[16] The arguments put forward in favour of disgorgement damages comprise the fact that monetary sanctions have the potential to offer real deterrent effect when it comes to infringements of intellectual property, because such infringements often follows a cost-benefit-analysis by the infringer. This coupled with indications that damages for loss do not offer sufficient prevention since the loss can be difficult to prove and calculate, and it may be smaller than the infringer's profits, has played an important role in the doctrine's analysis and it is an important reason for the new legislation.

Adoption of the new legislation weakens the argument that the Norwegian system is not an efficient one when it comes to disgorgement of unlawful profits by private law mechanisms. There are good reasons to believe that the new rules, hereunder the rules on disgorgement damages and double royalty, will be applied by the courts in such a way that the monetary sanctions within the sphere of intellectual property rights play a real and important role in preventing infringements.

Outside the sphere of intellectual property rights and copyright there is uncertainty regarding whether or not there is legal basis for disgorgement damages. This is so in relation to unlawful use of real estate and chattel and certain types of breach of contract. If the Supreme Court's decision from 2007 concerning breach of a non-competition clause is maintained at the next crossroad, it may be argued that the Norwegian system is an inefficient one in this respect. This is so because cases concerning breach of such clauses often involve situations that are characterized by the fact that the infringed company in any event would lose the customers that have followed the defaulting party to his new business. Hence, the infringed company would not have suffered any loss because of the breach, making disgorgement damages a very important (default) sanction.

[16] See e.g. Monsen (2005), Rognstad and Stenvik (2002).

Because of the uncertainty that reigns outside the sphere of the new legislation it is difficult to have a definite opinion regarding the Norwegian system's efficiency. An important question is to what extent the Supreme Court is prepared to make adequate use of positive law, hereunder the new legislation, and develop an efficient system regarding disgorgement damages. This question has a link to the development of a separate branch of law dealing with unjustified enrichment, see below.

Is There Basis for Development of a Separate Branch of Law Dealing with Unjustified Enrichment?

The legal doctrine as it is now, deals with disgorgement damages in such specialized literature as books on intellectual property and company law, and for the most part quite superficially. Enrichment claims fall between the traditional legal disciplines. Because of this, the doctrine scarcely analyses for instance disgorgement damages for breach of contract.

One way forward could be for the doctrine to develop a separate branch of law dealing with unjustified enrichment. This would surely provide for enrichment claims being analysed more thoroughly and comprehensively.

One vital question is whether the legal material invites such a development. In my view it does. One interesting point is that there is quite a lot uncertainty regarding the legal basis for some claims concerning enrichment by subtraction, e.g. claims in *quantum meruit*.[17] Seeing that the Supreme Court in 1984 denotes "general principles of restitution and enrichment",[18] it would not be very surprising if this case law could serve as a springboard for developing more general rules on claims based on enrichment by subtraction. I have argued in this direction in an article from 2005.[19] Furthermore, the new legislation concerning restitution damages and disgorgement damages could perhaps turn out to give important arguments when discussing restitution for wrongs in general. It will undoubtedly be an important argument in the upcoming legislative process concerning disgorgement damages for copyright infringement; there seems to be no reason whatsoever to allow for disgorgement damages on a non-fault basis in such cases, whereas the new legislation sets out negligence as a precondition for awarding disgorgement damages. Bringing together enrichment claims in a separate branch of law, will make it easier to compare and treat alike what should be treated alike. In the same vein, the development of such a branch of law would make it easier to compare

[17] This term is, however, unknown in Norwegian law and doctrine.

[18] Retstidende 1984 p. 497.

[19] Monsen (2005), 184.

Norwegian rules on enrichment claims and for instance similar rules in the English or German legal system, i.e. the communication across borders would profit from such a development.

Whereas the development of a separate branch of law dealing with unjustified enrichment in my mind would be favourable for the analysis and development of enrichment claims, I do not think that this would lead to the acknowledgement of a general rule providing that a person who is unjustly enriched at the expense of another is under a duty to make restitution to him. Such a general rule is too vague to offer any real guidance when applying the law, meaning that the rule only gives a basis for deductions and practically no information as to what deductions may be made. The more sensible way forward is by applying the inductive method, and in this respect Norwegian law has already taken some important steps: There is perhaps a general rule on enrichment claims in cases concerning enrichment by subtraction and the Supreme Court has laid down a general rule regarding restitution damages. Perhaps the new legislation on disgorgement damages gives reasons to believe that the Supreme Court will acknowledge a non-statutory rule that also comprises breach of contract and unlawful use of real estate and chattel?

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Part VI
Mixed Legal Systems

Chapter 16
Disgorgement of Profits in Canada

Lionel Smith and Jeff Berryman

Abstract Canadian law sometimes allows gain-based remedies for certain wrongful acts. There is a strong suggestion that gain-based remedies are available in the common law provinces for torts and perhaps breaches of contract, but the courts have been hesitant. Common law provinces have also been willing to award gain-based remedies for breaches of confidence, in the court's discretion. In the context of infringements of intellectual property rights, which is federal law, the legislation makes clear that gain-based remedies are available, although again this is in the discretion of the court. In both common law and Quebec civil law, in situations where one person is managing the property or affairs of another in a fiduciary capacity, improper gains must be surrendered, although it is arguable that the law ascribes rights acquired by the manager to the principal as the correct legal implementation of the parties' relationship, rather than as a remedy for wrongdoing.

Keywords Disgorgement • Restitution • Remedies • Fiduciary duties • Confidential information • Breach of contract • Intellectual property • Tort

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Introduction

Canada is a federation, with legislative competence shared between the federal Parliament and the ten provincial legislatures.[1] Private law belongs mainly to the provincial level.[2] One province, Quebec, has a civilian system of private law, derived from the customary French law that was applied during the time that it was a colony of France. The other provinces and the territories have adopted the tradition of English common law.

The Supreme Court of Canada has the role of unifying the common law of Canada across the common law provinces. In this it differs from the Supreme Court of the United States. As far as Quebec civil law is concerned, the Supreme Court of Canada is the highest court of appeal, but since there is only one civilian jurisdiction in Canada, the Court does not have a unifying function.[3]

Scope

In common law Canada, as in other jurisdictions, there has been academic debate about the relationship between unjust enrichment, in the strict or narrow sense that denotes an independent cause of action, and gain-based remedies for wrongdoing. Some authors argue that gain-based remedies for wrongdoing can be seen as part of the law of unjust enrichment.[4] But it is not clear how claims that depend on wrongdoing can, at the same time, somehow be independent of the law of wrongs.[5]

[1]The spheres of competence are set out in ss. 91–5 of the Constitution Act, 1867. There are also three territories, which exist by virtue of federal legislation, but which are treated for most purposes as separate jurisdictions at the provincial level. They have their own legislative assemblies and legislate by delegation in areas that belong to the provincial level.

[2]Constitution Act, 1867, s. 92(13).

[3]By s. 6 of the Supreme Court Act, R.S.C. 1985, c. S-26, at least three of the nine judges of the Supreme Court of Canada must be appointed from Quebec. By convention, the number of Quebec judges is exactly three. Another convention is that when an appeal turns principally on a matter of pure civil law, the Court hears the appeal in a panel of five that includes the three Quebec judges, so that those with civilian expertise form a majority.

[4]Maddaugh and McCamus (2004), at 24–2, footnote 4. Another way to read the claim is simply that disgorgement for wrongdoing is part of the law of restitution; this uses "restitution" in a wide sense that goes beyond restitution for unjust enrichment (giving back) and extends to disgorgement for wrongs (giving up).

[5]The idea seems to be that gain-based remedies for wrongdoing require proof of wrongdoing, but may at the same time be independent inasmuch as they might be available even if the plaintiff cannot prove all of the elements of a civil wrong. Maddaugh and McCamus (2004), at 24–2, footnote 4 assert at one and the same time that wrongdoing is required, but that the breach of a legal duty is not required. In Aronowicz v Emtwo Properties Inc., 2010 ONCA 96, 98 O.R. (3d) 641, the Ontario Court of Appeal said, in the context tort claims (at [82]): "Whether the claim exists as an independent cause of action or whether it requires proof of all the elements of an underlying tort aside, at the very least, waiver of tort requires some form of wrongdoing."

The majority view, however, is that unjust enrichment claims do not require proof of any wrongdoing; conversely, any claim that does require proof of wrongdoing is not based on unjust enrichment. A remedy will follow, usually compensation, but in at least some cases, disgorgement of gains. And, since such a case is not based on unjust enrichment, it is not necessary to prove the elements of the cause of action in unjust enrichment, elements that include a deprivation of the plaintiff that corresponds to the enrichment of the defendant.[6] In other words, disgorgement for wrongdoing (unlike restitution for unjust enrichment) is not related to any loss on the plaintiff's part. Other commentators therefore argue that gain-based remedies for wrongdoing are an aspect of the law of remedies for these wrongs, and do not form part of the law of unjust enrichment.[7] The Supreme Court of Canada has aligned itself with this view.[8]

In common law Canada, there are different legal techniques for bringing about disgorgement. Some come from the principles developed by the courts of Equity. One of these is called the "accounting of profits". Some people in fiduciary positions are always required to produce accounts of their management; this is not a remedy for wrongdoing, but is a normal incident of the fiduciary role. Examples would be trustees and agents. Here the obligation to account is primary; it does not arise from wrongdoing but from the relationship and the responsibilities of managing another's property. However, the courts of equity also developed the possibility of ordering an accounting of profits against a party that was not otherwise required to render an account. In this context, it could be used as a way of taking away profits. The accounting, as such, is subject to judicial supervision and legal principles govern it (for example, as to which expenses are deductible). Once the profit is determined through the accounting, the defendant must surrender it.

Another technique is the constructive trust. All trusts are situations in which one person holds property, but owes an obligation to another person to hold the benefit of that property for the other. If the obligation is undertaken voluntarily, it is an express trust; if it is imposed by law, it is a constructive trust or a resulting trust. Therefore, if the outcome of a wrongful act is that the defendant holds particular property, and the court concludes that he is obliged to hold the benefit of that property for the plaintiff, a constructive trust will be declared.

Still another technique comes only from the common law, in the narrow sense that excludes equity. This used to be called "waiver of tort", in the old days when pleading was more formal. Here the idea is simply that in relation to some torts, the plaintiff could have a common law remedy measured not by his own loss, but by the defendant's gain. In the words of the Supreme Court of Canada:

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[6]This element of a "corresponding deprivation" has been asserted many times by the Supreme Court of Canada; for example, Peel (Regional Municipality) v Canada, [1992] 3 S.C.R. 762, 98 D.L.R. (4th) 140; Garland v Consumers' Gas Co., 2004 SCC 25, [2004] 1 S.C.R. 629.

[7]Smith (1992), 672; McInnes (2006).

[8]Soulos v Korkontzilas, [1997] 2 S.C.R. 217 held, in the context of the constructive trust, that some such trusts are based on unjust enrichment and some are based on capturing the profits of wrongdoing.

> Waiver of tort occurs when the plaintiff gives up the right to sue in tort and elects instead to base its claim in restitution, "thereby seeking to recoup the benefits that the defendant has derived from the tortious conduct".[9]

Although the language of "waiver of tort" seemed to have died out, it has recently and strangely been revivified in common law Canada, as will be discussed below.

In Quebec civil law, the split between restitution and disgorgement for wrongdoing is clearer. Unjust enrichment, in the strict sense used by the Civil Code of Québec, is a small and residuary category of the law of obligations.[10] There is a set of codal articles on restitution, that do not apply in unjust enrichment cases (as the Code uses the term unjust enrichment) but rather in cases where a juridical act is annulled, or in cases of undue payments.[11] Thus in Quebec civil law, there are many situations outside of unjust enrichment in which an obligation to make restitution arises (although many of these would be considered cases of unjust enrichment in other systems, and might be described as unjust enrichment in a wide sense by Quebec jurists). Both of these possibilities clearly stand apart from the law of civil wrongs *(responsabilité civile).* As we will see below, the Code does provide for gain-based remedies in some situations that are not cases of restitution or unjust enrichment, as the Code uses those terms.

Gain-based remedies for wrongful conduct are sometimes called "disgorgement damages" or "gain-based damages". The word "damages" has a rather protean connotation in common law.[12] However, liabilities arising from accounting are not traditionally called "damages"; the accounting process leads to an amount which is owed, understood as a liquidated debt claim. In Quebec civil law, as is typical in civilian systems more generally, the word "damages" is usually (except in the case of punitive damages, discussed immediately below) tied to the idea of loss.[13] The gain-based recourses which are available, and which are discussed below, are not traditionally called damages.

In Canadian common law, punitive damages are available when the defendant has been guilty of "high-handed, malicious, arbitrary or highly reprehensible misconduct that departs to a marked degree from ordinary standards of decent behaviour."[14] In Quebec civil law, unlike in many civilian systems, punitive damages are available, but not generally: only where they are authorized by a legislative provision.[15] The

[9] Pro-Sys Consultants Ltd. v Microsoft Canada CIE, 2013 SCC 57, [2013] 3 S.C.R. 477 at [93], quoting Maddaugh and McCamus (2004), 24–1.

[10] C.C.Q., arts. 1493–4.

[11] C.C.Q., arts. 1699–1707.

[12] See the discussion in Edelman (2002), Chap. 1.

[13] For example, C.C.Q., arts. 1611 ff.

[14] Whiten v Pilot Insurance Co., 2002 SCC 18, [2002] 1 SCR 595 at [94]. The Court indicated (at [78]–[83]) that such damages are not available for a "pure" breach of contract, but only if there was a "independent actionable wrong". Somewhat confusingly, however, the breach of a contractual duty of good faith satisfies this requirement.

[15] C.C.Q., art. 1621.

most important examples of such legislative authorization are for breaches of human rights protected by provincial law,[16] which take effect in private law, and breaches of consumer law by a merchant.[17] Punitive damages are left aside in this report, because they are not primarily about capturing a defendant's gains, but rather about punishment and deterrence.

Many common law provinces now have civil forfeiture regimes.[18] These statutes allow a governmental official to bring a civil proceeding (meaning, a non-criminal proceeding) asking a court to conclude, on a civil standard of proof, that some property is the proceeds of unlawful activity. If the court so concludes, the property is forfeited to the government without the need for criminal charges or convictions. This is clearly a kind of disgorgement for wrongdoing, but this subject is not further addressed in this report, since these civil proceedings are founded on criminal wrongdoing (even if the government does not have to prove, in the ordinary way, the commission of a crime).

The subject of this report is gain-based remedies that arise from wrongdoing, not from unjust enrichment. These are recourses that do not pay attention to any loss the plaintiff might have suffered, but are rather calculated by the gain that the defendant acquired from the wrongful act. The report is also confined to private law remedies.[19]

Claims Based on Relationships of Loyalty

Common Law: Fiduciary Duties

Common law Canada has been a leader in the development of fiduciary law and the extension of fiduciary relationships into new areas.[20] Where fiduciaries acquire profits in the course of performing their duties, the usual remedy is the imposition of a constructive trust over the profits. If necessary, the plaintiff can exercise his claim over the traceable proceeds of the original profits.[21] Even if a trust is not possible, for example because the particular property has been dissipated, an account of profits constitutes an alternative remedy; this means that the court inquires into the profits acquired by the defendant, and orders him to pay that amount to the plaintiff. On

[16] Charter of Human Rights and Freedoms, C.Q.L.R. c. C-12, art. 49.

[17] Consumer Protection Act, C.Q.L.R. c. P-40.1, art. 272.

[18] One example is the British Columbia Civil Forfeiture Act, S.B.C. 2005, c. 29.

[19] Some statutes, both federal and provincial, may provide for the disgorgement (or forfeiture) of gains acquired from activity that is criminal or otherwise prohibited by public law. To take one example, the Ontario Securities Act, R.S.O. 1990, c. S.5, ss. 127(1)10 and 128(3)15 allow disgorgement orders for gains acquired in breach of that Act.

[20] See McCamus (1997); Berryman (2009).

[21] Smith (1997); Waters et al. (2012), Chap. 26.

the other hand, where loss is caused, for example by the non-disclosure of a conflict of interest, the plaintiff may secure an award of equitable compensation for loss caused.[22]

The gain-based remedies in fiduciary relationships are often described as arising from "breach of fiduciary duties". However, there is an alternative analysis that has attracted significant support, both from commentators[23] and from the courts.[24] This is that the correct understanding of the fiduciary's obligation to give up gains is not a secondary obligation that arises in response to a wrong; rather it is a primary duty, arising out of the relationship, to transfer to the beneficiary any assets acquired in the fiduciary role. This account allows a clear understanding of many of the features of the fiduciary landscape that are otherwise difficult to explain.[25] It also helps understand why the law attributes not only unauthorized gains and profits, but (if the principal so chooses) loss-making opportunities.[26] All rights, opportunities and information arising in the sphere of fiduciary management are attributed to the principal.[27]

Regardless of the correct theory, profit-stripping claims against fiduciaries are quite common. The Supreme Court of Canada has recently explored the issues in *3464920 Canada Ltd. v Strother*.[28] The plaintiff company operated a successful business that structured tax-assisted film production service opportunities (TAPSF) as an investment vehicle for its clients. The defendant, Strother, a lawyer who worked for the second defendant, the Davis law firm, had been instrumental in creating the appropriate tax instruments. Changes in the tax legislation brought to an end the TAPSF tax shelters. Strother believed that there was no way around the tax changes and he communicated that opinion to the plaintiff, which remained a client

[22] Canson v Broughton, [1991] 3 S.C.R. 534; Hodgkinson v Simms, [1994] 3 S.C.R. 377.

[23] Millet (2012), Miller (2013), Smith (2014).

[24] FHR European Ventures LLP v Cedar Capital Partners LLC, [2014] UKSC 45, [2014] 3 W.L.R. 535, at [33], [46].

[25] For example, it is well-known that fiduciaries cannot reduce their liability by showing that the gain could never have been acquired by the beneficiary (Regal (Hastings) Ltd. v Gulliver (1942), [1967] 2 A.C. 134 (H.L.)). Similarly, the fiduciary must give up his gains even if he did not act against the beneficiary's interest, but rather aligned his interest with the beneficiary so that both profited (Boardman v Phipps, [1967] 2 A.C. 46 (H.L.)). Again, the fiduciary cannot reduce his liability by showing that he could have acquired the gain in a non-wrongful way (Murad v Al-Saraj [2005] EWCA Civ 959). All of these principles show that the obligation to give up the gain is primary and does not depend on proof that the gain is connected to a wrongful act.

[26] In Soulos v Korkontzilas, [1997] 2 S.C.R. 217, an agent acquired an estate in land that his principal wished to acquire, by concealing the vendor's willingness to negotiate. The value of the estate later declined. Nonetheless, a constructive trust was declared, requiring the agent to convey the estate to the principal in exchange for the price he had paid.

[27] The same principle is thus capable of explaining fiduciaries' obligations to disclose information about their fiduciary management; again, this obligation does not depend on wrongdoing but arises from the relationship.

[28] [2007] 2 S.C.R. 177, noted by Valsan and Smith, (2008).

of Davis. Within 2 months of Strother's expressing his opinion to the plaintiff, he learnt of a possible fix from Paul Darc, a former executive of the plaintiff. Together, they formulated a new and successful tax credit scheme. Strother left Davis and went into business with Darc. The new scheme earned Darc and Strother over $64 million in profits.

The plaintiff argued that Strother was obliged to inform it of the new tax scheme that he discovered. The majority held that Strother was in breach of fiduciary duty in that he engaged in a competing business at a time when he was still required under the retainer to advance the business interest of the plaintiff. This conflict compromised Strother's ability to "zealously" advance the interests of the plaintiff. The majority made it clear that fiduciaries may be required to give up profits even when there has been no loss suffered by the beneficiary; this is tied to the objective of ensuring that the fiduciary is not swayed by personal considerations to act in conflict with the client's interests. The profits earned by Strother therefore had to be disgorged.[29]

Quebec Civil Law

The Civil Code of Québec, differently from many civil codes, expressly provides for duties of loyalty, often also regulating conflicts of interest, and it expressly or implicitly provides for gain-based remedies in these situations, sometimes through a requirement of accounting.[30] The relationships that are covered by these provisions are similar to those that are fiduciary in the common law: mandate,[31] partnership,[32] directors of legal persons,[33] and administration of the property of another[34] (which in Quebec law includes the trust).[35]

[29]The majority held that Strother could keep the (substantial) profits that he acquired after leaving Davis; at this point, the conflict was "spent". This was arguably more generous to Strother than traditional equitable doctrine. The majority, however, declined to allow Strother any allowance in respect of what his own skill and experience had contributed, although he was allowed to deduct expenses he had incurred.

[30]See Cumyn (2013).

[31]Arts. 2138, 2143, 2146–7, 2184.

[32]Arts. 2200, 2204, 2238. Partners are also mandataries towards the partnership (i.e. towards one another) (art. 2219), just as common law partners are mutual agents.

[33]Arts. 322–6. The Code states that directors are mandataries of the legal person (art. 321); this however is a legal error, since a mandatary acts under the direction of the mandator, while directors are the ones who decide how the legal person shall act (see Cantin Cumyn (2007), at 234; Cantin Cumyn (2009), at 363–4. The corresponding error is often made in the common law, when it is said that directors are agents of the corporation.

[34]Arts. 1309–14, 1366. Cantin Cumyn argues (ibid.) that the Code's regime of administration of the property of others should be seen as the common law governing all situations where one person holds powers over the legal sphere of another. See generally Cantin Cumyn and Cumyn (2014).

[35]Art. 1278.

Under the previous Civil Code of Lower Canada, the Supreme Court of Canada held that unauthorized profits acquired by a defendant in the course of acting as a mandatary must be disgorged to the mandator. This was said to flow from the obligation to account that is owed by all mandataries.[36] In a more recent case, under the current code, the Superior Court was faced with a faithless real estate agent (mandatary) who had acquired an immovable which the mandator wished to acquire. The Court held that the mandatary could be ordered to transfer the immovable to the mandator.[37] The Court relied on art. 2184, which requires a mandatary to render an account, and to return to the mandator anything the mandatary has received in the performance of his duties, even if what he received was not due to the mandator.[38] In a subsequent case, the Court of Appeal held that disgorgement in cases of misappropriation of corporate opportunities can be ordered under art. 2146.[39] This article forbids a mandatary from using for his own benefit information he obtains in the course of his mandate, and specifically provides for a gain-based remedy in such a case.

Breach of Confidence

Obligations relating to confidential information can arise from contract or fiduciary obligations. But in the common law, there is a free-standing obligation, arising from the equitable tradition, that requires a person to use confidential information only for the purposes for which it was given.[40] In *Lac Minerals Ltd. v International Corona Resources Ltd.*,[41] the Supreme Court of Canada held that obligations relating to confidential information are separate from fiduciary obligations. The Court also held

[36] Bank of Montreal v Ng, [1989] 2 S.C.R. 429.

[37] Lefebvre v Filion (2007), [2008] R.J.Q. 145 (S.C.). The court referred to Bank of Montreal v Ng and also Soulos v Korkontzilas (noting, however, that there are no constructive trusts in Quebec law).

[38] This provision also therefore reflects the approach mentioned above for the common law: the duty to account for everything received in the course of the fiduciary management is not one that arises out of wrongdoing.

[39] Gravino v Enerchem Transport Inc., 2008 QCCA 1820, [2008] R.J.Q. 2178. There is an unofficial translation into English in Welling et al. (2010), 377. The trial judge ordered disgorgement of profits. The Court of Appeal confirmed the jurisdiction to make such an order, but held (with reference to common law and civilian cases and commentary) that the opportunity taken by the departed corporate managers was sufficiently remote that they were not liable to disgorge.

[40] In Quebec civil law, a claim based on breach of confidence would fall under the general regime of extracontractual liability for civil wrongs (responsabilité civile) or contractual liability; as such, and since there are no relevant codal provisions authorizing gain-based remedies, the plaintiff is limited to a claim for compensation of loss. There is a particular disposition (C.C.Q., art. 1612) on the calculation of compensation for the infringement of trade secrets, but it does not authorize a gain-based remedy.

[41] [1989] 2 S.C.R. 574.

that a constructive trust can be imposed to take away the profits of a breach of confidence. More recently, the Court held that there is remedial flexibility in breach of confidence claims: they can lead to constructive trusts, accounting of profits, or compensation for loss.[42]

Subsequent cases have embraced the remedial flexibility approach adopted by the Supreme Court. The reasons for awarding a proprietary remedy of constructive trust,[43] an account of profits,[44] or compensatory damages assessed under the principles of equitable compensation[45] are not always explicitly articulated but depend upon the factual context. A constructive trust is often justified on the grounds of difficulty in quantifying monetary damages particularly for prospective losses.[46] An account of profits is often seen as an alternative to a proprietary remedy, but also is imposed where the breach of confidence relates to information that is "very special", and where the information is likened to "property" that can only be taken from the "owner" through a consensual exchange.

Breach of Contract and Restrictive Covenant Claims

In common law, it remains controversial whether an account of profits remedy can be given for breach of contract.[47] Academic discussion has been generated by the decision of the English House of Lords in *Attorney General v Blake*.[48] A number of Canadian cases have mentioned *Blake* as if it would apply in common law Canada.[49] However, no Canadian common law decision has applied *Blake* for breach of contract as such.[50] Where there have been other claims in breach

[42] Cadbury Schweppes Inc. v FBI Foods Ltd., [1999] 1 S.C.R. 142.

[43] See for example, Murphy Oil Co. v Predator Corp., 2006 ABQB 680 and Minera Aquiline Argintina SA v IMA Exploration Inc. 2007 BCCA 319.

[44] See for example GasTOPs Ltd. v Forsyth 2012 ONCA 134.

[45] See for example, Zoic Studios BC Inc. v Gannon, 2012 BCSC 1322.

[46] Lac Minerals Ltd. v International Corona Resources Ltd., [1989] 2 S.C.R. 574.

[47] The arguments are fully set out in Maddaugh and McCamus (2004), at Chap. 25. In Quebec civil law, there are no relevant codal provisions authorizing gain-based remedies for breach of contract; as such the plaintiff is limited to a claim for compensation of loss.

[48] [2001] 1 A.C. 268 (H.L.), approving an argument made in Smith (1994); see McCamus (2003) and McInnes (2001).

[49] See for example, Smith v Landstar Properties Inc., 2010 BCSC 843; Jostens Canada Ltd. v Gibsons Studio Ltd. 1999 BCCA 273; Cassano v Toronto-Dominion Bank, 2007 ONCA 781.

[50] The decision was applied to grant a disgorgement remedy for breach of contract in Amertek Inc. v Canadian Commercial Corp. (2003), 229 D.L.R. (4th) 419 (Ont. S.C.J.), additional reasons at (2003), 39 B.L.R. (3d) 287 (Ont. S.C.J.), further reasons at (2003), 39 B.L.R. (3d) 290 (Ont. S.C.J.); however, this decision was reversed on the ground (inter alia) that there was no breach of contract, (2005), 76 O.R. (3d) 241, 256 D.L.R. (4th) 287 (C.A.), and leave to appeal to the Supreme Court of Canada was refused (2005), 219 O.A.C. 400 (note) (S.C.C.).

of fiduciary duty, breach of confidence, or tort, such relief has been granted in Canada, for the reasons set out in other sections of this report. Similarly, there are cases in Canada that follow the principle enunciated in *Wrotham Park Estates v Parkside Homes Ltd.,*[51] namely, that in the case of the breach of a restrictive covenant over property, damages can be measured on the basis of what a person would negotiate to be released from the performance of the covenant. This measure may represent a percentage of the gains made by the defendant by breaching the restrictive covenant.[52]

Jostens Canada Ltd. v Gibsons Studio Ltd[53] has come closest to awarding an account of profits for breach of contract. The defendant was the plaintiff's agent and misappropriated business opportunities to itself. On an appeal regarding the measure of the award, the British Columbia Court of Appeal held that the remedy should be disgorgement of any benefit obtained by the defendant through its wrong. The particular wrong was the breach of the duty of good faith and fidelity; of course, one might observe that an agency relationship is always a fiduciary relationship.

In *Huttonville Acres Ltd. v Archer,*[54] the defendant was contractually obliged to submit architectural plans and commence building a home in conformity with other terms of the agreement within 120 days of purchasing the land from the plaintiff vendor. The defendant failed to comply with this term and eventually sold the property to a third party, who, ultimately built a home in conformity with the building requirement set out in the agreement. The plaintiff experienced no compensable loss but sought to recover the profits made by the defendant on its resale of the property. The court declined to make any award. The facts did not fit within any criteria where an account of profits had been awarded in the past. There was no fiduciary relationship. The exceptional criteria of *Blake* were not met. The court declined to award damages based on *Wrotham Park,* that is, damages set at a fee that a reasonable person would have paid to be released from the restrictive covenant. This was because the plaintiff had delayed in bringing suit and in registering its covenant in the land registry.

The most recent decision to discuss disgorgement and breach of contract is *Nunavut Tunngavik Inc. v Canada (Attorney General).*[55] The plaintiff represented the Inuit people who had entered into a land treaty with the Canadian federal Crown, the defendant. Under the land treaty agreement the defendant was obliged to create and fund a general environmental and economic monitoring plan by 2003. The plan was never implemented within this period, although after the commencement of the litigation in 2008, the defendant finally created a business case that put the cost of implementation at $11 million over 5 years. A final plan was eventually commenced

[51] [1974] 1 W.L.R. 411 (Ch.).

[52] See Arbutus Park Estates Ltd. v Fuller (1976) 74 D.L.R. (3d) 257 (B.C.S.C.).

[53] 1999 BCCA 273.

[54] 2009 CanLII 55310 (Ont. Sup. Ct. J.), appeal dismissed, 2011 ONCA 115.

[55] 2012 NUCJ 11 (Nunavut Ct. Jus.). Nunavut is one of the three territories in northern Canada.

in 2010. The loss experienced by the plaintiff was the failure to have a monitoring plan put into place in accordance with the time schedules set out in the agreement. The plaintiff saw this plan as providing essential information so that it could exercise better decision-making about land use and environmental protection. In not complying with the agreement the court found that the defendant had breached its fiduciary duty owed to Canada's aboriginal people and its obligation to conform to the "honour of the crown".[56] Infringement of these obligations meant that "at a minimum, . . . the Crown should not be able to derive benefit from its own failure to carry out its obligations and the remedy should vindicate this requirement."[57] The court awarded the plaintiff the amount saved by the defendant in not expending the $11 million to implement the monitoring plan. In the alternative, and if it was not accepted that the Crown owed fiduciary, or fiduciary-like, duties to the plaintiff, the court explored whether it would give a similar remedy for the breach of contract standing alone. Here, the court accepted the plaintiff's argument that the facts brought the case within the exceptional nature of *Blake* and that the plaintiff had proved the "something more"[58] to justify a disgorgement approach. The "something more" is a synthesis of a number of cases and academic writings that suggests an account of profits is available if some of the following criteria are present: that the relationship is "fiduciary-like"; where the breach is opportunistic, heinous or unusually wrongful; where the plaintiff has a legitimate interest in preventing the profit making activity of the defendant; and where damages would be inadequate compensation. In this case, the facts were akin to a fiduciary relationship. Compensatory damages would be nominal and thus inadequate. The plaintiff had an interest to see that the Crown honoured its land treaty agreements so as not to undermine relationships with aboriginal people, a real fear if the Crown was seen to benefit from such a breach.

Intellectual Property

Most of the law on intellectual property belongs to the federal level of government, which means that the relevant legislation applies in all parts of Canada, without regard to the common law-civil law distinction. The legislation provides for the remedy of an account of profits in cases of infringement.[59] The remedy of an account of profits is an alternative to compensatory damages, save in copyright infringement

[56]The obligations that the doctrine of honour of the crown entails have recently been explained by the Supreme Court in Manitoba Metis Federation Inc. v Canada (Attorney General), 2013 SCC 14 at [73].

[57]Note 57 at [210].

[58]Note 57 at [322], [334].

[59]Patent Act, R.S.C. 1985, c. P-4, s.57(1); Trade-marks Act, R.S.C. 1985, c. T-13, s.53.2; Copyright Act, R.S.C. 1985, c. C-42, s. 34.

where the remedies are cumulative subject to minimizing any double recovery.[60] Excluding copyright, a claimant must elect between taking damages or an account of profits. The election can be exercised after determination of liability and after the defendant has been required to produce accounting details that allow the claimant to make an informed choice.[61] Canadian courts have stressed that the rationale for awarding damages or an account in these cases is to provide compensation, avoid an unjust enrichment, and to protect property rights.[62] Punishment is not the goal; punitive damages can be awarded separately and in addition to any damages or account award,[63] although the deterrent effect of an account remedy is also recognized.[64]

The decision to elect an account of profits over compensation is not an unfettered right. Canadian courts have insisted that it lies in the discretion of the court to allow the claimant to elect an account of profits.[65] A variety of factors will influence the court when exercising a discretion concerning an account of profits, including: the complexity and length of the proceedings, excessive delay, misconduct on the part of the plaintiff, and the good faith of the infringer.[66]

Despite the availability of an account of profits remedy in the area of intellectual property, it presents practical challenges in implementation. The remedy requires ongoing dealings between the litigants to determine the extent of the profits made, which can often engage further and complex legal motions before the court. It has been described as "rarely chosen over an enquiry as to damages."[67]

The quantification of an account of profits can be problematic. The preferred method is what is known as the "differential profit approach" in which the claimant is entitled to recover the difference between the profits actually earned by the infringer and what the infringer would have earned had he not infringed upon the claimant's intellectual property.[68] This isolates the profits that flow from the infringement and calls for an apportionment of the profit making aspects of the infringer's activities.[69] There must also be a causal connection between the

[60] Copyright Act, R.S.C. 1985, c. C-42, s. 35.

[61] AlliedSignal Inc. v Du Pont Canada Inc. (1995), 184 N.R. 113, 61 C.P.R. (3d) 417 (Fed. C.A.) at [77]; Wellcome Foundation Ltd. v Apotex Inc., [1992] FCJ No. 1194 (T.D.) at [16].

[62] See Hughes et al. (2005), at §53, and Monsanto Canada Inc. v Schmeiser, [2004] 1 S.C.R. 902 at [101].

[63] Lubrizol Corp. v Imperial Oil, [1996] 3 F.C. 40 (C.A.) at [37].

[64] Strother, above note 28 at [76].

[65] AlliedSignal Inc. v Du Pont Canada Inc., above, note 61 at [77], and Merck & Co v Apotex Inc. 2006 FCA 323 at [127].

[66] Merck & Co. v Apotex Inc., ibid at [134]–[135], and Valence Technology Inc. v Phostech Lithium Inc., 2011 FC 174, at [234].

[67] Beloit Canada Ltd. v Valmet Oy, (1992), 144 N.R. 389, 45 C.P.R. (3d) 116 (C.A.), and Vaver (2011), at 654.

[68] Monsanto Canada Inc. v Schmeiser, above, note 62 at [102].

[69] Lubrizol Corp. v Imperial Oil, above, note 55 at [9].

infringement and the profit. Thus, in the recent decision of the Supreme Court of Canada in *Monsanto Canada Inc. v Schmeiser*[70] the infringement consisted of the use of the plaintiff's patent over modified canola seed, which made the seed immune to the use of the pesticide "Roundup", which could then be sprayed to destroy weeds in any crop. The defendant was found to have infringed the plaintiff's patent, but, because the defendant had not applied Roundup to his crop, and thus no advantage accrued to him from the use of the plaintiff's patented seed, there was no difference in the profitability of his canola crop. The plaintiff's claim for the "profits" from the sale of the crop failed because there was no causal connection to any of the profits. As the court determined, no profits flowed as a result of the infringement.[71] The causal requirement and prospect of apportionment mean that parties can spend an inordinate amount of time attempting to separate the profit into its legitimate and infringing components.[72]

Waiver of Tort

It has long been accepted that there can be disgorgement for at least some torts.[73] It remains unclear, however, whether it is available for all torts. The cases generally relate to torts that protect interests in property.[74] Negligence (unlike many torts in the common law) requires proof of loss. Since loss is constitutive of the cause of action, negligence does not obviously lend itself to gain-based remedies.

Perhaps the most remarkable recent development in Canada concerning disgorgement has been the rise in interest in "waiver of tort". As noted earlier, the phrase is considered out of date, and tied to pleading rules that are no longer relevant.[75] However, the concept has recently been revived in the context of class actions. Canadian provinces have class action legislation in which a class action is "certified" (allowed to proceed) before a substantive determination of the allegations.[76] Certification requires a representative plaintiff to demonstrate a cause of action, that there are two or more claimants, that the claims of the plaintiff class raise common issues for resolution, and that the class action procedure is the preferable procedure for resolving those common issues.[77] In class actions,

[70] Above note 62.

[71] Ibid at [103].

[72] Bayer v Apotex Inc., 2002 CanLII 18194 (Ont. C.A.).

[73] Smith (1992), 672; Berryman (1994).

[74] There is an argument to the effect that many of these cases actually concern not gain, but a form of compensation: not compensation for a loss suffered, but compensation for the value of a right that was misappropriated. See Stevens (2007), Chap. 4.

[75] Above, section "Scope".

[76] Civil procedure belongs to the provincial level of legislative competence.

[77] See for example the Class Proceedings Act, S.O. 1992, c. 6, s.5.

certification is a hotly fought battle. If an action is certified, the claim is usually settled; few actions ever go to trial of the substantive merits.[78]

While the substantive causes of action at the basis of class actions are numerous, many view the negligence action as the way to advance consumer actions. Canada does not have a product liability regime similar to the one in the USA. An impediment to any class action proceeding based upon a negligence claim is that actual proof of loss is an integral part of the substantive claim. This requirement impedes certification because it undermines a claim of a common issue, and more importantly, results in the class action proceeding not being the preferable procedure for resolving those common issues. Against this background, plaintiffs' counsel have argued that suits be brought as waiver of tort claims rather than bringing them as negligence actions. Because waiver of tort favours disgorgement of wrongful gains, a matter that is more readily capable of quantification, this avoids the need for determination of any class individual's actual loss, and so makes the proceeding a preferable procedure for certification.

This was the precise issue in *Serhan Estate v Johnson & Johnson.*[79] The claimants were diabetics who had used blood glucose monitors and strips manufactured by the defendants. At the time of their use, the defendants were aware that on occasion the meter would return a false reading. The claim was brought on various grounds including negligence, negligent misrepresentation, constructive trust, conspiracy and waiver of tort. Only the last claim was certified for a class action proceeding. On appeal to the Ontario Divisional Court, a majority of the court confirmed the certification. However, all members of the court recognized the novelty of the claim, suggesting that it needed a full evidential record upon which to determine whether waiver of tort was available in the circumstances.

Two competing views on the nature of waiver of tort were offered to the court. One was that waiver of tort was confined to property torts; conversion, trespass, and misappropriation of goods, and that it could not be extended to negligence claims. This accepts that waiver of tort is essentially a gain-based remedy that follows on proof of a tort; it may thus be confined to the property torts. The second view was that waiver of tort exists as an independent cause of action available wherever a defendant has profited through wrongdoing. Following certification in *Serhan* the case settled and thus no definitive judicial treatment was accorded the doctrinal parameters of waiver of tort. Subsequent cases, including one in the Supreme Court

[78] As of July 2012 only 17 class actions had gone to a full trial in Ontario despite hundreds being launched. Ontario Law Commission, Review of Class Actions in Ontario (2013) http://www.lco-cdo.org/class-actions-issues-to-be-considered.pdf, at 12.

[79] (2004) 72 O.R. (3d) 296 (Sup. Ct. J.), (2006) 85 O.R. (3d) 665 (Ont. Div Ct.), leave to appeal refused 2007 CanLII 11902; settlement approved, 2011 ONSC 128.

of Canada, have also declined to pronounce on whether waiver of tort is somehow an independent cause of action, or simply a label for a gain-based remedy for torts.[80]

Conclusion

Canadian law clearly allows gain-based remedies. However, it may be that only some of them are remedies for *wrongdoing*. In both common law and civil law, in situations where one person is managing the affairs of another in a fiduciary capacity, it is arguable that the law ascribes rights acquired by the manager to the principal, not as a response to wrongdoing, but simply as the correct legal implementation of the parties' relationship.

In situations of genuine wrongdoing, including breaches of contract and torts, the law is somewhat less clear. There is a strong suggestion that gain-based remedies are available in the common law provinces, but the courts have been hesitant. Common law provinces have also been willing to award gain-based remedies for breaches of confidence, in the court's discretion. In the context of infringements of intellectual property rights, which is federal law, the legislation makes clear that gain-based remedies are available, although again this is in the discretion of the court.

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Chapter 17
Disgorgement of Profits in Israeli Law

Talia Einhorn

Abstract The study of disgorgement of profits in Israeli law demonstrates the availability of this remedy in nearly all legal areas. The extensive development of this remedy can only be explained in view of Israeli private law being the product of a mixed legal system with special characteristics. Accordingly, this study offers an overview of the special characteristics of Israeli private law (part 2); addresses the terminology regarding disgorgement of profits (part 3); the application of disgorgement of profits in different areas of the law (part 4); the calculation of profits to be disgorged (part 5); adjacent areas, such as *negotiorum gestio* (part 6) and punitive or aggravated damages (part 7); the links between administrative financial sanctions and private law remedies (part 8); and ends with an evaluation (part 9).

Keywords Account of profits • Disgorgement of profits • Israel • Restitution

Introduction

The study of disgorgement of profits in Israeli law demonstrates the availability of this remedy in nearly all legal areas. The extensive development of this remedy can only be explained in view of Israeli private law being the product of a mixed legal system with special characteristics. Accordingly, this study offers an overview of the special characteristics of Israeli private law (part 2); addresses the terminology regarding disgorgement of profits (part 3); the application of disgorgement of profits in different areas of the law (part 4); the calculation of profits to be disgorged (part 5); adjacent areas, such as *negotiorum gestio* (part 6) and punitive or aggravated damages (part 7); the links between administrative financial sanctions and private law remedies (part 8); and ends with an evaluation (part 9).

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Israeli Private Law: A Mixed Legal System with Special Characteristics

The Israeli legal system is mixed.[1] Yet, it differs from other mixed, or hybrid, jurisdictions, in that it was not originally a civilian jurisdiction that was subsequently exposed to the influence of common law, but rather the other way around.[2] Major parts of it, such as the law of torts, trust and insolvency, are based on English common law imported into Palestine during the British Mandate (1918–1948). Other, no less important parts of the law of obligations and property have been reformed by the *Knesset* in a series of enactments based on Continental, essentially German law. These laws may or may not eventually form the basis for the long-awaited Israeli Civil Code.

Until 1980, *lacunae* in the Israeli legal system had to be solved by the courts in accordance with the provisions of Article 46 of the Palestine Order in Council, enacted by the British Government in 1922, following the approval of the British Mandate for Palestine by the League of Nations. Under Article 46, gaps in Israeli law, especially in those areas which were not reformed by the *Knesset*, were filled by Israeli courts turning to English common law and equity. Israeli lawyers had to be versed in English law no less than in Israeli law. The legal rules, adopted in this manner, have remained in force, to the extent that they had not been changed subsequently. In 1980, the *Knesset* enacted the Foundations of Law, 5740–1980, which severed the ties to English law, by repealing Article 46. This law provides that if the court finds no answer to a legal question in statute law or case law or by analogy, "it shall decide it in the light of the principles of freedom, justice, equity and peace of Israel's heritage".

Although the Israeli legislation is similar to Continental law in form, and the drafting of the separate statutes has sought to follow a comparative law analysis, the style and method of legal development are in the tradition of the Common Law.[3] This is due to the British Mandate and the legal education in Israeli law schools. However, there are significant differences. In England, there is much higher concentration of the judiciary than in Israel and the courts follow the precedents strictly, with the understanding that in such a legal system the precedents are the only source of stability. In Israeli law, the Supreme Court is much less hesitant to deviate from its former rulings. Israeli law has also discarded the distinction between common law (rules) and equity (discretion), placing much more emphasis on providing discretion to the judge to decide cases according to his sense of justice.

Israel is a small country, it is not an international commercial center, and the Hebrew language is not spoken or read by many outside Israel. Consequently, the Israeli legal system cannot be expected to develop from one precedent to another.

[1] Barak (1994), 473, 483 et seq.; Zweigert and Kötz (1998), 235 et seq.

[2] Zimmermann, "Preface", in: Siehr and Zimmermann (2007), V.

[3] Friedmann (1975), 192.

New problems arise and, in the absence of legislation and precedents, ever more problems end up being brought to court. In the absence of legislation and precedents, the courts too have not much guidance.

In 2006, a Draft Civil Code was published.[4] It differs from existing civil codes in important respects. Unlike a restatement which is addressed to the courts, a civil code has to be addressed primarily to the general public, in order for it to be informed without having to go to court first to find out. The Israeli Draft contains provisions that leave wide margins of discretion to the courts, without guidelines or presumptions that would inform the judge how to apply his discretion, thus corresponding to the situation which obtains in Israel at present. Another characteristic of the Draft is the diminished weight given to the organization of the rules according to legal categories. The Drafting Committee adopted a "holistic" approach, whereby the law is presented as a continuous process of "mutual diffusion" among the legal categories, and the importance of drawing distinctions between them is diminished.[5] The Draft passed the first hearing by the Knesset on 20 June 2011, but not yet the second and third hearings.

Terminology

Israeli law uses mostly the term "restitution of profits" or "restitution of benefits" (*hashavat revahim*, or *hashavat tovot hana'ah*, respectively). A statute adopted by the Knesset in 2005 – Disgorgement of Profits derived from Publications Concerning Criminal Acts Law, 5765–2005 –, uses the term "disgorgement of profits" (*hilut revahim*). The statute provides for criminal gain disgorgement penalties, if the profits were derived from a publication concerning a criminal offence that the person, benefiting from the publication, had committed. The implications of the statute for private law remedies are discussed in para. 8.2 *infra*.

Disgorgement of Profits in Different Areas of Israeli Law

Contracts/Culpa in Contrahendo

Contracts

Disgorgement of Profits Derived from Breach of Contract

Breach of Contract for the Sale of Fungible Goods

Israeli law grants very strong remedies for breach of contract. The injured party may have recourse to all remedies not only under contract law but also in unjust enrichment. Contractual rights are likened to property rights and, as such, a

[4]For an English translation of the Draft, see Siehr and Zimmermann (2007), 249–365.

[5]Deutch (2005), 27 et seq.

disgorgement principle applies to the breaching party, who may be stripped by the courts of all gain, even if that exceeds the injured party's loss. The landmark Israeli Supreme Court decision in the case of *Adras*,[6] which was the first to apply the disgorgement principle to a breach of a contract not involving fiduciary relations,[7] has blurred the lines between contract law, property law and unjustified enrichment, and has profoundly affected Israeli private law ever since.

The factual situation of *Adras* was as follows: In 1973, the defendant, a German company, contracted to sell to the plaintiff, an Israeli company, iron for a determined price. As a result of the October 1973 war between Israel and its neighboring Arab countries delivery of some of the iron was delayed. The defendant notified the plaintiff that, because of the high storage costs, it had to sell the remaining quantity to a third party. The plaintiff responded promptly with a demand that the iron be delivered to it. The defendant did not comply and, instead, sold the iron for a much higher price to a third party. In 1976 the plaintiff sued for recovery of the defendant's gains. By that time the market price of iron returned to its former level and therefore the plaintiffs could not recover losses under their contract. Instead, it claimed the profits made by the defendant under unjust enrichment.

In its first decision,[8] the Supreme Court dismissed the claim on the basis of ULIS (Convention relating to a Uniform Law for the International Sale of Goods). Since the plaintiff could not prove that it had suffered a loss due to the breach it could not succeed in its claim. Had the plaintiff avoided the contract immediately after the breach it could have sued for the difference between the contract price and the market price on the date of avoidance (Art. 84, ULIS). The claim in unjust enrichment was likewise dismissed, since the law of unjust enrichment was considered inapplicable between the parties to a contract. §6(a), Unjust Enrichment Law, 5739–1979, provides that "[t]he provisions of this Law shall apply where no other Law contains special provisions as to the matter in question and no agreement between the parties provides otherwise."

The plaintiff was granted a further hearing, in which two questions had to be decided by an extended panel of five justices of the Supreme Court: Whether unjust enrichment law applies between the parties to a contract? If the answer to the first question is positive – what would be the consequences for the parties in this case?

The majority decided that unjust enrichment law applied also between parties to a contract. Consequently, the seller was required to transfer its profits to the buyer. The grounds for their decisions could be summarized as follows:

(1) Israeli unjust enrichment law is similar to a great eagle which spreads its wings over all other laws (Barak, para. 10). If the contracting parties did

[6]Adras v. Harlow & Jones GmbH, Further Hearing 20/82, 42(1) PD 221–285 (11 February 1988), note: Friedmann (1988), 383. An English translation was published in Restitution Law Review (RLR) [1995] 235–277. The case is one of the very few private law cases annotated in "The Courts of Law: Fifty Years of Adjudication in Israel" (see Friedmann (1999)).

[7]With respect to fiduciary relations cf. para. 4.9 infra.

[8]Harlow & Jones v. Adras, CA (Civil Appeal) 815/80, 37(1) PD 225 (10 October 1982).

not explicitly exclude remedies arising out of unjust enrichment, those would apply. Even such exclusion should be considered subject to public policy (para. 4).[9] It is conceded that both the Contracts (General Part) Law, 5733–1973 and the Contracts (Remedies for Breach of Contract) Law, 5731–1970, contain provisions regulating specific aspects of unjust enrichment. However, this difficulty is overcome by interpreting §6(a), Unjust Enrichment Law, as stating that specific rules on unjust enrichment in other laws should prevail over the general provisions of the Unjust Enrichment Law;

(2) The remedies offered by the laws on obligations (contracts, torts and unjust enrichment) do not aim at protecting only the reliance interest and expectation interest of parties to a contract. They further protect a third interest prohibiting unjust enrichment. Consequently, claims in unjust enrichment and torts should be allowed concurrently. Hence, the plaintiff may choose from all remedies available under any of the branches of the law of obligations, provided only that he does not himself become unjustly enriched from this multiple choice, and that receiving one remedy does not substantively conflict with receiving another. Finally, the Court concludes (Barak, para. 17) that the modern approach to the law on unjust enrichment – in Israel, England, the US and in Continental Europe alike – accepts that the general law on unjust enrichment applies to contracting parties regardless of whether a contract still exists between them or not;

(3) Israeli law recognizes a general rule according to which the injured party has, as a matter of policy, a right to the gain made by the breaching party, even if it had sustained no loss and even if the contract has not been avoided. The extension of the "disgorgement principle" should apply to any case where justice so requires, regardless of the right in question being a property right or not,[10] it being conceded (Levin, para. 5; Barak, para. 23) that some jurists do not accept this thesis.[11]

(4) Israeli law perceives contractual doctrines very differently from common law legal systems. Under the Israeli legal system enforcement of contractual rights is the rule rather than the exception.[12]

Under §39, Contracts (General Part) Law, a party to a contract has to fulfill its obligations in good faith. Accordingly, Israeli law has developed a rule according to which a party to a contract has to behave *be-emunah* (in a trustworthy manner) with his friend (*haver*) with whom he has contracted. Such

[9]The Court based this conclusion on Friedmann (1982a), 22, 43–45 (in Hebrew); Friedmann (1982b), 299 et seq.; Friedmann (1980), 504.

[10]Reference is made to: Dawson (1959), 175, whose support is in fact speculative, ibid., 181, 185–192; Friedmann (1980), 504; most American scholars, although only one (Canadian) is mentioned: Palmer (1978); Goff and Jones (1978), 377–378; Jones (1983), 443; Waters (1984–1985), 1111.

[11]Treitel (1999), Chap. 16, at 24–25, para. 42–44; Farnsworth (1970), 1145, 1177; Farnsworth (1984–1985), 1339.

[12]§4, Contracts (Remedies for Breach of Contract) Law.

a requirement implies that a party motivated to breach a contract by availing itself of an opportunity to become enriched, at the expense of the other party, will not be forgiven.

This contractual approach fits the sense of justice prevalent in Israeli society that a sinner should not profit from his wrongful doings (para. 21). Restitution should be granted where conscience and equitability so dictate (*ex aequo et bono*). "Equitability" in this sense is neither a technical term nor is it a subjective matter for any individual judge. The judge should use, as a yardstick for his decision, the sentiment of justice and fairness shared by the enlightened public in Israel. In applying this yardstick the judge should take into account a large number of considerations: the intensity of the plaintiff's right, the character of the injury inflicted on his interest, the behavior of the parties, and the kind of activity whereby the defendant made the profit. If these considerations point in different directions, as they well may, the judge must exercise judicial discretion.

(5) Under the law of Unjust Enrichment the profit has to be made "at the expense" of the plaintiff. Barak J (para. 24) decides that such is the case. The defendant has been enriched by selling property to which the plaintiff was entitled, the property being the contractual right (para. 24). Does such enrichment at the expense of another require that a right in property or quasi-property be misappropriated? According to Barak J there is no such need (para. 25). A contractual right is part of a person's property and therefore part of his "account".[13] In a clear turnabout the classification of the right becomes once again necessary for rendering a decision. Furthermore, S. Levin J (para. 5(d)) extends such protection also to the appropriation of any interest which is entitled to protection.[14] This conclusion, according to his analysis, should apply *a fortiori* to a full-fledged contractual right.

(6) Finally, as an express *obiter dictum*, Barak J mentions (para. 28) two more possible causes of action in this case: (a) under §62(a) of the Civil Wrongs Ordinance (New Version) inducing the breach of contract is a tort. A party to a contract should not induce a third party to commit such a tort. Thus, if the seller is approached by a third party, it should inform the third party that the "opportunity" to sell the goods now belongs to the buyer; (b) the sale of the goods to the third party may be considered a breach of the duty to act in good faith for which restitution is the appropriate remedy.

[13] Reference is made to Friedmann (1982b), 46; Friedmann (1980), 513 – "Contract relations may also give rise to interests that come within the ambit of 'property' for purposes of restitution." Friedmann (1980), 510 et seq. submits that, according to "modern notions of property", contractual rights are themselves property or quasi-property. Since property rights are protected against misappropriation by restitution rules, the same protection should apply, in pari materia, to contractual rights.

[14] Reference is made to Friedmann (1982a), at 266.

Breach of Contract/Memorandum of Understanding for the Sale of Land

In Israel, "[a]n undertaking to effect a transaction in immovable property requires a written document" (§8, Land Law, 5729–1969). Initially, the Supreme Court held that, unlike the situation obtaining prior to the adoption of the Land Law, when the written document was necessary only as evidence of the transaction, the §8 requirement is a substantive one. The written document must be complete and definite, with all necessary details included in it.[15] The Court pointed out that, in enacting this provision, the *Knesset* followed civilian legal systems in which, in the absence of a complete document, the contract for the sale of land is invalid. The requirement was intended to make the parties aware of the seriousness of the transaction, and therefore meriting careful consideration of its details. The writing requirement has since been watered down by the Supreme Court. In most cases a signed, or even unsigned, memorandum of understanding suffices, provided only that the Court can fill the missing details.[16]

Disgorgement of profits was awarded in the following circumstances.[17] The parties signed a memorandum of understanding, according to which the defendant had undertaken to sell her apartment to the plaintiffs for USD 140,000. The parties agreed to sign a contract of sale within 4 months, and the plaintiffs deposited a check of NIS 1000 (ca. USD 250) with the sellers to secure the commitment. The 4 months elapsed without a contract being concluded. Thereafter, the defendant offered the plaintiffs to sell them the apartment for USD 180,000, noting that this was a discounted price, since the market price at that time was, according to the defendants, USD 200,000. The plaintiffs declined, and the apartment was sold to a third party for USD 192,000.

Having become aware of the sale,[18] the plaintiffs terminated the contract, and initiated proceedings, demanding the USD 52,000 profit that the defendants had made, by not selling the apartment to them. The trial court held that the memorandum of agreement was a valid contract for the sale of the apartment, which was breached by the seller, however considered that, since they had only deposited ca. USD 250, it would be unfair to award them the full sum. The Supreme Court admitted the

[15] Grossman & K.B.K. v. The Administrators of Biderman's Estate, CA 726/71, 26(2) PD 781 (28 November 1972).

[16] Cf., e.g., Butkovski & Co. v. Gat, CA 692/86, 44(1) PD 57 (10 December 1989) – the case concerned an unsigned document, containing the location of the real estate in Tel Aviv, the price and schedule of payments, however no information regarding the mode of securing 90 % of the price, that were to be paid months after the signing of the proper contract, that the parties had agreed would be drafted by a lawyer. The contract has never been concluded. Instead, the land was eventually sold to a third party for a lower price, and the disappointed plaintiff initiated proceedings demanding compensation for breach of contract. The Supreme Court held that the unsigned document sufficed, and remanded the case to the District Court to determine the quantity of damages.

[17] Einstein v. Ossi Ltd., Application for Permission to Appeal 2371/01, 57(5) PD 787 (31 July 2003).

[18] In Israel, information regarding the sale of land and the sale price are made readily available to the public by the Betterment Tax authorities.

plaintiffs' appeal, holding that the defendants should hand over all of the profits they had made by selling the apartment, above the price agreed with the plaintiffs, considering that it is important to deter persons from committing a breach of contract.

Breach of a Negative Stipulation in the Contract

In *Agripharm International Ltd. v. Mayerson et al.*,[19] the defendants, shareholders in a public company, sold some of their shares on the stock exchange, in breach of the contract they had concluded with the plaintiff, another shareholder, according to which they had undertaken to grant the latter a right of first refusal, at a price which turned out to be lower than the market price on the date of sale.

The Supreme Court, per Danziger J, held that the profits should be transferred to the plaintiff. If such a remedy were denied, the purpose of a right of first refusal, to prevent the entrance of unwelcome business partners, unacceptable to the plaintiff, would be frustrated (para. 37). The defendants' behavior is incompatible with the requirement, stipulated in §39, Contracts (General Part) Law, that a contract has to be performed in good faith. If the defendants were concerned about the plaintiffs' plans, following the purchase of their shares (in terms of oppression of minority shareholders), they should have turned to the court to settle this matter and not turn to self-help (para. 46). In this case restitution was necessary as a deterrence measure (para. 41), however courts should use this remedy sparingly, in circumstances which justify its application.[20]

In casu, the defendants had offered the plaintiff their shares (although not in written form, as required under the contract, but by having the company's accountant make an oral inquiry on their behalf). By not pursuing the oral offer and negotiating its terms, and by not alleviating the defendants' substantiated fear, that the plaintiff may take measures that would amount to oppression of the minority shareholders, following his purchase of the defendant's shares, the plaintiff cannot be considered to have acted in good faith either. The case was remanded to the District Court to decide the part of the profits to be disgorged, on the basis of the above considerations.

Culpa in Contrahendo

Culpa in Contrahendo Between Private Parties

Most recently, the District Court in Haifa awarded disgorgement damages, in a case concerning the sale of an apartment.[21] After brief negotiations, a contract for the

[19] CA 8728/07, Nevo electronic database (15 July 2010).

[20] The considerations that the Court should take into account in such cases are further elaborated in para. 4.3.2 infra.

[21] Uliel v. Adler, Civil Case (District Court, Haifa) 10103-11-13, Nevo electronic database (9 December 2013).

sale of the apartment was drafted. At the last minute, at the request of the buyer's attorney, the meeting set for signing the contract was postponed for one week. During that period a foreign couple became interested in the apartment (as it was nearby a hospital in which one of them was going to be treated), and they concluded a contract with the sellers on that same day for a price that was higher (by ca. USD 36,000) than the price agreed upon with the first buyer. The next day the purchasers returned to their home country, planning to return to Israel for the medical treatments later on. The disappointed first buyer brought proceedings to disgorge the sellers of their profits, arguing that the profit should have been hers.

The Court held that, by not offering the first buyer the opportunity to purchase the apartment for a higher price, the sellers had not acted in good faith. On the basis of previous Supreme Court decisions,[22] the Court held that the good faith principle allows for overcoming the lack of a written contract between the sellers and the first buyer, as against the seller who had not acted in good faith.

Under §12(b), Contracts (General Part) Law, a party who did not act in customary manner and in good faith has to pay only reliance damages (ie, "the damage caused to [the other party] in consequence of the negotiations or the making of the contract"). But, on the basis of a Supreme Court precedent,[23] the Court held that, where the contract would have been concluded if not for the bad faith of a party, §12(b) should be read as including also the "positive", expectation damages caused to the injured party by not concluding the agreement. According to the Supreme Court precedent, the decision to award reliance damages or expectation damages should depend upon the circumstances of each case, account being taken of the measure of lack of good faith, the parties' expectations, the stage that the negotiations had reached, and other considerations that may be pertinent.

In this case, the District Court held that, since it was unclear that the first buyer would have found buyers, such as the foreign couple who needed that particular apartment. Consequently, the Court decided that the sellers will be disgorged half the profit they had made (USD 18,000).

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[22] Sonnenschein v. Brothers Gabsu Ltd., CA 702/89, 42(2) PD 278 (12 June 1988); Klammer v. Guy, CA 986/93, 50(1) PD 185 (12 June 1996). In the latter case, the contract had been partially performed. It is submitted that performance by the parties should substitute the need for a written document.

[23] Kal Binyan Ltd. v. A.R.M. Ra'ananah Ltd., 56(3) PD 289 (17 February 2002). In this case, the defendant, a private company, made a request for proposals for construction works. The plaintiff was the lowest bidder, the terms of the contract were negotiated by the company management, however the company's board of directors refused to approve the contract, a matter which should have been a pure formality, according to the Supreme Court. Thereafter, a contract was concluded with a company that had not participated in the bid. The Supreme Court held that, once the terms of the contract had been negotiated and concluded, the defendant could no longer back out of the contract. By doing so, the defendant acted in bad faith. Since the terms of the contract with the plaintiff had already been agreed, and it was just the refusal of the defendant's board of directors that prevented the contract from coming into effect, the Court held that §12(b) should not bar an award of expectation damages, ie, the profits that the plaintiff had expected to make by performing the work.

Culpa in Contrahendo of the State

It is noteworthy that in a case that involved the Ministry of Construction and Housing,[24] the District Court held that the Ministry had not acted in good faith, in conducting extensive negotiations with the plaintiff, and creating the impression that the Ministry was about to conclude with the plaintiff a contract for the building of a neighborhood, thereby allegedly causing the plaintiff to invest substantial sums in vain. A memorandum of agreement had been signed, but the final approval of the Ministry of Finance was not forthcoming.

In line with the prevailing case law, the District Court held that a contract had been concluded and that the Ministry of Construction and Housing, on behalf of the State, could not retreat from the contract any more. The Supreme Court reversed, holding that the administration, even if it had not acted in good faith, may avail itself of an "administrative release" from obligations that it had undertaken. The public interest mandates that public money be guarded. Business people dealing with the State must be aware that the approval of the Ministry of Finance must be obtained before a contract can be concluded definitively. Consequently, the plaintiff was only allowed to claim reliance damages but not expectation damages. The Supreme Court ordered the plaintiff to pay the State substantial trial costs, by Israeli standards – NIS 200,000 (ca. USD 50,000), noting expressly that it made this order notwithstanding its conclusion that the State had not negotiated in good faith. Since Israeli courts exercise wide discretion in determining the trial costs that the unsuccessful party has to pay the party that prevailed, this sum may be taken to reflect the dissatisfaction of the Court with the insistence of the plaintiff that the State should pay its expectation damages.

Torts

By committing a tort, a person may make a profit. This may happen, e.g., as a result of the misappropriation of, or trespass to, the property of another, defamation, and the torts mentioned in the Commercial Torts Law, 5759–1999, i.e., unfair trade practices (passing off, false description, unfair interference with the business of another, misappropriation of trade secrets, etc.

Under Israeli law, it used to be considered that the aim of an award of damages in tort is to put the injured party in the same position as he would have been in if the tort had not occurred. The Supreme Court changed this rule in a case of building contractors who had purchased a parcel of land, after having received a formal document from the local committee of building and construction, certifying

[24] State of Israel – Ministry of Construction and Housing v. Apropim Housing and Promotion (1991) Ltd., CA 9073/07, Nevo electronic database (3 May 2012).

that a building of 16 apartments could be built there.[25] As it turned out, the parcel could not at all be used for building and the certificate had been issued negligently. After losing hope to realize their plans, the contractors sold the parcel at a profit and brought proceedings, based on torts, to recover their expectation damages.

The Supreme Court upheld the general rule in principle, that a victim of a tort should not be compensated for more than his real damage, noting that in cases of deceit there may be room to adopt a stricter approach, compensating for expectation damages, to satisfy the need to deter fraud. In cases, such as the pertinent one, however, the reliance principle should take account of alternative investments that the plaintiffs could have made. The yardstick for compensation in torts should be similar to that obtained in contracts. Consequently, the Supreme Court held that the plaintiffs should recover the difference between the price they had paid and the real value of the parcel, without need to prove that such alternative investments were considered *in casu*. The profit that the plaintiffs had made in fact should not be taken into account at all, not even as a form of mitigation of damages, since it was not related to the tort, but just to market conditions.

With respect to trade secrets, the Commercial Torts Law provides expressly (§7(b)), that even if a trade secret was misappropriated in circumstances that exempt the person who misappropriated it from liability, none the less "if that person makes use of the trade secret and thereby gains a benefit, the court may, if it sees fit in the circumstances of the case, order such person to restitute the benefit in whole or in part to the owner of the secret".

According to Israeli case law, if the plaintiff may avail himself of remedies on the basis of several causes of action, such as torts and unjust enrichment, or contracts and torts, he may collect damages under each, provided that he is not compensated twice for his damages.[26] Consequently, under Israeli law there is no need to waive the tort before suing for disgorgement of the profits.

Unjust Enrichment

In the *Adras* case,[27] it was held that Israeli unjust enrichment law is similar to a great eagle which spreads its wings over all other laws. Consequently, in any case

[25] Zalski and Navi v. The Local Committee for Construction and Building, Rishon Le-Zion, CA 5610/93, 51(1) PD 68 (7 April 1997).

[26] Cf. Sh.G.M. Parking Ltd. v. The State of Israel, CA 290/80, 37(2) PD 633 (25 May 1983). That case concerned the use made by a State entity, during the 1973 Yom Kippur War of the parking lot, without permission. The Supreme Court held that the State entity was a trespasser. Since the plaintiff incurred no losses (during the war the parking lot was nearly empty, so the trespassing cars did not prevent other cars from parking there), it brought proceedings (successfully) for the sums that the State should have paid for the use it made of the property; cf. Herman (2006), 327 et seq., with further references.

[27] Supra n. 6.

in which plaintiffs seek disgorgement of profits, they base their claim on unjust enrichment, whether or not there is another legal basis for a cause of action.

In *Agripharm*,[28] The Court noted that the duty to disgorge the profits may have existed even if there had been no valid contract between the parties (as suggested by the defendants). The duty to restitute profits exists also in situations in which the enrichment has been made in an "unjust" manner. The term "unjust" has to be judged in an objective manner, according to the values and interests of the parties and public, reflecting the attitude of the Israeli people to the requirements of good faith in the area of restitution (para. 36).

Wrongfully Issued Preliminary Injunctions

An early case, in which profits were disgorged on the basis of unjust enrichment, was *Palimport v. Ciba Geigy*.[29] In that case the Court had issued an injunction, prohibiting Palimport the marketing of a product which allegedly infringed Ciba Geigy's patent. After the Court had eventually held that the patent was invalid, Palimport claimed the profits made by Ciba Geigy, at its expense, while the injunction was in effect. The Court considered that there was no remedy in torts, since the enforcement of an injunction is not a civil wrong for which compensation can be given. None the less, the Court decided that, since Palimport and Ciba Geigy were the only companies that marketed the product in Israel, Ciba Geigy had enjoyed a monopoly over the market as long as the injunction was in force, and consequently unjustly enriched thereby. The case was therefore remanded to the District Court to determine the profits made by Ciba Geigy during the relevant period.

Disgorgement of Profits Because "a Sinner Should Not Be Rewarded"

In *Agripharm*,[30] the Court noted that unjust enrichment could serve as an independent basis for disgorging profits, to ensure that "a sinner should not be rewarded".[31] The Court underlined that this remedy should be used sparingly, in circumstances justifying its application, the main considerations being the severity of the defendant's behavior, the importance that the law attributes to the rule which he had broken, and the existence of a close enough plaintiff, to whom the profit may be transferred.[32] Other consideration that courts have to take into account include

[28] Supra n. 19.

[29] CA 280/73, 24(1) PD 597 (23 December 1974). Cf. Grosskopf and Medina (2009).

[30] Supra n. 19.

[31] This is the Talmudic expression for the principle that a wrongdoer should not profit thereby.

[32] Cf. Friedmann (1998), para. 17.1, 595; Friedmann's book, Chap. 17, 594–601, entitled "Restitution because a sinner is not rewarded", provides an analysis of this head of restitution in Israeli law, with further references to Israeli and foreign case law and legal literature.

(para. 42): (a) the existence of penal or administrative measures that take care of the need to deter the defendant's behavior; (b) the existence of a person, other than the defendant, who has a closer relationship to the wrongful incident; (c) "Deterring restitution" should not be allowed where the defendant had already compensated a person for his wrongful act, or returned the benefits he had derived. The list of considerations is not closed, and each case must be evaluated on its facts.

Property Law

§33, Land Law, provides that "a joint owner who has used the joint property shall pay to the other joint owners, according to their shares in the property, suitable recompense for the use thereof". Under §35, "every joint owner is entitled to a share in the proceeds of the joint property according to his share in the property". These rules apply also to movable property (§9(e), Movable Property Law, 5731–1971). Likewise, if a person collects the rent from an asset owned by another, the profit he makes will be disgorged by the court.

Recently, the State initiated proceedings for disgorgement of profits, estimated by the State at 24 million NIS, derived during the 7 years preceding the initiation of the proceedings, against a couple who had used for commercial purposes the land leased to them by the State for agricultural cultivation.[33]

Intellectual and Industrial Property

With respect to infringement of rights in intellectual and industrial property, Israeli IP laws provide that, when determining the damages to be paid to the rightholder, the Court has to take account of the profits made by the infringing user. Such a rule is provided expressly in the Patents Law, 5727–1967 (§183(b)(3)) and in the Copyright Law, 5768–2007 (§56(b)(5)). However, the profits are only one consideration that the Court should take into account when determining the damages, other considerations being the direct damage that the plaintiff suffered, the extent of the infringement, and reasonable royalties that the defendant would have had to pay, had he been licensed to exploit the patent at the same extent (in the case of patents) and the extent of the infringement, its duration, its severity, the real damage suffered by the plaintiff, according to the court's evaluation, the characteristics of the defendant's activities, the relationship between the defendant and the plaintiff and the good faith of the defendant (in the case of copyright). The Trade Mark Ordinance (New Version) and the Patent and Industrial Designs Ordinance do not include a similar provision, however, in case of infringement of trade marks and goodwill,

[33] Levy-Weinreb (2013).

both regulated by the first Ordinance, or industrial designs, regulated by the second, the plaintiff may sue for restitution of the profits, under Unjust Enrichment.[34]

On the basis of *Adras*,[35] the Supreme Court developed another line of cases awarding, on the basis of unjust enrichment, injunctions and compensation to protect interests falling short of intellectual property rights in circumstances that the court considered as constituting "unfair competition".[36] In *A.Sh.I.R.* the Supreme Court held that a party could be unjustly enriched by misappropriating such an interest of another and the latter's expectations to profit from its exploitation. Examples are the copy of unregistered designs or inventions that do not merit the protection of patent law despite the time and effort invested in developing them into a useful product.

The Court held that, in order to recover under unjust enrichment, it is not enough that the product has been copied. The plaintiff must prove that the defendant acted in bad faith, that the imitation was slavish, that although the plaintiff has no intellectual property right nevertheless the product was novel enough and much effort was required to develop and manufacture it. The remedies for such acts of unfair competition should be left to the discretion of the court, since, whereas it is clear that they cannot be the same as in the case of full-fledged intellectual property rights,[37] it is nonetheless unclear which remedy would be adequate in each case.

Personality Rights

§2(6), Protection of Privacy Law, 5741–1981, provides that using a person's name, appellation, picture or voice for profit, is an infringement of privacy. It has been pertinently pointed out that it is the right to publicity, rather than privacy, that §2(6)

[34] Friedmann (1998), para. 15.12 et seq.

[35] Supra n. 6.

[36] A.Sh.I.R. v. Forum Accessories and Consumer Goods Ltd., CA 5768/94 52(4) PD 289 (23 September 1998).

[37] The difference between full fledged IP rights and unregistered ones has been underlined in a recent Supreme Court decision – Merck & Co Inc v Teva Pharmaceutical Industries Ltd, Application for Permission to Appeal 6025/05 (19 May 2011), holding that, as long as the patent has not been granted, its use cannot be enjoined on the basis of patent law, and that, by relying on the registration files of innovative medicines for the registration of generic medicines during the pre-grant period, the Ministry of Health did not misappropriate Merck's trade secret, in the sense of the Commercial Torts Law. Until the patent is granted the plaintiff has no property right that Israeli law protects. If a patent is eventually granted, the competitor, who had marketed the patented product in the interim period, may end up paying the patent owner infringement damages, retroactively from the date of the application. On the basis of the regulation provided by the Patent Law, on the one hand, and the Unjust Enrichment Law, on the other, the Court concluded that unjust enrichment law should not be integrated into the patent law rules with respect to the issue under consideration. It is noteworthy that under Israeli law the grant of a patent may take considerable time, since opposition to a patent may be filed and considered following the submission of the application, prior to its grant.

seeks to protect.[38] §4 provides that an infringement of privacy is a civil wrong. As aforementioned, torts do not provide for disgorgement of profits under Israeli law. However, it is possible to rely on unjust enrichment to have the profits disgorged.

Company Law

§234(a), Companies Law, 5759–1999, provides that the obligations of shareholders are governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. §256(a), Companies Law, provides that the breach of a duty of loyalty by an officer towards the company, is governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. §283 provides that an officer who did not disclose his personal interest is deemed to have breached the duty of loyalty. A controlling shareholder in a public company who did not disclose his personal interest is deemed to have breached the duty of fairness, and the company may claim from such persons the damages caused to it by the non-disclosure. §192 provides that a shareholder must exercise its rights and fulfill its obligations towards the company and towards other shareholders in good faith and customary manner, and refrain from abusing his power in the company. The breach of these duties is governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. The breach of the duty of fairness is deemed equal to a breach of duty of loyalty (§193(b)).

The coherence of these rules has been correctly questioned.[39] It may have been intended to establish different levels of obligations: a duty of fairness for shareholders, on the one hand, and a duty of loyalty for company officers. But the selection of contract law, as providing the rules governing the duties, creates the impression that the standard chosen falls short of the expected standard regarding breach of a duty of loyalty. This conclusion seems to fit neither the Israeli legal system in general nor the legislative history of the Companies Law itself.

In some cases the Supreme Court applied to the damages, that officers in breach of duty of loyalty owed the company, just the rules of the Contracts (Remedies for Breach of Contract) Law. Consequently, no disgorgement of profits was awarded.[40] The reliance on contract law and on the good faith principle, in case of breach of the duty of loyalty, has been criticized.[41] In another case, the Supreme Court considered that the Unjust Enrichment Law provided a proper normative basis for a claim for damages caused by the breach of the duty of loyalty, and ordered the company directors to restitute to the company

[38] Friedmann (1998), para. 15.18 et seq.

[39] Licht (2013), 272 et seq.

[40] Lieberman v. Tadbik Ltd., CA 10137/05, Nevo electronic database (14 August 2008); cf. the analysis with further references by Licht (2013), 281 et seq.

[41] Licht (2013), 286 et seq.

(in fact, to the receiver, since the company had become insolvent) the profits that they had made by selling the company's asset and misappropriating the proceeds.[42]

It has been pertinently proposed that the rule, which provides that the remedy for a breach of fiduciary duty is that which obtains for breach of contract, should be interpreted as referring to a breach of a specific kind of contract, that which is concluded with a fiduciary.[43] Such an interpretation will provide a much more adequate standard for remedying such situations, than that provided by the Contracts (Remedies for Breach of Contract) Law, which provides remedies for breach of contracts in general. Such an interpretation will help to clarify the extent of the obligations, and create more certainty regarding the available remedies.

§52H, Securities Law, 5728–1968, provides that, subject to certain defenses, a company may claim the profits that a person had made by insider dealing. The profit is the difference between the price of the security at the time that the transaction was made and its price shortly after the inside information had become publicly known. This rule reflects the understanding that inside information is an asset of the company, and therefore insiders, who hold such information as fiduciaries of the company, as well as any other person to whom such information has been divulged, are prohibited from using such information for their personal benefit.[44]

Unfortunately, despite criminal proceedings brought against insiders and others for insider trading, companies have not availed themselves of §52H, since its adoption in 1981. It has been noted that companies do not have incentives to bring such claims for a variety of reasons:[45] (1) if the person who used the confidential information was a controlling shareholder, a director, or a person appointed by either; (2) if the company risks that its expenses in conducting the case may be larger than the losses it had incurred from the insider trading, or than its gains if it prevails; (3) if the company itself engaged in insider trading, while acquiring its own shares, in which case the company suffered no harm.

Competition Law

In theory Israeli law offers sufficient sanctions to enable disgorgement of profits in cases of violation of competition law. In reality, in the 16 years up to 2012 only 16 criminal proceedings have been initiated, civil law remedies have not proved to be effective and profits have not been disgorged.[46]

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[42] Klein v. Balas, attorney-at law and CPA, CA 4845/04, Nevo electronic database (14 December 2006).

[43] By Licht (2013), para. 3.3, at 288 et seq.

[44] Tsafrir (2005), 177–184.

[45] Tsafrir (2005), 179. Nevo electronic database was searched for such cases on 2 April 2014 – TE.

[46] Gal and Israeli (2012), at 22 et seq., 31 et seq.

In one criminal case,[47] the District Court of Jerusalem pointed out that real quantification of the damages caused to the public by a cartel is unnecessary to determine the penalty in criminal proceedings. This is different where the prosecutor applies to determine the penalty according to the extent of damage caused to the public, or according to the benefit derived by the parties to the cartel. In such a case, the Court may order the convicted party to pay a fine of four times the value of the damages caused, or the benefit derived by the crime. However, the Court doubted that it is appropriate to adopt a practice seeking to quantify the benefits derived and the damage caused to the public by the cartel, and, at any rate, this should not be done routinely, since such quantification involves complex calculations that require economic opinions and the presentation of evidence that complicates the litigation in cases which are complicated enough even without seeking to prove the profits made by the parties to the cartel. In the pertinent case, the proceedings lasted 8 years since the opening of the investigation, out of which the trial itself took 6 years.

In civil proceedings, the private party seeking to prove that the defendant had violated Israeli competition law, usually faces an even greater difficulty. The reports made by the Competition Authority are not handed over to him, and he has to find the evidence himself. The proof of the defendant's profits is next to impossible.[48]

Fiduciary Relations

In the case of fiduciaries there is a duty of loyalty and an imminent danger that trustees would take advantage of their beneficiaries. Hence the law must ensure that there is a joining together of interests of beneficiary and trustee, and that any abusive behavior be controlled by deterrence and ethical standards. Even modification of

[47] State of Israel v. Ohalecha Ya'akov Ltd., Criminal Case (Jerusalem) 209/96, PM [5762–2002](1), 493, at 495–496 (17 December 2012).

[48] Cf. in general, regarding the difficulties facing private claimants in bringing civil proceedings Gal and Israeli (2012), 31 et seq.; cf., in particular, the difficulties faced by Karmit as a result of the injunction obtained by Straus Ltd. enjoining the Director General of the Israel Antitrust Authority from granting access to Karmit to the report the Authority had made in that case, concluding, on the basis of ample evidence, that Straus-Elite had abused its monopolistic position in the Israeli market (Elite, which later merged with Straus, was declared a monopoly in the chocolate market by the Director-General of the Antitrust Authority on 26 March 1989) to prevent Karmit from marketing Cadbury chocolate in Israel – Karmit v. Straus, Civil Case (Magistrate Court, Tel Aviv) 23419/08, Nevo electronic database (24 May 2011). The criminal case, initiated by the Antitrust Authority, was settled for ca. one million USD (approved by the Restraints of Trade Tribunal, 10 January 2007), notwithstanding the very harsh report prepared at the Authority on the case. In 2010, on the basis of additional evidence, Karmit initiated civil proceedings against Straus – Karmit v. Strauss, Civil Case (District Court, Central District) 38852-01-10, claiming that its losses (including expected profits) were ca. 50 million NIS, but, to limit court fees, it limited the claim to 22 million NIS (ca. 5.5 million USD). Cf., further, Levy-Weinreb (2014).

the fiduciary contractual relationship requires more than simple consent of the beneficiary. A disgorgement of profits is therefore a perfect instrument to remedy misbehavior of fiduciaries.

Fiduciary duties are dealt with in the Agency Law, 5725–1965, the Trust Law, 5739–1979, and the Companies Law, 5759–1999.[49]

The Trust Law[50] provides the most rigorous rules. The trust property must be held separately by the trustee (§3(c)). The property of the trust includes the income that it generates, as well as anything for which it has been exchanged (§3(b)). A trustee may not acquire for himself, or for any of his relatives, any trust property or derive for himself, or for any of his relatives, any other benefit from the property or activities of the trust and may not do anything involving conflict of interests between the trust and himself or any of his relatives (§13(a)). Any profit derived by a trustee in consequence of the trust is treated as part of the trust property (§15(c)).

§10, Agency Law, provides that "any property which comes into the possession of the agent in consequence of the agency is held by him as the trustee of the principal" and that "the principal is entitled to any profit or benefit accruing to the agent in connection with the object of the agency".

Accordingly, Israeli case law provides examples of disgorgement of profits, as well as tracing of assets, or proceeds.[51] Regarding tracing, the Supreme Court held that the Israeli rules concerning tracing have been taken from the English common law rules, via Article 46 of the Palestine Order in Council,[52] and that they are still in force in Israeli law, to the extent that they have not been amended, or replaced, by *Knesset* legislation.[53] The Court noted that a second basis for disgorgement was the law of unjust enrichment.

Regarding third parties, "[w]hen an act is done in violation of a duty imposed by the trust and the third party knows, or ought to know, of the violation, or it is done without consideration, the court may invalidate it, and the third party will incur the

[49] Regarding disgorgement under company law, cf. para. 4.7 supra.

[50] The Israeli trust differs from the common law trust, in that it defines (§1) a trust as a "relationship to any property by virtue of which a trustee is bound to hold the same, or to act in respect thereof, in the interest of a beneficiary, or for some other purpose". The Supreme Court has held that the said "relationship" need not be ownership, and that exercise of control suffices. In fact, a leading commentary expressly warns against the risks of transferring title to trustees – cf. Kerem (2004), 7–11, stating specifically that, as a general rule, one should refrain from transferring title in the trust assets to the trustee (p. 9) and that one should only do so when strictly necessary (p. 11).

[51] For a critical analysis of the Israeli case law on disgorgement of profits and tracing in the context of fiduciary relations cf. Licht (2013), paras. 4.3.1 et seq., 312–373. Licht criticizes especially the following in Israel of outdated English law, distinguishing between, on the one hand, "following" which is proprietary in nature, and therefore governed by property law, and "tracing" which is quasi-proprietary, and governed by unjust enrichment law, on the other – Licht (2013), 318 et seq., referring to the Supreme Court's decision in Canaan v. US Government, Further Hearing 2568/97, 57(2) PD 632, 673 (20 February 2003).

[52] Cf. part 2 supra.

[53] Canaan v. US Government, supra n. 51, with further references to pre-1980 Israeli precedents in this matter.

responsibility and obligations of a trustee. Knowledge of the existence of the trust shall not by itself be taken to imply knowledge of the violation of a duty imposed by it" (§14, Trust Law). Regarding agents, if the agent infringes his obligations and a third party is privy to the infringement, the principal is entitled to repudiate the infringing act and claim also from the third party the compensation due to him from the agent (§9(b), Agency Law).

Calculation of Profits to Be Disgorged

Israeli law has not developed a systematic approach to the calculation of profits. Since the Israeli legal system is adversary, it is usually up to the claimant to prove his claim, but sometimes the onus of proof may shift, a matter of great importance. For example, in company law, cases involving conflict of interest are decided on the basis of onus of proof which, in turn, depends upon the standard of review chosen (as a duty of care or a duty of loyalty). In a landmark decision in Israeli law, given still under the Companies Ordinance, the Supreme Court held that, where there is real danger that a director did not act in good faith and in the interest of the company, he has to discharge the onus of proof.[54] Where the duty of loyalty, or entire fairness, is the standard for review, the self-dealing fiduciary must show that the transaction was at an entirely fair price.[55]

A full study of the relevant case law is outside the scope of this paper. On the basis of anecdotal evidence, it seems that, even in cases in which disgorgement of profits could be claimed, parties do not always claim it. The reason may be that it is difficult to calculate the profits that the defendant made by his wrongdoing. In fact, it is easiest to demand it in cases involving the sale of land, since the Betterment Tax authorities publish the sale prices of all transactions. In other cases, collecting the evidence and proving it to the court, may be time consuming and expensive. As above-mentioned, in antitrust cases the private party can hardly quantify the profits made by the anticompetitive behavior without the help of the antitrust authority, and the support of the court, and those are not forthcoming.

Since much of the case law relating to disgorgement is based on unjust enrichment, this leaves the courts with a very large measure of discretion. §1, Unjust Enrichment Law, provides that, where a person obtains property, service or some other benefit from another person without legal cause, that person "shall make restitution", and if restitution is impossible or unreasonable, he "shall pay him the value of the benefit". However, §2 provides grounds for exemption from the whole or part of the duty of restitution, if the court "considers that the receipt of the benefit did not involve a loss to the beneficiary or that other circumstances render restitution unjust". §2 provides no guidelines to direct the courts in their considerations.

[54] Kossoy v. Bank Feuchtwanger, CA 817/79, 38(3) PD 253.

[55] Cf., Kretin v. Ateret Securities (2000) Ltd., CA 3654/97, 53(3) PD 385 (27 June 1999).

§3, Unjust Enrichment Law, allows for the deduction from the sums restituted of the reasonable expenses made, or undertaken, or invested, by the enriched person. One question concerns illegal payments, such as bribery, that the defendant claims that he had to make, or otherwise the profit would not have been made. In one case, the Supreme Court considered, without however deciding this matter definitively, that such an expenditure should not be allowed.[56]

Negotiorum Gestio/Benevolent Intervention

Negotiorum gestio is not relevant to disgorgement of profits in Israeli law. The Unjust Enrichment Law (§4) provides that a person who pays another person's debt without being under duty towards him to do so is not entitled to restitution, unless that person has no reasonable cause to object to that payment. Restitution is limited to the amount paid. Likewise, the provision regarding indemnification of a person who acts to protect another person's life, physical integrity, health, honor or property, without being under duty towards him to do so (§5), is not relevant to disgorgement.

Punitive or Aggravated Damages

In one case concerning breach of fiduciary duty, the Supreme Court noted that in Israel courts do not usually award punitive damages.[57] However, they did recognize, in certain instances, aggravated, or exemplary, damages.[58] In another,[59] Procaccia J, considered, in an *obiter dictum*, that it cannot be excluded that, in an appropriate case, an Israeli court will award exemplary damages also for breach of fiduciary duty by an officer who owes a special duty in discharging his duty, even if the claimant has not succeeded in proving that he had suffered a special damage, as a result of the breach. Procaccia J added that such damages should be awarded only in exceptional cases of severe breach of duty and grave fault.

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[56] Ben-Tal v. Ben-Tal, CA 578/75, 31(1) PD 57 (21 September 1976); Friedmann considers that such an expense may be allowed, depending upon the nature of the illegality, but that, in any case, it will be up to the defendant to prove that the profits would not have been made without making the illegal payment. If there is any doubt about it, deduction of the expenditure should not be allowed – Friedmann (1998), para. 18.6.

[57] Kretin v. Ateret Securities (2000) Ltd., CA 3654/97, 53(3) PD 385 (27 June 1999).

[58] Eg, in defamation cases – Haaretz v. Mizrahi, CA 670/79, 41(2) PD 169 (12 April 1987), Azur v. Can West Global Communications Corp., CC (Tel Aviv) 1702/07, Nevo electronic database (20 June 2012); intentional harm to person and to property – eg, Rabinovich v. Sela Ltd., CA 277/55, 12 PD 1261(17 July 1958); mishandling of human remains – Ben Zvi v. Prof. Yehuda Hiss, CA 4576/08, Nevo electronic database (7 July 2011).

[59] Seiman v. Komeran, CA 9225/01, Nevo electronic database (13 December 2006).

Administrative Financial Sanctions

Disgorgement of Profits Derived from Infringement of the Securities Law

On 17 January 2011, the Knesset adopted the Optimizing of Enforcement Proceedings in the Securities Authority Law, 5771–2011 (hereafter – "The Enforcement Proceedings Optimizing Law", that amended several laws regulating securities in Israel, with the object of enhancing and making more efficient the enforcement in this area.[60] Pertinent to this study are the financial sanctions, inserted as an amendment to the Securities Law, 5728–1968, to be administered by an administrative enforcement committee, which decides cases in panels, composed of three committee members (§52XXXIIff.)

§52LIV(a)(1)(b), Securities Law, provides that a panel may order a person, who infringed the Securities Law, to pay the Commissioner a sum, that will be distributed, at the Commissioner's discretion, among the those who had been harmed by the infringement, and will be calculated as follows:

(1) if s financial sanction had been imposed with respect to that infringement, the higher of the following sums:

   (a) the damage caused to all persons harmed by the infringement, up to 20 % of the financial sanction imposed on the infringing person;
   (b) The profits or benefits, including losses avoided, derived by the infringing person, directly or indirectly, on account of the infringement, provided that the sum does not exceed the maximum financial sanction that may be imposed for that infringement.

(2) If a financial sanction was not imposed on the infringing person on account of the infringement – the sum will equal the profit, or benefit, derived by the infringing person, provided that it does not exceed the maximum financial sanction that may be imposed for that infringement.

§52LIII determines the sums that may be imposed by the panel for infringements of the Securities Law. Those range between NIS 2,000,000 to NIS 5,000,000 for an incorporated entity, NIS 25,000 to NIS 1,000,000 for company employees who are not senior officers, and NIS 400,000 to NIS 1,000,000 for private persons who are company officers.[61]

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[60] For an in-depth study of the Law, including its legal history, cf. Gabbay (2012).

[61] Decisions of the Administrative Enforcement Committee (in Hebrew) are available on http://www.takdin.co.il/searchg/%D7%94%D7%95%D7%95%D7%A2%D7%93%D7%94%20%D7%9C%D7%A2%D7%99%D7%A6%D7%95%D7%9D%20%D7%9B%D7%A1%D7%A4%D7%99%20%D7%9E%D7%A9%D7%A8%D7%93%20%D7%94%D7%90%D7%95%D7%A6%D7%A8.html

In the draft bill it was originally intended that the profits made by the infringing person will be disgorged and passed to the State budget.[62] However, by the time the law was adopted this sanction was eroded, and assimilated to compensation. It was also decided that the money will be distributed among the persons harmed by the infringement. The reason seems to be the difficulty in calculating the profits, benefits, or losses avoided, as the case may be, that were caused by the infringement.[63]

The Securities Law, as amended, authorized the Minister of Justice to enact regulations, after consulting with the Securities Authority, regarding the appointment of the Commissioner. The regulations will also regulate the submission of applications by the persons harmed by the infringement, the procedure for ascertaining the damage caused to each, the distribution of the financial sanctions, and the reports to be submitted by the Commissioner (§52LIX(d)).

So far, the panels have imposed financial sanctions of millions of NIS, however the regulations regarding the Commissioner, his mode of operation, and the distribution of the money, have not been forthcoming.[64]

Disgorgement of Profits Derived from Publications Concerning Crimes

In 2005, the *Knesset* adopted the Disgorgement of Profits from Publications Concerning Crimes Law, 5765–2005 (hereafter – the "Disgorgement Law"). The Disgorgement Law authorizes the Attorney General to apply to the District Court for an order that a person, who was convicted of a crime, the maximum punishment for which is at least 7 years, shall be disgorged, in whole or in part, of the profits that he has derived from publications concerning that crime. The publications may be written or unwritten, e.g., interviews. The application must be made within 5 years from the date of conviction and no later than 5 years since the day of publication.

The Law has left it to the discretion of the Court not to order disgorgement if there are circumstances that justify such a decision. Among others, the Court may take into account the educational or rehabilitative value of such a publication, as well as the effect that the publication has on the victim of the crime. The "profits", that may be disgorged, include the right to derive a profit as well as assets for which the profit was exchanged. Following the disgorgement of the profits, the victim of the crime will be able to receive compensation, provided that he had obtained a judgment ordering the person who had committed the crime to compensate him.

[62] Gabbay (2012), 282 et seq.

[63] Gabbay (2012), at 283.

[64] Cf. Securities Authority, Minutes of Authority meeting no. 2013–4 of 12 May 2013, part 3 – Regulations regarding compensation of infringement victims.

The compensation will exceed neither the sum due to him under the judgment nor the sum disgorged. So far there is no case law applying this Law.

Evaluation

Disgorgement of profits is, at least in theory, a widely available remedy in Israeli law, cutting through all of its categories – contracts, torts, unjust enrichment, property law, IP law, company law and securities, competition law and fiduciary relations. However, obtaining this remedy in practice may often prove difficult, uncertain and costly in many cases, and problematic in others, for the following reasons:

(1) The special characteristics of the Israeli mixed legal system have contributed to the "mutual diffusion" of the legal categories, which are no more properly demarcated from each other, making it unclear which category should serve as the legal basis for any given claim.
(2) Even after determining the legal category, it is unclear which remedy will be available. Thus, with respect to damages, jurisprudence has, in many cases, enabled the courts to choose from among reliance damages, expectation damages and disgorgement of damages, regardless of the legal basis.
(3) The extensive reliance on unjust enrichment law, in addition, or as an alternative, to any other legal basis, has left practically all remedies at the discretion of the courts. The considerations enumerated by the Supreme Court as guidelines for exercising this discretion are confusing and may very often lead to opposite conclusions, leaving the decision at the end of the day to the sense of justice of the presiding judge. In particular, the courts apply the good faith principle not in order to arrive at principled decisions, but rather as a yardstick for measuring the behavior of the parties in the case at hand, at times only to find that none was in good faith. This approach turns the profits, whose disgorgement is claimed, into *unjust* enrichment in the eyes of the judge, not *unjustified* enrichment in the eyes of the law.
(4) Contract law, especially the sale of real estate, is one of the very few areas in which the profit can be easily calculated, since the price of each transaction is made available to the public by the Betterment Tax authorities. The development, whereby disappointed potential buyers, with whom final agreements have not been concluded, bring claims for disgorgement of profits, has its tradeoffs:

    (a) The legal analysis, based upon recognizing a property right in the contractual right, fails to draw the distinction between two very different legal categories, that fulfill different functions;
    (b) When the Land Law was enacted, it was understood that only the final contract, with all specific details, will count as the "written document" required by that statute. The underlying motivation was to emphasize the seriousness of the transaction. People sign memoranda of understanding,

or prepare drafts that they may still wish not to pursue, *inter alia*, because of changes in the market conditions that may affect their interests, because they discover that the terms they had written down without receiving professional advice were detrimental to their interests, or for any other reason;

(c) The result is also unfair in so far as it gives the potential buyer an exclusivity for which he has neither paid nor contracted. By contrast, it is hard to foresee a case in which the seller would be able to sue successfully a potential buyer for abandoning the negotiations.

It is submitted that the "written document" requirement should be strictly upheld, in line with the first decisions of the Supreme Court in this matter. Until that "written document" is signed, a party that does not negotiate in good faith should be ordered to pay reliance damages, but not be disgorged of its profits.

(5) In other areas of the legal system, in which it should be possible to claim disgorgement of profits in appropriate cases – property law, IP law, company law and securities, competition law and fiduciary relations – there is need for rules that would clarify and limit the courts' discretion in adjudicating such claims, on the one hand, and facilitate the calculation of profits and provide judicial assistance that would help in obtaining evidence, on the other.

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Chapter 18
Disgorgement of Profits in Scots Law

Martin A. Hogg

Abstract Scots private law provides what may be called 'gain-based awards' as a response to certain types of (in a broad sense) 'wrongful' conduct, not just delict (perhaps the paradigm the civil wrong) but also breach of contract, breach of fiduciary duty, and other sorts of conduct which are contrary to legal duties undertaken by, or imposed upon, a party. These awards are not, however, classified as damages. In consequence, in Scots law there are strictly no 'disgorgement damages' (or 'restitutionary damages') of the sort commonly encountered in English law and the law of other Common Law systems. The disgorgement response is largely (though not entirely) achieved through remedies granted to reverse the retention of unjustified enrichment, though in some circumstances of delictual wrongdoing a disgorgement remedy may be an alternative to a more commonly sought remedy (usually compensatory damages) of a non-disgorgement nature. In such cases the pursuer usually has the freedom to choose whether to pursue the disgorgement remedy or (compensatory) damages, but the classification of the disgorgement remedy (as delictual or unjustified enrichment in nature) is not a wholly clear matter in Scots law.

Keywords Disgorgement • Restitution • Damages • Restitutionary damages • Disgorgement damages • Profit-stripping • Gain-stripping • Scots law

Structural Underpinnings of Scottish and English Private Law

To understand why Scots law does not possess the disgorgement or restitutionary 'damages' of the Common law, some explanation will first be given (in this section) of structural, doctrinal, and terminological differences between Scots and English private law, before an examination is undertaken (in the sections "The Terminology of Gain-Based Awards and Damages" and "Developing the Terminology of Gain-Based Awards") of the terminology of gain-based awards, and the extent to

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which such are available in Scots law (in the section "Disgorgement of Gains in Different Areas of Scottish Private Law").

Scots law is a mixed legal system.[1] That simple point needs little further explanation to a scholarly comparative legal readership. The private law of England is not the same as that of Scotland, and in this field of disgorgement remedies (where the ancient common law/equity divide has been so important in English law) that is particularly so. Scots law does not recognise, and has never recognised, any law/equity division: equitable principles and ideas are generally accepted as being infused throughout the law of Scotland, albeit that some sorts of remedy (e.g. of recompense for unjustified enrichment) are said particularly to disclose an 'equitable' character (in a general, and not an English law sense). As Scots law recognises no division between 'common law' and 'equitable' remedies in the English sense, there is, for instance, no question of a barrier to the award of disgorgement remedies in contract and delict merely because these fields of private law are not fundamentally equitable in nature – the fact that disgorgement of gain is not generally available as a remedy in those two fields has more to do with the existence of other parts of Scots law (especially unjustified enrichment) which have the stripping of improperly held gains at their heart, and the functions which these parts of the law serve in Scotland. The functions of these well-established parts of the law often perform the role played by aspects of the Common law which are absent from Scots law, for instance the proprietary torts of the Common law.

The territory of the Scots law of obligations is different to that of England, and there is a much stricter divide between obligations and property law than exists in England (so there are no 'proprietary torts' of the sort just mentioned). In Scotland there are five major obligations recognised in the law: the two voluntary obligations of contract and unilateral promise; and three involuntary obligations of delict, unjustified enrichment, and *negotiorum gestio* (benevolent intervention). Unjustified enrichment has a great deal to do with disgorgement in Scots law. Indeed it is perhaps the pre-eminent field of private law dealing with disgorgement, allowing recovery both in cases of transfer (restitution narrowly so called) and in cases of enrichment 'by other means' (disgorgement narrowly so called). In this latter category fall such cases as (i) gains made by an enriched party (E) through his debts being paid by a consequently impoverished party (I), (ii) profit made through E's land or buildings being improved by I in the belief mistakenly held by I that the land/buildings belonged to I, and (iii) gains made by E through interference with certain rights possessed by I (e.g. through unauthorised use by E of I's moveable property). Notably in the field of unjustified enrichment, Scots law had a developed action of recompense (for enrichment unjustifiably retained at the expense of another) at an early stage, in contrast to England's late development of a comparable enrichment-based action – this early Scots development somewhat obviated the need to develop other sorts of remedy which were used in English law to strip gains held by another wrongfully or without justification.

[1] On mixed legal systems in general, see, for instance, du Plessis (2006).

The Terminology of Gain-Based Awards and Damages

The terminology employed in Scotland in the field of gain-based remedies and damages is different in a number of respects to that employed in the Common Law, and this reflects the different structure of our private law explained above.

In the case of the former – gain-based awards – the case law discloses a variety of different terminology which has been employed in gain-based award cases scattered across Scots private law: 'ordinary profits',[2] 'violent profits',[3] a 'reasonable sum',[4] a 'royalty',[5] a 'notional licence fee',[6] '*quantum lucratus*'[7] (the amount by which a party is enriched), '*quantum meruit*'[8] (the 'amount merited'), and an 'award of profits' in an action of accounting and payment of profits.[9] These are all regarded by some as varieties of 'gain-based award', though – given the precise measure of recovery applicable in each – not all of them appear to strip gains or profits from a defender. The various nomenclatures and class are award are discussed further in the section "Disgorgement of Gains in Different Areas of Scottish Private Law" below.

As to the latter – damages – the absence of 'disgorgement damages' or 'restitutionary damages' from the gain-based terminology list is noteworthy. Damages (in all fields of Scots private law, including contract and delict) are restricted to the idea of monetary compensation for loss suffered by the party bringing the claim. By contrast, the idea of damages in English law encompasses not only compensatory damages, but also aggravated, exemplary, disgorgement, restitutionary, punitive, and nominal damages.[10] As one respected commentator has put it, damages in English law "means nothing more specific than a monetary award for a wrong",[11] a definition of sufficient breadth to allow compensation, gain-stripping, punishing, and other aims to be met in Common law systems through a damages award.

What all of the foregoing means is that, while 'gain based awards' are available in Scots law in the cases discussed below, these awards ought *not* to be termed damages. That being so, comparative judicial recourse to English cases awarding so-

[2]See discussion in main text at section "Enrichment by the Taking of a Thing from Another, or by Interference with Another's Rights of Corporeal Property".

[3]Nothing to do with physical violence, but a remedy used in cases of tenants staying on leased property without authority beyond the termination of their lease: see later discussion below.

[4]See discussion in contract section below.

[5]See discussion in IP law section below.

[6]This is the term used in Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323; [2003] 1 All ER (Comm) 830. The case is commented on, from a Scottish perspective, in Black (2005), 31.

[7]See discussion below on recompense for unjustified enrichment.

[8]See discussion below on contract.

[9]See discussion below in relation to passing-off, breach of confidence, and IP rights.

[10]In theory, nominal damages can be awarded by a Scottish court too, though this rarely happens (one area where it does, is in defamation cases).

[11]Edelman (2002), 5.

called ‘gain based damages’, ‘restitutionary damages’, or ‘disgorgement damages’ can only be undertaken with caution: a disgorgement result may be mirrored in both Scots and English law in certain types of factual circumstance, but the classification, terminology, and often underlying doctrine, properly to be deployed in order to reach the same result will often differ. As for ‘punitive damages’, these have no place in Scots law,[12] nor have ‘aggravated damages’.

Developing the Terminology of Gain-Based Awards

No agreement yet exists on the preferable terminology for use in Scotland in relation to disgorgement awards: should all such awards be classed as ‘disgorgement’ in nature? Or as an ‘accounting of profits(s)’? Or as ‘restitutionary’? And would any common terminology assert a common measure of recovery, and/or a common theory as to the purpose underlying the award? Do we even need a single term to describe all such awards? Scots law is only in the infancy of exploring such questions systematically, though it seems relatively clear (to this observer at least) that ‘restitutionary’ is unlikely to do as an umbrella term: whilst the late Peter Birks asserted[13] that the idea of ‘restitution’ includes not just giving back, but also giving up, the intuitive sense of ‘restitution’ is of restoring/returning some value or thing to a party; a stripping of a gain which was never transferred is not about restitution, but concerns ‘disgorgement’, and if it is that which is at the heart of a claim it would seem appropriate to use that term as an umbrella term (if such an umbrella term is indeed desirable). That said, disgorging itself may also have intuitive limitations: it suggests a stripping of something from a party and a giving it to another, whereas in some cases of stripping of gains what is awarded is the equivalent value of what was gained, rather than the exact thing gained. Account(ing) of profit seems a better term for such cases, but this may simply show that no one term is entirely apt for capturing the essence of the multitude of awards made by the Scottish courts.

One taxonomic solution to the terminological debate may be to group the entirety of the various remedies available in this field (and discussed further below) under a single general heading of remedies for ‘disgorgement of profits and redress of unjustified enrichment’, which would encompass both restitution and disgorgement. That is the approach currently proposed for the forthcoming reissue of the ‘Obligations’ title in volume 15 of *The Stair Memorial Encyclopaedia of the Laws of Scotland*,[14] the principal scholarly encyclopaedia of Scots law (and a publication which has had a very pronounced effect upon court practice and judgments).

[12]Though see the discussion below on ‘violent profits’ which have been argued by some to be damages awards.

[13]Birks (2002), 21–22.

[14]Draft of para. 9.17 of volume 15, current as at December 2013 (the text and numbering of the paragraph are both likely to change before publication).

The vastly larger Common Law world enjoys a more developed debate on terminological issues, the debate having benefitted from a particularly scholarly and impressive effort by James Edelman to achieve terminological order.[15] On Edelman's approach, there are two species of non-compensatory, gain-based damages: (1) "restitutionary damages" and (2) "disgorgement damages". Edelman explains the terminology as

> a vocabulary in which the word 'restitution' whether in the law of unjust enrichment ('restitution for unjust enrichment') or the law of wrongdoing ('restitutionary damages') is used to refer to an award which reverses a transfer of value from a claimant to a defendant, and therefore focuses on the immediate benefit received by the defendant. In contrast, the word disgorgement should be used where, in the law of wrongdoing, a personal award is made to disgorge actual profits made by a defendant.[16]

Ignoring for the moment the usage of 'damages' in these two terms (a borrowing of which would not, given the point made earlier about the Scots idea of 'damages', be appropriate for Scots law), the distinction made by Edelman between 'restitution' (the reversal of a transfer of value) and 'disgorgement' (a disgorging of profits made by a party) mirrors the distinction suggested above in these ideas. It is a usage which merits some consideration in Scots law, albeit without the addition of the term damages (the simple term 'award' would suffice as a replacement).

Disgorgement of Gains in Different Areas of Scottish Private Law

The general position on the availability of gained-based awards in Scots private law can be succinctly stated: there is no general 'disgorgement award' available in all cases of 'wrongful' conduct, i.e. of breach of duty owed by a defender, or in all cases of delictual conduct, or even in all cases of intentional harm (e.g. the delict of assault gives rise to an entitlement only to damages for loss caused). There are merely pockets of law where gain-based awards may be available to pursuers: these pockets are now considered.

Contract

In Scots law, the primary remedy for breach of contract (i.e. contractual non-performance) is specific implement (the equivalent of the Common law's specific performance):[17] by 'primary remedy' is meant that, except in certain exceptional

[15] Edelman (2002, 2010).

[16] See further Edelman (2010), at 3; Edelman (2002), Chap. 3.

[17] On the history of the development of this approach, see Smith (2000).

cases, a party which has suffered a breach of contract is entitled to a court order that the party in breach perform the duty in question. This primary remedial entitlement in theory takes pressure off the need to develop damages awards in contract which might strip a contract-breaker of profits made through breach; instead, the victim of the breach is entitled to the actual performance promised, enforcing such entitlement by a request for specific implement. The extent to which, in practice however, specific contractual duties are enforced in Scotland which would not be enforced in Common law countries is debateable. One divergent field, however, is that of 'keep open' and trade clauses in commercial leases (i.e. clauses requiring tenants of commercial premises to keep them open and trade from them): these have been enforced, via specific implement, in Scotland when similar clauses have not been so in England.[18] The Scottish landlord thus gets to enforce occupation by a trading tenant, when the English landlord will likely have to rely on damages assessed merely by reference to likely losses (often very hard to assess, and usually worth a lot less to the landlord than occupation by a trading tenant) and not to any profit made through breach.

As for the most commonly sought contractual remedy – damages – the basic principle for assessing such damages is clear: damages are assessed by reference to the loss suffered by the victim. Such loss is measured primarily by reference to the so-called performance interest (i.e. by considering the position in which the innocent party would have been had the other party's duty been performed),[19] though there are cases where the so-called restoration, or *status quo ante*, interest (assessed by reference primarily to the victim's wasted expenditure) has been awarded instead. The general approach to compensatory damages expressed for English law by Haldane LC in *British Westinghouse Electric* is thus accepted as a formulation of the general totality of loss which can be claimed in damages for breach of contract in Scots law: "[t]he fundamental basis [of damages] is thus compensation for pecuniary loss naturally flowing from the breach".[20] This measure encompasses both *damnum emergens* (losses rendering a party worse off) and *lucrum cessans* (lost opportunities/profit of the *victim*).

Because damages for breach are not fault-based, it matters not to their assessment by a Scottish court whether the breach was intentional or inadvertent (i.e. there are no greater damages available for intentional breach). Furthermore, and crucially for the present discussion, damages based upon any profit made by the contract-breaker

[18]Compare Retail Park Investments v Royal Bank of Scotland plc (No 2) 1996 SC 227 with Co-operative Insurance Society Ltd v Argyll Stores (Holdings) Ltd [1998] AC 1.

[19]"[T]he damages should be what the party would have received had his contract been fairly fulfilled": Watt v Mitchell (1839) 1 D 1157 at 1168, per Lord Justice-Clerk Boyle.

[20]British Westinghouse Electric and Manufacturing Co Ltd v Underground Electric Railways Co of London Ltd [1912] AC 673, 689.

are not permitted (even if they were a foreseeable result of the breach):[21] this rule is clearly set out in the leading case of *Teacher v Calder*.[22] This common law rule cannot be evaded by the use of an agreed damages clause in the contract entitling the party in breach to an amount equalling any profit made upon breach by the defaulting party, as a Scottish court will only enforce an agreed damages clause to the extent that it embodies a reasonable assessment of the likely losses to the victim which will flow from the breach in question.[23]

Are any exceptions made to this rule? It has been said that the availability of so-called 'violent profits' in lease cases is one such exception. Violent profits are a financial award which may be ordered by a court to be paid by a tenant who remains in occupation beyond the agreed end date of the lease without the permission of the landlord. Such an award is designed to act as a deterrent against tenants refusing to quit the leased premises at the agreed date, and – in some cases at least – to strip the tenant who refuses to quit of profits made through continued unlawful possession. In urban leases, a somewhat arbitrary amount of double the agreed rent for the period of unlawful possession has become established as the measure of such violent profits: this arbitrary level of the award matches neither the likely losses of the landlord nor (except by chance) any profit made by the tenant through a refusal to quit the premises. However, in other leases, the courts have assessed violent profits according to the measure of the greatest profit that the landlord could have made either by possessing the leased subjects himself or by letting them to others, together with the measure of all losses which the landlord may have suffered at the hands of the wrongful possessor.[24] Is this gain stripping? Indirectly perhaps, though note that the measure is of the *landlord's* likely lost profits, not the actual gain of the tenant. Given the varying ways in which violent profits may be assessed, it is too simplistic (and inaccurate given the idea of damages discussed earlier) to call the remedy 'damages' or even 'penal damages', though such usage exists;[25] it may perhaps be arguable that (indirect) gain-stripping forms part of the award in *some* cases (only for non-urban leases), but strictly such cases are focused on compensating the landlord's losses, both *damnum emergens* and *lucrum cessans*.

A related question concerning the occupation of land or buildings is how to deal with cases where there is never any express entitlement to occupy to begin with. The Scottish courts' approach to such cases has often been to say, in vague terms,

[21] In other words, the rule in Hadley v Baxendale that losses which were a foreseeable result of the breach are claimable is trumped by the rule that loss is not to be measured by profit made by the party in breach.

[22] (1898) 25 R 661.

[23] For a summary of the approach taken to agreed damages clauses in general, see MacQueen and Thomson (2012), paras 6.47–6.52.

[24] Rankine (1916), 585; Paton and Cameron (1967), 280; Scottish Law Commission (1989), para. 10.9.

[25] See, for instance, McAllister (2013), para. 10–37, who calls violent profits "a form of penal damages", citing the same view in Scottish Law Commission (1989), para. 10.9.

that such occupation gives rise to a 'presumption to pay', the occupier being able to counter such presumption by demonstrating a clear agreement that the occupier was entitled to occupy without charge. Speaking of a 'presumption to pay' is not however sufficient to determine whether the basis of the requirement to pay lies in contract (under an implied lease)[26] or in unjustified enrichment, or to identify the appropriate measure of recovery. The answer to the first question is not necessarily provided by the answer to the second. As to the second question – the measure of recovery – the courts have variously required occupiers to pay a 'reasonable sum',[27] a 'fair value',[28] or a 'market rent'.[29] Some such awards (especially market rent) smack of a *quantum meruit* approach to valuation, which is itself more suggestive of a deemed contractual analysis; however, in some cases where the courts have explicitly made an award in recompense for unjustified enrichment, the measure of the award has also been assessed by reference to the market rent.[30] Looking at the body of such cases, it must be admitted that there has often been a judicial vagueness in specifying the basis of recovery, and also that, while some cases have justified awards as compensation for the rent lost to the landlord, others have used language more indicative of a desire to prevent the occupier from unjustifiably gaining from the occupation. Gain-based awards have therefore played some part in this area of the law (albeit that whether they are based in contract or unjustified enrichment is not always clear).

Leaving aside cases of the occupation of property, there is the further contractual issue of what status decisions such as *Wrotham Park*[31] (and *Experience Hendrix*)[32] have in Scots law, i.e. do cases of 'breach of covenant' (that is, breach of a specific contractual undertaking not to do a specific act) give rise to an entitlement to an award which goes beyond any loss made by the victim of the breach (which may be nothing)? The short answer is that it is unclear: neither *Wrotham Park* nor *Experience Hendrix* have been directly applied in Scotland. In any event, are such cases actually about stripping gains from defendants? When such cases have arisen in England, the courts have permitted recovery in damages in a fictional measure (without the need to demonstrate any loss), such measure being the amount which the court considers the victim of the breach might reasonably be imagined to have charged for a relaxation or waiver of the covenant. Many consider such awards to be 'gained-based' or as designed to 'disgorge profits' from the party in breach: such

[26]This analysis seems to have been employed in Glen v Roy (1882) 10 R 239, where the Lord Justice-Clerk characterised matters (at 240) as being that "the presumption of law is that he occupied as tenant".

[27]Earl of Fife v Wilson (1864) 3 M 323; H.M.V. Fields Properties Ltd v Skirt 'N' Slack Centre of London Ltd 1986 SC 114; GTW Holdings Ltd v Toet 1994 SLT (Sh Ct) 16.

[28]Glen v Roy (1882) 10 R 239.

[29]Secretary of State for Defence v Johnstone 1997 SLT (Sh Ct) 37.

[30]Secretary of State for Defence v Johnstone 1997 SLT (Sh Ct) 37.

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

[32]Experience Hendrix LLC v PPX Enterprises Inc [2003] EMLR 25 (CA).

an argument seems to proceed from the basis that, by having evaded a possible payment for a waiver/relaxation, the defendant has 'gained' because it is better off than it would have been had it paid for such a waiver/relaxation. However, the courts have accepted that such awards are appropriate even in cases where it is clear that the claimant would *not* have agreed to any such waiver. As the court is assessing damages according to a deemed (albeit fictional) performance interest loss by the claimant (the claimant gets what *it* has theoretically lost from not being able to bargain for the relaxation or waiver, i.e. there is compensation for imagined *lucrum cessans*), there seems to be a stronger case for *not* classifying this sort of recovery as genuinely 'disgorgement' in nature.

Moving away from damages, there is also the question of whether an 'account of profits' (not classed as a damages award, but as a separate species of remedy) of the sort seen in *Attorney General v Blake*[33] is ever available in Scots law for breach of contract. Such a remedy was said to be justified in *Blake* on account of the quasi-fiduciary position in which the defendant stood towards H.M. Government, for whom he had worked in the British Secret Intelligence Service, his conduct being in breach of a contractual duty of confidence which he owed. However, when the *ratio* of *Blake* was later applied in *Esso Petroleum v Niad*,[34] no such quasi-fiduciary relationship was present. It is very difficult to narrate a justification of the award of an account of profits in either case (the justification that a normal award of damages would be inadequate is too broad) which would be sufficiently tightly drawn to prevent inroads being made into the general rule that breach should not give rise to a remedy based upon the profit made by the breaching party. Neither case has been applied in Scotland, so, as with the breach of covenant cases, the status of awards for an accounting of profits in similar circumstances is doubtful. Breach of a clear fiduciary duty (discussed below in the section "Breach of Fiduciary Duties") is of course a quite different matter, in which an accounting of profits is an available remedy (as it is in infringement of intellectual property cases, also discussed below, in the section "Conclusions").

Delict

In delict (and note, Scots law has not just a number of nominate delicts, but also a general action for the reparation of wrongly inflicted harm), the principal remedy is that of damages, with interdict (the equivalent of the Common law injunction) also being available to prevent anticipated harm. Where interdict is granted, it may of course have the effect of preventing a defender from making a gain through delictual conduct in the first place.

[33] [2001] 1 AC 268.

[34] [2001] EWHC 6 (Ch).

As in contract, the purpose of damages in delict is compensation for loss suffered by the pursuer. Damages are thus intended to restore, so far as possible in monetary equivalent terms, the pursuer to its *status quo ante* position. This measure of recovery means that, in general terms, the stripping of a profit made by a defender through delictual conduct is irrelevant so far as the pursuer's remedial entitlement is concerned. There are no exemplary or punitive damages.[35]

So, are gain based-remedies ever available in the event of a delict in Scotland? In the case of two nominate delicts, it appears that they are, though there is uncertainty as to whether the gain-stripping response should be seen as a delictual or unjustified enrichment in nature. Both of these delicts have a connection to the idea of intellectual property. The first of these nominate delicts is passing off. In the first instance decision of *Treadwell's Drifters Inc v RCL Ltd*,[36] the judge held that, in a claim for passing off, the pursuer might choose *either* to have an inquiry made as to damages in respect of his loss *or* an inquiry as to profits made by the defender through the passing-off, but not both, and must therefore choose whether he wishes to pursue the remedy of damages or the remedy of accounting and payment of profits. What is unclear however is whether the availability of the latter remedy should be seen as triggered by the commission of the delict or else as a remedy for the unjustified enrichment of the defender (albeit without mirror loss to the pursuer).

The same taxonomic issue affects the second area of delict having some relevance to gain-based awards, namely breach of confidence. The tort of breach of confidence was absorbed into Scots law as a nominate delict.[37] By analogy with the English law, in Scotland a remedy of an accounting and payment of profits may be available to a pursuer in a breach of confidence case. There are no Scots cases awarding an accounting of profits as a delictual remedy; however, in *Levin v Caledonian Produce (Holdings) Ltd*,[38] the court overcame doubts as to the relevancy of a claim for the enrichment-based remedy of recompense (and allowed the litigation to proceed to a proof before answer). This one scant authority shows a preference for treating any gain-based remedy for breach of confidence in enrichment-based terms and not in delictual terms. In English law, a new emerging tort of 'misuse of private information'[39] (an offshoot of breach of confidence) may also be remedied, in appropriate cases, by an account of profits; how this tort will fare in Scotland (as a new nominate delict?), is yet to be seen.

With both passing-off and breach of confidence, the same factual circumstances may constitute both a delict (giving rise to a remedy of damages) and an unjustified enrichment resulting from the unwarranted interference in the pursuer's rights (giving rise to a remedy of accounting and payment of profits). The treatment of the

[35]Hyslop v Miller (1816) 1 Mur 43 at 54; Black v North British Railway Co 1908 SC 444.

[36]Treadwell's Drifters Inc v RCL Ltd 1996 SLT 1048 (OH).

[37]Lord Advocate v Scotsman Publications Ltd 1989 SLT 705.

[38]Levin v Caledonian Produce Holdings Ltd 1975 SLT (Notes) 69.

[39]Campbell v MGN Ltd [2004] UKHL 22; Mosley v News Group Newspapers Ltd [2008] EMLR 679; Vidal-Hall v Google Inc [2014] EWHC 13 (QB).

gain-based remedy in breach of confidence as enrichment in nature has academic support.[40] It is suggested that the correct answer is that the classification of the remedial response is determined by the cause of action: if the cause of action lies in unjustified enrichment, then the disgorgement response is properly treated as a remedy in unjustified enrichment; if the cause of action lies in delict, then the remedial response is delictual. This analysis, if it is to be applied, will require clearer judicial statements as to the cause of action when disgorgement is ordered by courts.

Unjustified Enrichment

A full recitation of the recent semi-transformation of the law of unjustified enrichment in Scots law is not possible here: reference is made to other sources for this.[41] Briefly, however, the old actions of repetition, restitution and recompense, have been swept aside; these so-called '3 Rs' are no longer to be seen as separate actions,[42] but instead merely examples of remedies which may be available in unjustified enrichment cases: (i) repetition where reversal of the transfer of a monetary sum is sought, (ii) restitution where reversal of the transfer of some thing other than money is sought, and (iii) recompense where what is sought is a sum of money representing the monetary gain made by a defender (often at the expense of the pursuer, but in some cases without any mirror loss having been suffered by the pursuer). The first two are simply variations of a restitutionary response;[43] the focus of the third is on disgorging, rather than restitution, and is the response applied in cases where the defender made a gain (or had a liability reduced, or avoided an expense, or was protected from a loss) by the conduct of the pursuer, for instance through the provision of a service.

In place of the three old actions, there is now a general principle against unjustified enrichment: no one should be unjustifiably enriched at the expense of another. Further development has yet to be solidified (e.g. it remains unclear whether a general action will develop or not), but there is a growing consensus that analysis of different cases according to the Germanic Wilburg/von Caemerrer typology helps to make sense of the Scottish cases.[44]

More detail is now provided on the precise nature and measure of recovery in different sorts of unjustified enrichment case.

[40] See Whitty (2009), at 241–2.

[41] See, for instance, Hogg (2006), 1.

[42] See the judgment of Lord Rodger in Shilliday v Smith 1998 SC 725.

[43] Though, of course, in reversing a transfer one could describe this as also stripping the recipient of a gain.

[44] See Hogg (2006), 1.

Enrichment by Transfer

In cases of enrichment by transfer (either of money or some other thing), the entitlement of the impoverished party is to the return of (i) the sum of money (plus interest) or (ii) the thing in question (or its monetary equivalent if the thing has been consumed or disposed),[45] plus any fruits not the result of the recipient's own efforts:[46] so, e.g. calves born to a cow may be reclaimed, but products made through the application of the industry of the recipient to the thing received (e.g. machinery) are not claimable. Because in such transfer cases the focus is not on profits made by the defender, but on restitution of the thing transferred (or its monetary equivalent), such cases are focused essentially on restitution rather than disgorgement (to adopt the distinction drawn earlier). The right to restitution is subject to any available defences, the application of which may mean that the pursuer receives only the value remaining in the defender's hands at the time of recovery.

Enrichment by 'Other Means'

It is in cases of unjustified enrichment by means other than transfer that the focus lies on disgorgement of the defender's gain. Such cases may be distinguished into two broad sorts: (i) enrichment by means of imposition of a gain upon the defender, and (ii) enrichment by taking from another, or by means of interference with certain rights of another.

'Other Means' 1: Imposition

In the first category fall *inter alia* two important types of case: payment of another's debt; and the improvement of another's property in the *bona fide* but mistaken belief that it is the improver's. Both of these entitle the impoverished party to the remedy of recompense in Scots law, enabling such party to recover the amount by which the defender has been enriched by the pursuer's conduct (*quantum lucratus*), e.g. in payment of another's debt to the amount by which the payment has reduced the defender's liability to a third party.[47]

[45] Subject to a defence of 'bona fide consumption and perception', which limits liability to the value of what remains in the defender's hands.

[46] Stair, Institutions of the Laws of Scotland, I.vii.10.

[47] See for the detail of the law in this area, Whitty and Macgregor (2011), 57.

'Other Means' 2: Taking/Interference

In the second category fall a number of circumstances where the defender has taken something from the pursuer or has interfered, without authority, in certain rights of the pursuer's. Included in this category are cases of: (a) enrichment by the taking of a thing from another, or by interference with another's rights of corporeal property or money; (b) enrichment by interference with another's intellectual property rights; and (c) gain-based remedies for the commission of certain sorts of wrongful behaviour. The precise remedy/measure in such cases varies (see the following paragraphs for the detail).

Enrichment by the Taking of a Thing from Another, or by Interference with Another's Rights of Corporeal Property

The cases in this area can be broken down into the following sub-categories: (a) enrichment by interference with another's exclusive right to the use and occupation of corporeal property (*ius utendi*); (b) enrichment by taking fruits to which another is entitled (*ius fruendi*); (c) enrichment by interference with another's right of disposal of property (*ius disponendi*); (d) enrichment by interference with another's right to consume moveable property (*ius abutendi*); (e) enrichment by original mode of acquisition (accession or specification) depriving another of title to property; (f) enrichment by unauthorised appropriation of another's money; (g) enrichment by unauthorised abstraction of minerals from strata unworkable by owner and third party; and (h) some miscellaneous cases.[48]

The remedies in such cases are various, for instance (and by reference to the foregoing list) in category (a), for authorised occupation of property, a "reasonable sum",[49] or, for unauthorised occupation of property, "ordinary profits", i.e. the actual income of the occupier during the period of unauthorised possession,[50] violent profits[51] (see earlier discussion of contract), or a reasonable sum for the use and occupation itself; for cases where an owner of property has been deprived of the fruits of the property, an accounting for the income or other fruits produced during

[48] See the treatment of such cases by reference to this categorisation in the forthcoming reissue of the Obligations title of volume 15 of the The Laws of Scotland: Stair Memorial Encyclopaedia (hereinafter "SME").

[49] Rochester Poster Services Ltd v A G Barr plc 1994 SLT (Sh Ct) 2. The alternative approach of seeing such occupation as based upon an implied lease was discussed earlier in the contract section of this text.

[50] Reid (1991), para. 168 states: "Familiar examples of ordinary profits include crops grown on land, the young of animals, honey from bees, and, where the possession enjoyed is civil rather than natural, rent ... Industrial growing crops may be claimed despite the fact that they may have involved the possessor in both money and skill".

[51] Reid (1991), para. 169.

the period of wrongful deprivation ("ordinary profits");[52] in category (g), cases of unauthorised (i.e. bad faith) extraction of minerals, the entirety of any net profits made by the extractor[53] (though whether this is properly seen as a delictual award of damages, or an unjustified enrichment remedy, is unclear), but, in cases of good faith extraction, a "royalty" or "lordship" measured by reference to the amount which might have been obtained by the owner of the minerals under a hypothetical bargain[54] for the right to mine them (this being reminiscent of the "negotiating damages" encountered in the English law of trespass), together with compensatory damages for any surface damage caused by the extraction.

Enrichment by Interference with Another's Intellectual Property Rights

As for enrichment by interference with intellectual property rights, gain-based awards are available for the infringement of such rights, including patent, copyright and related rights (e.g. design right), and trade marks (both registered and unregistered).[55] In respect of patent, the Patents Act 1977 provides that in patent infringement proceedings a claim may be brought for, *inter alia*, "an account of the profits derived by [the infringer] from the infringement",[56] with the important caveat that a court "shall not, in respect of the same infringement, both award the proprietor of a patent damages and order that he shall be given an account of the profits".[57] In relation to copyright, the Copyright Patents and Design Act 1988, s 96(2) provides that "in an action by the copyright holder all such relief by way of damages, interdict, count, reckoning and payment or otherwise is available to the pursuer as is available in respect of the infringement of any other property right".[58] Similar provision is made for infringement of registered trade marks in section 14 of the Trade Marks Act 1994. It seems that, apart from these statutory entitlements to an accounting of profits, common law recovery in recompense (for unjustified enrichment) is alternatively available to the right holder.[59]

An intellectual property right holder will wish to consider whether he may get more by way of (i) damages for his loss resulting from the infringement (which

[52] Reid (1991), paras 167 and 168.

[53] Davidson's Trs v Caledonian Railway Co (1895) 23 R 45.

[54] Livingstone v Rawyards Coal Co (1879) 6 R 922. See at 926, per Lord President Inglis: "a fair bargain without any advantage on either side", and at 928, per Lord Deas: "I think the price which would probably have been fixed by an arbiter, if the one party had been willing to purchase and the other to sell, would afford a fair criterion for estimating the value, . . . ".

[55] The latter are protected through the delictual action of passing-off, discussed earlier.

[56] Section 61(1).

[57] Section 61(2).

[58] Copyright Patents and Design Act 1988 (c 48), s 96, read with s 177 (which contains adaptations of expressions for application of the Act in Scotland).

[59] See the (draft) text of para. 9.56 of the reissue of the "Obligations" title in volume 15 of the SME.

damages may include lost profits), (ii) an accounting of profits in respect of the infringer's gain (here the measure is the net profit of the infringer attributable to his infringement,[60] and there is no inclusion of expenses saved, as there is in *quantum lucratus*); (iii) a reasonable royalty or the market price of a (notional) licence fee;[61] (iv) *quantum lucratus* (the extent of the enrichment of the infringer), which is the standard measure appropriate to an obligation of recompense reversing unjustified enrichment,[62] and is likely to be measure, in intellectual property infringement cases, by reference to the market value of the use of the relevant intellectual property (referred to as a "reasonable royalty").[63]

Three Party Enrichment Cases

By way of a final remark on unjustified enrichment, a little should be said on three party, indirect enrichment cases. Scots law is generally antagonistic to enrichment claims by a party suffering loss (I) against an enriched party (E) whose enrichment has been acquired indirectly, through the medium of a third party (T). Such antagonism stems from a number of factors, including a desire to avoid the possibility of double recovery by I or double liability of E, a desire not to undermine contractual arrangements (and thus contractual risk) which may exist in the relationships I-T and T-E, and the absence of a direct causal relationship in the transfer of the enrichment from I to E.[64] However, one clear instance where Scottish courts are willing to allow enrichment claims by I against E despite the transmission of the enrichment through intermediary T is in cases where T obtained the enrichment fraudulently and E is aware of this.[65] Recovery in such cases is in recompense, and is by reference to the legal maxim that "no one should be allowed to profit from another's fraud".

[60] United Horse Shoe and Nail Co v Stewart & Co (1886) 15 R (HL) 45 at 48 per Lord Watson.

[61] This was recognised as a possible alternative measure for the right holder by Lord President Clyde in British Thomson-Houston Co v Charlesworth Peebles & Co 1923 SC 599 and by Lord Wilberforce in General Tire and Rubber Co v Firestone Tire and Rubber Co Ltd [1975] 1 WLR 819 (HL).

[62] See, for recompense in an intellectual property infringement setting, Mellor v William Beardmore & Co 1927 SC 597.

[63] See remarks of Lord Justice-Clerk Alness in Mellor v Beardmore 1927 SC 596 at 609.

[64] See generally on indirect unjustified enrichment claims, Whitty (1994).

[65] See M & I Instrument Engineers v Varsada 1991 SLT 106.

Negotiorum Gestio/Benevolent Intervention

In general, *negotiorum gestio* claims (increasingly referred to by the English language term 'benevolent intervention') are not relevant to the issue of disgorgement of gains, as the entitlement of the *gestor* (the intervener) is not to any gain made by the *dominus* (the party whose affairs are administered) as a result of the benevolent intervention (even if such have arisen) but to the reasonable expenses of the intervention. However, there may be cases where the expenses of the intervener directly match a gain made by the party whose affairs are administered, and in such cases it would be accurate to say that the satisfaction of the intervener's claim coincidentally has the effect of disgorging a gain of the other party. One example is the payment of the debt of a party who is absent or otherwise unable to consent to the payment: a claim in benevolent intervention would be possible in such a case (as an alternative to a recompense claim), and the amount of the claim (the debt discharged) would equal the gain made by the benefited party.

Breach of Fiduciary Duties

In Scotland, breach of duty by a fiduciary is remediable in two ways which have the effect of stripping gains made by the fiduciary as a result of such breach:

(a) through the proprietary route of a 'constructive trust',[66] such a trust enforcing a fiduciary's obligation to account for unauthorised gains and to make them available to the beneficiary under the trust (in a so-called "action of forthcoming"[67]) – the alternative English remedy of an "equitable charge" or "equitable lien" is not available in Scots law;[68] or
(b) through the personal route of an action of accounting ("count, reckoning and payment") sometimes referred to by the English name "account of profits".

The beneficiary of the fiduciary obligation may choose which of these routes to pursue, though a limit on the availability of the first route is that constructive trust claims may only be mounted in relation to pre-existing assets of the beneficiary.[69]

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[66] Great care must be taken when comparing the English law of constructive trusts. In Scots law, the constructive trust is almost entirely confined to the role it plays in relation to breach of fiduciary duty.

[67] See the remarks of Lord Wood in Cochrane v Black (1857) 19 D 1019 at 1029: "The rule of law … is, that the defenders are not entitled to make profit for their own benefit of trust-money belonging to the pursuers … but are bound to render such profit forthcoming to the pursuers".

[68] See Hood (2000), 314–315.

[69] A limitation expressed in the recent English case of Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd [2011] EWCA Civ 347 (see judgment of Lord Neuberger at para [88]). Such

The first option – the constructive trust route – provides two main benefits to the beneficiary under the trust: (1) constructive trust property is not available to the fiduciary's personal creditors in the event of the fiduciary's bankruptcy or liquidation, nor may such property be attached by the fiduciary's creditors by means of diligence; (2) the beneficiary is entitled to "trace" the property of the constructive trust to (or through) mixed or substituted property.[70]

So far as the second option is concerned – the personal action of accounting – the measure of recovery is the fiduciary's gain[71] (no limit is placed on this by the loss to the beneficiary – indeed in many cases there may be no such loss), thus the same measure as that in an action of recompense (*quantum lucratus*).

It has been argued that the fiduciary's duty to account in cases of breach of duty resulting in personal gain to the fiduciary should be classified separately from obligations deriving from unjustified enrichment. In part this is because the gain of the fiduciary may not be mirrored by any loss of the principal, though additional reasons have also been advanced for separate classification.[72]

Procedural Issues

Procedural issues are not of obvious relevance to the substantive question of whether gain-based remedies are, or ought to be, available in the law. However, one procedural issue is worth commenting on: class actions.

Class actions are not possible in Scots law, though they were broadly supported by the Scottish Law Commission in its 1996 Report on Multi-Party Actions.[73] The lack of class actions means that there is no procedural means for lots of small-value claims against wrongdoers to be joined together, and therefore that there is the likelihood that some wrongdoers will be able to avoid having gains made through their wrongdoing stripped from them given the economic disincentive to the small claimholders to bringing a claim.

Change is imminent in one area, however. The Government's Department for Business, Innovation and Skills (BIS) consulted in April 2012 on the possibility of allowing class actions in UK competition law litigation. Following this consultation, competition litigation reforms were effected in the Consumer Rights Act 2015. These reforms have conferred much wider powers on the Competition Appeal Tribunal to hear both 'stand alone' and 'follow-on' competition cases. The most

limitation is likely to be accepted as applicable in Scotland too, given the limited appetite for the use of constructive trusts in Scots law.

[70] See further draft text of the reissue of the Obligations title, volume 15 of the SME, para. 20.1.2.

[71] Laird v Laird (1858) 20 D 972, 983.

[72] Draft text of reissue of Obligations title, volume 15 of the SME, para. 20.2.2.

[73] Scottish Law Commission Report No. 154 of 1996.

significant change has been the permissibility of collective actions.[74] The changes were effected through amendment of the Competition Act 1998, a UK-wide statute. The one difference concerning the introduction of the changes in Scotland is that the Court of Session has retained jurisdiction in relation to any interdicts sought in respect of competition law causes of action. The changes mean that, for instance, in cases of price-fixing, businesses and consumers are able to raise actions claiming losses suffered through any anti-competitive overcharging from the offending parties. While the focus in such collective claims is on compensating loss, such loss can be conceptualised as being taken from assets of the offending parties gained at the expense of the consumer (and hence as an indirect form of gain-stripping).

Conclusions

Those contributing to this project were asked to consider whether, in our opinion, our legal systems were efficient when it comes to disgorgement of unlawful profits by private law mechanisms, and, if not, what suggestions we had for enhancing the overall situation regarding the combatting of 'illegal' profits. The answer must be that, for Scots law, while there is clarity in the view of the nature of damages (these are *never* disgorgement in nature), there is a lack of clarity in most issues concerning disgorgement awards: the cause of action triggering the award is not always clear (e.g. whether a disgorgement award is being ordered because of the commission of a delict or because of an unjustified enrichment); the terminology of the remedy varies (there is no clearly agreed term to describe disgorgement awards, rather a plethora of different names), and not all awards which are considered disgorging in nature by some in fact appear to be so (e.g. hypothetical release awards, and some instances of 'violent profits'); there is no uniform measure of recovery; and there appears to be no single justification for the making of disgorgement awards (sometimes there are overtones of a penalty, sometimes the focus is on deterrence, sometimes the reason is simply 'equity' in general). Much of the law is found in nineteenth century cases; other portions have been borrowed unthinkingly from English law, thereby applying language, structure and analysis which is not always appropriate.

Some greater clarity and consistency is likely to follow the publication of the "Obligations" title in the forthcoming reissue of volume 15 of the *Stair Memorial Encyclopaedia*, but in this field, like so many others in Scots private law, the real problem is caused by the lack of a civil code which could provide a coherent structure and language. Whilst further judicial development of the field is awaited, some preliminary suggestions have been made in this chapter:

[74] Modeled on the Netherland's Mass Settlement Act 2005, which was specifically cited in the UK Government's proposals.

(i) the concepts of restitution and disgorgement should be distinguished, albeit that both involve (in a broad sense) taking something from a defender and giving it to a pursuer;
(ii) whether a remedy is labelled 'delictual', 'contractual', 'enrichment-based', etc., should depend on the cause of action triggering the remedy; the courts must be clearer when they are stating the obligational source of a remedy (this is important because, for instance, of available defences in specific obligational fields);
(iii) if a remedy is to be considered disgorgement in nature it must, in fact, have as its focus the stripping of gains made by a defender; if remedial entitlement is assessed by reference to the loss of the pursuer (including hypothetical lost profits/gains *of the pursuer*), then it is *not* a remedy directed at disgorgement/gain-stripping of the *defender*;
(iv) greater uniformity in the language used to describe remedial entitlement would be welcome, and vague terms such as 'fair price' and 'ordinary profits' would be best avoided;
(v) any opportunity should be taken by the courts to settle uncertain legal developments, such as the status of the *Wrotham Park* and *Blake* cases in Scots law;
(vi) caution must be shown in borrowing from England: the historical development of English gain-based remedies, as well as their present taxonomy, is quite different in many cases to that of Scotland.

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Chapter 19
Disgorgement of Profits in South African Law

Jacques du Plessis and Daniel Visser

Abstract Various branches of South African law could apply when illegal conduct or a wrong has resulted in a profit, gain, benefit or enrichment on the side of the defendant, and it has to be established to what extent such a profit must be surrendered or 'disgorged'. In this report the focus is mainly on private and commercial law, and especially on the role the laws of delict and unjustified enrichment could play in ensuring the disgorgement of illegal profits. The first part of the report sets out relevant principles of private law, and especially of the laws of delict and unjustified enrichment, while the second part focuses on specific fact patterns or cases that are potentially concerned with such disgorgement. The concluding section evaluates the current position and potential directions South African law could take.

Keywords Disgorgement • Profits • South Africa law • Illegal conduct • Wrong • Gain • Unjustified enrichment

Introduction: Definition of Theme; Branches of Law Applicable

The central theme of this report is how South African law deals with situations where illegal conduct or a wrong (often amounting to a delict or tort) has resulted in a profit, gain, benefit or enrichment on the side of the defendant, and especially to what extent such a profit must be surrendered or 'disgorged'. As the General Reporter's Questionnaire points out, various branches of law and instruments could apply in these situations. South African law amply illustrates this proposition. In the

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context of public law, for example, provisions of criminal law and administrative law may impose a variety of sanctions or punishments, leading effectively to the neutralisation of the illegal profit.[1] But here the focus will mainly be on private and commercial law, and especially on the role the laws of delict and unjustified enrichment (but also certain statutory provisions that cannot specifically be classified) could play in ensuring the disgorgement of illegal profits.

The South African experience bears out the general observation in the Questionnaire that the relevant remedies are generally latent, in the sense that it is not readily apparent that they could be applied to cases of profiting as a consequence of illegal conduct. More specifically, South African law has not adopted the conceptual apparatus, favoured by some in the common-law context,[2] whereby a strong distinction is drawn between the term 'compensatory' damages, which is aimed at making good a loss, and 'gain-based' damages (or some functionally equivalent term), which focuses on the defendant's gain. South African law does use the concept 'restitutionary damages', but only in limited contexts. These include cases where contractual consent has been obtained in an improper manner[3] or where there has been breach of contract,[4] and the award of 'restitutionary' damages is aimed at restoring the parties in their previous positions. It would further be rather confusing in the South African context to refer to a remedy primarily aimed at disgorging profits as a remedy of "disgorgement damages", given the traditionally close association the word "damages" has to compensating a loss, rather than disgorging a gain.

The report is divided into two parts. The first part sets out some general principles of private law, and especially of the laws of delict and unjustified enrichment, in regard to the disgorgement of illegal profits. The second part in turn focuses on specific fact patterns or cases that are potentially concerned with such disgorgement. Against the background of these overviews, the concluding section evaluates the current position and potential directions South African law could take.

[1] See e.g. section 18 of the Prevention of Organised Crime Act 121 of 1998 on confiscation orders aimed at ensuring that persons cannot benefit from their wrongdoing; section 300 of the Criminal Procedure Act 51 of 1977 on orders compelling criminals to compensate victims of crime; and section 8 of the Promotion of Administrative Justice Act 3 of 2000 on orders to make restitution where a person has gained from unauthorised administrative action; du Plessis (2012), 15–116.

[2] See Edelman (2002).

[3] See section "Breach of Contract" below; Mkhwanazi v Quartermark Investments (Pty) Ltd 2013 (2) SA 549 (GSJ) para. [61] (upheld on appeal in Quartermark Investments (Pty) Ltd v Mkhwanazi 2014 (3) SA 96 (SCA)); further see Davidson v Bonafede 1981 (2) SA 501 (C).

[4] See Mainline Carriers (Pty) Ltd v Jaad Investments CC 1998 (2) SA 468 (C).

General Principles of the Laws of Delict and Unjustified Enrichment

Often, when a legal problem lies at the periphery of two or more established fields of law, its solution is hampered by the uncertainty of which area provides its true home and by the fact that 'the core assumptions of the dogmatic structure of each field can be expected to begin to show their imperfections more clearly the further one moves from the centre'.[5] Hugh Collins has remarked that when courts or legislators create practical solutions to problems that do not fall within established legal doctrine, jurists typically 'seek ways to refine or revise the rules of subsystems in order to restore formal rationality'.[6] In South Africa, parliament and the courts (applying and interpreting the common law) have indeed produced disgorgement responses or the functional equivalent to certain instances of improper profit-taking. However, insufficient doctrinal analysis has been devoted to the issue, and thus there is as yet no generally accepted theoretical map of this area of our law. But there is also a further problem: many instances that would be the subject of a surrender order in other legal systems escape this sanction in our system simply because the South African courts have been immobilised by doctrinal uncertainty. This means that the purpose of scholarly analysis of this issue in South Africa should be both to bring doctrinal order and to provide guidance on whether the gaps should be filled, and if so, how this should happen.

As will appear from the discussion below of the specific instances that involve disgorgement of profits, South African law has developed remedies that in effect erase improper profits mostly by way of statutory interventions[7] or in the law of delict,[8] while the law of unjustified enrichment has contributed little in this area, although it has the greatest potential to do so if the courts were to be sufficiently bold in reworking certain fundamental principles.

Two signposts send those looking for the home of the disgorgement of illegal profits in South Africa into no-man's-land: on the one hand, the law of delict in South Africa rests on the fundamental precept, as formulated in *Montres Rolex SA v Kleynhans*[9] 'that the commission of a delictual act entitles the injured party [only] to compensation from the wrongdoer for calculable pecuniary loss actually sustained or likely to be sustained in consequence of the wrong'.[10] In other words,

[5] Visser (1997), at v.

[6] 'Productive learning from the collision between the doctrinal subsystems of contract and tort'; Collins (1997), 55.

[7] See the sections on "Infringing Intellectual Property Rights" and "Breach of Fiduciary Duties" below.

[8] See the sections on "Profiting by Using Property", "Profiting by Consuming Property", "Profiting by Disposing of Property" and "Infringing Personality Rights" below.

[9] 1985 (1) SA 55 (C) at 66 per Seligson AJ.

[10] Montres Rolex SA v Kleynhans 1985 (1) SA 55 (C); and see also Cadac (Pty) Ltd v Weber-Stephen Products Co 2011 (3) SA 570 (SCA).

the South African law of delict is able to remedy improper gains that also involve a loss on the part of the plaintiff (as the discussion of the *actio ad exhibendum* and the *condictio furtiva* below will show),[11] but it does not contemplate the annulment of improper gains that do not involve loss on the part of the plaintiff.[12] On the other hand, the law of unjustified enrichment has as one of its most basic principles that an enrichment claim can neither exceed the defendant's enrichment nor the plaintiff's impoverishment – the so-called 'double-cap' or 'double-ceiling' rule. Therefore, if the plaintiff has suffered no impoverishment, as is often the case where illegal profits are made, the law of enrichment cannot provide a remedy.[13] In both areas of law the real issue is the requirement of a loss.

There has been nothing in this country as vigorous as the English-law debate which has resulted in the now-dominant view that draws a firm distinction between restitution of an unjust enrichment and restitution of a wrong,[14] nor is there the even older certainty of German law that the reversal of a profit resulting from an *Eingriff* (invasion) of another's rights is part of the law of unjustified enrichment.[15] There is, however, some awareness of the fact that the different sections of South African law that deal with (or could deal with) disgorgements of profits are insufficiently co-ordinated to allow a principled approach to when and how illegal profits should be reversed. Thus, already in *Montres Rolex SA v Kleynhans*[16] Seligson AJ, while denying the remedy of account of profits as being contrary to the basic principles of our law of delict, acknowledged that it is unsatisfactory that there is no remedy available to deal with the problem:

> All this is not to say that the policy of preventing the unjust enrichment of the infringer at the expense of the trade mark proprietor has nothing to commend it. On the contrary, it would be an inequitable result if the deliberate infringer is able to retain the profits made from the unlawful use of the plaintiff's trade mark in circumstances where such profits do not represent the plaintiff's actual loss.

He held that there should be an 'innovative fashioning of a remedy in our law to deal with the situation where an infringer clinches, by filching the trade marks of another, sales which the latter would probably not have made', but he did not see himself able to refashion the law to accommodate such a remedy.[17]

Since this case there has been some academic analysis of the problem in *Montres Rolex* and similar situations. Mr Justice Deon van Zyl, commenting on the case,

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[11] See the section on "Infringing the Right to Use, Dispose of or Consume Corporeal Property".

[12] See Du Bois (2007), 109 et seq.

[13] See Visser (2008), 161 and du Plessis (2012), 41 et seq.

[14] See Burrows (2011), 9–12.

[15] See Dannemann (2009), 102. South African law, like German law (see the report of Tobias Helms in this volume), recognises that a person who manages another's affairs in his own interests may be required to account for profits earned while doing so. But, as in German law, these cases of *quasi negotiorum gestio* are of virtually no importance in practice.

[16] 1985 (1) SA 55 (C) at 68.

[17] For more detail, see the section on "Breach of Fiduciary Duties" below.

thought that the law of delict was a more promising site for the development of this kind of remedy than the law of unjustified enrichment:

> There is certainly a need for an equitable remedy to enable a plaintiff to claim benefits unjustly acquired by a defendant, without the plaintiff having been impoverished or having otherwise suffered damages as a result of such acquisition. Pauw has suggested (in (1980) 97 *SALJ* 221 at 224.) that Aquilian liability may be extended to provide for the recovery of wrongfully acquired benefits. The action would be delictual, although it would closely approach an enrichment action directed at the recovery of unjustly acquired benefits.[18]

The law of delict can confidently be described as one of the most dynamic parts of South African law and it has time and again proved itself to be adaptable to the circumstances of the day. Over time, English law, Scots law, German law and modern Dutch law have all been used to mould the received Roman-Dutch law of delict into a modern, flexible and progressive system. Why judges are more activist in certain areas of the law and not others is a difficult question to answer, but there can be no doubt that South African judges have consistently been bold in developing the law of delict. The law of delict therefore appears to be the area where our law is most likely to come up with an answer to the present conundrum. However, the problem is that for the law of delict to reverse improper gains would require, on the one hand, the abandonment of one of its most basic tenets, namely that it is aimed at making good harm suffered by the plaintiff,[19] and, on the other, an investigation into fault on the part of the defendant, which is not appropriate to this kind of claim.[20]

Others have thought that the law of unjustified enrichment can and should be adapted, by relaxing the double-cap/ceiling rule to allow the reversal of improperly acquired benefits by taking from another or by invading the rights of others.[21] Unlike the law of delict, change in the law of unjustified enrichment in South Africa has happened only in small, incremental steps. Even the creation of the conceptual apparatus for a general enrichment action in *McCarthy Retail v Shortdistance Carriers*[22] has not brought anything along the lines of the dramatic advances that we have become accustomed to see in the law of delict. So no-one would say that the odds are in favour of the desired remedy being fashioned in this area of the law. Yet, ironically, since the very business of the law of unjustified enrichment is to strip away benefits that are being unjustifiably retained, this is precisely where the remedy should be created.[23] It is true that the double-ceiling rule is a long-standing rule in the law of enrichment, but it is a pragmatic rule, the relaxation of which would not do any violence to the fundamental precepts of this area of law. Relaxing the double-ceiling rule would merely require that appropriate rules

[18] Van Zyl (2000), 329 at 334.

[19] See generally Midgley and Van der Walt (2005), para. 143.

[20] du Plessis (2012), 47.

[21] See du Plessis (2012), 45; Visser (2008), 116 et seq. See also the various possible developments suggested by Blackie and Farlam (2004), 469 et seq. See Visser and Kleyn (2000), 300.

[22] 2001 (3) SA 482 (SCA).

[23] du Plessis (2012), 47.

would have to be fashioned to determine the quantum of the enrichment in these cases[24] – and this would not be too difficult, as the experience in many other legal systems demonstrates. At present, because the law requires both the defendant to have been enriched and the plaintiff to have been impoverished, the measure of enrichment across the board is stated simply as being the defendant's enrichment or the plaintiff's impoverishment, whichever is the lesser. This would still remain the case outside of enrichment through invasion of rights, but in the latter case one could make use of devices such as reasonable rental fees and other market-related standards to determine the measure by which the defendant has been enriched.[25]

It is clear that any private-law remedy (be it in delict or in enrichment) should not amount to punishment. Thus Midgley and Van der Walt[26] remark that 'people who face the prospect of punishment are accorded certain procedural safeguards … [and therefore] punitive damages in delict may very well be unconstitutional'. That would also be true of any enrichment remedy that purports to punish. But the mere fact that a particular remedy strips away a profit does not place it in the category of punishment. On the contrary, for a private-law system to have an appropriate set of remedies to reverse profits obtained through the invasion of the rights of others contributes to its ability to fulfil its role of dispensing corrective justice. Thus Jules Coleman states in an early contribution:

> In my view, corrective or compensatory justice is concerned with the category of wrongful gains and losses. Rectification, in this view, is a matter of justice when it is necessary to protect a distribution of holdings (or entitlements) from distortions which arise from unjust enrichments and wrongful losses. The principle of corrective justice requires the annulments of both wrongful gains and losses.[27]

The law of unjustified enrichment is not entirely explicable in terms of corrective justice, but there can be little doubt that this concept lies at the heart of this area of South African law, and that enrichment law should accordingly be developed in such a way by the courts that it achieves compensatory justice as perfectly as possible. This means that whenever a court identifies an instance where a gain is unjustified – as it did in *Montres Rolex* – it has a duty to fashion a remedy to restore equality; it is not good enough to identify that which must be corrected without also creating a remedy where none exists. After all, South African law does not proceed, as Roman law did, from the position of *ubi remedium, ibi ius*; rather its stance is *ubi ius, ibi remedium*.

Any private-law remedy for reversing an unjustified gain that results from invading the right of another should be such that it ensures that both plaintiff and defendant receive what they deserve – there must be, in Hanoch Dagan's words – 'correlativity between the defendant's liability and the plaintiffs entitlement, as well

[24] du Plessis (2012), 39 et seq. and 44 et seq.

[25] du Plessis (2012), 39 et seq. and 44 et seq.

[26] Midgley and Van der Walt (2005), para. 143.

[27] Coleman (1988), 185.

as between the plaintiff's entitlement and the remedy'.[28] The basic principle of correlativity in corrective justice insists that the defendant should not have to give up more than that by which he or she has been enriched; but at the same time it also insists that the plaintiff should not receive more than the injustice suffered requires. In instances of enrichment other than those induced by wrongdoing, the imbalances that have arisen are appropriately corrected by ordering the economic loss, the impoverishment that the plaintiff has actually suffered, to be repaid. But where the injustice is embodied in someone being enriched by, for example, arrogating to him- or herself the right to use another's property without permission, or by publishing private information about that other person, the resulting imbalance cannot be restored by using this measure, since the plaintiff would not necessarily have suffered any economic loss. To determine what exactly the plaintiff is entitled to claim necessitates a consideration of the social values that the law wishes to advance in the particular situation.

In some cases, ordering the disgorgement of the whole profit will be necessary to repair the disturbed equilibrium. Thus, in a case of the unauthorized publication for gain of private information concerning a celebrity, only an order to pay to the wronged party the whole profit that emanated from that publication will be appropriate – anything less would effectively mean that the publisher could give itself a licence to exploit the publicity value of the celebrity at a discount rate.[29] In other cases it would not be appropriate to order the whole profit to be disgorged. For instance, in cases where there is exploitation of a resource in circumstances where it is likely that that permission would have been given if it had been sought, a reasonable licence fee (fair market value) would restore the balance between the parties,

Dagan comments as follows on these two measures:

> The profits measure reflects and reverses a breach of the plaintiff's entitlement to control the resource, while the fair market value reflects and reverses a breach of her entitlement to the well-being embodied by the resource. The claims to control and well-being … entail the applicable measures of recovery in the very strict way the correlativity thesis requires. Thus, in order for control to be respected, the resource holder must be entitled to the infringer's profits. (Deterrence is thus an entailment of the entitlement to control, which is intrinsic, rather than extrinsic, to the parties' relationship.) And once an infringement has occurred, nothing but the restitution of profits can rectify it. On the other hand, where the only legitimate claim of the plaintiff respecting the resource is to the well-being which it embodies, she is entitled to the fair market value of its use or alienation, and even an intentional circumvention of the market should not trigger any additional recovery.[30]

The precise ambit of the remedies that should be available can be determined only in the context of the situations where they are or might be required. We will

[28] 'The distributive foundation of corrective justice' (Dagan (1999), 138 at 143). 'This correlativity', says Dagan (at 151) 'between the two parties is what distinguishes private law from regulation, whereby individuals are penalized for harms committed against society.'

[29] Visser (2008), 683.

[30] Dagan (1999), 138 at 152.

now proceed to consider the specific instances in which disgorgement of profits is recognised or could be recognised in South African law.

Specific Cases Potentially Involving Disgorgement of Profits

Infringing the Right to Use, Consume or Dispose of Corporeal Property

It is well-established in South African law that a broad range of rights may be held with respect to corporeal property. These include the right to use, consume or dispose of it. Where another person gains by infringing such a right, the holder of the right is provided with a variety of remedies, some of which could directly or indirectly oblige the infringing party to surrender these gains.

Profiting by Using Property[31]

Certain special cases of gaining through use of property could give rise to statutory relief. For example, legislation imposing formal requirements for the sale of land allows the seller under a formally invalid contract to recover reasonable compensation for the occupation, use or enjoyment the purchaser may have had of the land.[32] The statutory relief also concerns cases where the use may have been lawful at the time, but subsequently has to be accounted for. Thus, where a consumer exercises a statutory right to return the goods, consumer legislation entitles the supplier to charge a reasonable amount for the use of the goods.[33]

Under the South African common law, infringing the right to use may entitle the holder of the right to a delictual claim for damages arising from not being able to use the property.[34] Such a claim is aimed at compensating for the plaintiff's loss, rather than at disgorging the defendant's actual gain (although the amount may often be the same, for example if the defendant's gain was not paying the same rental which the owner would have earned).

South African law awards other remedies aimed at making the defendant account for his gain, but generally these remedies operate 'indirectly', by way of deducting or setting-off an amount for use from an enrichment claim that the defendant in turn has against the plaintiff. For example, an owner whose property has been

[31] See Visser (2008), 665–678; du Plessis (2012), 346–349.

[32] See section 28(1)(b)(i) of the Alienation of Land Act 68 of 1981. Also see section 18(1)(b) of the Share Blocks Control Act 59 of 1980; Van Staden v Fourie 1989 (3) SA 200 (A).

[33] See section 20(6)(b)(i) of the Consumer Protection Act 68 of 2008.

[34] See Hefer v Van Greuning 1979 (4) SA 952 (A).

improved without authorisation may deduct an amount for use from the improver's enrichment claim.[35] And when a transfer is made in fulfillment of an invalid sale, the seller may set off the enrichment of the purchaser through the use of the *merx* against the purchaser's claim for repayment.[36] It is only rarely that a 'direct', independent enrichment claim is awarded, for example where property is occupied after termination of a lease with the previous landlord, and no agreement has been concluded with the new owner.[37]

However, there are some indications that South African law may in future develop to be more willing to award an enrichment claim if a person's property is used by another who has no right to do so.[38] Such a claim would have to meet the general requirements for enrichment liability, and would have to be quantified in accordance with the principles governing the measure of enrichment claims. As mentioned above in the section on "General Principles of the Laws of Delict and Unjustified Enrichment", it may be necessary to reconsider whether to adhere to the general requirement that the plaintiff had to be impoverished, and whether the claim should be measured by applying the double ceiling rule, which limits its ambit to the lesser of the plaintiff's impoverishment and the defendant's enrichment. The classic example is the situation where a person is enriched by staying for free in another's house without permission, and thereby infringes the owner's right to occupy the house, but the owner cannot prove that he suffered impoverishment or loss. It especially remains to be resolved when the defendant's enrichment should be measured in terms of a reasonable rental, and when the defendant might be obliged to disgorge actual gains derived from using the property. As indicated in the section on "General Principles of the Laws of Delict and Unjustified Enrichment" above, a reasonable rental might be the more appropriate measure to adopt in this instance.

Profiting by Consuming Property[39]

The main forms of relief when gains are obtained by infringing the right to consume property are also delictual in nature. If someone wrongfully and culpably consumes another's property in the knowledge of the owner's title or claim, the owner

[35] See du Plessis (2012), 282–283. Occupiers and holders (ie improvers who do not intend to hold as owners) must account for their use. Improvers who in good faith intend to hold as owners do not have to account for enrichment by enjoying use and occupation.

[36] Lodge v Modern Motors Ltd 1957 (4) SA 103 (SR) 122E–123B; further see Portion 29 Golden Highway (Pty) Ltd v Patel [2010] 4 All SA 219 (GSJ).

[37] See Lobo Properties (Pty) Ltd v Express Lift Co (SA) (Pty) Ltd 1961 (1) SA 704 (C).

[38] See the obiter dictum of Jansen J in Hefer v Van Greuning 1979 (4) SA 952 (A) 959C–D. For support by academic commentators, see Visser (2008), 671–672; Sonnekus (2008), 47–48; du Plessis (2012), 348.

[39] See Visser (2008), 655–680; du Plessis (2012), 357–363.

may claim delictual damages with the *actio ad exhibendum*.[40] If the person who consumed the property obtained it through theft, the owner could be entitled to the *condictio furtiva*, which is also regarded as a delictual remedy in South African law (despite a name which suggests it is an enrichment claim), but the measure is more generous, since it is the highest value of the property since the theft.[41]

These delictual claims are only available if the enriched was at fault. If the plaintiff is unable to establish fault, an enrichment remedy could be awarded even if the defendant was enriched by consuming another's property without being entitled to do so; the appropriate enrichment action is the *condictio sine causa specialis*.[42] This action was for example awarded in *Greenhills Producers (Pty) Ltd (in Liquidation) v Benjamin,*[43] where the plaintiff gave the defendants possession of farm land for grazing in terms of a joint venture agreement and the agreement was subsequently terminated, but the defendants remained in occupation in good faith, and were enriched through continuing to use the land for grazing. The enrichment claim is not available where property was received in good faith and for value, and was then consumed.[44] It has been expressly held that South African law has not received the doctrine of conversion of English law, whereby even the innocent 'consumer' for value could be liable.[45]

Profiting by Disposing of Property[46]

The delictual remedies considered above in the context of illegal consumption are also relevant to illegal disposal of property: the *actio ad exhibendum* applies when one person knowingly disposes of another's property,[47] whereas a thief who

[40] See S Polwarth & Co (Pvt) Ltd v Zanombairi 1972 (2) SA 688 (R) 691–692; Philip Robinson Motors (Pty) Ltd v N M Dada (Pty) Ltd 1975 (2) SA 420 (A); Clifford v Farinha 1988 (4) SA 315 (W) 319; Frankel Pollak Vinderine Inc v Stanton NO 2000 (1) SA 425 (W) 429G–430B.

[41] See Minister van Verdediging v Van Wyk 1976 (1) SA 397 (T) 400D; Krueger v Navratil 1952 (4) SA 405 (SWA).

[42] As to its exact requirements, and especially to what extent the property had to be obtained through 'dealings' (a negotium) with the owner, see Lotz (2005), para. 220(b); Visser (2008), 655; du Plessis (2012), 355–357. Where property is 'consumed' through being attached to or joined with other property, so as to deprive the original owner of ownership, the claim to account for the benefit is presumably also based on unjustified enrichment (see du Plessis (2012), 357; Van Leeuwen (1741), 2 5 3; Van der Merwe (1989), 231, 243, 246, 256, 262).

[43] 1960 (4) SA 188 (E).

[44] Lotz (2005), para. 220(b) no. 10. Strictly speaking, the rule has only been applied to property in the form of money, but presumably other forms of corporeal property are also covered.

[45] See Leal & Co v Williams 1906 TS 554; Van der Westhuizen v McDonald & Mundel 1907 TS 933; Lotz (2005), para. 220.

[46] See Visser (2008), 655–680; du Plessis (2012), 357–363.

[47] Visser (2008), 660–661; du Plessis (2012), 363.

disposes of another's property (and a complicit third party),[48] may also have to face the *condictio furtiva*.[49] These remedies could indirectly serve to compel a party who profited by disposing of the property to surrender these gains to pay the damages claim.

However, a delictual claim would fail in the absence of fault. It may again be convenient to resort to a remedy based on unjustified enrichment (presumably the *condictio sine causa specialis*) to strip the defendant of his gain, even if there was no fault on his side.[50] For example, in *Union Government (Minister of Agriculture) v Lombard,*[51] government employees took buchu from Lombard's farm, and sold it in good faith to a third party; it was held that the government was liable to the extent to which it had benefited, and that it could not be allowed to enrich itself at Lombard's expense. Unfortunately, the application of such an enrichment claim is quite complex: it requires differentiation between a variety of defendants, whose positions vary depending on whether they were given possession by the owner, took possession from the owner, or obtained it from a third party, and whether they gave value in return.[52] This is one of the areas in which the uncodified, civil-law based South African law of unjustified enrichment is least developed.

Infringing Intellectual Property Rights[53]

South African law recognises various statutory remedies that arise from illegally infringing intellectual property rights, such as trademarks, copyright, patents or designs. These include statutory claims for damages or for a reasonable royalty in lieu of damages,[54] but not for the disgorgement of actual profits. At best, there

[48] See S Polwarth & Co (Pvt) Ltd v Zanombairi 1972 (2) SA 688 (R) 691; Van der Westhuizen v McDonald and Mundel 1907 TS 933 at 945.

[49] Visser (2008), 661–665; du Plessis (2012), 363.

[50] Lotz (2005), para. 220 no. 9; Visser (2008), 341, 665. It may simplify matters if the enrichment claim is described as being based on taking through unauthorised disposal of another's property and if the label of the *condictio sine causa* is avoided – see du Plessis (2012), 350.

[51] 1926 CPD 150.

[52] See Van der Westhuizen v McDonald and Mundel 1907 TS 933. Military personnel unlawfully, but apparently in good faith, requisitioned tobacco which belonged to Van der Westhuizen, and sold it at a bargain price to McDonald and Mundel. Acting in good faith, they in turn resold part of it at a profit. It was held that McDonald and Mundel were not liable to pay Van der Westhuizen the value of the tobacco, or even the profit. Support exists for awarding an enrichment claim against a third party who gratuitously obtained property from another and disposed of it for value (see Voet (1829), 6 1 10; Van der Westhuizen v McDonald and Mundel 1907 TS 933 at 941–943).

[53] See generally Visser (2008), 685–689; du Plessis (2012), 364–365; Blackie and Farlam (2004), 469 at 485–486, 490.

[54] Where a trade mark registered in terms of the Trade Marks Act 194 of 1993 has been infringed, section 34(3) provides that any High Court having jurisdiction may grant the proprietor certain

may be an indirect 'skimming off' of profits to pay these claims. It is only in cases of copyright infringement that courts are statutorily empowered to award a claim which could target the defendant's actual profits. This is an exceptional claim for additional damages, which courts may award as they may deem fit; they have to be satisfied that effective relief would not otherwise be available to the plaintiff, having regard, in addition to all other material considerations, to the flagrancy of the infringement and 'any benefit shown to have accrued to the defendant by reason of the infringement'.[55] The quoted part of the provision indicates that the claim for additional damages could achieve the effect of forcing the disgorgement of the defendant's actual profits.

It is a matter of statutory interpretation to determine to what extent further common-law remedies are available beyond these statutory sources of relief in cases of infringing intellectual property rights. As mentioned in the introduction, South African courts have refused to recognise the English practice of allowing a plaintiff in an action for infringement of a trade mark (or passing-off) to choose between asking for 'an inquiry as to damages' or 'an account of profits'.[56] This refusal is not a problem as long as the statutory protection against infringement is adequate. Often the plaintiff would be satisfied with a claim for damages or a reasonable royalty in lieu of damages.

However, if the plaintiff seeks to strip the enriched of actual profits, the only statutory protection, as indicated above, is provided in cases of copyright infringement. In other cases of infringement of intellectual property rights, the plaintiff would have to rely on the common law, but the options are not promising. The law of delict would be inappropriate inasmuch as it is aimed at compensating actual losses, rather than disgorging profits.[57] The law of unjustified enrichment is, in principle, more appropriate for this goal, but it presents the plaintiff with the formidable obstacles outlined in the section on "General Principles of the Laws of Delict and Unjustified Enrichment". First, there is the double-celing rule, which limits or caps any enrichment claim for the defendant's actual enrichment to the plaintiff's impoverishment. Secondly, such a claim would be novel and the plaintiff would have to convince the courts to impose enrichment liability outside the scope

forms of relief. These include a) an interdict, b) an order of removal, c) damages and 'd) in lieu of damages, at the option of the proprietor, a reasonable royalty which would have been payable by a licensee for the use of the trade mark concerned …' Comparable provisions on paying a reasonable royalty in lieu of damages are contained in section 35(3)(d) of the Designs Act 195 of 1993, section 65(6) of the Patents Act 57 of 1978, and section 24(1A) of the Copyright Act 98 of 1978.

[55] Section 24(3) of the Copyright Act 98 of 1978.

[56] See Klimax Manufacturing Ltd v Van Rensburg 2005 (4) SA 445 (O) para. 60–61; Montres Rolex SA v Kleynhans 1985 (1) SA 55 (C). An 'account of profits' is only available in South African law if specifically provided for by contract, statute or a fiduciary relationship.

[57] See the section on "General Principles of the Laws of Delict and Unjustified Enrichment" above and Visser (2008), 686 on problems with awarding (punitive) damages claims that are actually aimed at preventing unjustified enrichment.

of the existing specific enrichment actions – and, as we have already observed, this may be quite challenging.[58] It would probably be inappropriate to award such a claim in cases of infringement where the defendant independently and innocently profited from an invention that happened to infringe a patent. As outlined above, the defendant's actions do not threaten the right-holder's entitlement to control the resource.[59]

Infringing Personality Rights[60]

South African law does not traditionally recognise claims that are directly aimed at disgorging profits obtained by infringing another's personality rights, such as the rights to bodily integrity (*corpus*), dignity or sense of self-worth (*dignitas*), and reputation (*fama*).[61] The preferred form of relief is to award a common-law delictual claim for damages by way of the *actio iniuriarum.* The action can be used to claim general damages to compensate the plaintiff for the injured feelings and for the hurt to his or her dignity and reputation,[62] and special damages to compensate for actual patrimonial loss. South African courts are not in favour of awarding exemplary or punitive damages in cases of defamation.[63]

The inability of the *actio iniuriarum* to ensure that the defendant disgorges profits earned as a consequence of infringement of personality rights is understandable, given the traditional compensatory nature of this remedy. However, there are South African cases involving unauthorised publication of personal information where for the reasons outlined in the section on "General Principles of the Laws of Delict and Unjustified Enrichment", it may be more appropriate to order the defendant to disgorge profits, rather than to award damages.[64] The preferred instrument to achieve this goal could be a claim based on unjustified enrichment, which is aimed at balancing out unacceptable gains.[65] Again, we find the well-known obstacles in

[58] See Kommissaris van Binnelandse Inkomste v Willers 1994 (3) SA 283 (A); McCarthy Retail Ltd v Shortdistance Carriers CC 2001 (3) SA 482 (SCA).

[59] See Visser (2008), 690 on the desirability of ordering an infringer of copyright to surrender profits, but allowing the (innocent) infringer of a patent to retain them.

[60] See Visser (2008), 680–683; du Plessis (2012), 365.

[61] See generally Zimmermann (1990), 1050–1094.

[62] Kinghorn (2005), para. 260.

[63] See Fose v Minister of Safety & Security 1997 (3) SA 786 (CC).

[64] See Visser (2008), 682–683, referring to National Media Ltd v Jooste 1996 (3) SA 262 (A); O'Keeffe v Argus Printing and Publishing Co Ltd 1954 (3) SA 244 (C); also see du Plessis (2012), 365.

[65] See Blackie and Farlam (2004), 469 at 490–491; Visser (2008), 680–683; du Plessis (2012), 365. Whether the gain is unacceptable depends on how the requirement that the enrichment is without legal ground is to be defined. For example, where profits are made through research that uses a

the plaintiff's way; the plaintiff must prove impoverishment, and the 'double celing' rule would limit or cap any enrichment claim aimed at disgorging the defendant's actual enrichment to the plaintiff's impoverishment; The plaintiff would further have to convince the courts to impose enrichment liability outside the scope of the existing specific enrichment actions. However, the unauthorised publication of private facts implicate the right to human dignity protected in section 10 of the Constitution of the Republic of South Africa, 1996, and the courts may be obliged to develop the common law to give effect to the rights contained in the Bill of Rights. A definite lacuna in the protection of dignity has been identified and the mechanism for eliminating it through expanding the law of unjustified enrichment has been created.[66] It is suggested that this places strong pressure on our courts to develop such an enrichment claim.

Breach of Contract[67]

A party in breach of contract is liable to pay the amount of contractual damages required to place the other party in the position it would have been in, had there been no breach.[68] The purpose of the contractual claim for damages is to compensate the other party, and not to strip the party in breach of his profits, although this could of course happen indirectly, inasmuch as the party in breach would use these profits to pay the damages claim. A party in breach could further be awarded a reduced contract price, in the courts discretion, if the other party utilised the incomplete performance. Through reducing the price, the courts could in effect prevent the party in breach from profiting by it. For example, if the party in breach saved certain expenses by not performing in full, these expenses could be deducted from the contract price. The reduction in price could have the effect of stripping the party in breach of the savings he made by not performing in full.[69]

Comparative studies reveal that obtaining disgorgement of profits arising from breach of contract could be desirable if the normal compensatory claim for damages based on a loss on the side of the other party is inadequate, for example in certain

person's body parts without his consent, there may have been an infringement of his personality rights, but this cannot give rise to a duty to pay him the profits, since he could never have consented to the profitable use of his body parts in any event. Donors may not receive any reward beyond their reasonable costs for use of certain body parts (see chapter 8 of the National Health Act 61 of 2003, especially section 60(4)).

[66] See Kommissaris van Binnelandse Inkomste v Willers 1994 (3) SA 283 (A); McCarthy Retail Ltd v Shortdistance Carriers CC 2001 (3) SA 482 (SCA).

[67] Visser (2008), 692; du Plessis (2012), 368–371.

[68] See Novick v Benjamin 1972 (2) SA 842 (A) 857; Holmdene Brickworks (Pty) Ltd v Roberts Construction Co Ltd 1977 (3) SA 670 (A) 687; Katzenellenbogen Ltd v Mullin 1977 (4) SA 855 (A) 875.

[69] See BK Tooling (Edms) Bpk v Scope Precision Engineering (Edms) Bpk 1979 (1) SA 391 (A).

cases of breach of confidentiality clauses or 'skimped performance'. At present, the scope for developing the South African common law to provide such relief is very limited.

First, within the law of contract, a major obstacle is that contractual damages claims are limited to patrimonial loss.[70] It is therefore not possible to 'compensate' a party who has been deprived of his bargain, but who has not suffered patrimonial loss, by compelling the party in breach to pay him an amount that makes good his 'loss of amenity', or inconvenience. Awarding such a claim for non-patrimonial losses could conceivably indirectly force the party in breach to surrender his profits. South African law therefore would not assist the owner in the classic case where a builder profited by saving expenses in building a slightly shallower pool than the contract provided for, but the owner cannot prove actual patrimonial loss.[71]

Secondly, any claim based on unjustified enrichment would also face some difficulties. The courts would have to recognise that this is one of the occasions where the impoverishment requirement must be relaxed. The defendant's enrichment further has to be unjustified, which may be difficult to prove, given that there is a valid contract in place between the parties. It may be possible, though, to find that the enrichment is nonetheless unjustified, inasmuch as the profit has been obtained as a consequence of infringing these rights. However, local commentators favouring such a development are mindful of the importance of making it an exceptional remedy, and accept that it may at times be preferable to award general damages for non-patrimonial loss.[72]

Breach of Fiduciary duties[73]

In a famous passage in *Robinson v Randfontein Estates Gold Mining Co Ltd,* Chief Justice Innes stated that

> Where one man stands to another in a position of confidence involving a duty to protect the interests of that other, he is not allowed to make a secret profit at the other's expense or place himself in a position where his interests conflict with his duty. The principle underlies an extensive field of legal relationship. A guardian to his ward, a solicitor to his client, an agent to his principal, afford examples of persons occupying such a position. As was pointed out in The Aberdeen Railway Company v Blaikie Bros (1 Macq 461 at 474), the doctrine is to be found in the civil law (Digest 18.1.34.7), and must of necessity form part of every civilised system of jurisprudence. It prevents an agent from properly entering into any transaction which would cause his interests and his duty to clash. If employed to buy, he

[70] See Administrator Natal v Edouard 1990 (3) SA 581 (A); some support for awarding (contemplated) damages based on inconvenience, though not hurt feelings, can be found in earlier cases like Jockie v Meyer 1945 AD 354 at 363.

[71] See Beale et al. (2010), 856 et seq., 862 et seq.

[72] See Blackie and Farlam (2004), 469, 493; Visser (2008), 696–697; du Plessis (2012), 371.

[73] Visser (2008), 690–692; du Plessis (2012), 365–368.

> cannot sell his own property; if employed to sell, he cannot buy his own property; nor can he make any profit from his agency save the agreed remuneration; all such profit belongs not to him, but to his principal. . . . Whether a fiduciary relationship is established will depend upon the circumstances of each case (. . .).[74]

There is indeed no limited number of cases where a fiduciary relationship is established.[75] In addition to the examples Innes CJ mentions of guardians, legal practitioners, and agents,[76] they include trustees, employees,[77] company directors and company officers.[78]

South African law has never properly explored the exact legal nature of the duty not to make a secret profit, and of the remedies that arise from breach of this duty. In the context of company law, it has for example simply been said that the action based on breach of trust by company directors is *sui generis,*[79] but without properly exploring potential doctrinal niches within the law of obligations.

One possibility is to regard breach of the duty as wrongful, and to base the liability in delict. However, such an analysis faces the familiar obstacles that the person bound by the duty does not necessarily have to be at fault,[80] and that the person to whom the duty is owed traditionally need not suffer a loss.[81] If the fiduciary duty happens to originate in contract, its violation could constitute breach of contract, but then the typical remedy is again a contractual damages claim, which may not necessarily be appropriate for disgorging profits.[82]

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[74] Robinson v Randfontein Estates Gold Mining Co Ltd 1921 AD 168 177–178. Further see Phillips v Fieldstone Africa (Pty) Ltd 2004 (3) SA 465 (SCA) para. [30]; Dorbyl Ltd v Vorster 2011 (5) SA 575 (GSJ) para. [25].

[75] See Volvo (Southern Africa) (Pty) Ltd v Yssel 2009 (6) SA 531 (SCA) para. [16].

[76] Further see Robinson v Randfontein Estates Gold Mining Co Ltd 1921 AD 168 at 177; Phillips v Fieldstone Africa (Pty) Ltd 2004 (3) SA 465 (SCA) para. [30]; Jowell v Bramwell-Jones 2000 (3) SA 274 (SCA) para. [14].

[77] See Phillips v Fieldstone Africa (Pty) Ltd 2004 (3) SA 465 (SCA) especially paras [29] sqq; Ganes v Telecom Namibia Ltd 2004 (3) SA 615 (SCA).

[78] Section 77(2)(a) of the Companies Act 71 of 2008.

[79] See Robinson v Randfontein Estates Gold Mining Co Ltd 1921 AD 168 242; Cohen NO v Segal 1970 (3) SA 702 (W) 706G.

[80] See du Plessis v Phelps 1995 (4) SA 165 (C) 170D.

[81] See Robinson v Randfontein Estates Gold Mining Co Ltd 1921 AD 168 at 177–178, 241; Symington v Pretoria-Oos Hospitaal Bedryfs (Pty) Ltd 2005 (5) SA 550 (SCA) para. [24]. The South African common law traditionally recognised a claim for disgorgement of profits obtained by a director in breach of a fiduciary duty. However, section 77(2)(a) of the Companies Act 71 of 2008 provides that 'a director of a company may be held liable (a) in accordance with the principles of the common law relating to breach of a fiduciary duty, for any loss, damages or costs sustained by the company as a consequence of any breach by the director of a duty contemplated in section 75, 76(2) or 76(3)(a) or (b)' (own italics). The fact that reference is only made to 'loss, damages or costs' renders it uncertain whether the legislature (inadvertently) abolished the common-law claim for disgorgement of profits (see Havenga (2013), 257 at 267).

[82] The same conduct could give rise to two responses: if an employee takes a bribe, he could be accountable for breach of contract or for breach of a fiduciary duty.

The possibility has been raised of locating claims for disgorging profits obtained as a consequence of breach of fiduciary duties within the law of unjustified enrichment, or at least to regard them as aimed at redressing or undoing such enrichment.[83] In this regard it is of interest that earlier case law which introduced the *sui generis* claim described the remedy as one of 'account of profits and payment over', which (as indicated earlier) clearly reflects the influence of the English common law. In South African law, which traditionally has a much stronger awareness of unjustified enrichment as source of liability, there is growing appreciation that enrichment by infringing another's rights should enjoy greater prominence as a distinct source of enrichment liability. It therefore appears worthwhile to explore whether breach of fiduciary duties could be regarded as an example of such an infringement.

However, such a development would, once again, require some adjustment to existing principles. First, it would be essential to relax the requirement that the plaintiff must prove actual impoverishment. Otherwise the plaintiff may have to prove that its assets would have increased, had it not been for the breach of the duty, whereas it is traditionally not required that the plaintiff suffers a loss when laying claim to profits obtained in violation of fiduciary duties.[84] Secondly, it may be necessary for policy reasons not to allow the defendant to raise the defence of loss of enrichment. This defence would in any event not be available where he knew or ought to have known that he is not entitled to the profit, but it might be desirable to deprive him of the defence even in cases where he was 'innocently' enriched.[85] If the remedy were to be classified as an enrichment action, the social value of deterrence would provide the basis for saying that in this instance giving up the whole profit to the plaintiff satisfies the correlativity requirement of corrective justice.

Unfair and Anti-competitive Commercial Practices[86]

South African law provides a variety of remedies that could apply when a person profits from unfair commercial practices. Some of these remedies may have the effect of directly or indirectly compelling the disgorgement of illegal profits.

In the field of competition law, if a firm engages in certain prohibited practices or if it breaches the provisions on mergers, the Competition Act 89 of 1998 empowers the Competition Tribunal to impose penalties payable to the State. Unlike private law remedies, there is no reason why public-law legislative measures of this kind should not have a punitive intention and effect. These penalties may not exceed 10 % of the firm's annual turnover. In determining an appropriate penalty, the Competition Tribunal must consider a variety of factors, including the level of profit derived from

[83] See Blackie and Farlam (2004), 469 at 492; du Plessis (2012), 368; Visser (2008), 692.

[84] Further see Visser (2008), 692; du Plessis (2012), 367–368.

[85] Compare the discussion in Visser (2008), 692 and du Plessis (2012), 368.

[86] See du Plessis (2012), 372–373.

the contravention.[87] The firm may therefore in effect be obliged to disgorge the profit through having to pay the penalty. The Consumer Protection Act 68 of 2008 in turn provides consumers with various rights against suppliers, such as the right to fair and responsible marketing, to fair and honest dealing, to fair terms, and to fair value, good quality and safety. Infringing these rights could give rise to a host of statutory remedies. These include an administrative fine in respect of prohibited or required conduct, which may not exceed the greater of 10 % of the respondent's annual turnover during the preceding financial year or R1,000,000. When determining an appropriate administrative fine, the Tribunal must consider a variety of factors, which again includes the level of profit derived from the contravention.[88]

The South African common law further recognises that unlawful competition, and more specifically unlawful interference with another's trade or business, may amount to a delict.[89] As indicated earlier, delictual claims for damages are determined with reference to the defendant's loss, and not the plaintiff's gain. It has thus far not been recognised that a plaintiff could rely on the law of unjustified enrichment to lay claim to profits made as a consequence of unlawful infringement of his right to carry on his trade without unlawful interference. It has been argued that in principle such a claim could be recognised, and that (as in the context of certain intellectual property rights) it may be especially desirable in flagrant cases of infringement.[90] However, for the proper application of such a remedy it may again be necessary to relax the operation of the 'double-ceiling' rule, which otherwise would limit disgorgement to the plaintiff's actual impoverishment.

Profiting as a Consequence of Unfair Discrimination[91]

Many South Africans have been severely disadvantaged as a consequence of unfair discrimination and many have benefited from it. It is a complex matter to determine between whom and how the law should correct or balance out these gains. The difficulty is that the gains often were obtained lawfully, for example due to legislation that enabled the expropriation of land to promote racial segregation, or that reserved certain forms of employment or access to social benefits to particular racial groups. The general approach in post-apartheid South Africa has been to accept that existing gains remained in place, but to ensure some form of redress by way of large-scale programmes aimed at social upliftment and economic empowerment. It is only in limited cases where those who were disadvantaged as a

[87] Section 59(3)(e) of the Competition Act 89 of 1998.

[88] Section 112(3)(2) of the Consumer Protection Act 68 of 2008.

[89] See Dun & Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 (1) SA 209 (C) 216; Geary & Son (Pty) Ltd v Gove 1964 (1) SA 434 (A).

[90] See du Plessis (2012), 372–373.

[91] See Visser (2008), 147–155; du Plessis (2012), 374.

consequence of unfair discrimination were allowed more direct relief. In this regard the Restitution of Land Rights Act 22 of 1994 allows for restitution of land which persons were dispossessed of, or for equitable redress in the form of compensation or the award of state land.[92] Persons from whom the land is reclaimed could in turn be entitled to compensation by the State. Some provision has been made for limited reparation by way of the truth and reconciliation process, but again the relief is provided by the State, and not by individuals who may have gained from political injustice. Outside South Africa, victims of apartheid have brought class actions under American law in terms of the Alien Tort Claims Act[93] against large corporations that supported the apartheid government by providing the police and military with equipment, and by financing these activities. Some claims were settled, but US courts thus far have maintained that this statute does not apply extraterritorially.[94]

It is generally accepted that the private-law rules of unjustified enrichment are ill-equipped to address profiting as a consequence of unfair discrimination. This is mainly because of difficulties with proving that the particular plaintiff was impoverished, that the particular defendant was enriched without legal ground, that the enrichment was at the plaintiff's expense, and the likelihood than any claim may in any event have prescribed.[95] However, it has been argued that the law of unjustified enrichment could be relevant in the public sphere in at least two contexts.

First, support has been expressed for the view that it may be productive to explain the statutory land-reform processes referred to above in terms of unjustified enrichment, and more specifically, to link these processes with other instances of profiting by wrongdoing or invasion of another's rights.[96] It is conceded that the traditional (private-law) rules of the law of unjustified enrichment are ill-equipped to assist in correcting systematic enrichment of one group at the expense of another,[97] but the point is essentially that the underlying private-law values, rather than the

[92] Further see section 25(7) of the Constitution of the Republic of South Africa, 1996: 'A person or community dispossessed of property after 19 June 1913 as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to restitution of that property or to equitable redress.'

[93] 28 U.S.C. §1350 (2007).

[94] See the judgment of 21 August 2013 of the US Court of Appeals for the Second Circuit in Balintulo v. Daimler AG 2778-cv(L) (accessible at http://hrp.law.harvard.edu/wp-content/uploads/2013/09/130821-Apartheid-09-2778_opn-2d-Cir.pdf).

[95] See sections 10–16 of the Prescription Act 68 of 1969. The cut-off date for land reform is 19 June 1913, when the Black Land Act of 1913 commenced operation; see Richtersveld Community v Alexkor Ltd 2003 (6) SA 104 (SCA); Alexkor Ltd v Richtersveld Community 2004 (5) SA 460 (CC).

[96] See Visser (2008), 152; Visser and Roux (1996), 89–111. In re former Highlands Residents: Sonny and others v Department of Land Affairs 2000 (2) SA 351 (LCC) 361 the court left it open whether these arguments are convincing.

[97] Also see du Plessis (2012), 21–22.

rules themselves are relevant, and that these values may also underlie public-law remedies provided by land reform legislation.

The second view applies this type of thinking on an even broader front. Section 9(2) of the Constitution permits taking legislative and other measures to protect or advance persons or categories of persons disadvantaged by unfair discrimination. A typical example is legislation mandating 'affirmative action' in the employment context.[98] The possibility has been raised of developing a public-law enrichment remedy which could also fulfill this function, and give effect to what Mr Justice Laurie Ackermann calls 'restitutionary or remedial equality'[99] envisaged by section 9(2).[100] The argument essentially is that private-law principles of unjustified enrichment are relevant in a public-law context, and that these principles could be used as a basis and rationale for fashioning a public-law enrichment remedy, or for interpreting and applying an existing one.[101] Such a public-law remedy would be analogous to the private-law remedy, the crucial link being that in both the duty of restitution arises from the defendant's unjustified enrichment, and not from proof of guilt or fault. Thus conceived, such a remedy would be one through which the beneficiaries of apartheid 'bear the negative effects of the restitution made to those previously disadvantaged, *not* because the former wrongfully and culpably harmed the latter, but because they were *unjustifiably enriched* at the expense of the latter'.[102]

Conclusions

Thus far there has been limited attention to the treatment of disgorgement of profits as a general theme in South African law. The lack of a comprehensive, holistic treatment of this phenomenon, based on a proper understanding of the relevant underlying values and principles, comes at a price. The 'fragmented' practice of only focussing on specific problems in certain areas of law gives rise to inconsistency. The restitutionary response is also clearly inadequate in some cases where a gain has been obtained through infringing another's rights, but that person cannot prove actual loss or impoverishment.[103] However, even if it is accepted that it is desirable to order disgorgement of profits in these cases, it remains unclear where such a development is to be located. It is suggested that rather than expanding the law of delict so that the plaintiff does not have to suffer a loss, it may be preferable

[98] The land reform provisions relate to section 25 of the Constitution, rather than to section 9(2).

[99] See Ackermann (2013), 342 et seq.

[100] Ackermann (2013), 147–148 and 153.

[101] Ackermann (2013), 345.

[102] Ackermann (2013), 345–346.

[103] See the section on "Profiting by Using Property" on the holiday house case and section "Breach of Contract" above on skimping profits.

to develop the law of unjustified enrichment so that it deprives the defendant of the profit without requiring that the plaintiff has to be impoverished.

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Part VII
Central and Eastern Europe

Chapter 20
Disgorgement of Profits in Croatian Law

Ana Keglević

Abstract The general legal basis for disgorgement of profits for infringements of law under Croatian law is lacking. This is especially true for the areas of contract law and tort. The Croatian Code of Obligations provides no provision for disgorgement of profits, nor are there many academic debates on the topic. The function of restitution could be partially fulfilled by some other legal remedies as discussed in the text, such as claims based on unjust enrichment, benevolent intervention in another's affairs, or claims for damages. However, none of them fully meets the requirements of disgorgement. Some traces of disgorgement of profits could also be found in other areas of Croatian private law with a substantial level of diversity. For instance, in the area of criminal and administrative law, intellectual property rights law, capital market law, unfair competition and unfair commercial practices such traces are more evident. These areas have reacted by developing specific sui generis legal remedies that under certain conditions, might allow skimming off, seizure, transfer or confiscation of unlawful gain. Again, none of them fully meets the requirements of disgorgement of profits. This paper first analyses terminology and conceptual problems of disgorgement of profits under Croatian law, than possible functional equivalents to disgorgement and finally other private law sui generis remedies. In conclusion, the paper offers answers to the question of whether there are any potential underlying reasons to introduce disgorgement remedies into Croatian law, and suggests de lege ferenda proposals.

Keywords Croatia • Disgorgement • Damage • Breach of contract • Restitution • Licence fee • Penalty • Freezing and confiscation proceeds of crime • Transfer of business transaction • Unjust enrichment • Negotium gestio • Mandate and fiduciary relationship

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Introduction

The topic of disgorgement entwines two ideas. The first one considers the idea of restitution and skimming off illegally gained profit from the wrongdoer, thus giving it to the injured party. The second one addresses the disgorgement and punishment of the wrongdoer and is based on the idea of corrective justice. The well-known statement that the wrongdoer should not be allowed to profit from the wrong[1] only strengthens this idea.

There appears to be little support for the notion that the disgorgement remedy is universally available. Perhaps at first glance, disgorgement is more widely accepted in common law countries, for both equitable and legal wrongs. Some of the examples are breach of fiduciary duties and breach of confidence, but disgorgement is also available for some torts (tortious liability), conversion, trespass to land and passing off.[2] Contrary to this disgorgement is not so widely accepted in civil law systems (such as Croatia), mostly due to a different understanding of the fundamental legal concepts as well as due to the civilian concept of damages and unjust enrichment.[3] However, some branches of law – such as criminal and administrative law, intellectual property law, capital market law, unfair competition and unfair commercial practices – could sometimes offer similar functional equivalents to disgorgement of profits. This paper discusses the availability of remedies affecting disgorgement of profits under Croatian law. It tries to answer the following questions: Does a coherent theory of disgorgement of profits exist under Croatian law? Is there any legal basis for disgorgement? If not, is there any movement to introduce disgorgement of profits and, if there is such a legal basis, what would be the potential underlying reasons for introducing disgorgement of profits under Croatian law?

Terminology and Conceptual Problems of Disgorgement of Profits Under Croatian Law

Unlike many common law systems where there is more than one kind of damages and disgorgement may be awarded in certain cases in some specific areas of law, such a concept is foreign to Croatian law.[4] Maybe terminology is one part of the

[1] Jegon v Vivian (1870–71) L.R. 6 Ch. App. 742 (761 Lord Hatherley); Boyd & Forrest v Glasgow & South Western Railway Co 1915 S.C. (H.L.) 20 (25 Lord Atkinson); Jones (1983), LQR 443 at 459.

[2] See Law Commission Report, Aggravated, Exemplary and Restitutionary Damages, LC247, 16.12.1997, Draft Bill Clause 12; wider recognition of such damages is supported in legal literature see for example Birks (1989), 326–327; Goodhart (1995), 3–14; Jaffey (1995), 30; Goff and Jones (1993), 714–734.

[3] More on this topic see Koziol (2012), 17–56, 75–93; Koziol and Wilcox (2009), 1 et seq., 275–331; Johnston and Zimmermann (2004), 3–37; Jansen (2014).

[4] Croatia has a civil law system of a continental type.

problem. The term "damage" in Croatian tort law means only the loss suffered by the claimant. Such concept of damage has no function of disgorging the defendant beyond the recovery of the loss the claimant has suffered. The damages fulfil a primarily compensatory function. Thus the difference in the common law concepts of nominal, punitive, compensatory, exemplary or disgorgement damages[5] are foreign to Croatian law. This is especially true for the areas of contract law and tort. Maybe a more appropriate term for this topic from the Croatian perspective would be the disgorgement of "profit" or "gain". Both terms are based on the enlargement of assets of the wrongdoer (defendant), even if such a breach has not led to loss for the victim (claimant).

The traces of disgorgement of profits under Croatian private law can be found in different areas of law. For instance in the area of administrative and criminal law such traces are more evident. However, intellectual property law, competition law, unfair commercial practices law and commercial law offer some *sui generis* remedies which might allow skimming off, seizure, transfer or confiscation of unlawful gain. Thus, Croatian law offers some "functional equivalents" which do not include all elements of disgorgement of profits, but lead to the results similar to the disgorgement. All of them will be dealt in the text.

Contract Law and Problems of Disgorgement of Profits

The traditional Croatian private law approach is that the relief in the disgorgement of profits is not available for contract law and tort.[6] One of the main purposes of Croatian tort law is the compensation of the injured party. According to the Croatian Code of Obligations (hereinafter: CO)[7] "A person who causes damage to another person is under obligation to compensate it, unless he proves that such damage as occurred was not his fault" (Art 1045 CO).[8] The CO defines "damage" as the diminution of the property/assets of an individual (regular damage), the hindering

[5]See Beale (2012), paras. 26–001 to 26–214; Allen et al. (2000); Law Commission Report, Aggravated, Exemplary and Restitutionary Damages, LC247, 1997.

[6]Croatian Code of Obligations admits three main types of civil law liability: (1) extra contractual liability deriving from the commitment of a tort (delict), (2) contractual liability deriving from a breach of contract and (3) pre-contractual liability deriving from a breach of duty to negotiate in good faith. For each type of liability different set of rules apply. However, if not regulated otherwise by the provisions on contractual and pre-contractual liability, the rules on extra contractual liability shall be applicable as the general ones. More on Croatian tort law see Gliha et al. (2007), 249–293; Klarić et al. (2013); Klarić (2003); Barbić et al. (2005).

[7]Croatian Code of Obligations, Official Gazette 35/05, 41/08, 125/11.

[8]This is so called "subjective" concept of liability based on a principle of fault. Nevertheless there are many exceptions to this rule, where the person causing the damage is responsible to compensate injured party irrespective of his/hers fault. The latter is so called "objective" standard of liability. See Article 1963–1981 Code of Obligations.

of its increase (loss of profit),[9] or breach of personality rights (non-material damage) (Art 1046 CO). The notion of "damage" should be understood broadly and includes all types of losses. The damage rules are primarily compensatory in character. The situation to be restored is as if the circumstances creating the claim for damages had not occurred.[10] Thus the obligation to compensate the injured party (claimant) is completely independent of the gain of the liable party (respondent). For example, in the case of breach of contract, damages are awarded since the breach of contract has caused harm to the claimant, even if the breach has not led to the defendant profiting from the circumstances. Disgorgement works in the opposite way. The disgorgement must be awarded exactly because the breach of contract has caused profit for the defendant, even if such a breach has not led to loss for the claimant. The basis of the claim for disgorgement of profits is independent from the claim for damages or any other claim related to the breach of contract.

The functional difference is also visible in the assessment of damages/ disgorgement. When assessing damages, the court shall calculate the actual diminution of the claimant's property, either in the form of actual loss or the loss of a future gain.[11] The court is obliged to determine the full scope and amount of damage and respective compensation. Bearing in mind the slight differences between contractual, extra-contractual liability and pre-contractual liability,[12] the general rule follows the "principle of full compensation", as one of the main principles of Croatian tort law.[13]

[9] Both together are named by Code of Obligations as "material damage".

[10] Article 1085 Code of Obligations.

[11] Article 1089 Code of Obligations.The same is established in the case law. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Rev-594/86, 19.06.1986; Rev-2059/88, 18.04.1989; Rev-2053/98, 17.05.2001; Rev-857/92, 30.12.1992; Rev-3813/1994, 24.11.1998.

[12] Under extra contractual liability the wrongdoer is liable to compensate damage fully, regardless of the loss which has occurred (Art 1090 CO). Under contractual liability the wrongdoer is liable to compensate damage only limited to a foreseeable damage. Foreseeable damage is the damage the debtor, based on the facts that were known or should have been known to him, should have foreseen as the possible consequence of a breach of a contract at the moment the contract was concluded (Art 346(1) COD). Only in the case of breach of contract intentionally or in gross negligence the wrongdoer is liable to compensate damage fully (Art 346(2) CO). Under pre-contractual liability the party who has, contrary to the principle of good faith, negotiated without the real intention to conclude a contract is liable for the damage caused by other party (Art 251(2–3) CO). Here the compensation could be judged in accordance with the rules of extra-contractual liability which are applicable as general rules.

[13] Article 1090 Code of Obligations. The same is established in the case law. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Rev-65/92, 05.02.1992; Rev-2002/98, 11.07.2001; about restitution see Rev-16/91, 16.04.1991; Rev-512/88, 12.10.1988; Rev-2451/90, 11.10.1990.

In the case of breach of personality rights, such as the case of damage of reputation caused by mass media,[14] intellectual property law infringements,[15] or competition law infringements[16] the court may apply a more "normative" approach. The court may take into account the damage to someone's morality or integrity, duration and intensity of physical, emotional or psychological pain and fear, as well as other elements relevant to the circumstances of the case. The case law for both kinds of damage is well developed in Croatia.[17] Contrary to this, when assessing disgorgement of profits, the court should only take into account the value of profit accruing to the defendant. It is in no relation to the damage suffered by the injured party. Moreover disgorgement of profits could be claimed even if the injured party suffered no damage at all. Although an award for damages often forces the defendant to disgorge profits resulting from the breach, it is not always so. An award for damages creates the opportunity for profit taking, but the amount of damages need not be equal to the defendant's gain.

One possibility for disgorgement of illegally gained profits could be extracted from the rules on pre-contractual liability and gain-based damages. Croatia is one of the few legal systems whose law clearly regulates pre-contractual liability.[18] The party that has entered into negotiations, contrary to the principle of good faith and without the real intention to conclude a contract, is liable for the damage caused to the other party by such behaviour.[19] Another example is the pre-contractual liability for damage which arises from the breach of any other duties in connection with negotiations, such as the obligation to preserve the secrecy of information obtained during the negotiations.[20] In other words, if one party uses the classified information it gained knowledge of during the negotiation for its own profit, the injured party may claim damages and the profit gained by using such classified information.[21] This is a new provision introduced in the Croatian Code of Obligations in 2005. At the moment, there is no case law on the issue, but the legislature argued that such provision was introduced as an instrument "of combat against unfair competition".[22]

At the moment, there are no significant academic or legal discussions on the topic of introducing disgorgement of profits (damages) into Croatian tort law. One reason is probably based on the argument of a "civilian legal tradition" and well-developed

[14] More Crnić (2010), 5833.

[15] More Matanovac Vučković (2006), 115–168.

[16] More Bukovac Puvača et al. (2008), 246–272.

[17] For comments on case law see Crnić (2004); Crnić (2006).

[18] More Baretić (2011), 3–30; Kačer (1988), 209–210.

[19] Article 251(2–3) Code of Obligations. This kind of claim for damages is clearly recognised in the case law. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Rev-303/83, 07.07.1983; Rev-928/83, 20.12.1988; Rev-926/90, 19.09.1990.

[20] Article 251(4) Code of Obligations.

[21] Article 251(5) Code of Obligations.

[22] Gorenc (2005), 348.

case law on damages. In foreign legal literature, there are discussions on the pros and cons of introducing this remedy, especially for breach of contract.[23] Some of the arguments against such a legal remedy are that many of the breaches (especially contract breaches) are innocent. Thus in each individual case the court should be obliged to determine the bad faith of the wrongdoer. Such uncertainty in each individual case may cause uncertainty of the system as a whole. Another argument against disgorgement is that it would influence the behaviour of the parties. It would "undermine the principle that the victim of a breach of contract has a duty to mitigate loss".[24] On the contrary, the theory of efficient breach argues pro disgorgement in contract law. The theory argues that there is a positive value in structuring the law of damages to facilitate contract breaches that will lead to efficient behaviour. However, there have been many criticisms of the theory which, as of today, has still not been widely accepted. Another argument in favour of disgorgement derives from the famous sentence that "the wrongdoer should not be allowed to profit from his wrong . . . "[25] This is an idea based on the concept of justice and the protection of some types of fiduciary duties, breach of confidence and some tortious wrongdoings. The latter is only partially supported by the famous *Blake* case[26] in the context of breach of contract.[27] Unfortunately, such debate on disgorgement of profits for breach of contract is not present in Croatian contract law.

Possible Functional Equivalents?

Unjust Enrichment

Croatian law, in particular the Code of Obligations, does not accept disgorgement of profit as such. However, there are some remedies which may functionally lead to results similar to disgorgement. One remedy could derive from the rules on *unjust enrichment*. If someone makes a profit by infringing someone else's rights the claimant, under certain conditions, might ask for restitution of such gain. The Croatian Code of Obligations thus allows restitution based on unjust enrichment. "If one person is enriched on the account of another person without legal grounds for doing so, such as the contract, the decision of a court or any other competent body or the provisions of the law, or in "any other manner" including his own performance, the enriched party is under a duty to make restitution" (Art 1111(1) CO). This

[23] Wagner (2006), 96 et seq.

[24] Camus (2003), 951.

[25] Op. cit. footnote 1.

[26] Attorney-General v Blake [2001] 1 AC 268.

[27] On disgorgement debate see Camus (2003), 943–974; Smith (1994), 121–140; Worthinghton (1999), 218–240; Bottorell (2010), 135–160.

duty also exists if the legal grounds later lapse, or if the result intended to result from those efforts in accordance with the contents of the legal transaction does not occur. The wording "enrichment on the account of another person" includes gain of a "certain profit" (Art 1111(2) CO). The claim is based on restitution of such enrichment or profit.[28] Croatian law does not require that enrichment should derive from unlawful or illegal action, nor that the enrichment is wrong. The law does not even require that the enriched person acts *male fide* (in bad faith). However, this distinction is relevant when deciding on the range of the claim for restitution. Generally, the enriched person (recipient) must return everything he gained without legal ground to do so, including *fructus* and interests. The *bona fide* recipient is under an obligation to return interests from the moment the claim for restitution has been filed, and the *male fide* (bad faith) recipient is under obligation from the moment he actually obtained a profit (Art 1115 CO).[29]

Under the claim for unjust enrichment, the cause of action requires the claimant to prove the following: (1) that there has been enrichment to the defendant; and (2) a corresponding deprivation to the claimant (that is a transfer of wealth from the claimant to the defendant); (3) a clear causal link between enrichment of the defendant and deprivation of the claimant; (4) that there were no legal ground for such a transfer of wealth, or that the legal ground later lapsed; and (5) the enrichment must not be a commitment of a tort (*delict*), because then the tort law and not the law on unjust enrichment will be applicable.[30]

The assumption of causal link is one of the most difficult to prove in the course of proceedings. At the same time, this is one of the most important analytical distinctions to disgorgement of profits. The claim in unjust enrichment depends on the proof of one person's *enrichment on the account of another*. The defendant must return what he gained (restitution), and if that is not possible the defendant must pay the value of the unjust enrichment with interests and *fructus*. On the other hand, disgorgement of profits is based on the idea of restitution (like unjust enrichment), but does not require corresponding deprivation to the claimant's wealth. No causal link is required. These two claims are interdependent of each other. Thus, the restitution remedy based on the unjust enrichment is possible, but very limited regarding application on the disgorgement of profits. It allows restitution of illegally gained profit only under the five assumptions discussed above. The case law is also very limited on this question.[31]

[28] Same is established in the case law. For example see case law of the High Commercial Court in Zagreb, VTS Pž-3437/93, 28.12.1993; Pž-3004/93, 26.04.1994; Pž-1244/93, 04.01.1994.

[29] Same is established in the case law. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Rev-15181/82, 20.10.1982; Rev-422090, 06.07.1990; Rv-1686084, 11.12.1984.

[30] Gorenc (2005), 1741.

[31] On unjust enrichment in Croatian law see Markovinović (2006), 288–309; Franić (2010), 35–45; Čuveljak (2005), 61–70; Vojković (1998), 275–283.

Spurious Negotium Gestio

Negotium gestio or benevolent intervention in another's affairs could be another instrument of restitution of profits, but only in limited cases. Under *regular benevolent intervention* in another's affairs, one person (*gestor*) conducts a transaction for another person (principal) "without being instructed by him or otherwise entitled towards him in such a way as to protect or to preserve the interests of the principal" (Art 1121 CO).[32] The *gestor* is actually performing the intervention not for his own benefit, but for the benefit of the principal. The reasons for such intervention could be various, and are not legally relevant. Under Croatian law, in the case of regular benevolent intervention in another's affairs, the profit is made on the account of the principal (not the *gestor*). For the simple reason that the gestor made no profit, there is no valid legal basis for skimming off the profit from the *gestor*.

However, restitution of profit could be possible in the case of "spurious" *negotium gestio* under Article 1128 of the Croatian Code of Obligations. Here, the *gestor* performs another person's business "knowing that it is not his own, and knowing that he is not entitled to do so, with the purpose of illegally gaining profits for himself". There must be a clear intention of unlawful gain and proof of fraudulent behaviour.[33] As a consequence, the *gestor* is under an obligation to report and submit his accounts to the principal. At the same time, the principal is entitled to claim the reimbursement of everything the *gestor* gained while performing such business.[34] Because spurious *negotium gestio* is at the same time commitment of a tort (*delict*) – causing damage to the principal alternatively to the claim for restitution of profit – the principal may require damages for tort.[35] This remedy might thus functionally allow disgorgement of illegally gained profit from a *gestor* gained on the account of the principal. Although not much has been written on the topic,[36] Croatian case law acknowledges the existence of this instrument. The Appellate Court found that the person renting a property of another person, knowing this to be the business of another person, with the aim to gain profit for himself, must submit and transfer his accounts to the principal in accordance with the rules on spurious benevolent intervention in another's affairs.[37]

[32] Article 1121 Code of Obligations.

[33] Gorenc (2005), 1766–1767.

[34] Article 1128(1) Code of Obligations.

[35] In accordance with the Article 1128(2) Code of Obligations. More Klarić et al. (2013), 655.

[36] Most of the writings refer to regular benevolent intervention in another's affairs. For example see Čuveljak (2004), 8–15; Sessa (2005), 7; Harašić (1998).

[37] Appellate Court in Zagreb, ŽS Zagreb, Gž-8533/87-2, 29.12.1987.

Mandate Relationship and Related Relationships

The relationship arising from the mandate could be another instrument functionally allowing restitution of unlawful gained profits. There are several rules that might allow this. Under a *contract on mandate* (*contractus mandati*), by accepting a mandate "the mandatary agrees to carry out a transaction entrusted to him by the principal (mandator) for the account of the principal. The mandatary is entitled to receive a reward for his work, although the parties may agree differently" (Art 763(1–2) CO). One of the main obligations of the mandatary is to submit his accounts and hand over or transfer to his principal "everything he received" during the performance of the mandate and from carrying out the business, no matter whether or not this gain was agreed with the principal.[38] The same rule applies for the *contract of commission*.[39] In legal theory, the wording "everything he received" is interpreted very broadly. This obligation could consist of the transfer of all documents the mandatary received (contracts, documentation, money, certain items etc.), but also the transfer of any monetary claims and obligations (including interest in cases of delay), and any rights obtained from a third party.[40] A broader interpretation of this provision may functionally allow the transfer of profit the mandatary gained illegally during the performance of the principal business. Here German jurisprudence allows the disgorgement of a certain percentage (provision) from the contract or even a bribe from the mandatary.[41] Unfortunately, a Croatian court took no position on the issue, nor was this a topic of discussion in academia.

Another rule concerns deviation from the strict instructions of a principal. If a mandatory exceeds his mandate without the previous consent of the principal, he will be liable for such action.[42] In accordance with Croatian law the mandatary will be treated as the *gestor*, and the respective rules on *negotium gestio* will apply.[43] As a consequence, the principal is entitled to claim the reimbursement of everything the mandatary (now *gestor*) gained, including the profit.[44] However, the mandatary will not be regarded as *gestor* entirely, but only in the part where his actions deviated or exceeded his mandate.[45] Even here, there is no clear legal basis for the disgorgement of profits, but the broader interpretation of the rules of the Croatian

[38] Article 768 Code of Obligations.

[39] Article 794(2) Code of Obligations.

[40] Gorenc (2005), 1130–1131; Klarić et al. (2013), 555.

[41] Palandt (2015), § 667 BGB no. 3.

[42] Article 766(1) Code of Obligations.

[43] Article 766(2) Code of Obligations. The same is established in the case law. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Rev-653/2002, 08.04.2004.

[44] Article 1128(1) Code of Obligations.

[45] Gorenc (2005), 1134–1135.

Code of Obligations could allow for a similar functional effect.[46] Since a mandate relationship is one element of an *agreement of representation*, *power of attorney*, *proxy statement*, *procurator statement* etc., these provisions are applicable *mutatis mutandis* on the deviation duties arising out of these legal relationships.[47]

Other Private Law Sui Generis Remedies

Commercial Law – Transfer/Subrogation of a Gain or a Business Transaction, Breach of Fiduciary Duties

The Croatian Commercial Code[48] might, in certain cases, allow the *transfer* of *unlawfully gained profit*. This instrument mostly arises from the relationship between members of a company and their fiduciary duties. Under the provisions of the Croatian Commercial Code (hereinafter: CC), "any member of a public limited company ("*javno trgovačko društvo"*) may not, without the explicit approval of other members, enter into business transactions or perform any other business activity outside the registered business activities of that company for his own or for a third party's account, nor is such member allowed without approval of the others to participate in another public limited company" (Art 76(1) CC). If the member fails to do so, and violates such obligation, the other members of the public limited company may claim damages, or alternatively they may claim to take over – for the company's account – the transaction entered into by the member of the company for his private account. But, more importantly, according to the wording of the Croatian Commercial Code, the members of the company may claim a transfer of "everything he gained" from the business transaction with third persons, and/or to subrogate "any legal right" he should have gained from the business transaction with a third person.[49] In this respect, the Croatian Commercial Code might functionally allow the transfer of unlawfully gained profits of one member of a public limited company into company's account. The limitation period for mentioned claims is 3 months from the moment at which the company became aware of the business transaction in question (subjective time limit), and 5 years from the conclusion of such transaction (objective time limit).[50]

[46] More on mandate contract in Croatian law see Slakoper et al. (2012), 467–504; Slakoper (2011), 124–141; Momčinović (1999), 237–259.

[47] Klarić et al. (2013), 561.

[48] Croatian Commercial Code, Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13.

[49] Article 77(2) Commercial Code.

[50] Article 77(3) Commercial Code.

Similar rules exist for members of the board of directors of a joint-stock company ("*dioničko društvo*", Art 248 CO), and for members of the board of directors of a limited liability company ("*društvo s ograničenom odgovornošću*", Art 429 CO). If one member of a board of directors – without the approval of the board and outside the scope of authorisation – enters into a business transaction with a third person for his own or for a third party's account, the company may claim damages. Alternatively, the company may claim the transfer of "everything he gained" from a business transaction with a third person, or to subrogate "any legal right" he should have gained from the business transaction with a third person.[51] The limitation period is equal to that for a public limited company 3 months from the moment at which the company became aware of the conclusion of the business transaction in question, and 5 years from the conclusion of such transaction.[52] The identical rules apply in the case of an action of a member of the executive board of a limited liability company.[53]

The Croatian Commercial Code calls this remedy "*restriction on competition*".[54] From the point of legal classification, this remedy constitutes *transfer* of the unlawful gain, or more precisely *subrogation* of the gain and/or the entire legal transaction (business) concluded with a third person into company's account. Since it allows the transfer of unlawful profit to the company as the injured party, functionally it might serve the same purpose as the disgorgement of profits. The Croatian High Commercial Court confirmed that under the provisions on "restriction on competition", the company itself is to be the only party entitled to claim the transfer of illegally gained profit into its own account.[55]

Competition Law and Unfair Commercial Practices – Administrative and Criminal Offence Measures/Fines

Under the strong influence of European legislation, and in particular the need to protect Article 101 and Article 102 of the Treaty on the Functioning of the European union,[56] the Croatian legislature introduced new *sui generis* remedies which might allow *skimming off of unlawful gain* in the area of competition law and unfair commercial practices. Provisions of the Croatian Unfair Competition Act

[51] Article 248(2) Commercial Code.

[52] Article 248(3) Commercial Code.

[53] Article 429 Commercial Code. More on these issues Barbić (2013).

[54] More on this topic Slakoper and Buljan (2010) 1 et seq; Slakoper (1999), 85–89; Mišković (1996), 707–718.

[55] Same is established in the case law. For example see case law of the High Commercial Court in Zagreb, VTS Pž-4459/02, 08.09.2004.

[56] Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, OJ C 326, 26.10.2012.

(hereinafter: UCA)[57] "prohibit all agreements between two or more independent undertakings, decisions by associations of undertakings and concerned practices, which have as their objective or effect the distortion of competition in the relevant market" (Art 8(1) UCA). The Croatian Competition Agency[58] is empowered to impose measures for the removal of adverse effect of the prohibited agreements and other activities which infringe competition, as well as impose certain fines in accordance with UCA.[59] Such measures are partly administrative and partly criminal offences. The objective of these measures is to ensure effective competition and the protection of Articles 101 and 102 of the Treaty on the Functioning of the EU, to sanction infringements of the law, to eliminate the consequences of anticompetitive behaviour, and to deter undertakings from engaging in unfair commercial practices.[60] The administrative-criminal offence fines are divided into three categories: fines for severe infringements, for less severe infringements, and for other infringements of the law.[61] The first two categories allow the Agency to skim off between 1–10 % of profit (net turnover) in the last year, calculated in accordance with the official financial statements of the party in the proceedings.[62] The third category concerns monetary fines which relate to other infringements of an undertaking that is not a party to the proceedings, and this category is not relevant for disgorgement.[63]

In this way, the Unfair Competition Act gives Agency the right to skim off a certain percentage of profits made under intentionally committed infringement of competition law and unfair commercial practices. But, unlike other disgorgement remedies, the skimmed-off percentage of a profit is to be returned to the Budget of the Republic of Croatia, and not to the injured party. If the fine is not paid voluntarily within the indicated time frame, the final decision of the Agency will be enforced by the Croatian tax authorities, following the same procedure as the enforced collection of taxes.[64] Another difference from disgorgement remedies is that the Croatian Unfair Competition Act prescribes different criteria on reduction or immunity from administrative-criminal offence fines. The goal of the law is to

[57] Croatian Unfair Competition Act, Official Gazette 79/09, 80/13.

[58] Croatian Competition Agency, www.aztn.hr (25.05.2015).

[59] Article 9 Unfair Competition Act.

[60] Article 60 Unfair Competition Act.

[61] Articles 61–63 Unfair Competition Act.

[62] There are special provisions on the criteria on calculation of the administrative-criminal fines, on reduction and immunity from the measures. See Articles 64–65 Unfair Competition Act.

[63] Article 63 Unfair Competition Act.

[64] Article 70 Unfair Competition Act.

"punish the wrongdoer and not to ruin him".[65] In this respect, skimming off the profit is performed only partially (in certain percentages) and not to the full extent.[66]

Criminal Law – Freezing and Confiscation of Proceeds of Crime

Another important measure also influenced by EU legislation[67] is the remedy in respect to freezing and confiscation of the proceeds of crime. Although the legal basis of this remedy could be found in more than one legislative act, in 2010 Croatia adopted a comprehensive Law on Confiscation of proceeds acquired by a criminal offence (hereinafter: LC).[68] The latter followed the need to provide clear rules on freezing and confiscation of illegally gained profits by any type of criminal offence. These rules were initially prescribed by more than one act, such as the Croatian Criminal Code,[69] the Croatian Offences Law[70] (which includes both criminal and administrative offences), the Croatian Criminal Procedure Law[71] and some other legal acts.[72]

The idea behind the LC is that no one may make a profit or gain an asset by a criminal offence. According to the provisions of the LC, the Court may *freeze and confiscate* the proceeds or property of the wrongdoer. Proceeds are defined as "any advantage derived from the criminal offence", and property is defined as "property of any description, whether corporeal or incorporeal, movable or immovable capable of being sold in the enforcement procedure, as well as business share, stocks, bonds, monetary claims, precious stones or metals, in the possession of the offender or a connected person" (Art 3(1) LC). The Decision of the Court on the confiscation of proceeds must be detailed and reasoned, final, and the claimant must be found

[65] Butorac Malnar et al. (2013), 58.

[66] More on this topic Butorac Malnar et al. (2011), 1253–1294; Pošćić (2008); Bajčić et al. (2010), 747–772.

[67] See Stockholm Programme 2009, Council Document 17024/09, 10/11 Dec 2009; Justice and Home Affairs Council Decision on Confiscation of Asset Recovery, Council document 7769/3/10, June 2010; Commission Communication "An Internal Security Strategy in Action", COM(2010) 673 final, 22 November 2009; Proposal for a Directive on Freezing and Confiscation of Proceeds of Crime in the European Union, COM(2012) 85 final, 13 March 2012.

[68] Croatian Law on confiscation of proceeds acquired by a criminal offence, Official Gazette 145/10.

[69] Article 82 of the Criminal Code, Official Gazette 125/11, 144/12, 56/15.

[70] Article 76 of the Offences Law, Official Gazette 107/07, 39/13, 157/13.

[71] Article 557–564 of the Croatian Criminal Procedure Law, Official Gazette 152/08, 76/09, 80/11, 121/11, 91/12, 143/12, 56/13, 145/13, 152/14.

[72] For example: Law on responsibility of legal persons for criminal offences, Official Gazette 151/03, 110/07, 45/11, 143/12; Law on the state office against corruption and organised crime, Official Gazette 76/09, 116/10, 145/10, 57/11, 136/12, 148/13.

guilty.[73] Although such a decision usually follows a final conviction for the criminal offence, the request for confiscation itself may be lodged previously, or at the same time, and even after the procedure for criminal offence.[74] This is a new solution introduced into Croatian law by the new LC. The confiscated proceeds will become the property of the Republic of Croatia in accordance with the detailed rules on execution and transfer prescribed by the LC.[75] Confiscated proceeds shall be managed by the Central State Office for state property.[76] As in the case of competition law, the profit and the proceeds will not be returned to the injured party, but will become the property of the state. If the decision was not made in the criminal proceedings, the injured party will be instructed to file a private claim in accordance with the rules of the civil law proceedings.[77] The injured party may claim restitution of damages, the return of the individual property deprived by the criminal offence or the annulment of the contract.[78]

Although this remedy allows for the disgorgement of profits gained by criminal offences it has been heavily criticised by the Supreme Court of the Republic of Croatia, mostly on procedural grounds.[79] Some of the problems with the new Law on confiscation are now solved, especially with regard to procedure of determination of the value of the proceeds, the right to appeal, the question of whether the proceeds or property have been transferred to a third party or a member of the family, the question of death or permanent illness of the accused person, fluctuation of currency etc. This is the only remedy on disgorgement more comprehensively regulated under Croatian law, legal theory[80] and case law.[81] Still, this remedy clearly differs from other disgorgement remedies, and especially disgorgement of profits. Here illegally gained profits and proceeds are disgorged in the name of the state, and into the state budget, and not on behalf of the injured party. This remedy is thus being strongly coloured by performing a public function.

[73] Article 4 Law on confiscation of proceeds acquired by a criminal offence.

[74] Article 2(1) and Article 6 Law on confiscation of proceeds acquired by a criminal offence.

[75] Article 5 Law on confiscation of proceeds acquired by a criminal offence.

[76] http://www.duudi.hr (25.05.2015). See Article 22 Law on confiscation of proceeds acquired by a criminal offence.

[77] For procedure see Articles 23–25 Law on confiscation of proceeds acquired by a criminal offence.

[78] Articles 141–142 Offences Law.

[79] See Petranović (2014); Kos (2014).

[80] See Garačić (2006); Ivičević (2004); Horvatić and Novoselec (2001).

[81] There are many court decisions on the topic. For example see case law of the Supreme Court of the Republic of Croatia, VSRH Kž-1472/76, 16.02.1977; Kž 527/09, 03.09.2009; Kž-856/1999, 08.03.2000; Kž-985/05, 22.02.2006; Kž-445/05, 12.02.2008; Kž-324/06, 17.05.2006; Kž-701/2003, 10.12.2003.

Intellectual Property Rights Infringements – Payment of Remuneration/Licence Fee or Penalty, Restitution of a Gain

Disgorgement of profits could be more seriously discussed in Croatia within the infringements of intellectual property rights.[82] The basic solutions on legal remedies for the breach of intellectual property rights are formed under the strong influence of EU legislation, in particular Directive 2004/48/EC on the enforcement of intellectual property rights.[83] The owner of intellectual property rights, as the injured party, is entitled to protect his intellectual property rights.[84] The measures of protection are to be directed against the person who breached his right, or in some cases his successor. The law offers more than one legal remedy.

The right owner is, on the first place, entitled to claim *damages* appropriate to the actual prejudice suffered by him/her as a result of the infringement.[85] Secondly, the right owner could demand payment of *remuneration* or *licence fee* in the amount which is "usually obtained" on the market for such use of his intellectual property right.[86] The amount of remuneration or licence fee is not prescribed by law as a fixed sum, but must be determined in each case.[87] Usually, it is the amount that would usually have been from the infringer if he had requested authorisation to use the intellectual property right from the rights owner.[88] Thirdly, only in the in case of breach of rights under the Copyrights and other Related Rights Act is the author additionally entitled to claim a *penalty*.[89] A penalty may be awarded only under the following conditions: If an author's right was breached intentionally or by gross negligence, an author is entitled to claim payment of a penalty up to double the amount of remuneration which has been contractually agreed upon, or

[82]Croatian legal frame for intellectual property rights comprises of: Copyrights and other related rights Act, Official Gazette 167/03, 79/07, 80/11, 125/11, 141/13, 127/14; Patent Act, Official Gazette 173/2003, 87/2005, 76/2007, 30/2009, 128/2010, 49/2011, 76/2013; Trademarks Act, Official Gazette 173/2003, 76/2007, 30/2009, 49/2011; Industrial Design Act, Official Gazette 173/2003, 76/2007, 30/2009, 49/2011; Act on Geographical Indications and Designations of Origin of Products and Services, Official Gazette 173/2003, 76/2007, 49/2011; Act on the Protection of Topographies of Semiconductor Products, Official Gazette 173/2003, 76/2007, 30/2009, 49/2011.

[83]Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, OJ L 157, 30.04.2004.

[84]Article 172 Copyrights and other related rights Act; Article 95 Patent Act; Article 75 Trademarks Act; Article 53 Industrial Design Act.

[85]Article 178 Copyrights and other related rights Act; Article 95.e(1) Patent Act; Article 78(1) Trademarks Act; Article 56(1) Industrial Design Act.

[86]Article 179(1) Copyrights and other related rights Act; Article 95.e(2) Patent Act; Article 78(2) Trademarks Act; Article 56(2) Industrial Design Act.

[87]In some cases tariffs of the specialised guilds or professional association might offer a certain standards.

[88]The same is prescribed by the Directive 2004/48/EC.

[89]This "special" provision was inspired by the concept of punitive damages, usually not existent in Croatian tort law.

if not contractually agreed upon, to double the corresponding regular remuneration for "such use" from the person who infringed his right intentionally or by gross negligence.[90] The latter is an example of concept of penalty from the Croatian Code of Obligations, but in this case prescribed by specialised copyright law. Other intellectual property right laws contain no such provision on penalties. Lastly, the injured party could in all cases claim the *restitution* of a gain (profit) made by the infringer as a result of the infringement of the injured part's intellectual property rights, in accordance with the rules of *unjust enrichment*.[91]

Although Croatian legislation in the area of intellectual property offers more than one remedy for the protection of intellectual property rights none of them fully fits into the concept of disgorgement of profits. When it comes to a claim for *damages*, the law directs to the application of the general principles of tort law from the Code of Obligations.[92] When it comes to the *restitution* of a gain (profit) the law directs to the application of the general principles of unjust enrichment – also from the Code of Obligations.[93] The law thus clearly separates a classic claim for damages – which must be based on the loss for the claimant (injured party) – from a claim for restitution of obtained gain based on the unjust enrichment of the defendant (infringer). The claims are based on two different sets of rules, and neither fits the concept of disgorgement of profits. A claim for damages is based on the loss of the injured party and not on the gain of the infringer, and thus does not meet the requirements for the disgorgement of profits. A claim for the restitution of a profit is indeed based on the gain of the infringer, but restitution must be made according to the rules of unjust enrichment. Amongst other problems, unjust enrichment always implies the proof of the causal relationship between the enrichment of the defendant and a corresponding deprivation to the claimant. This concept thus also does not meet the requirements of disgorgement of profits.[94]

Finally, payment of *remuneration or licence fee* as the third legal remedy may be closest to disgorgement of profits but it still does not fit entirely. This is because the injured party may claim the payment of remuneration or a licence fee only in a limited amount, only what is "usually obtained" on the market for such use of his intellectual property rights. The legal character of such a claim is not skimming off all illegally gained profit from the infringer. Thus, neither the purpose of the remedy nor the amount of the remuneration meets the purpose of the disgorgement of profits.[95] In a broader view, payment of remuneration or a licence fee does have influence on the reduction of profit of the infringer (because he simply needs to pay it, which means losing his profit), but the rest of the profit will still be kept

[90] Article 183 Copyrights and other related rights Act.

[91] Article 179(3) Copyrights and other related rights Act; Article 95.e(3) Patent Act; Article 78(3) Trademarks Act; Article 56(3) Industrial Design Act.

[92] Article 178 Copyrights and other related rights Act.

[93] Article 179 Copyrights and other related rights Act.

[94] See supra discussion on the unjust enrichment.

[95] For example, the practice shows the remuneration in publishing contracts amounts around 8 %.

by the infringer. The conclusion is that Croatian legislation does not provide clear legal basis for disgorgement of profits in the case of intellectual property rights infringements.[96]

Another problem is the method of calculation of the remuneration. The law does not provide for any kind of guidance how to calculate, administer or enforce the instrument itself. The continental-type Croatian civil law system is well accustomed to tort and claims for damages. The value of damages could be calculated by actual prejudice suffered by the claimant as a result of the infringement of his rights, by using the standard elements of tort law and very well-developed case law until today.[97] Croatian law also embraces the concept of "normative damages" taking into account breach of integrity and morality. Even the value of remuneration or of a licence fee could be calculated in each specific case, as this is the amount that is "usually obtained" for such use of the intellectual property right. On the other hand the value of illegally gained profits is not easily determinable. There are no legally binding rules on its calculation, nor there is court practice on the issue. The question is: Should we take into account all appropriate aspects, such as the negative economic consequences, including lost profits of the injured party, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right owner by the infringement?[98] But even if illegally gained profit is established could the full amount be skimmed off even if it exceeds the claimant's losses? These questions need to be answered in the future.

Conclusion and de Lege Ferenda Proposals

The general legal basis for disgorgement of profits for infringements of law under Croatian law is lacking. This is especially true for the areas of contract law and tort. The Croatian Code of Obligations provides no provision for disgorgement of profits, nor is there much academic debate on the topic. The function of restitution could be fulfilled by some other remedies as discussed in the text. However, none of them fully meets the requirements of disgorgement. Claims based on unjust enrichment, benevolent intervention in another's affairs, claims for damages and disgorgement are independent of each other and are based on different legal requirements. This is because the theory of unjust enrichment is based on the idea of restitution – that is enrichment of the defendant and the corresponding deprivation of the claimant. The theory of spurious benevolent intervention in another's affairs is based on the idea of restitution, but of the gain of the claimant. The theory of damages is based

[96] Generally on the topic under Croatian law see Matanovac Vučković (2006), 115–168; Parać (2007); Matanovac Vučković (2008).

[97] See supra discussion on damages.

[98] As suggested by the Directive 2004/48/EC.

on the idea of compensation of the claimant. The situation should be restored to as it was before the circumstances creating the claim for damages had occurred. The obligation to compensate the injured party (claimant) is completely independent of the gain of the liable party (respondent). Contrary to this, disgorgement is a response based on the gain of the respondent, and founded on a wrongdoing and not the loss of the claimant.

In my opinion, disgorgement may not be part of any of the analysed categories. It may not constitute a special kind of *negotium gestio*, neither a part of the law on unjust enrichment nor a part of the law on damages. Disgorgement requires separate elements different from these categories, and thus simply constitutes a new and different remedy for the breach of contract. Since it does not exist in the Croatian law on obligations, this could be *de lege ferenda* challenge for the Croatian legislature. One of the fears of domestic academia is that the introduction of such a new remedy would undermine the well-established remedies, such as the *restitutio in integrum* or the compensation of damage which is equal to the actual loss the claimant has suffered.

Here the argument of "independency" could be raised. As already mentioned, the basis of a claim for disgorgement is independent from a claim for damages or any other claim discussed in the text. In the *de lege ferenda* scenario, disgorgement could only act as an alternative to other legal remedies. It could be raised either independently or together with other remedies. The disgorgement remedy could influence the overall outcome of the case, but it may not undermine or change other legal remedies. Thus, the idea of the implementation of the disgorgement must not change the present structure of legal remedies, but may offer another alternative within the present system. This should be undertaken carefully and with consideration.

Other areas of law, discussed in the last chapter, reacted differently to the problem of disgorging unlawful profit. None of them provided a clear legal basis for disgorgement, but they all developed some *sui generis* remedies adapted to their specific needs. Under certain conditions, these remedies might allow skimming off, seizure, transfer or confiscation of unlawful gain. For instance, criminal law is the only area offering more comprehensive rules allowing freezing and confiscation of illegally gained profits by any type of criminal offence. The idea behind it is that no one is allowed to make a profit from a criminal offence. Commercial law offers a legal basis for the transfer or subrogation of illegal gain of its member or a business transaction as a whole to the company's account. The core of this remedy derives from the breach of fiduciary duties, and the relationship between a company and its members. Competition law provides a clear legal base to the competition law Agency to impose certain administrative-criminal offence measures (fines) which might allow skimming off of a certain percentage of profit gained by the infringements of competition law and unfair commercial practices. But the purpose of the law and these measures is to punish the wrongdoer, and not to ruin him. They serve as a kind of prevention against future infringement. Finally, intellectual property legislation offers three legal remedies against infringements of intellectual property rights: A claim for damages, payment of remuneration or a licence fee and

restitution of a gain in accordance with the rules of unjust enrichment. All three are *sui generis* remedies specifically developed for the protection from loss of the intellectual property right owner, and not for skimming off illegally gained profit of the wrongdoer.

To conclude, in Croatia there is no universally accepted concept of disgorgement of profit, and a general legal basis is lacking. However, some functional equivalents and *sui generis* remedies have been recognised in different areas of private law, with a substantial level of diversity. They also serve a very different purpose: mostly compensation and restitution, and in some cases prevention and punishment. In my opinion, this is still not sufficient to develop a coherent theory on disgorgement of profits. At the moment, there is no discussion on the topic, nor much writings.

The final question pointed out by experts is whether these discussions and criteria on disgorgement have practical relevance. In the past, it seemed that – at least in some areas such as intellectual property – claimants seldom asked for disgorgement of profits as they were too difficult to calculate or did not exceed the suffered losses substantially.[99] I believe that this issue could be relevant for Croatia. Introducing a clear legal basis for disgorgement of profits could enhance combating infringements of the law and illegally gained profit, and could allow the development of case law in that direction. As already pointed out, my opinion is that – if introduced – the idea of the implementation of disgorgement must not change the present structure of legal remedies, but may offer another alternative within the present system. However, this should be done carefully and with consideration, and with utmost respect to Croatian legal tradition and the current structure of legal remedies.

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Chapter 21
Disgorgement of Profits in Slovenian Law

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Abstract In Slovenian law, complete disgorgement of profits is possible only in criminal and administrative law (via public enforcement, to the benefit of the state budget), but generally not in private law (via private enforcement, to the benefit of the plaintiff). The scarce case law indicates that seizure of benefits gained by criminal act or minor offense rarely occurs in practice. An easier to apply functional equivalent of the disgorgement of profits is monetary penalty (when prescribed). In tort law, wrongfully gained profit may be disgorged by way of a damages claim only to the extent that it represents legally relevant damage (lost profit) of the wronged person. It would seem that tort law is more concerned with preventing the wronged party from getting more in damages than its damage (loss) amounts to, than it is with preventing the wrongdoer from keeping profit gained by wrongful infliction of damage (and exceeding the "loss" of the wronged party). An exception applies to infringements of copyright where damages may be multiplied to up to three times the actual damage. In contract law, the damages are generally limited by foreseeability, but this limitation does not apply in cases of intentional or reckless breaches, which can be seen as a way of preventing (profitable) breaches and achieving some extent of disgorgement of profits.

Keywords Wrongfully gained profit • Disgorgement of profit • Confiscation of benefits • Damages • Loss

Introduction

Everyone agrees that unlawful conduct should not pay. A wrongdoer is not allowed to profit from his own wrong[1] – a timeless statement of natural justice that Slovenian judges, as well as presumably the judges of other countries, would have no problem

[1]See, e.g., American Law Institute (2011), § 3 of Restatement (Third) of Restitution and Unjust Enrichment.

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signing on to. One would expect that this principle of both private and public law is reflected in the legal remedies in both areas of law. Criminal and administrative law explicitly prescribe that no one is allowed to keep benefits gained by a criminal offense or minor offense and the state can seize any benefits gained in this way.

In private law, there is no general remedy aimed at the disgorgement of ill-gotten gains. Tort law[2] – the area of private law primarily concerned with the consequences of wrongs between individuals – aims at restitution for wrongfully caused damage (loss) to the wronged person, rather than at the disgorgement of profits from the wrongdoer. Damages should compensate for but also not exceed the loss (damage) of the wronged person. There is some discussion in the legal literature as to whether in cases of violations of personality rights by the media damages for immaterial loss (pain and suffering) should be higher than the actual loss in order to provide an incentive to the publisher not to (systematically) infringe the rights of individuals. This discussion is not reflected in the case law. Copyright law contains a damage multiplier that also functions as a means of disgorgement of profits: in the event of infringements, the amount of damages can be up to three times the amount of the loss or three times the amount of "the usual fee". There are some possibilities regarding the disgorgement of profits in the law of unjustified enrichment, but they have rarely been used in this respect thus far. According to a basic principle of contract law, damages in the event of a breach of contract are limited to the damage that was foreseen or foreseeable by the debtor. However, if the breach is intentional or fraudulent, the creditor may demand restitution for the entire damage caused by the breach. This "growth" of liability can also be seen as a means of disgorging profits, but it is not used in this manner by the courts.

Most Slovenian lawyers would translate the "disgorgement of profits" or the "skimming-off of profits" as the "seizure" or "confiscation of benefits" ("*odvzem premoženjske koristi*"), which is an institute of criminal law and administrative law. In private law, the term "disgorgement of profit" is unknown. However, Slovenian private law knows the duty to forfeit profit gained by (some type) of wrongful conduct in the following two situations:

(a) if someone (a "*gestor*") intervenes into another man's affairs not with the intention to help him but rather to keep the benefits (so called false *negotiorum gestio*), he is obliged to hand over to the principal all the benefits gained, in addition to damages, if the principal so demands.[3]
(b) Corporate law knows a similar provision in relation to the non-competition clause: If a person violates the prohibition of competition, the company may, in addition to damages, demand that all benefit gained thereby be handed over

[2]The expression "tort law" is used in the sense of non-contractual liability for damage and covers delicts (fault liability) as well as quasi-delicts (strict liability).

[3]See Art. 205 of the Obligations Code.

to the principal.[4] In both of the mentioned cases, the duty to hand over any benefits so gained applies only if the wrongdoer had intentionally violated the rights and interests of the wronged person.

Tort Law

The basic principle of Slovenian tort law is found in Art. 131 (1) of the Obligations Code: if someone has wrongfully caused damage to another by his own fault, he has to make good the damage.[5] Fault (negligence) is presumed until proven otherwise; however, intention and recklessness have to be proven by the plaintiff. The focus of tort law is on the damage (loss) of the wronged party and not on the profit the wrongdoer might have gained. The primary aim of tort law is the reparation of (material and immaterial) damage. The wronged party is to be put as much as possible into the position in which it would have been if the damage had not occurred.[6] It follows that, in principle, the wronged party may not be awarded more in damages than its loss (material and immaterial) amounts to – in other words, the wronged party may not "profit" or become "enriched" by damages. For this reason, any benefits the wronged party may have received from the event giving rise to the damage should be deducted from the damage (*compensatio lucri cum damno*).[7]

Damage refers to either material or immaterial damage. Material damage is calculated in two ways: either as the cost of restitution (e.g. repair) or as a reduction in the value of property (assets), including the prevention of an increase in value, i.e. lost profit.[8] If, due to his wrongful conduct, the wrongdoer has gained profit that the wronged person was reasonably expecting, the wronged person may demand damages for lost profit. However, the case law has not expressly discussed this effect

[4]Art. 42 of the Companies Act (ZGD-1, Official Gazette 42/2006, most recent amendment 82/2013). However, this claim must be filed within 3 months after the company discovered the violation and the liable person, or within 5 years from the occurrence of damage, at the latest.

[5]See Art. 131(1) of the Obligations Code. The fault (negligence) is presumed until proven otherwise. The general clause of Art. 131 of the Obligations Code does not mention wrongfulness. However, it is undisputable that "wrongful conduct" is one of the elements of fault liability; see, e.g., Supreme Court Case No. VIII Ips 314/2004, dated 24 May 2005. In addition to the fault principle, the loss has to be made good by the person carrying out the "dangerous activity" or the holder of the "dangerous thing", regardless of their fault (strict liability) if the loss is attributable to the increased risk of inflicting damage arising out of the "dangerous" activity or thing, see Art. 131(2) of the Obligations Code. Strict liability also applies to some other cases defined by the law, see Art. 131(3) of the Obligations Code.

[6]See Art. 169 of the Obligations Code.

[7]However, if the wronged party receives sympathetic help or gifts from volunteers, this is not deducted from the damages, as the purpose is to help (and, in this sense, to enrich) the wronged person. An exception to the principle also applies in cases where social support is given to the wronged party, see Supreme Court Case No. II Ips 50/1994, dated 15 September 1994.

[8]See Arts. 132, 164, and 169 of the Obligations Code.

as it is only concerned with the loss of the wronged party. Immaterial damage relates to physical or emotional suffering or fear; here a monetary claim for damages is not seen as the "reparation" of damage, but rather as the "equitable satisfaction" of the wronged person.[9]

With regard to material damage, an exception applies to cases where a "thing" was destroyed or damaged intentionally; here the damages do not cover only the "objective" loss (calculated either as the cost of reparation or the reduction in value, both in market terms), but also the special (subjective) value the thing had to the wronged party (*pretium affectionios*).[10] These damages contain a certain punitive element as the extent of the sanction depends on the degree of fault. On the other hand, a certain immaterial element (the emotional connection of the wronged party to the "thing") is taken into account when calculating material damage. Even though it is difficult to imagine that the wrongdoer would profit by destroying or damaging a thing, the focus is still on the loss of the wronged party and not on the profit of the wrongdoer, even if the damages are higher than the objective "loss".

In the legal literature there is some discussion as to whether damages may exceed (material and non-material) loss where the latter is the result of a media company violating the personality rights of individuals. If the media company profits by violating personality rights, disgorgement of profit cannot be claimed by a damages claim for lost profit, since, in most cases, it was not the intention of the wronged person to commercialize his or her personality in such manner. Thus, damages for non-material loss remain the only option. Neither the case law nor the legal literature approach these situations from the viewpoint of disgorging profit, the discussion rather focuses on the "punitive" element of damages. The prevailing view seems to very much oppose the idea of punitive damages; they are seen as being inconsistent with principles of private law; penalization is reserved exclusively for criminal law.[11] The latter, *inter alia*, guarantees the defendant the constitutional procedural rights that, if tort law included punishment, the defendant could be deprived of in a civil procedure.[12] However, some younger authors underline that damages in the amount of the actual (immaterial) loss do not protect personality rights effectively against media corporations.[13] One of the reasons is that the wrongdoer – the media company – gets to keep the profit exceeding the immaterial loss of the wronged person, which is clearly unacceptable. The prevailing case law rejects the idea of punitive damages. However, a recent judgment of the Supreme Court shows that a change of attitude is not impossible: the Court discussed the question of from whom punitive damages may be sought – the liability of the public hospital and

[9] See Arts. 178–181 of the Obligations Code.

[10] Art. 168 (3) Obligations Code.

[11] See, e.g., Polajnar-Pavčnik (2011), 1284.

[12] See, e.g., Vuksanović (2010) Kaznovalna funkcija odškodnin in Ustava, 11.

[13] See, e.g., Mežnar (2006), 77; Mežnar (2008), 1284.

state health insurance fund [at issue in the case] would "punish" all the beneficiaries and was rejected. It would seem that such a claim could be upheld under different circumstances.

The conflict between these contradictory principles, i.e. the unacceptability of the wrongdoer being allowed to keep the profit gained by a wrong (and exceeding the damage), on the one hand, and the principle that the wronged party should not "profit" from damages, together with a negative attitude towards punitive measures in civil law, on the other, is resolved in favour of the latter.

Intellectual Property Law

In principle, infringements of intellectual property rights give rise to liability in tort according to the general rules of the Obligations Code. There are, however, two important exceptions that only apply to infringements under intellectual property law.

The first one is the possibility of an alternative calculation of damages in addition to the general rules: an amount that corresponds to the usual royalty or license fee for legitimate use. This is applicable to infringements of copyrights,[14] patents, trademarks, industrial designs, and topographies of integrated circuits.[15] According to the case law, this not as a special case of calculating (abstract) damages, but a case of restitution due to unjust enrichment as a result of the expenses that the wrongdoer has "saved".[16] An analogy can be drawn by using another person's property that is regulated as a case of unjust enrichment in Art. 198 of the Obligations Code; "property" is understood in a broad sense, including rights, such as intellectual property rights.[17] This can also be seen as a case of the disgorgement of profits in the sense of the disgorgement of the expenses the wrongdoer has saved.

The second exception only applies to copyright infringements. In addition to damages calculated either on the basis of general rules or as the usual fee, the wronged person may demand from the wrongdoer a "civil penalty". According to Art. 168 (3) of the Copyright and Related Rights Act, the wronged party may, irrespective of any damage, claim up to three times the amount of the usual fee for legitimate use of such rights, if the infringement was intentional or reckless. The punitive character of the provision stems from the fact that damages representing a multiplied loss (*triplum*) is available only in cases involving intent or recklessness

[14] See Art. 168(2) of the Copyright and Related Rights Act ("Zakon o avtorski in sorodnih pravicah", Official Gazette 21/1994, with subsequent changes, most recently 110/2013).

[15] See Art. 121a (2) of the Industrial Property Act ("Zakon o industrijski lastnin" – ZIL-1, Gazette – 51/06, consolidated version 100/13). See also Art. 17 of the Act on the Protection of Topographies of Integrated Circuits (Official Gazette 81/2006).

[16] See Supreme Court Case No. III Ips 126/2007, dated 16 June 2009.

[17] Cigoj (1984), 848.

and also from the fact that such may be claimed regardless of actual damage. It is the wronged party and not the state who receives the "penalty". The damages multiplier is an important exception to the principle that the wronged party may not gain more in damages than its damage (loss). The effect of the "civil penalty" is also that the wrongdoer is disgorged of the profit to the extent that it exceeds "normal" damages (up to three times this amount). In the literature and case law, the disgorgement viewpoint is not discussed. It seems somewhat odd that the Industrial Property Act, which was adopted subsequently, does not contain a similar provision regarding the infringement of patents, trademarks, and industrial designs. Although such situation is comparable with copyright infringement, the application of a "civil penalty" for the infringement of industrial property rights is neither discussed in the literature nor applied by analogy by the courts.

Law of Unjustified Enrichment

It would seem that the law of unjust enrichment provides more possibilities for the disgorgement of unlawfully gained profit than tort law, as it is based on the principle of natural law according to which no one may be enriched at the expense of another without a legal basis.[18] Thus, the aim of restitution is to abolish the unjustified enrichment, i.e. enrichment without a legal basis. It follows that the wrongdoer should not be allowed to keep the profit gained without a legal basis.

The basic principle of Slovenian law of unjustified enrichment is found in Art. 190(1) of the Obligations Code: if someone is unjustly enriched at the expense of another, he must return what he had received, if possible, or pay restitution for the benefits gained. Thus, the duty of restitution only arises where there has been a "shift" of property from one person to another without legal justification.[19] In order words: the enrichment of one party must be related to the deprivation of another. Therefore, the wrongdoer can be disgorged of the profit only if this profit is a result of the deprivation of the wronged person, which significantly narrows the range of application of the law of unjustified enrichment as a way of disgorging the profit. In fact, the situation is comparable to tort law (lost profit).

Two further points should also be stressed. Firstly, the legal foundations of different claims in the Slovenian law of obligations may overlap. The *non-cumul* principle is not in force. On the contrary, the Code explicitly provides for a plaintiff's choice between a claim for damages and a claim for restitution (due to unjustified enrichment), if the conditions of both are met. Therefore restitution is, in principle, a remedy available for a wrong. It is often more advantageous

[18] "*Nam hoc natura aequum est neminem cum alterius detrimento fieri locupletiorem*", Pomp. D. 12,6,14.

[19] See Art. 190 of the Obligations Code ("Obligacijski zakonik", Official Gazette 83/2001, 32/2004, 40/2007).

for the claimant to base the claim on unjustified enrichment since the period of prescription for claims for damages may be shorter.[20] And secondly, the boundaries between claims for damages and claims for unjustified enrichment are blurred. The courts sometimes consider the same (or similar) facts as giving rise to a claim for unjustified enrichment in one instance, and in others as giving rise to a damages claim.[21]

Contract Law

In contract law, if a debtor breaches a contract, the creditor may demand specific performance. Thus, the debtor may, in principle, not simply choose to breach the contract if the breach is more profitable to him than performance. However, this only holds true for obligations that, by their nature, are executable (excluding, e.g., obligations which only the debtor can perform). It could be argued that the claim for specific performance also has the function of preventing profitable breaches.

The creditor is also entitled to damages for breach of contract. The debtor is liable for damages in the amount of loss foreseeable to him.[22] If, however, the breach of contract was intentional or fraudulent, the foreseeability limitation falls away: the damages then must cover the "entire" loss arising from breach, i.e. also the loss due to particular circumstances not foreseeable to the debtor.[23] This is an instance of damages with a punitive character in contract law. Although this still entails the recovery of the loss of the creditor rather than the disgorgement of the gains of the debtor in breach, it may enable disgorgement of some or all of the profit if any was gained and it also provides an incentive for the debtor not to (intentionally or fraudulently) breach the contract. Unfortunately, the case law with regard to intentional and fraudulent breaches is rare and the question of the disgorgement of profits is never discussed.

[20] Art. 189 of the Obligations Code makes it clear that the wronged person may, after the prescribed period for filing a claim for damages (within 3 years following the discovery of the damage and the liable person, or within 5 years from the occurrence of the damage), still demand restitution amounting to what the wrongdoer has received by the act giving rise to the damage. See, e.g., Higher Court in Ljubljana Case No. III Cp 1164/2009, dated 3 June 2009, and Case No. II Cp 1219/1994, dated 5 April 1995.

[21] See, e.g., Supreme Court Case No. II Ips 444/2004, dated 16 March 2006 (the defendant had rented out an apartment of which he was only co-owner; the Court upheld the claim of the other co-owner for damages), Supreme Court Case No. II Ips 364/2000, dated 1 March 2001; here, the plaintiff was co-owner of the house, too. She claimed that the defendant hindered her use of the house, although he himself was only using his part of the house. The court upheld a claim for unjustified enrichment.

[22] See art. 243(1) of the Obligations Code. Oddly, the moment of reference is not the time of the conclusion but the time of the breach of contract.

[23] See Art. 243(2) of the Obligations Code.

Competition Law

A violation of competition law is also a tort. The general rules on damage and liability apply.[24] Although the gaining of profit is the primary aim of any anticompetitive practices, the profit can only be disgorged by way of damages claimed to the extent that they represent the loss of the wronged party (i.e. lost profit). No special tort law rules exist for competition law. The possibility of the disgorgement of profit as one of the methods of remedying damage is discussed by the legal literature, but has not yet found any reflection in the case law.[25] Furthermore, it should be noted that the courts apply high standards for proving lost profit in claims for damages due to anticompetitive practices.[26] Judgements granting claims for damages due to such in the last two decades cannot be found. Any debate as to whether private enforcement of competition law should include the element of disgorging the wrongdoer of the profit is therefore purely academic.

Administrative Law

Infringements of competition law[27] and copyright law[28] as well as violations of numerous other laws or rights (but not patents, trademarks, and industrial designs) are not just torts giving rise to claims for damages, but also minor offenses ("*prekršek*"). This means, on one hand, that they are punishable by monetary fines imposed by different government agencies. Fines can also be seen as a method of disgorgement of wrongfully gained profits to the benefit of the state budget.

The fines in cases of anticompetitive practices may amount to up to 10 % of the annual turnover of the company.[29] They may be imposed by the Slovenian Competition Protection Agency, which also assesses restrictive agreements and abuses of a dominant position, and as well examines concentrations. Unfortunately, the extremely small number of imposed fines in the last two decades does not allow the conclusion that Slovenian companies respect the rules. Rather, it shows an underdeveloped anti-competition culture and non-efficient public enforcement of competition law.

[24] See Art. 62(1) of the Competition Act ("Zakon o preprečevanju omejevanja konkurence" – ZPOmK-1, Official Gazette 36/2008, most recent amendment 63/2013).

[25] See, e.g., Vlahek and Ahtik (2011), 1344; and Bernard (2011), 503.

[26] See, e.g., Higher Court in Ljubljana Case No. I Cpg 1473/2010, dated 18 May 2011.

[27] See Arts. 73 and 74 of the Competition Act.

[28] See Arts. 184 and 185 of the Copyright Act.

[29] See Arts. 73 and 74 of the Competition Act.

On the other hand, minor offenses are also subject to rules on the seizure of benefits gained by minor offenses. Art. 28 of the Minor Offenses Act[30] clearly states that "*No one is allowed to keep any material benefits gained by or for a minor offense*". The agency that imposes a fine issues an order by which the benefits are confiscated from the perpetrator or from another recipient of benefits. As with fines, confiscated benefits go into the state budget. However, the case law on the seizure of benefits is very scarce.

Criminal Law

Violations of competition law by which "great"[31] damage is caused to the wronged company or by which the perpetrator gains "great" material benefit, are not just minor offenses, but also criminal offenses.[32] The same is true if someone uses foreign trademarks, industrial designs, patents, and other industrial property rights "in the course of his business".[33] The infringement of copyrights and related rights can also represent a criminal offense,[34] as well as the violation of personality rights[35] and numerous other types of violations. It is quite possible that the same conduct represents a minor as well a criminal offense: in such a case, criminal procedure takes precedence.[36] Not only natural persons, but also legal entitles are punishable.[37]

The perpetrator (wrongdoer) is not just liable for any damage he has caused, but he is also not allowed to keep any benefits he might have gained which exceed the damages (if they are claimed at all). As is the case with the Minor Offenses Act, the "confiscation of benefits" gained by criminal act is based on a very clearly formulated principle according to which no one is allowed to keep benefits gained by a criminal offense.[38] Of course, seizure is possible only if the defendant is found guilty of a criminal offense. Confiscation is imposed by a criminal court *ex officio*, together with sentence for the criminal offense. The benefits may be seized from the

[30] The Minor Offenses Act ("Zakon o prekrških" – ZP-1, Official Gazette 7/2003, with subsequent amendments, most recently 111/2013).

[31] Both "greater" damage and "greater" material benefit are defined in Art. 99(9) of the Penal Code as exceeding EUR 50,000.

[32] See Art. 225 of the Penal Code ("Kazenski zakonik", Official Gazette 55/2008, 39/2009).

[33] See Art. 233 (trademarks, industrial designs) and Art. 234 (patents, topographies) of the Penal Code.

[34] See Arts. 147–149 of the Penal Code.

[35] See Arts. 158–160 of the Penal Code.

[36] See Art. 11 of the Minor Offenses Act.

[37] See The Liability of Legal Persons for Criminal Offences Act ("Zakon o odgovornosti pravnih oseb za kazniva dejanja", Official Gazette 59/1999, last amended 57-2402/2012).

[38] See Art. 74(1) of the Penal Code.

perpetrator or from a person who has received the benefit. The Penal Code regulates the relation between a seizure and a claim for damages, which may also be filed in a criminal court: if the court has upheld the wronged person's claim for damages, then only the benefits exceeding the damages are seized. In this sense, the confiscation (to the benefit of the state budget) is of a secondary nature, the damages of the wronged person are primary.[39]

However, confiscation of benefits in practice may cause significant difficulties. In a simple and straightforward criminal case, e.g. if the defendant has sold drugs in exchange for money, it is easy to seize the benefits, i.e. the money received. However, in more complex cases, e.g. violations of competition law, it may be very difficult for a criminal court to ascertain the benefits to be seized and to exclude other factors that may also have influenced the economic position of the defendant. If the wronged person claims damages under criminal procedure, the court will decide on the claim only if the case is relatively simple. If the case is more complicated, the criminal court will direct the plaintiff to a civil or commercial court. This is a possibility that a Criminal court does not have with regard to the seizure of benefits. There is scarce case law on the confiscation of benefits under criminal law in general and none on the confiscation of benefits in cases of violations of competition and intellectual property law, as well as on violations of personality rights.

The goal of the disgorgement of profits can also be achieved by means of monetary penalties (fines) and, when legal entitles are defendants, also by the seizure of property as a criminal sanction (not property gained by the offense, but pre-existing property).[40] As is the case with the seizure of benefits, monetary penalties go into the state budget. They are determined on the basis of a range of (extenuating or aggravating) circumstances, one of which is the profit expected from or gained by the criminal offense.[41] Still, such a monetary fine is abstract in the sense that the actual profit does not need to be ascertained. In this respect, it is much easier to set a penalty that to determine the benefits to be seized.

The Act on the Liability of Legal Entities for Criminal Offences prescribes an extremely wide range of monetary penalties: for criminal offenses that are punishable by a prison sentence of less than 3 years, the monetary penalty may be as much as € 500,000 or one hundred times the amount of the damage caused or the benefits gained by the criminal offense. For criminal offenses punishable by a prison sentence of more than 3 years, the minimum monetary penalty is € 50,000 and may reach up to two hundred times the amount of damage caused or the wrongfully gained benefit.[42] Whether such a manner of prescribing monetary penalties is an example of sensible regulation is a different question. The disgorgement of profits

[39] See also Supreme Court Case No. I Ips 34619/2011-416, dated 12 September 2013.

[40] See Art. 14 of the Liability of Legal Entities for Criminal Offences Act ("Zakon o odgovornosti pravnih oseb za kazniva dejanja", Official Gazette 59/1999, most recent amendment 57-2402/2012).

[41] See Art. 49 of the Penal Code.

[42] See Art. 26 of the Liability of Legal Entities for Criminal Offences Act.

is surely only a "by-product" of such a penalty. It has to be noted, however, that since 1999 there has not been a single (!) judgement imposing a monetary penalty on a legal entity in Slovenia.

Recently, the Forfeiture of Assets of Illegal Origin Act was adopted in Slovenia[43] – a measure that should supplement the Penal Code in the fight against "commercial" crime. If there exist reasons for suspicion that a person has committed one of the listed criminal offenses, and this person's income is not proportional to his or her expenditures, the act sets the presumption that its assets (property) have been acquired illegally. The burden of proof is reversed: the suspect must prove that he or she has acquired the assets in a legal way or the assets are confiscated to the benefit of the state budget. Assets can be seized even without a criminal conviction. The confiscation procedure is a civil procedure; it commences when a state prosecutor files a claim. With regard to this Act, too, it has to be noted that there has not been a single (!) successful seizure of assets since its coming into force in 2012.

Conclusions

In Slovenian law, complete disgorgement of profits is possible only in criminal and administrative law (via public enforcement), but generally not in private law (via private enforcement). In public law, it is the state budget that receives the wrongfully gained "benefits". However, the scarce case law indicates that such seizure rarely occurs in practice. This creates some doubt with regard to the effectiveness of the public enforcement of the principle that no one may keep profit gained by his own wrong. Furthermore, in more complex cases, such as violations of competition law, it may be very difficult for a criminal court or government agency to ascertain the exact amount of profit resulting from the violation. An easier to apply functional equivalent of the disgorgement of profits is monetary penalties or fines (to the extent that they are prescribed).

In private law, there is no general remedy aimed at the disgorgement of profits. In tort law, such profit may be disgorged by way of a damages claim only to the extent that it represents the legally relevant damage (lost profit) of the wronged person. It would seem that tort law is more concerned with preventing the wronged party from getting more in damages than its damage (loss) amounts to, than it is with preventing the wrongdoer from keeping profit gained by wrongful infliction of damage (and exceeding the "loss" of the wronged party).

There are some exceptions in intellectual property law: on one hand, the damage may be calculated either according to general rules or on the basis of the usual fee for legitimate use. The latter may be seen as a way to prevent the enrichment of the wrongdoer, as he must pay restitution amounting to the expenses he saved due to his wrong. On the other hand, damages for infringement of copyright (but not

[43] "Zakon o odvzemu premoženja nezakonitega izvora", Official Gazette 81/2011.

patents, trademarks, and industrial designs) may be multiplied and may amount to up to three times the actual damage. This so-called "civil penalty" also functions as a manner of disgorgement of profits. In contract law, the damages are generally limited by foreseeability, but this limitation does not apply in cases of intentional or reckless breaches. This also serves as a way of preventing (profitable) breaches and achieving the disgorgement of profits (to some extent).

Having in mind that private law does not allow for complete disgorgement of profits via private enforcement and considering the scarce number of cases where "benefits" gained by criminal or minor offenses have been seized via public enforcement, one must wonder whether in Slovenia tort actually does pay.

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Part VIII
East Asia

Chapter 22
The Disgorgement Damage System in Chinese Law

Xiang Gao and Chengwei Liu

Abstract The disgorgement damage or gain-based damage is a relatively new term in Chinese law. The disgorgement damage system was first introduced in China's company law. It was later expanded to other topical laws including intellectual property, securities, torts and the contract law. We can also find cases where Chinese courts have cited rules or jurisprudential basis of disgorgement damage to recover the damage of the injured parties in some of their opinions. This reflects that such provisions have to some degree become an important instrument for private relief and compensation in practice in China. However, it is pity that the practice of the system has lagged behind the expression of the law itself. Also, we do not have a general theoretical legal basis for the system. Besides, existing rules in intellectual property, torts and securities law only assume a supplementary role. To fully develop the functions of Chinese disgorgement system, we need to have a general theoretical basis, establish an internal structure with rich layers, strengthen the criteria for proving the gains, and return to the idea of putting the parties at the center of the system, as required in private law.

Keywords Disgorgement damage (gain-based damage) • Loss-based damage • Theoretical basis • Internal structure • Proving criteria

Introduction

Chinese Laws of damage mainly aim at compensating the injured party for loss suffered. The remedies are therefore in most cases compensatory in nature rather than punitive. The calculation of indemnity is based on the actual loss suffered by the injured party, who will be entitled to an indemnity for damage that is

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equal to the actual loss. Where there is no actual loss or such loss could not be proven, the court normally will not support the plaintiff's claim for damage. However, social development and legislative reforms have brought about changes to this. In some Chinese cases and legal practices, the loss of the injured party is calculated on the basis of the gain of the infringer or wrongdoer. This is called disgorgement damage or gain-based damage, a relatively new term in Chinese law. The disgorgement damage system was first established in China's company law.[1] It was later introduced to other laws including that of securities,[2] intellectual property[3] and torts.[4] This chapter will have a comprehensive study and analysis of the disgorgement damage system in the PRC by examining the relevant provisions in the statutes and cases to provide our views to make it more practical and effective in protecting parties' rights and interests.

Relevant Provisions in the Statutes

Relevant provisions with regard to disgorgement damage system mainly appear in four areas of law – company law, securities law, intellectual property law and tort law.

Provisions in Company Law

In the *Company Law of the People's Republic of China* (hereinafter referred as "Company Law"), there are four articles which are about corporation disgorgement damage.

First, Article 61 of the Company Law, which is related to the gains in the violation of prohibition of business strife, provides "A director or the general manager may not engage in the same business as the company in which he serves as a director or the general manager either for his own account or for any other person's account, or engage in any activity detrimental to company interests. If a director or the general manager engages in any of the above mentioned business or activity, any income so

[1]The Company Law of the People's Republic of China was promulgated in 1993, and amended in 1999, 2004 and 2005. Unless acknowledged otherwise, quotations of all the statutes are from the latest version.

[2]The Securities Law of People's Republic of China was promulgated in 1998 and amended in 2004, 2005 and 2013.

[3]The Copyright Law of the People's Republic of China was promulgated in 1990, and amended in 2001 and 2010. The Patent Law of People's Republic of China was promulgated in 1984, and amended in 1992, 2000 and 2008. The Trademark Law of People's Republic of China was promulgated in 1982, and amended in 1993, 2001 and 2013.

[4]The Tort Law of People's Republic of China was promulgated in 2010.

derived shall be disgorged to the company. Unless otherwise provided in the articles of association or otherwise agreed by the shareholders' committee, a director or the general manager may not execute any contract or engage in any transaction with the company".

Secondly, Article 147 of the Company Law, which is related to promoters and administrators' gains from improper shares transfer, provides "Shares of a company held by its promoters shall not be transferred for a period of 3 years commencing from the date of the company's establishment. Directors, supervisors and general manager of a company shall report to the company the number of the company's shares held thereby, and shall not transfer such shares while they are in office".

Thirdly, Article 214 (2) of the Company Law governs company management improper personal gains, providing "Where a director or the general manager misappropriates company funds or lend company fund to third parties, he shall be ordered to return the company fund and shall be disciplined by the company, and the gains derived from such transaction shall be turned over to the company. Where such action constitutes a crime, criminal liability shall be imposed in accordance with the law. Where, in violation hereof, the directors or the general manager use company assets as security for personal debt of any director of the company or any other person, the security arrangement shall be ordered to be canceled, and such persons shall be held liable for damages in accordance with the law, and the gains derived from the illegal provision of security shall be turned over to the company. Where the circumstance is serious, such persons shall be disciplined by the company."

Fourthly, Article 215 of the Company Law, which also governs gains in violation of prohibition of business strife, provides "Where, in violation hereof, a director or the general manager engages in the same business as the company either for his own account or for another person's account, in addition to turning over any income so derived to the company, such person may also be disciplined by the company."

Provisions in Securities Law

There is only one article in the *Securities Law of the People's Republic of China* (hereinafter referred as "Securities Law") on corporation disgorgement damage. Article 42 of the Securities Law provides that majority shareholders' gains from "short-swing trading" shall belong to the company, saying: "Where any director, supervisor and senior manager of a listed company or any shareholder who holds more than 5 % of the shares of a listed company, sells the stocks of the company as held within 6 months after purchase, or purchases any stock as sold within 6 months thereafter, any gains therefrom shall belong to the company. The board of directors of the company shall obtain the gains from these transactions for the company. However, where a securities company holds more than 5 % of the shares of a listed company, which are the unsold stocks that the securities company has purchased from the company for resale, the sale of these stocks will not be limited by a term of 6 months. Where the board of directors of a company

fails to implement the provisions as prescribed in the preceding paragraph herein, the shareholders concerned have the right to demand that the board of directors implement them within 30 days. Where the board of directors of a company fails to implement them within the aforesaid term, the shareholders have the right to directly file a law suit with the people's court in their own names for the interests of the company. Where the board of directors of a company fail to implement the provisions as prescribed in paragraph one herein, the directors in charge shall be jointly and severally liable according to law." Compared to regulations in the Company Law, this provision is technically designed better. However, the provisions in the Company Law include more instances of corporation disgorgement damage and thus cover a wider regulatory area.

In addition, there are similar provisions in two special laws relating to securities. They are the *Trust Law of the People's Republic of China* (hereinafter referred as "Trust Law") and the *Law of the People's Republic of China on Funds for Investment in Securities*[5] (hereinafter referred as "Securities Investment Fund Law"). Article 26 of the Trust Law provides that "the trustee must not take advantage of the trust property to seek profits for his own except getting remuneration according to the provisions of this Law. If the trustee violates the provisions of the preceding paragraph to take advantage of the trust property to seek profits for his own, the profits he obtains shall be brought into the trust property."

Article 130 of the Securities Investment Fund Law provides that "a fund management institution or fund custodian which commits any act as set out in items (1) to (5) and item (7), paragraph 1 of Article 74 of this Law or violates paragraph 2 of Article 74 of this Law shall be ordered to make rectification and be fined from 100,000 Yuan up to one million Yuan; and the directly responsible person in charge and other directly liable persons shall be warned, with their fund business qualifications suspended or revoked, and be each fined from 30,000 Yuan up to 300,000 Yuan. Any property and income obtained from the utilization of fund assets by a fund management institution or fund custodian committing any act prescribed in the preceding paragraph shall become part of the fund assets, except as otherwise provided for by any law or administrative regulation."

Provisions in Intellectual Property Law

The laws on intellectual property have been revised multiple times. But the provisions on disgorgement damages have stayed largely unchanged.

Article 49 of the *Copyright Law of the People's Republic of China* (hereinafter referred as "Copyright Law") provides that "if a copyright or copyright-related right is infringed, compensation shall be paid according to the actual loss of the

[5]The Law of the People's Republic of China on Funds for Investment in Securities was promulgated in 2003 and amended in 2012.

right owner by the person who made the infringement; if the computation of the actual loss is difficult, compensation may be paid according to the illegal gains of the person who made the infringement. The compensation shall also include the reasonable expenses of the right owner for preventing the act of infringement. If the actual loss of the right owner or the illegal gains of the person who made the infringement could not be ascertained, the people's court shall judge the compensation not exceeding 500,000 Yuan depending on the circumstances of the act of infringement".

Article 65 of the *Patent Law of the People's Republic of China* (hereinafter referred as "Patent Law") provides that "the amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement; where it is difficult to determine the actual losses, the amount may be assessed on the basis of the profits the infringer has earned because of the infringement. Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under a contractual license. The amount of compensation for the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act".

Article 63 of the *Trademark Law of the People's Republic of China* (hereinafter referred as "Trademark Law") provides that "the amount of damages for infringement upon the right to exclusively use a registered trademark shall be determined according to the actual losses suffered by the right holder from the infringement; where it is difficult to determine the amount of actual losses, the amount of damages may be determined according to the benefits acquired by the infringer from the infringement; where it is difficult to determine the right holder's losses or the benefits acquired by the infringer, the amount of damages may be a reasonable multiple of the royalties. If the infringement is committed in bad faith with serious circumstances, the amount of damages shall be the amount, but not more than three times the amount, determined in the aforesaid method. The amount of damages shall include reasonable expenses of the right holder for stopping the infringement. Where the right holder has made its best efforts to adduce evidence but the account books and materials related to infringement are mainly in the possession of the infringer, in order to determine the amount of damages, a people's court may order the infringer to provide such account books and materials; and if the infringer refuses to provide the same or provide any false ones, the people's court may determine the amount of damages by reference to the claims of and the evidence provided by the right holder."

Article 20 of the *Anti-Unfair Competition Law of the People's Republic of China* (hereinafter referred as "Anti-Unfair Competition Law") provides that "where an operator, in contravention of the provisions of this Law, causes damage to another operator, i.e., the injured party, the infringer shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer

shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing the injured operator's lawful rights and interests".

Provisions in Tort Law

Article 20 of the *Tort Law of the People's Republic of China* (hereinafter referred as "Tort Law") governs the infringement disgorgement damage. It provides that "where any harm caused by a tort to a personal right or interest of another person gives rise to any loss to the property of the victim of the tort, the tortfeasor shall make compensation as per the loss sustained by the victim as the result of the tort. If the loss sustained by the victim is difficult to be ascertained and the tortfeasor obtains any benefit from the tort, the tortfeasor shall make compensation as per the benefit obtained. If the benefit obtained by the tortfeasor from the tort is difficult to be ascertained, the victim and the tortfeasor disagree to the amount of compensation after consultation, and an action is brought to a people's court, the people's court shall determine the amount of compensation based on the actual situation".

Some Chinese legal scholars believe that this provision has its root in relevant provisions of the intellectual property law. Some other Chinese legal scholars believe that this provision is borrowed directly from similar provisions in the Netherlands Civil Code or German Civil Code. As early as 2001, before the Tort Law was even promulgated, the Supreme People's Court of the PRC issued the Interpretation of the Supreme People's Court on Problems Regarding the Ascertainment of Compensation Liability for Emotional Damages in Civil Torts "hereinafter referred as "Tort Interpretation"). Some of the provisions in the Tort Interpretation recognized the infringement disgorgement damage system to some extent. Article 10 of the Tort Interpretation expressly recognizes "circumstances regarding earnings gained through the infringement" as an important basis for calculating emotional damage. Though the Tort Interpretation is not a general rule for infringement disgorgement damage, it essentially recognizes the rule of disgorgement damage by using the infringer's gains as calculation factor and method.

Practice of Disgorgement Damage in the PRC

The provisions on disgorgement damage in different legal subject matters are recognized and accepted by Chinese courts. We can find cases where Chinese courts have cited rules or jurisprudential basis of disgorgement damage to recover damage for the victim. This shows that these provisions have been to some degree implemented in China's legal practice and become an important tool for granting private relief and compensation in practice.

Practice of Disgorgement Damage in IPR Infringement

The IPR law has the most influential provisions on the disgorgement damage system in China as well as their application in practice. The leading case on this point is *Chint Group Corporation v Schneider Electric Low Voltage (Tianjin) Co., Ltd. and Ningbo Free Trade Zone Star Electrical Equipment Co., Ltd. Yueqing Branch*,[6] the so-called "the No. 1 case of compensation of China's patent infringement" in 2007. In this case, Chint Group Corporation (hereinafter referred to as "Chint") sued Schneider Electric Low Voltage (Tianjin) Co., Ltd. (hereinafter referred to as "Schneider") and Ningbo Free Trade Zone Star Electrical Equipment Co., Ltd. Yueqing Branch (hereinafter referred to as "Star's branch company") for infringement of its utility model patent, and the Wenzhou Intermediate People's Court expressively supported the plaintiff's claim to calculate the damage on the basis of the standard of the operating profit gained by the defendant from the patent infringement and therefore ordered that Schneider compensates for the plaintiff's loss of more than RMB 330 million Yuan. The court believes that "Schneider's act of manufacturing and selling the patented product for the purpose of production and operation without the consent of patentee Chint and the act of Star's branch company of selling the patented product for the purpose of production and operation without the consent of patentee Chint have constituted infringement of patent right and should therefore bear corresponding civil liabilities. Since Schneider is not an infringer who only engages in patent infringement, it should pay indemnity according to its profit from operations. Schneider's sales volume of the infringed patented product during the infringement term shall be first of all determined with the data that Schneider provides; the smaller figure between Schneider's average operating profit margin from selling all its products and the data in the sheet of Schneider's operating profit margin from selling the infringed patented product (the sheet is submitted by Chint) shall be the final operating profit margin for calculating the amount of indemnity. In this way, Schneider's operating profit from selling the infringed patented product from August 2, 2004 to July 31, 2006 is calculated as RMB 355,939,206.25 Yuan. As Chint has claimed for an indemnity of RMB 334,869,872 Yuan, we determine that the smaller figure shall be the amount of indemnity that Schneider shall pay.

In this case, the plaintiff filed an action against a joint venture of Schneider Electric, one of world's top 500 largest companies. It attracted a lot of attention from both business community and legal community at home and abroad. Furthermore, the subject matter involved here is a utility model, usually called as petty invention while the damages claimed is over RMB 330 million, the highest amount ever supported by a court of first instance in a Chinese IPR case. That's why it has won itself the name of "the No. 1 case of patent infringement in China".[7]

[6] Wenzhou Intermediate People's Court (2006) Wenmingsanchuzi No. 135 Judgment.

[7] Yan (2007).

On August 2, 2006, Chint filed law suit in Wenzhou Intermediate People's Court against Schneider for the cause of patent infringement. In the beginning it just requested the defendant stop producing products accused for patent infringement and claimed compensation of RMB 500,000. Later in January, 2007, at the request from the plaintiff, the court chose a local accounting firm to conduct auditing on the sales and profits of circuit breakers from Schneider. According to the auditing report, the sales amounted to RMB 880 million while the actual profit was not ascertained. Base on pertinent evidence, Chint concluded that the profit margin of Schneider was over 30 % and thus raised the damages to over RMB 330 million. There is no doubt that without the support of patent infringement disgorgement damage rules and system, the plaintiff would never won RMB 330 million compensation, since the plaintiff could not prove that the loss amounted to such a figure. This is the very reason why the damages originally claimed was only RMB 500,000.

Practice of Disgorgement Damage in Tort Law

Legal practices of disgorgement damage for infringing right to personality began before the promulgation of the Tort Law. In the case of *Wang Junxia v Kunming Cigarette Factory*,[8] which was handed downed in early 2001, the defendant used the portrait of the former Olympic Game champion in commercial advertisement without Wang's permission. During the trial, Liaoning provincial people's Court did not reject the plaintiff's claim even though the plaintiff failed to prove the amount of pecuniary loss. Instead, on the ground that the defendant's gains can be regarded as equivalency of loss for the plaintiff, the court ruled in Wang Junxia's favor, awarding damages of RMB 800,000.

In the case of *Mo Shaocong v Quanzhou Xinhuadu Co.*[9] in 2005, the Quanzhou Intermediate People's Court in Fujian made a similar conclusion, saying that "the trial court did not commit error to consider the agreement on remuneration for portrait use in advertisement contract and the plaintiff' social reputation, the infringer's degree of fault and the possible economic gains for the appellant, in determining the amount of compensation." Though at that time in China the Tort Law had not been promulgated, these cases applied the method of tort disgorgement damages to calculate the loss of victims. The practices reflected in these cases provided support to the draft of Article 20 in Tort Law in 2010, and provided guidance for future practice.[10]

[8]Wang Junxia v. Kunming Cigarette Factory, Liaoning High People's Court (2001) Liaominzhongzi No. 162 Judgment.

[9]Quanzhou Intermediate People's Court (2005) Quanminzhongzi No. 1178 Judgment.

[10]Certainly, contrary judgments exit at the same time. Similar to details of the case of Wang Junxia and the case of Mo Shaocong, there are the case of the actor Hanxue, the case of the athlete Liu Xiang and the case of Zhang Bozhi. However, the method of disgorgement damages was not

The Practice of Disgorgement Damage for the Breach of Contract

Article 113 of *Contract Law of the People's Republic of China* (hereinafter referred as "Contract Law") has provided general principles for default damages. It says that "where a party fails to perform or rendered non-conforming performance, thereby causing loss to the other party, the amount of damages payable shall be equivalent to the other party's loss resulting from the breach, including any benefit that may be accrued from performance of the contract, provided that the amount shall not exceed the likely loss resulting from the breach which was foreseeable or should have been foreseeable by the breaching party at the time of conclusion of the contract". In other words, damages just consist of the non-breaching party's loss resulting from the breach, including actual loss and loss of contingent interests. Gains from the breach and received by the breaching party are not included. Therefore there are no rules or system of the default disgorgement damage in the Contract Law in China.

However, in Chinese judicial practices, there have been cases which explicitly recognize rules of default disgorgement damages. In the most precedential case that clearly recognizes the use of calculating the gains of the breaching party as the standard for calculating damages, Loulan Store Co., Ltd, Shanghai sued Fengxian Property Co. Ltd., Shanghai over the dispute of a lease contract.[11] The Shanghai Fengxian District People's Court clearly stated that "according to the reality of the case that Fengxian Property did not agree to continue to perform the lease contract, therefore the Court cannot support the claim of Loulan Store Co. Ltd, Shanghai on the continued performance of the lease contract. It is not against the law that Loulan Store Co. Ltd, Shanghai claimed to calculate the amount of its loss and damage according to the amount of the gains that Fengxian Property obtained from leasing the house to persons not involved in the case when the contract with Loulan Store for the same property was still in force. Fengxian Property obtained a rental of RMB 710,200 Yuan from leasing the house of No. 1, Nanjing Road for 2 years and earned a profit of RMB 170,200 Yuan after deducting the rental of RMB 540,000 Yuan that

adopted. Even in the only case applying article 20 after the enforcement of the Tort Law – the case of Ren Dahua' s right to portrait, the court held that the plaintiff fails to identify the actual loss. In addition, the court could not ascertain economic benefits for using Ren Dahua's portrait. Therefore, the amount of compensation should be, on the basis of actual conditions, determined discretionally by the court. The court of first instance, considering the actual circumstances, ruled that Charoen Pokphand Group should pay 20 damages for the plaintiff. Thus the original judgment is not improper and shall be sustained. In other words, the court just discretionally determined the tort disgorgement damages according to infringer's degree of fault, circumstances of infringing act, consequence and influence, without applying article 20, which is about the rule of infringer disgorgement damages. See Hainan Provincial People's Court (2013) Qiongminsanzhongzi No. 59 Judgment.

[11] Shanghai Fengxian District People's Court (2013) Fengminsanchuzi No. 2190 Judgment.

Loulan Store would have paid during this period. Therefore the Court supported the claim of Loulan Store against Fengxian Property for an economic loss of RMB 170,200 Yuan."

In a similar case, Zhuozhou Longma Aluminium Product Co., Ltd. sued Sichuan Huaxi General-Purpose Machine Company over the dispute of a technical contract.[12] In this case, the Court held that the defendant actually infringed the right of sales of the plaintiff and illegally took the interests that should have been received by the plaintiff. According to the contract, the price of the 13 extruding machines was RMB 800,000 Yuan each, while the actual selling price of the defendant in 1994 was RMB 1,490,000 Yuan. The difference between these two prices should belong to the plaintiff. Since the defendant has sold the 13 machines itself, it should compensate the losses of the plaintiff. Considering the factors of the market price and charges against revenue, the defendant should compensate the plaintiff 50 % of the total price difference, i.e. RMB 4,485,000 Yuan.

The Practice of Corporation Disgorgement Damage

The system of the corporation disgorgement damage is a specific legal practice of the disgorgement damage theory applied in the field of commercial law such as the company law and the securities law. For example, Information Technology Co., Ltd. in Shanghai (hereafter as company A) sued Luo and others for harming the interests of the company, Shanghai No. 1 Intermediate People's Court decided that "the duty of non-competition is one of the duties of loyalty of the company directors and senior executives. The reason that the duty of loyalty is confirmed by law is because senior management controls the actual operation of a company to a large extent. They are properly authorized to manage the company. Therefore what they do determines whether the interests of the shareholders can be effectively protected. For this reason, when there is a conflict between their interests and the company's, they should put the company's interests first. In this case, Luo, as one of the shareholders and general manager of company A, did not perform the duty of non-competition when he co-founded company B with others and gained profit from it. His acts should be subject to the non-competition restriction. Following Articles 148 (1), 149 (1)(e) and (2) and 217(1) of the Company Law, the Court decides that the interest of RMB 22,125 Yuan that Luo gained from company B should be paid to company A within ten (10) days after this judgment comes into force."[13]

[12] Baoding Intermediate People's Court (1998) Baoshijingerchuzi No. 85 Judgment.

[13] See Shanghai No. 1 Intermediate People's Court (2011) Huyizhongminsizhongzi No. 889 Judgment.

Problems Facing the Disgorgement Damage System in the PRC

Lack of Universal Theoretical Basis

The rules of disgorgement damage in Chinese law exist in regulations for different legal subject matters with different inception time and imbalance in their development. For example, the disgorgement damage system was formed as the earliest in corporate law and intellectual property law and now is in a relatively maturity stage; while the disgorgement damage system for breach of contract has not been found in any statute. It can be said that there is not a coordinated structure for the disgorgement damage rules in each legal subject matter, and the most important reason for that is that there is no universal and internal legal basis for them. There already exist three thoughts about this legal basis, but none of them is fully convincing, thus leaving a universal legal basis still absent.

The first thought considers the legal basis of disgorgement damage as a theory of unjust enrichment. The basic logic of unjust enrichment system is that the gain of the party results in the loss of the other party and the gain is not due to rightful cause permitted by law, then a legal obligation formed between the aggrieved party and the party with the gain and the former is entitled to the return of all the gain. It is generally acknowledged by the academia that the first case in which the disgorgement damage was dealt with the theory of unjust enrichment was found in the intellectual property law, including Article 18 in the 1870 UrhG, Article 14 in the 1876 GebrMG and the famous case of "Ariston" that conducted by the Reichsgericht in 1895.[14] However, the problem of unjust enrichment theory is that it is based on legal interest distribution theory without requirement of the element of fault or illegality, while the disgorgement damage system is aimed at gains through illegal actions, which cannot be covered only by the unjust enrichment theory.

The second thought states that the legal basis of the disgorgement damage theory is the tort compensation theory.[15] If the tortfeasor gains profit through his or her tortious acts, then the injured party can certainly claim compensation for damages. However, the problem of tort compensation theory lies in the fact that the aim of the law is to make up for the damages, so even if what the tortfeasor gained from its tortious acts exceeds much more than the injured party's loss, the injured party can only claim compensation based on his or her actual damage value. The tortfeasor can still keep much gain after paying the injured party all the compensation damages. That is to say that it lacks sufficient theoretical basis to require the tortfeasor return all his or her gains only on basis of the tort compensation damage theory.

The last thought considers that the disgorgement damage system is the base of right of the request and a system of compensation for damages. German civil jurist

[14] See Yan (2011).

[15] Wang (2011), 280.

Canaris once said that there is a transitional zone between unjust enrichment and the damage compensation liability, namely the independent disgorgement system and the disgorgement damage problems should be solved with a combination of the theory of the attribution and distribution of unjust enrichment and the core of the illegality theory of the compensation for damages.[16] However the problem of this independent disgorgement damage theory is whether it is possible to cover with a universal theory all the provisions of compensation system that scatter in different legal branches varying much in concepts and systems, such as intellectual property, torts, corporate and securities law and contract law; even if the answer is yes, it is still doubtful whether there is a difference in the level of the content, the institutional composition and the legal effects.

Complementary in the Tort Disgorgement Damage System

In Chinese intellectual property law, the tort disgorgement damage system is just a complementary and alternative method for the compensation of infringement of intellectual property. Only when the right owner cannot prove his or her damage or the damage cannot be confirmed, the law allows the right owner to count his or her damage value on the basis of the gains of the infringer. In other words, taking the damage value of the right owner as the compensation standard has priority, while the standard of considering the gains of the infringer is just an alternative for exceptional occasions. Even if the damage value can be proved or confirmed, the right owner can only claim compensation for the actual damage value without the disgorgement damage. Besides, despite of the request of the right owner for a disgorgement, if the infringer can prove or confirm the actual damage value, he or she has the right to raise a plead to deny the disgorgement request.[17]

The provisions in Chinese Copyright Law, Trademark Law, Patent Law and Anti-Unfair Competition Law are in line with the above situation. Moreover, Article 20 in the Tort Liability Law also states this order of priority of claim of compensation for damage and claim of disgorgement for damage. This shows the marginal and complementary nature of the disgorgement damage system in Chinese intellectual property law and tort law and makes it a non-mainstream theory and system in this field.

Furthermore, no matter in the infringement of intellectual property or personal right, the gains of the infringer is hard to be proved. In most cases, it is even harder than to prove the damage of the injured party. This is not only due to the fact that the gains of the infringer is decided by many factors that are difficult for the injured party to prove, meanwhile, the account books that are necessary

[16] See Yan (2011).

[17] Sun (2011).

for the proof of the gains will not be provided by the infringer.[18] Therefore, if the law says the disgorgement damage system should give priority to the system of compensation for damage, the standard of disgorgement becomes meaningless. Courts can conduct almost all the trials with a standard of legal compensation or discretional compensation, of which the statement would be "considering the plaintiff couldn't prove the actual damage value caused by the defendant or the gains of the defendant, and taking into consideration the popularity of the registered trademark, the business scale and scope of the infringer and the sales mode, quantity and price and the reasonable expense of the plaintiff to stop the infringement actions, the Court accordingly decides the amount of compensation is RMB xxx Yuan."[19] That is why although laws about disgorgement of intellectual property have already been existed in China for years and thousands of precedents regarding to this aspect have emerged in legal practice, cases that were conducted with disgorgement damage theory were quite rare. It took the author much efforts to finally find out from the database of "Bei Da Fa Bao" the case that Chint Group Corporation sued the Schneider Electric, which is probably the only one supported by the tort disgorgement of intellectual property.

Lack of Operability in Corporate Disgorgement Damage

The corporate disgorgement damage is stated in the Chinese corporation law and securities law to protect the interests of corporations. Despite of that, those provisions are too rigid and lack of operability. As a result, in the legal practice, even under the condition where the corporation disgorgement damage can be applied, many people would choose an alternative method after considering the trade-off. Thus, the superiority of the corporation disgorgement damage cannot be reflected. Hence, cases that were conducted by the corporation disgorgement damage were rarely seen in Chinese legal practice. This system exists in name only, which compels us to rethink. The major defects of Chinese corporation disgorgement damage are as follows:

First, there is a loophole in defining the subject harming the interests of corporation. For example, under the condition in which the directors, supervisors and senior executives harm the interests of corporation due to a violation of the obligation of non-competition, whether the general managers and vice-general managers of the branch company can be regarded as senior executives so that the corporation disgorgement damage can be exercised on them. There is still no clear definition, which brings about the difficulty in legal practice. In the appeal of a case between Yunnan Zhongji Tubular Pile Corporation and Yan and others, the Court held that

[18] Chen and Zhao (2013).

[19] See Louis Vuitton Malletier v Xiongyan and others, Sichuan Provincial People's Court (2013) Chuanminzhongzi No. 579 Judgment.

"Yunnan Zhongji appeals to claim the disgorgement of their illegal gains based on Yan's violation of non-competition. This claim should be under the premise that the identities of these two appellees are the directors, supervisors or senior executives. However according to the evidence provided by Yunnan Zhongji, Yan A is just the general manager of the Shanghai branch and Yan B deny his identity as the vice general manager. The two appellees are not senior executives even if the evidence is true. Neither the law nor the charter of Yunnan Zhongji recognizes the two appellees as senior executives. Therefore, the claim of Yunnan Zhongji of disgorgement damage lacks in constitutive requirements and preconditions."[20]

Second, the organs that exercise the right of disgorgement are not clear. In China, only the securities law clearly states that the board of directors represents the company to perform the right of disgorgement. However, in corporation law, the right of shareholders, the board of directors, the board of supervisors and managers don't include the right to perform disgorgement. In other words, none of the company organs have the right to represent the company to perform disgorgement.

Finally, it is hard to prove the gains by the senior executives. In a case in which MCC Quantai (Beijing) Engineering and Technology Corporation sued Cong Aiming and other senior executives for damaging the interests of the company, the Court held that the senior executives took the business opportunity of the company and should compensate for the expected profit. In this case, the expected profit should be calculated according to the profit amount of Jingtai Corporation, profit margin of other business of Quantai and other evidence. What should be made explicit is that in the corporation law, the disgorgement is among the consequence of the senior executives' violation of duty of loyalty. But in this case, it is difficult to prove the profit of the senior executives and the expected profit required by Quantai apparently overlapped with it. For this reason, it is reasonable to calculate the expected profit with the possible profit of Jingtai.[21]

Occasionality and Inconsistency in Judgments in Disgorgement Damage for Breach of Contract

As is presented above, Shanghai Fengxian District People's Court, in the case of Loulan Store Co., Ltd, Shanghai, has expressly recognized the legal practice of disgorgement damage for breach of contract. But judging from the overall judicial practice in China, such cases are rare. In general, courts do not support the legal practice of disgorgement damage for breach of contract. The leading case is *Shenyang Nongda Seed Co., Ltd. vs. Du Mingluan and others*,[22] a case concerning

[20] Shanghai Second Intermediate People's Court (2012) Huerzhongminsizhongzi No. 261 Judgment.

[21] Beijing First Intermediate People's Court (2010) Yizhongminzhongzi No. 10249 Judgment.

[22] Shenyang People's Intermediate People's Court (2007) Shenminsizhichuzi No. 76 Judgment.

the dispute over the license contract of the implementation of new plant varieties, where the court pointed out that "this term is the compensation term for breach of contract that the two parties have agreed upon against the defendant for its act of assigning the plant varieties to any third party without authorization. Now the defendant has breached the contract by assigning the plant varieties to others without authorization, and should therefore bear responsibilities for breach of contract. In regard to plaintiff's claim that the second defendant compensates the plaintiff for its economic loss of RMB 500,000 Yuan due to the defendant's breach of contract, this court believes that the plaintiff has not provided effective proof for such economic loss, therefore this court does not support plaintiff's claim of calculating its damage on the legal basis of the disgorgement damage of the defendant."[23]

Furthermore, in those rare cases where courts seem to have supported disgorgement damage, courts, instead of carrying out the practice of disgorgement damage to the contract-abiding party, are in fact employing factors concerning disgorgement contract-breaching party for deciding whether or not the liquidated damage is appropriate. For example, in the case on appeal where Shanghai Mingtai Investment Development Co., Ltd. (hereinafter referred to as Mingtai Company) and others sued Ye Yuequn over the dispute of share ownership transfer, the court holds that: Huang Fan's act of transferring the same share ownership to several transferees constitutes dishonesty upon the conclusion of the share ownership transfer contracts. Where both the two contracts have legal force, Huang Fan can only chose one to perform and the other one is therefore breached. Huang knew that the breach of the share ownership contract in dispute would lead to the compensation of a liquidated damage of RMB 45 million Yuan but chose to do so; this court therefore has sufficient reason to believe that Huang's anticipated benefit by such breaching is bound to exceed the liquidated damage. After breaching the contract, Huang Fan has not taken effective remedial measures. In consequence, the continual performance of the contract was frustrated. Huang's act has constituted a malicious breach of contract. Mingtai Company therefore lost the chance to manage Shanghai Tianhong Yihai Enterprise Development Co., Ltd., but got the possibility of gaining much more profit. A liquidated damage of RMB 45 million Yuan is higher than Mingtai Company's actual loss and the share ownership transfer contract was then in performance, but taking all factors into consideration including Huang Fan's maliciousness and anticipated interest, this court believes that RMB 45 million Yuan is not that much high as liquidated damage. Therefore, the judgment of adjusting the liquidated damage to RMB five million Yuan made by the court of first instance lacks acceptable ground and this court hereby rectifies the judgment. However, as Mingtai Company now claims only for a liquidated damage of RMB 15 million, this court therefore supports such claim.[24]

Similarly, in the case where NGS Supermarket Group Co., Ltd. (hereinafter referred to as NGS Supermarket) sued Shanghai Yitana Travel Products Co., Ltd.

[23] Shenyang People's Intermediate People's Court (2007) Shenminzizhichuzi No. 76 Judgment.

[24] Shanghai High People's Court (2012) Hugaominerzhongzi No. 5 Judgment.

(hereinafter referred to as Yitana Company) over the dispute of house-leasing contract, the court holds: defendant Yitana Company asked for lowering the agreed liquidated damage, and the judgment of the court of first instance can be supported only when the original liquidated damage agreed upon by the two parties is indeed excessive. NGS Supermarket has in the first instance provided relevant lease contract and supplementary agreement which indicate that Yitana Company, instead of fulfilling its obligation of making the house available, has actually rented the house to a third party, Shanghai Ruhai Supermarket Chain Co., Ltd. (hereinafter referred to as Ruhai Supermarket), and Yitana Company raised no objection against this fact. Both the lease term in above-mentioned lease contract and supplementary agreement by and between Yitana Company and Ruhai Supermarket and that in the house-leasing contract by and between Yitana Company and NGS Supermarket are 15 years. But Ruhai Supermarket undertook that the annual rent in the first 5 years is RMB 280,000 Yuan and will increase year-on-year by 3 % in the following 10 years, while NGS Supermarket had undertaken that the annual rent in the first 3 years is RMB 200,000 Yuan and will increase by 3 % in the following 12 years. Thus the rent that should be paid by Ruhai Supermarket in the first 3 years is RMB 240,000 Yuan more than the rent of NGS Supermarket. In the following 12 years, the annual rent agreed upon by and between Ruhai Supermarket and Yitana Company is over RMB 60,000 Yuan in average more than the annual rent originally agreed upon by and between NGS Supermarket and Yitana Company. Therefore, NGS Supermarket has sufficiently proved the fact that Yitana Company would benefit more by breaching the original contract. By contrast, Yitana Company has not provided corresponding proof to support its claim that it has notified NGS Supermarket to accept the house in dispute, nor has it provided proof for NGS Supermarket's refusal of accepting the house. Taking all those factors into consideration, the judgment of lowering the liquidated damage agreed upon by and between the two parties in the original contract made by the court of first instance with judicial discretion shall be overruled.[25]

In addition, the contract academia in China has neither carried out systematic researches nor identified mature solutions for such questions as whether or not the profit or gains should be considered in damages for breach of contract; if so, how to make it consistent with the theory of efficient breach; whether there is any unjust enrichment in the whole contract damage process; etc.

Lack of the Central Role of the Parties Involved

There is a strong tendency of statism in China's disgorgement damage system. The illegal gains of actors are in general taken over to the national treasury and seldom used to relieve the injured party. Chinese private law system pays little attention

[25] Shanghai First Intermediate People's Court (2005) Huyizhongminerzhongzi No. 2194 Judgment.

to the central role of parties involved. In details, Article 131 of *Opinions of the Supreme People's Court on Several Issues concerning the Implementation of the General Principles of the Civil Law of the People's Republic of China* provides that "the returned illegal profits shall include the original object and the fruits arising therefrom. Other interests obtained through illegal profits shall be taken over after deducting the labor service overheads." Article 209 of the *Securities Law* provides that "all the illegitimate incomes and fines lawfully confiscated and collecting from issuing and trading securities against the law shall be delivered to the national treasury." The Supreme People's Court's *Reply on How to Deal with Debtor's Overdue Unpaid Loan in Enterprise Loan Contract* has similar provisions in this regard as shown by "enterprise loan contracts against relevant financial rules are invalid. The interests agreed shall be taken over by the state." The list of such provisions goes on, reflecting statism and the negligence on private subjects.

Suggestion for Improvement

Unifying the Theoretical Basis for Disgorgement Damage System

The establishment of a disgorgement damage system in China that can properly operate and efficiently protect the rights of private subjects rests on a general legal basis for the system, which can integrate the various fragmented rules on disgorgement damage dispersed in IP law, torts, company law, securities law and contract law into an independent system of right of claim for disgorgement damage. The system shall have its own internal structure. After all, the legal basis of the disgorgement damage system differs from those of the unjust enrichment system, tort damage system and the default damage system, in particular, the differences in legal bases of the disgorgement damage system and the unjust enrichment system shall be distinguished. Though very similar, "no one shall benefit from other's damage" is the legal basis of the former and "no one should benefit from his/het/its own illegal acts" is the legal basis of the latter.

At the same time, we should pay close attention to the latest development of foreign laws. For instance, in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognized that disgorgement may be appropriate in some cases.[26] Also in Germany a general instrument, "disgorgement damages" is lacking in the Civil Code of 1900. However, recently well-known scholars as *Gerhard Wagner* do support for an inclusion of disgorgement damages in the law of damages

[26] See American Law Institute (2011), §39, 'Profit From Opportunistic Breach', §51, 'Enrichment By Misconduct; Disgorgement; Accounting' and §53, 'Use Value; Proceeds; Consequential Gains'.

(for intentional infringements).[27] The foreign experience is an effective resource for China to unify its disgorgement damage system and improve the relevant domestic laws and systems as well.

Clarifying the Structure Within the Disgorgement System

A unified disgorgement damage system in China does not mean a monolithic whole. A whole without distinction of internal structure is not pertinent or effective in addressing specific problems. Therefore, from the perspective of different influence of public laws declining in strength, the disgorgement damage system can be divided into the following three internal layers:

The first layer is the company (investor) disgorgement system where the public laws have the strongest influence. The disgorgement system in the company law and the securities law are established for the protection of interests of investors and are exposed most to the influence of public laws. Where the directors, supervisors, senior managerial staff, shareholders, entrustees and others breach the fiduciary duties in the company law and the investment law, the profit or gains of the person shall be unconditionally deprived or disgorged, a system we may call compulsory disgorgement model.

At the second layer, there are the disgorgement damage system of intellectual property infringement and the disgorgement damages system of personal right infringement, both with heavy influence from public law. To protect injured party' interests, the disgorgement damage system at this layer need go beyond the existing supplementary legislative model for intellectual property law and tort law, where only when a right owner could not prove his or her loss or the loss could not be determined, he or she then may calculate the damages amount according to infringer's benefits. Instead, we shall employ an optional legislative model, where a right owner is allowed to calculate the amount either according to his or her loss or the infringer's benefits. Such model must be more effective for relieving and protecting right-owners' interests.

At the third layer, there is the breach disgorgement damage system, with the least influence from public law. Among legal subject matters of private law, contract law can most sufficiently present traits of private autonomy and discretion of private law. Therefore liability of breach damage in contract law is the most typical compensatory one. In general, the amount of compensation is based on the non-breaching party's loss. Only in very rare exceptional cases, the counting method based on the delinquent party' benefits is adopted, if such loss could not be proved or determined, or if it would be unfair not to give relief to the non-breaching party. Certainly, the method of breach disgorgement damages is applied in contract law only if three terms is satisfied. Firstly, normal damages would not be adequate.

[27] Wagner (2006), 96 et seq.

Secondly, the breach is willful. Thirdly, such breach is for seeking benefits, which accords with intonation of opportunistic breach stipulated in Restatement (Third) of Restitution and Unjust Enrichment.

Strengthening the System of Proving Gains

The difficulty of proving gains is an important reason why China's disgorgement damages system is rarely employed and is difficult to operate effectively. It is necessary for us to improve the possibility of proving gains in two aspects.

Firstly, the burden of providing information on gains should be imposed on the infringer or the breaching party. The greatest obstacle for practicing disgorgement damages system is that the right-owner could not prove gains of the infringer. To overcome this difficulty, this paper suggests that the infringer shall assume the responsibility of providing information about his or her gains or the burden of proof.

Let's revisit the above mentioned "Case No. 1 of patent infringement in China". The judgment of trial court held that the industrial and commercial facts of SELV could be used to calculate the profit of SELV from the infringement, since SELV does not provide the cost book; the amount of damages is determined to be RMB 355,939, 206. 25 on account of the operating profit of SELV from August 2, 2004 until July 31, 2006; since the amount is higher than that claimed by Chint which is RMB 334,867, finally RMB 334, 869, 872 Yuan was awarded. The act of Wenzhou Intermediate People's Court offers a positive protection for right-owners' interests. What is more, in the newly amended Trademark Law, a new section is added to provide "in determining the amount of compensation, the People's Court may, in the event the right owner has taken every effort to produce evidence but the account books and materials relating to the infringing activities are in the possession of the infringer, order the infringer to provide such account books and materials; if the infringer refuses or provides false account books or materials, the People's Court may decide the amount of compensation according to the claim of the right owner and the evidence provided thereby." It can be regarded as a push for the proving-the-gain system. This rule can introduced to other fields, including other intellectual property infringement, personal right infringement, harming a corporation's interest and breach of contract.

Secondly, we should allow assumed gains in specific situations. If the infringer's actual gains were small or there were no gains, could the law then go beyond actual gains and allow assumed gains? Here, assumed gains refer to "assumed license fees", i.e. fees which should be paid to the injured party if the infringer gets right to use after consultation with the victim. The answer to the above question should consider the value goal and the function orientation of disgorgement damages. If we still insist on the "actual gains" damages, the goal of protecting the injured party's right would not be achieved. Since the usage of many personal rights with property traits have ready markets and property interests are easy to calculate, "assumed gains" can be calculated with substantial certainty.

In France, this method has been employed in some cases.[28] In a case of right to portrait dispute, *Cecilia Cheung v Jiangsu Tayoi Cosmetics Co., Ltd*,[29] the court also applied the method of assumed gains and ordered damages of over RMB 300,000 to the injured party, Cecelia Cheung. The court's comments are as follows. Zhuhai Tayoi concluded with Cheung a contract worth RMB 2.7 million, such contract covers advertisements, buyout of right to portrait, performance remuneration and remuneration for press conferences. Without any contract with Cheung about right to portrait, Jiangsu Tayoi, in order to make more profits, arbitrarily used and thus infringed Cheung' s right to portrait. In consequence, RMB 300,000 is awarded, with reference to the contract between Zhuhai Tayoi and Cecilia Cheung. It is an exact application of the assumed gains method.

In Patent Law and Trademark Law, there are provisions such as "if it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent (the exploitation fee of that trademark) under contractual license". These expressions are also presentation of assumed gains method.

Shifting from National Confiscation System to Party Centered System

Though the Chinese disgorgement damage system, to certain extent, punishes the wrong-doer and discourages law-breaking, its main aim is to protect lawful rights and interests of private subjects, which closely relates to private law traits of the system. Presently, the national confiscation system, which generally exists in the current disgorgement damage system, indeed departs from private law traits of the system and does not adequately protect interests of private subjects in civil and commercial field. Consequently, we should limit acts such as confiscation which represents national public power, recognize that the system is part of private law, and put the parties concerned at the center of this system.

Take Article 209 of Securities Law for example. It provides that "all the illegitimate incomes and fines lawfully confiscated and collected from issuing and trading securities against the law shall be delivered to the national treasury." It is reasonable and acceptable for fines to be delivered to the national treasury. The reasons are as follows. Firstly, the fine, with public law traits, increases wrong-doers' cost of breaking the law and meanwhile warns other people. Secondly, it is not from investors, who thus have no right of recourse. However, it is not the same with illegal gains. Though the administrative order is made by China Securities Regulatory Commission, the gains are collected from investors. Therefore, the

[28] Sun (2009), 12.

[29] Hefei High-Tech Development Zone People's Court (2003) Hegaoxingminyichuzi No. 137, Judgment.

investor may reclaim these gains over anyone else. Illegal gains should not be turned over to the state? In today's global securities market, the development trend is to compensate the investors' loss with fines as well as restitutions of illegitimate gains.[30] So article 209 of Securities law shall be revised to be "illegitimate incomes confiscated shall be used to compensate for investors' loss". The current provision is not consistent with economic justice. It hurts the party's interests. It does not correspond to values and thoughts of putting the parties in the center of the system.

Conclusion

Recognizing the disgorgement damages system has been a new trend in the law of damages. China by now has learned about the relevant advanced rules and systems from other countries. At least for basic legal expression, China has kept pace with this global trend of law development. What is exciting is that we can always find cases where Chinese courts have cited rules or jurisprudential basis of disgorgement damage to recover the damage of the injured parties in some of their opinions. This reflects that such provisions have been to some degree implemented in China's legal practice and become an important instrument for private relief and compensation in practice. However, it is a pity that the legal practice of the system has lagged behind the expression of the law itself. We do not have a general legal basis for the system. Besides, existing rules in intellectual property, torts and securities law only play a supplementary role. Without practical application, they are just printed words in the law, which means there are no practical values. To fully develop the functions of Chinese disgorgement system, we need to unify a general theoretical basis, establish an internal structure with rich layers, strengthen practice criteria for proving the gains, and return to the idea of putting the parties at the center of the system, as required in private law. Only in this way our legal system can be an efficient one when it comes to disgorgement of unlawful profits by private mechanisms.

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Chapter 23
Disgorgement of Profits in Japanese Law

Yoshihisa Nomi

Abstract Disgorgement of profits in a strict sense is not available in Japanese private law. But in certain types of tort and in breach of fiduciary duty remedies functionally similar to disgorgement of profits exist. In cases of infringement of intellectual property rights the profits gained by the defendant are presumed to be the damages suffered by the plaintiff. Also in cases of infringement of personality rights the amount of profits gained by the defendant is considered in calculating damages for mental suffering. Trustees and corporate directors are fiduciaries and are liable to compensate damages equivalent to the profits gained by the breach of fiduciary duties. In other areas of law such as consumer law and the law of unjust enrichment, the discussion has only begun recently. As for the theoretical problem, the justification grounds for the disgorgement of profits are important. Vulnerability of the interest and the idea of prevention seem to be the most promising.

Keywords Disgorgement of profits • Gained-based damages • Presumption of damages based on profits • Infringement of intellectual property rights • Infringement of personality rights • Trustee • Corporate directors • Fiduciary duty • Duty of loyalty • Consumer law • Unjust enrichment • Justification for disgorgement

Introduction

Disgorgement of profits as a remedy for civil wrong is discussed mainly in four areas. These are tort law, fiduciary law, consumer law and the law of unjust enrichment.

In tort law I include infringement of intellectual property rights and unfair competition, because they are basically considered to be tort in nature. As for the fiduciary law, Japan has a distinct body of trust law where trustees owe duty of loyalty and its violation causes liability for damages calculated by profits gained

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by the trustees. But also corporate directors owe duty of loyalty which constitutes important field of fiduciary law. In the area of consumer law at present there are no remedies which can be characterized as disgorgement of profits. The Consumer Affairs Agency is planning to introduce various methods for a more effective protection of consumers. Disgorgement of profits is one such a remedy, but the plan has not yet finalized.[1] The fourth area is the law of unjust enrichment which is provided in the Japanese Civil Code.[2] Unjust enrichment resembles the law of restitution in common law countries and it could be used to develop the remedy of disgorgement of profits within the legal system of the Civil Code. But according to the traditional doctrine and case law the requirements of unjust enrichment are not only an unjust "profit" of the defendant but also a corresponding "loss" of the plaintiff".[3] Therefore under present case law it is difficult to achieve disgorgement of profits via unjust enrichment.

Thus this report will focus mainly on tort law and fiduciary law. As for the other two areas of law there will be only a brief sketch. Even in the areas of tort law and fiduciary law, the Japanese law does not recognize disgorgement of profits as a legal concept. The remedies referred to in these areas are presumed damages and not disgorgement of profits in the strict sense. They are damages whose amount is determined by considering the profits of the wrongdoer. Therefore in the Japanese law context to emphasize the nature of damages the term "gain-based damages" may be more appropriate. But I will also use other terms "disgorgement of profits" or "gain-based relief" as well in a broad sense to explain the functionally corresponding system in Japan.

This report will mostly analyse the statutory solutions and case law in Japan. The academic writings are more positive in acknowledging disgorgement of profits as a remedy against the wrongdoer. But many of these writings are influenced by foreign laws and not based on materials of Japanese law. To elucidate the real and present situation of the law in Japan I will use mostly statutory provisions and the case law.

Tort Law

Infringement of Intellectual Property Rights

In a case of patent infringement the patent right holder is entitled to claim damages against the infringer based on several calculation methods of the damages. One of

[1] In 2009 a study group in the Consumer Affairs Agency discussed the possibility of introducing a new system of protecting consumers by using various methods to recover damages of consumer harm (see Cabinet Office, Consumer Affairs Agency (2009)). But the conclusion of the Working Paper was not enthusiastic about introducing the system of disgorgement of profits (http://www.caa.go.jp/planning/index.html#m01-1)

[2] §§ 703–708 Japanese Civil Code.

[3] Kato (1999), 126 claims that a "loss" of the plaintiff should not be the requirement for unjust enrichment.

these methods allows the patentee to claim damages based on the profits earned by the infringer from the act of infringement. § 102 II of the Patent Act 1959 provides that "the amount of profits earned by the infringer shall be presumed to be the amount of damages sustained by the patentee". Copyright Act § 114, Utility Model Act § 29, Design Act § 39, Trade Mark Act § 38 and Unfair Competition Prevention Act § 5 have similar provision of presumption of damages. Before 1959 the old Patent Act did not have any provisions on damages. The problem of damages was dealt with in the general tort law of the Civil Code. The problem of disgorgement of profits was known among the civil law academics,[4] but the court cases on patent infringement were very few and there was no discussion on the issue of profit-stripping. It was only when the new Patent Act 1959 was prepared in the Committee for the revision of the old Patent Act that disgorgement of profits became an issue. The Committee proposed to introduce a provision on the disgorgement of profits[5] and explained the necessity of such a remedy from the special vulnerability of intellectual property rights from unauthorized uses by others. It is said that they followed the models of American law and German law. But the Ministry of Justice and the Cabinet Legislation Bureau strongly opposed to the proposal of the Committee for a provision of disgorgement of profits. They thought the idea of disgorgement of profits is incompatible with the traditional concept of damages in tort law. Therefore the final draft of the Patent Act provided that the infringer's profits shall *be presumed* to be the damages of the patentee. It was explained by the government that the purpose of this article was to alleviate the burden of proving damages which is often difficult in cases of infringement of intellectual property rights.

Courts applied this presumption only under strict requirements. Only when the patentee already used her invention in manufacturing the product and the products were sold in the market could the plaintiff invoke the presumption provision to claim damages calculated by the profits of the defendant. If the plaintiff was not using the invention or did not sell any product in the particular market where the defendant's products were sold, the plaintiff was not able to invoke the presumption provision at all. In such a case it is difficult for the patentee to prove actual damages and therefore can claim only the reasonable royalty against the defendant.

This attitude of the court was criticized by many academics. Only recently the court changed its attitude by relaxing the requirements for the presumption.[6] Now the presumption provision can be applied without plaintiffs proving that they are using their inventions and they have a market for their products. But because this

[4]Hatoyama, 777 discusses the problem of quasi negotiorum gestio.

[5]The Committee explained the disgorgement of profits from the viewpoint of damages suffered by the patentee, but it deliberately did not use the word "presumption of damages". It was therefore understood by the Committee members that the defendant was not allowed to provide evidence of actual damages to destroy the presumption of damages based on profits of the defendant.

[6]The most important case is the recent Decision of the Tokyo High Court of Intellectual Property, February 1st, 2013, Hanrei Jiho vol. 2179, 36. The Supreme Court, in its decision of Nov. 18, 2014, decided not to take up the revision.

provision on damages only provides presumption of damages the defendant can prove that the actual loss of the plaintiff was less than the profits made by the defendant. And then the amount of damages will be reduced to the actual loss sustained by the plaintiff. The present issue on this problem is how difficult would be the counter-evidence to destroy the presumption. It depends on the attitude of the court. If the court does not easily allow counter-evidence the presumption of damages will functionally become the same as disgorgement of profits.

A theoretically important problem is whether the statutory presumption of damages is applicable in a mere negligent case. Up to now in almost all the cases which came before the court, the defendant had knowledge that his act was infringing the patent right or other intellectual property rights. So all these cases were about intentional torts. But suppose the defendant did not know of the infringement, would a mere negligence of the defendant satisfy the requirement for the presumption of damages based on defendant's profits? The answer under the Japanese law is probably yes. The Patent Act does not distinguish negligence and intention in this context.[7] The majority of the academics would agree that bad faith is not the justification reason for stripping profits from the wrongdoers in cases of intellectual property right infringement. Then what would be the justification for the gain-based relief in negligent cases? Two ways of explanation are thinkable.

One way of explanation is to focus on the special feature of the intellectual property rights that they are vulnerable against unauthorized uses. Intellectual property rights are easily infringed by others regardless of whether their conducts are intentional or not. This explanation suggests that the justification for gain-based relief in intellectual property right cases is not how the infringement occurred but what kind of interest was infringed. It is a justification from the nature of the injured right.

Another way to explain why negligent infringers of intellectual property rights are held liable for gain-based relief is that the provision in the Patent Act and other Acts protecting intellectual property rights in Japan provides only presumption of damages. The defendants are therefore allowed to prove against the presumption and have the possibility to reduce the amount of damages to the actual damages of the plaintiff. Because such a presumption is not drastically different from the general law of damages, it is not unreasonable to apply the presumption provision in negligent cases. This explanation is based on balance consideration that more lenient the liability, the wider the application thereof.

Infringement of Other Property Rights

In cases where other property rights such as ownership of a property are injured the necessity of disgorgement of profits is not discussed very much. But the structure of

[7]Patent Act § 103 presumes negligence of the defendant when infringement of patent right is proved. Negligence is sufficient for claiming damages. Thus plaintiffs usually do not use time and energy to prove the defendants' intention of infringement.

the problem is the same as in the intellectual property cases. There is on one hand the owner of the property who did not use the property and on the other hand there is the other party who used the property without authority and made profits. If the profits made by the unauthorized user are larger than the damages of the owner of the property the same problem of whether to allow disgorgement of profits arises. But as we shall see the court is reluctant to award gain-based relief in cases of illegal occupation of premises.

In the cases of illegal occupation of premises (a land or a house), the amount equal to the rent of these properties (in Japan the land and the house are separate properties) is the general damages. The court awards only the amount of rents as damages. If the plaintiff can prove special circumstances under which the plaintiff suffered special damages, then these special damages can be awarded to the plaintiff.[8] Though not many but there are some cases in which plaintiffs were awarded damages more than the amount of rent. They can be classified as follows.

The Amount of Rent as Minimum Damages

In a case of unauthorized occupation of a premise the owner of the property can claim as general damages reasonable amount of rent without the proof of actual damages. This is a well settled case law. Whether the defendant can reduce the damages by proving special circumstances in which the plaintiff did not actually suffer such damages was discussed in a case of a lower court.[9] In this case the building owned by the plaintiff was old and was to be demolished soon. The defendant argued that the plaintiff suffered no damages equivalent to the rent because the plaintiff was going to demolish the building and had no plan to rent it to others. But the court awarded the amount equivalent to the reasonable or average rent as general damages.

The reasonable rent value of the property is awarded as minimum damages to the owner of the property.

Damages More than the Reasonable Rent Value Under Special Circumstances

The next problem is whether the owner can claim damages more than the amount of rent under special circumstances. Tokyo District Court of 31.05.1984 was a case of a sublease.[10] The owner A of the house rented it to B and the tenant B subleased it to C without the permission of the owner. Under Japanese Civil Code the tenant cannot sublease the property without the permission of the owner (§ 612). Without

[8] § 416 Civil Code followed the English rule of Hadley v. Baxendale, (1854) 156 ER 145.

[9] Tokyo High Court, Decision of 29.06.1987, Hanrei Times vol. 658, 135.

[10] Hanrei Jiho vol. 1120, 44.

the permission of the owner the occupation of the property by the subtenant is illegal and the owner can (i) require the subtenant to evacuate the property and/or (ii) terminate the lease contract with the tenant. In this case the owner A claimed damages against the tenant B for tort, because B was the person who caused the unauthorized occupation of the property by C. The owner not having terminated the lease contract with B was still entitled to receive rent from B, but in addition the court awarded the owner as damages the difference between the rent of the sublease of BC and the rent of the original lease of A B. The amount of the rent of the sublease was 195,000 Yen per month and was higher than the rent of the original lease which was 90,000 Yen per month. Awarding this difference (195,000 − 90,000 = 105,000 Yen) to the plaintiff means in fact stripping the profits from the defendant B who gained from the sublease.[11]

In another case of unauthorized occupation of a premise the plaintiff claimed not only damages of rental value but also damages for mental suffering.[12] The plaintiff argued that the unauthorized occupation of the land by the defendant was intentional and in bad faith and therefore should be liable for the mental damages. But the court denied the owner's claim reasoning that there was no intentional or bad faith injury and that the plaintiff's property damages caused by the infringement of his property right are in general fully satisfied by the awarding of the amount of rent. The court added a general opinion that damages for mental suffering would be awarded when there is a special circumstance which justifies the compensation for mental suffering, though in this case the court denied existence of such a circumstance. The court did not say in detail what would constitute such special circumstances, but bad faith could be one such element.

Infringement of Personality Rights

Infringement of personality rights is an important area where disgorgement of profits gained by media is an issue and supported by some academics.[13] There are no cases yet which clearly award a remedy of disgorgement of profits in this area. But there are some cases which refer to the compensation of mental damages added to property damages suffered by plaintiffs. Also in cases where mental damages alone

[11] Actually not the whole difference was awarded to the plaintiff in this case. The cost of improvement made to the house by the defendant tenant was subtracted from the amount of the difference of the rents.

[12] Naha District Court, Decision of 30.11.2000, Shomu Monthly Report vol. 48, 2648. The owner of a land leased to the Government of Japan for the purpose of using it as a military base of US Army. Later the owner claimed damages against the government for not returning the land after expiration of the lease period. The owner claimed not only property damages equivalent to the rental value of the property but also damages for mental suffering.

[13] Study Group of Osaka District Court on Damages (2002), 6 et seq.

are sought by the plaintiff the amount of mental damages are sometimes determined by considering the profits made by the defendant, especially by media.

Some scholars argue that in cases of the infringement of personality rights all the profits made by the defendant should be given to the right holder.[14] Personality right is an "absolute right", and the right holder of such a right is entitled to all the profits which flow from this right. According to this theory the central problem is the allocation of profits between the right holder and the wrongful user (or simply the user) of the right. This is an attractive solution, but there still remain several key questions to be answered, such as: Is the allocation of profits a problem of tort or a problem of unjust enrichment? How do we allocate the profits and what are the criteria of allocation between the right holder and the user?

Mental Damages Added to Property Damages

Tokyo District Court of 24.12.2008 is a case in which a famous entertainer in TV shows claimed damages for unauthorized use of his photo by the defendant, an orthopedic hospital, who used the photo for the advertisement of its business.[15] The plaintiff claimed damages under two headings. First, property damages for the infringement of his portrait right calculated by the licensing fee for his portrait. Second, mental damages caused by the unauthorized use of his portrait. The court awarded the plaintiff both property damages and mental damages.

Since property damages and mental damages arise from different kind of injuries, it is theoretically possible to award both in cases of infringement of personality right, if the plaintiff actually suffered both kinds of injuries. But usually only either of them is awarded to the plaintiff. If the plaintiff is an ordinary individual, it is the mental damages which are given to him. And if the plaintiff is a professional who allows others to use his photos by payment of royalty, as it was in this case, then usually only property damages would be awarded. Why did the court in this case award both property damages and mental damages? Before answering this question we must compare personality right cases with the intellectual property cases. The difficulty of proving the profits of the defendant is the same in both groups of cases. But for the infringement of personality right there is no statutory provision to presume damages by the profits of the defendant. Therefore although it is possible that the defendant made some profits from the unauthorized use of the plaintiff's photo, the plaintiff is very likely to fail to prove the amount of profits and even more difficult to prove that the defendant's profits was equal to the plaintiff's damages. The only way available for the plaintiff is to claim damages for the reasonable

[14] Shiomi (2005), 216–270 discusses his theory of absolute right in the Civil Code and applies it to intellectual property cases to justify disgorgement of profits.

[15] Hanrei Times vol. 298, 204. In this case it was the advertisement company which was the defendant and was ordered compensation by the court. But to simplify the issue in this case I will handle both the orthopedic hospital and its advertising company as a single party.

royalty. If the court thinks this amount was too small compared to the profits made by the defendant, it can either relax the criteria of proof of damages and award more property damages or find some other ways to increase the total amount of damages. The Tokyo District Court in the above case took the latter method of adding mental damages to the property damages calculated by the reasonable royalty. This method of using mental damages to achieve reasonable amount of damages is not of course disgorgement of profits in a strict sense, but functionally it deprives the defendant partly of his profits.

Injury of Personality Rights by Media

Another situation where the profits of the defendant are taken into account in determining the amount of damages are the cases of defamation or privacy infringement by media. In general the plaintiffs claim only mental damages in these cases, but the amount is determined by considering the profits made by the defendant. In the case of Tokyo District Court of 29.02.2000[16] the plaintiff, a famous professional soccer player claimed mental damages against a publisher which published a book on plaintiff's private life citing his poems written during his teenage years. The publisher had made a profit of 37 million Yen by selling the book. The plaintiff claimed 37 million Yen as property damages and ten million Yen as mental damages. The plaintiff's aim was to deprive the defendant of its profits. But the court awarded only two million Yen for damages of mental suffering. The interesting part of this case was that the court in determining the amount of the mental damages of two million Yen considered the fact that the defendant made a handsome profit. The amount of damages for mental suffering in a case of privacy or defamation is said to be about one million Yen in average at the time, but the court awarded two million Yen which was above the average. The profits of the defendant were one of the factors which influenced the amount of mental damages.

Tokyo District Court of 25.06.2007[17] provides us another interesting case, in which a famous figure in TV show claimed damages for defamation and infringement of privacy against a publisher of a weekly magazine. The court awarded eight million Yen for the mental damages which is considerably above the average amount for such cases. The profits made by the defendant by selling this issue were considered as one factor in determining the amount of mental damages.

The flexible use of mental damages considering the profits made by the defendant is now established case law in Japan.[18] But why profits made by the defendant can

[16]Hanrei Jiho vol. 1715, 76.

[17]Hanrei Jiho vol. 1988, 39.

[18]Legal Training and Research Institute (2001), 4. This article was written by a study group of judges proposing a model of calculation of damages for mental suffering. The profit made by defendant is one of the elements to determine the amount of mental damages in defamation cases.

be considered in determining the amount of mental damages is not theoretically fully explained. Furthermore the criteria of when and to what extent profits of the defendants are to be considered is not clear. Because the courts use their discretionary power to determine the amount of mental damages, it obscures the real elements considered in their judgements.

Infringement of Fiduciary Duty

Trust Law

Trust Act in Japan provides liability of a trustee in a case of breach of trustee's duty, such as duty of loyalty or duty of care (Trust Act § 40). In cases of breach of duty of loyalty which includes conflict of interest cases, the Trust Act provides that the profits made by the trustee are presumed to be the damages suffered by the trust property or the beneficiaries. This provision is similar to that of the Patent Act. It does not straightforwardly acknowledge disgorgement of profits, but it is functionally equivalent to a gain-based relief.

The provision of the presumption of damages is not applied to the cases of breach of duty of care. In intellectual property cases, the provision of presumption of damages is applied to all injuries, whether intentional or negligent. But the Trust Act treats the duty of loyalty and duty of care differently. Only in cases of breach of duty of loyalty the amount equal to the profits made by the trustee is presumed to be the damages. The trust law specialists all agree that special protection of beneficiary is necessary in a case of breach of fiduciary duty. The reason why a special status is given to the fiduciary duty and not to the duty of care is an important problem to be explored.

The majority of academics explain that fiduciary duty is a special duty corresponding to the wide discretionary power given to the trustee. A discretionary power of a trustee is necessary for an efficient management of the trust property. But at the same time there is a risk of causing damages to the trust property and beneficiaries, if the trustee uses his power to seek his own interest. The duty of loyalty is therefore imposed on trustees to prevent such abuse of power by the trustees. For the purpose of preventing the breach of duty of loyalty disgorgement of profits of the trustee is necessary. The basic idea is prevention or deterrence. This is the idea of Anglo-American trust law. The Japanese Trust Act, though not exactly the same with the trust law in common law countries, basically followed this model.

There are two problems discussed concerning the gained-based relief in the Trust Act.

One is the same problem as in Patent Act. The Ministry of Justice opposed to acknowledge disgorgement of profits as a remedy for breach of fiduciary duty, because according to their opinion such a remedy does not fit well in the civil law system. Therefore after some debate the Judicial Committee had to compromised and followed the example of the Patent Act.

Another problem is more theoretical. It is about the relation between the fiduciary duty and the duty of care. Although the Trust Act statutorily treats the two duties differently, there is a theoretical debate among the scholars as to the relation of the two duties. The problem arose during the discussion of the revision of the law of obligations in the Civil Code. In the Judicial Committee a proposal was made to introduce duty of loyalty in a mandate contract. The majority of the members of the Committee opposed to the proposal. One of the reasons was that the present Civil Code provides already the duty of care of the mandatary and therefore duty of loyalty is not necessary. Duty of loyalty stems from the duty of care and both duties overlap each other. That was also the opinion the Supreme Court on the duty of loyalty of company directors. These were the arguments made by the opponents of duty of loyalty.[19] Against these arguments the proponents of duty of loyalty and fiduciary duty had to explain why fiduciary duty is special and why disgorgement of profits can be justified in cases of breach of fiduciary duty. I personally think the preventive character of duty of loyalty or fiduciary duty can justify disgorgement of profits, but the majority of academics are of the opinion that duty of loyalty is to be limited only in a special relation such as beneficiary and trustee, etc. They do not acknowledge fiduciary relation between the parties of a contract, which also means that they will not support gain-based relief in a case of breach of contract.

Director's Liability for Competition with the Company

Directors are prohibited to be engaged in a transaction which competes with the company or to put himself in a position of conflict of interests with the company. These prohibition of certain activities or the duty of the directors to refrain from such activities are provided in the Company Act (§§ 355, 356).

§ 355 provides the duty of care and the duty of loyalty of company directors. But as mentioned above the Supreme Court has declared that duty of loyalty is only materialization or concretization of duty or care.[20] Therefore according to the Supreme Court the duty of loyalty is not different from the duty of care. A special treatment of duty of loyalty of the corporate directors was thus denied by the Supreme Court.

On the other hand § 326 which provides directors' duty not to compete with the company gives gain-based relief for the violation of this duty. The director who is going to be engaged in such transactions which are within the scope of the company's business must acquire consent from the board of directors. The director who engages himself in such a transaction without the board's consent violates the duty not to compete with the company and is liable for damages. The Company Act

[19] Minutes of the 17th Meeting (26 Oct. 2010) of the Judicial Committee can be seen at: ttp://www.moj.go.jp/shingi1/shingi04900048.html

[20] Supreme Court, Decision of 24.06.1970, Minshu vol. 24, 625 et seq.

§ 423 provides that such directors must account for the profits they made which are presumed to be the damages of the company. This is only a presumption of damages just like the provisions in the Patent Act and the Trust Act but may function as gain-based relief.

Compared to the provision of the presumption of damages in the Trust Act which covers all types of breach of fiduciary duty the provision of presumption of damages in the Company Act is applied only to the transactions competing with the company's business by the directors. For the other types of conflict of interests, such as self-dealing or director acting as an agent of third party, the presumption does not apply. The coverage area of the provision of presumption in the Company Act is narrow. The reason for this is not clear. But it is probably explainable from the fact that the previous Company Act provided a company's right to intervene or to substitute in the director's transaction with a third party. This intervention right actually deprived the profits of the transaction from the director in a case of breach of duty not to compete. This intervention right was abolished by the present Company Act because the right to intervene was thought to be not practical and the remedy of damages in liaison with the presumption of damages was considered to be more effective for the protection of the company.

Consumer Law

As mentioned in the introductory part of this report, in the field of consumer law new remedies for effective protection of the consumer are under discussion. Disgorgement of profits and other gain-based reliefs are useful tools for consumer protection. But the preset law provides only cancellation of the contract, damages and injunctions.[21] In some other related laws, such as Antimonopoly Act, there is a system of surcharge which is ordered by the Fair Trade Commission against business entities that conducted certain types of competition restricting activities. Consumer Affairs Agency and the National Consumer Affairs Center[22] are discussing future plans to establish a more effective protection of consumers. Implantation of surcharge system in consumer law and disgorgement of profits are also on the agenda. But introducing of disgorgement of profits as a private law remedy seems to be difficult according to the Working Group Report on the new remedies of consumer protection.[23] Probably the new remedies to be introduced

[21] § 12 Consumer Contract Act.

[22] National Consumer Affairs Center is closely connected with the Consumer Affairs Agency of the Government but is an independent organization. It has published its plan for new enforcement system, in: Study on legal system of disgorgement of profits by illegal activities in consumer transactions (2004), (http://www.kokusen.go.jp/news/data/n-20040421_2.html)

[23] See the report of the working group in footnote 1.

will be basically administrative law methods, such as penalty or surcharge system, in which the money goes to the treasury.

Unjust Enrichment

Though the legal institution of unjust enrichment seems ideal for disgorgement of profits of the defendant, majority of the academics and the case law require not only unjust "profit" of the defendant but also "loss" of the plaintiff for the restitution based on unjust enrichment.[24] Originally the "loss" requirement was thought to be necessary to limit the scope of restitution of profits to a reasonable extent. Because the profits made by the defendant are not always unreasonable. Some profits might have been made by using resources of a third party. Or some profits by the defendant had nothing to do with the plaintiff. To eliminate such profits from the scope of restitution the traditional doctrine used the "loss" requirement. They explained that only profits which had connection with the plaintiff's "loss" should be returned to the plaintiff. But today many scholars oppose to the traditional doctrine of unjust enrichment and argue that the "loss" requirement should be discarded. If this new doctrine prevails and becomes the case law, the unjust enrichment would be an appropriate tool for disgorgement of profits. But even though unjust enrichment becomes available for the disgorgement, we will have to find a criterion to determine the scope of profits which are to be returned to the plaintiff. And also we must carefully discuss the compatibility with other methods of gain-based relief, because unjust enrichment does not require bad faith nor negligence of the other party, which seems unique compared to other remedies.

Conclusions

From the analysis of the Japanese law I elucidated that there are multiple rationales for the justification of disgorgement of profits or gain-based relief.

First, in cases of infringement of intellectual property rights, gain-based relief is most comfortably explained from the nature of the interest that they are vulnerable against unauthorized uses. It is not because the infringement was done by intention or in bad faith; it is the *vulnerability of the interest* which justifies the disgorgement of profits. If such is the reason for gain-based relief in intellectual property law area, it seems reasonable to give such a remedy also in cases of negligent infringement.

Secondly, trust law also acknowledges gain-based relief in the form of presumption of damages based on profits of the defendant. The provision in the Trust Act is exactly the same as in the Patent Act. But the reason why a gain-based relief is given

[24] Tanaka (1976), § 703, pp. 446 et seq.

in cases of breach of duty of loyalty is different. The interest of a beneficiary is also vulnerable, but the vulnerability does not come from the nature of the beneficial interest. Rather it originates from the relation of the beneficiary and the trustee that the latter has a wide discretionary power and the beneficiaries are vulnerable to abuses of power by the trustee. It can be called *vulnerability of relationship*. Directors' liability is also based on the same consideration as the trustee-beneficiary relationship. A difficult question concerning gain-based relief based on fiduciary duty is whether such a remedy should be given in cases of negligent breach of the duty. The core of the situation which the duty of loyalty aims to prevent is of course abuse of power by the fiduciary. But the breach of duty of loyalty occurs also in negligence. For example, if a trustee uses trust property for his own interest negligently forgetting to acquire consent from the beneficiary, this also makes the trustee liable to return the profit he made from the trust property. Therefore, at least in Japanese trust law gain-based relief is to be given also in negligent breach of duty of loyalty.

Thirdly, tort law in Japan is an area where gain-based relief can be developed. Though the present situation in Japanese law is under-developed, the flexible use of mental damages makes gain-based solution in various situations available. But the inevitable and difficult question concerning the use of gain-based relief in tort is what kind of tort justifies the disgorgement of profits. Should we limit the use of gain-based relief only in intentional torts or admit also in negligence? This question is not fully answered in Japanese law. Instead of answering this question I would like to introduce the debate on injunctive relief based on tort. Injunctive relief is acknowledged when property rights or personality rights are injured. The question was whether tort could be a ground for injunctive relief. The majority of the academics agree that tort in general does not give justification for an injunctive relief. Existence of additional factors is necessary, but of what kind? Some mentioned intention or bad faith, others referred to high degree of illegalness, but the question still remains unanswered. The question of gained-based relief seems to have the same difficulty. It is difficult to formulate the criteria for disgorgement in tort cases.

With these different rationales for gain-based relief in mind, the final question for us is whether there is a single unified justification for all types of gain-based reliefs. Idea of deterrence or prevention seems promising as a guideline or as a philosophy, but Japanese law is still in a more primitive stage struggling for plausible legal constructions of gain-based reliefs.

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Part IX
Latin America

Chapter 24
Disgorgement of Profits in Brazilian Law

Aline de Miranda Valverde Terra

Abstract Brazilian law offers no generic provision to permit disgorging ill-gotten gains from an agent's wealth. Some doctrines actually do provide this, either directly or indirectly, for instance in the case of unjust enrichment, especially when viewed as profit from intervention. Likewise, business administration on one hand enables any profit obtained from such administration to be retrieved from the agent's wealth, since this benefit belongs to the owner of the business; on the other hand, this avoids unjust enrichment on the part of the owner of the business, obliging him to compensate the manager for any necessary or useful expenses incurred by the latter. Although the structure and function of civil liability are not compatible with disgorgement of profits, one can see a (non-technical) tendency in jurisprudence to use the doctrine for this purpose, especially when the profit obtained by means of the agent's damaging conduct is greater than that suffered by the victim. Indeed, a detailed analysis of Brazilian law shows that since certain concrete situations are not provided for, there are occasions when illicit activity unfortunately renders benefits for the agent.

Keywords Damages • Disgorgement of profits • Unjust enrichment

Introduction

This article sets out to analyze disgorgement of profits in Brazilian law, based on the questions that appear in the text written by Professors Ewoud Hondius and André Janssen for the 19th Congress of the International Academy of Comparative Law held in Vienna. First of all emphasis should be made on the non-existence, in Brazilian law, of a single systematic discipline on the theme, which in a way contributes to the scant academic production on the matter.

This being so, the focus will be on the doctrines that can fulfill the function of reclaiming ill-gotten gains from an agent's wealth, as well as those which on the

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other hand are not meant for that purpose; the paper will also ascertain the existence or not of specific solutions to some particular situations.

The Incompatibility of the Structure and Function of Civil Responsibility with Disgorgement of Profits

Brazilian law includes no autonomous sort of damage designated disgorgement damages. This is so because in the sphere of civil responsibility only two types of damage[1] are recognized, namely, moral damage, understood as injury to a person's dignity,[2] which embraces in one single category all non-property damages; and property damage, which is subdivided into pecuniary loss, related to actual decrease of assets or increase of liability, and lost profits, defined as the non-increase of assets or the non-decrease of liability.[3] Therefore, *tertium non datur:* either the injury affects the victim's property and incurs property damage, or it is a case of injury to a person's dignity, which causes moral damage.[4]

Besides not configuring as an autonomous category of damage, disgorgement of profits also does not fit into the concept of damage adopted by Brazil's juridical system. Damage is not confused with anti-juridicity, with infringement of some right or norm; damage is injury to juridically protected interest.[5] Property damage corresponds to actual decrease of the victim's property or to non-increase of same caused by the wrongdoer; consideration of any other parameter requires express legislative authorization, as in article 402 of the Civil Code. The anti-juridicity of the conduct or the wrongdoer's obtaining profit as a result of such conduct does not impact on extending the harm to the victim's wealth, and consequently should

[1]The Supreme Court of Justice holds that so-called "aesthetic damage" is an autonomous type of damage, and therefore different from moral and material damage, as expressly stated in the Court's Summary 387: "It is licit to accumulate compensations for aesthetic and moral damage". Note that the Summaries have no legal effect, nor do they have to be considered by the other courts, or even by the Supreme Court of Justice itself, whose Ministers are free to judge differently from the majority understanding of the Court. The existence of autonomous damage, designated "aesthetic damage" is the object of criticism from the doctrine see Monteiro Filho (2000), 51.

[2]In respect to the above-mentioned moral damage, see Bodin de Moraes (2003), 132. The concept of moral damage is not consensual in Brazilian doctrine; some authors define it as injury to personality rights (Gomes (1996), 271), while others claim that moral damage is the non-property effect of the injury (Rodrigues (1993)).

[3]Article 402 of the Civil Code. "Save for the exceptions expressly provided by law, the losses and damages suffered by the creditor or include, in addition to what he actually lost, what he reasonably failed to gain." For a thorough study on the concept of pecuniary damage and lost profits in Brazilian law, see Guedes (2011).

[4]Monteiro Filho (2000), 51. Note, nevertheless, the Supreme Court of Justice opinion mentioned in footnote 1 above.

[5]On the concept of damage in Brazilian law, see Schreiber (2007), 102. Specifically, in respect to moral damage, see Bodin de Moraes (2003), 179–181.

not be used as a parameter to define the compensation. Furthermore, the function of compensation for property damage is to return the victim's property to the state in which it would be had there been no injury, in other words to recompose his patrimony. So, it is not the function of this compensation to disgorge from the wrongdoer's wealth any benefit that has been obtained illegitimately through damaging conduct.

Compensation for moral damage, in turn, has the primary function of compensating the victim for damage endured, serving as a palliative for non-property harm, which is why the parameters to be used to qualify it should be restricted to analyzing the damage undergone, as well as the effects that the damage causes to the victim, which can vary immensely depending on his or her personal circumstances.[6]

Thus, whether the damage is property-related or moral, the criteria for defining it should always converge on the damage rather than on the circumstances of the offending party, such as the gains gotten through damaging conduct – except when expressly permitted by law in this sense.[7] Civil responsibility has been attributed the function of protecting the victim by means of full reparation of the damage suffered, the exclusive measure of which is the extent of the damage in the precise terms of article 944 of the Civil Code. Any analysis of the conduct of the offending party[8] and/or the profits obtained, for the purpose of quantifying the damage, would attribute to civil responsibility a moralizing and punitive function that is incompatible with the national juridical system.[9] Attributing any function other than of a reparatory/compensatory nature calls for an express legal provision, which is non-existent in positive law.[10]

One can therefore see that civil responsibility does not solve the problem of the profits gained by means of conduct that damages rights. Doctrine, geared as it is toward protecting the victim, allows the offender to keep in his property at least part of the benefits obtained whenever the damage is less than the profit pocketed.

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[6]"After all, if the objective is to repair moral damage unjustly *suffered*, there is no reason to defend any concept of damage *caused*" (Bodin de Moraes (2003), 304).

[7]With regard to the need for express legal authorization to use the wrongdoer's profit as a parameter for calculating lost profits, see Guedes (2011), 212.

[8]Special note should be taken that the only hypothesis in which analysis of the wrongdoer's conduct is admitted in Brazilian law appears in article 944, single paragraph, of the Civil Code, and serves only to reduce compensation, never to increase it.

[9]For a convincing critique of the punitive function of moral damage, see Bodin de Moraes (2003), 258; Tepedino and Schreiber (2006), 521; Tepedino et al. (2007), 341; Mulholland (2009), 32–33.

[10]Strictly speaking, more than once the Legislative Power has had the opportunity to attribute punitive function but refrained from doing so. When the Consumer's Defense Code (Law 8.078/1990) was being drafted, one provision created a civil fine whose only function was to penalize the wrongdoer; the norm was excluded by presidential veto. Later on, when the Civil Code of 2002 was edited, an attempt was made to attribute a punitive function to moral damage by means of Draft Law 6.960/2002, which provided including a Clause 2 in article 944 of the Civil Code, as follows: "Reparation of moral damage should constitute compensation for the victim and adequate discouragement for the wrongdoer". The proposal was rejected.

Nonetheless, in opposition to the more technical orientation concerning configuration of civil responsibility, one notes in both doctrine[11] and jurisprudence a tendency to lend punitive characteristics to the norm, especially as concerns moral damage, compensation for which would serve not only to compensate the victim for the injury suffered but also to punish the wrongdoer,[12] as well as preventing and discouraging similar behavior.[13] Such functions are quite often incorporated to moral damage transversally by adopting quantifying criteria unrelated to the damage undergone, such as ill-gotten gains, a criterion which ends up indirectly helping to disgorge the illegally acquired benefits from the wrongdoer's wealth.

Unjust Enrichment: Profit Through Intervention as the Doctrine Functionally Equivalent to Disgorgement of Profits

If, technically speaking, civil responsibility is not concerned with disgorging ill-gotten gains from the wrongdoer's property, except where a legal provision expresses as much, unjust enrichment appears to be the most appropriate doctrine to fulfill this function. It deserves noting that only with the Civil Code of 2002 did unjust enrichment become expressly provided as an autonomous source of obligations, as a general clause in article 884 of the Civil Code.

The doctrine differs from civil responsibility not only in the diversity of situations that allow applying one or another discipline but mainly because of the function that each one fulfills. Civil responsibility aims to repair the damage suffered by the victim through an illicit act[14] or some risk activity.[15] As to the cases of unjust enrichment, these belong to the sphere of reproachability by the principles of the system, and their chief function is to disgorge the enrichment from the wealth of the

[11] Andrade (2006).

[12] Supreme Court of Justice, 2ª Turma, Recurso Especial 487749, Relatora Ministra Eliana Calmon, 2003.

[13] "In view of the lack of objective parameters to set the value of compensation, the following elements were observed: gravity and extent of the damage, reincidence of the wrongdoer, professional and social position of the victim, and financial condition of wrongdoer and victim. Thus, the moral damages set by the original Court at a derisory amount were increased by this Higher Court in order that the value of the compensation for moral damages would respect the concepts "discouraging sum" and "compensatory sum" (Supreme Court of Justice, 4ª Turma, Agravo Regimental no Agravo 1072844, Relator Ministro Luis Felipe Salomão, 2011). In this same sense, see Rio de Janeiro Court of Justice, 9ª Câmara Cível, Embargos Infringentes 521, Relator Desembargador Jorge Magalhães, 2001.

[14] Civil Code, Article 927 and Civil Code, Article 186 (subjective responsibility based on fault).

[15] Civil Code, Article 927, single paragraph (objective responsibility regardless of proof of the fault of the agent who caused the damage).

enriched.[16] To characterize unjust enrichment, therefore, it matters little whether or not there was any change to the wealth of the person whose juridical status served to enrich the agent; likewise, it is of no importance if damage occurred or not. The relevant question to configure unjust enrichment is only the increase in the wealth of the enriched individual, in other words, his actual enrichment.

Some requisites are necessary to configure unjust enrichment. In the first place, *enrichment* is necessary, that is, increase in the wealth of the subject obliged to restitute. There are two ways to evaluate enrichment: actual enrichment, related to the object of the enrichment and consisting of the objective quantification of the value in use of the good or right, or of the acquired advantage; and property enrichment, related to the enriched subject and involving the difference between the real and the hypothetical situation, the latter being considered as the circumstances of the agent if the fact that generated the enrichment had not happened. The parameter used for the sake of restitution is patrimonial enrichment, as is made clear further ahead.[17]

Enrichment can come about as a result of attribution of wealth[18] or by exploitation of goods, work or the rights of others.[19] Nevertheless, it is the second sort of enrichment, by means of exploitation of goods, work or alien rights, designated as enrichment by intervention, or gains by intervention that features as functionally equivalent to disgorgement of profits. Intervention gains, then, consist of increase in wealth obtained by a party who without any authorization interferes in another's subjective juridical situation,[20] and can derive from either increased assets, decreased liability or saving a certain expense.[21]

The second requisite necessary to configure unjust enrichment and consequently profit by intervention is for enrichment to occur *at another party's cost*. This requisite is analyzed based on the theory of *attribution of the content of legal destination of goods*, according to which everything that such goods are capable of yielding or producing belongs in principle to the respective owner.[22] The person who by intervening in another's juridical goods obtains advantage in wealth does

[16] "There is a clear distinction between civil responsibility and unjust enrichment: the former grants dynamic protection to wealth based on the principle of *neminem laedere* and is designed to reimburse fully the damage suffered by the victim, while the latter only offers static protection to wealth which, being less intense, involves cases not covered by civil responsibility, such as when there is no illicitude or damage. Application of the doctrine of unjust enrichment is aimed not to repair damage but rather to force the benefitted party to return what has been unduly appropriate." (Tepedino et al. (2006), 754–755). In this same sense, see Noronha (2013), 443.

[17] Konder (2005), 383.

[18] That is to say, an act by which someone, at his own cost, increases someone else's wealth, as in the case of undue payment (Civil Code, Article 876), or in the hypothesis where the proprietor receives the good with improvements made by the possessor.

[19] Konder (2005), 381.

[20] Savi (2011), 7.

[21] Nanni (2012), 258.

[22] Noronha (2011), 1093.

so *at the* cost of the holder of that particular right, even if the latter is unwilling to practice the acts from which the advantage derives.

Article 885 in turn requires that there be no justifying cause of enrichment, that is to say, no juridical, legal or conventional title to justify increase in wealth. Lastly, there is also the requirement of subsidiarity of unjust enrichment, which means that the juridical system must contain no other pretension at the disposal of the holder of the right that enables him to obtain the same or a more favorable result than that achieved by means of the pretended unjust enrichment, exercised by an *actio in rem verso*. In cases of profit through intervention, where the economic benefits gained by the intervening party are greater than the damage caused, the civil-responsibility action cannot be considered as 'another means' capable of hindering the exercise of *actio in rem verso*. After all, with the civil responsibility action the holder of the right will only manage to obtain compensation for damages undergone, and at this juncture not all the profits obtained by the intervening party, thereby allowing the latter to retain a portion of the gains.[23]

In enrichment by attribution of wealth, the juridical system determines the return of the ill-gotten gains of the enriched party's property, either by restituting what he has received unduly or by returning to the owner the value of the improvements made to his property.[24] With regard to enrichment by intervention, the profit derived there from must be delivered to the holder of the right in the form of restitution. The use of the word *restitution* does not mean that the interventor has to *return* something that already existed in the property of the holder of the right prior to the intervention. *Restitution* refers to the wealth of the interventor, which should therefore be restituted to the *status quo ante.*[25]

Disgorgement Damages in Particular Branches of Law

Since Brazilian law includes no systematic discipline to guarantee full exclusion of the ill-gotten gains of the agent's wealth, it will be shown below whether or not the juridical system offers any specific solution to certain situations.

Infringements of Personality Rights

Infringement of personality rights sometimes results in considerable enrichment of the infringing party. Generally, civil responsibility offers a satisfactory solution to

[23] In these cases, unjust enrichment is affirmed to be the only instrument available for restituting the value owed: Savi (2011), 92; Michelon Jr. (2011), 199.

[24] Regarding reimbursement of improvements, see Civil Code, Articles 1.219, 1.220 and 1.222.

[25] Savi (2011), 91.

compensation for damages caused to the victim. Nevertheless, when such conduct causes at the same time injury to personality rights and consequent enrichment of the wrongdoer greater than the damage caused, the doctrine proves inefficient. This is one of the reasons why, as stated earlier, part of the doctrine and jurisprudence attributes a punitive character to moral damage, even without any express legal provision, which eventually allows disgorgement of ill-gotten gains from the wrongdoer's wealth.

In this sense, the sentence passed by Judge Murillo Fábregas in March 1995 by the 5th Civil Court of the Rio de Janeiro Court of Justice, in respect to Civil Appeal 6.913, is paradigmatic. The discussion involved infringement of the publicity rights of football players on the part of the Brazilian Football Confederation, which allegedly did not obtain the necessary authorization to print and sell albums and photographs. The Court calculated the compensation for the footballers, as moral damage, based on the percentage of the profit obtained by the infringing party.[26] Such a decision, besides being incompatible with the current configuration of civil responsibility, is incapable of promoting the complete disgorgement of the wrongdoer's gains.

Moreover, whenever there is an infringement of publicity rights, it is quite common for the communications media to be condemned to pay, by way of lost profits, the amount that the holder of the personality rights would receive if the right had ceased. This was precisely what happened in the Civil Appeal case number 2009.001.08023, where the claimant, a photography model, sought compensation for material and moral damages on account of the commercial use of her image beyond the limits authorized by contract. The Court condemned the defending company to pay compensation for material damages – lost profits – using the parameter of the value originally agreed for exposure of photographs. Decisions such as this, however, end up legitimizing expropriation of wealth at market price, in other words, they eventually call for enforcement of a contract,[27] besides not properly disgorging the gains accumulated by the agent.

[26]The decision was reformed by the Supreme Court of Justice precisely in the section that used the wrongdoer's profit as criterion to set moral damage (Supreme Court of Justice, 4ª Turma, Recurso Especial 100764, Relator Ministro Ruy Rosado de Aguiar Junior, 1998). The Rio de Janeiro Court of Justice maintained the same decision in the "Tim Maia" case, in which the image of the singer, elected by the *Rolling Stone Brasil* magazine the 9th top artist in Brazilian music, was used by a clothing firm to stamp on t-shirts without the necessary authorization of his relatives (at the time, the singer was already dead): "Exhibition of a photograph of the *de cujus* on t-shirts commercialized by the appellant without authorization. Absence of proof that the accused obtained authorization to use the image of the late singer Tim Maia on the clothes. Infringement of right of personality. The accused having obtained economic profit from commercializing the product, material damage is therefore characterized in the investigated gains, to be assessed in liquidation of the award. (. . .)" (Rio de Janeiro Court of Justice, 4ª Câmara Cível, Apelação Cível 0107626-90.2011.8.19.0001, Relator Desembargador Paulo Maurício Pereira, 2013).

[27]Rio de Janeiro Court of Justice, 17ª Câmara Cível, Apelação Cível 2009.001.08023, Relator Desembargador Custódio Tostes, 2009.

It is, then, understood that the proper way to promote disgorgement of gains in the wrongdoer's wealth in the situations described above is to consider them as unjust enrichment as a result of exploitation of others' rights. It is actually a matter of enrichment by intervention. The response of restitutory law is precisely that: obliging the intervening agent to return the profits obtained whenever these are greater than the damage caused to the holder of the right.

Infringement of Trans-Individual Rights

Trans-individual rights are classified and defined in article 81 of the Consumer Defense Code[28]: *diffuse rights* are of an indivisible nature, the holders being indeterminate people linked by actual circumstances; *collective rights* are indivisible trans-individual rights held by a group, category or class of people linked to one another or with the opposite party by a basic juridical relation; and *homogeneous individual rights* derive from a common origin. Such rights are protected by an authentic collective processual system formed by the Consumer Defense Code and by the Law of Public Civil Action.[29]

To defend the homogeneous individual rights of consumers, the Consumer Defense Code introduced to Brazilian law the structural model of *class action*; its article 91 provides for the possibility of some eligible parties to file collective responsibility suits for damages suffered individually, aimed at establishing the responsibility of the defendants.[30] The condemnation is generic and settlement of the damage can be done individually by each of the victims, or represented by the entities or persons listed in article 82.[31]

In respect to public or collective civil actions concerning the defense of indivisible interests, such as the diffuse and collective, there is no way to divide the amount of compensation imposed on the perpetrator of the damage among indeterminate persons or persons who share indivisible injuries. In these cases, the solution found by article 13 of Law 7.347/1985 was to set up a fluid fund called the *Fund in Defense of Diffuse Rights,*[32] into which is deposited the amount of the condemnation in money,[33] and whose purpose is make reparation for damages feasible in the

[28]Law 8.078/1990.

[29]Law 7.347/1985.

[30]It should be noted that article 91 does not exhaust the repertoire of the collective processes in defense of homogeneous individual interests. It is possible that actions favoring protection of such interests are aimed at condemning the obligation to do or not to do, or that it is of a merely declaratory or constitutive nature, in keeping with article 83 of Law 8.078/1990.

[31]Grinover et al. (2011), 158.

[32]Law 9.008/1995, article 1.

[33]Note that although this Fund was set up to collect the value of condemnations in cash decided in public or collective civil actions, it also receives the value of imposed fines based on Law

terms of clauses 1 and 3 of article 1 of Law 9.008/1995. And it is precisely in the sphere of such actions that decisions can be found in the Supreme Court of Justice's recognizing the possibility of configuring so-called collective moral damage,[34] with the amounts being deposited in the Fund; sometimes, as occurs with individual moral damage, the Court is given a punitive function which in practice ends up serving as an instrument for disgorging gains.[35]

Infringement of Industrial Property

Despite the concept of damage to wealth being incompatible with using the wrongdoer's ill-gotten accumulated wealth as one of the criteria for quantifying compensation, article 210 of the Industrial Property Law[36] permits, under criticism from some sectors,[37] the use of this criterion to calculate lost profits, as an exception to article 402 of the Civil Code.

This peculiar way of calculating lost profits arises in the sphere of industrial property as a result of the almost insurmountable difficulty of the victim to prove the extent of his lost profits once the patent, the model of usage or the brand have been infringed.[38] The provision has been widely applied by jurisprudence and serves, albeit indirectly, to disgorge illegally acquired profits from the wrongdoer, as occurred in the case of Special Appeal 710.376, where a manufacturer of furniture and household articles, the owner of the brand "ATTIVA", sought compensation from a company that took advantage of his prestige and tradition by putting products on the market that used the expression "ACTIVA" to induce the consumers to make a mistake, and in this way to get rich by violating the brand of the claimant. The Supreme Court of Justice determined that the injured party should receive the profits actually gained by the wrongdoer, an amount different from the benefit obtained, since the profit is calculated deducting from the benefit gained all the taxes and other costs of production, transportation and labor used to make the furniture.[39]

7.347/1985, provided these are imposed because of injury to indivisible trans-individual interests. In this sense, see Mazzilli (2004), 451.

[34]Concerning collective moral damage, see Bessa (2006); Bittar Filho (1994).

[35]In this sense, see the decision made by the Supreme Court of Justice, 3ª Turma, Recurso Especial 1291213, Relator Ministro Sidnei Beneti, 2012.

[36]Law 9.279/1996.

[37]"The function of lost profits in civil responsibility is flagrantly reparatory. Therefore, in assessing this facet of property damage, it is not recommended to introduce criteria that are not even used in civil responsibility, at the risk of turning reparation of ceasing profits into a veritable *Pandora's box*, which, although it incites curiosity, is always best left untouched" (Guedes (2011), 223).

[38]Cerqueira (1982), 284.

[39]Supreme Court of Justice, 4ª Turma, Recurso Especial 710.376, Relator Ministro Luís Felipe Salomão, 2009.

Infringement of Property Rights

Using the wealth of others does not always entail the exercise of civil responsibility. When the owner of the good no longer uses it and has no intention of using it, occasional use by third parties usually does not cause reimbursable damage. This is so because the mere simple potentiality of use does not constitute juridical interest that merits protection whose infringement in itself constitutes damage; protected juridical interest, whether of wealth or not, can be infringed by the suppression of some specific advantage that could be gained by the actual use of the good, while only damage to juridically protected interest configures damage liable to compensation.[40]

Furthermore, even in the hypotheses where there is damage to be compensated, there is no place for disgorgement of the agent's gains, since – unlike what goes on the sphere of industrial property – Brazilian law grants no authorization to consider this amount as a criterion for quantifying compensation for industrial damage when property rights are affected.

In fact, the only doctrine capable of disgorging the ill-gotten gains of agents who exploit the property of others is unjust enrichment. Accordingly, a man who is given the keys to look after a friend's summer-house while he is traveling, and starts to use the house with his family, does so without any juridical authorization that justifies it, seeing that he is merely in temporary possession of the keys.[41] Therefore, on using the house, he saves expenses that he would have if he rented a house to spend his holidays, so he should give the owner the price of the rent, regardless of whether the owner plans to rent it or not.

Breach of Contract

Disgorging from the contractor's wealth the gains obtained through breach of contract is one of the thorniest tasks in Brazilian law, for there is no specific consideration made for such in law. The doctrine used by jurisprudence to try to solve the question is contractual civil responsibility, but the solution falls far short of the desirable when the benefit gained by the contractor with the breach is once again greater than the damage caused to the other party.[42]

This is so because breach of contract leaves two possibilities: (1) if the obligation is still useful to the creditor and possible for the debtor to execute, configuring only arrears,[43] then the creditor can keep the contract and demand specific executive of

[40] Schreiber (2007), 102.

[41] Article 1.198, Civil Code.

[42] Civil Code, Article 389.

[43] Civil Code, Article 394.

the debt; (2) if, however, the obligation becomes of no use to the creditor or else impossible for the debtor, thereby configuring absolute default, the creditor can (a) plead for resolution of the contract;[44] or (b) appeal for execution for the pecuniary equivalent of the installment that was owed to him, and keep the contract.

Whatever the path chosen by the creditor, it will always be possible for him to plead for payment of compensation for losses and damages; these, since this is a matter of property damage, are limited to pecuniary loss and lost profits and exclude the ill-gotten gains of the debtor with the breach of contract, in accordance with article 402 of the Civil Code. The function of compensation for property damage in contractual responsibility is to compensate the creditor, without any concern for any gain obtained by the debtor. Although the possibility of compensation for moral damage in beaches of contract is recognized exceptionally,[45] these funds also would not serve to disgorge gains from the debtor, as pointed out earlier.

If civil responsibility fails to solve the problem of profit gained from breach of contract, the solution for unjust enrichment also seems impossible in some hypotheses, especially given the still timid application of the theory of profit through intervention by jurisprudence.[46] Imagine the mortgagee who takes out a cash loan to make a financial investment and in the period agreed to return the loan fails to do so, because the investment gives him a better financial return than the interest that he will pay to his creditor for late payment. The obstacle to be overcome in order to configure the profit obtained in this situation as unjust enrichment is to show the absence of any legitimate juridical title to justify enrichment. Strictly speaking, the enrichment of the contractor is based on juridical titles, namely the financial investment. So, the creditor is left with the difficult task of convincing the judge that the financial investment is ill-gotten gain, having been signed based on infringement of a previous contract.

Business Administration

Business administration is a unilateral juridical act that consists of officious administration of a third party's business, performed without procuration.[47] The administrator takes the initiative of managing business known to belong to others without having any obligatory contractual authorization, that is to say, the adminis-

[44] Civil Code, Article 475.

[45] Bodin de Moraes (2003), 163–165.

[46] As shown in item 3.1 above, contractual default by infringement of publicity rights, for example, can lead to application of enrichment by intervention whenever it results in the contractor's obtaining ill-gotten gains, as in the concrete case of the decision made in Apelação Cível 2009.001.08023, although the Rio de Janeiro Court of Justice did not apply the doctrine to solve the dispute.

[47] Bevilaqua (1980), 65.

trator acts voluntarily and spontaneously, contracting, carrying out material acts or emitting expressions of will, always in the interest of the owner of the business and in accordance with presumed will.[48] If his business is beneficially administrated, the owner will relate to the performance of the administrator, who should then fulfill the obligations contracted in his name.

The owner of the business is obliged to compensate the administrator for the necessary or beneficial expenses that he has incurred, besides the losses suffered on account of the management carried out to good use, including any legal interest since the disbursement.[49] To receive, the administrator can exercise the right to retain the object of the administration, since his juridical situation is the same as the mandatory, to whom article 664 of the Civil Code grants the right of retention. However, if the benefits gained from administration exceed the losses, the owner of the business will profit legitimately from the excess presented.

The function of the doctrine thus lies in allowing the owner of the business to relate juridically to the acts practiced by the administrator whenever the officious administration is useful to him. Indirectly, however, on one hand, disgorging from the wealth of the administrator any profit gained by the administration is made feasible, since this benefit belongs to the owner of the business; on the other hand, unjust enrichment of the owner of the business is avoided, obliging him to compensate the administrator for the necessary or beneficial expenses incurred by him.

Final Remarks

The doctrine that is functionally closest to disgorgement of profits is unjust enrichment through profit by intervention, the scope of which resides precisely in removing from the wealth of the intervening party the profit obtained from unjustified intervention in the rights or goods of third parties. Only recently has part of the doctrine begun to develop some academic studies on the theme. The Courts, however, have not yet assimilated the full potentiality of the doctrine, which is why, in practice, anti-juridical conduct is often economically profitable for the wrongdoer.

To attempt to minimize this problem, in the sphere of civil responsibility, when the profit gained through the agent's harmful conduct is greater than the damage undergone by the victim, the Courts now consider the ill-gotten gains as one of the criteria for quantifying property damage, and then attribute a punitive function to moral damage. This solution, however, for all its good intentions, is incompatible with the structure and function of civil responsibility in Brazilian law.

[48] Civil Code, Article 861.

[49] Civil Code, Article 869.

Finally, business administration serves indirectly to transfer the profit obtained by the administrator through officious administration of the business of others to the wealth of the owner of the business, as well as to prevent unjust enrichment of the owner of the business, since he is obliged to compensate the administrator for the necessary and beneficial expenses he incurs, together with the losses possibly incurred during his administration.

Note also that the doctrine of unjust enrichment does not offer an easy solution to promote disgorgement of ill-gotten gains from the wealth of the agent in all situations, as shown in some breaches of contract; also, no other institution offers to fulfill this function, which leads to the conclusion that *de lege lata,* Brazil's juridical system has no private-law instruments available that are sufficiently efficient to carry out this function. *De lege ferenda,* creating a generic instrument that will allow disgorging ill-gotten gains from the wealth of agents seems to be the best alternative. An alternative, however, that depends on legislative change.

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Chapter 25
Disgorgement of Profits in Chilean Private Law

Rodrigo Momberg

Abstract This chapter examines the availability of account of profits both in cases of breach of contract and in tort. The main focus will be placed on the latter, where the theory of unjustified enrichment and the action based on Articles 2316 and 1458 of the Civil Code may be considered, at least theoretically, as the two main sources for disgorgement of profits in Chilean private law.

Keywords Disgorgement of profits • Breach of contract • Chilean private law

Introduction

The subject of disgorgement of profits has usually been neglected by Chilean legal doctrine. This can be explained because the general principle in Chilean private law, both in contract and in tort is that liability has a compensatory nature, i.e. damages are aimed at compensating the loss or injury suffered by the creditor or the victim.[1] In other words, damages are the measure and limit of compensation. The award of damages cannot put the affected party in a better position than he was before the breach of contract or the tort.

In theory, this rule applies to any kind of damages, even those which are difficult to measure, such as future losses or moral prejudices (*daño moral*). Thus, damages have essentially a compensatory nature. The case law has persistently stated that 'the compensatory nature of civil liability requires that the only measure of the damage is the loss suffered by the victim, without any consideration to any other criteria or

[1]See Alessandri (1943); Abeliuk (2008); Barros (2006). In this paper, the expressions tort and non-contractual liability will be indistinctly used.

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element, particularly those with a subtle punitive aim.'[2] Therefore, in principle, the profits derived from the breach of contract or tort have no relevance for the amount and award of damages, and cannot be claimed as part of the compensation by the affected party.

Additionally, punitive damages are not an admitted category in Chilean law.[3] However, Chilean legal doctrine has stated that in fact, the wrongdoer's behaviour is a relevant element for the amount of damages awarded by the courts, particularly in tort. Thus, in similar circumstances, it is claimed that the damages awarded by the courts for an intentional tort (*delito*) may be higher than the awarded for a mere negligent tort (*cuasidelito*).[4]

This chapter examines the availability of account of profits both in cases of breach of contract and in tort. The main focus will be placed on the latter, where the theory of unjustified enrichment and the action based on Articles 2316 and 1458 of the Civil Code may be considered, at least theoretically, as the two main sources for disgorgement of profits in Chilean private law.

Disgorgement of Profits for Breach of Contract

The subject of disgorgement of profits, as one of the available categories of damages in contract law, has not been the subject of study by Chilean legal doctrine. Traditionally, the analysis is focused exclusively on the categories of damages recognised by the Civil Code: *daño emergente* (*damnun emergens*, i.e. economic loss) and *lucro cesante* (loss of profit).[5] More recently, the discussion has turned to the availability of moral prejudices (*daño moral*) for the creditor in cases of breach of contract. In any case, it is not discussed in Chilean legal doctrine that the nature of damages for breach of contract is compensatory, neglecting any further analysis about the possibility to claim the profits made by the promisor as a consequence of the breach of contract. Perhaps because of this absence of doctrinal development, the case law is inexistent on the subject.

[2]Corte de Apelaciones de Santiago, 26 July 2013, Rol 7562–2011.

[3]Corte Suprema, 07 January 2003, Rol 679–2002; and Corte Suprema, 07 January 2014, Rol 9580–2013.

[4]See Barros (2006).

[5]Article 1556 of the Civil Code: 'La indemnización de perjuicios comprende el daño emergente y lucro cesante, ya provengan de no haberse cumplido la obligación, o de haberse cumplido imperfectamente, o de haberse retardado el cumplimiento. Exceptúanse los casos en que la ley la limita expresamente al daño emergente.' The same distinction is found in Article 1149 of the French Civil Code. The economic loss normally includes the cost of substituted performance, wasted expenditure and the cost of repairing damaged property.

Disgorgement of Profits in Non-contractual Liability

Compensatory and Restitutionary Damages

As stated above, in Chilean private law, the award of damages is aimed to compensate the loss or injury of the victim.

However, it is also accepted in private law that a wrongdoer should not be allowed to profit from its wrong. The aim of this principle is not to compensate the victim for damage, either derived from tort or breach of contract, but to remove an incentive to wrongdoing or to prevent the immoral consequence of profiting through a wrong.[6] Following these ideas, modern Chilean legal doctrine has stated that in cases of non-contractual liability, specially related with unauthorised use of property, besides compensatory damages, the aggrieved party may be also be entitled to claim the restitution of the gains that are the consequence of the wrong. This action would be a particular case of unjustified enrichment, with the special requirement of fault (*culpa*) or fraud (*dolo*) by the wrongdoer. The recoverable gains include both the expenses saved and the profits made by the wrong.[7]

On the contrary, traditional legal doctrine does not recognise restitutionary damages as a recoverable category of damages for the party affected by a wrong. In this sense, it is stated that the recoverable damages are limited by the compensatory nature of non-contractual liability, and therefore the victim is entitled only to claim the damages equivalent to the loss suffered. Although some cases related with the unauthorised use of intellectual property have been cited as awarding restitutionary damages, the courts have avoided express references to those damages, instead awarding to the plaintiff a sum for the moral prejudices derived from the wrong.[8]

Unjustified Enrichment

Although the restitution of unjustified enrichment is not expressly recognised in the Chilean Civil Code, legal doctrine and case law have stated that this institution is both a general principle of private law and also a source of obligations.[9] The lack of a general rule on the subject is a common feature of the nineteenth Century Civil Codes.[10] Nevertheless, the Civil Code includes a number of rules based on or related with unjustified enrichment, such as those on *pago de lo no debido*,

[6] Jaffey (2000).

[7] Barros (2006).

[8] Corte Suprema, 02 November 2000, Revista de Derecho y Jurisprudencia, t. XCVII, sec. 1, 212, cited by Barros (2006), 931.

[9] See Corte de Apelaciones de Santiago, 30 October 2013, Rol 2.811-2012 and Peñailillo (1996).

[10] See Sirena (2012).

(Articles 2295 to 2303), which are related to payments made by mistake in the absence of any legal or contractual duty. It has to be clarified that the Chilean Civil Code expressly regulates contractual restitution, i.e., restitution derived from the termination (*resolución*) or avoidance (*nulidad*) of a contract. Therefore, the lack of rules on unjustified enrichment is exclusively related to cases of non-contractual relationships.[11]

The traditional view in Chilean legal doctrine is that a person who has suffered a loss that increases the wealth of another, without any contractual or legal basis for that enrichment (absence of *causa*), is entitled to claim restitution from the enriched person, up to the amount of the loss or detriment he has borne (*actio in rem verso*).[12] The measure of restitution is, therefore, the loss and not the increase of wealth of the enriched party. The basis for this assertion is that restitution cannot put the affected party in a better position than he was before the wrong. In other words, even when the profits of the unjustly enriched party were higher than the detriment suffered by the affected party, the latter has no claim in relation to those profits. Therefore, under this view, liability is always limited to the actual loss of the affected party.

However, modern doctrine has stated that the relevant element in cases of unjustified enrichment is not the loss suffered by the victim, but the economic advantages or profits gained by the enriched party (i.e. the *enrichment*). In this sense, it is claimed that the enriched party has no title to retain the profits derived from the unlawful use of another's property or rights; and the existence of a counter-loss is irrelevant.[13] Therefore, the measure of restitution should be the enrichment and not the detriment, i.e. the profits and not the losses.

With this view, even in cases where the victim suffers no loss, he would be entitled to claim the disgorgement of profits obtained by the enriched party. However, because one of the requirements of unjustified enrichment under Chilean private law is the absence of *causa*, the claims would be restricted to non-contractual relationships. Since a contract is considered as a valid *causa*, illegal or illicit profits obtained in the context of a contractual relationship could not be accountable. In these cases, as stated in section "Disgorgement of Profits for Breach of Contract", only compensatory damages are available for the creditor.

The case law has followed the traditional doctrine, limiting restitution to the amount of loss suffered by the aggrieved party. Thus, in a claim based on the *actio in rem verso*, the Court of Appeals of La Serena, stated that in cases of unjustified enrichment, the enriched party is only liable up to the amount of the patrimonial detriment suffered by the affected party and not for the complete amount of his enrichment, even if it is higher than the losses of the claimant. The decision was later upheld by the Supreme Court.[14]

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[11] The situation is similar in France and Spain, see Sirena 2012.

[12] Fueyo (1990).

[13] Peñailillo (1996).

[14] Corte de Apelaciones de La Serena, 13 January 2012, Rol 1670–2011; Corte Suprema, 16 May 2013, Rol 2508–2012.

The Action Based on Articles 2316 and 1458 of the Civil Code

Only two provisions of the Civil Code can be directly related to the disgorgement of profits, allowing the victim of fraud (*dolo*) to claim from the benefitted party the profits that are the consequence of that fraud.

Thus, the second paragraph of Article 2316 states that 'Everyone who makes a profit from the fraud of a third party, without being accomplice in the fraud, is liable up to the amount of the profit obtained'.[15] In similar terms, the second paragraph of Article 1458 states, in relation to fraud as a defect of consent, that the party affected by fraud has an action against the author of it for the total amount of the damage, and against anyone benefitted by the same fraud for the amount of the benefit.[16]

Until recently, these provisions were not subject to analysis by Chilean legal doctrine, with just minor references in treatises and textbooks. Nevertheless, the rules mentioned gained attention when they were used as legal ground before the courts in claims for the recovery of profits related to a major financial scandal.

The cases are based on the same facts: the *Inverlink Holding*, a financial group with companies dealing with mutual funds and stocks amongst others, bribed the chief money market dealer of CORFO (*Corporación de Fomento de la Producción*), the state economic-development agency, who handed over more than US$ 110 million in government-owned certificates of deposit, securities and other financial instruments. *Inverlink* used those instruments as collateral to obtain funds for short-term operations, selling them in the secondary market. In theory, after the profit was made, *Inverlink* would return the instruments and the theft would not be discovered. However, at some point the operation was unveiled, and *Inverlink* faced massive withdrawals from its investors and clients, financing these withdrawals with the money obtained with CORFO's financial instruments. Shortly after that, *Inverlink* was declared in default.

CORFO not only started criminal and civil procedures against *Inverlink* and the executives involved in the fraud, but also civil claims against the companies and institutions which received payments from *Inverlink* with the money obtained with the illicit transactions of CORFO's instruments. More than twenty civil claims were filled by CORFO.[17]

The legal basis of those actions were Articles 2316 and 1458 of the Civil Code. CORFO claimed that the clients of *Inverlink* that received the payment of their

[15] Article 2316: 'Es obligado a la indemnización el que hizo el daño, y sus herederos. El que recibe provecho del dolo ajeno, sin ser cómplice en él, sólo es obligado hasta concurrencia de lo que valga el provecho.'

[16] Article 1458: 'El dolo no vicia el consentimiento sino cuando es obra de una de las partes, y cuando además aparece claramente que sin él no hubieran contratado. En los demás casos el dolo da lugar solamente a la acción de perjuicios contra la persona o personas que lo han fraguado o que se han aprovechado de él; contra las primeras por el total valor de los perjuicios, y contra las segundas hasta concurrencia del provecho que han reportado del dolo.'

[17] Pizarro (2009).

investments before the holding's default, made a profit derived from the illicit transactions of CORFO's financial instruments. In other words, they benefitted from the fraud committed by a third party (*Inverlink*). At present, a number of CORFO's claims have been admitted both at first instance and by the Court of Appeals. Some of the cases have reached the Supreme Court via *recurso de casación*, confirming in all cases the decisions of the lower courts.[18]

The Conditions for the Application of Articles 2316 and 1458

In the decisions mentioned, the Supreme Court has developed for the first time a doctrine of disgorgement or account of profits, based on Articles 2316 and 1458, establishing three conditions for the application of those rules:

(a) The existence of intentional fraud (*dolo*),
(b) That a person (the beneficiary) makes a profit from the fraud committed by a third party, and
(c) That the beneficiary was ignorant and not involved in the third party's fraud.

The Existence of Intentional Fraud (dolo)

Intentional fraud (*dolo*) is defined as the positive intention to produce damage to others (Article 44 of the Civil Code).[19] The term *positive* is used in the definition to reinforce the consciousness of the fraudulent behaviour. Therefore, it is usually stated that fraud involves a number of actions (*maniobras*) in order to deceive and mislead the affected party. The rules of Articles 2316 and 1458 are a reflection of the general principle that it is unlawful to take any advantage from a fraudulent act: *fraus omnia corrumpit*.

That a Person (the Beneficiary) Makes a Profit from the Fraud Committed by a Third Party

The liability of the beneficiary must be directly linked with the profit derived from the fraud. Therefore, the claim is not related with the behaviour of the beneficiary but only with the profit made, which is at the same time the measure and the limit of their liability. As a consequence, the Court expressly stated that the action based on Article 2316 is an exception to the general rules on liability, because it is independent from the behaviour of the beneficiary, arising with no consideration of any negligence or fraud from that party.

[18] The reported decisions are Corte Suprema, 30 January 2013, Rol 6.302-2010; Corte Suprema, 12 September 2013, Rol No 11.723-2011; Corte Suprema, 30 September 2013, Rol 4.871-2012.

[19] Article 44, last paragraph: 'El dolo consiste en la intención positiva de inferir injuria a la persona o propiedad de otro.'

The Court also stated that the term profit has to be broadly construed, including any advantage or benefit derived from the third party's fraud, as well as any expenses saved by the beneficiary. In this sense, the Court also considered as a profit the performance by *Inverlink* of the contracts concluded with their investors and clients (the beneficiaries), since such a performance was possible only because of the fraud of *Inverlink* against the claimant (CORFO).

This broad concept of profits has been disputed by legal doctrine. It is argued that the profit has to be exclusively based on the third party's fraud. The existence of a justification for the beneficiary's profit, such as a bilateral contract concluded with the wrongdoer, interrupts the causal link between the profits and the fraud, preventing the application of the rule of Article 2316. In other words, the fraud has to be the only and direct cause or source of the profit.[20]

That the Beneficiary Was Ignorant and Not Involved in the Third Party's Fraud

The exceptional nature of the rule of Article 2316 is confirmed by the requirement that the beneficiary has to be completely unaware of the fraud. As said above, the behaviour of the beneficiary is not relevant and thus he could be held liable even if he is acting completely in good faith. Therefore, this can be considered as a case of strict liability, which is also exceptional in Chilean private law, where the general rule is the opposite, i.e. that liability is based on fault, both in contract and in tort.

The Nature of the Action Based on Article 2316

The Court stated that even when the action based on Article 2316 can be considered as non-contractual, its nature is not compensatory but restitutionary, since it is not related with the loss suffered by the affected party. The Court reinforced the idea that the liability of the beneficiary is exclusively based on the profit obtained as a consequence of the third party's fraud. As mentioned above, the profit is the measure and limit of the beneficiary's liability.

Therefore, the aim is not to compensate the loss (if any) of the victim but that the recipient gives up the profits that are the consequence of an illicit and intentional conduct, even when the fraud was committed by a third party. Thus, the disgorgement of profits of Articles 2316 and 2458 is directly linked with the intentional wrong itself and therefore, there is no necessity of loss for the affected party. Moreover, the enriched is a third party in relation with the wrong, and thus his negligence or intentional behaviour has no relevance.

Chilean legal doctrine has added that the nature of the rules of Articles 2316 and 1458 is different from unjust enrichment, because the profit is indirect, caused by

[20] Pizarro (2009).

the behaviour of a third party. The independence of the action based on Articles 2316 and 1458 implies that the victim still has the chance to claim compensatory damages from the author of the fraud.[21]

Statutory Cases of Disgorgement of Profits

Three special cases of disgorgement of profits can be mentioned in Chilean private law:

(a) The liability of directors and managers of corporations (*sociedades anónimas*) in cases of infringement of their fiduciary or legal duties (Articles 42 and 50 of *Ley 18.046 sobre Sociedades Anónimas*). In these situations, the corporation is entitled to claim the benefits obtained by the directors or managers as a consequence of their illicit or fraudulent conduct.
(b) Under the rules of competition law (*Ley de Defensa de la Libre Competencia*, DL 211), one of the parameters for the determination of fines in cases of anti-competitive behaviour are the economic benefits obtained by the businesses involved in the unlawful commercial practice.
(c) Article 108 of the Industrial Property Act (*Ley 19.039 de Propiedad Industrial*) states that the owner of an industrial property right (e.g. patents, trade marks and designs) is allowed to claim as compensation the profits derived from the infringement of his right.

Conclusions

The disgorgement of profits has not been a subject of study in Chilean legal doctrine. Similarly, with the exception of the recent *Inverlink* cases, no relevant case law has been reported on the issue. Both in contract and in tort, the compensatory nature of civil liability has prevented the development of a theory on gain-based damages.

However, the existence of a restitutionary action has been stated by legal doctrine in some cases of non-contractual liability, in order to allow the recovery of profits derived from the illicit use of property. In the same way, the doctrine of unjustified enrichment may be used to claim the disgorgement of profits obtained by a person by the use of another's property or rights, in the absence of a contractual or legal basis for that enrichment. Again, the prevalent view is that the enriched party is only liable up to the amount of the patrimonial detriment suffered by the affected party, and not for the complete amount of his own enrichment.

[21] Pizarro (2009).

It seems that the only effective device for the disgorgement of profits in Chilean private law is the action derived from Articles 2316 and 1458 of the Civil Code. The latest developments in the case law have proved the efficacy of this action for the account of profits. However, the requirement of fraud as the source of the profits may entail a significant limitation for the practical use of these actions.

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Part X
General Report

Chapter 26
Disgorgement of Profits: Gain-Based Remedies Throughout the World

Ewoud Hondius and André Janssen

Abstract In academic discourse it is often said that "tort must not pay". However, the legal reality looks very different. Infringements of e.g. competition law, unfair commercial practices law, capital market law, intellectual property rights, or personal rights by mass media, or the breach of fiduciary or confidentiality duties are – for various reasons – generally highly profitable for the wrongdoer. Thus in practice unlawful conduct regularly pays as the illegal profits remain with the wrongdoer. A general idea of disgorgement of unlawful profits does not exist yet. This general report now considers the question whether or not "disgorgement of profits" is a keyword to be introduced in legal discourse and how the law may be shaped in order for illegal profits to be disgorged as efficiently as possible and thus to reduce the incentives for unlawful behaviour. According to the approach selected here it is the private law instruments, in particular what is called "disgorgement damages", which are at the centre of attention. Can their use contribute to an increase in efficiency and what national experiences are on hand? Which legal circumstances should be necessary for their application and what are the requirements?

Keywords Contract • Competition law • Damages • Disgorgement of profits • Enforcement directive • Fiduciary duties • Gain-based remedies • Intellectual property right • Personality rights • Unfair commercial practices • Unjust enrichment

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Introduction

> This Court never allows a man to make profit by a wrong [. . .].[1]

It is with this statement by *Lord Hatherly* in *Jegon v Vivian* that we began our questionnaire, in which we suggested that this particular statement was in line with modern day rhetoric.[2] In many jurisdictions, it seems to be a timeless statement. Maybe even more than in Lord Hatherly's time there is a worldwide ideal that unlawful conduct (or more specific tort) should not pay and that, for this reason, the wrongdoer's illegal profits must be disgorged.[3]

However, the legal reality looks very different from the rhetoric. Infringements of e.g. competition law, unfair commercial practices law, capital market law, intellectual property rights or personal rights by mass media or the breach of fiduciary or confidentiality duties are generally highly profitable for the wrongdoer. Millions of Euros or dollars of unlawful profits remain with the wrongdoers every year. Thus, in practice unlawful conduct often pays.[4]

From a private law perspective the reasons why unlawful conduct ultimately often pays are at least threefold: The first and most obvious one is when the chance to detect the wrongdoer is very low. In these situations he is "speculating" that he will not be held liable for his unlawful behaviour. The second reason can be the rational apathy of the injured parties in cases of so-called "trifling damages" or "nominal damages". These are cases in which the damage suffered by each individual is low (and thus also the incentive to claim damages is low) but as many persons suffered these losses, the profit of the wrongdoers is (sometimes immensely) high. Another possible reason is that the wrongdoers' expected profits are higher than the legal sanctions (especially damages) for the infringement. In these cases the calculated breach of law remains profitable despite all sanctions (profitable breach of law or contract).

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[1] "*This Court never allows a man to make profit by a wrong, but by Lord Cairns' Act the Court has the power of assessing damages, and therefore it is fairly argued here that this is a case in which damages ought to be reckoned [. . .].*" Lord Hatherly in Jegon v Vivian (1870–1871), Law Reports Chancery Appeal Cases VI, 742 (761). With respect to this quote see also the Greek national report.

[2] See e.g. American Law Institute (2011) § 3, 'Wrongful Gain': "*A person is not permitted to profit by his own wrong.*"

[3] See e.g. Rookes v. Barnard [1964] AC 1129 (1227), per Lord Devlin: "*Exemplary damages can properly be awarded whenever it is necessary to teach a wrongdoer that tort does not pay.*" See also Schmolke (2007), 3: "*tort must not pay*". Very clear in this respect also the report for Portugal: "*The principles that one who engages in illegal behaviour should not benefit from this conduct is common to all areas of law.*"

[4] See also Assmann (1985), 15; Brandner (1980), 363; Lehmann (2004), 763 (footnote 17).

This general report now considers the question whether or not "disgorgement of profits" is a keyword to be introduced in legal discourse and how the law may be shaped in order for illegal profits to be disgorged as efficiently as possible and thus to reduce the incentives for unlawful behaviour. According to the approach selected by the general reporters, it is the private law instruments, in particular what we call disgorgement damages, which are the focal point of the research.[5] Can their use contribute to an increase in efficiency and what national experiences are on hand? Which legal circumstances should be necessary for their application and what are the requirements?

The general report is structured thus: after the introduction there is the presentation of the national reports, followed by the question of who is faced with the task of disgorging unlawful profits. The subsequent section begins first with the notion of disgorgement damages and the problems with its identification and localisation, followed by the examination of the extent to which disgorgement damages are a central remedy in the national legal systems. The sixth section analyses disgorgement damages in particular branches of law, more specifically in breach of fiduciary duties and confidence, infringements of intellectual property rights, infringements of personality rights by mass media, and unfair commercial practices and competition law. The penultimate section considers the possible functional equivalents. The report concludes with a summary of the results and proposals for future approaches.

National Reports

This general report is based on 24 national reports from Australia,[6] Austria,[7] Belgium,[8] Brazil,[9] Canada,[10] Chile,[11] China,[12] Croatia,[13] England and Wales,[14]

[5]For the understanding of the term disgorgement damages see more detailed section "The Notion of Disgorgement Damages and the Identification of Problems" for further information.

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France,[15] Germany,[16] Greece,[17] Ireland,[18] Israel,[19] Italy,[20] Japan,[21] Norway,[22] Portugal,[23] Romania,[24] Scotland,[25] Slovenia,[26] South Africa,[27] Spain,[28] and Turkey.[29] We had hoped to receive national reports from Colombia, Egypt, the Netherlands, Paraguay and the United States as well, but the number is quite satisfying.

Disgorgement of Profits: Whose Task Is It?

The initial question for the idea of disgorgement of illegal profits is in which branch of law it is or should be dealt with and what instruments they offer. In the majority of legal systems it seems to be accepted that combating unlawful profits is not just a task for one branch of law but that criminal, administrative and private law have to work closely together to achieve the best result possible.[30] For this reason criminal and administrative law often foresee a whole arsenal of more or less efficient particular instruments focussing on disgorgement of unlawful profits:[31] they can e.g. either be confiscated, skimmed-off by authorities, or administrative or criminal fines can be calculated according to the illegal profits. These instruments can be general in nature, i.e. applicable to all forms of violations, or limited to specific areas of law (such as competition law, unfair commercial practices law, etc.).

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[30] In German legal language the term "*wechselseitige Auffangordnungen*" is used to describe this idea of combining branches of law to reach an overarching aim such as the prevention of illegally gained profits (Hoffmann-Riem (1996), 261–336; Schmidt-Aßmann (1996), 7–40).

[31] For more details see the reports for Austria, Croatia, Germany, Ireland, Israel, Norway, Portugal, Slovenia, South Africa, Turkey.

Where the functional distribution regarding disgorgement of profits is concerned it does appear that there has been a shift in view in several countries over the past decades: if one focuses almost solely or primarily on criminal and administrative law then in the course of the rise of the notion of private enforcement there is an increasing emphasis of the significance of private law.[32] The actual significance in practice of the public law regulations on disgorgement of profits was dealt with differently in the national reports. Whilst most national reporters indicated the considerable practical relevance in their country this view was not present in all reports; in fact the relevance was questioned in some instances.[33] In many countries it can be observed that there is an increase in the – often criticised – so-called "legal hybrids", i.e. legal instruments that combine private law and public law elements in order to give rise to a disgorgement of profits. These often require a private party to seize the initiative, though the disgorged profits will be paid to the state.[34]

The Notion of Disgorgement Damages and the Identification of Problems

Arguably the most discussed and most distinct private law instrument when it comes to the disgorgement of profits are the so-called disgorgement, restitutionary[35] or gain-based damages.[36] Furthermore, there are additional other terms for this legal instrument, which of course complicates its understanding. In strong contrast to the "regular" compensatory damages they are measured only according to the wrongdoer's gain based on the infringement rather than the plaintiff's losses and represent an anomaly in a number of legal systems. Thus, the plaintiff might gain damages that exceed his losses considerably; he receives what is called a "windfall profit".[37] The profit to be paid out is therefore calculated separately from the harm that has arisen and can, as such, be much greater; a link to the actual harm is therefore not made. This understanding shall form the basis of the term

[32] See the reports for Austria and Portugal.

[33] See, for instance, the reports for Germany and Austria, and, in contrast, the Slovenian report.

[34] See e.g. the section of the German report concerned with competition law and unfair commercial practices law; see also the Chinese report. See also section "Unfair Commercial Practices and Competition Law" for further information.

[35] In the common law, restitution has two meanings: a giving back and a giving up, as Peter Birks has observed.

[36] See for the terminology and a possible differentiation between the mentioned terms Edelman (2002), 65 et seq. See also the Irish and Scottish reports.

[37] See e.g. Dreier (2002), 42 et seq.; Kruithof (2011), 13 (37 et seq.). This "windfall profit" only arises when the skimmed-off profit goes to the plaintiff. Although this is often the case there are systems and legal instruments which allow the profit to be paid to the state (see e.g. the Chinese and German reports).

"disgorgement damages" used in this report. Accordingly, it also means that this notion is understood as being entirely independent of national perceptions and structure; it therefore might cover instances that the national legal systems indeed describe, though using other terms. Creating a useful and valuable general report can therefore only be achieved by using such an international, independent and uniform notion of disgorgement damages which extends across the national borders.

With regard to disgorgement damages national reporters have had to face several problems: as just indicated above, there is the question of different terminology – not only in English, but also in numerous other languages (see e.g. in French 'faute lucrative' and in German "Gewinnherausgabe" or "Gewinnabschöpfung"), which complicates a uniform understanding. An Israeli statute on disgorgement of profits derived from Publications Concerning Criminal Acts Law, 5765-2005, uses the term "disgorgement of profits" (*hilut revahim*).[38] This or similar terminology is often found in common law and mixed or composite jurisdictions;[39] in civil law systems it is less known.[40] Even worse: not every civil law jurisdiction recognises this topic as a specific issue as such.[41] In contrast, the separate meaning of disgorgement of profits is much clearly indicated in the common law and mixed or composite jurisdictions and is, in principle, recognised therein as a uniform legal topic.[42]

A further problem regarding pinpointing and identifying disgorgement damages is that possible remedies for disgorging unlawful profits are, in contrast to administrative and criminal law, often less "obvious" in the private law sector. Sometimes they seem to be almost "hidden" under the banner of compensatory damages or other obfuscatory labels.[43] Often they are widely spread all over the private law system, which complicates a common understanding of the problem.[44] Additionally, disgorgement damages are covered in part by statute law, but also by case law and the legal requirements may differ considerably (e.g. scope of application, level of fault). The notion of disgorgement damages in purely civil law systems can be found in statute law and sometimes even in case law. In common law countries there is also a divide between private law actions which historically arose in common law courts

[38] See the Israeli report.

[39] See e.g. the reports for Canada, England and Wales, and Ireland.

[40] See e.g. the reports for Belgium, Brazil, Croatia, France, Germany, Greece, Italy, Japan, Norway, Spain, and Turkey.

[41] Cf Whittaker (2011), 179: "*It is always difficult to discuss a topic from the point of view of a legal system where that legal system does not recognise the existence of the topic.*" See also e.g. the report for Brazil, Italy, Slovenia ("*In private law, the term disgorgement of profits is unknown.*"), Spain ("*Hence, there is not general principle of disgorging profits under Spanish private law [. . .].*").

[42] See e.g. the reports for Canada: "*Canadian Law clearly allows gain-based remedies.*", England and Wales: "*English law undoubtedly recognises that gain-based remedies may be awarded as a response to civil wrongdoing.*", and Ireland.

[43] This is very clearly noted in the Belgian report in which it is noted that disgorgement damages "*tend to be camouflaged*".

[44] See especially in this regard the Belgian report.

and private law actions which historically arose in equity in the courts of Chancery. Although the account of profit (disgorgement) arose in the common law, it was taken up by the courts of equity and became principally available for equitable wrongs.[45] Thus traditionally, the remedy was not generally awarded for common law wrongs such as breaches of contract and torts. However, in some mixed jurisdictions, such as Israel and Scotland, there is no division between "common law" and "equitable" remedies in the English sense.[46] In Australia, the historical division between equity and common law remains a significant barrier to the award of disgorgement damages in areas of private law which have their origins in the common law, such as contract and tort.[47] The melding of common law causes of action with remedies which historically arose in equity is said to produce "fusion fallacy" by ignoring historical precedent.[48] By contrast, the US is unconcerned about a fusion of common law and equity,[49] and this is reflected in its much greater willingness to award disgorgement (and punitive) damages for a wide range of actions.

The identification of disgorgement damages is further complicated by the use of other specific legal instruments that (at least) also serve the function of disgorgement of profits, i.e. they contribute to ensuring that the wrongdoer does not retain his unlawful profits. In some respects it can thus be seen that functional equivalents do exist.[50] For instance, damage multipliers as e.g. the American treble damages[51] in competition law or punitive or exemplary damages in common law systems[52] have a function of disgorging profits along with other functions.[53] The same is also true for

[45] It arose with the writ of *praecipae quod reddat* in common law. See McInnes (2005), 405 (406–407); Jones (1995), 147 (168–169).

[46] See more detailed the reports for Israel and Scotland.

[47] Disgorgement for common law causes of actions such as tort and breach of contract has in general been rejected: Hospitality Group Pty Ltd v Australian Rugby Union Ltd (2001) 110 FCR 157 (FCA) 196 (Hill and Finkelstein JJ); Town & Country Property Management Services Pty Ltd v Kaltoum [2002] NSWSC 166 [85] (Campbell J); Biscayne Partners Pty Ltd v Valance Corp Pty Ltd [2003] NSWSC 874 [232]–[235] (Einstein J); Short v Crawley [2005] NSWSC 928 [24] (White J); Young (2000). One of the few positive judicial comment in favour of such a remedy is however that of Deane J in Hospital Products Ltd v United States Surgical Corp (1984) 156 CLR 41, 124–25 (HCA). There are also academic accounts which are favourable: see e.g. Barnett (2012); Edelman (2002) (Edelman J is now a judge of the Supreme Court of Western Australia), and Harder (2010). For the situation in Australia see the Australian report.

[48] Meagher et al. (2002), 61, 854. See also the Australian report.

[49] See e.g. American Law Institute (2011), § 4, 'Restitution may be legal or equitable or both'.

[50] For more details see section "Functional Equivalents to Disgorgement Damages".

[51] See section 4 of the Clayton Antitrust Act. For a further example of treble damages in America see section 1964 (c) Racketeer Influenced and Corrupt Organizations Act (RICO-Act). Generally Craswell (1996), (1999).

[52] Koziol (2008); Koziol and Wilcox (2009); Meurkens (2014); Polinsky and Shavell (1998).

[53] See e.g. for the treble damages in US competition law Antitrust Modernization Commission (2007), 246 (treble damages also for "*disgorgement of profits*").

the right of subrogation (so-called "Eintrittsrechte") that can be found in particular in the German law family or the constructive trust in some common law countries.

The Lack of Disgorgement Damages as a General Remedy in the National Legal Systems

Despite the almost consistent efforts at a comprehensive (private law) disgorgement of unlawful profits and support of the statement "tort should not pay" it can nevertheless be observed that the legal reality tells a different story. Almost all national reports emphasised and regretted the inefficiency of their own national legal system with respect to this problem and came to the result that unlawful behaviour is often worthwhile. Nonetheless, the analysis of the national reports shows that in most legal systems disgorgement damages are not considered as a general remedy for all kind of unlawful conduct; thus often a general legal basis is lacking.

For example, in the US, traditionally it has been denied that disgorgement damages (aside from several specific laws in intellectual property law) should always be awarded – see for instance *E. Allan Farnsworth*.[54] But more recently *Melvin Eisenberg* has argued that such damages are already accepted in American law[55] – see *Snepp v US*.[56] And in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognised that disgorgement may be appropriate in some cases.[57] In other common law countries such as England and Wales, Australia, Ireland, and New Zealand, and mixed or composite legal systems such as Canada and Scotland, disgorgement damages have traditionally been available mainly for equitable causes of action[58] such as breach of fiduciary duty[59] and breach of confidence where they are known as the "account of profits".[60]

[54] Farnsworth (1985).

[55] Eisenberg (2006).

[56] Snepp v US 444 US 507 (1980, Alaska).

[57] See American Law Institution (2011), § 39, 'Profit From Opportunistic Breach', § 51, 'Enrichment By Misconduct; Disgorgement; Accounting' and § 53, 'Use Value; Proceeds; Consequential Gains'.

[58] However, there are some historic examples of equity affording the account of profits as a remedy for what could be characterised as common law wrongs – e.g. patent infringement, which could generate a claim for damages in common law courts, or a claim for an account of profits alongside an injunction in equity, even before the mid-nineteenth century.

[59] See Murad v Al-Saraj [2005] EWCA Civ 959 (England and Wales); Warman v International Ltd v Dwyer (1995) 182 CLR 541 (Australia).

[60] Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109 (HL).

However, this principle has increasingly wavered over the past decades. For example, the Irish High Court ruled in *Hickey v Roches Stores*[61] that there could be disgorgement damages arising from both contractual and tortious wrongs, in cases where the defendant acted in bad faith ("male fide") by calculating and intending to achieve a gain by his wrongdoing.[62] Finlay P accepted that, although the general aim of damages in contract and tort is compensation, contract damages need not always be strictly limited to compensation. He indicated that the circumstances giving rise to disgorgement could vary between different causes of action.[63] He set out a general rule that, "*where a wrongdoer has calculated and intended by his wrongdoing to achieve a gain or profit which he could not otherwise achieve and has in that way acted mala fide then irrespective of whether the form of his wrongdoing constitutes a tort or a breach of contract the Court should in assessing damages look not only to the loss suffered by the injured party but also to the profit or gain unjustly or wrongfully obtained by the wrongdoer.*" However, the outlines of these disgorgement damages in Irish law still remain unclear due to insufficient case law and are therefore still awaiting clarification.[64] Nonetheless, the decision could be the starting point for ensuring comprehensive disgorgement damages, i.e. in contract and in tort, in Ireland.

In addition, the 2001 landmark decision of the British House of Lords in *Attorney-General v Blake*[65] calls into question several of the earlier principles of the common law-jurisdictions.[66] As noted above, until recently it was generally accepted for English law that damages for breach of contract were compensatory only and that any kind of gain-based damages[67] could not be awarded for a "pure" breach of contract. However, in the decision referred to the House of Lords held that an account of profits could be awarded against a contract-breaker, albeit only in "exceptional circumstances". Lord Nicholls said that the remedy would not be awarded unless normal contractual remedies (compensatory damages and specific remedies) would be "inadequate". Although what might qualify as "exceptional circumstances" has not yet been precisely determined, it can nevertheless be maintained that the account of profits for a breach of contract is rather a seldom phenomenon.[68] A further unresolved matter concerns how the decision in *Attorney-*

[61] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196.

[62] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196; see also Maher v Collins [1975] IR 232, 238. For more details see the Irish report.

[63] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196, 208.

[64] As indicated in the Irish report.

[65] Attorney-General v Blake [2001] 1 AC 268.

[66] See the English report for further details on this decision and on this question in general.

[67] See e.g. Surrey County Council v Bredero Homes Ltd [1993] 1 WLR 1361 (CA).

[68] As is described in the English report (with further references).

General v Blake will impact on other common law jurisdictions and mixed legal systems.[69] Moreover, one will be kept in suspense as to whether a similar remedy may be afforded for other wrongs for which there is no present authority for profit-stripping awards[70] (mostly, a significant number of common law torts) when "exceptional circumstances" exist.[71]

Israel seems to be the only legal system covered by this report, where disgorgement damages are almost fully available and also used in practice. The landmark Israeli Supreme Court decision is the case of *Adras*,[72] which was the first to apply the disgorgement principle to a breach of a contract not involving fiduciary relations, has blurred the lines between contract law, property law and unjustified enrichment, and has profoundly affected Israeli private law ever since. The factual situation of *Adras* was as follows: In 1973, the defendant, a German company, contracted to sell to the plaintiff, an Israeli company, iron for a determined price. As a result of the October 1973 war between Israel and its neighbouring Arab countries delivery of some of the iron was delayed. The defendant notified the plaintiff that, because of the high storage costs, it had to sell the remaining quantity to a third party. The plaintiff responded promptly with a demand that the iron be delivered to it. The defendant did not comply and, instead, sold the iron for a much higher price to a third party. In 1976 the plaintiff sued for recovery of the defendant's gains. By that time the market price of iron returned to its former level and therefore the plaintiffs could not recover losses under their contract. Instead, it claimed the profits made by the defendant under unjust enrichment.

In its first decision,[73] the Israeli Supreme Court dismissed the claim on the basis of ULIS (Convention relating to a Uniform Law for the International Sale of Goods), the predecessor of the CISG (United Nations Convention on Contracts for the International Sale of Goods). Since the plaintiff could not prove that it had suffered a loss due to the breach it could not succeed in its claim. Had the plaintiff avoided the contract immediately after the breach it could have sued for the difference between the contract price and the market price on the date of avoidance (article 84 ULIS). The claim in unjust enrichment was likewise dismissed, since the law of unjust enrichment was considered inapplicable between the parties to a contract. Section 6(a), Unjust Enrichment Law, 5739-1979, provides that "*[t]he provisions of this*

[69] For further details on this discussion see the national reports for Australia, Canada, Ireland and Scotland.

[70] But cf Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086 (breach of competition law); Forsyth-Grant v Allen [2008] EWCA Civ 505 (nuisance). For critical discussion, see Rotherham (2010).

[71] For more details on this interesting question see the English report.

[72] Adras v. Harlow & Jones GmbH, Further Hearing 20/82, 42(1) PD 221–285. See more detailed the Israeli report.

[73] Harlow and Jones v. Adras, C.A. (Civil Appeal) 815/80 (1983) 37(1) PD 225 (10 October 1982). See more detailed the Israeli report.

Law shall apply where no other Law contains special provisions as to the matter in question and no agreement between the parties provides otherwise."

The plaintiff was granted a further hearing, in which two questions had to be decided by an extended panel of five justices of the Israeli Supreme Court: Whether unjust enrichment law applies between the parties to a contract? If the answer to the first question is positive – what would be the consequences for the parties in this case? The majority decided that unjust enrichment law applied also between parties to a contract. Consequently, the seller was required to transfer its profits to the buyer.[74]

What about civil law jurisdictions? In the majority of them there is no general rule on disgorgement damages.[75] Also in Germany and Austria a general instrument "disgorgement damages" is lacking in their respective Civil Codes. However, *Gerhard Wagner* has argued in his report to the 66th *Deutscher Juristentag* (German Jurists' Forum) for an inclusion of disgorgement damages in the German law of damages (for intentional infringements).[76] And according to section 1316(5) of the draft Austrian damages legislation the "*advantages are to be considered, which the party causing the harm gained through the behaviour giving rise to liability*" when calculating the ideal amount of damages. However, this may not be a genuine disgorgement of profits in the sense used for this general report.

Some jurisdictions do prima facie have a promising general legal basis for disgorgement damages as, for instance, The Netherlands. Article 6:104 of the Dutch Civil Code of 1992 seems to provide a legislative basis for such damages: "*If someone, who is liable towards another person on the basis of tort or a default of complying with an obligation, has gained a profit because of this tort or non-performance, then the court may, upon the request of the injured person, estimate that damage in line with the amount of this profit or a part of it."* However, in its decision in *Waeyen-Scheers v Naus*, the Dutch Supreme Court concluded that this provision is only a means of assessing damages and not an independent and specific remedy for disgorgement damages.[77] *J.D.A. Linssen* considers unjustified enrichment to be a better ground for disgorgement in the Netherlands.[78]

Chinese law is of great interest with respect to a general rule on disgorgement damages as it is undergoing a number of changes due to its very dynamic development. Even though there is no comprehensive, general rule for all types of disgorgement damages, the Chinese law – alongside numerous specific rules on disgorgement damages – does contain a general rule on this matter for the area of

[74] See the Israeli report.

[75] See e.g. the reports for Austria, Belgium, Brazil, Chile, Greece, Italy, Japan, Norway, Spain, Slovenia, and Turkey.

[76] Wagner (2006), 96 et seq.

[77] Nederlandse Jurisprudentie 1995, no. 421.

[78] Linssen (2001).

tort law (article 20 Tort Liability Law).[79] It provides that "*where any harm caused by a tort to a personal right or interest of another person gives rise to any loss to the property of the victim of the tort, the tortfeasor shall make compensation as per the loss sustained by the victim as the result of the tort. If the loss sustained by the victim is difficult to be ascertained and the tortfeasor obtains any benefit from the tort, the tortfeasor shall make compensation as per the benefit obtained. If the benefit obtained by the tortfeasor from the tort is difficult to be ascertained, the victim and the tortfeasor disagree to the amount of compensation after consultation, and an action is brought to a people's court, the people's court shall determine the amount of compensation based on the actual situation*".[80] This article serves as a basis for disgorgement damage in Chinese tort law even though in this respect disgorgement damages arise only subsidiarily, i.e. only when a specific calculation of damages does not come into consideration. Furthermore, the actual effectiveness of disgorgement damages in Chinese law is clearly limited due to the payment of the illegal gains to the national treasury and the damages are thus seldom used to relieve the injured party.[81] This approach has the further consequence of blurring the boundaries between public and private law and leads to the creation of legal hybrids.

In comparison to most of the national legal systems those more recent, comparative law-based Principles in Europe are more open to the creation of general rules on disgorgement damages. For instance, in non-contractual matters the injured party can, according to article VI.-6:101(4) Draft Common Frame of Reference (DCFR) and article 6:101(4) Principles of European Private Law: Non-contractual Liability Arising Out of Damage Caused to Another (PEL Liab. Dam.), recover any advantage obtained from the tortfeasor in connection with causing the damage, though only where this is reasonable.[82] The disgorgement of profits should be rendered possible here because "*the profits made from a civil wrong should not be retained by the wrongdoer*"and "*[p]otential wrongdoers are warned that there is not profit to be made from a civil wrong*."[83] The comments to article 10:101 Principles of European Tort Law (PETL) also describe the possibility of prohibiting unjust enrichment (at least in the area of intellectual property rights) by including the

[79] See the Chinese report for the numerous legislative references concerning disgorgement damages in Chinese law.

[80] For more details see the Chinese report.

[81] As stated in the Chinese report.

[82] Article VI-6:101 (Aim and forms of reparation) DCFR and PEL Liab. Dam.) set forth:

1. Reparation is to reinstate the person suffering the legally relevant damage in the position that person would have been in had the legally relevant damage not occurred.

2–3. (. . .)

4. As an alternative to reinstatement under paragraph (1), but only where this is reasonable, reparation may take the form of recovery from the person accountable for the causation of the legally relevant damage of any advantage obtained by the latter in connection with causing the damage.

[83] von Bar, Clive (2009), 3725, 3726.

payment of profits within the context of calculating the extent of compensation.[84] However, a search in the European principles for a general disgorgement of profits for all forms of breaches of contract and statute law is of no avail.

Disgorgement Damages in Particular Branches of Law

The aforementioned statements have shown on the whole that a general, overarching remedy of "disgorgement damages" applicable to all types of breaches of contract and of legislation is normally lacking, at least in the legal systems examined in this report. In turn, the consequence is that no general theory of disgorgement damages has emerged and that the topic is often neglected.

In spite of the general reluctance to acknowledge disgorgement damages as a general remedy there are, nonetheless, several branches of law in which they have been intensively discussed and often acknowledged. These particular areas of law will be outlined in more detail below. There is the area of breaches of fiduciary duties and/or confidence and furthermore the award of disgorgement damages in cases of intellectual property rights infringements. Another important branch for the idea of disgorgement is the (intentional) infringement of personality rights by mass media for gain. We also draw attention to the world of competition law – even though private enforcement is here (with the exception of the United States) generally a relatively new phenomenon. Nonetheless also in this area there is the discussion in some legal systems as to whether the plaintiff may disgorge unlawful profits (based on an infringement of competition law) as damages. The same is also applicable to the breach of unfair commercial practices law, as such this branch of law is also to be included.

Breach of Fiduciary Duties or Confidence

The question of the possibility of disgorgement damages has received considerable attention in the areas of breach of fiduciary duties or confidence.[85] The majority of the national legal systems share the view that such breaches may not be allowed to be worthwhile, yet conceptual differences exist between the legal instruments chosen to combat such circumstances. The situation concerning disgorgement of profits resulting from breaches of fiduciary duties or confidence is clearest in the common

[84] European Group on Tort Law (2005), article 10:101 PETL, no. 7.

[85] When it comes to the acceptance of bribes from third parties as a breach of confidence see more detailed the general report of Bonell and Meyer, The effects of corruption in international commercial contracts (to be published in the volume of general reports for the Vienna conference of the IALS). This particular question was generally omitted here due to the aforementioned study.

law jurisdictions (e.g. Australia, England and Wales, Ireland)[86] and in several mixed or composite jurisdictions (e.g. Canada).[87] Here the equitable remedy of the account of profits, which seeks to strip profit from a wrongdoer, is clearly available for equitable causes for all kind of breaches of fiduciary duties or confidence. However, it remains to some extend unclear whether the victim of these forms of breaches has the free election between damages and the account of profits.[88] In general it has been that the victim has in these cases a free election between damages and an account of profits, subject only to the court's discretion to refuse the remedy on general equitable grounds.[89] However, it seems that recently courts are taking a more discriminating approach to the availability of this remedy and refusing it where it is not regarded as the "appropriate" response to the breach.[90] Alongside the account of profits, one can also note "constructive trusts" as a functional equivalent that allows for disgorgement of profits in the common law.[91] Constructive trusts are an equitable proprietary remedy awarded for equitable causes of action such as breach of fiduciary duties or confidence. The plaintiff acquires an equitable proprietary interest in the profits and can thus demand payment of the profit. In a constructive trust the court holds the defendant to be a trustee of the profit and to be holding it for the benefit of the plaintiff.[92]

In several international sets of rules, which specifically deal with this area of law, there are provisions that allow for disgorgement damages in these situations. For instance, in the event of a "breach of confidentiality" article II.-3:302(4) DCFR provides that the injured party can require the other party to pay over "*any benefit obtained by the breach*".[93] A similar wording can be seen in article 2:302 PECL,

[86] See the reports from Australia, England and Wales, and Ireland.

[87] See, for instance, the Canadian report.

[88] With regard to this question see, in particular, the report for England and Wales.

[89] An argument advanced and rejected in both Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch) and Walsh v Shanahan [2013] EWCA Civ 411.

[90] Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch), esp [334]–[345], endorsed by the Court of Appeal in Walsh v Shanahan [2013] EWCA Civ 411, esp [55]–[73].

[91] For further details see the national reports from Australia, Canada, England and Wales, and Ireland.

[92] All trusts are situations in which a person holds property, but owes an obligation to another person to hold the benefit of that property for the other. The obligation is either undertaken voluntarily (express trust) or imposed by law (constructive trust). Not all forms of the constructive trust are recognised in England, where the concept of a 'remedial constructive trust' has not yet been authoritatively accepted by the courts. For more details see the reports for England and Wales, and Ireland.

[93] Article II.-3:302 DCFR:

1. If confidential information is given by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it for that party's own purposes whether or not a contract is subsequently concluded.

which served a basis for the aforementioned DCFR provision.[94] The commentary to the PECL again clarifies that the payment of profit can be demanded by the injured party "*even if that party has not suffered any loss*".[95] In several legal systems it can be seen that disgorgement damages are in general not obtained for all breaches of fiduciary duties or confidence, but specific legislation does provide that such damages are foreseen for at least some of such breaches. For example, this approach can be seen in the Chinese Company Law and Securities Law, which each contain a number of provisions that provide for disgorgement damages for particular breaches of fiduciary duties in the field of business law,[96] e.g. article 61 Chinese Company Law governs the disgorgement of profits in violation of prohibition of business interests.[97]

In contrast, the issue of disgorgement damages for breaches of fiduciary duties or confidence is either unknown, controversial or not even discussed in other national legal systems.[98] The gap that emerges from such non-recognition of disgorgement damages can in general not be filled or it is at least very difficult to fill this gap with unjust enrichment law as the criteria for its application are generally not fulfilled.[99] There is rather the reference to the possible application of the benevolent intervention in another's affairs and, above all, to the right to subrogation ("Eintrittsrechte"), which plays a significant role in several legal systems (albeit often limited to the breach of particular fiduciary duties in business law).[100] The German Commercial Code, for instance, contains several rules giving the principle a

2. In this Article, "confidential information" means information which, either from its nature or the circumstances in which it was obtained, the party receiving the information knows or could reasonably be expected to know is confidential to the other party.
3. A party who reasonably anticipates a breach of the duty may obtain a court order prohibiting it.
4. A party who is in breach of the duty is liable for any loss caused to the other party by the breach and may be ordered to pay over to the other party any benefit obtained by the breach.

[94] Article 2:302 PECL (Breach of Confidentiality):

If confidential information is given by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it for its own purposes whether or not a contract is subsequently concluded. The remedy for breach of this duty may include compensation for loss suffered and restitution of the benefit received by the other party.

For further details on article 2:302 PECL see Böger (2009), 919 et seq.

[95] Lando and Beale (2000), Comments to article 2:302 PECL no. 2.

[96] For further details see the Chinese national report.

[97] Article 61 Chinese Company Law:

A director or the general manager may not engage in the same business as the company in which he serves as a director or the general manager either for his own account or for any other person's account, or engage in any activity detrimental to company interests. If a director or the general manager engages in any of the above mentioned business or activity, any income so derived shall be disgorged to the company. Unless otherwise provided in the articles of association or otherwise agreed by the shareholders' committee, a director or the general manager may not execute any contract or engage in any transaction with the company.

[98] See, for instance, the reports from Croatia, Germany, Norway, Slovenia or South Africa.

[99] As is stated in, for instance, the Croatian and South African reports.

[100] See, for instance, the reports from Belgium, Croatia and Germany.

right to subrogation in order to disgorge the agent's profits due to breach of fiduciary duties (in relation to prohibition of competition, see section 61(1), 113(1) German Commercial Code).[101] In these instances this right of subrogation represents a functional equivalent to disgorgement damages and is likewise supported by the underlying idea that the wrongdoer should not gain financially from a breach of fiduciary duties.

Infringements of Intellectual Property Rights

Intellectual property rights contain a number of special features that result in an increased need for protection. They are ubiquitous and can therefore be violated at any time and for an infinite number of times what makes an effective prior protection impossible. Moreover, in most of the legal systems the criminal law protection of intellectual property rights is traditionally weak, with breaches of such property rights often not being discovered and the infringing party remaining unidentified. There is therefore the dangerous combination of a high potential for profits that greatly exceed the actual loss that is suffered. In light of this situation it is not surprising that the improvement of the protection of intellectual property rights as well as the notion of disgorgement damages has been on the international political agenda for some time.

The starting point is the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), yet this only sets minimum standards. Article 41(1) TRIPS[102] notes the objective of effective deterrence, whereas the legal effects of this general obligation are substantiated by article 45 TRIPS, namely that adequate damages are to paid to the injured party on account of the breach of its intellectual property rights.[103] In contrast, article 45(2) TRIPS allows the member states to

[101] Section 61(1) of the German Commercial Code:

If a mercantile employee violates the obligations imposed upon him by section 60, the employer can claim damages, or in the alternative he can claim to take over for his own account the transactions entered upon by the employee for his private account; if the employee enters upon transactions for the account of a third party the employer may claim for himself any remuneration earned by the employee thereby or an assignment to him of the rights of action in respect thereof.

[102] Article 41(1) TRIPS:

Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

[103] Article 45 TRIPS:

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an

decide, inter alia, on the introduction of recovery of profits. This option is even possible when infringers did not knowingly, or with reasonable grounds to know, engage in infringing activity. Similarly, the – albeit rejected – Anti-Counterfeiting Trade Agreement (ACTA) also stated the objective of deterrence (see article 6(1) ACTA),[104] with substantiation in article 9 ACTA. According to article 9(1) ACTA, the starting point is (as with TRIPS) adequate compensation for the culpable breach. Furthermore, article 9 ACTA contains more detailed requirements regarding the damages and, in particular, on the calculation on their extent.[105] For the payment of profits (at least in cases of copyright, or related rights, or trademark counterfeiting) article 9(2) ACTA provides that in civil proceedings the courts have the authority to order the infringer to pay the right holder the profits that are attributable to the infringement.

The focal point of the further considerations regarding disgorgement damages for breaches of intellectual property rights shall, for the purposes of this general report, be article 13(1) of the so-called Enforcement Directive 2004/48/EC,[106] which (with regard to intellectual property rights) has had a lasting influence on the entire law of damages of the EU Member States and the discussion of disgorgements of profits. Article 13(1) of the Enforcement Directive provides that:

> Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know,

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infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

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

[104] Article 6(1) ACTA:

Each Party shall ensure that enforcement procedures are available under its law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

[105] Article 9(1) ACTA:

Each Party shall provide that, in civil judicial proceedings concerning the enforcement of intellectual property rights, its judicial authorities have the authority to order the infringer who, knowingly or with reasonable grounds to know, engaged in infringing activity to pay the right holder damages adequate to compensate for the injury the right holder has suffered as a result of the infringement. In determining the amount of damages for infringement of intellectual property rights, a Party's judicial authorities shall have the authority to consider, inter alia, any legitimate measure of value the right holder submits, which may include lost profits, the value of the infringed goods or services measured by the market price, or the suggested retail price.

[106] Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

(a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement; or

(b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.

The central question concerning this rule is, as in many national legal systems that provide for the inclusion of illegal profits (here: "*When the judicial authorities set the damages they shall take into account [. . .] any unfair profits made by the infringer*"), how this is to be understood. Are the unlawful profits merely one of several factors that are to be considered in order to ultimately ensure compensation of the loss, which is sometimes complicated due to problems with calculation? Can, for instance, the infringing party provide evidence that the actual damage is lower (or has possibly even not occurred) than his unlawful profits? Or does the reference to the unlawful profits aim not just at compensation, but also and particularly at prevention, i.e. can the profits to be paid out exceed (even greatly) the actual losses in order to prevent worthwhile infringements? In short, does it concern a purely compensatory method of calculation of damages in intellectual property law, or a special remedy akin to disgorgement damages, or do these at least come very close?

For the Enforcement Directive (and thus for the corresponding national law) one will therefore have to assume that, in spite of the unclear wording of article 13(1)(a), the norm favours the creation of self-standing disgorgement damages (on equal footing alongside the alternative of correct calculation of loss or the payment of a licence fee) with focus on prevention.[107] For EU law as a whole, as well as for the Directive in particular, there is the central notion of guiding behaviour through remedies with an actual deterring effect. It is a core aspect of European private and business law. Article 3(2) of the Enforcement Directive clearly states that the remedies have to be effective, proportionate and, above all, dissuasive. However, this is only the case when the instrument of disgorgement damages renders it is impossible for the infringing parties to retain their unlawful profits. Such an approach can thus contribute to the effective prevention of profitable breaches of intellectual property rights and can therefore encourage particular types of behaviour.

The majority of the EU Member States, which were all obligated to implement the Enforcement Directive into national law, have more or less transposed verbatim

[107] For further details on this point see Janssen (forthcoming), 334 et seq.

article 13(1) Enforcement Directive.[108] Unfortunately, their national laws now feature the uncertainty regarding the interpretation of this provision vis-à-vis the question disgorgement damages, too. Whilst a far-reaching independence of disgorgement damages in intellectual property law appears to have pushed through (at the latest following the transposition of the Directive) in several legal systems (for instance in Germany),[109] this is still controversial in other legal systems (see, for example, the situation in Belgium).[110] However, in light of the described deterrent aspect of the Enforcement Directive and the ultimate decision competency by the CJEU in this matter it does not appear unlikely that article 13(1)(a) Enforcement Directive will in the future be understood consistently as self-standing disgorgement damages which focus at prevention and which must be separated from the existence and extent of the particular harm.

In addition, there is also the possibility of payment of profits as well as the compensation of the actual loss under US-American trade mark and copyright law. For example, section 504 Copyright Act 1976 provides that:

> The copyright owner is entitled to recover [. . .] any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.[. . .]

By granting the entitlement to recover profits the legislator has not only focused on compensation but also on guiding behaviour. This is clearly shown by a House of Representatives' report on the Copyright Act, which notes amongst other things that "*[. . .] profits are awarded to prevent the infringer from unfairly benefitting from a wrongful act.*"[111] The preventive purpose therefore stands on equal footing with the notion of compensation.

In other national legal systems there are often special legislative provisions concerning damages in intellectual property law (see e.g. Brazil, Canada, China),[112] which feature a link to the infringer's profits. However, it cannot always be clearly identified from the national reports (and often neither from the legislative provisions, too) whether the object is merely ultimately the compensatory view of the profits or instead genuinely independent disgorgement damages that are granted entirely separately from the harm that has occurred. Furthermore, in several countries there

[108] For more details see the reports from Germany, Belgium, England and Wales, Greece, Scotland, Italy, Ireland, France, and Austria. Other European countries, which do not belong to the EU, also feature similar laws (see for example the Turkish and Norwegian reports).

[109] For further details see Janssen (forthcoming), 353 et seq. With respect to Germany see also section 53(1)2 of the model intellectual property act.

[110] See the Belgian report.

[111] Report of the House of Representatives on the 1976 Act, HR Report No. 94-1476, 161. See also Schmolke (2007), 10, who assumes that the payment of the wrongdoer's profits under US-American copyright law and trademark law also serves the objective of prevention.

[112] See, for example, the reports from Brazil, Canada and China. In contrast, there is no reference to the wrongdoer's profits in South African intellectual property law (with the exception of copyright law). For further details see the South African report.

are further restrictive requirements that are not provided in EU law (or to be more precise, in the Enforcement Directive). In Chinese intellectual property law the reference to the profits of the wrongdoer can only be made when the actual loss is difficult to calculate.[113] In Australian intellectual property law the decision *Colbeam Palmer Ltd v Stock Affiliated Ltd*[114] has resulted in the requirement that the plaintiff can only claim "*accounts of profit for intellectual property infringements*" if "*the defendant knowingly infringed the plaintiff's intellectual property right*." In this jurisdiction there is thus "*the innocent infringement defence*".[115] In addition, in Japanese and Israeli intellectual property law the references to illegal profits are made within the scope of the assessment of damage. However, one appears to have the clear view that these are not genuine disgorgement damages, but in each case just viewing the profits from a compensatory perspective.[116] The Japanese report explicitly notes that the infringer may present counter-evidence that the actual harm is lower than his profits.[117]

In particular it can be observed in intellectual property law that several national legal systems also, in part, use damage multipliers. In addition to other functions these at least also serve the disgorgement of profits and therefore exhibit an overlap in function with the disgorgement damages at the centre of this report.[118] In other countries, such as Austria, Croatia, Greece and Norway, breaches of intellectual property rights generate double damages;[119] whereas even triple damages are given in countries such as China or Slovenia.[120] In several legal systems the use of damage multipliers is limited to particular fields of intellectual property rights, such as copyright law (see Croatia or Greece).[121] It can be noted that the use of damage multipliers often places higher requirements on the level of fault than general tort and intellectual property law. In Austria, Croatia or Slovenia for instance damage multipliers require intentional or reckless infringements of intellectual property rights.[122] With regard to the legal systems examined in this report it can be observed that unjust enrichment law and benevolent intervention in another's affairs only play a subordinate role for the disgorgement of profits resulting from violations

[113] See the Chinese report.

[114] Colbeam Palmer Ltd v Stock Affiliated Ltd (1970) 122 CLR 25.

[115] For further details see this Australian report.

[116] See the Israeli and Japanese reports.

[117] See the Japanese report.

[118] Also noted in the Croatian report.

[119] For further details see the reports from Austria, Croatia, Greece and Norway.

[120] See the reports from China and Slovenia.

[121] See the reports from Croatia und Greece.

[122] See the reports from Austria, Croatia and Slovenia.

of intellectual property rights. On the whole, they therefore do not represent an adequate functional equivalent to disgorgement damages.[123]

Infringements of Personality Rights

When compared to intellectual property law it can be seen that personality rights also feature a similar need for protection: an infinite number of infringements are possible, effective prior protection does not exist and the protection from criminal law is often weak. There are indeed claims for injunctions, retractions and counterstatements which arise from infringements of personality rights. However, these are not suited to taking into account the high level of protection that is needed and are useless with respect to infringements that have already been committed. Furthermore, considerable profits can be made by infringing another's personality rights. These profits do not have to correspond to the losses suffered, but can be much greater, especially as the harm cannot be estimated due to its intangible nature. The infringing party's profits can therefore greatly exceed the harm. This familiar combination thus, in principle, makes every form of personality right infringement appear as a worthwhile alternative. This is especially true with regard to infringements of personality rights by the press (in particular with respect to celebrities) which aim at generating profits through sales. The societal and technical changes over the past decades have meant that the significance of this issue has greatly increased.

In light of this situation it is hardly surprising that the issue of disgorgement damages is of considerable importance in such instances. One has to refer to the leading case "*Caroline of Monaco I*", decided in 1994 by the German Supreme Court and which represented a turning point, at least in Germany, in the area of the protection of personality rights.[124] It was apparent prior to this decision that the insufficient protection of personality rights had already been improved by the decisions "*Paul Dahlke*",[125] "*Herrenreiter*" (gentleman rider)[126] and "*Ginsengwurzel*" (ginseng root),[127] yet the amount of compensation continued to be very low. The idea of disgorging unlawful profits had not yet emerged; the press could therefore take the risk of infringing personality rights as the amount of compensation to be

[123]However, this does not apply to all legal systems. For instance, in Turkish intellectual property law the benevolent intervention in another's affairs plays a particular role with respect to the question of disgorgement of profits even though special provisions in damages law create a link to the wrongdoer's profits. For further details see the Turkish report.

[124]German Supreme Court 15 November 1994, Neue Juristische Wochenschrift 1995, 861 (Caroline von Monaco I (Fictious Exclusive Interview)).

[125]German Supreme Court 8 May 1956, BGHZ 20, 345 et seq. (Paul Dahlke).

[126]German Supreme Court 14 February 1958, BGHZ 26, 349 et seq. (Herrenreiter).

[127]German Supreme Court 19 September 1961, BGHZ 35, 363 et seq. (Ginsengwurzel).

paid would be much lower than the potential profits that would be gained. However, the attractiveness of this approach was changed at least to a particular extent by the aforementioned decision *Caroline of Monaco I*.

The decision was based on the following facts: The magazine "Die Bunte" published a fictitious interview with Princess Caroline of Monaco, who had expressly rejected previous requests for interviews. The interview was entitled "Caroline: The psycho-interview". A later edition of the magazine published photographs of Princess Caroline and her partner at the time – the pictures were supposedly from the new family album, whereas the pictures had been in fact obtained by the paparazzi and were covert photographs taken from a long distance through telephoto lens. A sister publication "Glücksrevue" reported on the couple's (alleged) forthcoming wedding and published, inter alia, a series of photographs of Princess Caroline wearing a veil and standing alongside her partner. The plaintiff primarily sought damages for the non-pecuniary loss caused by the infringement of her personality rights.

The decision contrasted with previous decisions by the German Supreme Court because the judges emphasised the preventive function of the damages in a manner that was previously unknown:[128] the notion of compensation stepped back to make way for the preventive approach.[129] This approach is apparent from the core statements on the possibility of gaining an advantage – the German Supreme Court did not just bear in mind the preventive effect of the disposition, but also wanted to make it expressly apparent that this point was considered in the award of damages. Accordingly, the damages for infringements of personality rights must constitute a "*real counterweight*" to the profits made by violating these rights – especially when it comes to the amount of damages to be paid. The profits obtained from the infringement are thus a factor to be considered in deciding the extent of the damages for the non-pecuniary loss. Moreover, the extent must thus have a genuine restrictive effect on the marketing of personal matters.[130] As a consequence of this decision it can be seen that there has been a clear rise in the amount of damages for non-pecuniary loss (up to 400,000 Euros/claim). The damages are therefore no longer merely symbolic.[131]

[128]German Supreme Court 15 November 1994, Neue Juristische Wochenschrift 1995, 861 (Caroline von Monaco I (Fictious Exclusive Interview)), 865.

[129]For instance, Kötz and Wagner (2013), no. 424: "*At the same time the Supreme Court openly stated (which one could only assume before), that the claim for monetary damages will not be granted for compensatory purposes, but above all has the function of deterring the wrongdoer from repeating his actions.*"

[130]German Supreme Court 15 November 1994, Neue Juristische Wochenschrift 1995, 861 (Caroline von Monaco I (Fictious Exclusive Interview)), 865. In Germany this decision is considered as the starting point for disgorgement damages for infringements of personality rights by the press even though the German Supreme Court shys away from labelling its approach as disgorgement of profits.

[131]See Higher Regional Court Hamburg 30 July 2009, Gewerblicher Rechtsschutz und Urheberrecht – Rechtsprechungsreport 2009, 438 et seq. (Swedish Princess).

Many of the national reports note that the infringement of personality rights by the mass media requires that the profits be considered when calculating the amount of damages for non-pecuniary losses. By doing so it creates an effective means to overcome worthwhile infringements of personality rights. However, express statutory bases for disgorgement damages in this area are rare, although general rules are sometimes applicable, e.g. article 20 of the Chinese Tort Liability Act. Apart from such rules the calculation of the damage through considering the profits is, as in Germany, mostly judge-made law even though it is sometimes supplemented by specific legislation. For instance, in the year 2000 the Portuguese Supreme Court decided that "*the profit from sales achieved at the expenses of including material which offends the dignity of the persons concerned, as well as the economic capacity of the respondents*" should affect the calculation of the indemnity claimed.[132] A similar approach can also be seen in Japan.[133] In Belgium, as in Germany, it is apparent that there is a judicial development towards high levels of compensation for non-pecuniary loss caused by infringements of personality rights by the press. In some of these Belgian decisions this is based on the notion that the profits are to be disgorged in full so that there is no incentive for further infringements of personality rights.[134]

When calculating the extent of the non-pecuniary harm, also judges in Greece do not only look at the victim, but also at the wrongdoer. Factors such as the degree of fault of the wrongdoer, his motives, and the nature of his activity as profit or non-profit as well as his financial situation in general, are often taken into account.[135] The profit that has been gained by the infringer due to the infringement of personality rights could also play a role even though the courts have not yet (expressly) referred to the wrongdoer's gain in this context. Here it is important for the Greek law that there are special laws for monetary satisfaction for non-pecuniary losses, which sometimes set very high minimum amounts of damages for such losses of certain types of violations, such as e.g. in cases of libel by the mass media.[136] They may also at least have the function of disgorging profits that the press has gained by unfair means, even though (from a methodological perspective) the approach is unsatisfactory.[137] A more desirable methodological approach appears to exist in Spain through the special rule in article 9.3 of the Spanish Freedom of

[132] See the Portuguese report for more details on this decision and on this topic in general.

[133] See the Japanese report.

[134] See the Belgian report, which however notes that the consideration of the profits when calculating the non-pecuniary loss is the exception and not the rule.

[135] See more detailed the Greek report.

[136] See Art 4 para 10 of the only Art of Law 2328/1995 on infringements by Radio and TV. See also para 2 of the only Art of Law 1178/1981, as amended by para 1 of the only Art of Law 2243/1994 referring to minimum compensation of the non-pecuniary loss of the victim in case of libel by the press. See also the Greek report.

[137] As also indicated in the Greek report.

Speech Act.[138] This provision allows the plaintiff to receive the profits earned by the publisher of false or illegitimately obtained information. The (non-pecuniary) loss that has arisen due to the infringement is calculated using the unjustly gained profits.[139]

The possibility that unjust enrichment law serves as a functional equivalent to disgorgement damages appears as non-existent, or is merely slight, in the areas of personality law. Often, the requirements for the application of unjust enrichment law are not fulfilled with respect to profit-orientated infringements of personality rights by the press: for instance, in many legal systems the plaintiff must prove impoverishment, which will hardly be successful in such circumstances.[140]

A further possible functional equivalent to disgorgement damages in the area of personality rights, namely benevolent intervention in another's affairs, also receives little support in the national legal systems examined in this study:[141] In many cases the rules are simply not applicable. For instance, it would be difficult to recognise the management of another's affairs in the facts of the *Caroline of Monaco I* decision. However, benevolent intervention in another's affairs in the area of personality law has gained some meaning in Turkey and, above all, in Switzerland.[142] In 1985 the Swiss legislator introduced article 28a into the Swiss Civil Code in order to afford better protection to personality rights. Article 28a(3) provides that, with respect to infringements of personality rights, claims for the handing over of profits can also be made in accordance with the provisions governing the benevolent intervention in another's affairs. The infringement of a personality right suffices for the application of this provisions. In addition, the further requirements for the application of the rules on the benevolent intervention in another's affairs to the payment of profits need not be fulfilled as the principle is merely a reference to the legal consequences.[143] Accordingly, it is therefore possible to understand why these Swiss rules are applied without considerable problems to cases involving infringements of personality rights. In the meantime, the payment of profits according to article 28a(3) of the Swiss Civil Code has since been applied without great difficulties to instances of "enforced commercialisation of personality rights" ("Zwangskommerzialisierung der Persönlichkeit").[144]

Clear overlaps in the function of disgorgement damages in infringements of personality rights by the press can be especially seen in exemplary damages in

[138]Ley Orgánica 1/1982, de 5 de mayo, de protección civil del honor, la intimidad personal y familiar y la propia imagen.

[139]For more details see the Spanish report.

[140]See, for example, the comments in the South African report.

[141]See in particular the German and Greek reports.

[142]See the Turkish report for more details about the legal situation in Turkey.

[143]Now expressly in Swiss Supreme Court 7 December 2006, Juristenzeitung 2007, 1159 (1160) (disgorgement of profits for personality rights infringements).

[144]See e.g. Swiss Supreme Court 7 December 2006, Juristenzeitung 2007, 1159 (1159 et seq.) (disgorgement of profits for personality rights infringements).

the common law. The leading case here is *Rookes v Barnard*[145] in which Lord Devlin remarked, with respect to the award of exemplary damages, that *"[w]here a defendant with a cynical disregard for a [claimant's] rights has calculated that the money to be made out of his wrongdoing will probably exceed the damages at risk, it is necessary for the law to show that it cannot be broken with impunity" – "to teach a wrongdoer that tort does not pay*".[146] Despite the overlap in the functions of disgorgement damages and exemplary damages it nonetheless has to be noted that they are not identical and their respective functions do not overlap entirely. For example, exemplary damages pursue a punitive function and intend to punish the defendant for his outrageous, profit-motivated wrongdoing. In contrast, disgorgement damages do not have such an aim and thus do not extend beyond the profit that has been generated and are not applicable in instances in which no profit has been made.[147]

Unfair Commercial Practices and Competition Law

It can be observed from the majority of the national reports that disgorgement damages do not belong at present to the standard repertoire of either unfair commercial practices law or competition law. Consequently, they cannot be considered a part of the "general domain" of each of these branches of law. The national reporters mainly noted that there was no evidence in their legal system of disgorgement damages in either unfair commercial practices law or in competition law (understood as cartel law).[148] However, this does not necessarily exclude the possibility of disgorgement damages in these areas of law.

For instance, section 20 of the Chinese Anti-Unfair Competition Law provides for the general possibility to claim disgorgement damages for breaches of the rules on fair competition.[149] However, it has to be noted again that the disgorged profits are regularly handed over to the national treasury and seldom used to relieve the

[145] [1964] AC 1129, esp 1220–1233 (per Lord Devlin). See also Cassell and Co v Broome [1972] AC 1027.

[146] [1964] AC 1129, 1226–1227 (per Lord Devlin).

[147] See also the report from England and Wales.

[148] As is especially clear from the Australian report.

[149] Section 20 Chinese Anti-Unfair Competition Law provides that "*where an operator, in contravention of the provisions of this Law, causes damage to another operator,* i.e.*, the injured party, the infringer shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing the injured operator's lawful rights and interests*".

injured party, which clearly reduces the effectiveness of disgorgement damages.[150] There is still a highly contentious discussion in Austrian legal literature and jurisprudence as to whether disgorgement damages can be applied to the area of unfair commercial practices as a whole.[151] Nevertheless, the Austrian Supreme Court in two judgments[152] indicated that disgorgement damages were principally available for any kind of breaches of unfair commercial practices law. There is also the possibility in Japan to calculate the actual losses on the basis of the profits that have been gained from a breach of the Japanese Unfair Competition Act; though here it is unclear as to whether these are genuine disgorgement damages or simply a method of loss calculation.[153] A different approach can be seen in Germany, where there is the predominant rejection of the general application of disgorgement damages to all breaches of unfair commercial practices law. However, if those breaches law represent or at least come close to the breach of an absolute legal interest (e.g. with respect to slavish imitations or exploitation of another's trade secrets), there is the possibility of an award of disgorgement damages modelled after the approach in intellectual property law.[154] Furthermore, section 10(1) of the German Unfair Competition Act[155] provides a sui generis legal instrument for disgorgement of

[150] For further details and criticism of this approach see the Chinese report.

[151] For further details see the Austrian report.

[152] Austrian Supreme Court 13 July 1953 3 Ob 417/53, although the judgment is about an infringement governed by section 9 Act Against Unfair Competition the court could not argue with paragraph 4 (and the express claim to disgorge the violator's profits therein contained) because the said paragraph was not enacted until 1999 (see Trade Mark Amendment Act BGBl I 111/1999); Austrian Supreme Court 8 May 1962, 4 Ob 319/62. For more details see the Austrian report.

[153] For more details see the Japanese report.

[154] For more details and references to further court decisions see the German report. In Austria one generally appears (at least in these areas) not to doubt the application of disgorgement damages.

[155] Section 10 Unfair Competition Act:

1. Whoever, while acting with intent, uses an illegal commercial practice pursuant to Section 3 or Section 7, thereby making a profit to the detriment of numerous purchasers, can be sued for surrender of such profit to the Federal budget by those entitled, pursuant to Section 8 subsection (3), numbers 2–4, to assert a cessation and desistance claim.
2. Such payments as were made by the debtor, because of the contravention, to third parties or the state shall be deducted from the profit. So far as the debtor made such payments only at a time subsequent to satisfaction of the claim pursuant to subsection (1), the competent agency of the Federation shall reimburse the debtor the profit thus paid in the sum of the recorded payments.
3. Where there is more than one creditor claiming the profit, sections 428–430 of the Civil Code shall apply *mutatis mutandis*.
4. Creditors shall notify the competent agency of the Federation of the assertion of claims pursuant to subsection (1). Creditors can request reimbursement from the competent agency of the Federation for such expenses as were necessary for assertion of the claim, so far as they cannot obtain satisfaction from the debtor. The reimbursement claim shall be limited to the sum of the profit paid into the Federal budget.
5. The competent agency within the meaning of subsections (2) and (4) shall be the Federal Office of Justice.

profits, whose form does not appear to exist in other legal systems.[156] It allows certain organisations and institutions to demand the disgorgement of illegal profits achieved by intentional breaches of unfair commercial practices law at the expense of a multitude of consumers. The legislator intends to combat trifling damages with this provision.[157] However, this provision has been of very little relevance especially because the disgorged profit has to be surrendered to the Federal budget, which means that the organisations and institutions entitled to assert these claims have no incentive whatsoever to start a procedure.[158] Consequently, section 10(1) Unfair Competition Act does not represent a functional equivalent to disgorgement damages (independent of the question whether one even wants to award these for breaches of unfair competition law) that is effective in practice and can therefore not serve, at least in its present version, as a model for other legal systems.

In comparison to unfair commercial practices law there are even fewer indications in competition law for the possibility of an award of disgorgement damages. A possible starting point for general disgorgement damages under current law can at present only be seen in German law, more precisely in section 33(3) of the Act against Restraints of Competition, which was introduced in 2005. According to this provision it is permitted to consider, inter alia, the proportion of the profit that the undertaking has derived from the infringement when assessing the size of the damage.[159] Although this is modelled after rules in intellectual property law it still remains unclear whether this norm provides for disgorgement damages, i.e. the award of damages that extend beyond the actual losses, or whether it is merely a reduction of the evidentiary burden due to the peculiarities of competition law.[160] The norm has been of no practical relevance thus far.

At the European level, the European Commission's Green Paper on damages actions for breach of the EC antitrust rules provoked a discussion whether a "*definition of damages to be awarded with reference to the illegal gain made by*

[156]German law provides a corresponding provision for antitrust law, section 34a Act against Restraints of Competition.

[157]BT-Drucks. 15/1487, 23 and BT-Drucks. 15/3640, 36.

[158]For more details see the German report or Sieme (2009).

[159]Section 33(3) Act against Restraints of Competition:

Whoever intentionally or negligently commits an infringement pursuant to paragraph 1 shall be liable for the damages arising therefrom. If a good or service is purchased at an excessive price, a damage shall not be excluded on account of the resale of the good or service. The assessment of the size of the damage pursuant to section 287 of the Code of Civil Procedure [Zivilprozessordnung] may take into account, in particular, the proportion of the profit which the undertaking has derived from the infringement. From the occurrence of the damage, the undertaking shall pay interest on its obligations to pay money pursuant to sentence 1. Sections 288 and 289 sentence 1 of the Civil Code shall apply mutatis mutandis.

[160]For more details see Janssen (forthcoming), 519 et seq.

the infringer (recovery of illegal gain)" would be desirable in competition law.[161] However, as far as can be ascertained it appears that this approach was not pursued by the EU.

Possible functional equivalents to disgorgement damages can be seen in the form of damage multipliers in antitrust law. For instance, although there is no possibility to impose punitive damages in US-American competition law, there is the possibility to award treble damages, i.e. damages multiplied by a factor of three (see section 4 Clayton Antitrust Act). The *Antitrust Modernization Commission* states that the reasons for this triplication of damages are the deterrent effect, ensuring compensation of loss, and also "*disgorgement of profits*".[162] It can thus be seen that, at least in part, the treble damages also have the function of disgorging profits.

Functional Equivalents to Disgorgement Damages

The above sections on individual branches of the law have shown that disgorgement damages are principally capable of and can thus assist in disgorging those profits that have been gained illegally. However, the above also shows that "many roads lead to Rome", i.e. disgorgement damages are not the only possibility for skimming-off profits under private law. Several of these alternative routes have already been named, such as payment of profit under unjust enrichment and restitution or benevolent intervention in another's affairs.[163] Although it is not possible to consider these options in extensive detail here, the national reports have shown that the limited scope of application of these instruments (as far as they are recognised and are of general significance in the respective national legal system) renders them unsuitable for the provision of a comprehensive and efficient disgorgement of profits for all breaches of contract and laws.[164] The disgorgement of unlawful profits therefore appears to only be possible under particular circumstances.

Furthermore, there are additional functional equivalents to disgorgement damages. Aside from their legal persuasiveness and admissibility of damage multipliers and exemplary or punitive damages, their use is at least underpinned by the function (amongst others) of disgorging profits. The same is also applicable to the aforementioned right to subrogation. Many national reporters also rightly referred to

[161] Green Paper – Damages actions for breach of the EC antitrust rules, 19 December 2005, COM(2005) 672 final, 7.

[162] Antitrust Modernization Commission (2007), 246. See also Cavanagh (2009); Collins (1998), 18 et seq.; Lande (1993), 115 et seq.; Lande (2004), 329 et seq.; Logemann (2009), 192.

[163] "*Beneath the cloak of restitution lies the dagger that compels the conscious wrongdoer to 'disgorge' his gains.*"(Warren v. Century Bankcorp., Inc., 741 P.2d 846, 852 (Okla. 1987)).

[164] See for instance the reports from Belgium, Chile, Croatia, Greece, Ireland and South Africa. Several national reports do however see a great relevance of unjust enrichment for the question of disgorgement of profits (see the reports from Brazil, Israel and Portugal).

proprietary remedies that allow for the disgorgement of profits.[165] This includes the possibility of using the common law instrument of a constructive trust to allow for disgorgement of profits in the event of a breach of a fiduciary duty or confidence. And, although they are not a remedy in the strict sense, class actions (which are becoming increasingly popular, at least in Europe) were mentioned by some national reporters as such actions also aim at disgorgement of profits (caused however by "trifling damages" or "nominal damages" and not by profitable breaches).[166]

In part it was also possible to identify several new sui generis private law remedies that attempt to combat unlawful profits, for instance section 10 German Unfair Competition Act. In Canadian law it appears that the instrument of "waiver of torts", which also allows for disgorgement of profits, is experiencing a renaissance. The Canadian Supreme Court has stated that a "*waiver of tort occurs when the plaintiff gives up the right to sue in tort and elects instead to base its claim in restitution, 'thereby seeking to recoup the benefits that the defendant has derived from the tortious conduct'*".[167]

Conclusion

Despite the many efforts towards preventing and disgorging unlawful profits, either through the (partial) use of disgorgement damages or through corresponding functional equivalents, the majority of the national reporters have criticised the inefficiency of their own legal system.[168] In this context there was often criticism that no coherent theory, or at least a uniform understanding of disgorgement damages has emerged.[169] This failure is due to many different reasons that can only be briefly referred to here, but which have in part already been noted as contributing factors: the variations in terminology (even within the same legal system) and the different possible legal categories; and the fact that disgorgement damages can be found in many different areas of law and are often based on case law as well as on statute law. However, one of the main reasons for the deficiency must be that the actual rationale underlying advantage-orientated liability remains regularly in the dark or is controversial. In particular, it often varies between mere compensation (ultimately the focus is on compensation and the profit is just considered as a means of calculating the loss for the purposes of easing the evidentiary burden) and prevention (as far as the entire profit is to be paid out independent of the loss suffered). The aforementioned situation regarding intellectual property rights

[165] For details on the proprietary remedies see also the reports from Turkey, Norway, Belgium, Japan, South Africa and Israel.

[166] See the reports from Greece, Ireland and Scotland.

[167] Pro-Sys Consultants Ltd. v Microsoft Canada CIE 2013 SCC 57 at [93].

[168] For example, the Italian report is very clear in this respect.

[169] See also e.g. the report for Brazil, Italy, Slovenia, Spain.

can serve as an example, as can the situation concerning profitable infringements of personality rights. In addition, for some legal systems it was mentioned that disgorgement damages even serve punitive purposes.

If we once again review the aforementioned comments of disgorgement damages it is possible to summarise the main differences between the individual legal systems as follows: as has been seen, the scope of application within national law varies greatly. Whereas Israel foresees disgorgement damages for almost all legal and contractual breaches, which may also be possible in Ireland on account of the decision in *Hickey v Roaches Stores*,[170] other countries (such as South Africa and Brazil) use disgorgement damages only with great reluctance and just in few areas.[171] Furthermore, in several legal systems the idea of disgorgement damages is only used for wrongs that involve pecuniary losses; in contrast other legal systems (such as Germany and Switzerland) are more open and also allow disgorgement of profits to be used for wrongs that involve non-pecuniary losses.[172]

The differences – not just between legal systems but also within a national legal system – are also apparent with regard to the requirements for the application of disgorgement damages. In particular, there is the core question of the extent of the wrongdoer's fault. Whereas there are in this regard sometimes no specific requirements, some types of disgorgement damages actually require intent or at least gross negligence on the part of the wrongdoer. Differences can also be identified with regard to the question of the right to elect between (compensatory) damages and disgorgement damages. Although one mainly assumes that the injured party has a free right of election, English law seems to afford the court (and not the injured party) the choice where the subject-matter is account of profits for breaches of fiduciary duties or confidence.[173] Chinese law also does not grant the injured party a freedom to elect the remedy, but only permits disgorgement damages to be given when the actual losses cannot be calculated or only with great difficulty; disgorgement damages therefore serve a subsidiary function in relation to the concrete calculation of damages.[174] Furthermore, disgorgement damages in China also display a clear restriction by the fact that the profits are generally not paid to the injured party but rather to the national treasury.[175] Such an approach not only blurs the boundaries between private and public law but instead also removes a large proportion of the preventive potential of disgorgement damages. In so doing there is a clear reduction in the motivation for the injured party to seek to enforce the claim.

How could disgorgement damages look in the future? In the national reports that looked at the perspectives for disgorgement of profits it was observed that many

[170] Hickey v Roches Stores (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196. See also the Irish report.

[171] For more details see the Brazilian and South African reports.

[172] See, e.g. the German report.

[173] For more details see the report for England and Wales.

[174] For more details see the Chinese report.

[175] For more details see the Chinese report.

reporters favoured a stronger private law approach. The majority wants to achieve the payment of profits by creating or expanding disgorgement damages; however, several instead favoured the approach of strengthening unjust enrichment laws.[176] Nonetheless, favouring disgorgement damages means that their purpose has to be unambiguous. In addition to compensation the primary and foremost function of disgorgement damages is prevention:[177] it is their supporting pillar. Disgorgement damages should be particularly granted when no pecuniary or non-pecuniary loss has occurred (or cannot be proven) or when the unlawful profit exceeds these losses. They are to be strongly directed towards the prevention of profitable, i.e. worthwhile, breaches of law and contract (the wrongdoers' expected profits must be higher than the legal sanctions for the infringement).[178] In contrast, disgorgement damages are not applicable to the other cases mentioned at the beginning of this report in which unlawful profits may arise (e.g. for "trifling damages" due to the rational apathy of the claimants, and in cases with a low probability of discovery).[179] In such instances it may be necessary to use class actions and damage multipliers in order to generate the corresponding preventive effect (which cannot be discussed in detail here), however not disgorgement damages. It is also to be noted that disgorgement damages are indeed preventive, but do not pursue a punitive purpose, i.e. they cannot and ought not to be equated with punitive or exemplary damages. Disgorgement damages are strictly based around the wrongdoer's profits and can therefore never exceed this profit. The extent of the illegal profit therefore represents the absolute limitation of the extent of the disgorgement damages. In comparison, punitive or exemplary damages can greatly exceed the wrongdoer's profit; they can even be applied when the wrongdoer has made no profit whatsoever.

In turning to the optimal form of disgorgement damages which also exudes a genuine preventive effect, there are first a number of fundamental "design flaws" that have to be avoided (some of which have been noted above). The profit thus has to be made available to the injured party and not to the state treasury. The absence of a financial incentive, i.e. the unlawful profit, for the injured party causes disgorgements damages to lose the deterring effect.[180] Furthermore, disgorgement damages are to be granted in the sense of a genuine and self-standing remedy independent from the loss that has occurred. This also means that the injured party, not the court, has to have a free choice of the remedy. Additionally, disgorgement

[176] See, for example, the reports from Turkey, Greece, Italy, Croatia and China, as well as the reports from Spain and South Africa.

[177] As is noted in many national reports (for instance in the Italian and Greek reports).

[178] This report cannot tackle the question of whether disgorgement damages are also justifiable when the wrongdoer has "merely" infringed the market's code of conduct. For more details on this question see Janssen (forthcoming), 524 et seq.

[179] For more details see section "Introduction" of this general report.

[180] As is also the view in the Chinese report. The German experiences with section 10 of the Unfair Competition Act, which provides that the unlawful profits are to be paid to the state, show that such an approach almost has no practical effect.

damages are not to be subsidiary in the sense that they can only be given when there are difficulties in calculating the actual losses.

The effectiveness of disgorgement damages in practice is tied to the very important question of the required level of fault. Does the fault of the wrongdoer actually have to be considered as necessary and, if yes, which level has to be reached? Should disgorgement damages already be available for mere negligence or just from gross negligence or is it possible that they first require intention? The effects on the preventive function are clear, but it is necessary to find and maintain "the right amount" of prevention. If the requirements are too low then there is the threat of a cost-intensive over-prevention that is to be avoided just like an under-prevention, which threatens to arise if the fault requirement is too high and the disgorgement damages can thus de facto have no effect on guiding behaviour. Considering the numerous possible different cases there might not exist a "one size fits all" solution, therefore further research (in law and behavioural economics) remains to be undertaken.

According to numerous national reporters the greatest dangers for the actual preventive effectiveness of disgorgement damages are, on the one hand, the difficulties surrounding the provability of the total profit and, on the other hand, the problems in calculating the profit and ascertaining the proportion to be disgorged.[181] Both sets of problems are decisive adjustable parts in the system of disgorgement damages; however it appears that they receive little attention in most national legal systems.[182] One therefore always has to bear in mind that incorrect adjustments to these parts can result in ineffective disgorgement damages due to the absence of actual application and thus the intended preventive effect does not occur. In order to prevent this outcome it is first necessary that the injured party can claim disclosure and financial information from the wrongdoer, as is at least already partly provided for in the Enforcement Directive.[183] Without such a claim the injured party has no possibility to gain the information that is necessary to enforce the claim for disgorgement damages and to determine their amount. If the data is of a sensitive nature and the accuracy of this data is doubted then the examination by an independent financial auditor may represent a sensible addition.

A further important preventive element in the system of disgorgement damages is the calculation of the entire profit and ascertaining the proportion to be disgorged. The importance of the answer for the actual preventive effect of disgorgement damages is shown by, for example, the development in German intellectual property law. Here, an infringement of a party's intellectual property rights can result in the possibility to either claim for the actual loss, to demand payment of a reasonable licence fee or payment of the profits resulting from the wrongdoer's

[181] See in particular the reports from China, Croatia, Australia and Israel.

[182] See the reports from Croatia ("*There are no legally binding rules on its calculation, nor here is a court practice on this issue.*") and Israel ("*Israeli law has not developed a systematic approach to the calculation of profits.*").

[183] See also the Chinese report. For more details see Janssen (forthcoming), 369 et seq.

infringement. However, despite these options almost 95 % of cases prior to the year 2000 were resolved by payment of the licence fee;[184] in contrast, claims for disgorgement damages were seldom. The reason for this was the previous court practice of permitting numerous deductions when calculating the total profit and the proportion to be paid, which resulted in the amount of disgorgement damages almost always being lower that the actual loss and the reasonable licence fee. Accordingly, sufficient compensation was not possible by this means. There was thus no financial incentive for the injured party to make the complex claim for disgorgement damages and therefore no preventive effect on worthwhile infringements of intellectual property rights.

The situation was fundamentally changed in 2001 by the so-called *Gemeinkostenanteil*-decision[185] of the German Supreme Court – a case concerning intellectual property rights infringements. It is one of the few decisions that extensively dealt with the calculation of the total profit and the part of profit to be disgorged and (despite justified criticisms with regard to some aspects) can be viewed as exemplary, or at least as a basis for discussion for the further development of disgorgement damages in general. With respect to the calculation of the total profit, the German Supreme Court greatly limited the possibility to deduct the wrongdoer's costs. Prior to this decision it was possible to deduct the overheads and direct costs from the profits, though now only the direct costs (i.e. the variable costs) and not the overheads (i.e. the fixed costs) can be deducted. As a consequence the exclusion of the deduction of the overheads prevents the effect that the injured party de facto financially supports the wrongdoer's company.[186] The German Supreme Court also made further restrictions with respect to the determination of the part of the profits to be disgorged: in contrast to its earlier jurisprudence the court will only consider circumstances that are created by the product itself and not, however, from the wrongdoer's sales management (such as his market position, advertising or pricing policy). The result was a clear increase in the proportion of the profits to be disgorged. The judges made it especially clear that this adjustment to disgorgement of profits is motivated by the notion of prevention. It was unambiguously stated that:

> The disgorgement of the wrongdoer's profits also serves to sanction the harmful behaviour and as such also serves to prevent the breach of intellectual property rights requiring special protection.[187]

This change in judicial approach represented a fundamental change to intellectual property law practice in Germany. Within just a few years the disgorgement damages in this area of law experienced an overwhelming change from a "legal

[184] Alexander (2010), 265; Amschewitz (2008), 307.

[185] German Supreme Court 2 November 2011, Gewerblicher Rechtsschutz und Urheberrecht 2001, 329 et seq. (Gemeinkostenanteil – overhead share).

[186] Lehmann (2004), 1686.

[187] German Supreme Court 2 November 2011, Gewerblicher Rechtsschutz und Urheberrecht 2001, 329 et seq. (331) Gemeinkostenanteil (overhead share).

wallflower" to a "renowned star" of intellectual property law. In the meantime, up to 75 % of all claims are for the disgorgement damages and not for the payment of the reasonable licence fee.[188] The new calculation method allows for amounts to be generated that are sometimes much higher than the actual loss or than the analogy of the reasonable licence fee. This example impressively demonstrates that the correct focus and adjustment of disgorgement damages can give rise to practicable disgorgement damages that are accepted by injured parties and can thus contribute to the objective of prevention. The Swiss experiences with their version of disgorgement of profits in instances of breaches of personality rights by the press also illustrate the enforcement in practice of the calculation of the profits to be disgorged.[189] Ultimately, it is sufficient to calculate an approximate value from the unlawful profits that is effective from a preventive point of view. As such, the expression "*don't let the perfect be the enemy of the good*" is apt both for the calculation of the profits and for determining the amount to be disgorged.

To conclude one could say that disgorgement damages are not the sole best solution or even saviour when it comes to preventing unlawful profits by utilising private law instruments. With correct application and adjustments they can be a valuable addition to the present private law and a building block on the path towards realising the claim that unlawful behaviour ought not to be worthwhile. What this general report hopes to have demonstrated anyway, is that the discussion of disgorgement of profits is very useful.

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[188] See Grabinski (2009), 262.

[189] See Swiss Supreme Court 7 December 2006, Juristenzeitung 2007, 1159 (1159 et seq.) (disgorgement of profits for personality rights infringements).

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