

IN THE COURT OF APPEAL OF NEW ZEALAND

I TE KŌTI PĪRA O AOTEAROA

**CA663/2017
[2018] NZCA 596**

BETWEEN	THE NEW ZEALAND NATIONAL PARTY First Appellant
	GREG HAMILTON Second Appellant
AND	EIGHT MILE STYLE, LLC First Respondent
	MARTIN AFFILIATED, LLC Second Respondent
	STAN 3 LIMITED Third Respondent
	SALE STREET STUDIOS LIMITED Fourth Respondent
	AMCOS NEW ZEALAND LIMITED Fifth Respondent
	AUSTRALASIAN MECHANICAL COPYRIGHT OWNERS SOCIETY LIMITED Sixth Respondent
	BEATBOX MUSIC PTY LIMITED Seventh Respondent
	LABRADOR ENTERTAINMENT INC Eighth Respondent
	MICHAEL ALAN COHEN Ninth Respondent

Hearing: 3 July 2018

Court: Cooper, Brown and Clifford JJ

Counsel: G F Arthur, G M Richards and P T Kiely for Appellants
G C Williams for First and Second Respondents

Judgment: 18 December 2018 at 12.30 pm

JUDGMENT OF THE COURT

- A The appeal is allowed. The award of damages of \$600,000 is quashed and an award of \$225,000 is substituted.**
- B The cross-appeal is dismissed.**
- C The first and second respondents are to pay the appellants one set of costs for a complex appeal on a band B basis and usual disbursements. We certify for second counsel.**
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REASONS OF THE COURT

(Given by Brown J)

Introduction

[1] For a period of 11 days in the lead up to the 2014 General Election the first appellant (the National Party) broadcast on television and the internet and by a video played at the National Party's conference a 30 second advertisement which incorporated a sound track called *Eminem Esque*. In proceedings by the first and second respondents (Eight Mile)¹ in the High Court for copyright infringement Cull J held that the *Eminem Esque* sound track was an infringement of the copyright in the well-known musical work *Lose Yourself*.² No challenge is made to that finding. This appeal is concerned solely with the award of damages for that infringement.

[2] It was common ground that damages were to be assessed applying a method known as the user principle, which involved determining the licence fee for the infringed work that would have been agreed in a hypothetical negotiation between a willing licensor and a willing licensee. In assessing damages for copyright infringement the Judge accepted the expert evidence for Eight Mile as to a minimum baseline fee for a song of the calibre of *Lose Yourself* to which an uplift was applied reflecting three factors. Those factors were the use for political advertising, the significant risk to the future commercial value of the song and the lack of creative control and opportunity to re-record. After allowing a discount for the short duration of use the Judge assessed a reasonable licence fee to be NZ \$600,000.³ That finding is challenged on the appeal.

¹ Eight Mile Style, LLC and Martin Affiliated, LLC. The fourth to eighth listed respondents appeared in the High Court, but took no part in this appeal. The third and ninth respondents did not appear in the High Court and have taken no part in this appeal.

² *Eight Mile Style LLC v New Zealand National Party* [2017] NZHC 2603, (2017) 127 IPR 318 [High Court decision].

³ At [439].

[3] Eight Mile sought additional damages under s 121 of the Copyright Act 1994 (the Act). The Judge rejected that claim finding that the National Party's actions did not demonstrate flagrant or intentional infringement or conduct of the kind that should be punished by additional damages.⁴ That finding is the subject of Eight Mile's cross-appeal.

Factual background

[4] In February 2014 Stan 3 Ltd, a company incorporated to develop and produce the National Party's 2014 election campaign advertisements, prepared animatics which comprised still photographs to convey "the look and feel" of an advertisement depicting the National Party as an efficient rowing boat. They incorporated an extract from the music of *Lose Yourself* which is a well-known musical work composed by Marshall Mathers III (Eminem), Jeffrey Bass and Luis Resto in 2002. The attraction of *Lose Yourself* for Stan 3 Ltd was the steady, syncopated beat and rhythm giving a sense of momentum to accompany the rowing strokes in the advertisement.

[5] Music for synchronisation with television or media advertisements is known as production music. It is generally sourced from production music libraries and is subject to a synchronisation licence fee which is collected by copyright collecting societies. Stan 3 Ltd investigated possible tracks which could be tested for use in the advertisement. One such track was *Eminem Esque* which had been licensed by its owner, Michael Cohen,⁵ to a production music library. Between March 2014 and May 2014 election advertisements were produced synchronised with the *Eminem Esque* track.

[6] In late May 2014 when the proposed election advertisement was shown to the National Party's campaign manager and staff, a staff member told the campaign manager that the track sounded like Eminem and that Eminem had been accused of using hate speech. Being concerned about the association with Eminem and any copyright issues, the campaign manager asked Stan 3 Ltd for full details of the musical track.

⁴ At [456]–[458].

⁵ The ninth respondent.

[7] On or about 13 June 2014 the campaign committee listened to several music options and decided *Eminem Esque* was the most suited to the advertisement because the track fitted best with the visuals of the advertisement. However the committee wanted reassurance that the National Party could safely use *Eminem Esque*. An APRA AMCOS⁶ licence fee was paid to use Mr Cohen's track *Eminem Esque* and an assurance was received that the music did not infringe copyright and was free for use for production purposes.

[8] On 28 June 2014 a campaign video with the *Eminem Esque* track synchronised to it was played to the National Party conference. On 20 August 2014 the election advertisement was uploaded to YouTube and to the National Party's Facebook page. Between 20 and 30 August the advertisement, with the *Eminem Esque* track synchronised to it, was played 186 times on New Zealand television. *Eminem Esque* was also played eight times in the course of a 15 minute opening broadcast on TV1 on 23 August 2014.

[9] Following suggestions in the media that the music sounded like *Lose Yourself*, on 25 August 2014 Eight Mile's lawyers wrote to the National Party complaining of the unlicensed use of *Lose Yourself*. On or about 27 August 2014 the National Party decided to replace the *Eminem Esque* track on its advertisement with alternative music. The advertisement in this new form was aired from 30 August 2014.

The High Court judgment

[10] The first three sections of the judgment addressed the liability issues, in particular finding that:

- (i) *Lose Yourself* was a highly original musical work;⁷
- (ii) *Eminem Esque* had substantially copied *Lose Yourself* and was a substantial copy of *Lose Yourself*;⁸ and

⁶ APRA AMCOS is the Australasian Performing Right Association Ltd/Australasian Mechanical Copyright Owners Society Ltd. It is a copyright collecting society.

⁷ High Court decision, above n 2, at [154].

⁸ At [218(d)].

- (iii) the parts of *Eminem Esque* used in the National Party's election advertisement also substantially reproduced *Lose Yourself*.⁹

The Judge also found that the copyright in *Lose Yourself* had been infringed by the National Party by:¹⁰

- (a) communicating a copy or a reproduction of a substantial part of *Lose Yourself* to the public without a licence;
- (b) authorising the copying of *Lose Yourself* by authorising the synchronisation of *Eminem Esque* with the National Party election campaign advertisement; and
- (c) authorising the use and/or deploying of the advertisement, the opening conference video and broadcast.

[11] The Judge then turned to consider the two kinds of damages which Eight Mile sought, namely:

- damages for the National Party's copyright infringements; and
- additional damages under s 121(2) of the Act because the National Party had acted in flagrant disregard of Eight Mile's rights.

[12] It was common ground that damages for infringement were to be assessed by the application of the user principle which is a technique for assessing damages in circumstances where the right holder neither sells nor licenses production of its work. As the Judge explained:

[379] It is plain from the authorities and the parties' positions that the user principle is the approach to be adopted in determining relief when it is not possible to establish a normal synchronisation licence fee. The threshold has been met for the user principle to apply, because Eight Mile Style would not

⁹ At [229].

¹⁰ At [297].

have licensed *Lose Yourself* for use in the National Party's election advertising and the National Party was unlikely to have negotiated a licence with Eight Mile Style.

(Footnote omitted).

[13] From her review of the New Zealand and international authorities on the user principle, the Judge identified eight relevant principles which we summarise as follows:

- (i) The principle proceeds on the basis of a hypothetical bargain where damages are assessed on the basis of what would have reasonably been charged at the time of infringement had the infringer acted lawfully and obtained permission.¹¹
- (ii) The user principle is both compensatory and restitutionary in nature.¹²
- (iii) The exercise assumes the parties were a willing licensor and licensee with their respective strengths and weaknesses. The fact that they would not in fact have agreed to make a deal is irrelevant.¹³
- (iv) The subject matter of the hypothetical licence is what the defendant actually used including the extent of copying and its relationship with the copyrighted work.¹⁴
- (v) The bargain can take into account that the licensor did not have the opportunity to include terms related to quality control.¹⁵
- (vi) It is for the plaintiff to adduce evidence which will guide the court on a reasonable charge or licence. However evidence is a guide only and the ultimate process in determining quantum is one of judicial estimation.¹⁶

¹¹ At [337].

¹² At [338].

¹³ At [339].

¹⁴ At [340].

¹⁵ At [341].

¹⁶ At [342].

- (vii) Comparable licences must be approached with caution and be relevant to the hypothetical bargain in question.¹⁷
- (viii) Settlement agreements are irrelevant when making comparisons as they are designed to prevent litigation rather than to fix the royalty rate.¹⁸

[14] The Judge also noted, but viewed as unhelpful, a ninth factor identified in the authorities in England and Wales, namely the issue of generosity to a claimant or under-compensation. The Judge viewed this consideration as being vague and uncertain. She considered that the focus must be on striking a reasonable fee for the hypothetical licence without subjectively favouring either side.¹⁹ We mention this because it is referred to in our discussion below of the National Party's criticism of the Judge's summary of the user principle.

[15] The Judge proceeded to canvass the evidence of Mr Martin who as manager of Eight Mile Style, LLC was responsible for considering, negotiating and approving any terms of licence for the use of *Lose Yourself*. Mr Martin gave evidence of three occasions on which a licence had been granted voluntarily and a fourth licence which occurred as part of a settlement of a copyright infringement. He explained that numerous requests for permission to use *Lose Yourself* had been declined, including a request by a United States presidential candidate.

[16] The Judge then reviewed the evidence of four experts concerning the licence terms and the range of licence fees negotiated for the use of music in advertising and film.²⁰ The two experts called by Eight Mile were Ms Zamoyska, an international independent music consultant with an extensive background in music entertainment, film, television and advertising since 1987, and Mr Donlevy who had over 30 years of music licensing experience in Australia, New Zealand and South East Asia.²¹

¹⁷ At [343].

¹⁸ At [344].

¹⁹ At [346].

²⁰ The evidence of the experts was received subject to confidentiality. Consequently, references to those confidential figures referred to in their evidence are indicated in this judgment by a letter of the alphabet. See [156] below of this judgment.

²¹ At [371].

Annexed to the briefs of evidence of both those experts was a brief detailing certain user principle factors to which we refer further below.

[17] Two expert witnesses were called by the third and fourth third parties joined in the proceeding, AMCOS New Zealand Ltd and AMCOS who are copyright collecting societies providing centralised copyright licensing services.²² Mr Gough is the founder of the New Zealand company Native Tongue Music Publishing Ltd and its Australian counterpart. He undertakes negotiation for all synchronisation licences for the companies of local New Zealand and Australian writers, composers and a number of overseas catalogues, through which his company represents a wide variety of international songwriters.²³ Ms Hellriegel is a singer and songwriter with 33 years of experience and involvement in the New Zealand music industry. She is a director of Aeroplane Music Services (a music licensing publicity and project management company) and Songbroker (a music publishing company).²⁴

[18] The Judge observed that all four licensing experts broadly agreed that the factors relevant to the commercial negotiation of a licence to use music in advertising and synchronisation deals included:²⁵

- the value of the music;
- the purpose for which the music is to be used and who wants to use it;
- the views/sensibilities of the artists and controllers of the copyright;
- the media in which the advertising would be used;
- the size of the territory;
- the creative control or right of approval over the proposed use;

²² These parties are the fifth and sixth respondents in this appeal.

²³ At [373].

²⁴ At [374].

²⁵ At [375].

- the terms and duration of use as well as which part of the music is used (that is, the hook, the chorus or a less prominent part of the music); and
- the territory of use.

[19] The factors which the Judge considered relevant to the instant case were:²⁶

- Eight Mile have retained exclusive control of licensing, with Mr Martin responsible for negotiating the use of *Lose Yourself*;
- Lose Yourself* has been rarely licensed: three times willingly and many requests have been denied;
- the purpose for the use was a political use in an unassociated country to Eminem;
- the nature of the use is not what Eminem or Eight Mile Style would endorse;
- the use was political advertising over 11 days and the advertisements were placed on YouTube, the National Party website and Facebook page;
- despite the availability of other music, and the potential association with Eminem, the National Party wanted the sound of *Lose Yourself* or an equivalent;
- if an artist wishes to retain control and rarely entertains licences, the price for a hypothetical licence fee is higher rather than lower, despite the territory or the duration; and
- the musical significance of copying the musical work was significant.

[20] The Judge found the evidence of Eight Mile's expert witness, Ms Zamoyska, of considerable assistance in determining a reasonable licence fee. Ms Zamoyska calculated the fee in this way:

73. I have arrived at the minimum figure of [A] by starting at what I consider to [be] the minimum baseline for a song of the calibre of *Lose Yourself* for any arm's length negotiation for an advertisement, being [B]. To that baseline, I have then factored in the matters listed above, including the particular nature of political advertising and the significant risk to the future commercial value of the song, and the use of a poor quality recording. These are significant factors that would significantly increase the minimum licence fee.

²⁶ At [434].

[21] The Judge considered that Ms Zamoyska's minimum baseline fee for a high value work such as *Lose Yourself* was appropriate. The Judge also considered that Ms Zamoyska's uplift was reasonable for the factors she identified, particularly political use, lack of opportunity to re-record and loss of control of a high value work.²⁷ The individual factors were not allocated a value but in total the uplift comprised 100 per cent of the baseline fee. The licence fee of NZ \$600,000 was reached after allowing a discount from [A] for the short duration of use.

[22] In rejecting the claim for additional damages under s 121(2) the Judge noted that the National Party had sought a copyright licence for *Eminem Esque* from a professional company specialising in production music for sale and had obtained a synchronisation licence to use *Eminem Esque* in its advertising.²⁸ The National Party's actions did not demonstrate flagrant or intentional infringement, contemptuous or total disregard of Eight Mile's rights or conduct so bad that it should be punished.²⁹

Issues

[23] The comprehensive nature of the challenges to the damages findings was reflected in a detailed agreed list of issues. The National Party attacked the judgment on two levels. First it contended that the Judge's analysis of the user principle factors was flawed in seven respects. Secondly it focused on the Judge's application of the user principle, primarily with reference to the conclusions reflected in the following paragraphs:

[418] I accept the evidence given by Ms Zamoyska that *Lose Yourself* was a unique track and Eminem was a unique artist and that a substantial starting fee is in the discretion of the copyright holder. I also accept that the copyright controller would be seeking to maximise the licence fee and that it would have been reasonable for the licensor, Eight Mile Style, to seek a considerably higher figure in the circumstances. Of her range of estimates for that fee, Ms Zamoyska started at a minimum baseline for a song of the calibre of *Lose Yourself*, to which she then factored in the following matters:

- (a) the use for political advertising;
- (b) the significant risk to the future commercial value of the song; and

²⁷ At [436].

²⁸ At [453]–[455].

²⁹ At [456].

- (c) the lack of creative control and opportunity to re-record, along with the other factors outlined in her evidence.

...

[436] I consider that Ms Zamoyska's minimum baseline fee for a high value work such as *Lose Yourself* is appropriate. I also consider her uplift reasonable for the factors she identifies, particularly political use, no opportunity to re-record and loss of control for a high value work.

[24] The second level of complaint comprised eight alleged errors identified in the agreed list of issues as follows:

- (i) accepting the evidence of Ms Zamoyska in preference to the evidence of other independent experts as to what the hypothetical licence fee should be;
- (ii) finding that the political use of *Lose Yourself* significantly increased any minimum reasonable licence fee;
- (iii) giving weight to Eight Mile's reluctance to license for political use and reluctance to license at all in determining the reasonable licence fee;
- (iv) giving weight to the lack of quality control Eight Mile could exercise when determining the reasonable licence fee;
- (v) finding that the National Party was a "very willing licensee" and taking into account that it was a "very willing licensee" in determining the reasonable licence fee;
- (vi) failing to take into account the non-infringing alternatives available to the National Party when determining the reasonable licence fee;
- (vii) failing to take appropriate account of the fact that the reasonable licence fee for *Lose Yourself* would be confined primarily to New Zealand; and

- (viii) accepting Ms Zamoyska's view that there would be a risk to the future commercial value of *Lose Yourself* that therefore needed to be taken into account in determining the reasonable licence fee.

[25] The challenge in the cross-appeal to the rejection of an award of additional damages under s 121(2) was framed in this way:

- (a) Was the National Party reckless or sufficiently indifferent as to whether or not the use of *Eminem Esque* would amount to an infringement of copyright and, if so, did that justify an award of additional damages?
- (b) If the High Court erred in finding that the political use to which *Lose Yourself* was put by the National Party was a factor that should have been taken into account in assessing what was a reasonable licence fee in the circumstances, did the High Court err in holding that an award of additional damages was not justified in the circumstances, on the basis that the National Party received a benefit (for example by being able to use *Lose Yourself* for a political purpose when that would not otherwise have occurred) and without having to adequately compensate Eight Mile in respect of that benefit?

The user principle

[26] The object of damages is to compensate for loss or injury. The general rule in relation to economic torts is that the measure of damages is to be, so far as possible, that sum of money which will put the injured party in the same position as that party would have been if it had not sustained the wrong.³⁰ Where intellectual property rights relating to a product are infringed, the measure of damages will vary depending upon the manner in which the holder of the right chooses to exploit the right.

[27] Hence, where the benefit of the right is realised through the sale of a product and infringement results in a diversion of sales, the measure of damages will normally be the profit which would have been realised by the owner of the intellectual property

³⁰ *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 (HL) at 824.

right (IPR) if the sales had been made by him. By contrast where IPRs are exploited through the granting of licences for royalty payments, and an infringer uses the right without a licence, the measure of the damages for infringement will be the sums which the IPR holder would have received by way of royalty. Those alternative modes of exploitation comprise the first and second scenarios identified in Lord Wilberforce's well-known analysis in *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*.³¹

[28] If neither of those scenarios applies, recourse is generally had to the approach known as the “user principle.” This involves the assessment of a notional licence fee or royalty, being the price that the IPR holder would reasonably have charged for permission or authorisation to carry out the infringing act.³² In *General Tire* Lord Wilberforce described the approach in this way:³³

In some cases it is not possible to prove either (as in 1) that there is a normal rate of profit, or (as in 2) that there is a normal, or established, licence royalty. Yet clearly damages must be assessed. In such cases it is for the plaintiff to adduce evidence which will guide the court. This evidence may consist of the practice, as regards royalty, in the relevant trade or in analogous trades; perhaps of expert opinion expressed in publications or in the witness box; possibly of the profitability of the invention; and of any other factor on which the judge can decide the measure of loss. Since evidence of this kind is in its nature general and also probably hypothetical, it is unlikely to be of relevance, or if relevant of weight, in the face of the more concrete and direct type of evidence referred to under 2. But there is no rule of law which prevents the court, even when it has evidence of licensing practice, from taking these more general considerations into account. The ultimate process is one of judicial estimation of the available indications.

³¹ At 824–825.

³² *Napier Tool & Die Ltd v Oraka Technologies Ltd* [2016] NZCA 554, [2017] 2 NZLR 611 at [74].

³³ *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*, above n 30, at 826.

[29] *Copinger and Skone James on Copyright* provides a useful synthesis from the English authorities³⁴ of the features of the user principle:³⁵

(i) The hypothesis is that the actual licensor and the actual infringer are willing to negotiate with each other as they are, with their strengths and weaknesses, in the market as it existed at the date of the infringement. Accordingly the task of the court is to assess the value of the use to the defendant, not to a hypothetical person.

(ii) However, any impecuniosity on the part of the notional licensee is to be disregarded, as are the personal characteristics of the parties (e.g. an easy-going or aggressive nature), as opposed to the objective factors with which they were faced. Such matters are not considered to provide any guidance as to what the right is worth.

(iii) The fact that one or both parties would not in fact have reached an agreement is irrelevant.

(iv) The terms of any notional licence must reflect the actual infringement. Accordingly, where only part of a copyright work has been infringed, the notional licence is a licence to carry out the infringing act and not a licence to use the whole of the copyright work. The period of the licence is the period of actual infringement. Where the infringer enjoyed exclusivity in practice, the notional licence should accord with the reality. Likewise, the licence should permit the infringer to contract with others on the terms on which it actually contracted.

(v) Where there has been nothing like an actual negotiation between the parties, it is reasonable for the court to look at the eventual outcome and to consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain.

(vi) The court can take into account other relevant factors, and in particular delay on the part of the claimant in asserting its rights.

³⁴ *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*, above n 30; *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC); *Field Common Ltd v Elmbridge Borough Council* [2008] EWHC 2079 (Ch), [2009] 1 P&CR 1; *Irvine v Talksport Ltd* [2002] EWHC 367 (Ch), [2002] 1 WLR 2355; *Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co Plc* [2011] EWHC 2856 (Ch), [2012] 1 P&CR 7; *32Red Plc v WHG (International) Ltd* [2013] EWHC 815 (Ch); *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch), [2012] RPC 29; *aff'd Force India Formula One Team Ltd v Aerolab Srl* [2013] EWCA Civ 780, [2013] RPC 36; *Kohler Mira Ltd v Bristan Group Ltd (No 2)* [2014] EWHC 1931 (IPEC), [2015] FSR 9; *Peninsular Business Services Ltd v Citation Plc* [2004] FSR 17 (Ch); *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 31 PRC 104 (HL); *SPE International Ltd v Professional Preparation Contractors (UK) Ltd* [2002] EWHC 881 (Ch); *Ludlow Music Inc v Williams* [2002] EWHC 638 (Ch), [2002] FSR 57; *Blayney (t/a Aadvark Jewellery) v Clogau St David's Gold Mines Ltd* [2002] EWCA Civ 1007, [2003] FSR 19; *Brown v Mcasso Music Production Ltd* [2005] EWCC 1 (Cpwt), [2005] FSR 40; *aff'd* [2005] EWCA Civ 621, [2006] FSR 24; and *London General Holdings Ltd v USP Plc* [2005] EWCA Civ 931, [2006] FSR 6. Reference was also made to *Pollock v JC Williamson Ltd* [1923] VLR 225 (SC).

³⁵ Gillian Davies, Nicholas Caddick and Gwilym Harbottle (eds) *Copinger and Skone James on Copyright* (17th ed, Sweet & Maxwell, London, 2016) vol 1 at [21–292].

(vii) It is relevant under this head that the defendant could have arrived at the same result by lawful means if the parties can be expected to have taken that fact into account in their hypothetical negotiation. That alternative need not have had all the advantages or other attributes of the infringement.

(viii) In the absence of comparable licences or other compelling evidence the royalty may be based on the “available profits” method: the defendant’s actual profits are calculated; it is assumed that the parties would have accurately predicted these profits when negotiating; the profits are then (in effect) divided between the claimant and the defendant.

(xi) In some cases it may be appropriate to award as damages the cost of producing or commissioning the material in a form which did not infringe copyright.

(x) In a case within this group, the court may have to call into play “inference, conjecture and the like”, and apply “a sound imagination and the practice of the broad axe”.

[30] It has not been necessary to explore the eighth factor in this case. For the rest we consider that the *Copinger* summary represents a sound description of the artificial construct which is the user principle.

Criticisms of the High Court’s summation of the user principle

[31] For the National Party Mr Arthur submitted that the High Court’s analysis of the user principle reflected in the summary at [13] above was erroneous in seven respects:

- (i) a failure to focus on the outcome of the hypothetical negotiation, by wrongly focusing on the licensor’s demands, by asking what could have been reasonably “charged” for permitted use;³⁶
- (ii) the classification of damages as both compensatory and restitutionary;³⁷
- (iii) mischaracterising the role of evidence in the determination of quantum resulting in the reservation of greater judicial discretion than is warranted in the assessment of damages;³⁸

³⁶ High Court decision, above n 2, at [337].

³⁷ At [338].

³⁸ At [342].

- (iv) wrongful acceptance of a lack of quality control as a relevant factor;³⁹
- (v) omission from the analysis of the need to take into account alternative courses of action available to a defendant;
- (vi) a failure to recognise that both parties to the hypothetical negotiation must be assumed to act reasonably; and
- (vii) failing to consider the value of the infringing use to a defendant.

The use of the “charged” terminology

[32] We do not consider that there is substance in the criticism of the Judge’s characterisation of the hypothetical bargain as “what would have been reasonably charged at the time of infringement”.⁴⁰ While the National Party made a fair point that the analysis should be focused on the outcome of the hypothetical negotiation, not on the interests of one side or the other, we do not think that in a licensing context the expression “charged” necessarily implies an erroneous focus on what the licensor might demand.

[33] The word “charged” has traditionally been employed as a description of the payment which the user principle reflects. In the passage from *Meters Ltd v Metropolitan Gas Meters Ltd* quoted with approval by Lord Wilberforce in *General Tire*, Fletcher Moulton LJ referred to damages being estimated by the price which could reasonably have been charged for permission.⁴¹ Similarly this Court in *Napier Tool & Die Ltd v Oraka Technologies Ltd* referred to the price that would reasonably have been charged for permission or authorisation to carry out each infringing act.⁴² In neither instance was the verb used to convey a unilaterally imposed or dictated price.

³⁹ At [341].

⁴⁰ At [337].

⁴¹ *Meters Ltd v Metropolitan Gas Meters Ltd* (1911) 28 RPC 157 (CA) at 164–165, quoted in *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*, above n 30, at 826.

⁴² *Napier Tool & Die Ltd v Oraka Technologies Ltd*, above n 32, at [74].

[34] We do not consider that in adopting that traditional terminology the Judge was in error. Indeed it is apparent from her approach to the ninth factor discussed at [14] above that the Judge’s focus was on striking a reasonable hypothetical licence fee without favouring either side.

The proposition that the user principle is restitutionary in nature

[35] In her review of the United Kingdom and Australian decisions on the user principle the Judge referred to the decision of the Federal Court of Australia in *Winnebago Industries Inc v Knott Investments Pty Ltd (No 4)* where Yates J observed that damages under the user principle have a restitutionary aspect to them in the sense that they can be seen to reverse the “use value” of the property in question.⁴³ The Judge’s summary of the user principle factors included as the second factor:⁴⁴

Compensatory and restitutionary damages

[338] The user principle is not strictly compensatory in nature as it is not remedying the plaintiff’s financial loss. Rather, the user principle recognises the infringement that has invaded the monopoly a plaintiff has on their intellectual property rights and the defendant’s gain in this infringement. It is therefore **both compensatory and restitutionary in nature**.

[36] That the award of damages which the Judge ultimately made incorporated a restitutionary component is apparent from that part of the judgment rejecting Eight Mile’s claim for additional damages where the Judge stated that the “compensatory and restitutionary damages” awarded were appropriate in this case.⁴⁵

[37] Mr Arthur submitted that what are described as “user damages” are awarded as compensation for the wrongful use of property, as explained by the Supreme Court of the United Kingdom in *One Step (Support) Ltd v Morris-Garner*:⁴⁶

(1) Damages assessed by reference to the value of the use wrongfully made of property (sometimes termed “user damages”) are readily awarded at common law for the invasion of rights to tangible moveable or immoveable property (by detinue, conversion or trespass). The rationale of such awards is that the person who makes wrongful use of property, where its use is commercially valuable, prevents the owner from exercising a valuable right

⁴³ *Winnebago Industries Inc v Knott Investments Pty Ltd (No 4)* [2015] FCA 1327, [2015] 241 FCR 271 at [14], noted in the High Court decision, above n 2, at [331].

⁴⁴ Emphasis in original.

⁴⁵ At [457].

⁴⁶ *One Step (Support) Ltd v Morris-Garner* [2018] UKSC 20, [2018] 2 WLR 1353 at [95].

to control its use, and should therefore compensate him for the loss of the value of the exercise of that right. He takes something for nothing, for which the owner was entitled to require payment.

(2) Damages are also available on a similar basis for patent infringement and breaches of other intellectual property rights.

[38] Mr Arthur argued that the user principle is not restitutionary. User damages are compensation for loss, albeit not loss of a conventional kind. He contended that by classifying the user principle as partly restitutionary the Court inappropriately invoked an unjust enrichment concept and a notion of forcing a defendant to disgorge wrongful gains.

[39] Mr Williams for Eight Mile did not contest the substance of that criticism. He pointed out that user principle damages have sometimes been said to be restitutionary in the sense that they compensate the owner of a valuable right for the loss of the value of its exercise. However he accepted that the orthodox view is now that user damages are compensatory in nature, a view we share.

The proposition that evidence is only a guide

[40] Mr Arthur submitted that the Judge had departed from the significance of the role of evidence by the conclusion:⁴⁷

However **evidence is a guide only** and the ultimate process in determining quantum is one of judicial estimation.

In support of his contention Mr Arthur drew attention to the fact that in the quotation of Lord Wilberforce's description of the third scenario noted at [28] above the Judge had elected to omit the words "in the face of the more concrete and direct evidence referred to under 2".⁴⁸ He suggested that as a consequence the Judge had misread the statement of Lord Wilberforce who was emphasising a narrower point, namely that where there is evidence of actual licensing fees specific to the work and use in question (as in his second scenario) more general evidence will be of less relevance and less weight. Lord Wilberforce's conclusion was that "the ultimate process is one of

⁴⁷ High Court decision, above n 2, at [342] (emphasis in original).

⁴⁸ At [316].

judicial estimation of the available indications”. The Judge omitted the last four words from her summary as set out above.

[41] Although the Judge’s description of the process at [342] is something of a paraphrase of Lord Wilberforce’s observation, from our reading of the judgment as a whole we do not consider that it was the Judge’s intention to adopt a more liberal approach. Indeed at [381], after referring to the observation in *Ludlow Music Inc v Williams* that precision is not attainable,⁴⁹ the Judge described the ultimate process by quoting Lord Wilberforce’s phrase verbatim. She then commenced the next paragraph by referring to the “available indications” from the evidence in the present case. Consequently we do not accept the contention that the abbreviated summary at [342] represented a departure from the recognised approach.

The absence of a licence provision as to quality control

[42] Acknowledgment of this factor as an element of the user principle appears to have been derived from her Honour’s discussion of *32Red Plc v WHG (International) Ltd*,⁵⁰ in particular the holding that the hypothetical licence should so far as possible be assumed to accord with reality. The last of four factors which the Judge noted were taken into account by Newey J in awarding damages in *32Red Plc* under the user principle was:⁵¹

[T]he hypothetical licence will reflect the terms and conditions in fact used, therefore, the royalty might be more expensive to compensate for the greater risk to the licensor in licensing without quality control provisions commonly found in actual licences.

[43] While that was certainly the contention of 32Red’s expert, it is by no means clear that the proposition as expressed was actually endorsed by Newey J who noted that 32Red’s submission had been inspired at least in part by the fact that there was evidence of complaints having been made about the infringing party, 32Vegas casino. Newey J concluded the discussion on quality control provisions in this manner:

⁴⁹ *Ludlow Music Inc v Williams*, above n 34, at [48].

⁵⁰ High Court decision, above n 2, at [328]–[330], discussing *32Red Plc v WHG (International) Ltd*, above n 34.

⁵¹ At [330].

58. It seems to me that, once again, the assumptions should accord with the reality. The hypothetical licence should therefore be taken to have permitted William Hill Online to use the terms and conditions it in fact used. On the other hand, I do not think it would be appropriate to assume that the parties were negotiating for a licence that would leave William Hill Online free to misbehave to whatever extent it might theoretically have liked.

[44] We revert to this issue again in our discussion of the calculation of the hypothetical licence fee in the present case.

The omission of consideration of alternative available courses of action

[45] Mr Arthur submitted that the availability of alternatives, which is recognised as an important consideration both in New Zealand⁵² and England,⁵³ was a striking omission from the Judge's summary. In *Oraka Technologies Ltd v Geostel Vision Ltd* Hinton J accepted that alternatives are relevant at least to the extent that they were known at the time and were available on the facts before the court.⁵⁴

[46] Mr Williams acknowledged Newey J's conclusion in *32Red* that, if the parties to the hypothetical negotiation would have had in mind the fact that the defendant had an alternative course of action open to it, then the court should also do so.⁵⁵ However Mr Williams contrasted that view with the approach in *Irvine v Talksport Ltd* where he submitted that Laddie J, and by implication the Court of Appeal, did not view non-infringing alternatives as a factor to be imported into the hypothetical negotiation.⁵⁶ Indeed it was Mr Williams' submission that, in the context of infringement of intellectual property rights, non-infringing counterfactuals proffered as a means of essentially eliminating the infringement are not legitimate because they subvert the very basis of the hypothetical negotiation.

[47] We prefer the view taken in *Oraka*, *32Red* and *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* that the existence of alternative available

⁵² *Oraka Technologies Ltd v Geostel Vision Ltd* [2018] NZHC 769, (2018) 131 IPR 363 at [33(h)].

⁵³ *32Red Plc v WHG (International) Ltd*, above n 34, at [41]; and *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd*, above n 34, at [426]–[427].

⁵⁴ *Oraka Technologies Ltd v Geostel Vision Ltd*, above n 52, at [33(h)].

⁵⁵ *32 Red Plc v WHG (International) Ltd*, above n 34, at [41].

⁵⁶ *Irvine v Talksport Ltd* [2002] EWHC 539 (Ch) at [10]; and *Irvine v Talksport Ltd* [2003] EWCA Civ 423, [2003] FSR 35.

courses of action is a recognised factor in the user principle. Indeed we note that in discussing *32Red* the Judge made reference to Newey J's conclusion in that case that the court could take into account any alternative course of action that was available to the parties at the time of the hypothetical negotiation.⁵⁷ The non-inclusion of that factor in the Judge's summary may have been oversight or it may simply have reflected her view that it had no application to the facts of the present case. Whether it will be of significance in an individual case will of course be fact dependent. We address this factor below at [93]–[96] in the context of the sixth of the National Party's criticisms of the Judge's ultimate conclusion.

The omission of reference to the parties acting reasonably

[48] We do not consider that a description of the user principle is deficient merely because it does not refer expressly to the requirement that both parties act reasonably: compare the *Copinger* summary at [29] above. We observe that when formulations of the user principle contain reference to reasonableness it tends to be in the context of the parties making reasonable use of their respective bargaining positions. An example of this in *Force India* was referred to by the Judge at [326(b)] of her judgment. The formulation in the brief to Eight Mile's expert witnesses adopted that approach.

[49] Particularly in view of the references to reasonable charges in the course of the Judge's summary at [337], [342] and [346] we do not consider there is substance to the National Party's criticism concerning the omission of an explicit reference to the parties being required to act reasonably.

The omission of reference to the value of the infringing use to a defendant

[50] Mr Arthur submitted that in a commercial context a defendant will be guided in a negotiation by commercial realities. While acknowledging that did not put a limit on a notional licence fee where the evidence places it higher than a defendant could afford, his point was that commercial realities remained factors for consideration in the hypothetical negotiation.

⁵⁷ High Court decision, above n 2, at [328].

[51] We agree that the value of an infringing use to a defendant is a factor to be taken into account.⁵⁸ However we do not consider that this factor was overlooked by the Judge.

[52] It needs to be borne in mind that the Judge's summary of the user principle factors followed a detailed review of the case law and was a condensation of it. In our view the issue of the value of the infringing use was intended to be captured by the Judge in her description of the third factor where the reference to the parties' respective strengths and weaknesses was followed by the phrase "within the commercial context that existed at the time".⁵⁹

[53] We turn now to address the second level of the National Party's criticism of the judgment. However we will consider the particular alleged errors listed at [24] above in a different sequence and with some degree of amalgamation.

The relevance of the New Zealand territory

[54] As the judgment recorded, the territory of use and its size were among the factors which all four licensing experts broadly agreed were relevant to the commercial negotiation of a licence to use music in advertising.⁶⁰ Yet the Judge commenced her discussion of this factor by observing that it had been the subject of disagreement among the experts.⁶¹ She contrasted the evidence of Mr Gough and Ms Hellriegel, to the effect that the smaller the territory the lower the fee, with Ms Zamoyska's evidence which she summarised in this way:

[407] Ms Zamoyska disagreed. Even though New Zealand is a relatively small market, compared to other markets such as the United States and the United Kingdom, the availability of the advertisement over the internet meant that it would be seen by audiences outside of New Zealand. She considered the "extra-territorial leakage is a risk to the global commercial value of the music". In her experience, the copyright controllers would have been unlikely to endanger a high value work like *Lose Yourself* in return for a low figure, even if the use had been targeted at New Zealand audiences. She considered it would not have been worthwhile to do so, given the significant potential commercial risks in licensing it.

⁵⁸ *Gallagher Electronics Ltd v Donaghys Electronics Ltd* (1991) 4 TCLR 344 (HC) at 350; see also the first *Copinger* feature at [29] above.

⁵⁹ High Court decision, above n 2, at [339].

⁶⁰ See above at [18].

⁶¹ At [404].

[55] The Judge made no mention at all of Mr Donlevy in this context. On this issue his brief stated:

40. The size and importance of the territory to the copyright controller and artist are also usually relevant factors in the negotiation of a license. Generally speaking, the fee for Australia is higher than the fee for New Zealand due to size of population. The cost for the US is significantly higher again. That said, the territory will be considered together with the media on which the advert will be used and all of the other factors in determining the fee.

[56] It was apparent that Mr Donlevy accepted that the smaller New Zealand territory was a relevant factor. However in estimating an appropriate licence fee he considered it was outweighed by other factors:

54. Beyoncé's "Single Ladies" is, in my view, of a comparable calibre and value to *Lose Yourself*. Whilst that licence covered a bigger territory (in that it covered both Australia and New Zealand), it was for a fragrance product that Beyoncé herself endorsed and associated herself with. I know that the copyright controller and artists, and Beyoncé's management, were closely involved in the creation of the advertisement. In contrast, I have assumed that Eminem would not have wanted to endorse the [National Party] and the likelihood of negative consequences for *Lose Yourself* would have been taken into account. Those factors outweigh the relevance of the smaller NZ territory.

[57] While Ms Zamoyska recognised that the size and importance of the territory can be a significant factor in licence negotiations and that generally speaking the larger the territory in which a song will be used in an advertisement the higher the licence fees, in this particular case she considered that there should be a baseline of [B], seemingly irrespective of the territory involved. She explained:

77. Even though New Zealand is a relatively small market, compared to other markets such as the US and the UK, as explained above, the availability of the advertisement over the internet means that it would be seen by audiences outside of New Zealand. The extra-territorial leakage is a risk to the global commercial value of the music. In my experience, the copyright controllers would have been unlikely to endanger a high value work like *Lose Yourself* in return for a low figure, even if the use had been targeted at New Zealand audiences. It would not have been worthwhile to do so, given the significant potential commercial risks in doing so.

[58] The baseline concept was also advocated for by Mr Martin whose supplementary brief concluded in this way:

23. I consider that [C] would be the absolute minimum license fee for *Lose Yourself* anywhere in the world for this type of use. For larger markets, such as the US, the minimum fee would be considerably higher.

[59] In evaluating the significance of geographical markets it is important not to lose sight of the object of the intended use. The proposed licensed use was not to advertise New Zealand as a holiday destination to people overseas or to promote New Zealand produce to international markets. It was for use in a general election campaign and hence was targeted at the eligible voting public, most of whom were New Zealand residents. However the message was equally relevant to eligible voters abroad, and the internet and Facebook were obvious media by which to reach such persons in 2014. Nevertheless the advertising message was only relevant to a relatively small population.

[60] The Judge was impressed by Ms Zamoyska's view as to the significant implication of the use of those media, stating:

[409] With the YouTube and website access, the relevance of New Zealand being a small territory and therefore lower in value, is diminished. While a licence for New Zealand territory only would normally attract a lesser fee, that factor must be balanced with the wide territorial internet access to the advertisements and their purpose. Further, Ms Zamoyska highlighted that an advertisement with synchronised music which is published online can go "viral ... simply because fans of certain performers consume and share anything and everything that relates to that performer."

[61] However we consider that there is force in Mr Arthur's submission that that confuses the availability of an advertisement with the issue of what was being advertised and to whom. It was his submission, with which we agree, that it is difficult to see how the international attention of fans who were not voters in the New Zealand election (and so not an intended audience) could attract a price in the hypothetical negotiation. It is not something that the National Party as a reasonable licensee would wish to pay for, nor something for which a reasonable licensor could demand payment.

[62] With reference to Ms Zamoyska's final point about an advertisement going viral we consider it appropriate to note the view of Mr Gough and Ms Hellriegel that the international online interest in the National Party advertisement was generated by the controversy surrounding allegations of copyright infringement. Their point, which

we consider has validity, was that that is very different to internet exposure following authorised use and so should not be taken into account in the context of this particular hypothetical negotiation.

[63] It was Mr Arthur's submission that there was no cogent evidence before the Court to justify a conclusion that in the particular case of the National Party advertisement the effect of uploading it onto the internet would be that the fees that would be negotiated in the New Zealand market would no longer be applicable. He criticised Ms Zamoyska's statements as being generalised and based on limited experience in negotiating high value songs in New Zealand. He submitted that the Judge relied on those statements as if the advertisement had a relevant audience worldwide that a licensee would pay for.

[64] There appears to be some justification for that depiction of Ms Zamoyska's experience. When pressed on her knowledge of New Zealand licensing she acknowledged that she was not aware of any New Zealand transactions that came close to the fees listed in her confidential schedule. While unaware of the population of New Zealand, she cited an example of a Turkish licensing transaction, apparently on the basis that the two countries were similar. The evasive nature of her responses to questions that focused on New Zealand licences is evident in the following exchange:

- Q. There's evidence going to be given that the maximum for a 12 month term in the New Zealand and Australian markets that one expert has seen is around [D]?
- A. Depends what you can get for it. If you're a good negotiator, you can get more. I mean, you can't say that there is a maximum. In somebody's experience, what they can get —
- Q. That's what the evidence will be.
- A. That's fine. My experience is that being a really tough negotiator, I get the top value for a high-profile song. So one song — there's no such thing as equal in synchronisation, regardless of whether you may consider them high-value, there's a lot of factors that are determined.
- Q. I'll be able to get through this, I'm trying to get through this so if you can think of what my question is, and I'm not being critical, I'm just trying to move things on. So what is the maximum fee you've ever seen for a New Zealand licence?
- A. What is the maximum?

- Q. What is the maximum synchronisation fee for a New Zealand licence that you've ever seen?
- A. How much you can get for it.

[65] Given the evidence of not only Mr Gough and Ms Hellriegel but also Mr Donlevy on the relevance of the New Zealand territory, we do not consider that it was open to the Judge to adopt the international baseline figure of Ms Zamoyska and Mr Martin. By, in effect, giving little if any recognition to the territory factor in her analysis, we consider that the Judge did depart from the recognised process of judicial estimation of the available indications.

Political use: risk to future commercial value

[66] The judgment treated these two matters as discrete factors, reflecting the adoption of Ms Zamoyska's analysis.⁶² However, subject to a distinction which we draw with reference to political use, we address these two matters together because we accept Mr Arthur's submission that one is in effect the flip side of the other. As he put it:

... possible future commercial loss is said to be caused by granting the licence. Future commercial loss cannot then justify an uplift. Having paid the fee for the licence and, according to Ms Zamoyska, a significant uplift for political use, there cannot be another uplift because of the consequences of granting the licence. That consequence is already catered for by the licence fee and the (wrongful) political uplift. It is allowing for the same thing twice.

[67] The evidence as to the implications of political use came primarily from Mr Martin:

66. To date, [Eight Mile has] never licensed the use of the musical composition for any political purpose and would be very reluctant to do so. In fact, [Eight Mile] would probably not have been willing to do so unless specifically requested to do so by the original creators. ...

...

68. Although we had not licenced *Lose Yourself* for any political advertising and would have been unlikely to do so, had we done so it would only have been at a significant premium. I say this because political advertising falls into a special category of its own and one demanding such a premium because of [a] number of factors, including the fact that political advertisements often contain divisive messages or ideological messaging that

⁶² At [418], set out at [23] above.

have the potential to alienate future licensees. A significant premium would also have been justified because the messages of the relevant political advertisements were not ones that the creators of the work would have wanted to be associated with. Finally, the importance of political advertising itself justifies a significant premium.

[68] None of the four licensing experts had previously had any significant involvement with a licence for a song for a political purpose. The Judge summarised the evidence in this way:

[422] There was no example given of an artist being persuaded to allow their works to be used for a political purpose which they did not either endorse or support. Apart from Mr Gough, the other experts agreed that there would be a higher licence fee. Two of the experts referred to a “heavy reluctance” to grant a licence in this case, justifying a higher fee. The authorities caution that a hypothetical licensor cannot be heard to say that he would have refused to grant a licence at all. If one increases the licence fee on the grounds that the licensor would be reluctant to grant a licence, that appears to be reintroducing the element of unwillingness by the back door.

(Footnotes omitted).

[69] The Judge then proceeded to draw a distinction between the type of use and the reluctance of a licensor as reasons for licence fee increases:

[423] I consider there is a distinction to be drawn between an increase in the fee because of the licensor’s reluctance, compared to a higher fee for the type of use to which the licence is to be put. Here, the licensor is saying that if *Lose Yourself* were to be licensed for a political campaign, the price must be higher, which is a position that I consider to be reasonable in a hypothetical licence negotiation. It reflects the rare occasions in which the artist would agree to have their work associated with politics and the high fees that need to be paid to have a recognisable song in a political campaign.

[70] We agree that a higher fee can reasonably be sought for certain types of use which may be viewed as likely to have a polarising effect on a community or among sections of it. A political use is but one instance. We can envisage several others, for example use in the context of race, gender, human rights, weapons and some environmental considerations such as nuclear power.

[71] As Mr Donlevy explained, each licensed use of a work can affect the future licensing opportunities for that work. In Ms Zamoyska’s view there is an opportunity cost to each licence to advertise a product or service. If a song is to be used in an advertisement others may not want to use that song because, as Ms Zamoyska put it,

it has been “tainted” by the association with another product or company. The particular types of activity to which we have referred could reasonably be expected to import, to a greater or lesser degree, an element of controversy and thereby a negative impact on the future commercial utility of the song from a licensing perspective. Consequently, we agree that it would be reasonable to expect a higher fee would be payable for a political use.

[72] However, we consider that a distinction should be drawn between a type of use which has an inherent divisive quality and hence, viewed objectively, would warrant a higher fee on the one hand, and on the other a licensor’s subjective reluctance to agree to a licence because the message the subject of the advertisement is not one which the licensor personally endorses. The distinction is drawn with clarity in the second paragraph of the excerpt from Mr Martin’s evidence at [67] above.

[73] Our acceptance of political use as a factor which warrants an increased licence fee is confined to objective reluctance, namely a licensor’s concern about the nature of the use per se. The concern derives from the fact that, irrespective of whether the licensor agrees with the promotional message or not, the divisive nature of the promoted use will have the potential to impact on the future commercial use of the licensed work in a more substantial way than the opportunity cost associated with a less controversial product or service. We address the subjective component below in the context of the issue of degrees of willingness to license where we conclude that a subjective reluctance to license is not compatible with the assumption of a willing licensor.

A willingness to license

[74] Under this head we address two aspects of the National Party’s argument:

- (a) what we have described as subjective reluctance on the part of a licensor to agree to a licence;⁶³ and

⁶³ At [72] above.

- (b) the criticism of the finding the National Party was a “very willing licensee” and the inclusion of that factor in the determination of a reasonable licence fee.⁶⁴

A licensor’s subjective reluctance

[75] The brief to Eight Mile’s licensing experts was in three parts: first, a description of the parties and the musical work; secondly, a list of assumptions to be made for the purpose of answering a number of questions; and thirdly, those questions.

[76] Consistent with the user principle concept, the list of assumptions referred to the parties’ willingness to license.⁶⁵

The Licensors and [the National Party] would both be willing to reach agreement on the terms of a licence to use the Work for the purpose [of the National Party’s 2014 political campaign]. They would make reasonable use of their respective bargaining positions.

[77] The assumptions also included the following:

None of the writers, performers or licensors of *Lose Yourself* have any association with [the National Party].

None of the writers, performers of (sic) licensors of *Lose Yourself* feel any moral alignment with the policies of [the National Party].

[78] Those latter two assumptions would have served to defeat any suggestion (if it had been made) that the licensor might have been favourably disposed to some degree to the particular philosophy of the political advertisement which was to be the subject of the licence. In isolation, the assumption might have been thought unremarkable and perhaps unnecessary.

[79] However the preceding description of the parties included the following statement:

The Licensors of the Work have never licensed the Work for a political purpose and are generally very reluctant to do so due to the divisive nature of politics, and the need for alignment with the writers’ views and morals.

⁶⁴ At [24(v)] above.

⁶⁵ The Work comprises the music but not the lyrics of *Lose Yourself*.

[80] The reference to the divisive nature of politics reflects the potential risk to the future commercial value of a copyright work. It is the factor which we described as objective reluctance in the discussion of political use above at [72]–[73]. However, the second consideration referred to, namely the need for alignment with the writers' views and morals, reaches beyond the objective reluctance associated with a proposed political use per se to a subjective reaction to the particular political viewpoint of the licensee.

[81] It is apparent that certain of the expert witnesses factored this subjective preference into their analyses. At an early part of his brief Mr Donlevy focused on the impact of the divisive nature of politics:

32. I cannot recall ever having received a request to use music for a political advertisement or campaign. In my opinion, political advertising would be considered by the copyright controller and artist to be much more risky, than product or service advertising, because of the divisive nature of politics. Unless an artist positively wanted to associate him or herself with the political party or its policies, I believe that the artist would be reluctant to consent to such a use. A copyright controller might also be reluctant to be affiliated with a political party, even if the artist of the music in question consented, because of the views of other artists for whom it acts as publisher. Depending on the views of the copyright controller and artist, this reluctance might be overcome with an uplift in the fee charged.

[82] At a later point however he made reference to the statements in the brief concerning the licensor's views, stating:

47. The brief states that none of the writers, performers or licensors of *Lose Yourself* have any affiliation or moral alignment with the National Party. Without any moral alignment or affiliation and given the risks associated with political advertisements, in my opinion, the copyright controller would be reluctant to grant a license unless the fee was significant enough to overcome that reluctance.

[83] Then in the passage quoted above at [56] he noted that he had assumed that Eminem would not have wanted to endorse the National Party. While the issue was explored in cross-examination, we consider that Mr Donlevy's views are best exemplified in a passage of re-examination:

Q. You mentioned in your evidence that the use in question here may have involved an endorsement. That was an answer that you gave to a question that my learned friend raised to you or I think the evidence

you gave might've given rise to an implicit endorsement. What effect do you think that would've had on a licence fee?

- A. It has a big effect. The client is a very important part of the consideration of the fee itself. You can affiliate yourself with something that, like shoes, for example, that have no real import other than you put it on your feet but if you apply it to, for example, something far more controversial that, and let's say, for example, a political campaign, you're suddenly affiliating yourself to a product or a message that you are tacitly agreeing to and I think a lot of our acts would hate to be affiliated to something that they have no knowledge of or have anything to do with. There's a whole range of issues regarding how a proposed licence can be seen because one licence for a perfume is one thing but for me, what Eminem has done in this case is tacit approval of the New Zealand Labour Party by implication of using the song —

THE COURT

National.

RE-EXAMINATION CONTINUES: MR WILLIAMS

- A. — which demeans the work for me.
- Q. Sorry, I think I just probably need to ask you that question again after that. In your expert opinion, what impact do you think that would have had on a negotiated fee?
- A. It would have a huge fee — a huge impact. The client would have a huge impact on what it would be.

[84] Similarly in her brief Ms Zamoyska said:

64. The use of *Lose Yourself* for a political campaign by the National Party would generally attract very high licence fees.
65. The brief states that none of the songwriters, performers or licensors of *Lose Yourself* has any affiliation or moral alignment with the National Party or its policies. I would therefore assume that the copyright controller would start negotiations from a position of heavy reluctance to grant a licence in this case. This is a factor that would tend to increase the fees for which a licence would be granted; the fee would need to increase so as to overcome that reluctance.

[85] In our view, these two witnesses were clearly factoring into the licence fee assessment their understanding of the licensor's attitude to the National Party and its particular political philosophy. They were approaching the task not simply on the basis of the degree of reluctance which the licensor might be expected to have to the use of the work in a political context per se.

[86] It appears to us that the Judge did not intend that the licence fee should reflect such subjective reluctance. In that regard we note that the Judge expressly stated that no premium had been given for unwillingness or reluctance by either party.⁶⁶ That statement needs to be understood in the context of her earlier observations noted above that:⁶⁷

- (a) increasing the licence fee on the grounds of a reluctance to grant a licence appeared to be reintroducing the element of unwillingness by the back door;⁶⁸ and
- (b) a distinction is to be drawn between an increase in the fee because of a licensor's reluctance compared to a higher fee for the type of use to which the licence is to be put.⁶⁹

[87] The second of those observations contemplated an increased fee for the fact of a political use per se as distinct from some degree of antipathy on the part of the licensor to the particular political philosophy of the user. It is in that sense that we consider one must read the Judge's statement that no premium had been given for unwillingness or reluctance by either party.

[88] However, the Judge's intentions in that respect were thwarted as a result of her adoption of Ms Zamoyska's analysis which made no distinction between objective and subjective reluctance on the part of the licensor. Consequently both components were reflected in the Judge's assessment of the licence fee the National Party would have agreed to pay and Eight Mile would have accepted.

A very willing licensee

[89] The Judge described the National Party as "a very willing licensee" because it specifically wanted the *Lose Yourself* sound.⁷⁰ The Judge stated:

⁶⁶ High Court decision, above n 2, at [438].

⁶⁷ See above at [68]–[69].

⁶⁸ At [422].

⁶⁹ At [423].

⁷⁰ At [389].

[410] As noted above, the National Party campaign committee sought the *Lose Yourself* sound specifically for its syncopated and hypnotic beat, which was an ideal accompaniment to the rowing strokes in the National Party advertisement. The willingness of the National Party to acquire the sound of *Lose Yourself* is a relevant factor in my assessment of a notional licence fee, justifying a high starting point for the fee.

[90] The evidential basis for that conclusion was:

[425] A further factor which I consider relevant to this hypothetical bargain is the willing licensee. The National Party campaign committee approved the use of *Lose Yourself* and, despite the options of other musical works available to them, sought to have the sound of *Lose Yourself* accompany its election advertising and video provided it had no legal impediment. At the time of the hypothetical negotiation, Mr Foster from Sale Street Studios sent an email to Extreme Music on 3 June 2014, saying “They wanted to use Eminem’s *Lose Yourself*.”

[426] Mr Jameson described the “steady beat” of the music, which was the preferred accompaniment to the rowing advertisement. The evidence demonstrates that the National Party was a willing licensee and the wish to procure the *Lose Yourself* sound is a factor that would lead the parties to have agreed on a higher figure for the hypothetical fee.

[91] Mr Arthur challenged the evidential basis for the Judge’s conclusion, pointing out that the contention in the email (sent by a person two steps removed from the appellants who did not give evidence), was not put to the appellants’ witnesses in cross-examination. It was also inconsistent with the evidence of Mr Jameson from Stan 3 Ltd who did not say he specifically wanted *Lose Yourself* but rather a steady syncopated beat. He submitted that the totality of the evidence showed a desire for a steady syncopated beat of which *Eminem Esque* was the preferred but not the only option.

[92] We agree with the submission that it was an error of law for the Judge to consider the subjective willingness of the licensee in the hypothetical negotiation and to apply that willingness in determining the starting point for the fee. The hypothetical negotiation is predicated on a willingness on the part of both parties, as the assumption in the brief to the experts for Eight Mile stated. However the Judge treated what she regarded as the National Party’s special willingness as a bargaining deficit to the licensee which resulted in a higher starting point to which figure Ms Zamoyska’s uplift was then applied.

The relevance of non-infringing alternative options

[93] The availability of alternative courses of action for the National Party as licensee⁷¹ was not a factor referred to by the Judge in her assessment of the licence fee. Indeed given the emphasis which the Judge gave to the willingness of the National Party to obtain a licence it would seem that the judgment does not make any allowance for the possibility of alternative options for the National Party.

[94] However Mr Arthur submitted that the National Party was not in a position of having no realistic alternative but rather had several options. He pointed to the fact that in June 2014 the campaign committee considered alternative production music available but concluded that *Eminem Esque* was preferable. When the National Party decided to change the music in August 2014 it commissioned alternative music in a matter of days at a cost of \$18,990. That music was used from 30 August 2014 for the duration of the balance of the campaign.

[95] It is accepted that, as stated in the assumptions in the brief, the budget (if any) of the National Party was not a relevant factor and should not be taken into account in fixing the licence fee. However that does not alter the fact that the budgetary constraints of a defendant may influence the choice of an alternative work if that is an available option. Given the fact that the National Party was limited as to how much it could spend on election advertisements by the provisions of the Electoral Act 1993,⁷² we accept the submission that both parties would have recognised as a relevant factor the other musical options which the National Party might explore.

[96] Consequently we consider that the apparent absence of consideration of this factor was a further error in the licence fee analysis.

The significance of the absence of a quality control provision

[97] We recognise that in an actual licence negotiation, which envisages prospective licensed use, the inclusion of a quality control provision for the benefit of the licensor would be unsurprising. In the hypothetical user principle licence, such a provision

⁷¹ Discussed above at [45]–[47].

⁷² Electoral Act 1993, pt 6A.

could not be effective because the licensed activity has already taken place in the form of the infringement.

[98] Notwithstanding, the proposition is advanced that, because such a provision is conceptually absent from the hypothetical licence, there should be an uplift in the licence fee. Hence Eight Mile argues for an uplift on account of the absence of what it describes as a provision reserving to Eight Mile creative control and the entitlement to require re-recording. In that regard the assumptions in the brief to the experts included the following:

The Licensors will have no control over the production, quality or messaging of the advertisement. The Licensors will have no prior access to the script, storyboard or messaging will be given to the Licensors (sic).

[99] The Judge accepted that the absence of a quality control provision impacted on the fee:

[413] Ms Zamoyska and Mr Donlevy in their evidence considered that the fact the Eight Mile Style artists were given no opportunity to re-record or ensure good quality of the advertisement should be a factor which increases the fee. I accept this evidence in that regard. Eight Mile Style, having retained tight control over the work, [had] no opportunity to ensure its quality. Indeed, Mr Martin for Eight Mile Style highlighted that *Eminem Esque* “is a weak and bland copy of *Lose Yourself*” which they would not have licensed.

[100] It seems to us as a matter of logic that a quality control provision would be absent from all hypothetical licences in respect of past infringements. Ms Zamoyska acknowledged in cross-examination that in a licence for an alleged infringement case there would never be a clause which provided that the script or final film was to be approved by the artist or copyright controller. Consequently in all infringement cases it is reasonable to expect that an uplift to the licensing fee would be sought to reflect that omission. It must follow that the licence fee in every hypothetical user principle licence would be subject to an uplift on this account.

[101] However that did not appear to be Eight Mile’s contention. Rather its case for an uplift was tied to what was said to be the poor quality of the recording used in the National Party’s advertisement. The assumptions in the brief stated:

The Licensors and the writers consider that *Eminem Esque* is a low-quality, poor copy of the Work that denigrates the original Work.

[102] The significance of the assumed substandard quality of the recording used in the advertisement was apparent in the cross-examination of a somewhat bemused Mr Gough concerning absence of creative control and suggested elevated pricing:

Q. And given it was a political advertisement do you think it likely that the copyright controller would have wanted the licence to contain strict creative controls?

A. Possibly, I can't really predict that, some people do, some people don't.

Q. Would the quality of the recording used in the advertisement be relevant to the price?

A. No, if the writer had created the control they may reject the recording if they didn't feel the quality was of a sufficient standard but I don't think it would have any bearing on the actual price.

Q. Well would you accept that if the copyright controller or the artists involved considered the recording that was proposed to be used to be of low quality or denigrating that that might have an impact on price if ultimately that recording was to be used?

A. I don't think they would even have agreed to that recording being used if that was the case.

Q. But assuming it was used would that have impacted on price given those concerns?

A. Why would an artist want creative control if they are then going to improve [sic] an inferior recording, I don't — it doesn't make sense?

Q. By way of explanation perhaps, in this case we're dealing with a hypothetical negotiation which saw certain terms that would normally have been in the agreement not be present and one of those was creative control and control over the recording that would be used. So we're in a position where we have to sort of look at what the price would have been in circumstances where the parties have entered into a contract that they normally wouldn't have so that's why I'm asking this question. So assuming that the recording was considered to be by the plaintiffs a sub-standard one or a denigrating recording, and they reached agreement to use it, do you think that would have impacted on price?

A. No.

Q. Why not?

A. I think the price would have been agreed and — well, I've never had an experience where an artist who has had creative control has said, "Well, it's an inferior recording but I'm happy for them to use it if they pay me more." That's essentially what you're asking?

- Q. No, you're assuming they have creative control. Assume they don't and those recordings —
- A. Okay. If they don't have creative control, no, I've never known that to affect the price for the publishing licence, no.

[103] The National Party accepted that Eight Mile considered *Eminem Esque* a poor recording but submitted that the premise of Ms Zamoyska, that there should be an uplift for a lack of creative control and no opportunity to re-record, was conceptually wrong. Referring to the observations in *32Red* Mr Arthur emphasised that the hypothetical licence is to allow the infringer to do what it did, not to “misbehave to whatever extent it might theoretically have liked”.⁷³ He argued that the hypothetical allows for full control in that the exact use, that is the infringement, is known. It followed that there could be no uplift for loss of control when, on the hypothetical, there was full control.

[104] The hypothetical licence addresses a retrospective and hence a known use. It assumes that the licensor is a willing participant. While we recognise that the licence is an artificial construct, we consider that it is unrealistic to incorporate an assumption about the presence or otherwise of a control provision, the absence of which would serve no other purpose than to elevate the licence fee. We are fortified in that conclusion given that in this case the inability to exercise control said to follow from the absence of a relevant provision is directed to the claimed poor quality of the infringing use.

[105] It strikes us as a somewhat perverse outcome that a flagrant infringement in the form of a complete replication of *Lose Yourself* would not be the subject of complaint by reference to the absence of a quality control provision whereas an inferior copy would generate an increased licence fee. If alleged denigration of the original work is the concern, then in our view a claim for damages under s 125⁷⁴ of the Act would be a more appropriate recourse than incorporating an uplift to the hypothetical licence fee on account of the absence of a quality control provision in the licence.

⁷³ *32Red Plc v WHG (International) Ltd*, above n 34, at [58], set out above at [43].

⁷⁴ For infringement of a right conferred under pt 4 of the Copyright Act 1994. We refer specifically to the right in s 98 of the Act not to have work subjected to a derogatory treatment.

[106] For these reasons we consider that Eight Mile’s expert witnesses, who were directed to proceed on assumptions about both lack of control and denigration of the original work by the licensed work, estimated a hypothetical fee which was inappropriately elevated as a consequence.

The role of the appellate court

[107] Mr Williams submitted that, as the assessment of damages is essentially a question of fact, usually an appellate court will only disturb a trial judge’s assessment if there has been some error of principle or the damages award can be said to be a wholly erroneous assessment. He referred for a classic statement of those grounds to the judgment of Greer LJ in *Flint v Lovell*.⁷⁵

... this Court will be disinclined to reverse the finding of a trial judge as to the amount of damages merely because they think that if they had tried the case in the first instance they would have given a lesser sum. In order to justify reversing the trial judge on the question of the amount of damages it will generally be necessary that this Court should be convinced either that the judge acted upon some wrong principle of law, or that the amount awarded was so extremely high or so very small as to make it, in the judgment of this Court, an entirely erroneous estimate of the damage to which the plaintiff is entitled.

[108] He noted that that statement had been approved by the House of Lords in *Davies v Powell Duffryn Associated Collieries Ltd* and by the Judicial Committee of the Privy Council in *Nance v British Columbia Electric Railway Co Ltd*.⁷⁶ He also noted that the Board had followed *Flint* and *Nance* in both *Calix v Attorney General of Trinidad and Tobago* and *Scott v Attorney General*.⁷⁷

[109] Hence he submitted that there are only two distinct grounds of interference: that the Judge acted on a wrong principle of law or that the Judge made an entirely erroneous estimate of the damage. He accepted that a misdirection as to the law or giving undue or insufficient weight to the evidence fell within the first category. While observing that this is a general appeal by way of rehearing and that the appeal

⁷⁵ *Flint v Lovell* [1935] 1 KB 354 (CA) at 360 (footnotes omitted).

⁷⁶ *Davies v Powell Duffryn Associated Collieries Ltd* [1942] AC 601 (HL) at 616–617; and *Nance v British Columbia Electric Railway Co Ltd* [1951] AC 601 (PC) at 613.

⁷⁷ *Calix v Attorney General of Trinidad and Tobago* [2013] UKPC 15, [2013] 1 WLR 3283 at [28]–[29]; and *Scott v Attorney General* [2017] UKPC 15, [2017] 3 LRC 704 at [28].

is concerned with an award of special damages rather than general damages, Mr Arthur did not take issue with the above principles.

[110] In light of the approach followed in New Zealand on appeals by way of rehearing as explained in *Austin, Nichols & Co Inc v Stichting Lodestar*⁷⁸ an argument might be advanced that the traditional constraints on appeals against damages awards should no longer be maintained in New Zealand. However we did not hear full argument on that issue and it is unnecessary for us to entertain it in the circumstances of this case where we are satisfied that, consequent upon the adoption of Ms Zamoyska's methodology, the High Court's assessment of damages involved a number of errors of law.

[111] As we have explained, the baseline concept negated any proper analysis of a territory-related licence. While that starting point accounted for half her ultimate assessment, Ms Zamoyska, and hence the Judge, did not attribute percentages to the various "uplifts". It will suffice to note Ms Zamoyska's response to a question from the Judge:

- Q. So can I just understand, how relevant is brand protection for an artist in the configuration of the fee? So just bear with me. You've talked about and in response to the last question and also in response to questions from Mr Mullins, you come back and say, "It depends on the song. It depends on the artist," and some artists, I think you say, are precious but I have heard evidence to date which I would call the brand protection, so certain songs and the wishes of the artist are the things that have been taken into account in any request to use the work. So can I understand if there is a price to be put on brand protection or does brand protection simply, as you have, I think you've said, drive the price up?
- A. It would drive the price up. So something that is a sensitive product like a political advert would drive that price sky-high because of all the factors that we've mentioned. There was no controls over the work. There's no master fee. It's political. The fans may have a field day. So that artist, they're either denied the use or that level of fee will somehow go towards, in their minds, allowing them to do that, agreeing to that advert.

[112] In some cases it may be possible to attribute a value to a factor which has been erroneously considered or overlooked and then to make an appropriate adjustment to

⁷⁸ *Austin, Nichols & Co Inc v Stichting Lodestar* [2007] NZSC 103, [2008] 2 NZLR 141 at [16].

a damages award to reflect that. This is not such a case. It is not possible to excise from Ms Zamoyska's assessment, and correspondingly from the Judge's award, amounts which are attributable to factors erroneously taken into account. In those circumstances it is necessary for this Court to undertake its own assessment.

Our assessment

[113] In the Judge's view the high licensing value placed on *Lose Yourself* by Eight Mile for what Ms Zamoyska described as the "jewel in the crown" of Eminem's catalogue of works justified a willing licensor demanding a high fee for its use.⁷⁹ As the brief to Eight Mile's experts recorded, *Lose Yourself* remains Eminem's most well-known song. It was an international hit upon its release in late 2002. It reached the number one spot on over 20 national charts around the world including in New Zealand where it reached platinum status and remained in the top 10 for 13 weeks.

[114] That said, as Mr Arthur submitted, *Lose Yourself* is not in a class of its own. Mr Gough made the point that there will be several number one records in the course of a year and not all will be perceived as high value works. While *Lose Yourself* was a big-selling song it is still a very genre-specific song. Although the rap hip hop genre has been around for in excess of 15 years, he viewed it as still a relatively new genre and, being an edgy genre, one that advertisers are wary of especially for broader market campaigns.

[115] Mr Donlevy described *Lose Yourself* as more of a pop hit than a hip hop rap hit, and as being a song with very broad appeal. He compared it with other works in this way:

42. Of course I know that *Lose Yourself* is a very well-known and popular piece of music. I would value *Lose Yourself* in the same category as the most valuable of the Beatles works, Rolling Stones, Justin Timberlake and Adele. There would be very few works that would be the same [calibre] in the Peermusic catalogue. I consider that *Lose Yourself* would be at least on a par with, if not more valuable than, "Umbrella" by Rhianna or "Single Ladies" by Beyoncé — both in Peermusic's catalogue.

⁷⁹ High Court decision, above n 2, at [389].

[116] In cross-examination Mr Gough's view was sought on that assessment:

Q. Mr Donlevy has given evidence that he would put *Lose Yourself* in the same category as the most valuable of The Beatles' works, the Rolling Stones, Justin Timberlake and Adele. Do you have any reason to disagree with that assessment?

A. No. It would be there or close.

[117] Given our view that the hypothetical licence should have been negotiated in the context of an activity which was to occur primarily in the New Zealand territory, we consider that the level of licence fee for *Lose Yourself* would have been close to the top of the range for New Zealand licences. There was ample evidence as to what that figure might be in the testimony of Ms Hellriegel, Mr Gough and Mr Donlevy. Allowing for the different factors they referred to, their estimations as to an appropriate hypothetical fee were notably similar. Consequently this is not a case where it is necessary to resort to the broad axe contemplated in the final of the *Copinger* list of factors.⁸⁰

[118] Mr Gough contemplated a slightly higher figure than Ms Hellriegel who estimated a likely figure would be somewhere in the range of [E] to [F]. Under cross-examination on the issue of the appeal which *Lose Yourself* as a genre-specific song might have for New Zealand advertisers he commented:

I do consider it a high-value song. I do consider that it would be towards the top of the range but as I said in my evidence, I think the range of advertisers who would be attracted to that song would be comparatively small in the market, in the New Zealand market and if we were the publisher of that song or if we were the music supervisor and a client approached us to license, we'd initially advise them that they would need to have, you know, a decent fee available, otherwise they would be wasting their time so I think the chances of it going ahead with a general advertiser would be pretty remote.

[119] When in re-examination he was invited to define what he meant by a "decent fee" he replied:

We would have probably advised that they would need to have, say, between [G] and [H] depending on what the campaign was, what the term and so on, what the other details were. So we would be warning them that the top of the range might be [H] and it would depend on what the uses were.

⁸⁰ Set out above at [29(x)].

[120] We infer that was a New Zealand dollar figure having regard to the level of the Australian figures in the following statement in his brief:

71. ... the likely synch fee value for the use of Lose Yourself, or a substantial reproduction of that work, in the [National Party] Advertisement would be somewhere between the range of [E] and [D] for a 1 year term, before any discount for the shorter term. Such a discount may reduce the fee range to [J] to [K]. I also consider this to be the range of fees that would likely have been agreed between willing negotiating parties in this case.

[121] We referred earlier⁸¹ to Mr Donlevy's view of songs of comparative calibre and value to *Lose Yourself*. It was his recollection that the fee for such other recording works was [F] for use in both Australia and New Zealand. Mr Donlevy's estimate of the likely licence fee for *Lose Yourself* was [L]. He explained:

52. The key factors upon which my opinion is based are the very significant value of *Lose Yourself* (particularly at a time when Eminem had just performed live in New Zealand to a sell-out crowd), the political nature of the advertising (with which I have assumed that the copyright controller and the artists would have been reluctant to associate themselves) and the use of a sound-a-like or re-recording that was not produced under the control of the head publisher or artists.

[122] We consider that adjustments need to be made to the estimates of both Mr Gough and Mr Donlevy to reflect the fact that their analyses comprised different perspectives from our conclusions on the effect of political use and the absence of a provision for quality control.

[123] Mr Gough considered that the political use of the licensed work would not warrant an increase in the licence fee. For the reasons we have explained that is not our view.⁸² Consequently an upward adjustment would be required to his estimate to reflect the objective concern which a licensor would have about the future licensing implications of use in a divisive context. However it appears to us that the "decent fee" to which Mr Gough referred in re-examination did not reflect any discount for short duration which he recognised in his brief.

⁸¹ At [56] above.

⁸² At [70]–[73] above.

[124] Political usage was a factor in Mr Donlevy's assessment, no doubt influenced by the statement about reluctance in the brief to experts. However it is apparent that he factored in not only objective but also subjective reluctance on the part of the licensor. Furthermore he included in his key factors the point that the advertisement used was a sound-a-like or re-recording that was not produced under the control of the artist. As Mr Donlevy explained recourse to such factors had outweighed the relevance of the smaller New Zealand territory in his assessment.⁸³ Reflecting our conclusions on the relevance of those considerations, deductions must be made from his estimate of the fee.

[125] Once appropriate allowance is made for those adjustments to Mr Gough's and Mr Donlevy's estimates we consider that the evidence on both sides of the case supports a finding of a reasonable licence fee for the use in the advertisement primarily in the New Zealand territory of NZ \$225,000. That assessment also recognises the point made in *Copinger* that the licence terms must reflect the actual infringement.⁸⁴ Hence our conclusion takes account of both the duration of the infringement⁸⁵ and the fact that the licensed work was not the music and lyrics of *Lose Yourself* but part only of the music.⁸⁶

Eight Mile's cross-appeal

[126] Section 121(2) of the Act permits the award of additional damages in certain circumstances:

- (2) In proceedings for infringement of copyright, the court may, having regard to all the circumstances and in particular to—
 - (a) the flagrancy of the infringement; and
 - (b) any benefit accruing to the defendant by reason of the infringement,—

award such additional damages as the justice of the case may require.

⁸³ See [56] above.

⁸⁴ Set out above at [29(iv)].

⁸⁵ Similarly the Judge allowed a discount for the short duration of use: see [21] above.

⁸⁶ The judgment refers to the fact that this case involves only the copyright in the music, not the copyright in the lyrics or the original sound recording of *Lose Yourself*. High Court decision, above n 2, at [5].

[127] After reviewing the authorities on s 121(2) the Judge concluded there was a high threshold for the award of additional damages for copyright infringement. She noted that the National Party had sought a licence for *Eminem Esque* from a professional company specialising in production music for sale. The National Party had obtained advice from experienced professionals within the advertising and music licensing industries in relation to use of the track. In the circumstances she did not accept Eight Mile's submission that the National Party should have sought legal advice to determine whether there was a risk of copyright infringement.⁸⁷

[128] The Judge concluded:

[456] While copyright infringement of *Lose Yourself* did occur, the National Party's actions do not demonstrate:

- (a) flagrant or intentional infringement;
- (b) contumelious or total disregard for the plaintiffs' rights; or
- (c) conduct that is so bad that it should be punished.

[457] The compensatory and restitutionary damages awarded are appropriate in this case.

[458] Although the National Party, in communicating and/or reproducing a copy of *Lose Yourself*, is responsible for the actual copyright infringement, in doing so, the National Party was acting on industry advice and was not acting in flagrant disregard of Eight Mile Style's rights nor, as the authorities describe, acting in an outrageous manner. An award of additional damages against the National Party is not justified in these circumstances.

[129] Eight Mile contends that the Judge erred:

- (a) in finding that no additional damages should be awarded because the National Party's actions were taken after receiving professional, commercial and media advice and were therefore not reckless or contumelious of the rights of the copyright owners; and/or
- (b) by not finding the National Party to have acted recklessly and/or with indifference as to whether or not the use of *Eminem Esque* would

⁸⁷ At [453]–[455].

amount to copyright infringement when they authorised its synchronisation with the relevant election campaign materials and that this justifies an award of additional damages in the circumstances.

Eight Mile seeks an order for additional damages to reflect what it alleges is the National Party's reckless and indifferent conduct.

[130] In addition, in view of the National Party's challenge to the Judge's finding that the political use was a factor to be taken into account in assessing a reasonable licence fee, Eight Mile cross-appeals contingently in the event the appeal on that point is successful. Eight Mile argues that the National Party received a significant benefit from its infringement by being able to use a reproduction of *Lose Yourself* for a political purpose when that would not otherwise have occurred. The submission is made that if the Judge erred by taking political use into account then the National Party should be stripped of this political use benefit by the imposition of an order requiring the payment of additional damages.

Eight Mile's submissions

[131] Acknowledging the discretionary nature of the remedy Eight Mile submitted that additional damages are intended to address the situation where the justice of the case requires some additional award in favour of a plaintiff. While contending that s 121(2) is drafted in very wide terms, Mr Williams acknowledged that in *Skids Programme Management Ltd v McNeill* this Court identified the following principles applicable to additional damages:⁸⁸

- (a) section 121(2) gives the court the power to award additional damages, not linked to compensatory damages, and is to be exercised by applying principles that govern exemplary damages at common law;
- (b) there is no temporal limitation as to what is relevant in making this assessment and all of the parties' conduct at the time of judgment can be considered;

⁸⁸ *Skids Programme Management Ltd v McNeill* [2012] NZCA 314, [2013] 1 NZLR 1 at [106]-[110].

- (c) it must be shown that the claimant was the victim of “punishable behaviour”;
- (d) there should be moderation in additional damages awards, taking into account the nature of the claimant’s business; and
- (e) the means of the parties should be considered.

[132] Mr Williams submitted that “punishable behaviour” in that context includes the situation where a defendant has gained at the expense of a plaintiff some property which it could not obtain at all or not obtain except at a price greater than it wished to pay. It also extended to cases where a defendant had been guilty of recklessness sufficiently serious to amount to an attitude of “couldn’t care less”, citing the observation of Pumfrey J in *Nottinghamshire Healthcare National Health Service Trust v News Group Newspapers Ltd*: “[r]ecklessness can be equated to deliberation for this purpose”.⁸⁹

[133] Mr Williams undertook a careful review of the evidence commencing with the activities of the focus group in March 2014 and progressing to the decision in mid-June 2014 to proceed with *Eminem Esque*. He emphasised the following points:

- (a) representatives of the National Party had previous knowledge of the risks associated with music and copyright infringement from prior incidents;
- (b) the National Party and its representatives were aware that people considered that the track *Eminem Esque* sounded like *Lose Yourself*;
- (c) no effort was made to contact the copyright owners or their agents to either seek a licence or check whether Eight Mile might object to what was proposed despite it being very easy to do so. AMCOS itself could have provided the necessary information;

⁸⁹ *Nottinghamshire Healthcare National Health Service Trust v News Group Newspapers Ltd* [2002] EWHC 409 (Ch), [2002] RPC 49 at [52].

- (d) no legal advice was obtained despite the National Party and its representatives being clearly concerned that the use of the track *Eminem Esque* could expose them to a claim of copyright infringement; and
- (e) the National Party proceeded in the face of being told that, if a copyright claim was to arise as a result of the use of the track *Eminem Esque*, the responsibility would fall 100 per cent on the publisher.

[134] He submitted that the evidence demonstrated that, on being told that they would not be ultimately held responsible for any infringement if there was one, the National Party and its representatives chose to proceed to use *Eminem Esque* without further regard to whether or not it would amount to infringement. In doing so they were reckless and showed indifference as to whether or not an infringement would occur. Consequently an award of additional damages was justified.

[135] The further cross-appeal point only arose for consideration if this Court accepted the National Party's argument that the Judge was wrong to take account of Mr Martin's evidence that he had never licensed *Lose Yourself* for use in a political advertisement and that he would have been very reluctant to do so. If the Judge was reversed on that issue, then Eight Mile advanced the proposition that the National Party had usurped Eight Mile's right to determine whether, when and under what terms *Lose Yourself* or a substantial reproduction of it was to be used in political advertising.

[136] The argument, succinctly made, was that the National Party could be said to have gained a significant benefit by effectively obtaining for use in political advertising a compulsory licence of the copyright in *Lose Yourself* against Eight Mile's will. Consequently it was contended that such a benefit was something which would not have been granted to the National Party who should be required in some way to pay for this benefit or disgorge it. That could be achieved by an award of additional damages.

National Party's submissions

[137] The National Party concurred with Eight Mile's summary of the *Skids Programme* principles save in minor respects, two of which we mention. First the National Party apprehended that Eight Mile was contending that additional damages are more at large than described in *Skids Programme* and that they should not simply be confined to situations analogous to where exemplary damages would be justified. On that point Mr Arthur submitted that *Skids Programme* followed the decision of the Supreme Court in *Tiny Intelligence Ltd v Resport Ltd* where, after looking at the policy history behind the power to award exemplary damages, the Supreme Court found that s 121(2) was directed at damages in the form of exemplary damages.⁹⁰

[138] Secondly Mr Arthur observed that the Supreme Court in *Couch v Attorney-General (No 2)* identified punishment for wrongful conduct as the primary purpose of exemplary damages.⁹¹ Noting the range of qualities that have been regarded as misconduct warranting such an award, Mr Arthur submitted that a unifying theme for those qualities has been said to be conscious wrongdoing. By contrast as Tipping J observed in *Couch*:⁹²

They do not signal inadvertence, even at a very high level.

[139] Mr Arthur similarly reviewed the facts in considerable detail, submitting that it could not be suggested that the National Party had turned a blind eye to the issue of copyright infringement or had seen a risk and embarked on a reckless course of conduct with respect to that risk. Noting the discretionary nature of the remedy, he submitted that there had been no error of principle or other error of the particular nature which would justify this Court disturbing the Judge's finding.

[140] With reference to the contingent cross-appeal it was submitted that merely because the impugned use was political did not mean that the principles relating to additional damages fell away. Political use is not inherently flagrant or outrageous, nor does it inherently significantly benefit the user. The National Party used

⁹⁰ *Tiny Intelligence Ltd v Resport Ltd* [2009] NZSC 35, [2009] 2 NZLR 581.

⁹¹ *Couch v Attorney-General (No 2)* [2010] NZSC 27, [2010] 3 NZLR 149 at [238].

⁹² At [117(e)].

Eminem Esque in political advertisements because they believed they could do so without risk of copyright infringement.

[141] Furthermore additional damages are reserved for exceptional behaviour and are not compensatory. They are not therefore a haven for compensating for matters that are not within the scope of the user principle or where a plaintiff has elected not to seek reputational damages. So far as the latter point is concerned, echoing our observation at [105] above the submission was made that to the extent that the National Party's use of *Eminem Esque* tarnished or tainted *Lose Yourself*, that was a matter that should have been claimed and proven via a separate head of damages.

[142] With reference to the issues of benefit referred to in s 121(2)(b), Mr Arthur emphasised that this was not a situation where a commercial competitor had saved itself time or money by copying a competitor's product. The National Party had not profited from the infringement but would end up paying what a willing licensee would have paid. So far as non-financial benefits were concerned the National Party did not want or seek an association with Eminem. They wanted to use the beat because it worked well as an editing device and portrayed a sense of momentum for the campaign advertisement.

Analysis

[143] Although awarding additional damages involves a discretion, whether a proper factual basis is established to warrant doing so involves factual analysis and is reviewable for error. That said, we agree with both the reasoning and conclusion of the Judge that this was not a case that warranted an award of additional damages.

[144] While Mr Williams did not take issue with the points made by the Judge at [458] of her judgment concerning the steps which the National Party did take, the point of emphasis in his submission concerned the alleged recklessness of the National Party in failing to obtain legal advice and proceeding on the footing that the responsibility for any problem would fall at the feet of some other party.

[145] In *Couch* Tipping J described subjective recklessness as the close moral equivalent of intention.⁹³ He stated:

[179] Applying that principle to the case of negligently caused personal injury (that is, injury caused through breach of a duty of care), exemplary damages may be awarded if, but only if, the defendant deliberately and outrageously ran a consciously appreciated risk of causing personal injury to the plaintiff. Whether running such a risk should be regarded as outrageous will depend on the degree of risk that was appreciated and the seriousness of the personal injury that was foreseen as likely to ensue if the risk materialised.

[146] On the issue of recklessness Eight Mile drew attention to an email from Mr Moore, the sole director of Stan 3, to Ms de Joux, the campaign manager for the National Party, which forwarded an email from a music consultant Mr Moore had approached. Mr Moore drew Ms de Joux's attention to the consultant's advice that if any issues were to arise "responsibility would fall 100% upon the publisher". The full text of the paragraph in the forwarded email stated:

All you can say to the client is that AMCOS license music in good faith based on the agreement that we have with them, which is in turn based on the agreement that we have with the publisher of the track. The agreement we have with the publisher gives us assurance that the music does not infringe on copyright and is free to be used for production purposes. If any issues were to arise regarding copyright then the responsibility would fall 100% upon the publisher so there is no need for worry in this regard.

[147] In her evidence-in-chief Ms de Joux stated that she used *Eminem Esque* because of the assurances that it did not infringe copyright and that without such assurances she would not have used *Eminem Esque*. In re-examination the issue was revisited:

- Q. I wonder if you're able, please, to advise the Court that which of those, if either, which of those two matters, that it doesn't infringe on copyright and that responsibility would fall 100% upon the publisher, which of those two matters was more important to you?
- A. The copyright infringement first and foremost because as I've said in my evidence, we didn't want there to be any issue full stop. The fact that there may be a) an issue, and b) a liability would just add to that so we didn't want a complaint at all.

[148] Mr Hamilton, the general manager of the National Party, gave evidence to similar effect. This evidence, which we infer from the Judge's conclusion she

⁹³ *Couch v Attorney-General (No 2)*, above n 91, at [178].

accepted, provided ample basis for the rejection of the contention that an award of additional damages was justified. Having reviewed the evidence we agree that the proposition that the National Party turned a blind eye to the risk or saw a risk and embarked on a reckless course of conduct with respect to that risk is not sustainable.

[149] Concerning the further ground of cross-appeal, the contingency has not eventuated in the sense that we have held that political use is a factor which warrants an increased licence fee, at least to the extent of a licensor's concern about the nature of the use per se which we have described as objective reluctance. Although the submissions for Eight Mile understandably did not focus on the distinction drawn in this judgment between objective and subjective reluctance, we infer from the reference in Eight Mile's submissions to the paragraphs from Mr Martin's brief quoted above at [67] that Eight Mile would press the argument that additional damages were justified to compensate for political use undertaken without subjective personal endorsement.

[150] While we do not rule out the possibility that additional damages might be awarded in respect of an intentional and particularly cynical use of a work in an inappropriate way, we do not consider that the present is such a case. The contest here concerned the appropriate fee payable for a licence. We note that the cross-examination of Mr Gough included the proposition that: "[D]oesn't money talk?". The proposition put was that if enough money was put on the table would that not change the reluctance of many artists about having their works included in political material.

[151] Secondly the evidence established that the National Party did not seek an association with Eminem or his views. While a degree of association may have been inevitable on account of the National Party's desire to use music with which Eminem was clearly associated, in our view this was not an instance of an intentional attempt to portray an implicit endorsement of an artist. If anything, the contrary would appear to be the case.

[152] For these reasons we conclude that the cross-appeal fails and it is dismissed.

Result

[153] The appeal is allowed. The award of damages of \$600,000 is quashed and an award of \$225,000 is substituted.

[154] The cross-appeal is dismissed.

[155] The first and second respondents are to pay the appellants one set of costs for a complex appeal on a band B basis and usual disbursements. We certify for second counsel.

Confidentiality

[156] The monetary amounts denoted by letters of the alphabet are confidential. They are recorded in a confidential schedule to this judgment. The parties are directed to file a joint memorandum identifying the persons, in addition to counsel, who may be permitted access to that schedule.

Solicitors:
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