IN THE SUPREME COURT OF NEW ZEALAND
I TE KŌTI MANA NUI

SC 15/2019
[2019] NZSC Trans 11

BETWEEN **EIGHT MILE STYLE, LLC**
First Appellant

MARTIN AFFILIATED, LLC
Second Appellant

AND **THE NEW ZEALAND NATIONAL PARTY**
First Respondent

GREG HAMILTON
Second Respondent

Hearing:	2 May 2019
Coram:	William Young J Glazebrook J O'Regan J
Appearances:	G C Williams for the Appellants G F Arthur, G M Richards and P T Kiely for the Respondents

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ORAL LEAVE HEARING

MR WILLIAMS:

May it please the Court, Williams for the applicants.

WILLIAM YOUNG J:
Thank you, Mr Williams.

MR ARTHUR:
May it please Your Honours, Arthur with Mr Richards and Mr Kiely for the first and second respondents.

WILLIAM YOUNG J:
Thank you, Mr Arthur. Mr Williams.

MR WILLIAMS:
The two central issues in the applicants' proposed appeal are whether the Court of Appeal erred in quashing the High Court's award of damages and substituting its own, and this is an alternative, whether the Court of Appeal erred by failing to exercise its discretion to award additional damages under section 121(2) in the circumstances where the licensor or the hypothetical licensor would have been extremely reluctant to grant the licence in the absence of the payment of a significant premium, strict quality control provisions such as the approval of the ultimate advert produced, and a requirement to rerecord the copyright work.

If leave is given, these issues will require this Court to consider three broad issues: firstly, whether the Court of Appeal correctly assessed the quantum of damages it awarded under the user principle.

GLAZEBROOK J:
But that wouldn't normally be something that we would grant leave on in the sense that we would only be looking at things that were matters of principle rather than matters of application of agreed principle. So what you'll need to do is just identify the principle that you say was in error.

MR WILLIAMS:
That's obviously right and for example, in this case, there are aspects of the way in which the user principle was applied by the Court of Appeal which the

appellants, the proposed appellants, the applicants, say were wrong, in particular, for example, the taking into account of non-infringing alternatives or financial restraints.

WILLIAM YOUNG J:

That must be inevitably relevant. The price that would be struck between a willing buyer, willing seller would presumably always be affected by the availability of a substitute product.

MR WILLIAMS:

Well, in both the context of property rights and intellectual property rights, there are cases which have indicated that that is not correct and that, for example, in the *Irvine v Talksport Ltd* [2002] EWHC 367 (Ch) case in the High Court in the UK, it was said that the infringer couldn't simply say "I could have used another photograph which cost £50" because that would have subverted the whole hypothetical negotiation.

WILLIAM YOUNG J:

Is the hypothetical not a negotiation between a willing buyer, willing seller?

MR WILLIAMS:

Yes, it is, but one needs to understand that what "willingness" in that context means, it is not simply – it is nuanced. A willing licensor can't be assumed not to take into account the normal commercial factors that would be in play.

WILLIAM YOUNG J:

Absolutely, I entirely agree with that, but the potential licensee, you say, should not be entitled to take into account that a functionally similar product can be obtained for X-thousand dollars?

MR WILLIAMS:

Well, take an example. Rather than using *Lose Yourself* or a substantial reproduction of it, if you can argue that you can take into account

non-infringing alternatives in determining what the fee should be, it would be possible to say that they could have used my son's piano recital for free.

WILLIAM YOUNG J:

Yes, but it wouldn't have been as good.

MR WILLIAMS:

It wouldn't have been as good, no, so it has to be something –

WILLIAM YOUNG J:

But isn't that the answer –

O'REGAN J:

Don't put your son down.

MR WILLIAMS:

Good point. But it has to be something comparable, and we would say in this case, something comparable is an iconic work.

WILLIAM YOUNG J:

That's a slightly different argument.

GLAZEBROOK J:

And that's factual, it's saying they took the wrong comparator, isn't it, rather than that there was an error of principle?

MR WILLIAMS:

I'm not sure that that's factual.

GLAZEBROOK J:

Why not? If they said "Well, there's an alternative available, it's X, and we'll take that into account"?

MR WILLIAMS:

How does that work in the hypothetical willing licensee, willing licensor negotiation which has to be undertaken under the user principle? What is comparable has to be taken into account, presumably.

WILLIAM YOUNG J:

Well, I agree with that. But in a way, it's a bit like a valuation dispute where all manner of arguments are raised as to what a willing buyer and what a willing seller would take into account but they're very particular to the facts of each case. They hardly raise questions of law of any moment. So you say non-infringing alternatives are entirely irrelevant?

MR WILLIAMS:

That would be our proposition, yes.

WILLIAM YOUNG J:

Okay, so what –

GLAZEBROOK J:

So that would be a point of principle but I thought you had actually agreed with Justice Young that they would be, in some circumstances, relevant?

MR WILLIAMS:

Non-infringing alternatives?

GLAZEBROOK J:

Yes.

WILLIAM YOUNG J:

Say there was another iconic song with a syncopated beat that was entirely suitable for this, as well known as *Lose Yourself*, but available for $100,000. Do you say that's just irrelevant?

MR WILLIAMS:

No, but that's not what they did.

WILLIAM YOUNG J:

No, but that's a non-infringing alternative.

MR WILLIAMS:

Mmm. So where I was leading towards was that there are a number of matters of principle which relate to factors that were taken into account or not taken into account that should leave this Court to consider the user principle in general and to have an opportunity to clarify for the profession and the commercial world in New Zealand what principles and factors are appropriate to take account of when undertaking that hypothetical willing licensee, willing licensor arrangement.

GLAZEBROOK J:

So the only one you've given us so far is the non-infringing alternative, and as I understand, the argument is you can take account of non-infringing alternatives and valuation but they shouldn't have done here because it's an iconic work, is that the submission?

MR WILLIAMS:

Well, they took into account a non-infringing alternative in quite a nuanced way in the sense that it was related to another factor which we say they shouldn't take into account which was the budgetary constraints on the National Party.

WILLIAM YOUNG J:

Did they really take into account the budgetary restraints? They refer to it.

MR WILLIAMS:

Well, they indicate in the judgment that Justice Cull didn't discount the number by reference to a non-infringing alternative which would have been influenced by their budgetary constraints. So it was quite a nuanced dealing with that particular, those two issues, but we say when the Court of Appeal came to determine the number itself, it must have had those two factors in the mix, and

it shouldn't have, because it has just held that the Court below was in error for not taking them into consideration.

GLAZEBROOK J:

Do you want to point us to the exact place in the judgment you say that's said?

MR WILLIAMS:

Yes. That is in paragraph 95 of the judgment, second sentence, "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, we accept the submission that both parties would have recognised as a relevant factor the other musical options which the National Party might explore," and we say that shouldn't have been taken into account as a matter of principle and that it was ultimately taken into account –

WILLIAM YOUNG J:

Sorry, but this is just the other side of the coin to your irrelevance of non-infringing alternatives, isn't it, because all they said is the parties would have recognised as a relevant factor the other musical options which the National Party might explore.

MR WILLIAMS:

Yes, that's what they're saying, but when they themselves undertook the analysis of the quantum of damages under the user principle, they took into account that evidence, the evidence suggested by the parties including –

WILLIAM YOUNG J:

So where did they do that?

MR WILLIAMS:

That is in paragraph, it's under the section headed "Our assessment".

WILLIAM YOUNG J:

So what paragraph?

MR WILLIAMS:

I'm just finding it. So 125 in our submission. "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 – "

GLAZEBROOK J:

They're referring to particular adjustments though, aren't they?

MR WILLIAMS:

They are, but having just said that Justice Cull would be in error if she did not discount the analysis by reference to budgetary constraints and the availability of alternative non-infringing alternatives –

GLAZEBROOK J:

Well the first part of 95 says that it wasn't a relevant factor and shouldn't have been taken into account.

MR WILLIAMS:

Yes, but the second part indicates –

GLAZEBROOK J:

Well I understand that but it actually doesn't make any sense to me because – well the paragraph doesn't make any sense to me, but what I need to know is where you say they took it into account, because the assessment in the 125 refers presumably to the factors outlined from 113.

MR WILLIAMS:

Well it also refers to the evidence adduced by the parties, which would include the fact that –

WILLIAM YOUNG J:

Any bit of evidence of the parties which refers to a factor you say is irrelevant gets brought into a sort of a reviewable error because of that general reference. I mean that's not a Supreme Court appeal point. I was looking at the entrails, looking at the, at trying to work out the meaning "passing the judgment" but it's not, it doesn't really stick out as a point of principle.

MR WILLIAMS:

Phrased in that way I would agree with that.

WILLIAM YOUNG J:

What's the next point of principle?

MR WILLIAMS:

The next point of principle was dealing with the issue of the way in which a court should approach the review of a damages award on appeal. That's interrelated, obviously, with the first point. The issue –

WILLIAM YOUNG J:

They've said on any basis, whether *Austin, Nichols & Co Inc v Stichting Lodestar* [2007] NZSC 103, [2008] 2 NZLR 141 applies or not, this is reviewable, because the Judge in the High Court took the wrong approach.

MR WILLIAMS:

That's correct, so they felt comfortable following the old traditional restraints because there were either errors of principle or –

WILLIAM YOUNG J:

Tangible errors you can put your finger on, that's all that's really required.

MR WILLIAMS:

Yes.

WILLIAM YOUNG J:

But I mean, if they're wrong as to the errors then this point doesn't really arise and if they're right as to the errors, it falls away, doesn't it?

MR WILLIAMS:

No, it still – ultimately, if they're wrong as to the errors, this Court would still need or have the opportunity to clarify the issue which has arisen as a result of the Court below, the Court of Appeal indicating that there might be an argument that *Stichting Lodestar* allows an appellate court not to take the traditional orthodox approach as it might be understood, which is a restrained approach, but to simply substitute its own assessment of damages on the basis, I assume, that quantum of damages is a question of fact.

WILLIAM YOUNG J:

I think *Stichting Lodestar* would still require an appellant to establish an error that something's gone wrong.

MR WILLIAMS:

If we were given leave on this point, we would be arguing that *Stichting Lodestar* does not alter the traditional approach.

WILLIAM YOUNG J:

Okay, so there's a *Stichting Lodestar* point. Then is the other point the additional damages?

MR WILLIAMS:

And the additional damages point, there is here quite clearly an issue of principle in play.

WILLIAM YOUNG J:

It's one you didn't seem to argue in the Court of Appeal.

MR WILLIAMS:

No, that's not strictly – that's not fair. I know it has been characterised as damaging reputation, if that's the point you were alluding to.

WILLIAM YOUNG J:

What I'm alluding to is that as I understood what the Court of Appeal judgment said, your argument was "Well yes, there was flagrancy and yes, there were benefits which should be recovered by an award over the top of a compensatory award of damages".

MR WILLIAMS:

That was certainly argued in the High Court.

WILLIAM YOUNG J:

But I think it's argued in the Court of Appeal, isn't it?

MR WILLIAMS:

Yes, but it was also argued that even in the absence of flagrancy, given what is said about additional damages and what we would argue the position –

WILLIAM YOUNG J:

Well, there's no doubt that a benefit can be subject to a restitutionary award.

MR WILLIAMS:

That's true.

WILLIAM YOUNG J:

But beyond flagrancy and a restitution, is there really much argument that additional damages can be available?

MR WILLIAMS:

Yes. There has been argument about that previously.

WILLIAM YOUNG J:

Well first, did you argue that in the Court of Appeal, yes or no?

MR WILLIAMS:

We argued that we should be entitled to damages in the absence of flagrancy, so yes.

WILLIAM YOUNG J:

What about in the absence of flagrancy or restitution of a benefit?

MR WILLIAMS:

Well, we phrased it as a benefit in the sense of that they did not have to pay the premium that they otherwise would have had to.

WILLIAM YOUNG J:

But that's just saying, repeating your compensation argument.

O'REGAN J:

Yes, that's just more compensation, isn't it, not…

MR WILLIAMS:

Yes, but that's the point of principle, which is that we would argue in this Court, if we were to obtain leave, that additional damages is not shoehorned into simply exemplary-type damages for flagrancy or for restitutionary damages.

WILLIAM YOUNG J:

Okay, so can you point to the Court of Appeal judgment where this argument you advanced is recorded?

MR WILLIAMS:

I'm not sure it is.

WILLIAM YOUNG J:

I'm not sure it is either, actually.

MR WILLIAMS:

Where you get to is – paragraph 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".

WILLIAM YOUNG J:

But isn't that just your first argument with its fingers crossed?

MR WILLIAMS:

No –

WILLIAM YOUNG J:

That basically, they should be made to pay a lot for using music where they didn't have permission to use it and where probably, the owner of the copyright wouldn't have licenced it?

MR WILLIAMS:

Well, yes –

GLAZEBROOK J:

Well, not at a user-pays cost.

MR WILLIAMS:

So to answer that question, yes, that is right, but I would say further that the cases indicate that for an award of additional damages to be made, it is not necessary for there to be flagrancy.

WILLIAM YOUNG J:

No, I agree with that.

MR WILLIAMS:

It's not necessary for there to be benefit.

WILLIAM YOUNG J:

Well, I'm not so sure about that. Would you point –

MR WILLIAMS:

There are cases which indicate neither need to be present.

WILLIAM YOUNG J:

First of all, did you argue this in the Court of Appeal?

MR WILLIAMS:

Well, I argued what is recorded in 136.

WILLIAM YOUNG J:

So you argued flagrancy and restitution?

MR WILLIAMS:

No, I argued that they should be made to pay for the use of –

WILLIAM YOUNG J:

But this is restitution, isn't it?

MR WILLIAMS:

Well, only in the sense that we had a monopoly right. Essentially, by engaging in the infringement, they took from us the ability to control the use of that. We would say we should either receive compensatory damages for that loss or – because we would have required a premium for the use to which it was put. In these circumstances, they have essentially got the work for cheap by way of what is –

WILLIAM YOUNG J:

Well, they've got to work out its market value, wouldn't they?

MR WILLIAMS:

But we had a monopoly right. We could prevent it from being used in the way in which it was and we should be compensated for that.

O'REGAN J:

But everyone in this situation has a monopoly right, don't they?

MR WILLIAMS:

Well, yes, but not everyone is in a situation where they would be very reluctant to have their work used in a particular way as this right-holder was.

WILLIAM YOUNG J:

Okay. Well, I understand the argument.

MR WILLIAMS:

There is in fact a case which, it's called *Peninsular Business Services Ltd v Citation Plc* [2004] FSR 17 (Ch) and I'll just find the reference for you, and in *Peninsular,* the UK High Court awarded additional damages in respect of an infringement which involved an unwilling seller or an unwilling licensor.

WILLIAM YOUNG J:

So have you cited *Peninsular*?

MR WILLIAMS:

It's not in my submissions. I will give you the citation in one moment when I find it in my notes.

WILLIAM YOUNG J:

I'll just bring it up.

MR WILLIAMS:

In that case, the judge awarded a premium to the right holder because it would have been unwilling to allow the work to be used in the way in which it was and it did –

WILLIAM YOUNG J:

But you got that, haven't you, for – you got an allowance for the political context?

MR WILLIAMS:

Well, this is the issue, in part.

WILLIAM YOUNG J:

"Peninsular" with an A or an R?

MR WILLIAMS:

P-E-N-I-N-S-U-L-A-R.

WILLIAM YOUNG J:

And the other party is Citation?

MR WILLIAMS:

Yes, Plc. It's number 1. In that case, a premium was awarded under section 97(2) of the UK Copyright Act, which is the additional damages provision, and that was awarded. It was held to be appropriate to add a premium or mark-up as a result of the unwillingness, and that is what we wish to argue.

WILLIAM YOUNG J:

Sorry, am I not right, that that was allowed for by the Court of Appeal?

MR WILLIAMS:

Well in part in the sense that there was objective reluctance was allowed for, and what the Court of Appeal termed as subjective reluctance was not.

GLAZEBROOK J:

So the subjective reliance would presumably only be related to additional damages because it's difficult to see how it could come into a user analysis or do you say it should have?

MR WILLIAMS:

Well I say it had to have gone somewhere. It could have gone in the assessment of compensatory damages because the evidence was from almost all the experts that use in a political context increased the amount that needed to be paid for a musical work.

GLAZEBROOK J:

But paragraph 73 accepts that, doesn't it?

MR WILLIAMS:

It does in part because it's talking about objective reluctance. So it's talking about –

GLAZEBROOK J:

Well it's very difficult to say – well, do you say just because I would hate to have it used for a political purpose, and particularly hate the particular purpose, whereas everybody else would be absolutely fine about both of them, that somehow the subjective is taken into account and user pays?

MR WILLIAMS:

Well I say, of the applicant's submission would be that taking of my right to stop it being used in relation to something that I do not support, or do not believe in, needs to be compensated by way of an award of additional damages. For example –

GLAZEBROOK J:

Sorry, that's what I asked you just before. They've taken into account what they call objective, that would be the normal reluctance that one might have to be associated with any political cause, and you say, what I was asking you was whether the subjective comes under somehow an error in 73, or whether it was rated to additional. So do you say it's additional damages? I just can't see how it can come –

MR WILLIAMS:

In this Court I am arguing that it is related to additional damages, and take an extreme example. Say the music had been taken and used in relation to supporting a white supremacist party, or an equivalent, are we saying that that should not in some way be compensated in a serious way by way of additional damages.

GLAZEBROOK J:

Well that might come into an objective assessment of right thinking people would never want it to be associated with that because it would be so polarising as to create a difficulty which would come within 73.

MR WILLIAMS:

There are a lot of things that are polarising. Mining –

GLAZEBROOK J:

But that comes within 73 in an objective sense, doesn't it?

MR WILLIAMS:

Well not necessarily.

O'REGAN J:

What is the point you want to argue. You're saying additional damages are effectively compensatory damages.

MR WILLIAMS:

No, I –

O'REGAN J:

But where the compensation is something that's not within the rubric of willing buyer, willing seller. It's something, how your product gets damaged by association, is that what you're saying?

MR WILLIAMS:

I'm saying this, that currently in New Zealand there are two Court of Appeal decisions which say effectively that additional damages are at large and include, and can include exemplary damages and aggravated damages, that's the –

O'REGAN J:

Do you accept there's no cause for exemplary or aggravated damages here? The National Party didn't do anything that they should be punished for, do you accept that?

MR WILLIAMS:

Well we haven't appealed that so we have to accept that.

O'REGAN J:

Okay.

MR WILLIAMS:

The *Jeans West* Court of Appeal decision which deals with additional damages expresses it essentially as that additional damages can be awarded in order to do justice, and this is the point I was making earlier, that benefit and flagrancy are not requirements. It's broader than that and it was intended to be broader than that when it was originally enacted and recommended by the Gregory Report in 1953. It wasn't simply intended to be limited to exemplary damages and aggravated damages. It's the broadest possible discretion to be able to give an award of damages when the justice of the situation requires it. That is consistent with what is now the position in the UK.

O'REGAN J:

But that assumes that compensatory damages don't do justice. Why in this situation is that the case? I mean, you can understand that if it's something where it's a fleeting moment and you can never recapture it again but in this case, they just used it for 11 days and then they stopped. I think you've got

damages, like it or not, and you've got damages which the Court believes is fair compensation for their use so why is that not just?

MR WILLIAMS:

Well, in part because our monopoly right to withhold –

O'REGAN J:

Everyone has a monopoly right. That's the reason you can license it.

MR WILLIAMS:

I understand that but in this situation, we would not have licensed it had they come to us except at a very large premium and with very strong creative controls.

O'REGAN J:

Yes, but that's something you needed to argue for in your compensation claim and you didn't succeed on it but you can't then make the same argument as an additional damages claim, can you? You can't say "I wanted more compensation, I didn't get it, so give me additional damages", because that's assuming that the compensation claim hasn't done justice.

MR WILLIAMS:

Well, the words that it "hasn't done justice" or the equivalent words used to be in the section when it was first enacted, in section 17(3) of the '64 Act. Sorry, that's wrong, section 24 of the '64 Act or '62 Act but they were ultimately taken out, those words, of the section, both in the UK and in New Zealand and the Whitford Report in the UK recommended the taking of them out to broaden the ability of the courts to award additional damages. So it's no longer a requirement that –

WILLIAM YOUNG J:

But our statute is what it is. It refers to flagrancy and it refers to restitution of benefits. I agree it doesn't say it is entirely confined to those circumstances but it's a pretty clear steer that that's what the section is aimed at.

MR WILLIAMS:

Well, the most recent case out of the UK which came out in December 2018, which is a case, *Phonographic Performance Ltd v Ellis (t/a Bla Bla Bar)* [2018] EWCA Civ 2812, that case has effectively cleared up what had been an issue in the UK as to the ambit and what the nature of additional damages was, and you won't have that – can I –

WILLIAM YOUNG J:

Is this a *Wrotham Park* damages case?

MR WILLIAMS:

No, that's the *Wanstead* case. This is *Phonographic Performance Ltd v Ellis*. I have it to hand up if it's helpful.

O'REGAN J:

Have you given it to your…

MR WILLIAMS:

Yes. There had been a longstanding dispute or it was unclear in the UK for quite a long time whether their section 92 was limited to aggravated damages or whether it could in fact include exemplary damages or whether or not other things could be included within it. This case, which is a decision of the Court of Appeal, says this at paragraph 36 about halfway down: "In other words, using modern taxonomy, an award of damages under section 97(2) may be, either in whole or in part, what are now called exemplary damages; or, either in whole or in part, what are now called restitutionary or disgorgement damages. Both factors are singled out for special mention although under the general law of damages they are based on different principles. Accordingly, in my judgment, damages awarded under section 97(2) do not need to be shoehorned into existing general legal taxonomy. They are simply, as Laddie and Neuberger LJJ held, and I can give you the references that they are referring to there, "a form of damages authorised by statute. Their legal character is sui generis."

And what that amounts to is a recognition that additional damages aren't just related to flagrancy, aren't just related to restitutionary benefit damages, but ultimately, damages available where the Court feels that there should be an award.

WILLIAM YOUNG J:

I've looked at *Peninsular v Citation*. There was a finding of flagrancy there. I agree that the award of additional damages was calculated on the basis that the defendant had taken something which the claimant wouldn't have provided but it's premised on flagrancy.

MR WILLIAMS:

There was flagrancy but we are saying, and would say, that is sufficient simply to be unwilling to justify –

WILLIAM YOUNG J:

The whole discussion in that judgment then about flagrancy was unnecessary on your argument?

MR WILLIAMS:

Yes.

GLAZEBROOK J:

Unless, I suppose, there was flagrancy –

WILLIAM YOUNG J:

Well, there was flagrancy.

MR WILLIAMS:

There was flagrancy.

GLAZEBROOK J:

– in which case you may have even more additional damages if that –

WILLIAM YOUNG J:

It says flagrancy, "There's a finding of flagrancy, additional damages are on, and calculating them, I take the view that the defendant here obtained something which the claimant wouldn't have provided".

MR WILLIAMS:

Correct.

WILLIAM YOUNG J:

Although I don't think it's authority for the proposition that getting something which the claimant wouldn't have provided is itself a basis for additional damages.

MR WILLIAMS:

Well, it's certainly helpful in that regard.

WILLIAM YOUNG J:

We're starting to run out of time, I think. Is there anything else you want to say in relation to the points you've raised?

MR WILLIAMS:

I think I've covered it largely except to say that I haven't really spoken about the fact that the *Skids Programme Management Ltd v McNeill* [2012] NZCA 314, [2013] 1 NZLR 1 case and the Court of Appeal here have treated additional damages essentially as being directed solely towards exemplary damages and requiring punishable behaviour. We would say, and we would say it if we got leave, that that's not correct. We'd also say that that's probably not a proper reading of *Skids* in that *Skids*, which was a decision of Justice Asher, he went on and said, I think at paragraph 108 of that judgment, "However, in the process of assessing whether additional damages are warranted under s 121(2), we consider that the broad wording indicates that the flagrancy of the actual act of infringement itself is only one of the relevant factors, and all the conduct of the parties up to the time of judgment can be considered."

So we would say although my friends relied on *Skids* to put the proposition that additional damages are only ever available where there is punishable behaviour, that is not the case and is not what *Skids* stood for.

O'REGAN J:
Yes, but if you're looking at the conduct of the parties, that's something different from what you're saying which is getting something that you wouldn't have otherwise got.

MR WILLIAMS:
Yes, but "conduct" is not the words used in the section itself and –

O'REGAN J:
But you're saying that that's what you're relying on from *Skids*. In this case, the conduct of the National Party doesn't call for any kind of adverse comment, does it?

MR WILLIAMS:
No, what we would be relying on is not the nature of the conduct as such but rather, that flagrancy is only one of the factors to be taken into account and that all the other circumstances of the case are available when the Court exercises its discretion in relation to this issue.

WILLIAM YOUNG J:
Thank you. Mr Arthur.

MR ARTHUR:
From my friend's submissions and the ensuing discussion, I'd just like to address Your Honours with regard to additional damages as a starting proposition, then there was just a couple of other factors and my friend suggested there might be differences in principle in the user damages which I'd like to look at.

The Court of Appeal in this case didn't say that additional damages were limited to the situation of exemplary damages. What they did say, and what the High Court said, was that in assessing whether or not to award additional damages you look at the conduct of the defendant, and there's not a single authority my friend has cited which suggests that you decide whether or not to award additional damages, ignoring the conduct of the defendant, where the defendant has acted perfectly appropriately, and that includes, as Your Honour Justice Young pointed out, the *Peninsular Business* decision where the Court very clearly at paragraph 44 decided to award additional damages because of the conduct of the defendant. It then did go on to look at the fact that the licensor was not willing, was an unwilling settlor or unwilling licensor, but the unwillingness of the licensor was not a factor in deciding whether or not to award additional damages.

And the reason that you look at the conduct of the defendant is really threefold. It's the statute itself, which looks at, particularly requires looking at flagrancy and the benefit to the defendant, and again the section my friend read to you from the *Phonographic Performance Limited* case, the one he held up, which is a peculiarly English judgment in the sense that it's looking at the exemplary damages principles in *Rookes v Barnard*, and specifically it says that doesn't apply in Australia and nor does it apply in New Zealand, so it's entirely coloured by that unique English situation with the narrow interpretation they gave to what was available to exemplary damages, so most of it wouldn't be relevant for New Zealand anyway. But insofar as the Court said it's the sui generis type of damages, the fact is they singled out, they said both factors are singled out for special mention, that's restitution and flagrancy, and those are the two sections that are in the, or the two requirements in the Act. So there's nothing in the *Phonographic Performance* case that suggests anything other than looking at the conduct of the defendant.

And the second aspect, and my friend said that the history of this was that the history of additional damages weren't limited to exemplary damages, but the Gregory Committee, which is cited in my friend's submission, specifically said

that we should have additional damages which are similar to exemplary damages or of the nature of exemplary damages. And the simple reason for that was, as this Court said in the *Tiny Intelligence Ltd v Resport Ltd* [2009] NZSC 35, [2009] 2 NZLR 581 case, at the time you couldn't get exemplary damages for infringement of statutory torts, at least that was the perception of the committee and of the legislature in the UK. So additional damages were created to fill the gap that there were no exemplary damages, not as some, what would now seem to be some catch-all that if the Court thinks that perhaps compensatory damages, which by definition are putting the plaintiff back in the position it ought to have been, if somehow they're not fair, there's a rather imprecise measurement for just adding a bit more money because the plaintiff doesn't feel it got enough. And that assessment of additional damages being close to exemplary damages is also accounted for in the Whitford Committee Report which actually talks about them as exemplary damages even though in fact the statute was additional damages. So the whole history of this is about damages like exemplary damages or restitutionary damages and looking at the conduct of the defendant.

And, thirdly, and consistent with all that, as I've said before, every authority looks at the conduct of the defendant, there's not a single authority of which I'm aware which would award additional damages where the conduct of the defendant was not in some way at fault.

So my friend's proposition then seems to be that despite all of that you would put into the mix the subject of reluctance and an inability to control quality, an inability to re-record, things which have been entirely rejected by the Court of Appeal in assessing compensatory damages, and you'd roll them all back into the picture to award them as additional damages, and my simple submission is that that would be entirely contrary to the basic principles for additional damages.

Now it may be that one day this Court will be asked to work out where the boundaries of additional damages should lie, whether it had to be like exemplary damages or maybe it's something slightly less. But the simple

point is that this is not the case to decide that because, wherever that boundary may be, this case doesn't fall within the boundaries, I would say it couldn't be in the interests of justice to use this case to set those boundaries.

Now unless Your Honours have any questions with regard to additional damages that's really all I wanted to say on that point.

The other matter my friend suggested was a point of principle was this issue of alternatives, whether you could take account of alternatives, non-infringing alternatives in assessing what the appropriate royalty would be and Your Honour Justice Young I think expressed some surprise that you have this utterly artificial, albeit might be hypothetical, negotiation where you would ignore the one thing that's most significant in most other negotiations.

My friend in his written submissions relied on two authorities to support that proposition. There was the *Irvine* decision and the *Enfield* decision. Now the *Irvine* decision is a brief judgment from the English High Court where, I don't need to take you to this passage, but the passage is actually ambiguous, in my submission, as to what Justice Laddie meant. I would say what he was saying is you cannot postulate that there will be no infringement and therefore no royalty, because that's not consistent with the prospect of a willing licensor, willing licensee actually doing a deal. He doesn't say, in working out where that royalty would land you should ignore alternatives.

The second authority my friend relied on is the *Enfield* decision, which is a decision in the English Court of Appeal. That decision actually says you do take account of alternatives. It is actually a decision consistent with all the other authorities saying you do take account of alternatives. Now in my written submissions I refer to four judgments, subsequent to *Enfield*. *32Red Plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) judgment, where Justice Newey, and this is at paragraphs 34 to 42 of that judgment I've included in the bundle. I don't think I need to take you to it but he reviews the matter quite thoroughly including looks at *Enfield*. He interprets *Enfield* as

saying you do look at alternatives, and decides that you should look at alternatives.

There's the *Force India* decision of the English High Court, which again says you should look at alternatives, and then there's the *Force India* decision of the English Court of Appeal, that's in my bundle at tab 3, and I wonder if I could just ask Your Honours to look at that one because it rather succinctly deals with the matter. It's paragraphs 106 and 107. The relevant section starts at 105. This is a misuse of confidential information case but assessing damages on the user principle and at 105 it says, "Force India argue that the Judge's selection of this measure of compensation is flawed because it has eliminated the misuse itself," that's a reference back to looking at alternatives. "In relation to the first point Force India rely on the decision of this court in *London Borough of Enfield v Outdoor Plus Ltd*," that's the *Enfield* decision. That was a case of trespass and then the Court quotes from Justice Henderson from *Enfield*. The Judge said, "I fully accept that any ability on the part of a trespasser to achieve the object of the trespass by alternative means is a factor which must be taken into account in the hypothetical negotiation. The alternative must, however, be one which is consistent with the trespass and which can co-exist with it. An alternative cannot be taken into account if it would eliminate the trespass itself."

Now my friend in his written submissions quoted that second sentence but doesn't quote the first sentence and Justice Newey in the *32Red* decision said, well look, Justice Henderson clearly was saying to take account of alternatives, but you just can't postulate a non-infringement. I wouldn't have done it.

WILLIAM YOUNG J:

You just can't say I wouldn't have done it. If I knew it was going to cost that much I wouldn't do it.

MR ARTHUR:

That's correct Your Honour. And the Court summed it up in 107, this is consistent with what Your Honour Justice Young said. "In this passage Henderson J clearly accepts that the availability of alternatives is a legitimate consideration in assessing compensation. It could hardly be otherwise." That's the Court of Appeal's most current observation about alternatives. So the authorities my friend's rely upon, there's no, in my submission, there is no conflict of authorities, the authorities are actually all one way, with the possible exception of *Irvine*, but even then I think *Irvine* is not clear as to what it meant, so I would say there's no point –

GLAZEBROOK J:

Well what you say is he was just saying you can't say there were all of these alternatives, some of them free and therefore I don't have to pay a licence fee, because in fact when you were negotiating it wouldn't matter about that, you might take that into account and then put a low fee on it, but you wouldn't have a zero fee.

MR ARTHUR:

That's correct.

GLAZEBROOK J:

So it's really just saying exactly the same thing as this is saying, is what your submission is.

MR ARTHUR:

That's correct Your Honour.

GLAZEBROOK J:

You can't say "Well, I would have got it for free, therefore, I don't have to pay anything", because you have used it, but the price might be affected by the fact that you could have got it for free or – sorry, you couldn't have got that for free but perhaps a reasonable alternative.

MR ARTHUR:

That's correct, Your Honour, and at the point of consideration for this Court, there is no point of principle and disputed alternatives are taken into account. The other factor that my friend touched on was subjective reluctance but I think he accepted that the Court of Appeal was right to not take into account subjective reluctance in assessing the compensatory damages, so I don't think there's any –

GLAZEBROOK J:

Well, sometimes he did and sometimes he didn't. I wasn't entirely sure where we got to on that but I think he came down to it's only on additional damages.

MR ARTHUR:

That's certainly how I interpreted it, thank you, Your Honour. The other matter, budgetary constraints was the point that was touched on. Every court has said that you do not take account of the ability of the defendant of how much it could pay. It's not a relevant consideration in terms of –

GLAZEBROOK J:

Can you help me with what they did mean by that paragraph?

MR ARTHUR:

Yes, I think what they meant was this, that they had decided that you could look at alternatives, and that's consistent with the authorities. Whether alternatives, of course, are relevant depends on a particular factual situation. In some situations, there may not be an alternative so of course then alternatives wouldn't be relevant. In other situations, someone might be so desperate to get the work they use that even though there were alternatives, they would have paid a huge premium.

All they were saying was that in looking at alternatives, the National Party had a budgetary constraint, a unique factual situation actually constrained by statute. So whether alternatives would have been attractive to it or not and

therefore, whether it would have brought those to the table in its negotiating, were affected by its budget because it had to keep under budget.

So the Court of Appeal's budgetary constraint observation is simply saying "Well, because of our budgetary constraint, actually, alternatives are important for the National Party and that would have come into a – been put on the table. But in no way – and the Court of Appeal said this three times in its judgment, in no way was it saying that the actual amount of royalty would be affected by whether or not the National Party could pay or even by whether or not it would somehow have exceeded its statutory limit if that's where the numbers landed. So it came under the alternative heading. But in my submission –

GLAZEBROOK J:
It's just a very odd paragraph but…

MR ARTHUR:
It's perhaps not as clear and I possibly have the advantage of the discussion in the Court of Appeal to understand where I think that was looking to land.

GLAZEBROOK J:
Right, thank you.

MR ARTHUR:
But certainly, no one suggests that there's any issue of principle about budgetary constraint or whether it should or shouldn't be taken into account. We all accept that the amount the defendant could pay per se in itself is not a consideration. It doesn't cap the damages.

My friend also touched on the principles for damages appeals. It seems to me this is a case, as Your Honours said, that either there is an error of principle, in which case the Court of Appeal was right, or if there wasn't an error of principle then they were wrong but for different reasons. So this is not a case, even if it came to this Court, where I would be envisaging arguing what the

principles are for a damages appeal because I would say "I fall within wherever those principles are". So my friend might hope we would come here and have that argument but I wouldn't see any reason to do so unless obviously directed by Your Honours to do so.

And it's not a case where what those principles are would decide the outcome so it's not an appropriate case, in my submission, it's not in the interests of justice to bring this matter to this Court to resolve a point that's not actually really in dispute or it's not relevant to the dispute between the parties. So…

WILLIAM YOUNG J:
That's it, is it?

MR ARTHUR:
That's it, Your Honour.

WILLIAM YOUNG J:
Thank you, Mr Arthur.

MR ARTHUR:
Thank you.

WILLIAM YOUNG J:
Mr Williams, in reply?

MR WILLIAMS:
Only one point. My friend mentioned the Gregory Committee's Report and its reference to exemplary damages. The relevant paragraph is set out at page 9 of my leave submissions and I just want to talk about the sentence before the sentence my friend referred to. There, it's set out in bold, it's set out an example of why it was thought additional damages would be a good idea and why it was recommending their enactment and the example that it gives is almost identical to what happened in the facts of this case. It says "For instance, if a public performance were given of a televised sporting event

for which no licence had been granted, the injunction would be ineffective unless the intention to give their performance had been ascertained beforehand," in the same way that that was irrelevant to this case. And it's the next phrase that I think is important, "And it is hard to see what damages could be awarded other than perhaps the cost of the licence." So we've got the cost of the licence awarded but we've lost what the Gregory Committee is talking about and why it was recommending additional damages, and we've lost the control of our work, and that's what that is referring to, and it doesn't matter that there hasn't been an approach beforehand. Even in the absence of an approach where an infringer has used the work, that control has been lost, and that was the primary reason that it was suggested that additional damages be enacted in the first place.

O'REGAN J:

But that's in a case where it's hard to see what damages could be awarded, but here it's not hard to see what damages can be awarded.

MR WILLIAMS:

No, no, that's not what it says. It says it's hard to see what damages could be awarded but the licence fee. It's saying that we can see we can grant you the licence fee but we can't see what else we can give you, because you deserve something else and you haven't got it, and that's why we have additional damages.

WILLIAM YOUNG J:

But this is recommending a different statutory form of words from what appears in section 12.

MR WILLIAMS:

Slightly, in the sense that the words about other relief not doing justice have now been removed, but of course –

GLAZEBROOK J:

But doesn't this assume that the people that asked for a licence have been told they weren't going to get a licence and then thought, "Oh, we don't care, we're just going to broadcast it anyway"?

MR WILLIAMS:

Well, it makes no difference whether –

GLAZEBROOK J:

Well, it says, "If the licence had been refused for good reason," so I'm assuming that means the people had asked, been refused, and thought, "Ha ha ha, we'll do it anyway," which is a classic case of exemplary damages I would have thought.

MR WILLIAMS:

Well, that's flagrancy, but –

GLAZEBROOK J:

Well, isn't that what it – because the next sentence says where they, "Equivalent to exemplary damages."

MR WILLIAMS:

But how does it make any difference whether or not they've infringed by coming to you first? You still have lost that control.

WILLIAM YOUNG J:

Well, flagrancy –

GLAZEBROOK J:

But flagrancy…

O'REGAN J:

But it also says, in the last sentence, that the existing remedies don't give adequate relief, and the whole purpose of compensatory damages is to give adequate relief.

MR WILLIAMS:

Well, that requirement is now no longer part of the additional damages section, that's been expressly removed from both jurisdictions.

O'REGAN J:

But additional to what? I mean, you've got your remedy and you're saying you need something additional. All you're really saying is, "I've got a bad remedy, I didn't get enough compensation."

MR WILLIAMS:

Well, what we're really saying is that certain things that in an actual negotiation we would have been able to charge for –

O'REGAN J:

But that's just an argument about what the willing licensor and willing licensee would have come up with, and if you didn't win that argument on the compensation point you're not going to win it on the other one, on the additional.

MR WILLIAMS:

Well, why not? Because ultimately the –

O'REGAN J:

Well, just point us to a case where that happened.

MR WILLIAMS:

Well…

WILLIAM YOUNG J:

Where there isn't a finding of flagrancy.

MR WILLIAMS:

Well, I was about to say *Peninsular*. But there isn't a case that I have been able to find where unwillingness by itself has led to an award of additional

damages. But there are cases which say that neither flagrancy nor benefit necessarily need be present.

WILLIAM YOUNG J:

So what's your best case for that?

MR WILLIAMS:

It is *Cala Homes* I believe.

WILLIAM YOUNG J:

Have we got that?

MR WILLIAMS:

You've got that, yes.

GLAZEBROOK J:

And is there a page number?

MR WILLIAMS:

Yes, it's *Cala Homes* and there are two *Cala Homes* cases so it's the 1995 Fleet Street Reports 818 at 838, a decision of Justice Laddie.

GLAZEBROOK J:

There's a particular part on 838 you wanted to refer us to? All the circumstances of the case, is it?

MR WILLIAMS:

I'll just have to pull this up.

GLAZEBROOK J:

"There is no requirement but either of these…

MR WILLIAMS:

Yes. "There is no requirement that both or, indeed, either of these features be present."

GLAZEBROOK J:

But it's difficult to imagine cases where there's been no flagrancy and the Court would be prepared to exercise its discretion.

MR WILLIAMS:

Well, I would suggest that this is one where we have missed out on what we otherwise would have been able to charge for, because certain factor –

WILLIAM YOUNG J:

Well, I think we've got the argument.

GLAZEBROOK J:

Yes.

WILLIAM YOUNG J:

Is there anything else you want to say?

MR WILLIAMS:

No.

WILLIAM YOUNG J:

Okay, thank you. We'll reserve our decision and deliver it in writing in due course, thank you.

COURT ADJOURNS: 3.16 PM