

Case No: IP-2014-000003

Neutral Citation Number: [2015] EWHC 2608 (IPEC)

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

INTELLECTUAL PROPERTY ENTERPRISE COURT

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 14/09/2015

Before :

HIS HONOUR JUDGE HACON

Between :

**ABSOLUTE LOFTS SOUTH WEST LONDON
LIMITED**

Claimant

- and -

**(1) ARTISAN HOME IMPROVEMENTS
LIMITED**

(2) DARREN MARK LUDBROOK

Defendants

Michael Hicks (instructed by **Donald Pugh, Solicitor**) for the **Claimant**
Thomas Jones (instructed by **Schofield Sweeney LLP**) for the **Defendants**

Hearing date: 23 July 2015

Judgment

Judge Hacon :

1. These proceedings have come down to a dispute about the quantum of damages due to the Claimant ("Absolute Lofts") for infringement of its copyrights in 21 photographs. The last of the points taken on liability was withdrawn on the day before the trial. There was a hearing on that day in which I allowed Absolute Lofts to adduce in evidence a written assignment to it of the copyrights in issue from Craig Colton. Mr Colton is the owner of Absolute Lofts and it was he who took the photographs.

Background facts

2. Absolute Lofts is in the business of loft conversions for customers who wish to improve their homes. It provides its services in the London area. From time to time, upon completion of a loft conversion and with the agreement of the house owner, Mr Colton takes photographs of the work done to put on Absolute Lofts' website. Sometimes editing software is used to improve the quality of the image. It is now common ground that copyright subsists in each of these photographs and that the copyrights are owned by Absolute Lofts. In the case of photographs which have been edited, Absolute Lofts relies separately on copyright in the original photo and in the enhanced version.
3. The First Defendant ("Artisan") provides home improvement services in and around Bradford. Between early 2010 and April 2015 these included loft conversions. The Second Defendant ("Mr Ludbrook") is a director of Artisan and owns all the shares of the company.
4. Mr Ludbrook started his business, trading at first on his own account, in about October 2006. To begin with he offered small building works for residential properties such as block paving, guttering and roof repairs. One of Mr Ludbrook's customers in 2008 was Parminder Bhatti. Mr Bhatti said he had expertise in website design and offered his services to Mr Ludbrook. An agreement was reached whereby Mr Bhatti would design Mr Ludbrook's website in return for block paving work to be done in front of Mr Bhatti's house in Bradford. The paving work was done, the website was designed and Mr Bhatti agreed to maintain the site for an annual fee of £50.
5. In 2009 Mr Ludbrook expanded into the loft conversion market. The new business went quite well and Mr Ludbrook decided to use Artisan, for the first time, as the vehicle for his new business. He had incorporated the company in 2006 but thus far it had been dormant. Artisan began trading in January 2010. In February 2010 Mr Bhatti offered to create a loft conversion website for Artisan for £400. Mr Ludbrook agreed. Artisan's website went live in about September 2010. Over the next three and half years the business grew, with a turnover of £498,000 for the year ended 2013.
6. In May 2014 Artisan received Absolute Lofts' letter before action dated 7 May. It complained of the use by Artisan in its website of 21 images taken from Absolute Lofts' website. These were all images of loft conversions done by Absolute Lofts. Mr Ludbrook spoke to a marketing agency in Halifax, Northlight Studios, and with their help the Artisan website was shut down in the middle part of May 2014. The images complained of were removed and replaced by 21 licensed images of loft

conversions done by unidentified parties purchased by Mr Ludbrook from a stock photograph library. The website went live again and business was continued for a while until Artisan went into liquidation in April 2015.

7. These proceedings were started and Mr Ludbrook admits that Artisan infringed Absolute Lofts' copyrights and he accepts joint liability for those infringements. There are two issues to be resolved. The first is the quantum of compensatory damages due to Absolute Lofts. The parties are agreed that this is to be assessed on the 'user principle'. The second is whether Absolute Lofts is entitled to additional damages pursuant to s.97(2) of the Copyright, Designs and Patents Act 1988 ("the 1988 Act") and if so, how much. Failing that, Absolute Lofts makes a claim under art.13(1) of Directive 2004/48/EC on the enforcement of intellectual property rights ("the Enforcement Directive").

Quantum under the user principle

The law

8. I attempted to set out the law on the calculation of damages according to the user principle in *Jodie Aysha Henderson v All Around The World Recordings Limited* [2014] EWHC 3087 (IPEC); [2015] I.P.&T. 335, at [18] to [19], respectively referring to and summarising what had been said by Arnold J in *Force India Formula One Team Limited v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch); [2012] R.P.C. 29 and by Newey J in *32Red OKC v WHG (International) Limited* [2013] EWHC 815 (Ch).
9. Unlike *Henderson* this case concerns copyright. Directive 2001/29/EC ("the Information Society Directive") and in particular art.8 of that Directive applies:

Article 8

Sanctions and remedies

1. *Member States shall provide appropriate sanctions and remedies in respect of infringements of the rights and obligations set out in this Directive and shall take all the measures necessary to ensure that those sanctions and remedies are applied. The sanctions thus provided for shall be effective, proportionate and dissuasive.*
 2. *Each Member State shall take the measures necessary to ensure that rightholders whose interests are affected by an infringing activity carried out on its territory can bring an action for damages and/or apply for an injunction and, where appropriate, for the seizure of infringing material as well as of devices, products or components referred to in Article 6(2).*
 3. *Member States shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.*
10. The requirement of art.8(1) that the sanctions for copyright infringement shall be effective, proportionate and dissuasive are echoed in art.3(2) of the Enforcement Directive. The latter Directive is without prejudice to the former, see art.2(2) of the

Enforcement Directive, but nothing in the Information Society Directive suggests that it has affected English law on damages for copyright infringement beyond the changes, if any, effected by the Enforcement Directive.

11. Neither Mr Hicks nor Mr Jones submitted that the Enforcement Directive has changed anything with regard to ordinary compensatory damages for infringement of an IP right, including damages assessed according to the user principle, and I have no reason to think otherwise. I made the same assumption in *Henderson*.

The user principle in this case

12. The starting point in an assessment of what the parties would have agreed as willing licensor and willing licensee is an accurate characterisation of the circumstances which are relevant to that assessment.
13. It is to be assumed that Mr Colton and Mr Ludbrook entered the negotiations immediately before the acts of infringement, i.e. at the point when Artisan realised that images of loft conversions were needed in addition to those taken of its own loft conversions and a decision was taken to use those on Absolute Lofts' website. Of the photographs on Artisan's website when it was set up, 4 were of its vans, 4 of its own loft conversion works and the others were copied from Absolute Lofts' website. So Mr Ludbrook must be taken to have known that Artisan had to populate its website with images substantially sourced from elsewhere and, on the present hypothesis, he wished to use Absolute Lofts' images.
14. Once Artisan's website was set up it clearly represented all the photographs of loft conversions on its website as being images of conversions done by Artisan. Mr Ludbrook was not a man fussed about misleading his potential customers in that regard. He needed images to represent loft conversions done by Artisan and was content to use photos that had nothing to do with work done by Artisan.
15. Mr Colton did not suggest that either he or Absolute Lofts suffered any adverse effect from the misrepresentation of his images on Artisan's website or would have expected to. This is not surprising. Absolute Lofts operated in the London area, Artisan in Bradford. Presumably neither party expected any overlap in custom or potential custom, or thought that anyone would notice that the same images appeared on the two websites. Also, Mr Colton did not say that any other party had offered to pay for the use of his photos, or was likely to. Therefore from Mr Colton's point of view in the hypothetical negotiations, whatever sum was agreed for the use of his photographs was effectively a bonus for Absolute Lofts. Mr Colton would have had every incentive to conclude some sort of deal whatever it was, though naturally the more money he could obtain the better.
16. The same could not be said of Mr Ludbrook's hypothetical negotiating position. He had obvious limits marking the maximum he would be likely to pay, namely alternative ways to obtain the images he needed and how much they would cost. Mr Ludbrook neither purported to be a photographer himself nor to have had the equipment to take satisfactory photographs. So absent a deal with Mr Colton, he would have had two options. The first would have been to hire a photographer to take the photographs. The second would have been to obtain images from a photographic library.

17. Both sides largely focussed on the first of these alternatives and there was a good deal of disputed evidence regarding how much a professional photographer would have charged and what services such a photographer would have charged for. The copied photos were of 9 conversions done by Absolute Lofts. There was debate about whether Mr Ludbrook or the photographer would have had the job of finding 9 loft conversions to photograph, whether these would have been in the Bradford area or the London area and how difficult it would have been to find 9 loft conversions worth photographing. There was discussion about how long it would take to travel between these unidentified hypothetical sites and so how many could be photographed in a day. Submissions were made about how much tidying and arranging would be needed at each of the sites and how much time would be needed after the shoot to edit the photographs to enhance the image and delete unwanted features. There was consideration of whether Mr Ludbrook would have factored in some payment to the hypothetical site owners – apparently Mr Colton was in the habit of giving the owners who allowed him to shoot pictures of their loft conversions a £100 Marks & Spencer gift token.
18. I heard from two experts. Mr Paget, who gave evidence for Absolute Lofts, is a photographer of some distinction who is commissioned by Country Life and publications of similar standing to take pictures of high-end country houses and London penthouses. He has never done a shoot of a loft conversion in a typical suburban family house and seemed a little surprised to be asked whether he had. His estimate of what it would cost to produce photos of 9 loft conversions was a good deal higher than that of Artisan's expert, Mr Pratt. Mr Pratt is not a professional photographer. He runs a design agency and has experience of both setting up commercial website for clients and finding professional photographers to take images for use on website.
19. In brief, Absolute Lofts contended that it would have cost Artisan around £9,000 to commission a photographer to produce 21 photographs of its own. Artisan's estimate was £700 to £1,000.
20. I have no criticism whatever of either Mr Paget or Mr Pratt both of whom, I am sure, were doing their best to assist the court in the way they had been asked to. But I have to say I found all the variously disputed evidence about professional photographers unhelpful. To my mind it was based on an unrealistic assumption.
21. First there is the obvious point that Mr Ludbrook was not concerned to have professional shots on his website. The hypothesis is that he would have been a willing licensee of Mr Colton's photographs and it was the common view of the experts that these, though no doubt perfectly adequate for the task they served (and looked fine to me), were not of a professional standard.
22. More than that, I do not accept that in the hypothetical negotiations Mr Ludbrook would for a moment have contemplated paying for customised photographs of actual loft conversions. He was a man willing to represent other companies' loft conversions as having been done by Artisan. To that end, I have no doubt, he was prepared to use the cheapest images he could find that looked good enough and could pass for photos of loft conversions done by Artisan. When faced with Absolute Lofts' letter before action in May 2014, he commissioned a local website agency to replace Absolute Lofts' 21 photos with images that satisfied those criteria, sourced from a

photographic library called 'Shutterstock'. This cost him £300. Mr Colton gave some evidence in cross-examination about whether one of the Shutterstock images could be of a loft in the UK. I am not convinced that it would occur to a typical observer of Artisan's website that this was a photograph of a loft located abroad. Anyway, this was just one image and collectively the 21 Shutterstock photographs were good enough for Mr Ludbrook.

23. In the hypothetical negotiations Mr Ludbrook would have known that absent agreement he could obtain his images from a photographic library. As I have indicated, Mr Colton would have had it in mind that any agreed figure would be a bonus.
24. On that basis it seems to me that what Mr Ludbrook actually paid in May 2014 is as good a guide as any to what would hypothetically have been agreed between the parties. I award the sum of £300.

Additional damages and the Enforcement Directive

Mr Ludbrook's knowledge

25. Mr Hicks based Absolute Lofts' claim to further damages mainly on s.97(2) of the 1988 Act. He directed my attention to *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] R.P.C. 49 in which Pumfrey J ruled that knowledge of the infringement in the full sense was not necessary to engage s.97(2) – a 'couldn't care less' attitude on the part of the defendant is sufficient to found an award of additional damages under that subsection, see paragraph 52. Mr Hicks submitted that Mr Ludbrook's attitude satisfied that criterion at the least and therefore additional damages were due under s.97(2).
26. Mr Ludbrook's evidence in his witness statement was that when Mr Bhatti was designing Artisan's website he provided Mr Bhatti with photographs of the three loft conversions which Artisan had done. Mr Bhatti had said that he would need more photographs and that he would obtain these himself from 'Google Images'. Mr Ludbrook said that he had heard of Google, though not Google Images, but he thought that Mr Bhatti was experienced in this area and trusted him to obtain photographs that would not infringe anyone's copyright. He left Mr Bhatti to get on with it.
27. Mr Ludbrook's went on to state that Mr Bhatti took about two weeks to create the new website. It was shown to Mr Ludbrook at Mr Bhatti's home. According to Mr Ludbrook, Mr Bhatti did not say where he had obtained the new images for the website and Mr Ludbrook did not ask him. Subject to one or two spelling mistakes Mr Ludbrook was happy with the work done and paid Mr Bhatti £400. The arrangement was casual and there was no paperwork.
28. Mr Bhatti, who trades as 'Planet Create', was not called by either side to give evidence. He was approached by Absolute Lofts' solicitors and there followed exchanges with his solicitors. An email dated 8 June 2015 from Mr Bhatti's solicitors included this:

“(d) Planet Create orally contracted with Mr Darren Ludbrook of Artisan on or around February 2010 to create a website. The images used on this

occasion were to the best of our clients knowledge and belief, supplied by Mr Ludbrook. Our client has done other work for Mr Ludbrook and similarly, it is either Mr Ludbrook or one of his colleagues who have directly supplied all the images.”

29. It appears from this that Mr Bhatti told his solicitors that Absolute Lofts’ images which he incorporated on to Artisan’s website came from Mr Ludbrook. No Civil Evidence Act notice was served in relation to this email and I give it no weight.
30. In cross-examination Mr Ludbrook maintained his account of what had happened: he left Mr Bhatti to get the extra photographs, he had not known where they came from and up until Absolute Lofts’ letter before action he had assumed that they had been legitimately obtained.
31. One difficulty I have in accepting what Mr Ludbrook said is that he was shown to be a man with no great respect for the truth. I formed the view that he is liable to say whatever suits his purpose. I have already mentioned that he was prepared to and did pass off loft conversions shown in both the Absolute Lofts images and those he bought from Shutterstock as the work of his own company. There was other evidence of his commercial dishonesty. Mr Ludbrook admitted that in 2012 Artisan was fined £6,000 at Leeds Magistrates’ Court for falsely using the logo of the Consumer Protection Agency (“the CPA”) to represent to customers that they were protected under the CPA safeguards although Artisan had ceased to be a member of the CPA.
32. Of more direct relevance, Mr Ludbrook’s claim that Mr Bhatti was wholly responsible for copying Absolute Lofts’ copyright images did not fit well with some of the evidence. On Mr Ludbrook’s account, Mr Bhatti obtained the images complained of in the early part of 2010. Yet of the 21 photographs which Artisan admits copying, 3 were taken by Mr Colton in 2014. When Mr Ludbrook was asked about these and how they found their way on to the Artisan website, necessarily in 2014, he had no explanation.
33. There is no record of Mr Ludbrook having made any complaint to Mr Bhatti about Mr Bhatti’s alleged copying of the Absolute Lofts’ photos. Mr Ludbrook said that this was because Mr Bhatti had the settings for the Artisan website and he needed these so that Northlight Studios, specifically Shaun Casey of that firm, could take over the website on his behalf and remove the offending images. The email record indicates that the settings for the website were provided by Mr Bhatti to Mr Casey on about 14 May 2014 and indeed it is common ground that the website was shut down around then. Thereafter there is still no record of any complaint from Mr Ludbrook to Mr Bhatti.
34. I take the view that on balance it is likely either that Mr Ludbrook obtained all the images complained of from Absolute Lofts’ website himself or alternatively he was at all times aware of their source and was indifferent about it. Mr Ludbrook admitted that he knew about the effect of copyright protection in relation to material such as photographs. Indeed copyright notices litter his own website by way of a warning to others.
35. I find that Mr Ludbrook either knew that the copies of Absolute Lofts’ photographs on Artisan’s website were infringing copies or alternatively that he had reasonable

grounds to know they were. This is sufficient to engage both s.97(2) of the 1988 Act and art.13(1) of the Enforcement Directive.

Whether s.97(2) of the 1988 Act still applies

36. *Henderson*, cited above, was a case concerned with performers' property rights. An infringer of such rights may be liable for additional damages pursuant to s.191J(2) of the 1988 Act, a provision which is in all material respects the same as s.97(2). In *Henderson* I suggested it is likely that s.191J(2) (and therefore its equivalents, such as s.97(2)) have been made redundant by art.13(1) of the Enforcement Directive, but did not have to decide the point. In the present case the continuing applicability of s.97(2) was unambiguously in issue and so I must consider the matter directly.

37. The recitals to the Enforcement Directive state that the Directive is intended to remove disparities between the enforcement of IP rights in Member States. The intention is to approximate national law. Recitals [8] to [10] are as follows:

[8] *The disparities between the systems of the Member States as regards the means of enforcing intellectual property rights are prejudicial to the proper functioning of the Internal Market and make it impossible to ensure that intellectual property rights enjoy an equivalent level of protection throughout the Community. This situation does not promote free movement within the internal market or create an environment conducive to healthy competition.*

[9] *The current disparities also lead to a weakening of the substantive law on intellectual property and to a fragmentation of the internal market in this field. This causes a loss of confidence in the internal market in business circles, with a consequent reduction in investment in innovation and creation. Infringements of intellectual property rights appear to be increasingly linked to organised crime. Increasing use of the Internet enables pirated products to be distributed instantly around the globe. Effective enforcement of the substantive law on intellectual property should be ensured by specific action at Community level. Approximation of the legislation of the Member States in this field is therefore an essential prerequisite for the proper functioning of the internal market*

[10] *The objective of this Directive is to approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection in the internal market.*

38. In a similar vein regulation 3(3) of the Intellectual Property (Enforcement, etc) Regulations 2006 ("the 2006 Regulations"), which implement the Enforcement Directive in the United Kingdom, says this:

(3) *This regulation does not affect the operation of any enactment or rule of law relating to remedies for the infringement of intellectual property rights except to the extent that it is inconsistent with the provisions of this regulation.*

39. Regulation 3(3) suggests that existing national law with regard to knowing infringement is preserved *unless* it is inconsistent with regulation 3. The safe way

forward would seem at first to be the fictive approach of Caliph Omar to the contents of the library at Alexandria (see *Kirin-Amgen Inc v Hoechst Marion Roussel Ltd* [2004] UKHL 46; [2005] R.P.C. 9, at [46]): either national law is consistent with regulation 3(1) and (2) (which must be taken to have the same effect as art.13(1) of the Directive) and so to apply it in parallel would be pointless, or it is inconsistent in which case it is contrary to the 2006 Regulations and should not be applied. So better just to focus on the Directive. In line with that straightforward approach, the recitals I have quoted indicate an intention to harmonise national laws on the enforcement of IP rights. This might be taken to imply that any national provision which either falls short of or goes beyond the relief prescribed by the Directive is contrary to Community law.

40. The position is not as simple as that. Article 2(1) of the Directive states:

Article 2

Scope

1. *Without prejudice to the means which are or may be provided for in Community or national legislation, in so far as those means may be more favourable for rightholders, the measures, procedures and remedies provided for by this Directive shall apply, in accordance with Article 3, to any infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member State concerned.*
41. Art.2(1) indicates that national legislation which is more favourable to rightholders than the remedies provided for by the Directive is preserved. The Directive is apparently intended to go no further than providing a minimum level of Community-wide remedies. One possibility is that the UK legislature intended regulation 3(3) to have the effect making regulation 3(1) and (2) a comprehensive statement of the law with regard to knowing infringement in intellectual property cases and that in consequence s.97(2) of the 1988 Act no longer applies. Such a policy would not be inconsistent with the Directive. But on balance I am not convinced that there was an intention to sweep s.97(2) into the ambit of regulation 3 in that way.
42. It follows that a successful claimant is entitled to rely on either s.97(2) of the 1988 Act or on the defendant's unfair profits under art.13(1) of the Directive, whichever would provide for the greater damages. Pursuant to s.97(2)(a) the court is under an express statutory duty to have regard in particular to the flagrancy of the infringement whereas flagrancy is not a compulsory factor in the assessment under art.13(1). In some circumstances the absence of flagrancy could therefore serve as a barrier to the minimum remedies available under art.13(1). On the other hand, if flagrancy is such and/or the benefit accruing to the defendant by reason of the infringement is such that additional damages under s.97(2) would exceed those available under art.13(1), an award under s.97(2) is not precluded by the Enforcement Directive.
43. I should add that I am not at all sure that the end result of damages assessed by reference to unfair profits under art.13(1) will often be much different to those assessed under s.97(2) but it seems to me that I must consider both. It is convenient to turn first to the Directive and its UK implementing regulations because of arguments advanced in relation to them.

44. I begin with the 2006 Regulations which implement the Directive into UK law because of a point raised by Mr Jones. Regulation 3(1) and (2) provide:
3. (1) *Where in an action for infringement of an intellectual property right the defendant knew, or had reasonable grounds to know, that he engaged in infringing activity, the damages awarded to the claimant shall be appropriate to the actual prejudice he suffered as a result of the infringement*
- (2) *When awarding such damages –*
- (a) *all appropriate aspects shall be taken into account, including in particular –*
- (i) *the negative economic consequences, including any lost profits, which the claimant has suffered, and any unfair profits made by the defendant; and*
- (ii) *elements other than economic factors, including the moral prejudice caused to the claimant by the infringement; or*
- (b) *where appropriate, they may be awarded on the basis of royalties or fees which would have been due had the defendant obtained a licence.*
45. Mr Jones pointed out that regulation 3(2) has been split into two parts (a) and (b). They are expressed as alternatives. He argued that if (b) applies, i.e. where damages are to be assessed on the basis of a notional licence royalty, neither the various negative economic consequences in regulation 3(2)(a)(i) nor the non-economic factors of regulation 3(2)(a)(ii) come into play. The defendant is just entitled to damages by way of lost royalty.
46. The first point to make is that the Directive must always take precedence over the UK implementing regulations. Art.13(1) is as follows:

Article 13

Damages

1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

(a) *they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement;*

or

(b) *as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.*

47. Art.13(1)(b) contemplates that, by way of an option, damages can be awarded on the user principle, in which case the lump sum awarded shall be calculated by reference to elements *such as at least* the sum which would have been due had the infringer been licensed. National courts are given express authority to go above what (using English terms) would have been negotiated between a willing licensor and willing licensee.
48. That being so, to what degree is the court permitted to impose damages above the notional licence royalty in the context of art.13(1)(b)? As a matter of permissible national law there is apparently unfettered freedom, bearing in mind art.2(1). However I am here concerned with the minimum standard imposed by the Directive. Although art.13(1)(b) is an alternative to art.13(1)(a), I think it is better to read the two as parts of a consistent whole. Art.13(1)(a) is concerned with the profits that the rightholder has lost. Aside from the actual profits lost by the rightholder, the compensation awarded can take into account unfair profits made by the infringer and non-economic loss by the rightholder, in particular moral prejudice. Likewise, under art.13(1)(b), aside from the notional licence royalty which would have been paid to the rightholder, the compensation awarded can also take into account unfair profits and non-economic loss such as moral prejudice.
49. Therefore Absolute Lofts is entitled to an award taking into account unfair profits accrued to Artisan. No claim was made for damages arising from moral prejudice or other non-economic loss.
50. A further point arises when it comes to assessing unfair profits, if there were any. The total amount of damages available under art.13(1) is expressly limited to those “appropriate to the actual prejudice suffered by him/her as a result of the infringement.” On one view of those words the damages available are strictly compensatory so that there is little leeway for awarding higher damages where there has been knowing infringement, as opposed to where the infringer did not know or have reasonable ground to know that he was engaging in infringing activity.
51. Recital [26] of the Enforcement Directive states:

[26] With a view to compensating for the prejudice suffered as a result of an infringement committed by an infringer who engaged in an activity in the knowledge, or with reasonable grounds for knowing, that it would give rise to such an infringement, the amount of damages awarded to the rightholder should take account of all appropriate aspects, such as loss of earnings incurred by the rightholder, or unfair profits made by the infringer and, where appropriate, any moral prejudice caused to the rightholder. As an alternative, for example here it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question. The aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research.

52. This is not as clear as it might be. The reference at the end to taking account of expenses incurred by the rightholder does not fit neatly with the express provision in 13(1) that, where appropriate, unfair profits and moral prejudice must be taken into account. Nonetheless, it seems to me that the distinction being drawn in recital [26] is between punitive damages and other types of damages. I think the overall restriction in art.13(1) – limiting an award for knowing infringement to damages appropriate to the actual prejudice suffered by the rightholder – is to be read in that light. It means that a punitive element may not form any part of the assessment, but it goes no further than that. In particular it seems to me that the assessment can include a restitutionary element where appropriate, although for the reasons I gave in *Henderson*, this can never amount to an account of profits on top of compensatory damages.
53. At first glance the distinction between punitive and compensatory damages is one familiar to English law, see *General Tire and Rubber Company v Firestone Tyre and Rubber Company Limited* [1976] R.P.C. 197, at 212. However in English law the aim of the court in awarding ordinary compensatory damages (i.e. disregarding additional, aggravated or exemplary damages) is to put the claimant in the same position he would have been in if he had not sustained the wrong (see *Livingstone v Rawyards Coal Co.* (1880) 5 App. Cas. 25, at 39) and this has come to mean that the claimant's loss is limited to that which was foreseeable, caused by the wrong and not excluded from recovery by public or social policy (see *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] R.P.C. 443, at 452). I think it would be a mistake to interpret the limitation on the award of damages in art.13(1) – to the actual prejudice suffered by the rightholder – in the same way. To my mind it is a looser limitation than the English concept of strictly compensatory damages.

Unfair profits

54. I turn to unfair profits, by reference to which Absolute Lofts claims further damages pursuant to art.13(1) in these proceedings. In *Henderson* I considered what was meant by unfair profits in art.13(1) and said this:

“[79] ... One interpretation of art.13(1)(a) would require the court always to take into account the profit made by the defendant from his knowing infringement and to make an award commensurate with that profit. But I do not think that is right. If profits are automatically unfair because they have been derived from acts of knowing infringement, the defendant in such cases will virtually always have the benefit of unfair profits. This would imply that whenever knowledge is established, the claimant is almost bound to be entitled to a bonus on top of damages for loss of profit, the quantum of the bonus increasing presumably in proportion to the profit that the defendant has made – it is not easy to discern what the correct proportion would be. I do not believe that this would be consistent with the overriding aim in art.13(1) of paying the rightholder damages appropriate to the *actual prejudice* suffered as a result of the infringement. Neither would it be consistent with the aim of avoiding punitive damages.

[80] I think art.13(1)(a) must contemplate something else, namely that wherever the court reaches the view that the claimant would not receive adequate compensation for the actual prejudice he has suffered if damages were to be assessed by reference to lost profits, moral prejudice and expenses

(part of art.13(1)(a)), or royalties according to the ‘user principle’ (art.13(1)(b)), or an account of profits, there is flexibility under art.13(1)(a) to award an additional sum related to the profit the defendant has made from knowing infringement.

[81] This would arise, for example, if the defendant made no direct financial profit from the infringement – so an account of profits would be of little use – but his business expanded in volume and/or in reputation on the back of loss-leader infringements. For the claimant, aside from losing sales there would be a likelihood of further loss because of the expansion of a competing business. The expansion would not constitute a profit by the defendant in the usual direct sense, but it would be a contingent profit nonetheless and an unfair one.

[82] Art.13 does not seem to cater expressly for the circumstance in which a cynical defendant calculates that his benefit from infringement is sure to outweigh the actual prejudice suffered by the claimant, making infringement an attractive option. I think the answer may be that in such an instance the court would readily infer that the claimant will suffer actual prejudice which goes beyond lost sales, making extra compensation appropriate.”

55. I would add here that all remedies under the Enforcement Directive must be “effective, proportionate and dissuasive”, see art.3(1) and in the case of copyright proceedings see art.8(1) of the Information Society Directive. An element of deterrence is more likely to be needed where there has been knowing infringement. It is therefore something which may, and where appropriate should, be considered in the context of art.13(1).

The application of the Enforcement Directive to this case

56. Abbreviated accounts for Artisan were in evidence but these did not include figures for profit and loss. I know from Mr Ludbrook’s witness statement that in the first full year of Artisan’s trading in loft conversions, ending in October 2011, it had a turnover of £226,000. In the year ending 2012 that increased to £477,000 and in 2013 it was £498,000. Artisan received the letter before action and removed the images complained of in May 2014. Turnover in 2014 fell to £180,000 and the company went into liquidation in May 2015. There is nothing to support any direct relationship between turnover and the other facts I have mentioned. Of the sudden decline in Artisan’s fortunes, Mr Ludbrook just said that the loft conversion market shrank in 2014. Unfortunately Mr Ludbrook is not reliable on such matters.
57. I think that I am entitled to infer that Absolute Lofts’ photographs made a contribution to the company’s profits in 2011 to 2013 by encouraging those who visited Artisan’s website to pay Artisan to do a loft conversion and that the contribution was more than negligible. I also infer that Artisan made profits in most of this period, otherwise trading would have ended sooner. To an extent, therefore, Artisan profited from its acts of infringement. Those profits can be characterised as particularly unfair because they were generated by a misrepresentation to Artisan’s customers that it was capable of, and had completed, the loft conversions actually done by Absolute Lofts. (This might be taken to echo to some extent the “overtones of dishonesty and intentional

wrongdoing” which characterise flagrancy, as Pumfrey J put it in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] R.P.C. 49 at [51]).

58. This benefit to Artisan did not adversely affect Absolute Lofts such as to require compensatory damages in the strict sense. Nonetheless, the unfair profits which accrued to Artisan were made on the back of Mr Colton’s intellectual creativity which generated the copied images. I think that Absolute Lofts as copyright owner is entitled to be compensated for actual prejudice it has suffered, in the looser sense referred to above. The prejudice in question is that it has enjoyed no part of the unfair profit accrued to Artisan from exploiting Mr Colton’s photographic skills. I also take the view that the strictly compensatory damages of £300 would lack the dissuasive element required by art.3(2) of the Enforcement Directive.
59. Assessing quantum under art.13(1) in this case is difficult. I have nonetheless come to the conclusion that Artisan should pay the further sum of £6,000.

Section 97(2) of the 1988 Act

60. On the findings I have made regarding Mr Ludbrook’s involvement and attitude to the creation of the infringing images Artisan’s website I am satisfied that the infringement was flagrant. I have also considered the benefit to Artisan by reason of the infringement in the context of the unfair profits derived by Artisan. The route to estimating the appropriate quantum for additional damages is different, though similarly inexact, but I would arrive at the same figure of £6,000.

Conclusion

61. An award of additional damages under s.97(2) and an award of unfair profits under art.13(1) are not cumulative so in addition to the £300 which the defendants must pay under the user principle the defendants must further pay Absolute Lofts the sum of £6,000.