IN THE COURT OF APPEAL OF NEW ZEALAND

CA304/2016
[2016] NZCA 554

BETWEEN	NAPIER TOOL & DIE LIMITED First Appellant
AND	ORAKA TECHNOLOGIES LIMITED First Respondent
	ORAKA GRADERS LIMITED Second Respondent
	MICHAEL WILLIAM SCHWARZ Third Respondent

CA309/2016

BETWEEN	NAPIER TOOL & DIE LIMITED First Appellant
	GEOSTEL VISION LIMITED Second Appellant
	PAUL DAYNES AND GORDON ROBERTSON Third Appellants
AND	ORAKA TECHNOLOGIES LIMITED First Respondent
	ORAKA GRADERS LIMITED Second Respondent
	MICHAEL WILLIAM SCHWARZ Third Respondent

Hearing:	11 October 2016
Court:	Kós P, Harrison and French JJ
Counsel:	P G Skelton QC and C D Herbert for First Appellant K T Glover for Second and Third Appellants B P Henry for Respondents

Judgment: 28 November 2016 at 10.30 am

JUDGMENT OF THE COURT

A The appeal is allowed and the judgment entered by the High Court for the sum of $4.1 million is set aside.

B The case is remitted to the High Court for the quantum of damages to be determined on the basis of a notional licence fee payable in respect of each infringing use during the period from the commencement of infringement to the expiry of the first appellant's copyright.

C The respondents must pay each of the two represented groups of appellants costs for a standard appeal on a band A basis together with usual disbursements. Costs in the High Court to be determined in accordance with the outcome of this appeal.

REASONS

KÓS P AND FRENCH J

(Given by French J)

Introduction

[1] As a general rule, a party is only entitled to compensatory damages for losses that party has itself suffered. It cannot recover damages for loss suffered by a third party.[1]

[2] The appellants[2] contend the High Court decision under appeal breaches this elementary principle in the context of a claim for breach of copyright under the Copyright Act 1994 (the Act). In the decision Hinton J awarded compensatory damages to the copyright owner for losses the appellants say, correctly analysed, were the losses of another separate legal entity.[3]

Factual background

[3] During the 1980s the third respondent, Mr Michael Schwarz, invented an asparagus grading machine with a unique cup assembly (the Oraka grader).[4] In March 1993 he formally assigned the copyright in the cup assembly to the first respondent, Oraka Technologies Ltd (Technologies). Mr Schwarz and his wife were the sole shareholders and directors of Technologies.

[4] The appellants infringed the copyright from mid-2001 to March 2009, when Technologies' copyright expired.[5]

[5] The first and third appellants were familiar with the Oraka grader, having been involved by Mr Schwarz in various aspects of its development and/or marketing. In 2001 Mr Daynes and Mr Robertson established their own company — the second appellant, Geostel Vision Ltd (Geostel) — and through that vehicle started manufacturing and selling a grading machine in competition with the Oraka grader. The Geostel grader incorporated a cup assembly that was a copy of a substantial part of the

---

1 *The Albazero* [1977] AC 774 (HL) at 845; *Alfred McAlpine Construction Ltd v Panatown Ltd* [2001] 1 AC 518 (HL) at 522 and 580.

2 Two appeals were heard together. Geostel Vision Ltd and Messrs Daynes and Robertson did not appear at the High Court damages hearing; however, their interests broadly aligned with those of Napier Tool & Die Ltd.

3 *Oraka Technologies Ltd v Geostel Vision Ltd* [2016] NZHC 1188 [HC damages decision]. Justice Hinton rejected a claim for additional damages and there has been no cross-appeal against that finding.

4 The mechanics of the Oraka grader are detailed in *Oraka Technologies Ltd v Geostel Vision Ltd* [2013] NZCA 111 [CA infringement decision] at [7]–[9].

5 Pursuant to s 75 of the Copyright Act 1994.

Oraka grader's cup assembly. The infringing cup assembly was manufactured and sold to Geostel by the third appellant, Napier Tool & Die Ltd (Napier).

[6] During the infringement period (mid-2001 to March 2009) Mr Schwarz's company Technologies was no longer manufacturing and selling the Oraka grader. It had stopped trading in 1996 after running into financial difficulties. From 1996 to early 2001 the manufacturing and sale of the Oraka grader was undertaken by another company called Oraka Technologies Holdings Ltd (Holdings). Mr and Mrs Schwarz were directors and shareholders of Holdings but minority shares were also held by two other investors: a Mr Kinder and a Mr Bell (the two outside investors).[6]

[7] In early 2001, before the appellants' infringing conduct commenced, Holdings itself ceased trading and the business of manufacturing and selling the Oraka graders was then carried on by the second respondent, Oraka Graders Ltd (Graders). Unlike the two previous companies (Technologies and Holdings), Mr Schwarz did not have any shareholding interest in Graders. He was also not a director. Graders was owned by Mr Schwarz's two adult children. They were the sole shareholders and directors.

History of the litigation

[8] In 2005 Mr Schwarz, Technologies and Graders (the respondents) issued proceedings in the High Court against the appellants for breach of copyright under the Act. Holdings was not included as a plaintiff. Then followed a series of decisions in the High Court[7] and two appeals to this Court.[8]

---

6 In 2001 Mr and Mrs Schwarz bought out the interests of Messrs Kinder and Bell.

7 *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 13 December 2007; *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 5 February 2008; *Oraka Graders Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 11 March 2008; *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 31 March 2008; *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 18 February 2009 [HC copyright ownership decision]; *Oraka Technologies Ltd v Geostel Vision Ltd* HC Hamilton CIV-2005-419-809, 22 April 2010; *Oraka Technologies Ltd v Geostel Vision Ltd (No 2)* HC Hamilton CIV-2005-419-809, 7 April 2011 [HC infringement decision]; *Oraka Technologies Ltd v Geostel Vision Ltd* [2015] NZHC 991; HC damages decision, above n 3; *Oraka Technologies Ltd v Geostel Vision Ltd* [2016] NZHC 2001.

8 *Oraka Technologies Ltd v Geostel Vision Ltd* [2010] NZCA 232, (2010) 88 IPR 227 [CA copyright ownership decision]; and the CA infringement decision, above n 4. The appellants unsuccessfully sought leave to appeal the infringement decision to the Supreme Court: *Napier Tool & Die Ltd v Oraka Technologies Ltd* [2013] NZSC 86. A strike-out application was also rejected by this Court: *Oraka Technologies Ltd v Geostel Vision Ltd* (2009) 20 PRNZ 1 (CA).

[9] In the first of those appeals, the key issue for determination was a contest between Napier and the respondents over ownership of the copyright in relation to certain drawings of the cup assembly. This Court found in favour of the respondents against Napier. The Court did not determine ownership as between the respondents, but remitted that question back to the High Court, where Allan J held it was Technologies that owned the copyright.[9]

[10] In the second appeal Napier challenged that finding. It argued copyright could not have remained with Technologies after it ceased trading and that by operation of law or an implied term Holdings had become the owner of the copyright in 1996, when it took over the business and began manufacturing. Napier further argued that the legal effect of a transaction that had taken place between Holdings and the two outside investors was that Holdings had assigned the copyright to them. Thus, so Napier argued, the proceedings should have been issued by the two outside investors.

[11] This Court rejected that argument and held that ownership of the copyright had remained throughout with Technologies.[10] There was no evidence of any assignment of the copyright by Technologies to Holdings. The Court also pointed out it was not necessary for Holdings to own the copyright in order to be able to manufacture the Oraka grader. An oral licence from Technologies was sufficient for that purpose.[11] Under the Act, only an exclusive licence is required to be in writing.[12]

[12] This Court further found that on the evidence the appellants had infringed the copyright.[13] The Court entered judgment in favour of Technologies against all three appellants and remitted the case back to the High Court for an inquiry into damages.

High Court

[13] The inquiry into damages was heard in the High Court by Hinton J and is the subject of the current appeal.

---

9 HC infringement decision, above n 7, at [51].
10 CA infringement decision, above n 4, at [79].
11 At [77].
12 Copyright Act, s 2(1).
13 CA infringement decision, above n 4, at [146].

[14] The respondents sought damages in excess of $4 million. This comprised loss of gross profit on expected sales revenues from 2002 to 2013 ($3,603,027) and loss of salary for Mr Schwarz ($850,634). At the hearing before Hinton J, the respondents adduced expert accounting evidence to support those figures.[14]

[15] Napier was the only appellant to take an active part at the hearing before Hinton J[15] and although it cross-examined the respondents' witnesses it did not call any evidence of its own and in closing submissions did not contest the calculations.[16] Rather, its position was that the losses sought could not be recovered by Technologies because they were not the losses of Technologies. They were the losses of Graders and Graders had no standing to sue under the Act because it was neither the owner of the copyright nor did it have a written exclusive licence.

[16] Claims for breach of copyright under the Act may be brought by either the owner of the copyright or by the holder of an exclusive licence.[17] "Exclusive licence" is defined under the Act as meaning a written licence signed by the copyright owner authorising the licensee to the exclusion of all others (including the copyright owner) to exercise a right that would otherwise be exercisable exclusively by the copyright owner.[18] It was common ground that Graders only had an oral licence (as had Holdings before it).

[17] Justice Hinton accepted any damages could only be awarded to Technologies. In opening, counsel for the respondents Mr Henry had sought a damages judgment in favour of all three respondents and submitted he could therefore rely on the loss suffered by any of the three. Justice Hinton rejected that approach, which she said was clearly not possible in light of the second Court of Appeal decision.[19]

[18] The Judge also accepted it was Graders, not Technologies, that had directly suffered the losses claimed.[20]

---

14 HC damages decision, above n 3, at [29].
15 Mr Henry, for the respondents, initially objected to the second and third appellants being separately represented at the hearing before us. Wisely, this objection was not pursued.
16 HC damages decision, above n 3, at [28].
17 Copyright Act, ss 120 and 123.
18 Section 2(1).
19 HC damages decision, above n 3, at [33].
20 At [27].

[19] However, in order to achieve justice between the parties, Hinton J considered the Court was entitled to take what she described as "an expansive approach" to recovery of a third party loss.[21] In her view, Technologies' ownership of the copyright and its informal exclusive provision of the copyright to Graders meant Technologies had itself suffered a loss, being the loss of "the opportunity to cause [Graders] to enter into contracts that would have generated a profit of $4.1 million for [Graders]".[22]

[20] In reaching this conclusion, the Judge said it was not necessary as a matter of law to show Technologies had ownership or control over Graders, but in any event there was an element of control.[23] On the evidence of the way Mr Schwarz operated the business, Graders was "like a proxy for [Technologies] so that [Technologies] was effectively exploiting its copyright through [Graders]".

[21] The Judge then went on to hold that the value of Technologies' lost opportunity equated to the direct loss sustained by Graders. That was because Technologies would "have to receive $4.1 million, to be in a position to generate the lost profit for [Graders] (and the lost salary for Mr Schwarz)".[24]

[22] Justice Hinton accordingly entered judgment for Technologies in the sum of $4.1 million against the appellants.

[23] The appellants then all filed appeals against that decision.

Arguments on appeal

[24] For completeness in this section of the judgment, we record that Messrs Daynes and Robertson attempted to challenge the finding they were personally liable. However, that challenge is plainly untenable in light of the earlier Court of Appeal decision where judgment was entered against them personally.[25] We do not propose to address the argument any further.

---

21 HC damages decision, above n 3, at [52].
22 At [64].
23 At [65]–[66].
24 At [71].
25 CA infringement decision, above n 4.

[25] The main argument advanced by the appellants was the argument previously advanced in the High Court: namely that Technologies had not suffered the loss claimed and that none of the authorities relied upon by Hinton J supported her finding to the contrary.

[26] On behalf of the respondents, Mr Henry submitted that, in the particular circumstances of this case, the Judge was correct to view Graders' loss as Technologies' loss. Mr Henry emphasised this was an informal family arrangement in which all the various entities operated as a group. Under the arrangement Mr Schwarz could and did do what he wanted, shifting money around the family companies as he thought appropriate on the basis that "what's yours is mine and what belongs to one part of the entity belongs to everybody".[26]

[27] Mr Henry acknowledged Mr Schwarz was not a director or shareholder of Graders. However, he controlled Technologies and therefore controlled the copyright and the structure of the group as a whole. Mr Henry described Mr Schwarz as Technologies' "alter ego" and relied on the finding made by Hinton J that Graders was Technologies' "proxy".

Analysis

[28] The wrongful conduct of the appellants caused significant damage to the business created by Mr Schwarz after years of hard work. On anyone's view of it, it would be unjust were he or entities associated with him left with no recompense whatsoever. That concern understandably influenced Hinton J to adopt the approach she did.

[29] However, for reasons we shall explain, we are satisfied that in doing so the Judge has misapplied the law and reached a conclusion that was not justified on the evidence.

[30] We turn first to an analysis of the evidence before examining the legal authorities relied upon by Hinton J.

---

26 This was said by Mr Schwarz in evidence.

The evidence

[31] The key evidence called by the respondents and relied upon by the Judge was the evidence of a forensic accountant, Mr Walker. Mr Walker analysed the financial statements of Graders, Holdings and Technologies, as well as three other companies established by Mr Schwarz.[27] Mr Walker considered it justified to treat the loss claimed as an "Oraka group loss " and in his written brief of evidence claimed the financial statements showed Graders operated as a proxy for Technologies. When asked in cross-examination to be more precise and identify which of the respondents did he say had suffered the loss, he said it was Technologies.

[32] The conduct of the accounting for the business undertaken at various times by Technologies, Holdings and Graders showed that earnings from the business were:

(a) either paid to Mr and Mrs Schwarz personally; or

(b) paid to entities in which Mr and Mrs Schwarz had an interest for the purpose of offsetting tax loss.

Thus, Graders paid management fees to a company that did not provide management services, rent for the charter of a boat to a company that did not operate a boat and royalties to Holdings when that company did not own any intellectual property. Graders did not pay any earnings to its shareholders, the Schwarz children.[28]

[33] As mentioned, Mr Walker stated in his written brief of evidence that the payments showed Graders was the proxy for Technologies. However, he conceded during questioning that it could be said what the payments showed was that Graders was a proxy of Mr and Mrs Schwarz, but not necessarily of Technologies. Although this answer was elicited by the Judge herself, she described Mr Walker's written evidence on the proxy point in her decision as "uncontested evidence" and relied upon it as the basis for her finding that Graders was "like a proxy" for Technologies.[29]

---

27 These other companies were: Oraka Vessels Ltd, Oraka Developments Ltd, and Oraka Charters Ltd.
28 Mr Schwarz said in evidence his son received some payment from Graders for his work.
29 HC damages decision, above n 3, at [25].

[34] We consider Mr Walker was right to resile from his initial proposition. There was no evidence Graders ever acted as Technologies' proxy. It is also unclear what legal status was to be attributed to this so-called proxy.

[35] Before us, Mr Henry attempted to overcome these difficulties by saying that, even if it was more accurate to say Graders was a proxy for Mr and Mrs Schwarz, this was in their capacity as directors of Technologies and so in effect as proxy for Technologies. However, this smacks of a contrived reconstruction of the facts and is without any evidential foundation.

[36] When pressed in cross-examination to explain why he considered Graders' commercial losses were Technologies' loss, Mr Walker stated it was because it was the intellectual property that drove the value of the loss and it was Technologies that owned the intellectual property.

[37] However, we consider this begs the question. The intellectual property is undoubtedly essential to the claimed loss because it is the right found to have been infringed. But, of itself, that does not mean the loss must be the loss of the owner of the intellectual property when that owner has granted a licence to a separate legal entity and that separate legal entity is the one to have sustained the loss sought to be recovered.

[38] Recognising those difficulties, Mr Henry further submitted there was an implied term that Technologies, in return for granting Graders an informal licence to exploit the copyright, would be entitled to all the resulting cash flows and that Mr Schwarz, acting in his capacity as director of Technologies, could direct where the money was to go.

[39] This further submission is, however, problematic for a number of reasons. First, although Mr Henry suggested otherwise, this was not the basis of Hinton J's decision. Second, an implied term was never pleaded or argued in the High Court and, even more importantly, there was no evidence to support it. The only evidence as to the basis on which Technologies granted the licence to Graders was an assertion by Mr Schwarz that Technologies had granted an "exclusive right to use the copyright" to Graders.

[40] At most, all that can be said on the evidence is that Technologies was entitled to a royalty payment from Graders for the use of its property — royalties it never claimed

nor received. As to why royalties were never paid, the only proper inference to be drawn from the evidence is that this was either due to financial difficulties or sloppy business practices and irregular accounting.

The authorities

[41] The Judge commenced her discussion of the authorities by acknowledging the general rule that a claimant is limited to claiming its own loss.[30] However, she went on to state there were a number of exceptions to the rule, which the Judge then explored by reference to three decisions.

[42] The first of these was the House of Lords decision in *Alfred McAlpine Construction Ltd v Panatown Ltd*.[31] *Panatown* concerned a group of companies, comprising a parent company and a number of subsidiaries. One of the subsidiaries, Panatown Ltd (Panatown), had entered into a construction contract with a builder to construct a building on land owned by another subsidiary in the group. The builder breached the contract as a result of design defects, defective construction and delay but argued Panatown was not entitled to recover substantial damages (that is, not nominal) under the contract because it did not own the building and hence had not suffered any loss.

[43] Rejecting this argument, the majority of the House of Lords identified what was said to be a "narrow" exception to the general rule against recovering a third party's loss. The narrow exception identified was that in the event of a breach of contract that causes loss to a non-contracting third party to whom the innocent contracting party is accountable, the latter may recover damages on behalf of the third party.[32] However, on the facts of the case, the claim in contract failed because the third party had an independent right of action against the builder under a separate deed that it and the builder had entered into.[33]

---

30 HC damages decision, above n 3, at [40].

31 *Alfred McAlpine Construction Ltd v Panatown Ltd*, above n 1.

32 The minority would have allowed Panatown to recover under a "broad" exception on the basis Panatown itself suffered a loss in not receiving that which it had bargained for: at 588–592 and 595. Two of the other Lords took the view that, assuming this broad exception could apply, it was barred due to the third party's own ability to claim against the builder.

33 At 535, 574, 575; citing *Dunlop v Lambert* (1839) 6 Cl & F 600 (HL); *The Albazero*, above n 1; *St Martins Property Corporation Ltd v Sir Robert McAlpine Ltd* [1994] 1 AC 85 (HL); and *Darlington Borough Council v Wiltshier Northern Ltd* [1995] 1 WLR 68 (CA).

[44] In a speech relied upon by Mr Henry, Lord Clyde said the problem that had arisen was one most likely to arise in the context of the domestic affairs of a family group or the commercial affairs of a group of companies and that how the members of the group choose to arrange their affairs amongst themselves should not concern a third party who has undertaken to one of their number to perform services in which they all have some interest.[34] He went on to say it should not be a ground of escaping liability that the party who has instructed the work is not the one who sustained the loss or all of the loss, which in whole or part has fallen on another member or members of the group, but added that the resolution of the problem in any particular case must be reached in light of its own circumstances.

[45] We acknowledge that the Law Lords in *Panatown* rejected an unduly narrow approach to damages in the circumstances of that case, but consider those circumstances very different to the facts before us. The two companies in *Panatown* were both subsidiaries of the same company, whereas in this case Technologies and Graders have no shareholders in common; *Panatown* concerned a claim in contract and has been consistently held in New Zealand not to apply to other areas of law;[35] and, most importantly of all, it turned primarily on the fact the contracting company was accountable to the other subsidiary company that had suffered the loss.

[46] Significantly, Lord Millett stated:[36]

> Compensation is compensation for loss; its object is to make good a loss. It is inherent in the concept of compensation that only the person who has suffered the loss is entitled to have it made good by compensation. Compensation for a third party's loss is a contradiction in terms. It is impossible on any logical basis to justify the recovery of compensatory damages by a person who has not suffered the loss in respect of which they are awarded unless he is accountable for them to the person who has.

[47] In the present case, it was never argued Technologies could be accountable to Graders for any judgment sum it might receive. Nor on the evidence is there any basis for saying so.

---

34 *Alfred McAlpine Construction Ltd v Panatown Ltd*, above n 1, at 535–536.

35 *Santa Barbara Homes Ltd v Cozzolino* HC Auckland CIV-2002-404-2577, 12 May 2004 at [33]; *Santa Barbara Homes Ltd v Cozzolino* HC Auckland CIV-2002-404-2577, 16 September 2004 at [15]; *Farr v Shrimski* HC Auckland CIV-2004-404-3705, 18 February 2005 at [30]–[39].

36 *Alfred McAlpine Construction Ltd v Panatown Ltd*, above n 1, at 580.

[48] The second decision discussed by Hinton J was *Gerber Garment Technology Inc v Lectra Systems Ltd*.[37] In *Gerber* the English Court of Appeal held that, as a matter of law, patent holders could recover damages reflecting trading losses sustained by their subsidiaries due to infringement of the patent in circumstances where the subsidiaries had no cause of actions themselves.[38] Damages were, however, to be assessed by reference to the reduction in the value of the claimants' shareholding in the subsidiaries.

[49] As will be readily apparent, the outcome in this case is not, strictly speaking, an exception to the general rule because the reduction in the value of the shareholding is a loss directly sustained by the claimant itself.

[50] The decision is clearly distinguishable from the case before us because the claimant Technologies is not a shareholder in Graders.

[51] There are also aspects of the *Gerber* decision that do not assist the respondents. First, as Mr Glover submitted, its conceptual basis can be seen as more consistent with a restriction on recovery of third party losses, rather than as justifying a more expansive approach. Otherwise, the Court would not have insisted on the shareholder being able to claim only for its own loss.

[52] Second, it brings into question the way in which Hinton J purported to value Technologies' loss of opportunity. The Judge simply equated it to Graders' loss without any analysis of the evidence or explanation as to how not incurring the cost of Mr Schwarz's salary was a loss to either Graders or Technologies.[39]

[53] The majority of the Court in *Gerber* emphatically rejected the proposition that every dollar lost to the subsidiary automatically reduced the value of the parent's

---

37 *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443 (CA).

38 At 456, 478 and 481. *Gerber* has been cited, but not successfully relied upon for this principle, in New Zealand in *ABB Ltd v New Zealand Insulators Ltd (No 2)* (2007) 11 TCLR 978 (HC) at [65]–[71]; *Yogi Superette Ltd v Pacific Fresh Ltd* HC Auckland CIV-2004-404-4033, 11 November 2005 at [30]–[31]; *Spantech Pty Ltd v BPM Contracts Ltd* HC Wellington CIV-2003-454-160, 16 August 2004 at [22]; *Carter v Western Viaduct Marine Ltd* HC Auckland CP6-SD99, 20 March 2002 at [138] (it was not discussed on appeal in *Attorney-General v Carter* [2003] 2 NZLR 160 (CA)); *Broadview Investments Co Pty Ltd v Corporate Interiors (New Zealand) Ltd* HC Wellington CP123/92, 12 August 1998 at 21.

39 HC damages decision, above n 3, at [71].

shareholding by a like amount.[40] Lord Justice Hobhouse reiterated that the "root principle which must be adhered to" is that each company is a separate legal entity from its shareholders and that the property of one is not the property of another.[41] The plaintiff, he said, must prove its own financial loss in its own pocket and quantify it. Any other approach was contrary to the decided authorities.

[54] Significantly too for present purposes, Hobhouse LJ also rejected as an "artificiality" an argument that the existence of a group could be used to attribute the subsidiaries' profits to the plaintiff, when they should on that logic be attributed to the group.[42] The same criticism could obviously be levelled at the argument advanced by Mr Henry in this case.

[55] The third decision, *Insight SRC IP Holdings Pty Ltd v Australian Council for Educational Research Ltd,* is a decision of the Full Court of the Federal Court of Australia.[43] It was a copyright case. The Court awarded the copyright owner damages for the lost opportunity to generate profits through a related company.

[56] Justice Hinton summarised the case in the following terms:

> [54] The plaintiff had developed a "School Organisational Health Questionnaire" (SOHQ). Copyright was held during the relevant period by a Dr Hart, who informally licensed it to a company of which he was the major shareholder, Insight SRC Pty Ltd (Insight SRC). When the defendant infringed the copyright, the question was whether Dr Hart, in his personal capacity, could claim damages for business lost by Insight SRC. The quantum of Insight SRC's lost profit had been assessed at $131,000.
>
> [55] The trial Judge found that Dr Hart was not entitled to any award of compensatory damages, because he had not suffered any loss:
>
> > Although … Dr Hart was the owner of the copyright … he was not using it or commercially exploiting it in any way. That was being done by Insight SRC. Therefore Dr Hart did not suffer any damage. … If any party suffered damage, it was Insight SRC.
>
> [56] The Full Court sitting of the Federal Court, however, reversed the trial Judge's decision. It held that Dr Hart had suffered loss because, as a result of the defendant's infringement, Dr Hart had lost the ability to cause Insight SRC to generate a profit of $130,000.

---

40 *Gerber Garment Technology Inc v Lectra Systems Ltd*, above n 37, at 478–479 and 482.
41 At 479; *Saloman v A Saloman & Co Ltd* [1897] AC 22 (HL).
42 At 479.
43 *Insight SRC IP Holdings Pty Ltd v Australian Council for Educational Research Ltd* [2013] FCAFC 62, (2013) 101 IPR 484.

(Footnotes omitted.),

[57] Justice Hinton then went on to cite with approval a passage from the decision in which the Full Court considered Dr Hart's position to be analogous to that of the donor of a gift that is destroyed by a wrongdoer before it can be enjoyed by the intended recipient.[44] The donor, the Court said, would still receive compensation notwithstanding the fact he or she was intending to give away the property. If such a gift were to be made after destruction, the donor would have to replace it. Like the hypothetical donor, Dr Hart wanted his company to benefit from the copyright by receipt of profits but because of the defendant's infringement it had been unable to do that. He had therefore suffered loss.

[58] Justice Hinton said she agreed with the Full Court that Dr Hart lost the ability to cause Insight to enter into a contract that would have generated a profit of $130,000 and that the same loss of opportunity reasoning was applicable in the present case.[45]

[59] In our view, however, there are a number of aspects to the *Insight* decision that render it of little persuasive authority in the current case.

[60] The Court's donor analogy was presumably prompted by the fact Insight had only been granted an exclusive written licence a few days before the end of the period of infringement. However, in light of the fact Insight did have a bare licence throughout we are puzzled why the Court did not use the analogy of a situation where a gift is destroyed *after* it has been granted and used by the intended recipient. It would be a very surprising result if in such circumstances the donor having divested themselves of the property would still have a cause of action or be obliged to replace the property.

[61] Secondly, in *Insight* the reason the trial Judge had found Dr Hart had not suffered any actual loss was because of the absence of evidence that prior to June 2009 (the date Dr Hart assigned the copyright to another entity) he had used or personally exploited the copyright. On appeal, counsel for the respondent infringers conceded he could not responsibly support that finding because it had not been the real issue at trial. The real

---

44 HC damages decision, above n 3, at [58], citing *Insight SRC IP Holdings Pty Ltd v Australian Council for Educational Research Ltd*, above n 43, at [25].

45 At [63]–[64].

issue had been whether Insight as licensee would have been able to exploit the copyright.[46]

[62] It is clear from that concession and the summary of the grounds of the cross-appeal that the damages issue was not the focus of argument on appeal. This is reflected in the Full Court's decision, which, as Hinton J acknowledged, is not fully reasoned. The leading authorities are not discussed and there is no in-depth analysis of what on the face of it is a far-reaching and unorthodox proposition.[47] The only reason given by the Court is the somewhat puzzling donor analogy.

[63] In those circumstances, we consider Hinton J was wrong to attach the weight to this decision that she did.

[64] In our view, assuming Dr Hart was not trading during the period of infringement, the only principled basis on which he would have been entitled to claim damages in his personal capacity was on the basis of the *Gerber* principle, namely that the infringement had reduced the value of his shareholding in Insight.

[65] In so far as the decision may arguably rest on Dr Hart's ownership and control of his trading company, it does not assist the respondents. For the reasons already traversed in our discussion of the evidence, we do not accept the Judge's finding that Graders was a proxy for Technologies.

[66] It follows we do not consider the authorities cited by Hinton J justified a departure in the circumstances of this case from the general rule that compensation for loss can only be awarded to those who have suffered that loss. That rule is a fundamental principle in the law of damages and, as noted by Lord Millet, is a principle founded on inescapable logic.

---

46 *Insight SRC IP Holdings Pty Ltd v Australian Council for Educational Research Ltd*, above n 43, at [16].

47 Mr Henry submitted that academic writings showed the decision was seen as orthodox, but that is not correct. The references he relied on were in connection with another issue in the case concerning assignment of a cause of action. The case is cited neutrally in the Australian text Copyright and Designs: Kevin Lindgren and all *Copyright and Designs* (LexisNexis, online looseleaf ed) at [36,230].

[67] In fairness to Hinton J, it should be acknowledged she did not consider any of the authorities to be directly relevant. But what she took from them was an underlying policy supporting an expansive approach to damages and third party losses whenever a narrow approach would result in an injustice.

[68] As we have said, the Judge's response to the unfortunate facts of this case is understandable. She was concerned to avoid an outcome whereby wrongdoers would escape without being held financially accountable. However, the pursuit of justice in an individual case must be principled. This was a step too far. We agree with counsel for the appellants that the decision creates an illogical and unprincipled exception to the general prohibition on recovery of third party losses. If left to stand, it is likely to generate uncertainty and needless complications for copyright law and the law of damages generally. It would also enable parties to circumvent the statutory requirement that a licensee can only sue for breach of copyright if the licence is in writing.

[69] We therefore allow the appeal and set aside the judgment for $4.1 million.

Where to from here?

[70] While we all agree the High Court judgment should be aside, we have not been able to agree on whether that should be the end of the matter. The majority (Kós P and French J) consider the claim should be remitted to the High Court for quantum to be retried on the basis of a notional licence fee. Justice Harrison disagrees and in a separate judgment explains why he considers the litigation should end now.

[71] What follows under this section of the judgment is the view of the majority.

[72] It is often said that for every wrong there should be a remedy. And this case cries out for a remedy. The difficulties facing the respondents are not, however, a failing of the law. They could have been avoided had there been a proper focus at the outset on the separate legal entities and the available remedies. Instead of electing to recover damages, Technologies could, for example, have pursued an account of the profits made by the infringing appellants.[48] Further, although Graders might not have had a cause of

---

[48] Copyright Act, s 120(2).

action under the Copyright Act, it could have sued the appellants in its own right under one of the common law economic torts. The appellants knew full well Graders was the entity carrying on the Oraka grader business.

[73] The election to recover damages instead of an account of profits was made eight years ago and cannot now be rewound. Claims in common law tort by Graders will also be time-barred.[49]

[74] However, notwithstanding the errors that have been made in prosecuting the case, the majority considers it would be unjust to leave Technologies without any relief, having regard to the fact there is another established head of damages to which Technologies is indisputably entitled and in respect of which it did not make an irrevocable election. There is no question that, as the owner of a copyright that has been infringed, Technologies is entitled to payment of what is described in the authorities as a notional licence fee or royalty.[50] That is to say, it is entitled to receive from the infringers the price that would reasonably have been charged for permission or authorisation to carry out each infringing act. This approach, called the "user principle", is used when it not possible to establish a normal royalty fee because the claimant is not in the practice of licensing their property.

[75] The appellants acknowledged Technologies was entitled to recover a notional licence fee under the user principle but submitted after so many years of litigation it is now too late for this Court to allow recovery on a different basis than that claimed. They contend in effect that, having chosen to live by the sword, Technologies should die by the sword. It knowingly adopted a high-risk strategy by seeking damages equating to third party losses and not limiting itself to conventional remedies.

---

49 By virtue of s 4 of the Limitation Act 1950.

50 This principle was established in respect of patent infringement: *Gallagher Electronics Ltd v Donaghy Electronics Ltd* (1991) 4 TCLR 344 (HC) at 348–350; *Watson, Laidlaw & Co Ltd v Pott, Cassels & Williamson* (1914) 31 RPC 104 (HL) at 120 and *General Tire & Rubber Co Ltd v Firestone Tyre & Rubber Co Ltd (No 2)* [1975] 1 WLR 819 (HL) at 826. The same principles have been held to apply in cases of copyright infringement: *Electroquip Ltd v Craigco Ltd (No 2)* HC Auckland CIV-2006-404-6719, 29 April 2010 at [25]–[29]; *Blayney v Clogau St David's Gold Mines Ltd* [2002] EWCA Civ 1007, [2003] FSR 360 at [19]–[20]; *Feltex Furnishings of New Zealand Ltd v Brintons Ltd* (1992) 4 NZBLC 102,913 (CA); Ian Finch *James & Wells Intellectual Property Law in New Zealand* (2nd ed, Thomson Reuters, 2012, Wellington) at 325–329.

[76] There is the further point that fixing a fair and reasonable royalty for the appellants' use of the cup assembly will require the calling of further evidence, which in turn means having to remit the case to the High Court once again. Although Mr Skelton QC, for the first appellant, said his preference would be for this Court to fix the fee if that were to be the outcome, we do not consider that to be feasible.

[77] The situation is obviously unsatisfactory. On the other hand, as counsel accepted, the task is not a major one. The relevant principles governing the fixing of a notional licence fee are well settled. Further, information detailing the number of infringing sales is either already in evidence or readily available as a result of the discovery process.

[78] The discretion to remit a case back to the trial court for quantum to be retried on a proper basis is, for obvious reasons, a discretion to be exercised very sparingly, especially when the claimant has made deliberate choices. However, the majority considers the circumstances of this case justify our taking that approach. It is regrettable the parties are to be put to yet more expense and delay but that consideration is outweighed by the interests of justice. This litigation began with a plain infringement of Technologies' intellectual property rights by the appellants. It was an infringement that deserves not only denunciation but also a remedy. It can be said in a very real sense that the appellants brought this litigation upon themselves. Yes, there have been deficiencies in Technologies' pursuit of its rights but they are deficiencies of a procedural nature and are sufficiently addressed by an award of costs.

Outcome

[79] The appeal is allowed and the judgment of the High Court for $4.1 million is set aside.

[80] In accordance with the views of the majority, the case is remitted to the High Court for the quantum of damages to be determined on the basis of a notional licence fee payable in respect of each infringing use during the period from the commencement of infringement to the expiry of the first appellant's copyright.

[81] As regards costs, we consider these should follow the event. The appellants have been largely successful and we accordingly order the respondents to pay each of the two represented groups of appellants costs for a standard appeal on a band A basis together with usual disbursements. Costs in the High Court should be determined in accordance with the outcome of the appeal.

HARRISON J

[82] I agree with Kós P and French J that the appeal should be allowed for the reasons given at [1]–[69].

[83] However, I disagree that the proceeding should be remitted again to the High Court for the quantum of damages to be determined on the basis of fixing a notional licence fee. This litigation has a long, expensive and unsatisfactory history. Both sides must share the blame. The proceeding has been to the High Court and to this Court on numerous occasions. In its infringement decision delivered in 2013 this Court entered judgment for Technologies and remitted the proceeding to the High Court for an inquiry into damages on the obvious but unspoken expectation that this course would ensure finality.[51]

[84] In accordance with this direction Technologies and the two other respondents sought damages in the High Court for an amount in excess of $4 million, primarily comprising loss of profits of about $3.6 million and Mr Schwarz's salary of $850,634. The company had a range of options, all of which could have been pursued alternatively at the same hearing, but elected to pursue only some heads of loss and not others. I can only infer that its election was made deliberately, following receipt of professional advice. It would not now be proper to second guess or question the adequacy of that advice.

[85] In particular, Technologies elected affirmatively not to pursue an account of profits or a claim for a notional licence fee or royalties. While not questioning the accounting composition of Technologies' claim for loss of profits, Napier defended the company's claim on the proper ground that any losses were suffered by Graders, which had no standing to sue.

[51] CA infringement decision, above n 4.

[86] I agree with Mr Skelton that in these circumstances Technologies should be held to its unequivocal election. It should not be accorded another opportunity to rerun its case because its own original election, which involved a conscious election following the opportunity given by this Court, was wrong.

[87] The majority recognise that the discretion to remit a proceeding back to the trial court for retrial of quantum is to be exercised very sparingly. I am not satisfied that that discretion is properly exercised on the ground that it would be unjust to leave Technologies without any relief because it is and always was indisputably entitled to recovery of damages equal to a notional licence fee. That was plainly the case following this Court's earlier decision in 2013. While it is true that the appellant parties brought the original litigation upon themselves, they bear no responsibility for the deliberate decisions made by Technologies since 2013 about the appropriate choice of remedy. In my judgment, the narrow discretion is not available to relieve a party acting with the benefit of full professional advice of the financial consequences of its election. There is an overriding public interest in finality. The courts' resources are not infinite and have been more than proportionately expended on this contest. And there is the compelling private interest in sparing Napier yet further expense in defending another round of litigation.

[88] For these brief reasons, I disagree with the order made in [80] of the judgment.

Solicitors:
Hudson Gavin Martin, Auckland for First Appellant
Malloy Goodwin Harford, Auckland for Second and Third Appellants
Le Pine & Co, Putaruru for Respondent