

the article was first published in the 01 April 2022 Law Institute Journal

Mainstreaming User Principle Copyright Damages

David Brennan

Removing the limitation

Damages awarded for the infringement of an intellectual property right have long been accepted as taking the form of the reasonable fee that should have been paid for the use of the right: user principle damages.¹

However for several decades, and commencing in 1990, the Federal Court of Australia had placed a significant limitation on the availability of the award of user principle damages for copyright infringement, a limitation informed by a rigid notion of what is recognisable harm in such cases.² The Federal Court had held in a line of cases, including by the Full Court in 2007, that the user principle did not provide an appropriate measure of damages wherever it could be shown that the copyright owner plaintiff as a matter of fact would not have granted a licence to the infringer.³ Where an unwillingness to licence the infringer was established in many of these cases the plaintiffs were awarded nominal ordinary damages, albeit frequently supplemented by awards of significant additional damages justified on grounds such as addressing flagrancy, ensuring deterrence and effecting restitution.⁴ In 2015 a questioning of the denial of user principle damages in these cases was made by Yates J. Yates J, in a passing-off case, described the Full Court's 2007 decision as being:

At odds with the user principle, which does not depend for its application on the willingness, in fact, of the property owner and the wrongful user to offer and accept a licence or, what is more, on the willingness of the wrongful user to pay a royalty or licence fee. The user principle can be understood as proceeding on the basis of a hypothetical negotiation in which both parties are presumed to act reasonably.⁵

The Yates J position was effectively accepted by the High Court as part of its 2020 *Lewis v Australian Capital Territory* decision, a case involving not copyright infringement but false imprisonment.⁶ There the High Court (Edelman J, relevantly supported by Kiefel CJ and Keane J) stated that damages awarded under the user principle were available as compensation for past trespass to real or chattel property, and for the infringement of intellectual property rights.⁷ The High Court described such a damages award as:

[O]ne manner by which a wrongful act is rectified. It is also wholly independent from the separate award of disgorgement of a defendant's profits. In seeking to rectify the wrongful act, the user fee, which is often calculated by a hypothetical negotiation between a willing licensor and a willing licensee, usually focuses upon both the reasonable value of the wrongful acts to the defendant and their reasonable price to the claimant.⁸

Critically the availability of such damages was said by the High Court, consistent with the view of Yates J, to be predicated on the possibility that permission could have been lawfully negotiated for exploitation of the private right in suit (e.g. real, chattel or intellectual property) and not that the parties would have in fact done so. In other words, the only relevant limitation on the availability of user principle damages is that the plaintiff's private rights in the action have a fungible nature.

An application of the new approach

Katzmann J, in her 2021 *Universal Music Publishing v Palmer* decision, gave effect to this guidance from the High Court in a copyright case.⁹ The defendant Palmer had produced an apparent cover version of the chorus of the rock anthem *We're Not Gonna Take It* (a song first published in 1984

and made popular by the US rock group ‘Twisted Sister’) and included it within the soundtrack to a series of audio-visual political advertisements for the 2019 Federal Election. A negotiation to use the rock anthem lawfully failed to arrive at agreement, the defendant had resolved to use the song regardless. While this conduct contributed to a notable additional damages award of one million dollars (in part justified on the basis that any “award of additional damages must be sufficiently high to operate as a deterrent” and that “Mr Palmer is a man of immense wealth” with a “net worth ... over \$1 billion”¹⁰) the basis upon which ordinary damages of \$500,000 were awarded under the user principle is of particular interest. For that ordinary damages award Katzmann J applied *Lewis v Australian Capital Territory* directly:

It follows that it does not matter whether Universal would have licensed [*We’re Not Gonna Take It*] to Mr Palmer or whether Mr Palmer would have entered into a licence agreement. Either way, Universal is not limited to nominal damages. Rather, damages should be assessed by reference to a notional licence fee.¹¹

Guided by a recent decision of the New Zealand Court of Appeal, which also dealt with the infringing use of music in a political campaign, quantum was arrived at by Katzmann J on the following basis:

- (i) the song was a valuable commodity for Universal as its popularity had endured over the decades since its original release;
- (ii) the value of the use to the defendant was considerable;
- (iii) the song had not previously been used in advertising in Australia;
- (iv) the use was for political purposes by a controversial figure;
- (v) the song was deployed in multiple advertisements and featured prominently in all of them;
- (vi) the advertisements were shown frequently throughout Australia and on a variety of platforms including free-to-air television, a political party website, YouTube and Facebook;
- (vii) the campaign lasted for a period of about six months;
- (viii) the notional licence extended only to the chorus of *We’re Not Gonna Take It*, but the chorus was a substantial part and the song’s most memorable feature;
- (ix) while the risk may diminish over time, there is a risk that some people will continue to associate *We’re Not Gonna Take It* with the defendant’s political party.¹²

While the defendant Palmer had filed a Notice of Appeal against the trial judgment, in late 2021 that appeal was discontinued prior to any Full Court hearing.

Implications of the new approach

This all marks a significant shift in the flexibility for copyright plaintiffs when considering ordinary damages. It means that as a practical matter there are now two distinct and mutually exclusive assessment means upon which they may seek ordinary damages: (a) compensation to rectify past infringement under the user principle; or, (b) compensation for the consequences of past infringement by proof of actual loss. The latter is the method that had been the mainstream Australian law assessment means since the Victorian Supreme Court decision in *Prior v Lansdowne Press*.¹³ However it is often laden with forensic challenges outside cases of rank piracy where it can be shown the infringements are a perfect substitute for the plaintiff’s authorised supply. So that in *Prior v Lansdowne Press* the alleged infringement was the partial reproduction of the plaintiffs’

literary work (a book) by way of five excerpts in five consecutive editions of a Sydney city daily newspaper. Gowans J described copyright damages on the following basis:

It is difficult in a case of this kind to ascertain what loss in the value of the copyright of a book is caused by unauthorized publication in a newspaper of excerpts from the book. I do not think it is measured by the price that could be commanded for supplying material of the particular kind to the newspaper ... In the end such loss as there is must ultimately be reflected in loss of sales of the book or in loss of the sale of the other vendible rights in relation to it.¹⁴

This led to a damages award couched as follows: “Doing the best I can, I assess the effect on the potential market for the copyright as a whole at \$1,000.”¹⁵ However, most of the judgment, and all of a subsequent Victorian Full Court appeal, was on the matter of the legal costs order because the defendants had paid into court \$4,000 by way of a *Calderbank*-type settlement offer.¹⁶

In light of *Lewis v Australian Capital Territory* it would now be readily open to assess damages in a case such as *Prior v Lansdowne Press* on the alternative basis of the user principle by asking: what should the newspaper publisher have paid as a reasonable licence fee for the use of the plaintiffs’ work? For that notional fee assessment the jurisprudence offers the following guidance from cases more typical than the political setting of *Universal Music Publishing v Palmer*. If a going market rate exists for analogous uses, that rate usually should be applied to determine a notional fee to calculate damages.¹⁷ If no such going market rate exists (e.g. the infringing use had idiosyncratic features) then the fee should be assessed by constructing what would have been reasonably negotiated by a hypothetical willing licensor and willing licensee in the shoes of the respective parties. A case such as *Larrikin Music Publishing v EMI Songs Australia* reveals that in practice a hybrid of the two may apply: what would such hypothetical reasonable parties have agreed to in the context of comparable market bargains.¹⁸

David Brennan, a Visiting Fellow at the UTS Law Faculty and copyright policy consultant for Screenrights, co-edits the *Australian Intellectual Property Journal* and teaches intellectual property into the Monash University graduate law program. He is the author of *Copyright Law* (The Federation Press, 2021).

¹ An early example is found in *Penn v Jack* (1867) LR 5 Eq 81, 84.

² The line of cases commenced with *Autodesk Australia v Cheung* (1990) 94 ALR 472, 476-477; [1990] FCA 97, [14]-[16] (Wilcox J) and concluded with *Pokémon v Redbubble* (2017) 129 IPR 1, 41-43; [2017] FCA 1541, [73]-[74] (Pagone J).

³ *Aristocrat Technologies Australia v DAP Services (Kempsey)* (2007) 157 FCR 564, 569; [2007] FCAFC 40, [27] (Black CJ and Jacobson J).

⁴ Thus in *Aristocrat Technologies Australia v DAP Services (Kempsey)* (2007) 157 FCR 564; [2007] FCAFC 40, a \$1 nominal ordinary damages award was supplemented with a \$200,000 additional damages award.

⁵ *Winnebago Industries v Knott Investments (No 4)* (2015) 115 IPR 494, 508-510; [2015] FCA 1327 [44]-[48].

⁶ (2020) 381 ALR 375; [2020] HCA 26.

⁷ (2020) 381 ALR 375, 407-413; [2020] HCA 26, [139]-[149] (Edelman J).

⁸ (2020) 381 ALR 375, 412; [2020] HCA 26, [148] (Edelman J).

⁹ (2021) 158 IPR 421; [2021] FCA 434.

¹⁰ (2021) 158 IPR 421, 507; [2021] FCA 434, [523].

¹¹ (2021) 158 IPR 421, 489; [2021] FCA 434, [396].

¹² (2021) 158 IPR 421, 500; [2021] FCA 434, [468]-[477] (Katzmann J). the New Zealand Court of Appeal authority relied upon was *New Zealand National Party v Eight Mile Style* (2018) 144 IPR 486; [2018] NZCA 596.

¹³ [1977] VR 65; [1977] VicRp 6.

¹⁴ [1977] VR 65, 70; [1977] VicRp 6.

¹⁵ *Ibid.*

¹⁶ *Prior v Lansdowne Press* [1977] VR 65, 71-77; [1977] VicRp 6 and *Lansdowne Press v Prior* (Unreported, Victorian Supreme Court Full Court, 29 June 1976); [1976] VicSC 304.

¹⁷ *Firestone Tyre v General Tire & Rubber* [1975] FSR 273 an approach essentially applied in *Australasian Performing Rights Association v Grebo Trading* (1978) 23 ACTR 30 where a rights management association's published rate could be applied.

¹⁸ (2010) 188 FCR 321; [2010] FCA 29. Also of relevance here is that the ACCC in 2019 published guidelines for the Copyright Tribunal of Australia to assist the Tribunal when it is exercising oversight jurisdiction in respect of voluntary copyright licensing schemes: ACCC, *Guidelines to Assist the Copyright Tribunal in the Determination of Copyright Remuneration* (2019), 14. These guidelines recommended the making of copyright price determinations by "benchmarking" (use of comparable actual market bargains), the construction of hypothetical bargains (which are populated by notional "willing but not anxious" buyers and sellers), or a hybrid of both. Notably the ACCC eschewed endorsing or recommending "judicial estimation", which was a method whereby the Tribunal had taken account of all matters considered relevant in the round and applied a degree of intuitive synthesis to determine a rate.