Dear national reporters, 

1. Please find attached the outline of our second draft general report on disgorgement damages. As compared to the draft which I sent you on June 19, the present manuscript has been revised only marginally. We are grateful to among others Talia Einhorn and Stephen Watterson for their suggestions.

2. We are glad to report that in the end we will receive an English version of the French report, so all national reports will be in English.

Kind regards,

Ewoud Hondius
André Janssen
1. Disgorgement damages is not exactly a household word in private law. This book basically is about the question whether it should become one. We do find different attitudes in the various legal systems presented in this volume. Many common law and mixed jurisdictions are familiar with the notion, although not all do embrace it wholeheartedly. Civil law jurisdictions, however, are much less inclined to accept the notion, which they often find to be at odds with their abhorrence of contamination of their private law system with criminal law elements.

2. We have given considerable thought to an arrangement of the national reports in the volume to be published. Something which we abhor is the classical arrangement by country in alphabetical order. Should we then rather introduce classification by taking the answer to our main question as criterion?\(^1\) Part I would then consist of national reports from jurisdictions that accept compensation in general, Part II of those that do so occasionally, etc.? After some reflection we decided to reject that approach as well. For reasons to be set out in the Preface we will revert to the traditional classification in legal families. Provisionally, that would mean common law, French law, German law, Nordic law, mixed and composite systems, Central & East European law, East Asian law, and Latin American law. The latter three have newly been invented by us. We have already entered into a discussion with our Canadian reporters how to classify Canada. Unlike at previous occasions there are not two Canadian reports, one from the French speaking province of Québec and the other from the remaining English-speaking provinces. That would have made it easy: the first report would be among the French reports and the second in the common law group. The single Canadian report made us consider the mixed jurisdictions as a parent group, but then Canada definitely is not mixed. So we will keep the issue for the discussion in Vienna. Perhaps a solution would be to broaden the notion of mixed jurisdictions for our purposes to something like ‘mixed and composite systems’. This may bring us into conflict with the keepers of the mixed systems from Louisiana, but who is afraid of a nice academic fight.

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\(^1\) One of us did so previously in Ewoud Hondius & Hans Christoph Grigoleit (eds), *Unexpected circumstances in European contract law*, Cambridge: University Press, 2011, where the distinction between ‘open’ and ‘closed’ legal systems is used to distinguish the various jurisdictions.
3. Another innovation in this volume has been to use a geographical criterion for the jurisdictions from Central and East Europe, East Asia and Latin America. Although these jurisdictions do have common characteristics, these often are of a linguistic (Latin America, East Asia) or a historical nature (Central and Eastern Europe). Not always is language or history sufficient as a binding notion. The geographical breakdown therefore seems to us a useful alternative, although not wholly without inconvenience either. One again this is a discussion point for the forthcoming Vienna conference. More specifically, the question may be raised whether the newly invented groups of Central and East European law, East Asian law and Latin American law are sufficiently consistent to form a group. In the case of Romania, our colleagues from that country have convinced us that this jurisdiction belongs to the French family. But then, what about the two other Central and East European jurisdictions dealt with in this volume?

4. Studying the national reports may provide the reader not only with an insight in the specific problem of disgorgement damages, but also of remedies in general and even of sources. The latter is perhaps in need of some further explanation. It is obvious that the national reports emanating from civil law jurisdictions focus on statutory provisions, whereas common law jurisdictions first look for cases. But some further discrepancies may be observed. For instance, the Portuguese national report seems just as interested in doctrinal publications as in statutes or cases. Thus, Júlio Gomes writes, ‘Manuel Carneiro da Frada highlights this difficulty’, and ‘The inadequacy of Pereira Coelho’s position’ are some citations to illustrate this phenomenon.

5. Volumes such as the current one ours usually encompass one general report. We now envisage including both the questionnaire and a concluding part. This is because some national reports enter into a discussion with the questionnaire and it therefore seems methodologically better to include that questionnaire.

6. This volume includes both a table of cases and an index.

7. We are grateful to our national reporters who were willing to submit their reports in time. We also thank the organisers of the conference, both at the Paris headquarters of the International Academy of Comparative Law and in Vienna. We also thank the publishers of Springer.
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Disgorgement of Profits

“This Court never allows a man to make profit by a wrong, (…).”

This famous sentence by Lord Hatherly in Jegon v Vivian is already more than 140 years old but still seems to be completely in line with today’s rhetoric. It is a timeless statement. Maybe even more than in Lord Hatherly’s time there is a worldwide ideal that unlawful conduct (or more specific tort) should not pay and that for this reason the wrongdoer’s illegal profits must be disgorged.
Unfortunately, the legal reality looks very different from the rhetoric. Infringements of e.g. competition law, unfair commercial practices law, capital market law, intellectual property rights or personal rights by mass media or the breach of fiduciary duties are generally highly profitable for the wrongdoer. Thousands of millions of euros or dollars of unlawful profits remain with the wrongdoers every year. Thus, in practice tort or in general unlawful conduct often pays.

From a private law perspective the reasons why unlawful conduct at the end pays are at least threefold: The first and most obvious one is when the chance to detect the wrongdoer is very low. In these situations he is „speculating” that he will not be held liable for his unlawful behaviour. The second reason can be the rational apathy of the injured parties in cases of so-called ‘trifling damages’ or ‘nominal damages’. These are cases in which the damage of each individual is low (and thus the incentive to claim damages is low as well) but as a lot of persons suffered these losses, the profit of the wrongdoers is (sometimes immensely) high. Another possible reason is that the wrongdoers’ expected profits are higher than the legal sanctions (especially damages) for the infringement. In these cases the calculated breach of law remains profitable despite all sanctions (efficient or profitable breach of law). In common law countries, there is also a divide between private law actions which historically arose in common law courts and private law actions which historically arose in equity in the courts of Chancery. Although the account of profit (disgorgement) arose in the common law, it was taken up by the courts of Equity and became principally available for breaches of equitable wrongs. Thus it was not traditionally awarded for breaches of common law wrongs such as contract and tort.

8 For instance, according to a study published in 2007 the yearly impact of cartels in Europe do amount up to €261.22 billion. This would in turn mean an impact of 2.3% of the EU GDP (see Centre for European Policy Studies/Erasmus University Rotterdam/Luiss Guido Carli, Making Antitrust Damages Actions more Effective in the EU: Welfare Impact and Potential Scenarios, Report for the European Commission, 2007, p. 96).


The initial question for the idea of disgorgement of illegal profits is which branch of law is or should be in charge and what instruments they offer to ensure that law infringements do not pay and that illegally gained profits are disgorged. In the majority of legal systems it seems to be accepted that this combat against unlawful profits is not just a task for one branch of law but that criminal, administrative and private law have to work closely together to achieve the best result possible.\textsuperscript{11} For this reason criminal and administrative law often foresee a whole arsenal of more or less efficient particular instruments focusing on disgorgement of unlawful profits: They can e.g. either be confiscated,\textsuperscript{12} skimmed-off by authorities,\textsuperscript{13} or administrative or criminal fines can be calculated according to the illegal profits.\textsuperscript{14}

For the private law sector however, it seems that possible remedies for disgorging unlawful profits are often less „obvious”, sometimes even almost „hidden” under the banner of compensatory damages or other obfuscatory labels. Often they are widely spread all over the private law system, which normally complicates a common understanding of the problem. Arguably the most discussed and most distinct private law instrument are the so-called disgorgement, restitutionary\textsuperscript{15} or gain-based damages.\textsuperscript{16} In strong contrast to compensatory damages they are measured according to the defendant’s gain based on the infringement of a right rather than the plaintiff’s losses. Thus, the plaintiff might gain damages that exceed his suffered losses considerably; he receives what is sometimes called a “windfall profit”.\textsuperscript{17}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{12} See e.g. section 73 et sec. German Criminal Code or § 29a German Administrative Offences Act.
\item \textsuperscript{13} See e.g. section 34 German Act against Restraints of Competition.
\item \textsuperscript{14} See e.g. section 17(4) German Administrative Offences Act; section 81(5) German Act against Restraints of Competition.
\item \textsuperscript{15} In the common law, restitution has two meanings: a giving back and a giving up, as Peter Birks has observed.
\item \textsuperscript{17} See e.g. Thomas Dreier, \textit{Kompensation und Prävention – Rechtsfolgen unerlaubter Handlungen im Bürgerlichen, Immateri algüter- und Wettbewerbsrecht}, Tübingen: Mohr, 2002, p. 42 et seq.: Marc
\end{itemize}
\end{footnotesize}
With regard to disgorgement damages national reporters have to face several problems: as already indicated above, there is the question of different terminology which complicates a uniform understanding. In addition, not every jurisdiction recognises this topic as a specific issue as such and this may also give difficulties to them.18 They might also have the problem that damage multipliers as e.g. the American treble damages19 in competition law or punitive or exemplary damages in Common Law20 systems have a function of disgorging profits along with other functions such as; thus a functional overlap might occur.21 In Australia, the historical division between equity and common law remains a significant barrier to the award of disgorgement damages in areas of private law which have their origins in the common law, such as contract and tort.22 The melding of common law causes of action with remedies which historically arose in equity is said to produce ‘fusion fallacy’ by ignoring historical precedent.23 By contrast, the US is unconcerned about a fusion of common

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18 Compare Simon Whittaker, in: Fabrizio Cafaggi (ed.), Contractual networks, inter-firm cooperation and economic growth, Cheltenham: Elgar, 2011, p. 179: “It is always difficult to discuss a topic from the point of view of a legal system where that legal system does not recognise the existence of the topic.”


21 See e.g. for the treble damages in US competition law Antitrust Modernization Commission, Report and Recommendations, Washington D.C. 2007, p. 246 (treble damages also for „disgorgement of profits”).


23 RP Meagher, JD Heydon and MJ Leeming, Meagher, Gummow and Lehane’s Equity, Doctrines and Remedies, 4th edn (Sydney, Butterworths Lexis Nexis, 2002) 61, 854
law and equity, and this is reflected in its much greater willingness to award disgorgement and punitive damages for a wide range of actions.

In most legal systems disgorgement damages are not considered as a general remedy for all kind of law infringements; thus often a general legal basis is lacking. E.g. in the US, traditionally it has been denied that disgorgement damages should always be awarded – see for instance E. Allan Farnsworth. But more recently Melvin Eisenberg has argued that such damages are already accepted in American law – see Snepp v US. And in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognised that disgorgement may be appropriate in some cases. Also in Germany a general instrument “disgorgement damages” is lacking in the Civil Code of 1900. However, recently well-known scholars as Gerhard Wagner do stick up for an inclusion of disgorgement damages in the law of damages (for intentional infringements). In common law countries such as England and Wales and Australia, Canada and New Zealand, disgorgement damages have traditionally been available only for equitable causes of action such as breach of fiduciary duty and breach of confidence where they are known as the “account of profits”. However, it has been recognised by courts in England and Wales and Canada that disgorgement may be awarded outside the equitable sphere for other private law causes of action such as breach of contract. Some other countries however, do prima facie have a general

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24 See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) §4, ‘Restitution May Be Legal Or Equitable Or Both’.
31 Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109 (HL).
legal basis for disgorgement damages as for instance The Netherlands. Article 6:104 of the Dutch Civil Code of 1992 seems to provide a legislative basis for such damages, but in the case of *Waeyen-Scheers/Naus* the Dutch Supreme Court only considered this a way of assessing damages. J.D.A. Linssen considers unjustified enrichment a better ground.

Despite the fact that there seem to exist reservations with regard to the acceptance of a general remedy “disgorgement damages” there are some branches of law where they are particularly discussed and often accepted. In contract law, often courts have characterised a breach of contract also constituting a concurrent breach of fiduciary duty in order to have recourse to disgorgement damages. In a lot of legal systems disgorgement damages in case of intellectual property rights infringements are accepted. Also in the world of competition law – even though private enforcement is here with the exception of the US a relatively new phenomenon – in some legal systems the plaintiff may disgorge unlawful profits based on an infringement of competition law as damages. Another very famous and important branch for disgorgement damages are the (intentional) infringements of personality right by mass media for gain. Several courts from different countries have decided that the profits e.g. a newspaper makes due to an intentional violation of personality rights should be disgorged by disgorgement damages as otherwise tort might pay.

Thus, several national reporters might face the fact that the possibilities for receiving disgorgement damages might be wide-spread over several branches of law; sometimes based on case law and sometimes on statutory law, and the legal requirements might differ considerably. The question is nonetheless whether despite

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33 *Nederlandse Jurisprudentie* 1995, nr. 421.
35 For Europe see article 13(1)(a) of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (known as the “Enforcement Directive”) and the national implementation legislation. For America see e.g. § 504(b) Copyright Act. See more detailed about disgorgement damages in US intellectual property law Klaus Ulrich Schmolke, *Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil* 2007, 3-11. For England and Wales see eg, Copyright, Designs and Patents Act 1988 (UK), s 96(2), s 229(2), Trademarks Act 1994 (UK), s 14(2), Patents Act 1977, s 61(1). For Australia see eg, Patents Act 1990 (Cth) s 122(1), Copyright Act 1968 (Cth), s 115(2); Designs Act 1906 (Cth), s 32B(1); Trade Marks Act 1995 (Cth), s 126; Circuit Layouts Act 1989 (Cth) s 27(2); Plant Breeder’s Rights Act 1994 (Cth) s 56(3).
36 See e.g. section 33(3) German Act Against Restraints of Competition.
37 See e.g. the leading German case “Caroline von Monaco” (German Supreme Court, 19 December 1995, BGHZ 131, p. 332 et seq.).
this diversity just mentioned a coherent theory of disgorgement damages exists. The question is for example whether the different kind of disgorgement damages do serve the same function and what function that would be. As possible underlying reasons for disgorgement damages are discussed: prevention, compensation, restitution, deterrence or also the “Rechtsfortwirkung”. However, in some legal systems the admissibility of disgorgement damages as such is disputed by several authors. In their eyes this remedy primarily serves to punish the wrongdoer, and this function is described as alien to their private law system.

It would also be important to know whether there is a uniform interpretation of the different kinds of disgorgement damages (e.g. calculation of profits, whether they normally exceed the plaintiff’s losses) and whether they are practically relevant. In the past it seemed that at least in some areas (e.g. intellectual property rights) plaintiffs seldom asked for disgorgement damages as they were too difficult to calculate or did not exceed the suffered losses substantially. If national reporters come from a legal system without a general legal basis for disgorgement profits, information about any movements to introduce one would be welcome.

However, within the private law sector disgorgement damages are not the only remedy which effects disgorgement of unlawful profits. They are or at least can be an important part of the solution, but normally they are not the only possible solution. There might be other instruments that are functionally equivalent to disgorgement damages. For instance, even though not in the centre of attention here, as already noted punitive or exemplary damages and damage multipliers could have a disgorgement function along with the other functions. And albeit not even a remedy in the strict sense, also class actions that are becoming increasingly popular in Europe and elsewhere, also aim at disgorgement of profits. However, arguably for several national reporters the most obvious further general remedy for disgorgement of

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profits can be found in the law of unjust enrichment respectively restitution.\textsuperscript{40} If you make a profit by infringing somebody else’s rights the plaintiff might ask for restitution of this gain. Another important general instrument for disgorging unlawful profits might at least for some legal systems be the benevolent intervention in another’s affairs.\textsuperscript{41}

Beside these remedies it is very likely that there are further functional equivalents for disgorgement damages in a lot of legal systems which cannot all be mentioned here. Some legal systems might for example contain specific legislation for breaches of fiduciary duties in order to disgorge unlawful profits (without imposing disgorgement damages). The German Commercial Code for instance contains several rules giving the principle a right to subrogation (so-called “Eintrittsrecht”) in order to disgorge the agent’s profits due to breach of fiduciary duties.\textsuperscript{42} Another trend over the last years seems to be the creation of new sui generis private law remedies trying to combat unlawful profits. For instance section 10 German Unfair Competition Act or section 34a German Act against Restraints of Competition give the right to disgorge profits made under intentionally committed infringement of unfair commercial practices or competition law to among others associations.\textsuperscript{43} However, and this is quite unique, the disgorged profit has to be surrendered to the Federal budget but neither to the plaintiff nor to the injured parties.

The task for the national reporters here is to provide information whether there are functional equivalents to disgorgement damages in their legal systems, under which circumstances they apply and how they are used in practice. The result might even be that for some legal systems these functional equivalents play a much bigger role than disgorgement damages. Ultimately, the question should be answered by the national reporters whether in their opinion their legal system is an efficient one when it comes to disgorgement of unlawful profits by private law mechanisms. And if not what are their suggestions to enhance the overall situation regarding the combat

\textsuperscript{40} “Beneath the cloak of restitution lies the dagger that compels the conscious wrongdoer to ‘disgorge’ his gains.” (Warren v. Century Bankcorp., Inc., 741 P.2d 846, 852 (Okla. 1987)).
\textsuperscript{41} See e.g. section 687(2) German Civil Code or article 423 of the Swiss “Obligationenrecht” (both on false agency without specific authorisation).
\textsuperscript{42} See section 61(1), 113(1) German Commercial Code.
\textsuperscript{43} See more detailed Stefan Sieme, Der Gewinnabschöpfungsanspruch nach § 10 UWG und die Vorteilsabschöpfung gem. § 34, 34a GWB, Berlin: Duncker & Humblot, 2009, 291 p.
against illegal profits.

Bibliography [omitted]
B. Common law

Australia

National Report for Australia on Disgorgement of Profits

By Katy Barnett, University of Melbourne

I Introduction

In Australia, disgorgement is available only for equitable causes of action, intellectual property breaches and (arguably) some proprietary torts. Australian courts have been less willing to expand the availability of disgorgement of profits to other private law causes of action than courts in England, the United States and Canada. Australian courts tend to adhere strictly to the historical divide between the common law and equity (inherited from English law). This is particularly the case in the Australian State of New South Wales, where the law continued to be administered by entirely separate courts of common law and equity until the early 1970s. In other States, legislation was passed in the late 19th century which mirrored the UK Judicature Acts 1873 and 1875, and allowed a single judge to apply both common law and equity.

Some Australian judges have decried the practice of ‘fusion fallacy’ in a prominent Australian textbook, Meagher, Gummow and Lehane’s Equity: Doctrines and Remedies. ‘Fusion fallacy’ is described as involving:

- the administration of a remedy, for example common law damages for breach of fiduciary duty, not previously available at law or in equity, or in the modification of principles in one branch of the jurisdiction by concepts that are imported from the other and thus are foreign, for

1 BA/LLB (Hons), PhD (Melb), Senior Lecturer at Melbourne Law School.
2 See Supreme Court Act 1970 (NSW), ss 57–63; Law Reform (Law and Equity) Act 1972 (NSW), s 5.
3 See now Supreme Court Act 1933 (ACT) ss 25–32; Supreme Court Act 1995 (Qld), ss 242–249 (previously Judicature Act 1876 (Qld), ss 4–5; Supreme Court Act 1935 (SA), ss 20–28; Supreme Court Civil Procedure Act 1932 (Tas), ss 10–11; Supreme Court Act 1986 (Vic), s 29; Supreme Court Act 1935 (WA), ss 24–25.
example by holding that the existence of a duty in tort may be tested by asking whether the parties concerned were in fiduciary relationships. Meagher, Gummow and Lehane describe ‘fusion fallacy’ as an ‘evil’ practice. ‘Fusion fallacy’ dictates that a remedy which had its historical origin in one jurisdiction cannot be used in another jurisdiction where that was impossible before the Judicature Acts. Thus under this view, an account of profits cannot be awarded for breach of contract because this was (arguably) impossible before the Judicature Acts. Moreover, equity and common law are said to be unable to borrow concepts from each other. For example, the common law concept of exemplary damages cannot be used in the context of breaches of fiduciary duty.

The influence of ‘fusion fallacy’ in Australian law can be explained by the fact that all of the authors of Meagher, Gummow and Lehane’s Equity have subsequently been become judges in high level courts, and two of the authors ultimately became Judges of the High Court of Australia. Notwithstanding this, a number of Australian academics have called for the principled extension of remedies effecting disgorgement of profits in private law. One of those authors has also subsequently become a judge.

II The rationales behind disgorgement in Australia

Profit-stripping for equitable causes of action such as breach of fiduciary duty is generally perceived as having a deterrent rationale whereby courts attempt to encourage defendants to maintain certain standards by stripping profits. By contrast,

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5 Ibid, 54.
6 Ibid, 57.
8 However, see Justin Gleeson SC and James Watson, ‘Account of Profits, Contracts and Equity’ (2005) 79 Australian Law Journal 676 who argue that accounts of profits were available for breach of contract in equity’s auxiliary jurisdiction prior to the Judicature Acts. They cite: M’Intosh v Great Western Railway Co (1850) 2 Mac & G 74; 42 ER 29; Barry v Stevens (1862) 31 LJ Ch 785; Shepard v Brown (1862) 4 Giff 208; 66 ER 681; Manners v Pearson [1898] 1 Ch 581 and Davis v Hueber (1923) 31 CLR 583 (HCA).
10 Meagher JA (New South Wales Supreme Court and New South Wales Court of Appeal); Gummow J (Federal Court and of the High Court of Australia); Lehane J (Federal Court); Heydon J (New South Wales Court of Appeal and High Court); Leeming JA (New South Wales Court of Appeal).
12 Edelman J of the Western Australian Supreme Court.
profit-stripping for intellectual property infringement has a stronger focus on reversing unjust enrichment. Where reasonable fees are concerned, courts sometimes conceive of them as compensatory and sometimes as restitutionary. The basis for their award is contested.

III The three main remedies effecting disgorgement of profits

In Australia, disgorgement of profit is generally effected by three means: the remedy of account of profits, the constructive trust and finally, restitutionary awards made where a defendant has profited by use of the plaintiff's property.

Exemplary damages are very rarely awarded in Australia and are not generally used to strip profits when they are awarded, but to punish and deter, to assuage any urge for wrongdoing on the part of the plaintiff and to discourage plaintiffs from seeking self-help likely to breach the peace.

A Account of profits

1 Availability

The equitable remedy of the account of profits explicitly seeks to strip profit from a wrongdoing defendant. Accounts of profits are clearly available for equitable causes of action such as breach of fiduciary duty, breach of trust and breach of confidence, and for intellectual property breaches. The availability of accounts of profits for intellectual property breaches originated in the auxiliary jurisdiction of equity, but is now available pursuant to statute for many intellectual property rights. However, these statutory accounts of profit retain characteristics which reflect their origins in the auxiliary jurisdiction of Equity. The account of profits is

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17 Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109.

18 See Katy Barnett and Sirko Harder, Remedies in Australian Private Law (Cambridge University Press, 2014) 351.

19 Patents Act 1990 (Cth), s 122(1), Copyright Act 1968 (Cth), s 115(2); Designs Act 1906 (Cth), s 32B(1); Trade Marks Act 1995 (Cth), s 126; Circuit Layouts Act 1989 (Cth), s 27(2); Plant Breeder's Rights Act 1994 (Cth), s 56(3).

also available in equity’s auxiliary jurisdiction for passing off, a tort relating to intellectual property rights.\textsuperscript{21}

Accounts of profit have been said to be unavailable for common law causes of action such as breach of contract and tort in Australia.\textsuperscript{22} The only High Court of Australia authority on this issue, the dissenting judgment of Deane J in \textit{Hospital Products Ltd v United States Surgical Corp}, held that a constructive trust stripping profits may sometimes be available for breach of contract absent a concurrent fiduciary obligation.\textsuperscript{23} However, Deane J’s judgment has not been applied subsequently and is regarded as insufficient authority to warrant an award of an account of profits for breach of contract.\textsuperscript{24}

As an equitable remedy, accounts of profits are subject to equitable discretion.

2 \hspace{1cm} \textit{Calculation}

The calculation of an account of profits is a two-stage process. The first stage provides an account to the plaintiff of the defendant’s financial affairs insofar as they relate to her claim. Once a profit has been identified, it can be stripped from the defendant. This is the second stage of an account. The profits are generally the defendant’s net profits, rather than the defendant’s gross receipts.\textsuperscript{25} The court will not punish the defendant by requiring him to account for more than he has received by reason of the breach of duty.\textsuperscript{26} However, if it is impossible to work out whether the profit is the defendant’s or the plaintiff’s because the defendant has mixed them, or if the defendant’s conduct has been fraudulent, courts may not apportion the gain.\textsuperscript{27} Similarly, if a trustee makes a profit by misapplying trust money, it is likely that the plaintiff will be entitled to the entire profit.\textsuperscript{28}

\textsuperscript{21} \textit{My Kinda Town Ltd v Soll} [1983] RPC 15.
\textsuperscript{22} \textit{Hospitality Group v Australian Rugby Union} (2001) 110 FCR 157, 197–99 (Hill and Finkelstein JJ).
\textsuperscript{24} \textit{Testel Australia Pty Ltd v KRG Electrics Pty Ltd & Anor} [2013] SASC 91, [101].
\textsuperscript{26} \textit{Hospital Products Pty Ltd v United States Surgical Corporation} (1984) 156 CLR 41, 108–09 (Mason J) referring to \textit{Vyse v Foster} (1872) LR 8 Ch App 309, 333 (James LJ).
\textsuperscript{27} \textit{Hospital Products Pty Ltd v United States Surgical Corporation} (1984) 156 CLR 41, 109–10 (Mason J).
\textsuperscript{28} \textit{Scott v Scott} (1963) 109 CLR 649; see also \textit{Paul A Davies (Australia) Pty Ltd (in liq) v Davies} [1983] 1 NSLWR 440.
In assessing net profit, courts have traditionally made allowance for certain expenses incurred by the defendant in two ways. First, they have sometimes allowed specific disbursements, such as expenditures of money and other capital, as well as skilled labour by the defendant. Secondly, courts have credited the defendant with an allowance which is not specifically itemised, but more of an ‘all things considered’ allowance.

The High Court of Australia has recognised the difficulties in calculating profit derived from wrongdoing, and noted that ‘mathematical exactitude’ is generally impossible.

3  Election

A plaintiff seeking an account of profits must generally elect between equitable compensation and an account of profits, and the election is binding. In Warman International Limited v Dwyer, the High Court allowed the employer one week after judgment to elect between an account of profits and equitable compensation. A plaintiff must have sufficient information to enable her to make a fair choice between equitable compensation and an account of profits.

B  Constructive trusts

1  Availability

As Deane J’s judgment in Hospital Products Ltd v United States Surgical Corp indicates, another remedy effecting disgorgement is the constructive trust over

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34 Tang Man Sit (dec’d) v Capacious Investments [1996] AC 514.
profits. It is awarded for equitable causes of action such as breach of fiduciary duty, breach of trust or breach of confidence. It gives the plaintiff an equitable proprietary interest in the profits. The defendant is said by the court to be a trustee of the profit and to be holding it for the benefit of the plaintiff. Some English and Australian commentators have suggested that courts should simply order the defendant to reconvey the property to the plaintiff rather than using the constructive trust mechanism.

A controversial question arises where a dishonest fiduciary accepts a bribe. It is clear that the bribe should be stripped, but the question is whether a constructive trust or an account of profits should be used. There is no High Court of Australia authority on the issue. In Grimaldi v Chameleon Minding NL (No 2) the Full Federal Court said in obiter dicta that dishonest fiduciaries should be stripped of their profit by means of a proprietary remedy in order to deter such behaviour. However, in keeping with High Court authority suggesting constructive trusts should be awarded sparingly, the court did not suggest that a constructive trust would automatically arise, particularly if the defendant was insolvent or third parties would be adversely affected. Thus, the current Australian position is that a constructive trust may be available over bribes taken in breach of fiduciary duty, but that depending upon the interests of third parties, a lesser remedy such as a lien may be more appropriate. This approach is more flexible than the position in England and Wales (where there is either an immediate constructive trust or no trust at all). However, it must be queried whether a lien is really less intrusive to third party creditors than a constructive trust when there is insolvency, as it still gives the beneficiary of the

35 Keech v Sandford (1726) Sel Cas T King 61; 25 ER 223; Boardman v Phipps [1967] 2 AC 46; Chan v Zacharia (1984) 154 CLR 178.
43 Lister v Stubbs (1890) 45 Ch D 1; Sinclair v Investments (UK) Ltd v Versailles Trade Finance Ltd [2011] EWCA Civ 347, [2012] Ch 453.
fiduciary obligation priority over the unsecured creditors. The only advantage is that it will not encompass any subsequent increase in value to the property. The better solution may be to award a personal remedy where there is insolvency.\textsuperscript{44}

Sometimes courts obscure awards of disgorgement for breach of contract under an analysis which allows for stripping of profit on the basis that the defendant is a trustee under a constructive trust.\textsuperscript{45}

2 \textit{Calculation}

Because this remedy attaches to the property itself, its value depends on the value of the property itself from time to time, and is not set at a fixed rate. A constructive trust encompasses increases in the value of property after judgment. It also gives a plaintiff a distinct advantage where a defendant becomes insolvent, because it entitles the plaintiff to recover property to which the defendant has title not only as against the defendant, but also as against the defendant’s unsecured creditors. By contrast, a personal remedy such as an account of profits simply entitles the plaintiff to share \textit{pari passu} with the defendant’s other unsecured creditors.

C \textit{Reasonable fees}

Profit stripping may at least arguably be effected in common law for some proprietary torts (trespass to land, trespass to goods, conversion and detinue) where the defendant has profited by use of the plaintiff’s property. Courts typically award a reasonable fee for the use of the good, but also sometimes strip profits derived from the sale of the property.

Historically, the plaintiff was said to be able to ‘waive’ the tort where a tort had been committed (i.e. give up an action for compensatory damages) in favour of an action for money had and received (a restitutionary remedy). ‘Waiver’ suggests that the right to sue in tort is entirely relinquished, but this is misleading. Instead, the plaintiff elects between a compensatory remedy and a restitutionary remedy. However, there is an ongoing controversy as to the nature of these damages. Academics and courts

\textsuperscript{44} Vanessa Finch and Sarah Worthington, \textquoteleft\textit{The Pari Passu Principle and Ranking Restitutionary Rights}\textquoteright in Francis Rose (ed), \textit{Restitution and Insolvency} (Mansfield Press, 2000) 1, 19.

\textsuperscript{45} See eg, \textit{Lake v Bayliss} [1974] 1 WLR 1073; \textit{Bunny Industries Ltd v FSW Enterprises Pty Ltd} [1982] Qd R 712; \textit{Luxe Holding Ltd v Midland Resources Holding Ltd} [2010] EWHC 1908.
continue to debate whether these awards are compensatory, restitutiorary or effect disgorgement, and whether they are based on the existence of property rights or property-like rights.\textsuperscript{46}

Australian courts may grant ‘reasonable fee’ awards where defendants have used certain property or infringed certain rights in a tortious manner. These awards will be made where certain proprietary torts are committed,\textsuperscript{47} or where there is an infringement of an intellectual property right. ‘Reasonable fee’ awards also overlap with the jurisdiction of Australian courts to award Lord Cairns’ Act damages in lieu of an injunction.\textsuperscript{48} The damages awarded in lieu of an injunction sometimes reflect the fee the plaintiff might have sought if the defendant had sought consent to relax the right in question.\textsuperscript{49}

IV Differences between private law causes of action

A Equitable causes of action: breach of fiduciary duty, breach of trust and breach of confidence

Disgorgement remedies are readily awarded in Australian law for equitable causes of action such as breach of fiduciary duty, breach of trust and breach of confidence. Both accounts of profit and constructive trusts over profits may be awarded for these causes of action. Arguably, there is a strong deterrent flavour to the award of profit stripping remedies in this area.\textsuperscript{50} It is no defence, for example, that the beneficiary of a fiduciary obligation was unwilling, unlikely or unable to make the profits for which an account is taken, nor is it a defence that fiduciary acted honestly and

\textsuperscript{46} See the extensive discussion of the various academic points of view in Katy Barnett and Sirko Harder, Remedies in Australian Private Law (Cambridge University Press, 2014) 360–63.


\textsuperscript{48} Supreme Court Act 1933 (ACT), s 20; Supreme Court Act 1970 (NSW), s 68; Supreme Court Act 1979 (NT), s 14(1)(b); Civil Proceedings Act 2011 (Qld), s 8; Supreme Court Act 1935 (SA), s 30; Supreme Court Civil Procedure Act 1932 (Tas), s 11(13); Supreme Court Act 1986 (Vic), s 38; Supreme Court Act 1935 (WA), s 25(1).


reasonably. Nonetheless, the availability of an allowance for skill and effort in favour of the defendant may alleviate any harshness of an account of profits in some instances, and in Australia at least it appears these may be available even where a fiduciary deliberately and dishonestly breached his fiduciary duty. The principles which govern their award are the ones which are discussed previous under heading III A Accounts of profit.

**B Intellectual property**

It has been said that the purpose of the account of profits for intellectual property infringements is not to punish the defendant, but to prevent the defendant from being unjustly enriched. Thus, its purpose is said to be somewhat different to the account of profits for breach of fiduciary duty.

In *Colbeam Palmer Ltd v Stock Affiliates Ltd*, Windeyer J outlined three essential points about accounts of profit for intellectual property infringements. First, an account of profits is generally ancillary to an injunction. Thus, the plaintiff is generally only entitled to an account if it can also be shown that the plaintiff is also entitled to an injunction, although this is not an absolute requirement in trademark litigation, and in that case it was enough to show that an injunction could have been granted at the commencement of proceedings. Secondly, generally, the plaintiff can only claim an account over profits derived from the period where it is shown that the defendant knowingly infringed the plaintiff’s intellectual property right. This is known as the ‘innocent infringement defence.’ Thirdly, the general equitable discretionary factors operate to a degree in regard to accounts of profits based in intellectual property. In *Colbeam*, Windeyer J said that he thought delay and acquiescence could operate to a certain extent, particularly when considering when the defendant became aware of the infringement.
The innocent infringement defence operates very differently in different areas of intellectual property as a result of the differing scope of the legislation in question.58

Damages calculated on a ‘reasonable fee’ basis are also available for intellectual property infringements, as wrongful use of intellectual property has been treated similarly to wrongful use of corporeal property.59 If there is a single act of use, damages will be calculated on the basis of a licence fee,60 but if there are multiple uses, damages are assessed on a royalty basis.61 The court must ascertain ‘what a willing licensee would have been prepared to pay and a willing licensor to accept’ by reference to the actual characteristics of the parties in dispute.62 Generally, courts and commentators have treated such damages as compensatory. The ‘reasonable fee’ is said to reflect the sales lost as a result of the infringement, not a fair market value of the use of the right.63 Nonetheless, it has been argued that such damages have a restitutionary flavour.64 Debate continues as to whether the nature of these damages is compensatory or restitutionary in nature, or perhaps a mixture of both.65

The defence of ‘innocent infringement’ may also be available for claims of reasonable fee damages, and generally operate in a similar way to the defence noted earlier in relation to the account of profits.66

C Tort

As noted earlier, accounts of profit are said to be unavailable for tort in Australia according to a majority of the Full Federal Court in *Hospitality Group v Australian*

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60 *Chabot v Davies* [1936] 3 All ER 211, 228.
62 *General Tire and Rubber Co v Firestone Tyre and Rubber Co Ltd* [1976] RPC 197, 221, 225 (Lord Wilberforce).
63 *Australasian Performing Rights Association v Grebo Trading Co Pty Ltd* (1978) 23 ACTR 30, 31 (Blackburn J).
66 *Patents Act 1990* (Cth), s 123; *Plant Breeder’s Rights Act 1994* (Cth), s 57; *Designs Act 2003* (Cth) s 75; *Copyright Act 1968* (Cth), s 115 (3); *Circuit Layouts Act 1989* (Cth), s 27(3). See Katy Barnett and Sirko Harder, *Remedies in Australian Private Law* (Cambridge University Press, 2014) 352–53, 364.
Rugby Union. However, Emmett J in the minority would have awarded an account of profits for torts where benefits were derived from property belonging to the plaintiff, or where it would be unjust to allow the wrongdoer to retain them.

Remedies which effectively strip profit may be available pursuant to the doctrine of ‘waiver of tort’. In old English cases, courts used the action for money had and received as a method of stripping defendants of the entire profits derived from the commission of proprietary torts, often where the defendant sold the plaintiff’s property without authority. The plaintiff was allowed to maintain an action for money had and received over the proceeds of sale of the property on the basis that there had been an ‘implied contract’ between the plaintiff and the defendant, but implied contract has now been recognised by the High Court of Australia as a fiction.

Reasonable fee awards have been made for a number of proprietary torts in Australia including trespass to land, and for trespass to goods, conversion and detinue. Historically, courts awarded reasonable fees for trespass to land in the ‘wayleave’ cases and the ‘mesne profit’ cases. The ‘wayleave’ cases arise when the defendant uses the plaintiff’s land without denying the plaintiff possession. The ‘mesne profit’ cases arise when the defendant wrongfully withholds possession of the land from the plaintiff, typically after the expiry of a lease, where a reasonable fee is the standard measure. Courts have also sometimes awarded reasonable fee

68 ibid, 198–99.
69 Oughton v Seppings (1830) 1 B & Ad 241; 109 ER 776; Lamine v Dorrell (1706) 2 Ld Raym 1216; 92 ER 303.
73 Martin v Porter (1839) 5 M & W 351, 151 ER 149; Jegon v Vivian (1871) LR 6 Ch 742; Phillips v Homfray (1871) LR 6 Ch App 770; Whitwham v Westminster Brymbo Coal & Coke Company [1896] 2 Ch 538.
75 Balanced Securities Ltd v Bianco [2010] VSC 201, [16].
As noted earlier, the categorisation of reasonable fee awards as effecting disgorgement or even as restitutionary is controversial, and often courts say that they are making compensatory awards. There is no Australian case law on whether ‘reasonable fee’ damages should be available for non-proprietary torts.

D Contract

Australian law does not allow accounts of profit, constructive trusts, or reasonable fee damages for breach of contract. It has been argued by some Australian academics that gain-based relief should be available in exceptional circumstances, but no courts have adopted these analyses yet.

The most likely way for such an award to be made in Australia would be through the Lord Cairns’ Act provisions, where damages may be given in lieu of an injunction. Indeed the English case of this kind, Wrotham Park Estate Co Ltd v Parkside Homes Ltd formed an essential plank of Lord Nicholls’ reasoning in Attorney-General v Blake, the case which led to the award of accounts of profit for breach of contract in England. This is because Lord Cairns’ Act allows a limited statutory fusion between common law and equity.

In some common law countries, courts achieve disgorgement for breach of contract by characterising the contractual relationship as fiduciary (albeit often

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unconvincingly).\textsuperscript{82} This is particularly the case for breaches of negative covenant.\textsuperscript{83} However, Australian courts do not do this.

\textbf{E Statutory schemes other than intellectual property statutes}

The Australian Consumer Law regulates unfair contractual terms, and misleading or deceptive conduct.\textsuperscript{84} There is no explicit provision in the Australian Consumer Law allowing for disgorgement and nor was there any provision under the \textit{Trade Practices Act 1974} (Cth), the predecessor of the Australian Consumer Law.

Similarly, there are no provisions for profit stripping for breaches of competition law contained in the \textit{Australian Competition and Consumer Act 2010} (Cth).

Directors of corporations are subject to fiduciary duties, and may be liable for an account of profits for their breach. The fiduciary and other duties owed by directors to companies under equity are buttressed by the \textit{Corporations Act 2001} (Cth),\textsuperscript{85} and are civil penalty provisions.\textsuperscript{86} The \textit{Corporations Act 2001} (Cth) provides that if civil penalty provisions are breached, the calculation of compensation to the corporation or scheme affected by the breach may include the profits made as a result.\textsuperscript{87}

\textbf{V Conclusion}

Presently, Australia is less willing than other common law jurisdictions to expand the availability of disgorgement in private law. It is quick to award disgorgement for breaches of fiduciary duty and for intellectual property breaches, and perhaps awards restitution for proprietary torts. Disgorgement is not available for breaches of contract or for non-proprietary torts. The equitable and common law division inherited from English law continues to divide Australian law, with the focus of courts being on the historical origins of the cause of action rather than the nature of the conduct and whether it calls for deterrence of wrongdoing or prevention of unjust


\textsuperscript{84} Australian Consumer Law, Schedule 2 to the \textit{Competition and Consumer Act 2010} (Cth).

\textsuperscript{85} \textit{Corporations Act 2001} (Cth), ss 180–183.

\textsuperscript{86} ‘Civil penalty provisions’ are defined by \textit{Corporations Act 2001} (Cth), s 1317E.

\textsuperscript{87} \textit{Corporations Act 2001} (Cth), ss 1317H(2), 1317HA(2), 1317HB(2).
enrichment. English courts have been less conservative than Australian courts, and less concerned about the historical origins of causes of actions. For example, the House of Lords recognised that disgorgement may be available for breach of contract.\(^{88}\) It is to be hoped that the Australian courts will free themselves from the shackles of history and interpret the law in a way which ensures that, in appropriate cases, wrongdoers are deterred from making profitable breaches.

DISGORGEMENT OF PROFITS:
ENGLAND AND WALES

Stephen Watterson

A. INTRODUCTION

English law undoubtedly recognises that gain-based remedies may be awarded as a response to civil wrongdoing. It is also now widely accepted that such remedies must be distinguished from restitutionary remedies based on the law of unjust enrichment, which may be concurrently available in certain settings. Less clear, and more controversial, is when such gain-based remedies can be awarded. It is impossible to account for the law on the basis that it straightforwardly implements the prescription that ‘no man should profit from his wrong’ – not every wrong currently appears to yield a gain-based remedy, let alone in the same circumstances, and in the same measure.

B. GAIN-BASED REMEDIES FOR CIVIL WRONGS

1. INTRODUCTION

Several features of English law's development and shape stand out for comparative purposes. First, and above all, as in other common law jurisdictions, the availability of gain-based remedies cannot be attributed to a single, code-like source. Instead, modern English law is the product of separate strands of judicially-developed doctrine, common law and equitable, and a patchwork of statutory interventions. This disparate development has inhibited the appreciation or development of common principles. Notable recent efforts have been made to rectify this – drawing together and bringing order to the materi-
Nevertheless, the veracity of these accounts is contested, and the authorities remain resistant to easy rationalisation.  

Secondly, English law does not exhibit any rigid jurisdictional divide between equity and common law when it comes to the availability of gain-based remedies for wrongs. In particular, the equitable remedy known as the ‘account of profits’, English law’s primary and most transparently profit-stripping remedy, is not confined to equitable wrongs.

Thirdly, there is a general consensus today that gain-based remedies for civil wrongdoing are not part of the ‘law of unjust enrichment’: so-called ‘restitution for wrongs’ must be distinguished from ‘restitution for unjust enrichment’. In the former case, the cause of action is the wrong; whether, in what circumstances, and in what measure the wrong yields a gain-based remedy is a matter for the law of wrongs. In the latter case, the cause of action which triggers the restitutionary remedy is the defendant’s unjust enrichment at the claimant’s expense. Reflecting this division, leading works on the English law of unjust enrichment now exclude ‘restitution for wrongs’ from their ambit.

Fourthly, although the normal form of gain-based remedy for a wrong is a monetary remedy, there are important variations in the form that this remedy takes. Gain-based monetary remedies have been given for different wrongs, by differently-labelled remedial forms, in a variety of measures, and arguably for different remedial aims. More exceptionally, a wrongdoer may be com-

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4 See further the text at n 0 below.  
5 See further the text at n 0 below.  
6 See further the text at n 0 below.  
9 See further the text at nn 00-00 below. The fullest attempt to systematise the disparate remedial forms remains Edelman (n 3).
pelled to give up his wrongful gains in specie via a proprietary remedy – most likely through the imposition of a trust over a specific asset in the wrongdoer’s hands which represents his wrongful gains.\textsuperscript{10}

The following sections survey the current state of English law. Monetary remedies deserve most attention. They are therefore considered first, in section 2, which begins by distinguishing three possible measures of gain-related award, before examining their underlying rationales, and then their availability for particular wrongs. Proprietary remedies are considered more briefly in section 3.

2. MONETARY REMEDIES

The ordinary monetary remedy for a civil wrong is, without doubt, a compensatory measure of damages. Nevertheless, a hard look at the case law reveals that English courts have also sometimes made available three measures of monetary award that can, at least arguably, be characterised as gain-based-related. In rough order of severity, one can find support for the view that the courts make make:

(a) overtly punitive awards;
(b) awards that strip a wrongdoer’s actual profits, whatever their source;
(c) awards that require a wrongdoer to make restitution in money of the benefit that he immediately obtained from the claimant/at the claimant’s expense.

The division between (b) and (c), in particular, is contested.\textsuperscript{11} Some scholars insist that this division is fundamental, and corresponds to a fundamental difference in aim.\textsuperscript{12} Others, whilst conceding that there may be different

\textsuperscript{10} See further the text at nn 00-00 below.
\textsuperscript{11} See further the text to nn 00-00 below.
\textsuperscript{12} Esp Edelman (n 3), chap 3.
measures of gain-based award, deny there is such a clear cleavage in principle and/or as a matter of authority.\(^\text{13}\)

(1) Three Measures of Award

(a) ‘Category two’ exemplary damages

English courts can undoubtedly award a punitive/quasi-punitive remedy directly and openly via an award of exemplary damages – a form of non-compensatory damages specifically designed to punish, deter and express disapproval of the most outrageous examples of civil wrongdoing. Such awards have long been, and remain, highly controversial. In the modern landmark in their development, \textit{Rookes v Barnard},\(^\text{14}\) the House of Lords regarded exemplary damages as an anomaly – an attempt to pursue, within civil proceedings, an aim that was primarily and most appropriately the preserve of the criminal law. Despite this, their Lordships felt unable to abolish exemplary damages altogether, and opted instead to confine their availability to two limited categories of cases, where it was considered that such awards might retain a useful role: (i) unconstitutional, arbitrary or oppressive action by servants of government (‘category 1’); and (ii) wrongdoing calculated to make a profit which might well exceed any compensatory damages payable to the victim (‘category 2’).\(^\text{15}\) For some time, it was also thought that exemplary damages were further confined to the forms of wrong for which they had been awarded before the 1964 decision in \textit{Rookes v Barnard}.\(^\text{16}\) This arbitrary restriction was finally rejected in \textit{Kuddus v Chief Constable of Leicestershire}.\(^\text{17}\) Nevertheless, exemplary damages remain an exceptional, last resort reme-


\(^{15}\) [1964] AC 1129, 1226-1227 (per Lord Devlin). Lord Devlin also recognised a third possible basis for these awards – statute.


\(^{17}\) [2001] UKHL 29.
Thus, even where facts falling within ‘category 1’ or ‘category 2’ are shown, the remedy is limited to the most outrageous and punishment-worthy examples of this sort of conduct, which is not adequately remedied by other means.

‘Category 2’ exemplary damages have obvious relevance for any account of gain-based remedies in English law. As Lord Devlin put it in *Rookes v Barnard*, “[w]here a defendant with a cynical disregard for a [claimant’s] rights has calculated that the money to be made out of his wrongdoing will probably exceed the damages at risk, it is necessary for the law to show that it cannot be broken with impunity” – “to teach a wrongdoer that tort does not pay”. Some opponents of exemplary damages have argued that ‘category 2’ exemplary damages are redundant and should be abolished, given modern developments in the availability of gain-based remedies. However, this may be an error. ‘Category 2’ exemplary damages are not strictly gain-based awards. They are a different, larger remedy, which aims to punish a defendant for his outrageous, profit-motivated wrongdoing, and to deter other, similarly-motivated parties. This different motive explains why they may be available whether or not any gain is actually made, why their quantum is not necessarily limited to the amount of the gain actually made, and why, more generally, the factors that bear on their assessment are different from those appropriate for ‘pure’ disgorgement.

Whilst these ‘category 2’ exemplary damages are not therefore gain-based, their recognition may have wider relevance. In past cases, such awards have

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18 See generally the analysis of the Law Commission in *Aggravated, Exemplary and Restitutionary Damages* (Law Com No 247, 1997), Part IV (pre-Kuddus).
19 *Kuddus v Chief Constable of Leicestershire* [2001] UKHL 29, [63], [68] (per Lord Nicholls), articulating an ‘outrageousness’ threshold strongly emphasised in later cases, including *R (on the application of Lumba) v Secretary of State for the Home Department* [2011] UKSC 12, [150], [166] (per Lord Dyson JSC) (a ‘category 1’ case) and *Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion* [2012] EWHC 3354 (Ch), [76], [77] (a ‘category 2’ case).
20 [1964] AC 1129, 1226-1227 (per Lord Devlin).
22 E.g. *Archer v Brown* [1985] QB 401, 423; *Design Progression Ltd v Thurloe Properties Ltd* [2004] EWHC 324 (Ch), [145]-[146].
23 *Cassell & Co Ltd v Broome* [1972] AC 1027, 1130 (per Lord Diplock).
been made for some wrongs for which there is no authority for gain-based awards, in any form. Some scholars have argued that the availability of these exemplary damages provides good grounds for thinking that in circumstances falling within ‘category 2’ – i.e. where a defendant has committed a wrong deliberately and cynically with a view to profit – the courts should be willing to award a lesser, gain-based remedy which strips a wrongdoer’s actual profits as a mechanism for deterrence.  

(b) Awards stripping a wrongdoer’s actual profits, whatever their source (‘profit-stripping awards’)  

For a number of civil wrongs, English law also makes available money awards that are transparently profit-stripping – being measured by the positive gains that actually accrue to a wrongdoer, whatever their source. The additional words – “whatever their source” – are important in signifying that these profit-stripping awards can in principle require a wrongdoer to give up gains that are not acquired from the claimant. Thus conceived, these awards can effect ‘disgorgement’, rather than a more limited form of ‘restitution’ to the claimant.

Historically, such profit-stripping awards have been made via various remedial forms – equity’s account of profits, the common law’s action for money had and received, damages, and interest awards. This continuing diversity makes little sense. Looking forwards, the account of profits may prove to be the focus for future development of English law’s profit-stripping awards. It is the primary and most transparently profits-based remedy, and, despite its equitable origins, it is not limited to merely equitable wrongs: there is a long his-

25 See esp Edelman (n 3). Cf too Law Commission, Aggravated, Exemplary and Restitutionary Damages (Law Com No 247, 1997) paras 3.48-3.51. See further the text to nn 00-00 below.

26 For a full survey of what are labelled “disgorgement damages”, see Edelman (n 3). These profit-stripping forms are not mutually exclusive. E.g. in wrongful mining cases, involving the trespassory mining of another’s coal, the stripping of unrealised or realised gains was effected, at differing times, via common law damages awards (e.g. Martin v Porter (1839) 5 M&W 351), the common law’s action for money had and received (e.g. Powell v Rees (1837) 7 Ad & El 426) or a claim in equity for an account of profits (e.g. Powell v Aiken (1857) 4 K&J 343).
tory of the remedy being given for some common law torts; in 2001, House of Lords decided that the remedy could exceptionally be awarded for breaches of contract; and this has, in turn, reinforced an assumption in some recent cases that if a profit-stripping remedy is available for a wrong, of whatever quality, it is in this form.

As the authorities now stand, a profit-stripping measure of this sort is potentially available for, inter alia, (a) breaches of trust/fiduciary duty, as well as the associated ancillary liabilities that may be incurred by third parties who are dishonest accessories to such breaches, or knowing recipients of assets that have been misapplied in breach of trust/fiduciary duty; (b) major intellectual property wrongs, in particular patent infringement, copyright infringement, trademark infringement, and passing off; (c) misuse of confidential information; (d) the wrongful appropriation of lesser interferences with rights to possess chattels or land; and (e) breaches of contract. As explained below, this is probably not an exhaustive list. Indeed, the recent extension of this remedy to breaches of contract, long assumed to be a wrong that could not attract such an award, raises a question whether the courts

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27 E.g. copyright infringement, patent infringement, and trademark infringement/passing off. Attorney-General v Blake [2001] 1 AC 268. See further the text to nn 00-00 below.
28 E.g. post-Blake discussion of accounts of profits in Forsyth-Grant v Allen [2008] EWCA Civ 505 (nuisance); Douglas v Hello! Ltd (No 3) [2005] EWCA Civ 595, [249] (misuse of private information); Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086 (breach of competition law).
29 E.g. Boardman v Phipps [1967] 2 AC 46. See the text to nn 00 below.
30 Assumed in Fyffes Group Ltd v Templeman [2000] 2 Lloyd’s Rep 643; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [1589]-[1601]. See the text to nn 00 below.
31 E.g. Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [1577] ff. See the text to nn 00-00 below.
32 E.g. Celanese International Corp v BP Chemicals Ltd [1999] RPC 203; Patents Act 1977, s 61(1)(d). See the text to nn 00 below.
33 E.g. Potter Ltd v Yorkclose Ltd [1990] FSR 11; Copyright, Designs and Patents Act 1988, s 96(2). See the text to nn 00 below.
34 E.g. Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419; Trade Marks Act 1994, s 14(2); Community Trade Mark Regulations 2006/1027, reg 5(2). See the text to nn 00 below.
35 E.g. My Kinda Town Ltd v Soll & Grunts Investments [1982] FSR 147; Woolley v UP Global Sourcing UK Ltd [2014] EWHC 493 (Ch). See the text to nn 00 below.
36 E.g. Attorney-General v Times Newspapers Ltd [1990] 1 AC 109. See the text to nn 00 below.
37 See the text to nn 00-00 below.
38 Attorney-General v Blake [2001] 1 AC 268. See the text to nn 00-00 below.
39 See further the text to nn 00-00 below.
might award a profit-stripping remedy for any type of wrong in an appropriate case.\footnote{See further the text at nn 00-00 below.}

Taking the account of profits as the paradigm and primary profit-stripping remedy, several general principles of quantification appear from the cases. First, the remedy has so far been limited to positive gains, and does not extend to merely negative gains – where the wrongdoer merely saves himself from expense without making any actual profit.\footnote{Esp \textit{Celanese International Corp v BP Chemicals Ltd} [1999] RPC 203, [127]; for an attempt to justify this, see Edelman (n 3), p 74.} Secondly, the remedy is not limited to money gains, but can also extend to non-money gains not yet realised in money – as, for example, where a house, not yet sold, was built without permission to a copyrighted design.\footnote{E.g. \textit{Potton Ltd v Yorkclose Ltd} [1990] FSR 11, 14-16.} Thirdly, a wrongdoer is generally only accountable for the amount of his wrongful profits net of the costs that he can prove are properly attributable to earning them.\footnote{E.g. \textit{Hollister Inc v Medik Ostomy Suppliers Ltd} [2012] EWCA Civ 1419.} Fourthly, the starting-point is that the wrong must be a ‘but for’ cause of the wrongdoer’s profits;\footnote{E.g. \textit{Celanese International Corp v BP Chemicals Ltd} [1999] RPC 203, [37].} nevertheless, the courts often refuse to allow a wrongdoer to argue that his liability should be limited to the difference between the profits actually earned from his wrongful conduct, and the profits that he could have earned had he taken an alternative, non-wrongful course of action available to him.\footnote{There is clear authority for the major intellectual property wrongs and breach of fiduciary duty/related wrongs: \textit{Potton Ltd v Yorkclose Ltd} [1990] FSR 11, 16-18 (copyright infringement); \textit{Celanese International Corp v BP Chemicals Ltd} [1999] RPC 203, [39]-[43] (patent infringement); \textit{Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd} [2010] EWHC 628 (Ch), [8] (trademark infringement/passing off); \textit{Murad v Al-Saraj} [2005] EWCA Civ 959 (breach of fiduciary duty); \textit{Fiona Trust & Holding Corp v Privalov} [2011] EWHC 664 (Comm), [9] (knowing receipt/dishonest assistance).} Fifthly, a wrongdoer is not necessarily liable for 100\% of his net profits. The courts may well apportion his profits between multiple causes,\footnote{Routine in intellectual property cases: e.g. \textit{Potton Ltd v Yorkclose Ltd} [1990] FSR 11; \textit{Celanese International Corp v BP Chemicals Ltd} [1999] RPC 203; \textit{Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd} [2010] EWHC 628 (Ch).} make ‘just’ allowances for the wrongdoer’s skill and effort,\footnote{E.g. \textit{Boardman v Phipps} [1967] 2 AC 446; \textit{Redwood Music Ltd v Chappell & Co Ltd} [1982] RPC 109, 132.} and disregard certain gains as ‘too
Sixthly, in certain circumstances, these principles are applied – or disregarded – in a manner that yields a larger measure of award, perhaps based on quasi-punitive motives or a desire to achieve a particularly strong measure of deterrence.\footnote{Cf e.g. Bayer Cropscience KK v Charles River Laboratories [2010] CSOH 158, [5]-[9]; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [1588]; CMS Dolphin Ltd v Simonet [2002] BCC 600, [3].}

It is often said – reflecting the remedy's equitable roots – that the account of profits is a discretionary remedy. However, care is needed with this idea. The court's jurisdiction to award an account of profits is not truly strongly discretionary. There is certainly an inherent flexibility when applying the quantification principles just described. Beyond this, the remedy can be refused or limited by a court on a limited number of equitable grounds.\footnote{E.g. the caution exercised by the courts, in apportioning profits or otherwise making allowances to fiduciaries for their skill and effort – e.g. Imageview Management Ltd v Jack [2009] EWCA Civ 63, [54]-[60]. E.g. the refusal of courts to have regard to whether a fiduciary could have profited in any event, even if he had acted properly, noted in the text to n 0 above – e.g. Murad v Al-Saraj [2005] EWCA Civ 959. See further Edelman (n 3), pp 104-105.}

However, in the absence of such disqualifying circumstances, there are some wrongs for which the account of profits is a routine response – the primary remedy,\footnote{Esp breaches of fiduciary duty: see the text to nn 00-00 below.} or if not, then a standard remedy, available more or less a matter of course where the claimant elects for it.\footnote{Esp IP infringements: see the text to nn 00-00 below.} For other wrongs, we are starting to find courts explicitly setting further threshold conditions or claiming a wider discretion to grant or deny the remedy according to whether (for as yet under-defined reasons) it is the "appropriate" response in all the circumstances.\footnote{E.g. breach of contract and breach of confidence: see the text to nn 00-00 and nn 00-00 below.}

\section*{(c) Awards requiring a wrongdoer to make restitution of the benefit immediately obtained from the claimant/at the claimant's expense (‘restitutionary awards’)}
The profit-stripping awards just described effect ‘disgorgement’ – they are measured by the profits that have actually accrued to the wrongdoer from his wrongful conduct, whatever their source. Another possible measure of gain-based award is different and more limited. It achieves ‘restitution’ to a claimant in a narrower sense – restoring to the claimant the value of the benefit immediately obtained by the wrongdoer from the claimant/at the claimant’s expense. This category of awards is referred to here as ‘restitutionary awards’.

Although one might expect these restitutionary awards to be more widely available, it is actually surprisingly difficult to find unequivocal support for their availability. This could be attributed – to a large extent – to an inevitable overlap with other remedies, which means that even where such awards are theoretically available, they are not routinely resorted to, and/or that some awards that could be analysed as restitutionary awards for a wrong may also be explained in other terms. So, in particular: (a) in many cases of subtractive, wrongful enrichment, a claimant is likely be able to obtain a similar sum from the defendant as compensatory damages for the wrong (potentially more, if consequential losses are also compensated); (b) on the same facts, the claimant may also be entitled to another remedy with similar restitutionary effects, most likely: (i) a personal restitutionary remedy for unjust enrichment;\(^{55}\) or (ii) a proprietary restitutionary remedy, in the form of rescission of a transaction under which property has been transferred to the defendant, together with ancillary monetary orders;\(^{56}\) or the imposition of a trust over property transferred to the defendant which restores beneficial title to the claimant.\(^{57}\)

Consider, for example, a case where the defendant obtains property from the claimant by fraudulent misrepresentations. The defendant commits the tort of deceit, for which he will be liable to pay compensatory damages, extending to all direct consequential losses – a measure that should exceed and subsume any award assessed on a restitutionary basis. Alongside this claim, the claim-

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\(^{55}\) See the text to nn 00-00 below.

\(^{56}\) See the text to nn 00-00 below.

\(^{57}\) See the text to nn 00-00 below.
ant may be entitled to a personal restitutionary remedy in unjust enrichment; he may be able to seek rescission of the transaction, bringing about a revesting of title to the property transferred in his favour; and in the absence of a transactional barrier, the law might achieve a similar effect by imposing an immediate constructive trust over the property transferred, in favour of the claimant, as a response to the defendant’s fraud.\(^{58}\) All of this means that it may be unusual to find a monetary award being claimed and made that is only explicable as a restitutionary award made specifically for the tort of deceit. Nevertheless, one way or another, restitution is what can be and is often being achieved, at least by functional equivalents.

The fact that a ‘restitutionary award’ may not often be required does not, of course, prove that English courts cannot make such awards in response to a civil wrong – requiring the defendant to repay money, the value of property, or the value of some other benefit obtained from the claimant by wrongdoing. Indeed, there is a reasonable amount of material to suggest that they can do so,\(^{59}\) causing one leading scholar to suggest that the law should in principle respond to any wrong by a restitutionary award.\(^{60}\)

In practice, the largest collection of cases that could be rationalised as restitutionary awards are cases where the defendant commits a wrong against the claimant, and the courts order the defendant to pay a sum reflecting the reasonable value of the liberty to do as the defendant did (or in some cases, to do as he proposes to do in future).\(^{61}\) These awards – referred to here as ‘reasonable fee awards’ – have several historic roots, and English courts have yet to develop consistent terminology for them. Depending upon the context and judicial preferences, such awards are made under a variety of labels – in particular, user damages, damages assessed by reference to a reasonable or

\(^{58}\) See further the discussion of proprietary restitutionary remedies in the text to nn 00-00 below.

\(^{59}\) For a full exploration of the circumstances in which what are called “restitutionary damages” may be made, see Edelman (n 3) above.

\(^{60}\) Edelman (n 3) above. See further the text to nn 00-00 below.

\(^{61}\) The latter encompasses those cases where the court is asked to award damages on the assumption that it will not award specific relief to prevent a future/continuing wrongful interference with the claimant’s rights: e.g. the cases in n 0 below.
notional royalty, mesne profits awards, wayleave awards, *Wrotham Park* damages, negotiation damages, and Lord Cairns’s Act damages.

What these reasonable fee awards have in common is that they see the courts requiring a wrongdoer to pay a sum which represents the reasonable (objectively-determined) value of the liberty/right to do as he did (or in some cases, the value of the liberty/right to do as he proposes to do in future). The necessary valuation exercise can occur in various ways. Sometimes, a reasonable sum is simply plucked from the air. More often, the courts (a) identify an appropriate market rate, or (b) as a fall-back, adopt a ‘hypothetical negotiations’ approach, which is directed at identifying the price that might reasonably be agreed to legitimate the defendant’s wrongful conduct. This last approach is inevitably more complex. The courts do not attempt to re-construct any actual bargaining process that might have occurred – in truth, the claimant might not have been prepared to bargain away his rights to the defendant at any price, or at least at a price the defendant could or would pay. Instead, the courts imagine a bargain struck between two willing parties, acting reasonably, generally before the defendant’s wrongful course of conduct begins, and without the benefit of hindsight. These parties are not assumed to share the personal characteristics of the claimant and defendant, but they are assumed to be situated as the claimant and defendant were. Thus, when determining the outcome of the hypothetical bargain, a court can factor in a wide range of circumstances that would strengthen or weaken either party’s hands, or reasonably influence their preparedness to strike a deal.  

Such reasonable fee awards are widely available, and certainly, more readily awarded than profit-stripping awards. Thus, the cases support their availability for: (a) the major intellectual property wrongs (reflecting a reasonable/notional royalty for the relevant infringing act); (b) breaches of confidence (reflecting

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62 E.g. the profits that could have been expected to accrue to the defendant; the likelihood of the claimant being able to obtain a court order to prevent the defendant’s conduct; and the availability and cost of alternative means to achieve the defendant’s desired object.

63 E.g. *Catnic Components Ltd v Hill & Smith Ltd* [1983] FSR 512 (patent infringement); *Blayney (t/a Aardvark Jewelry) v Clogau St David’s Gold Mines Ltd* [2002] EWCA Civ 1007 (copyright infringement); *Irvine v Talksport Ltd* [2003] EWCA Civ 423 (trademark infringement/passing off). See further the text to nn 00-00 below.
the sum that could reasonably be demanded for relaxation of any confidentiality obligation);\textsuperscript{64} (c) wrongful interferences with rights to possess chattels (typically in the form of a reasonable user fee for a period of temporary wrongful user);\textsuperscript{65} (d) wrongful interferences with rights to possess land, or lesser rights of use and/or control (in the form of a reasonable user fee for a period of temporary wrongful user or the sum that could reasonably be negotiated for permission to do as the defendant did);\textsuperscript{67} and (e) breach of contract (reflecting the sum that could reasonably be demanded for relaxation of the relevant contractual obligation).\textsuperscript{68}

An important obstacle to understanding exactly when these reasonable fee awards should be made, and on what assumptions, is a continuing controversy as to their nature. The cases and the literature divide on whether these awards are properly characterised as gain-based/restitutionary at all – many judges and scholars insist that they should be classified as ‘compensatory’ awards. On one analysis, they are compensatory in a conventional sense, being designed to compensate a real financial loss which consists of the claimant’s genuinely lost opportunity to bargain with the defendant for the relaxation/exploitation of his rights.\textsuperscript{69} According to another, now more popular analysis, they are compensatory in a different sense – a form of ‘substitutive’

\textsuperscript{64} E.g. Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45; Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch). See further the text to nn 00-00 below.

\textsuperscript{65} E.g. Blue Sky One Ltd v Mahan Air [2010] EWHC 631 (Comm), [133]-[134]. See further the text to nn 00-00 below.

\textsuperscript{66} Typically, in the form of temporary occupation or user (e.g. Ministry of Defence v Ashman (1993) 66 P&CR 195 (CA); Inverugie Investments Ltd v Hackett [1995] 1 WLR 713 (PC); Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co [2011] EWHC 2856 (Ch)). See further the text to nn 00-00 below.

\textsuperscript{67} E.g. interferences with easements (e.g. Carr-Saunders v Dick McNeil Associates Ltd [1986] 1 WLR 922 (right to light)) and breaches of restrictive freehold covenants (e.g. Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798). See further the text to nn 00-00 below.

\textsuperscript{68} Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323; Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45; Giedo van der Garde BV v Force India Formula One Team Ltd [2010] EWHC 2373 (QB), [499]-[560]. See further the text to nn 00-00 below.

compensation, reflective of the value of the infringed right, which does not depend on the presence or proof of consequential financial/material losses.\(^{70}\)

If these awards are properly characterised as gain-based/restitutionary, as a number of cases assume,\(^{71}\) they are nevertheless clearly distinguishable from the profit-stripping awards exemplified by the account of profits. For some wrongs, where a wrongdoer has profited and an account of profits is an available remedy, the courts often opt to make a reasonable fee award instead.\(^{72}\) It might then appear tempting to view this measure as a lesser form of partial profit-stripping/disgorgement. However, that would risk missing the distinctive nature of reasonable fee awards, if properly understood as a gain-based awards. As an objective measure of the benefit that immediately accrues to the wrongdoer from the unlicensed appropriation or infringement of the claimant’s rights, these reasonable fee awards are available whether or not the wrongdoer actually makes any profits consequent on his wrong, and regardless of the extent of the profits which he does actually make.

For example, where courts quantify a reasonable fee award by adopting a market basis for valuation (e.g. requiring a defendant who has wrongfully possessed the claimant’s land to pay a reasonable rental) the wrongdoer can be liable to pay a substantial sum, reflecting the market value of this benefit, whether or not this reflects any actual profitable use during the period of

\(^{70}\) The most extreme version of this thesis is Stevens, *Torts and Rights* (OUP, 2007) chap 4. Cf the more limited explanation offered by others, including McBride, ‘Restitution for Wrongs’ in Mitchell and Swadling (eds), *The Restatement Third: Restitution and Unjust Enrichment* (Hart, 2013) pp 272-275 (arguing that such damages may be justified to compensate a claimant for the non-material, “normative loss” that occurs when “liberty oriented rights” are infringed). For a variation on this approach, stressing the ‘vindicatory’ role of such damages, in relation to certain wrongs, see Varuhas, ‘The concept of “vindication” in the law of torts’: rights, interests and damages’ (2014) 34 OJLS 253.

\(^{71}\) E.g. *Strand Electric & Engineering Co Ltd v Brisford Entertainments Ltd* [1952] 2 QB 246 (CA), 255 (per Denning LJ); *Attorney-General v Blake* [2001] 1 AC 268, 278 (per Lord Nicholls); *Kuwait Airways Corp v Iraqi Airways Co* (Nos 4 and 5) [2002] UKHL 19, [87] (per Lord Nicholls); *Ministry of Defence v Ashman* (1993) 66 P&CR 195, 201 (per Hoffmann LJ); *Inverugie Investments Ltd v Hackett* [1995] 1 WLR 713 (PC), 718 (per Lord Lloyd); *Blue Sky One Ltd v Mahan Air* [2010] EWHC 631 (Comm), [133]-[134]; *Stadium Capital Holdings (No 2) Ltd v St Marylebone Property Co* [2011] EWCA Civ 2856 (Ch), [69]; *Enfield LBC v Outdoor Plus Ltd* [2012] EWCA Civ 609, [47]; *Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion SA* [2013] EWCA Civ 1308, [20]-[25].

\(^{72}\) See esp breach of contract and many instances of breach of confidence.
wrongful possession.\textsuperscript{73} So too, when the courts quantify a reasonable fee award by assessing damages on a ‘hypothetical negotiation’ basis, an important factor bearing on the readiness of a person in the defendant’s position to strike a deal, and on the price that could reasonably be agreed, is the extent of the profits which the defendant could reasonably have anticipated. For this purpose, however, it is the anticipated profits that are crucial. Any award assessed on this basis might therefore exceed the profits that, with hindsight, can be seen actually to have accrued to the defendant, if the defendant’s conduct is less profitable than expected or, in fact, unprofitable.\textsuperscript{74}

(2) Underlying Rationales

What sense might made of this range of remedial measures? It seems plausible that the different measures of award may implement different remedial aims, and that identifying these aims is a necessary first step to understanding when they should be available. This was indeed the key premise of Edelman’s important and influential book, \textit{Gain-Based Damages}. Writing in 2002, Edelman argued that, properly interpreted, English law recognises two different measures of gain-based award, each with different remedial aims. The first, which Edelman termed “\textit{disgorgement damages}”, strip a wrongdoer’s actual profits, whatever their source, as a mechanism for deterrence. The second, “\textit{restitutionary damages}”, have the different and more limited aim, of effecting restitution of a benefit wrongfully obtained by the defendant “at the claimant’s expense”. As such, they effect “restitution” in a similar sense to restitutionary awards designed to reverse unjust enrichment – reversing a

\textsuperscript{73} E.g. \textit{Inverugie Investment Ltd v Hackett} [1995] 1 WLR 713 (PC), where the defendant was in wrongful possession for 15 years of 30 apartments within a hotel complex, of which the claimant was lessee; the defendant used the apartments as part of its hotel, with average occupancy rates of 35-40\%, but had to pay as ‘mesne profits’ for its trespass, a reasonable rent for each apartment for every day of the year.

\textsuperscript{74} E.g. \textit{Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd} [2009] UKPC 45, involving breach of a confidentiality and exclusivity agreement entered between two parties in connection with an oilfield development project. The project, ultimately proceeded with by the defendant alone, proved much less profitable than the defendants anticipated. Only US$1m-$1.8m profit was ultimately made, but $2.5m was awarded to the claimant using the hypothetical negotiations approach, in view of what would have contemporaneously been viewed as the likely profitability.
(wrongful) “transfer of value” between claimant and defendant. This distinction necessarily brings implications for the availability of the two measures of “gain-based damages”. According to Edelman, so-called “disgorgement damages” should in principle be available when compensatory damages would be inadequate to deter wrongdoing. Edelman identified two situations where this was the case: (i) fiduciary wrongdoing, where there is a heightened need to deter even inadvertent breaches of duty; and (ii) where any other wrong was committed deliberately or recklessly, with a view to profit. In contrast, Edelman argued that the law should in theory respond to any wrong, without more, by an award of “restitutionary damages”: “[i]f conduct is deemed a wrong, the law should always be prepared to reverse a transfer of value that is the result of that conduct. To do otherwise would be to legitimate the wrong.”

At least at first sight, this account looks like a promising basis for rationalising English law. In particular, Edelman’s two-fold division seems to correspond closely to the distinction, observable in the cases, between: (i) ‘profit-stripping awards’, which strip a wrongdoer’s actual profits, whatever their source (= Edelman’s “disgorgement damages”); (ii) ‘restitutionary awards’, best exemplified by ‘reasonable fee awards’, which reflect the reasonable value of the liberty to do as the defendant did (= Edelman’s “restitutionary damages”). Nevertheless, the veracity of Edelman’s account, which purports to offer an interpretative theory of English law, has been contested.

(a) ‘Profit-stripping awards’

Deterrence is undoubtedly a popular explanation for profit-stripping awards, and might provide a plausible explanation for some important features of English law. In particular, (i) strongly prophylactic concerns undoubtedly underlie the core duties and strict accountability of fiduciaries; (ii) outside of the

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75 Edelman (n 3), esp chap 3.
76 Edelman, ibid, p 81.
77 See pp 00-00 above.
79 See further the text at nn 00-00 below.
realm of fiduciary wrongdoing, some level of deliberate wrongdoing is often required before a profit-stripping remedy is awarded, and may influence its quantum, and (iii) the presence of ‘category 2’ exemplary damages supports the view that deliberate and cynical wrongdoing, committed with a view to profit, is conduct that can and should be deterred.

Nevertheless, English law does not yet precisely match Edelman’s vision of when so-called “disgorgement damages” should be awarded. On the one hand, despite the existence of 'category 2' exemplary damages, English courts have not yet clearly accepted that deliberate or reckless wrongdoing with a view to profit is a sufficient, general basis for a profit-stripping award. There are many examples of such wrongdoing that have not yet attracted a profit-stripping award, or are remedied only by a reasonable fee award, at least in the absence of further “exceptional circumstances.” On the other hand, deliberate or reckless wrongdoing with a view to profit is not invariably required for a profit-stripping award. For example, there are several intellectual property wrongs for which profit-stripping awards can be made against defendants who are not conscious/deliberate infringers.

It may be tempting to dismiss this unevenness as the accidental product of English law’s ad hoc development. However, there are other possible inferences. They include:

(i) that deterrence is not invariably a necessary explanation for profit-stripping awards;

(ii) that even if deterrence is a legitimate justifying goal for profit-stripping awards, its implications may be more complex than Edelman’s account assumes – such that conscious/deliberate wrongdoing may not invariably be required, nor invariably sufficient, to warrant a deterrence-focused award;

See the text to n 0 above.
But NB the further limits on these awards means that, today, these damages are very far from automatic, even against cynical profit-seekers: see the text at n 0 above.
See further the text at nn 00-00 below.
See further the text to nn 00-00 below.
See, in particular, the recent, highly-nuanced discussion of when deterrence may justify a profit-stripping award offered by Rotherham in ‘Deterrence as a justification for awarding...’
(iii) that outside of the clearest cases, the dictates of deterrence may not be sufficiently clear to provide workable, explicit reference-points for judicial decision-making;\(^85\)

(iv) that English judges are strongly influenced by several countervailing concerns, which incline them to more tightly limit the availability of profit-stripping even when a prima facie argument, based on deterrence, might be made out (most obviously, the perception that a profit-stripping award produces an unwarranted windfall for the claimant).

\[(b) \quad \text{‘Restitutionary awards’}\]

Different issues arise in relation to what have been labelled as ‘restitutionary awards’ – best exemplified by ‘reasonable fee awards’. This is a fragile category of gain-based award because of the continuing controversy regarding whether they should be understood, exclusively, in different terms – as compensatory awards.\(^86\) If they are gain-based, they are manifestly different in quantum from profit-stripping awards. However, there is no clear consensus as to the implications of this. Two broad lines of opinion are identifiable.

One view, reflecting Edelman’s analysis,\(^87\) is that the reasonable fee awards are one manifestation of a wider species of gain-based award that is different in nature and underlying rationale from awards that effect disgorgement of a wrongdoer’s actual profits, whatever their source, in order to deter. These ‘restitutionary’ awards effect restitution of a benefit wrongfully obtained by the defendant from the claimant/at the claimant’s expense, in the same sense as restitutionary remedies awarded to reverse an unjust enrichment. They should in principle be available for any wrong, without more.\(^88\)

accounts of profits’ (2012) 32 OJLS 537. A sophisticated analysis would factor in e.g. the availability and adequacy of alternative sanctions, and countervailing concerns, such as a high risk, in particular settings, of costly over-deterrence.

\(^85\) Cf the complexity of analysis reflected in Rotherham’s account, \textit{ibid}.

\(^86\) See the text to nn 00-00 above.

\(^87\) See the text to n 0 above.

\(^88\) Edelman (n 3), chap 3, esp pp 66-68, 80-81.
A different view is that the reasonable fee/restitutionary awards are not susceptible to such simple, separate rationalisation: they merely represent a lower point on a single spectrum of possible gain-based awards. On this view, the availability of a reasonable fee/restitutionary award, and the choice between such an award and an award that removes all or part of a wrongdoer’s actual profits, turns on the interplay of a more complex set of considerations – including the importance and vulnerability of the claimant’s protected interest, the extent and culpability of the defendant’s wrongful conduct, the extent to which any profit accruing to the defendant is causally attributable to the defendant’s wrong, the adequacy of alternative remedies/sanctions, and the strength of concerns to deter.89

(3) Particular Forms of Wrongdoing

Turning briefly to the detail of English law, it is immediately clear that not all wrongs are alike from the point of view of the availability of gain-based remedies.

(a) Breach of fiduciary duty/trust and related wrongdoing

Breach of fiduciary duty is a species of equitable wrongdoing that routinely yields a stringent profit-stripping response. Indeed, profit-stripping, via an account of profits,90 can realistically be said to be the primary remedial response, where a fiduciary profits in breach of the ‘no conflict’ and ‘no profit’ rules that underpin the core requirement for undivided loyalty to his principal – the closely-related rules that demand that a fiduciary must not find himself in a position of unauthorised conflict of interest and duty, and that he must not make any unauthorised profit from his position. The stringency of these proscriptions is such that it is no defence that the fiduciary acted in good faith, in the best interests of his principal, without breaching any other duty owed to

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90 In a smaller sub-set of cases, this can also be achieved via a constructive trust – see further the text to nn 00-00 below.
his principal, and without causing him any loss. These rules are widely justified as robustly prophylactic in aim – designed to discourage a fiduciary from finding himself in a position where he might be tempted by the prospect of personal gain to act inconsistently with his duty. The ready availability of profit-stripping remedies, in robust form, is the obvious remedial counterpart of these stringent duties. As recently put in Murad v Al-Saraj, equity “imposes stringent liability on a fiduciary as a deterrent pour encourager les autres ... In the interests of efficiency and to provide an incentive to fiduciaries to resist the temptation to misconduct themselves, the law imposes exacting standards on fiduciaries and an extensive liability to account”.

Closely related is the ancillary wrong committed by a person who dishonestly assists or otherwise participates in another’s breach of trust or breach of fiduciary duty. Where the dishonest participant profits by such wrongdoing, an account of profits seems to be available. In view of the high level of conscious wrongdoing required, and the high degree of protection generally afforded to trust/fiduciary relations, this seems readily explicable as a deterrent measure.

In practice, equity often achieves the functional equivalent of a gain-based remedy more widely, without this needing to be characterised as a gain-based liability for wrongdoing. Thus, in particular, where assets are held on trust, and are disposed of without authority, English law is particularly generous in affording persons entitled to those assets an ability (i) to assert equitable proprietary rights in an unauthorised traceable substitute asset in the trustee’s/fiduciary’s hands; and (ii) corresponding rights to the original asset or

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91 E.g. Boardman v Phipps [1967] 2 AC 46.
92 For a leading recent account, see generally Conaglen, Fiduciary Loyalty (Hart, 2010).
93 [2005] EWCA Civ 959, [74].
95 As assumed in e.g. Fyffes Group Ltd v Templeman [2000] 2 Lloyd’s Rep 643; Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [1589]-[1601].
96 Cf Royal Brunei Airlines v Tan [1995] 2 AC 378 (PC), 387, where Lord Nicholls explicitly justified the existence of the wrong itself in terms of the “dual purpose” of “making good the beneficiary’s loss should the trustee lack financial means and imposing a liability which will discourage others from behaving in a similar fashion”.
traceable substitute in the hands of a third party recipient. Such a third party recipient, once he acquires sufficient knowledge of the breach as to make it unconscionable for him to retain the benefit of his receipt, may also incur an equitable personal liability for knowing receipt, which ordinarily involves an immediate liability to restore the misapplied assets or their value to the trust, but might also generate a further liability to account for his profits.

(b) Intellectual property wrongs

English law has also long made available the remedy of an account of profits for major intellectual property (‘IP’) wrongs, originally via proceedings in courts of equity as an adjunct to a claim for injunctive relief. This practice pre-dates modern IP statutes, which now expressly confirm the remedy’s availability for patent, copyright, and trademark infringements, as well as for the infringement of number of other rights. Passing off remains a common law wrong, for which an account of profits is undoubtedly available. Three features of these profit-stripping awards, when awarded in IP cases, stand out.

First, it is widely assumed that an account of profits is readily available for these wrongs, as an alternative to ordinary compensatory damages, at the election of the claimant. In practice, claimants rarely make this election. Nevertheless, where it is made, the courts apparently exercise only a very limited

97 Esp Foskett v McKeown [2001] 1 AC 102. The legal basis for these rights is a matter of ongoing debate: e.g. Goff and Jones (n 7), paras 8.17-8.19, 8.83-8.93.
98 BCCI (Overseas) Ltd v Akindele [2001] Ch 437 (CA).
99 There is an ongoing debate about the proper characterisation of this liability: see Mitchell and Watterson, ‘Remedies for Knowing Receipt’ in Mitchell (ed), Constructive and Resulting Trusts (Hart, 2009); Goff and Jones (n 7), paras 8.123-8.130. There is also an ongoing debate about whether the law also might impose a strict personal liability in unjust enrichment in these circumstances: see Goff and Jones (n 7), paras 8.50-8.68.
100 E.g. Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch), [1577] ff.
101 Patents Act 1977, s 61(1)(d).
102 Copyright, Designs and Patents Act 1988, s 96(2).
103 Trade Marks Act 1994, s 14(2); Community Trade Mark Regulations 2006, reg 5(2).
104 In particular: performers’ property rights (Copyright, Designs and Patents Act 1988, s 191(2)); (unregistered) design right (Copyright, Designs and Patents Act 1988, s 229(2)); registered design right (Registered Designs Act 1949, s 24A(2)).
105 E.g. My Kinda Town Ltd v Soll & Grunts Investments [1982] FSR 147; Woolley v UP Global Sourcing UK Ltd [2014] EWHC 493 (Ch).
discretion to refuse the remedy and leave the claimant with ordinary compensatory damages in lieu.\(^{106}\)

Secondly, there is unevenness in relation to the degree of fault needed to justify an account of profits. Conscious/deliberate wrongdoing is certainly not universally required. For trademark infringement or passing off, the courts may refuse an account of profits against an infringer who did not knowingly infringe the claimant’s rights.\(^{107}\) In contrast, an account of profits seems to be available for merely negligent patent infringement: a statutory “innocent infringement” defence protects an infringer from liability for damages or an account of profits if he proves that “at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed”.\(^{108}\) For copyright,\(^ {109}\) performers’ property rights,\(^ {110}\) (unregistered) design right,\(^ {111}\) and in future, registered design right,\(^ {112}\) an infringer who neither knew or had no reason to believe that the rights existed is only protected from liability for “damages”; other remedies, including an account of profits, are expressly preserved.\(^ {113}\)

Thirdly, whilst many commentators emphasise deterrence as the primary basis for profit-stripping awards, this has not been an explicit feature of judicial reasoning in modern IP cases. Where a substantial explanation is articulated, it is typically the prevention of the infringer’s “unjust enrichment”\(^ {114}\) – perhaps implying that in the IP context, a profit-stripping award is thought warranted

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\(^{106}\) Cf the position today for breaches of confidence, discussed in the text to nn 00-00 below.


\(^{108}\) Patents Act 1977, s 62(1).

\(^{109}\) Copyright, Designs and Patents Act 1988, s 97(1); Wienerworld Ltd v Vision Video Ltd [1998] FSR 832; see too Microsoft Corp v Plato Technology [1999] FSR 834 (account of profits from innocent sale of copied software conceded).

\(^{110}\) Copyright, Designs and Patents Act 1988, s 191.

\(^{111}\) Copyright, Designs and Patents Act 1988, s 233(1) (innocent primary infringement).

\(^{112}\) Registered Designs Act 1949, s 24B (as amended by the Intellectual Property Act 2014, s 10(1)) (not yet in force); the pre-amendment provision expressly excluded both damages and an account of profits.

\(^{113}\) As decided in Wienerworld Ltd v Vision Video Ltd [1998] FSR 832 (copyright infringement).

\(^{114}\) E.g. Spring Form Inc v Toy Brokers Ltd [2002] FSR 17, [7] (patent infringement); Potton Ltd v Yorkclose Ltd [1990] FSR 11, 15-16 (copyright infringement); My Kinda Town v Soll & Grunts Investments [1982] FSR 147, 156 (passing off).
without any need to refer to the aim of deterrence. The absence of any general requirement for conscious/deliberate wrongdoing may also reinforce the view that deterrence is not a necessary premise on which these awards are made; or it may suggest that some commentators\(^{115}\) are wrong to think that conscious/deliberate wrongdoing is a necessary condition for profit-stripping to be warranted on deterrent-grounds. Either way, English courts may well make more explicit reference to the requirements of deterrence in future, in light of EU law requirements embodied in the recent EU Enforcement Directive.\(^{116}\) These require Member States to provide remedies to enforce IP rights that are, inter alia, “effective”, “proportionate” and, crucially, “dissuasive”\(^{117}\).

Where a claimant elects to recover damages rather than an account of an infringer’s profits, the basic premise on which these damages are assessed and awarded is that they are intended to compensate the claimant’s losses – e.g. lost sale or licensing profits). However, in patent cases, it has long been assumed that every infringement is a wrongful act for which substantial damages should be payable by reference to a reasonable or notional royalty, in the absence of other proven losses, and apparently even though the claimant would not have licensed the defendant’s acts.\(^{118}\) This is an example of the ‘reasonable fee’ measure outlined earlier. Similar awards have been accepted

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\(^{115}\) See esp Edelman (n 3), chap 7, arguing that for non-fiduciary wrongdoing – including IP wrongs – deliberate/reckless wrongdoing, committed for profit, is required before a deterrent-based award can be made. He criticises the uneven fault requirements for an account of profits for IP wrongs as inconsistent with this.

\(^{116}\) EU Enforcement Directive, 2004/48/EC.

\(^{117}\) Art 3(2). Art 13 provides for a “damages” remedy against an infringer who engaged in infringing activity, knowingly or with reasonable grounds for knowing, which is implemented into English law by the Intellectual Property (Enforcement etc) Regulations 2006/1028, reg 3. It is not clear reg 3 dictates any major change to English law’s remedial regime; but in the wake of these developments, concerns for deterrence do seem to be filtering into judicial discourse. E.g. Hollister Inc v Medik Ostomy Supplies Ltd [2012] EWCA Civ 319, [69]. See too counsel’s argument in Pendle Metalwares Ltd v Page [2014] EWHC 1140 (Ch), [18].

\(^{118}\) See the classic statement of Lord Shaw in Watson Laidlaw & Co Ltd v Pott Cassels & Williamson (1914) 31 RPC 104, 118-120, echoing earlier suggestions of Fletcher-Moulton LJ in Meters Ltd v Metropolitan Gas Maters Ltd (1911) 28 RPC 157. On this basis, the courts have been prepared to award damages calculated by reference to the lost profits from infringing sales that would otherwise have accrued to the patent owner, and a notional royalty for every other infringing sale: Catnic Components Ltd v Hill & Smith Ltd [1983] FSR 512; Gerber Garment Technology Inc v Lecta Systems Ltd [1995] RPC 383.
for copyright infringement;\textsuperscript{119} as well as more recently, with more equivocation, for trademark infringement and passing off.\textsuperscript{120} As in other contexts, the cases remain ambivalent as to whether this measure is properly classified as ‘compensatory’ or ‘restitutionary’.\textsuperscript{121}

It is worth noting, finally, that this general picture is complicated by the fact that Parliament has expressly provided for a sui generis measure of award, known as “additional damages”, for copyright infringement\textsuperscript{122} and a number of other wrongs.\textsuperscript{123} These damages can be awarded in addition to ordinary compensatory damages\textsuperscript{124} in an appropriate case, “as the justice of the case may require”, “having regard to all the circumstances, and in particular to – (a) the flagrancy of the infringement, and (b) any benefit accruing to the defendant by reason of the infringement”. This is an unusual, hybrid remedy, which occupies an uncertain status as between (a) aggravated compensatory damages, (b) a gain-based measure, and (more doubtfully) (c) exemplary damages.\textsuperscript{125} It remains a live question whether, post-\textit{Kuddus}, ‘category 2’ exemplary damages could be awarded for an IP wrong.\textsuperscript{126}

\textbf{(c) Breach of confidence}

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{119} Esp Blayney (t/a Aardvark Jewellery) v Clogau St David’s Gold Mines Ltd [2002] EWCA Civ 1007, where the court rejected the suggestion that the different nature of the monopoly conferred by copyright dictated a difference in approach to damages in this respect.
  \item \textsuperscript{120} Cf the differing views expressed as to whether the notional royalty measure is automatically available for trademark infringement/passing off, at least when the ‘mark’ is not the sort of mark available for hire, or whether these cases should be treated in the same way as patent cases: \textit{Roadtech Computer Systems Ltd v Mandata Ltd} [2000] ETMR 970, 974; \textit{Irvine v Talksport Ltd} [2003] EWCA Civ 323; \textit{Reed Executive Plc v Reed Business Information Ltd} [2004] EWCA Civ 159, [165]; \textit{National Guild of Removers & Storers Ltd v Silveria} [2010] EWPC 15, esp [17]; \textit{National Guild of Removers & Storers Ltd v Jones} [2011] EWPC 4, [10]-[16]. Cf earlier, Dormeuil Frères SA v Feraiglow Ltd [1990] RPC 449.
  \item \textsuperscript{121} E.g. Attorney-General v Blake [2001] 1 AC 268, 278-279 (Lord Nicholls).
  \item \textsuperscript{122} Copyright, Designs and Patents Act 1988, s 97(2). It was first introduced for copyright infringement by the Copyright Act 1956, s 17(3).
  \item \textsuperscript{123} Performers’ property rights (Copyright, Designs and Patents Act 1988, s 191J(2)); (unregistered) design right (Copyright, Designs and Patents Act 1988, s 229(3)).
  \item \textsuperscript{124} \textit{Redrow Homes Ltd v Bett Brothers plc} [1999] 1 AC 197, holding that such additional damages could not be claimed in addition to an account of profits, and overruling the earlier decision in \textit{Cala Homes (South) Ltd v Alfred McAlpine Homes East Ltd (No 2)} [1996] FSR 36.
  \item \textsuperscript{125} E.g. Pendle Metalwares Ltd v Page [2014] EWHC 1140 (Ch); \textit{Peninsular Business Services Ltd v Citation plc} [2004] FSR 17; \textit{Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd} [2002] RPC 49.
  \item \textsuperscript{126} Cf Catnic Components Ltd v Hill & Smith Ltd [1983] FSR 512, 541 (patent infringement).
\end{itemize}
\end{footnotesize}
Liability for breach of confidence has a wide reach in English law, encompassing actions for misuse of information in breach of an obligation of confidentiality assumed by contract or imposed by law, without formal distinction between types of information – e.g. technological, commercial, political, or personal. Courts of equity have had long-running involvement in these cases, both in restraining breaches by injunctions, and in imposing confidentiality obligations in the absence of any contract. There is a long-running debate about the proper classification of the action available in the latter cases – if not a common law claim in contract or in tort, then it looks like an equitable wrong, prompting some arid debates about the jurisdictional basis for courts to make compensatory awards.\footnote{For a very good recent discussion, see \textit{Force India Formula One Team Ltd v 1 Malaysia Racing Team} [2012] EWHC 616 (Ch), [374]-[424], where the conclusion is reached that compensation is available either under Lord Cairns’s Act or as equitable compensation, and that in either case, it should be not be assessed differently from common law damages for breach of a contractual confidentiality obligation.} More immediately important, however, is the long-standing assumption that a profit-stripping remedy, via the equitable remedy of an account of profits, may be awarded for breach of confidence.\footnote{E.g. Attorney-General v Times Newspapers Ltd [1990] 1 AC 109.}

It has sometimes been argued that the victim of a breach of confidence, much like the victim of an IP wrong, has a free election between damages and an account of profits, subject only to the court’s discretion to refuse the remedy on general equitable grounds.\footnote{An argument advanced and rejected in both \textit{Vercoe v Rutland Fund Management Ltd} [2010] EWHC 424 (Ch) and \textit{Walsh v Shanahan} [2013] EWCA Civ 411.} However, recent cases suggest that this is mistaken, and that the courts are taking a more discriminating approach to the availability of this remedy – refusing it altogether where it is not regarded as the “appropriate” response to the breach.\footnote{\textit{Vercoe v Rutland Fund Management Ltd} [2010] EWHC 424 (Ch), esp [334]-[345], endorsed by the Court of Appeal in \textit{Walsh v Shanahan} [2013] EWCA Civ 411, esp [55]-[73].} It would seem that the line is not simply a line between conscious/deliberate and non-deliberate wrongdoing, although conscious/deliberate wrongdoing may be a necessary condition for an award.\footnote{Cf Edelman (n 3), pp 213-215.} Instead, and consistently with the wide range of circumstances embraced within actions for breach of confidence, the courts appear to be assuming a spectrum of cases, with the extent of the law’s remedial response graded, inter alia, according to importance of the interest in confidentiality, the
extent to which any profit accruing to the defendant is causally attributable to the defendant’s wrong, and the strength of the need for deterrence. \[^{132}\] For example, confidential information obtained within a fiduciary relationship, or state secrets, \[^{133}\] may be given the highest level of protection in the form of an account of profits. In contrast, for breaches of confidence between parties to a purely commercial relationship, the courts appear likely, at least in the absence of (as yet undefined) “exceptional circumstances”, to regard the more appropriate remedy as a lesser ‘reasonable fee’ award – i.e. damages assessed on a hypothetical negotiation basis, reflecting the price that the claimant could reasonably have demanded as the price for agreeing to relax the contractual restriction. \[^{134}\] As elsewhere, the cases remain equivocal as to the true characterisation of this latter remedy, as ‘compensatory’ or ‘restitutionary’; \[^{135}\] and as in the IP cases, there may be a tendency to treat the measure as a residual measure, awarded if the claimant cannot prove that he has suffered financial loss in the form of lost profits from exploiting the information, by sale or licensing, or a genuinely lost opportunity to bargain with the defendant. \[^{136}\]

\[^{(d)}\] \textbf{Wrongful interferences with rights to land or chattels}

English law is robustly protective of rights to possess chattels or land. An unauthorised, wrongful appropriation of another’s chattel is likely to result in strict liability for a common law tort – most likely, the tort of conversion. Such wrongdoing readily yields a liability to pay damages measured by the market value of the chattel (if the chattel is not returned), \[^{137}\] or if it has been sold, a li-

\[^{133}\] Cf Attorney-General v Blake [2001] 1 AC 268.  
\[^{134}\] See Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch); Jones v Ricoh Ltd [2012] EWHC 348 (Ch); Walsh v Shanahan [2013] EWCA Civ 411.  
\[^{135}\] E.g. Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45 (where the language of ‘compensation’ dominates). Cf Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd [2013] EWCA Civ 780, [97]-[104] (where a similar award is clearly treated as benefit-based).  
\[^{136}\] See recently Force India Formula One Team Ltd v 1 Malaysia Racing Team [2012] EWHC 616 (Ch), [424], after a comprehensive review of the authorities.  
\[^{137}\] Depending on the circumstances, this is obviously susceptible to explanation as compensatory and/or restitutionary in nature. See further the Torts (Interference with Goods) Act 1977, s 3 (forms of judgment against a defendant in possession of goods).
ability for the proceeds of sale.\textsuperscript{138} In principle, a similar position applies to land, where it is permanently expropriated.\textsuperscript{139}

Where another’s chattel or land is merely wrongfully used – most likely, amounting to the tort of trespass to goods or land – the courts also have routinely held the defendant liable to pay a reasonable sum for the wrongful use. This is another example of the reasonable fee measure, variously described as ‘user damages’,\textsuperscript{140} ‘mesne profits’,\textsuperscript{141} a ‘wayleave’ award,\textsuperscript{142} or ‘hypothetical negotiation damages’.\textsuperscript{143} It is harder to find cases where the courts have gone further, and made a profit-stripping award that captures part or all of the profits actually earned by wrongful use.\textsuperscript{144} The most recent cases imply that such a remedy may be available against a conscious wrongdoer in (as yet undefined) “exceptional circumstances”.\textsuperscript{145}

\begin{itemize}
  \item \textsuperscript{138} Historically achieved via a variety of routes; in particular, the old common law action for money had and received (e.g. \textit{Oughton v Seppings} (1830) 1 B&Ad 241) or in some cases, an accounting in equity (e.g. \textit{Powell v Aiken} (1858) 4 Kay&J 343).
  \item \textsuperscript{139} Cf the damages award made in \textit{Horsford v Bird} [2006] UKPC 3 (the price that could reasonably be agreed, to acquire the expropriated area), where the court refused to order a mandatory injunction to restore an area of land expropriated from a neighbour; similarly, \textit{Ramzan v Brookwide Ltd} [2010] EWHC 2453 (Ch). See too early wrongful mining cases, where 19th century courts were prepared to award, as a remedy for the trespassory extraction of coal from the claimant’s land, (i) the market value of the coal, as if purchased in the ground (e.g. \textit{Wood v Morewood} (1842) 3 QB 440; \textit{Jegon v Vivian} (1871) LR 6 Ch App 742), or (ii) the market value of the coal at the surface, less the costs of raising but not the costs of severing (e.g. \textit{Llynvi Co v Brogden} (1870) LR 11 188; \textit{Phillips v Homfray} (1871) LR Ch App 770, 780-781). The choice between these two measures seems to have depended on whether the defendant acted in good faith, or was willful wrongdoer.
  \item \textsuperscript{140} E.g. \textit{Kuwait Airways Corp v Iraqi Airways Co (Nos 4 and 5)} [2002] UKHL 19, [87]-[90].
  \item \textsuperscript{141} E.g. \textit{Ministry of Defence v Ashman} (1993) 66 P&CR 195 (wrongful occupation by former tenant); \textit{Inverugie Investments Ltd v Hackett} [1995] 1 WLR 713 (PC) (wrongful deprivation of possession of lessee by reversioner).
  \item \textsuperscript{142} E.g. \textit{Whitwham v Westminster Brymbo Coal and Coke Co} [1896] 1 Ch 894, [1896] 2 Ch 538 (CA) (value of use of land for tipping colliery waste); \textit{Phillips v Homfray} (1871) LR 6 Ch App 770, 780-781 (value of use of underground passages for transporting coal).
  \item \textsuperscript{143} E.g. \textit{Stadium Capital Holdings (No 2) Ltd v St Marylebone Co} [2011] EWHC 2856 (Ch) (value of use of airspace above land for placement of advertising hoarding).
  \item \textsuperscript{144} Cf where the relevant property was in fact held as trustee for the claimant: as in \textit{Ramzan v Brookwide Ltd} [2010] EWHC 2453 (Ch), [2011] EWCA Civ 985.
  \item \textsuperscript{145} Cf \textit{Re Simms} [1934] Ch 1 (CA); \textit{Strand Electric & Engineering Co Ltd v Brisford Entertainments Ltd} [1952] 2 QB 246 (CA), 255 (per Denning LJ).
\end{itemize}
There is no doubt that the most outrageous examples of this variety of wrongdoing can attract ‘category 2’ exemplary damages. Mention must also be made of the special statutory tort of unlawful eviction of a “residential occupier”, created by the Housing Act 1988. The “landlord” is liable for a statutory measure of gain-based damages, reflecting the increase in the market value of the landlord’s interest in the property as a result of the eviction. This was specifically designed, in part, to provide a powerful deterrent for landlords tempted to evict their tenants with a view to gain.

Interferences with lesser rights to land, short of rights to possession, have also attracted what look like reasonable fee awards. In particular, breach of a restrictive freehold covenant will readily yield an award of damages assessed on a hypothetical negotiation basis where injunctive relief is not awarded to undo a past breach and/or to prevent future breaches. Interference with an easement, such as a right to light or right of way – actionable via the tort of nuisance – has attracted a similar measure of award. As yet, there are no cases in which an account of profits has been awarded in these situations. Indeed, it remains unclear whether a nuisance can ever attract a profit-stripping award, via an account of profits or otherwise. It seems to be assumed again that (as yet undefined) “exceptional circumstances” will at least be required.

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146 E.g. Ramzan v Brookwide Ltd [2011] EWCA Civ 985 (expropriation of land from freehold owner); Drane v Evangelou [1978] 1 WLR 455 (unlawful eviction of tenant); Guppys (Bridport) Ltd v Brookling (1984) 14 HLR 1, 27 (harassment of tenant); Borders (UK) Ltd v Commissioner of Police of the Metropolis [2005] EWCA Civ 197 (large-scale trading in stolen chattels).
147 Housing Act 1988, s 27.
148 Housing Act 1988, s 28.
152 E.g. Kettle v Bloomfold Ltd [2012] EWHC 1422 (Ch).
154 Cf Forsyth-Grant v Allen [2008] EWCA Civ 505.
(e) **Breach of contract**

Until remarkably recently, it was a long-standing assumption that damages for breach of contract were compensatory only; neither exemplary damages\(^{155}\) nor gain-based damages\(^{156}\) could be awarded for a ‘pure’ breach of contract. However, in 2001, in the landmark decision in *Attorney-General v Blake*,\(^{157}\) a majority of the House of Lords held that an account of profits could be awarded against a contract-breaker, albeit only in “exceptional circumstances”. Lord Nicholls, giving the leading judgment, said that the remedy would not be awarded unless normal contractual remedies (compensatory damages and specific remedies) would be an “inadequate” response to a breach. Beyond that, no “fixed rules” could be prescribed for identifying what would qualify as “exceptional circumstances”, although a “useful” but “not exhaustive” guide was “whether the [claimant] had a legitimate interest in preventing the defendant’s profit-making activity and, hence, in depriving him of his profit”.\(^{158}\)

*Blake* was an extreme case,\(^{159}\) and much ink has been spilt in an attempt to give further content to Lord Nicholls’s words. It is certainly clear that an account of profits was expected to be highly unusual; that it was viewed primarily as a mechanism for deterrence; and that it is not sufficient to warrant the remedy that the breach of contract was deliberate and cynical, with a view to

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156 Esp Surrey County Council v Bredero Homes Ltd [1993] 1 WLR 1361 (CA).


159 Blake was a former member of the UK’s intelligence services and a notorious Russian spy, who was imprisoned, but escaped; during years of exile in Russia, he wrote an autobiography, substantially based on information acquired during his time working for the UK’s intelligence services. The proceedings were brought with a view to preventing Blake from profiting pursuant to a publishing contract. Since any fiduciary relationship had long since ended, and the information disclosed was no longer confidential, the claim rested on Blake’s breach of a contractual obligation, assumed to the Crown when he signed an Official Secrets Act declaration prior to commencing his employment, not to divulge any official information gained by him as a result of his employment, during or after his employment.
Precisely what more is required remains unsettled. Some commentators plausibly suggest that a key to identifying when such awards may legitimately be available as a mechanism to deter breaches of contract is whether the obligation which the defendant breached is one for which courts might be prepared to order specific performance. Post-Blake decisions are not straightforwardly explained in these terms; nevertheless, two things, at least, are clear. First, an account of profits is very rarely awarded. Secondly, where the necessary “exceptional circumstances” cannot be identified, the courts often make a more limited reasonable fee award instead – assessing damages on hypothetical negotiations basis, reflecting the price that could reasonably be agreed for the relaxation of the defendant’s contractual obligation – at least if ordinary compensatory damages would be an inadequate remedy.

(f) Other wrongs and possible future developments

What about other wrongs? English courts clearly do not regard profit-stripping awards/disgorgement as an automatic, or even common, response to every wrong. Nevertheless, the recognition in Attorney-General v Blake that an account of profits may be awarded for breach of contract suggests that the list

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160 See Attorney-General v Blake [2001] 1 AC 268, 286, where Lord Nicholls expressly acknowledged that it was not sufficient, to justify an award, that, inter alia, a breach was deliberate and cynical; that the defendant did the very thing he contracted not to do; or that the breach enabled the defendant to enter into a more profitable contract elsewhere.


of wrongs that may yield a profit-stripping award is not closed. Blake even seems to pave the way for allowing a similar remedy, in an appropriate case, for other wrongs for which there is no present authority for profit-stripping awards – mostly, a significant number of common law torts – at least where “exceptional circumstances” are shown.

It is currently far from clear whether, in developing the law in future, the English courts will adopt Edelman’s simple criterion, that a profit-stripping award should be available to deter non-fiduciary wrongdoing which is committed deliberate or recklessly, with a view to profit. An analogy can obviously be drawn from the availability of ‘category 2’ exemplary damages, which have been awarded for various wrongs for which there is no authority for profit-stripping awards, such as the tort of defamation. Nevertheless, this may not be a completely safe analogy. Exemplary damages continue to divide English judges, who generally show little appetite – despite Kuddus – to extend their ambit; indeed, a future Supreme Court might well opt to abolish them altogether. Even while they remain part of English law, there are also further thresholds which dramatically restrict their availability even where ‘category 2’

165 E.g. the obiter suggestion that an account of profits might be available for the newly-recognised wrong of invasion of privacy/misuse of private information, in Douglas v Hello! Ltd (No 3) [2005] EWCA Civ 595, [249].
167 Even after Blake, some judges still sometimes assume – implausibly, once the law is viewed as a whole – that a firm line can be drawn between “proprietary” and “non-proprietary” torts/wrongs, when it comes to the availability of gain-based awards, in principle and/or as a matter of authority. See e.g. the discussion in Devenish Nutrition Ltd v Sanofi-Aventis SA [2008] EWCA Civ 1086; and in Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch), [128]. For critical discussion of this exercise in line-drawing, see esp Robertson, ‘The Normative Foundations of Restitution for Wrongs: Justifying Gain-based Relief for Nuisance’ in Robertson and Tang (eds), The Goals of Private Law (Hart, 2009).
168 Cf Rotherham, ‘Gain-based Relief in Tort after AG v Blake’ (2010) 126 LQR 102, who is critical of the assumption that the “exceptional circumstances” threshold articulated in Blake should be straightforwardly transferred from breach of contract cases, to tort cases.
169 See the text to n 0 above.
171 Kuddus v Chief Constable of Leicestershire [2001] UKHL 29. See further the text to n 0 above.
facts are prima facie made out. As such, ‘category 2’ exemplary damages may not be a safe basis from which to extract any general principle that deliberate, profit-seeking wrongdoing, without more, merits a profit-stripping award as a means to deter. Perhaps the most that can be said at this stage is that in developing the law in a principled way, the courts are likely to have regard to the importance and vulnerability of the claimant’s protected interest, the extent and culpability of the defendant’s wrongful conduct, the extent to which the defendant’s profits were causally attributable to his wrongdoing, and the adequacy of other remedies/sanctions, to overcome any qualms they might have about the redistributive nature of a profit-stripping award, and justify a profit-stripping award on deterrence-grounds.

Restitutionary awards require different treatment. It is quite possible that these awards should be more often awarded than profit-stripping awards, for several reasons: (i) this narrowly restitutionary measure is less easily characterisable as a windfall to the claimant than a profit-stripping/disgorgement measure, which strips a wrongdoer’s profits, whatever their source; (ii) deterrence may not be a necessary foundation for these awards, with the result that lesser culpability may be required from the defendant; (iii) a restitutionary measure, exemplified by a ‘reasonable fee’ award, is available even where the defendant’s conduct was not profitable; and (iv) where the defendant’s conduct is profitable, a restitutionary measure may be the better measure, in some circumstances, of the limited extent to which the defendant’s profits are attributable to his wrongdoing, and therefore the appropriate gain-based measure in the absence of a compelling argument for a stronger measure of deterrence.

Edelman’s thesis is more expansive – what he calls ‘restitutionary damages’ should in theory be available for any wrong, without more; otherwise, the law

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173 See the text to nn 00-00 above.
174 Cf the sophisticated discussion of Rotherham, who concludes that if deterrence is the justification for profit-stripping awards, this may not justify the remedy’s availability in very much wider circumstances than is presently accepted: Rotherham, ‘Deterrence as a justification for awarding accounts of profits’ (2012) 32 OJLS 537. As Rotherham’s account makes clear, an all-encompassing inquiry would have regard to the costs that might follow from the use of such remedies (e.g. the risk of over-deterrence).
would “legitimate” the wrong.\textsuperscript{175} However, English law currently seems some way from this point. One obstacle may be an enduring assumption that the ‘normal’ remedy for a civil wrong is compensation for loss, and that other monetary remedies must have a more residual role.\textsuperscript{176} Another obstacle is the continuing equivocation about whether many arguable examples of restitutionary awards are truly explicable as “compensatory”.\textsuperscript{177} Expansive visions of when “substitutive” compensatory awards can be made rob advocates of gain-based damages of some of the most promising material from which to construct any general theory about the availability of restitutionary awards. The better answer may well be that these approaches are not mutually exclusive – that dual rationalisation is legitimate.\textsuperscript{178} Nevertheless, whilst that remains in doubt, the status of these restitutionary awards, and their extension to other wrongs in English law, will be insecure.

Even if the ‘restitutionary’ analysis does ultimately prevail, it has inherent limits. In particular, it is implausible to suggest that every wrongful infringement of a claimant’s rights warrants a restitutionary award on a reasonable fee basis. Such awards seem possible only if the claimant’s interest is one which it is possible to regard as the object of bargaining. Only then does it seem possible to imagine a court identifying an objective ‘benefit’ to the defendant, consisting of the unlicensed appropriation or infringement of the claimant’s rights, which can be quantified in money by reference to a market valuation or hypothetical negotiation. All awards classifiable as reasonable fee awards so far involve interests that one might not have qualms about monetising in this way, and where it is therefore feasible to identify an objective benefit to the defendant, quantifiable in money, that might be the subject of a ‘restitutionary’ award. There are, however, clearly other interests which it would be surprising to find courts treating similarly – e.g. a claimant’s interest in his bodily integrity. In such cases, any concern that a defendant should not be permitted the ‘bene-

\textsuperscript{175} See the text to nn 00-00 above.
\textsuperscript{176} Cf e.g. the assumptions reflected in the controversial anti-restitution decision in \textit{Stoke-on-Trent City Council v W&J Wass Ltd} [1988] 1 WLR 1406 (CA).
\textsuperscript{177} See the text to nn 00-00 above.
\textsuperscript{178} Cf e.g. the dual rationalisation reflected in the analysis in \textit{Inverugie Investments Ltd v Hackett} [1995] 1 WLR 713 (PC), 718 (per Lord Lloyd).
fit’ or ‘advantage’ of unlicensed, wrongful interference, without incurring any substantial liability, must be met in other ways.

3. PROPRIETARY REMEDIES

The last section surveyed the circumstances in which monetary gain-based remedies might be awarded for a civil wrong. A missing dimension is whether English law ever affords what might be called ‘proprietary restitution for wrongs’ – affording the victim some form of entitlement to an asset in the wrongdoer’s hands that represents the proceeds of his wrongful conduct. Some important benefits may follow for a claimant, depending upon the basis and form of the right, in particular, (i) improved status in the wrongdoer’s insolvency; and (ii) an increased measure of recovery that can capture additional, post-receipt gains by the wrongdoer.

This area is fraught with difficulty. One clear point of departure is that, unlike some other common law jurisdictions, English courts have not yet adopted any form of remedial constructive trust.¹⁷⁹ As such, it is not yet open to English courts, exercising a broad remedial discretion in proceedings before them, to impose a trust or lien over an asset in the wrongdoer’s hands, retrospectively or prospectively from the date of the court’s order. If English law ever achieves ‘proprietary restitution for wrongs’, it only does so by so-called ‘institutional’ mechanisms – proprietary entitlements that are generated by operation of law, in accordance with legal rules, as the right-justifying facts occur.¹⁸⁰

Beyond this starting-point, clear generalisations become difficult. Three points nevertheless stand out. First, on any view, proprietary gain-based remedies are far more restricted than personal gain-based remedies. Secondly, there are undoubtedly mechanisms in English law by which such proprietary restitution-

¹⁷⁹ Esp Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 714-716 (per Lord Browne-Wilkinson); Polly Peck International plc (in administration) (No 5) [1998] 3 All ER 812 (CA); Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd (in administrative receivership) [2011] EWCA Civ 347, [37]; FHR European Ventures LLP v Mankarious [2013] EWCA Civ 17, [76].

¹⁸⁰ For this distinction, see esp Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669, 714-716 (per Lord Browne-Wilkinson).
tion might be achieved – most obviously, by the imposition of a constructive trust or an equitable lien. Nevertheless, there is currently no simple alignment between proprietary responses and either (i) conduct that would qualify as a wrong under the general law (e.g. a tort, equitable wrong, or breach of contract), or (ii) circumstances that would establish a cause of action in unjust enrichment. Thirdly, in the realm of proprietary restitution, a robust look across the authorities suggests a stark distinction between: (i) the availability of proprietary restitutionary mechanisms in the ‘narrow’ sense, which reverse essentially ‘subtractive’ gains accruing to the defendant at the claimant’s expense; and (ii) the availability of proprietary disgorgement mechanisms, which can go further and strip a wrongdoer of the proceeds of his wrongdoing, whatever their source.

(1) Proprietary restitution

Proprietary restitutionary mechanisms, in the ‘narrow’ sense just described, seem widespread in English law. That is, where a defendant gains by receiving an asset directly from the claimant, or otherwise at the claimant’s expense, the law routinely ‘reverses’ this transfer via a proprietary response. Sometimes this is via an immediate trust for the claimant. In other circumstances, it is via a ‘power in rem’ that once exercised, operates to vest in the claimant either legal title, or more often, a merely equitable title under some form of trust. For example:

(i) a wholly unauthorised taking of another’s asset ordinarily has no effect on the original owner’s title, and if there are further unauthorised substitutions by the recipient, English law is generous in affording the original owner an interest in any newly acquired asset that represents the traceable substitute for the previous asset.\(^\text{181}\)

(ii) a transfer of title to property under a contract or by way of gift can be rescinded on various grounds including duress, undue influence, and misrepresentation (fraudulent or non-fraudulent); depending on the origin of rescission, the effect is to re vest legal title, or altersna-\(^\text{181}\) Cf e.g. Foskett v McKeown [2001] 1 AC 102.
tively, a merely equitable title under what is variously regarded as a resulting\textsuperscript{182} or a constructive trust\textsuperscript{183} in favour of the transferor.

(iii) property obtained by simple theft or by fraud may be held on constructive trust for the victim which arises immediately in the absence of any transactional barrier.\textsuperscript{184}

(iv) property transferred by mistake, or arguably, in other circumstances that generate a restitutionary liability in unjust enrichment (e.g. some failure of consideration), may be held on constructive trust at least once the recipient has acquired knowledge of the restitution-justifying facts, so as to render his subsequent retention of the property ‘unconscionable’.\textsuperscript{185}

Beyond this, there are other, miscellaneous examples of constructive trusts imposed by equity in response to a wider range of unconscionable conduct that in some manifestations may have some form of restitutionary effect.\textsuperscript{186}

There is scope for debate about the basis of these proprietary restitutionary mechanisms. Some might certainly be characterised as responses to wrongdoing; however, a number of English unjust enrichment scholars contend that many could be better analysed as restitutionary responses to the defendant’s subtractive unjust enrichment at the claimant’s expense.\textsuperscript{187} This is some appeal in this analysis. It is consistent with the limited ‘restitutionary’ remedial orientation of these mechanisms; the right-generating facts often disclose cir-

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\textsuperscript{182} E.g. \textit{El Ajou v Dollar Land Holdings plc} [1993] BCC 689, 712-713 (per Millett J).

\textsuperscript{183} E.g. \textit{Lonrho plc v Fayed (No 2)} [1992] 1 WLR 1, 11-12 (per Millett J).


\textsuperscript{186} For general discussion, see e.g. Hayton, Matthews and Mitchell, \textit{Underhill & Hayton – Law of Trusts and Trustees} (18th edn, Sweet and Maxwell, 2010) chap 9.

cumstances that could found a cause of action in unjust enrichment (e.g. non-consensual/unauthorised acquisition, mistake, duress, undue influence etc);\textsuperscript{188} many of the right-generating facts do not disclose conduct of the defendant that would be regarded as ‘wrongful’ under the general law; and even where there may be a concurrent cause of action for a wrong (e.g. the tort of deceit or conversion), the wrong is not obviously a necessary basis for the right. This analysis nevertheless remains highly contested, and as things stand, it can only be adopted by glossing or ignoring what some judges have said.\textsuperscript{189}

(2) Proprietary disgorgement

Proprietary disgorgement is an unusual phenomenon in English law. As such, a personal liability to disgorge wrongful profits, typically via an account of profits, is only rarely supplemented by the imposition of a constructive trust. Authorities suggest, for example: (a) that an IP infringer is only personally liable to account for his profits, and is not a constructive trustee of the proceeds of any infringement;\textsuperscript{190} (b) that a non-fiduciary, who misuses confidential information in breach of an obligation of confidentiality, may only be personally liable to account for his profits;\textsuperscript{191} (c) that a third party who dishonestly assists a breach of trust or fiduciary duty, and who may be liable to account for his profits, is not a constructive trustee of his profits without more;\textsuperscript{192} and (d) that a trespasser who profitably uses another’s land, and who might exceptionally be held liable to account for his profits from doing so, is nevertheless not a constructive trustee.\textsuperscript{193}

\textsuperscript{188} E.g. Mitchell, Mitchell and Watterson, Goff & Jones – The Law of Unjust Enrichment (8th edition, Sweet and Maxwell, 2011) chap 8, 9, 10, and 11.

\textsuperscript{189} E.g. in Westdeutsche Landesbank Girozentrale v Islington LBC [1996] AC 669 (re: the relationship between unjust enrichment and the imposition of resulting or constructive trusts); and Foskett v McKeown [2001] 1 AC 102 (re: the extent to which unjust enrichment provides an explanation for rights to substitute assets).

\textsuperscript{190} Twentieth Century Fox Film Corp v Harris [2013] EWHC 159 (Ch); Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch), [128].

\textsuperscript{191} Cf dicta in e.g. Attorney-General v Observer Ltd [1990] 1 AC 109. For discussion, see Tang, ‘Confidence and the constructive trust’ (2003) 23 LS 135; Conaglen, ‘Thinking about proprietary remedies for breach of confidence’ (2008) 1 IPQ 82.

\textsuperscript{192} Sinclair Investment Holdings SA v Versailles Trade Finance Ltd (in administrative receivership) [2007] EWHC 915 (Ch). Cf if he actually received the misapplied assets.

\textsuperscript{193} Re Polly Peck International plc (in administration) (No 2) [1998] 3 All ER 812 (CA); Twentieth Century Fox Film Corp v Harris [2013] EWHC 159 (Ch), [18].
For some time, the firmest support for proprietary disgorgement has been in the area of fiduciary wrongdoing: it is widely assumed that a fiduciary who is liable to account for his profits will ordinarily be a constructive trustee for his principal, if those profits are represented by an asset identifiable in the fiduciary's hands. The high-water-mark was Attorney-General for Hong Kong v Reid, where the Privy Council controversially held that a bribed public prosecutor held bribes received on constructive trust, and reasoned in terms that suggested that any fiduciary profit, made in breach of the core fiduciary proscriptions, could potentially be held on constructive trust for his principal. The most recent English cases show a retreat from this position, and a desire to limit constructive trusts to a smaller sub-set of cases, where the subject-matter in the fiduciary's hands, to which it is sought to attach a constructive trust, represents the principal's property, or the proceeds of exploitation of his property or of an opportunity that properly belonged to the principal. These authorities are directly concerned with the ambit of proprietary disgorgement for fiduciary wrongdoing, but they may have wider ramifications. If strongly deterrent/prophylactic concerns do not justify proprietary disgorgement even in the context of fiduciary breaches, then so too – a fortiori – in the context of other wrongs. This may help to allay the concerns of many commercial lawyers, at least, who argue that there is no justification for the special priority on insolvency (or other advantages) that may accrue as a result of proprietary disgorgement.

C. THE WIDER LEGAL LANDSCAPE

The law on gain-based remedies for civil wrongdoing does not exist in isolation: there are other routes by which, in English law, some or all of their purposes might be achieved. This is true of profit-stripping awards, and a fortiori, restitutionary awards.

Where permitted, profit-stripping/disgorgement is primarily achieved in ordinary civil proceedings via an order for an account of profits in favour of the victim of the wrong, or more exceptionally, the imposition of a constructive trust. ‘Category 2’ exemplary damages offer an alternative means to similar ends. Beyond this, where the wrongdoing also amounts to criminal activity, English law also provides various routes to state confiscation of the proceeds in both criminal and civil proceedings. Criminal courts have a wide-ranging jurisdiction under the Proceeds of Crime Act 2002\textsuperscript{197} to make a “confiscation order” after a criminal conviction on the application of the prosecutor or on the court’s own initiative, which may extend to the “available amount” of the defendant’s “benefit” from particular criminal conduct or a “general criminal lifestyle”.\textsuperscript{198} A designated enforcement body can also seek a civil “recovery order” in High Court proceedings against any person whom it thinks holds “recoverable property”, broadly meaning “property” obtained by conduct which the court is satisfied, on the balance of probabilities, is criminally unlawful conduct.\textsuperscript{199}

The natural domain of restitutionary awards is more obviously crowded. Within the law of wrongs, ordinary compensatory damages often subsume any possible restitutionary award in cases of subtractive wrongful enrichment. This is even more true, on wider analyses that rationalise reasonable fee awards as ‘substitutive’ compensatory awards.\textsuperscript{200} Otherwise, much of the work of restitutionary awards can be achieved, beyond the law of wrongs, by personal restitutionary remedies that arise within the law of unjust enrichment to reverse the defendant’s unjust enrichment at the claimant’s expense,\textsuperscript{201} or in a

\textsuperscript{197}There are other, more specific provisions – e.g. Prevention of Social Housing Fraud Act 2013, s 4 (unlawful profit order). Cf the more limited jurisdiction for a criminal court to make a ‘restitution order’, directing the restoration of stolen goods or their value to the person who would be entitled to recover them – Powers of Criminal Courts (Sentencing) Act 2000, s 248.

\textsuperscript{198}Proceeds of Crime Act 2002, Part 2, esp ss 6-10.

\textsuperscript{199}Proceeds of Crime Act 2002, Part 5, esp ss 243, 266, and 304, read with ss 316 and 241.

\textsuperscript{200}See the text to n 0 above.

\textsuperscript{201}See Goff and Jones (n 7), chap 1 and generally.
sub-set of cases, by proprietary restitutious mechanisms. ‘Unjust’, as it is used here, is a generic term for a limited set of grounds or ‘unjust factors’ that are recognised by English law as justifying a restitutious remedy. Some rest on the fact that the claimant’s intention to benefit the defendant was absent, vitiated or conditional; others reflect limited policy objectives. On the now-dominant view, the fact that a benefit is obtained by committing wrong does not make it an unjust enrichment for this purpose: ‘restitution for wrongs’ must be distinguished from ‘restitution for unjust enrichment’. Nevertheless, in practice, many situations of subtractive wrongful enrichment also reveal an alternative claim in unjust enrichment: the claimant can show facts establishing both a civil wrong and an independent cause of action that supports a restitutious remedy for unjust enrichment, based on some recognised unjust factor (e.g. mistake or duress). Where this is the case, a claimant is allowed a free election between claims – English law is generous in allowing for the possibility of concurrent causes of action and in generally allowing a claimant a free choice to select that which suits him best.

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202 See the text to n 0 above, discussing proprietary restitution.
203 E.g. lack of consent/want of authority, mistake, duress, failure of basis.
204 E.g. ultra vires receipts by public bodies.
205 E.g. where fraudulent misrepresentations by the defendant amounting to the tort of deceit induce the conferral of benefits on the defendant; the same facts could support claim in unjust enrichment to restitution of the value of these benefits on the ground of mistake.
206 E.g. where wrongful pressure is exerted by the defendant amounting to a tort (e.g. a tortious detention of the claimant’s goods), which induces the conferral of benefits on the defendant; the same facts could support a claim in unjust enrichment to restitution of the value of these benefits on the ground of duress.
207 For explicit recognition of this in other contexts, see e.g. Henderson v Merrett Syndicates Ltd [1995] 2 AC 145, 193-194 (contract and tort); Kleinwort Benson v Lincoln City Council [1999] 2 AC 349, 387 (different grounds of action in unjust enrichment); Deutsche Morgan Grenfell Group plc v Inland Revenue Commissioners [2006] UKHL 49, [136]-[137] (different grounds of action in unjust enrichment).
taxonomy of the common law to maintain the distinction between restitution for unjust enrichment and disgorgement of wrongful gains.\textsuperscript{13}

\textbf{I. Disgorgement in Irish Law}

\textbf{Statutory Disgorgement}

Statutes provide for disgorgement in cases concerning intellectual property and breaches of share trading rules.

\textbf{Breach of Copyright}

The Copyright and Related Rights Act 2000 provides that the remedies for knowing infringement of copyright include an account of profits.\textsuperscript{14} The courts also enjoy wide statutory discretion to award such damages as they consider just, including aggravated or exemplary damages.\textsuperscript{15} The Act’s predecessor made greater express reference to the concept of disgorgement. It envisaged “an account of profits” for unwitting infringements, and identified the benefit gained by the defendant’s infringement as an indicator of when additional damages were needed to offer “effective relief”\textsuperscript{16}

The case law applying the statute turned on whether, in each case, compensation was an adequate and effective remedy. In \textit{Folens v Ó Dubhghaill}, an author reused material in breach of the publisher’s copyright: he gained a commercial advantage, but the plaintiff had not lost much money.\textsuperscript{17} The Supreme Court overturned the award of additional damages under the Copyright Act: such an award was authorised only where necessary to provide an effective remedy, and in the circumstances, an injunction and compensatory damages sufficed. In \textit{House of Spring Gardens Ltd v Point Blank Ltd}, the Supreme Court upheld an award of disgorgement damages, described as an account of profits, for breach of contract,

\begin{footnotesize}
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\item \textsuperscript{13} LD Smith, ‘Restitution: The Heart of Corrective Justice’ (2001) 79 Texas Law Review 2115, 2116.
\item \textsuperscript{14} Section 127, Copyright and Related Rights Act 2000.
\item \textsuperscript{15} Section 128, Copyright and Related Rights Act 2000.
\item \textsuperscript{16} Section 22(4), Copyright Act 1963.
\item \textsuperscript{17} Folens v Ó Dubhghaill [1973] 1 IR 255.
\end{itemize}
\end{footnotesize}
Ireland

Disgorgement in Ireland

Dr Niamh Connolly*

Ireland is a common law jurisdiction, whose private law has diverged slowly from that of England and Wales since independence in 1922. Consequently, there is a broad similarity between the responses given in Irish courts to cases concerning disgorgement and those articulated in England or other common law jurisdictions, such as Canada. Irish law recognises various pure disgorgement remedies as well as functional equivalents, created by statute, equity and the common law. In this paper, I will consider: statutory disgorgement; equitable account of profits; common law disgorgement damages; constructive trusts; compensation for loss calculated by reference to the defendant’s gain; punitive or exemplary damages, and forfeiture to the State of the proceeds of crime. Distinctive features in this landscape include the recognition of disgorgement damages for certain cases of breach of contract before the English decision in Attorney General v Blake,¹ and a liberal application of the new model remedial constructive trust.

Despite the diversity of doctrines connected to disgorgement, the prevention of unjust enrichment through wrongdoing emerges as a unifying objective. The Irish Law Reform Commission examined the issue in 2000. It approved of restitutionary damages as an “important supplement” to compensation in both tort and contract, considering it an interest “well recognised by the law of damages” to ensure that wrongdoers do not profit by their actions.² It recommended the continued development of disgorgement remedies through case law.

* Assistant Professor, Trinity College Dublin.
¹ Attorney General v Blake [2001] 1 AC 268.
Terminology

“Account of profits” is the dominant phraseology concerning disgorgement in Irish case law and statute. Terms such as “disgorgement” and “restitutionary damages” appear in a tiny handful of Irish cases, although the latter is the term chosen for the Law Reform Commission Report on the subject.3 “Restitution for wrongs” does not figure.

The language of “account” reflects the historical roots of this form of damages in equity. However, the rationale for various remedies espouses the logic of stripping wrongful gains, so that a transition to the language of disgorgement would not require a change in thinking. If the language were to change, “disgorgement” would be preferable to “restitution” because these cases do not involve handing back to the plaintiff a benefit received from him, but giving to the plaintiff a benefit received from a third party.4

A Rationale Based on Unjust Enrichment

Irish cases consistently explain disgorgement in terms of unjust enrichment.5 The statutory right in intellectual property or market abuse cases is regarded as one instance of the broader right developed in the common law.6 This fits with a conception of unjust enrichment law as designed to remove from the defendant wealth which he should not be entitled to retain.7 Likewise, the Law Reform Commission Report on Aggravated, Exemplary and Restitutionary Damages characterises restitutionary damages as “a particular application of the principle of unjust enrichment, whereby the law can strip away profit wrongfully acquired at the expense of another.”8 Their purpose is not to compensate the plaintiff, but “to restore the position of the defendant, by removing the profits earned by the wrong”9 This

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3 Law Reform Commission n 2 above, Chapter 6.
5 House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611, 707; Duhan v Radius Television Production Limited [2007] IEHC 292 para 43.
7 Criminal Assets Bureau v JWPL [2007] IEHC 177, para 3.2.
8 Law Reform Commission n 2 above, para 6.01.
9 Ibid para 6.01.
objective is also one possible rationale for the common law rules on illegality: to prevent a person benefitting from illegal conduct.\textsuperscript{10}

The Law Reform Commission considers disgorgement damages easier to justify than exemplary damages.\textsuperscript{11} Because it views the purpose of disgorgement as simply to prevent wrongdoers from profiting from wrongdoing, it says, “the basis of restitutionary damages awards is not in the moral quality of the defendant’s behaviour.”\textsuperscript{12} This conception implies that a low threshold of misconduct could suffice to trigger disgorgement.

\textit{Distinction from Subtractive Unjust Enrichment}

Although Irish law clearly views the rationale for disgorgement as a species of unjust enrichment, disgorgement is conceptually distinct from subtractive unjust enrichment. Invoking unjust enrichment to explain disgorgement remedies suggests a broader conception of unjust enrichment which encompasses encroachment or restitution for wrongs.

It is readily apparent why Irish judges relate the concept to unjust enrichment: it is “unjust” to profit from wrongdoing. However, this is “unjust” in a different sense to that in which “unjust” is defined within the English and Irish law of unjust enrichment. We channel the unjust question through the unjust factors, which generally reflect the impairment of the plaintiff’s consent to a transfer. The defendant’s “wrongfulness” or culpability is not a concern within the unjust factors approach.

Secondly, we require that the enrichment of the defendant be “at the expense of” the plaintiff. This requires a direct transfer from plaintiff to defendant, whereby the value is subtracted from the plaintiff’s assets and added to the defendant’s. When a person profits by encroaching on the rights of the plaintiff, or wrongly attracting to himself a benefit which ought properly have flowed instead to the plaintiff, it might be “at the plaintiff’s expense” in a broader, colloquial sense, that the plaintiff has lost out, but it does not fit the pattern of subtractive enrichment. While restitution for wrongs is certainly contiguous with unjust enrichment, it seems proper within the modern

\textsuperscript{10} Quinn v Irish Bank Resolution Corporation Limited [2012] IEHC 36, G11.  
\textsuperscript{11} Law Reform Commission n 2 above, para 6.41.  
\textsuperscript{12} Ibid para 6.43.
breach of confidence through misusing confidential information, and infringement of copyright.\textsuperscript{18}

\textit{Insider Trading and Market Abuse}

The Companies Act 1990 requires a person who commits prohibited insider dealing to compensate other parties to a transaction for their loss, and to account to the company that issued the shares for any profit resulting from the prohibited dealing.\textsuperscript{19} These orders do not displace any common law liability that may apply; the amounts can be reduced to reflect any other payments ordered by the court. There is similarly statutory provision for disgorgement in cases of market abuse.\textsuperscript{20} Those who breach the regulations are liable to compensate other parties who trade in shares for the loss they suffer due to price distortion, and to account to the issuing body for any profit acquired by acquiring or selling the instruments.\textsuperscript{21}

\textbf{Account of Profits: Equitable Disgorgement, but not Damages}

Liability to account for profits requires a person to cede to another the proceeds of certain actions. Account is “an equitable remedy, given in lieu of an order for the payment of damages.”\textsuperscript{22} Its function is clearly disgorgement: “the defendant is going to be required to disgorge profits made by it in the course of unlawful activity.”\textsuperscript{23} Sometimes the expression “liability to account as a constructive trustee” is used.\textsuperscript{24} This means that the liability is analogous to a constructive trust, not that it is a constructive trust: it is personal, not proprietary. Liability to account as a constructive trustee can also be triggered by dishonest assistance in a breach of trust, even though the defendant has not in this case received the misapplied property.\textsuperscript{25}

\begin{footnotesize}
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\item \textsuperscript{18} House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611.
\item \textsuperscript{19} Section 109, Companies Act 1990.
\item \textsuperscript{20} The Investment Funds, Companies and Miscellaneous Provisions Act 2005; Quinn v Irish Bank Resolution Corporation Limited [2012] IEHC 36.
\item \textsuperscript{22} House of Spring Gardens Ltd v Point Blank Ltd [1984] 1 IR 611, 685.
\item \textsuperscript{23} McCambridge Ltd v Joseph Brennan Bakeries [2013] IEHC 569, para 60.
\item \textsuperscript{25} R Keane, Equity and the Law of Trusts in the Republic of Ireland, 2\textsuperscript{nd} ed (Dublin: Bloomsbury Professional, 2011) 241.
\end{itemize}
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Both statute and case law expressly distinguish the remedy of an account of profits from damages. In *McCambridge Ltd v Joseph Brennan Bakeries*, the court refused to allow the defendants, who had breached copyright, to use the lodgement procedure, on the ground that a claim for an account of profits is not an action for damages.\(^{26}\) The plaintiff could not be expected to predict in advance the amount of profits which the defendant would be ordered to pay him, since the remedy of account involves the defendant revealing the amount of his profits.\(^{27}\) However, if it has sufficient information, the court may itself calculate the amount due in an account of profits, rather than ordering the defendants first to make an account and then pay over the resulting amount.\(^{28}\)

**Disgorgement Damages in the Common Law**

**Categories of Damages**

The Supreme Court has identified three main categories of damages for wrongs: compensatory damages, aggravated damages (compensatory damages increased by reference to the defendant’s conduct),\(^{29}\) and punitive or exemplary damages. Compensatory damages “must always be reasonable and fair and bear a due correspondence with the injury suffered.”\(^{30}\) In principle, damages for breach of contract should be compensatory. The Law Reform Commission does not approve of exemplary damages in contract, as being inconsistent with the nature of contract law.\(^{31}\) It concedes that where the contractual issue is accompanied by a tort or other wrong, the courts can award punitive damages based on the wrong.\(^{32}\) However, Irish case law has also endorsed disgorgement damages, and did so in a breach of contract case. The Law Reform Commission approves of this principle.\(^{33}\)

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26 Section 22(3), Copyright Act 1963; *McCambridge Ltd v Joseph Brennan Bakeries* [2013] IEHC 569, paras 39, 41.
28 *House of Spring Gardens Ltd v Point Blank Ltd* [1984] 1 IR 611, 708.
29 Law Reform Commission n 2 above, para 5.15.
31 Law Reform Commission n 2 above, para 1.55.
32 R Clark, *Contract Law in Ireland* (Dublin: Round Hall, 2013) 675; Garvey v Ireland (Unreported, High Court, 19 December 1979); Kennedy v Allied Irish Banks Ltd (Unreported, Supreme Court, 29 October 1996) 46.
33 Law Reform Commission n 2 above, para 6.48.
In *Hickey v Roches Stores*, the High Court ruled that there could be disgorgement damages arising from both contractual and tortious wrongs, in cases where the defendant acted in bad faith by calculating and intending to achieve a gain by his wrongdoing. The parties contracted for the plaintiffs to sell their drapery products in the defendants’ store. The defendants terminated unlawfully and began selling their own drapery products. Finlay P accepted that, although the general purpose of damages in contract and tort is compensatory, contract damages need not always be strictly limited to compensation. He indicated that the circumstances giving rise to disgorgement could vary between different causes of action. He set out a general principle that,

“Where a wrongdoer calculated and intended by his wrongdoing to achieve and has in that way acted mala fide then irrespective of whether the form of his wrongdoing constitutes a tort or a breach of contract the court should, in assessing damages, look not only at the loss suffered by the injured party by also to the profit or gain unjustly or wrongfully obtained by the wrongdoer.”

Where the profits obtained by such a wrongdoer exceed the plaintiff’s loss, “damages should be assessed so as to deprive him of that profit.”

However, emphasising the need for the extent of contractual obligations to be certain, Finlay P carefully circumscribed the availability of disgorgement damages in contract cases to “*mala fides*”. In this instance he did not apply the disgorgement principle because the defendants’ *mala fides* were not pleaded: it was not shown that the defendants designed the breach to usurp the goodwill which should have benefited the plaintiffs.

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34 *Hickey v Roches Stores* (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196.
36 *Hickey v Roches Stores* (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196; Clark n 32 above 668; see also Maher v Collins [1975] IR 232, 238.
The criterion of *mala fides* is a “significant limitation”.\(^3\) It is not clear what conduct is required. There has never been a case in which Finlay P’s criterion for the award of disgorgement damages has been met.\(^4\) Certainly, where a person believes his conduct to be lawful, the *Hickey* test is not met.\(^5\) In *Vavasour v O’Reilly*, the plaintiff was wrongfully excluded from a jointly-held franchise.\(^6\) He sought “additional damages” based on the defendant’s *mala fides* as well as compensation. Clarke J accepted that *Hickey* provides for disgorgement damages, but found that they were only relevant where the defendant gains more from his breach than the plaintiff loses.

The *Hickey* disgorgement principle predates the English decision in *Attorney General v Blake*.\(^7\) Sometimes in Irish law, domestic innovations are later subsumed by the adoption of similar precedents from England and Wales. *Blake* is probably part of Irish law, but has not yet been the basis of any decision.\(^8\) This is unsurprising, given the paucity of cases in which disgorgement rather than compensation would be appropriate. The relationship between the *Hickey* and *Blake* tests for disgorgement is therefore uncertain. The Law Reform Commission considers that the *Hickey* test is probably broader than *Blake*.\(^9\) Because it views the purpose of disgorgement as simply to prevent wrongdoers from profiting from wrongdoing, the Commission, perhaps surprisingly, argues against the strict circumscription of the disgorgement remedy.\(^10\) More case law is needed to delimit the contours of disgorgement damages in Irish common law.

**Constructive Trusts**

Constructive trusts are an equitable proprietary remedy. In some cases they are pure disgorgement remedies, because a remedial constructive trust may be declared over property which did not originate in the hands of the plaintiff, on grounds of wrongful conduct. In other cases, they are a functional equivalent which, as proprietary

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\(^3\) Law Reform Commission n 2 above, para 6.34.

\(^4\) Clark n 32 above 677.

\(^5\) Conneran v Corbett and Sons Limited [2006] IEHC 254.

\(^6\) Vavasour v O’Reilly and Windsor Motors Ltd [2005] IEHC 16.

\(^7\) Attorney General v Blake [2000] UKHL 45.

\(^8\) Victory v Galhoy Inns Ltd [2010] IEHC 459.

\(^9\) Law Reform Commission n 2 above, para 6.6.34.

\(^10\) Ibid para 6.413.
remedies, extend to the full measure of any gain received by the defendant, and thereby effect full disgorgement.

**Constructive trusts for Breach of Fiduciary Duty or Knowing Receipt of Trust Property**

As in English law, a fiduciary must account to his beneficiary for any advantages he gains by his position. This disgorgement required of fiduciaries does not depend on the beneficiary having suffered a loss. Constructive trusts also arise where a person receives trust property in breach of trust with either actual or constructive notice of the breach. Ireland’s Supreme Court endorsed the *Belmont Finance* constructive trust, which responds to the misapplication of corporate assets, in *Re Frederick Inns*.

**Remedial Constructive Trusts in Ireland**

The remedial constructive trust is imposed by law in response to unconscionable conduct. The archetypal example is to prevent a person from benefiting from the proceeds of fraud. The imposition of a constructive trust does not necessarily reflect the continuation of a plaintiff’s pre-existing property right. It is a discretionary remedy. Whereas English law has not recognised the new model constructive trust, cases such as *Murray v Murray* and *Kelly v Cahill* are clear authority that the remedial constructive trust is recognised in Irish law. These trusts are sometimes called a “new model constructive trust” or a “remedial constructive trust”. While the constructive trust was applied in some cases prior to the 1990s, it has become more established in this jurisdiction since then.

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48 *Belmont Finance Corporation v Williams Furniture Ltd. (No. 2)* [1980] 1 All ER 393.
49 In *Re Frederick Inns* [1994] 1 ILRM 387; see also Fyffes plc v DCC plc [2009] 2 IR 417.
50 *Dublin Corporation v Building and Allied Trade Union (Unreported, High Court, 6 March 1996)* 117.
52 *Murray v Murray* [1996] 3 IR 251.
53 *Kelly v Cahill* [2001] 2 ILRM 205.
In principle, the causative event that gives rise to a constructive trust should be a wrong, as opposed to unjust enrichment. In *NAD v TD*, Barron J articulated the orthodox view:

"the question is not [...] even what is fair, but whether or not the conduct of the owner of the property has been such that equity ought to impose a trust for the benefit of the contributor."\(^57\)

In *Re Custom House Capital Limited (In Liquidation)*, the High Court found that there was a constructive trust over money invested in a scheme on foot of fraudulent representations.\(^58\) Finlay Geoghegan J identified fraudulent conduct as the criterion required for a constructive trust.

In practice, however, the courts do not always adhere strictly to the requirement of misconduct, and sometimes constructive trusts are imposed to remedy unjust enrichment.\(^59\) Lord Denning’s judgment in *Hussey v Palmer*\(^60\) has influenced the development of the constructive trust in Ireland. In *Murray v Murray*, Barron J articulated a liberal view of the court’s discretion to impose a constructive trust, stating,

"the law will impose a constructive trust in all circumstances where it would be unjust and unconscionable not to do so".\(^61\)

Accordingly, he declared a trust in the absence of misconduct or any factor affecting the conscience of the legal owner.\(^62\) Similarly, in *Kelly v Cahill*, Barr J identified the purpose of the remedial constructive trust as being to prevent unjust enrichment, and applied it in a liberal manner which threatens the fundamental criterion of unconscionability.\(^63\) A deceased testator intended to leave his land to his wife, but his attempted transfer was ineffective. The court ruled that his nephew was constructive

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57 NAD v TD [1985] ILRM 153, 162.
58 In Re Custom House Capital Limited (In Liquidation) [2013] IEHC 559.
60 Hussey v Palmer [1972] 3 AER 744.
62 Mee n 54 above.
trustee of property which he legally owned. These developments show that the remedial constructive trust is a tool to order disgorgement, but that, controversially, it can arise in the absence of wrongdoing.

II. Functional Equivalents to Disgorgement in Irish Law

Calculating Loss by Reference to Gain

There are a number of circumstances in which compensation for loss is calculated taking into account the gains made by the defendant. These offer a functional equivalent to disgorgement, even though they are conceptually distinct.

Wrotham Park Damages

The first example is Wrotham Park Damages for encroachment, which exist in Irish as in English law. In *Conneran v Corbett*, Laffoy J accepted that *Wrotham Park* damages are an alternative to the normal measure of diminution in value for trespass.\(^{64}\) In *Victory v Galhoy Inns Ltd*, the High Court awarded damages for an innocent encroachment onto the plaintiffs’ property, calculated in part by the defendants’ profit. The defendants ran a nightclub and, mistakenly believing they had a right of way, trespassed on the plaintiffs’ property in order to create a legally-required fire exit. The defendants argued for damages to be limited to the diminution in value of the plaintiffs’ property. However, McMahon J ruled that the plaintiffs were entitled to “an enhancement” of their damages, “related to the value of the exit to the defendants’ enterprise, and in particular to the profits which the enterprise generates for the defendant.”\(^{65}\) This was regarded as a fair proportion of the profits from the defendants’ business, which could not operate without the infringement. The Law Reform Commission considers that, while the conceptual basis of *Wrotham Park* damages\(^{66}\) in English law is uncertain, it is more “straightforward and realistic” to view them as “restitution of the gain”.\(^{67}\)

\(^{64}\) Conneran v Corbett and Sons Limited [2006] IEHC 254.
\(^{65}\) Victory v Galhoy Inns Ltd [2010] IEHC 459, para 45.
\(^{66}\) Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 2 AER 321.
\(^{67}\) Law Reform Commission n 2 above, para 6.08.
Losses Measured by the Defendant’s Gain: Hickey v Roches Stores (No. 2)

The first judgment in *Hickey v Roches Stores* established the existence of pure disgorgement damages, but these were not applicable on the facts. As an alternative head of damages, Finlay P was willing to award aggravated damages to represent the loss suffered by the plaintiffs in losing customers to the defendants, even after the contract would have ended, because of their breach of the non-compete clause. In a second hearing, Finlay P calculated this award as a proportion of the defendants’ business.⁶⁸

Although the damages under this head in Hickey were compensatory in objective, they were calculated by reference to the wrongdoer’s gain, and therefore from a practical perspective resemble disgorgement. This leads Clark to conclude that the award of aggravated damages to take full account of the loss suffered by the plaintiff will combine both compensatory and disgorgement functions, without introducing inappropriate “quasi-criminal” remedies to contract law.⁶⁹

These aggravated damages, allowed to compensate the plaintiffs for their loss due to the wrongful competition by the defendants, are different to exemplary or punitive damages.⁷⁰ The difference is that exemplary damages are based on the intention of the wrongdoer at the time of his misconduct to make a profit, whereas the calculation of the claimant’s loss by reference to the defendants’ profit envisaged in Hickey is retrospective, guided by the amount of profit actually made by the wrongdoing.

*Exemplary damages*

Punitive or exemplary damages may provide another functional equivalent to disgorgement, even though they have a distinct objective. The Law Reform Commission identifies the purposes of exemplary damages as to punish and deter, with the incidental benefit of compensating the plaintiff.⁷¹ Exemplary damages mark the court’s “particular disapproval” of the defendant’s conduct.⁷² In *Shortt v Commissioner of An Garda Síochána*, which concerned the outrageous persecution

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⁷⁰ Ibid 131.
of an innocent citizen by the police, Murray CJ affirmed that, given their distinct purpose of disapproving of egregious conduct, it was not necessary to relate them to the amount of the plaintiff’s loss.\textsuperscript{73} However, exemplary damages are not awarded where the amount payable in the form of compensatory damages constitutes a sufficient public disapproval of and punishment for the form of wrongdoing.\textsuperscript{74}

Exemplary damages may be appropriate where a party acts in “wilful and conscious wrongdoing in contumelious disregard of another's rights”\textsuperscript{75}. In \textit{Rookes v Barnard}, one of the circumstances in which Lord Devlin proposed that exemplary damages should be available was where the defendant has calculated that he will profit from his wrongdoing. In \textit{O'Brien v Mirror Group Newspapers Ltd},\textsuperscript{76} the Supreme Court approved the House of Lords ruling in \textit{Broome v Cassell & Co} that exemplary damages are an appropriate response where a defendant willfully defames a plaintiff on foot of a calculation that its profits from doing so will exceed any compensatory damages which it must pay out.\textsuperscript{77} Irish law does not limit exemplary damages to the categories outlined in \textit{Rookes v Barnard}.\textsuperscript{78}

The \textit{Hickey} test of \textit{mala fides} for disgorgement damages might seem to bring restitutionary damages within the rubric of exemplary damages. It seems to subsume the \textit{Rookes v Barnard} heading of exemplary damages for calculatedly profitable wrongdoing. However, it is preferable to recognise disgorgement damages as a distinct category, their rationale and measure being fully to deprive the defendant of wrongful gains (even if they might be triggered by a cynical breach). Moreover, exemplary damages are viewed as inappropriate in pure contract cases; whereas disgorgement is permitted.\textsuperscript{79} This is another good reason to differentiate these forms of damages.

\textbf{Restitution of Unjust Enrichment}

Restitution of unjust enrichment logically involves an incidental element of disgorgement. When a plaintiff recovers a transfer which he made to the defendant

\begin{itemize}
  \item \textsuperscript{73} Shortt v Commissioner of An Garda Síochána \textsuperscript{[2007]} 4 IR 587, 619.
  \item \textsuperscript{74} Noctor v Ireland \textsuperscript{[2005]} 1 IR 433.
  \item \textsuperscript{75} Conway v Irish National Teachers Organisation \textsuperscript{[1991]} 2 IR 305, 323.
  \item \textsuperscript{76} O'Brien v Mirror Group Newspapers Ltd \textsuperscript{[2001]} 1 IR 1.
  \item \textsuperscript{77} Broome v Cassell & Co \textsuperscript{[1972]} AC 1027.
  \item \textsuperscript{78} Rookes v Barnard \textsuperscript{[1964]} AC 1129.
  \item \textsuperscript{79} Law Reform Commission n 2 above, para 6.41.
\end{itemize}
with impaired consent, the defendant must give up this benefit to him. However, there are several reasons why this is not true disgorgement. The hallmark of disgorgement is that its purpose is to remove assets from the defendant, and, accordingly, its measure corresponds to the defendant’s gain. The purpose of the action in unjust enrichment is to restore the value to the plaintiff, not to strip it from the defendant. The reason for restitution is the plaintiff’s lack of consent, not any wrongdoing on the part of the recipient. Its measure is the value transferred by the plaintiff. The identity of the plaintiff’s loss and the defendant’s gain is at the heart of the corrective justice rationale for unjust enrichment, but this correspondence does not mean that unjust enrichment is gain-based. Lastly, the remedy is usually a personal one, not a proprietary one. For all these reasons, subtractive unjust enrichment should not be regarded as a disgorgement tool.

**Procedural Issue: Class Actions in Ireland**

From a procedural perspective, the availability of class actions may be a useful tool to ensure full disgorgement in cases where wrongful conduct affects a large number of people. The Law Reform Commission issued a report on multi-party litigation in 2005, which highlighted the restrictions on the mechanisms for class actions in the Irish legal system. Where multiple persons have a shared interest in a matter, one person may bring a representative action on behalf of the others. Crucially, the representative action is unavailable in actions for damages, because it is considered that the parties’ interests are no longer identical. Furthermore, the procedural rules for the circuit courts explicitly exclude representative actions in tort cases. The Law Reform Commission noted that the exclusion of multi-party actions for damages makes it impossible to bring collective actions for damages which would not individually be economically viable. This is a barrier to class actions providing a vehicle to effect disgorgement.

The unofficial alternative in practice is a test case, with other prospective parties waiting to see the outcome. In such a case, the judge decides on remedies without

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81 Smith n 13 above.
84 Order 6, Rule 10, Circuit Court Rules 2001.
taking into consideration the other prospective claims and there is uncertainty as to the total liability which will result from all the claims.\textsuperscript{85} In Conway v INTO, Barron J estimated the number of other actions arising from the same violations, proposed a global sum for exemplary damages, and allocated a share of this to the plaintiff.\textsuperscript{86} The Supreme Court upheld this speculative assessment of a likely global figure for exemplary damages.

**Beyond Civil Law: Ireland’s Criminal Assets Disgorgement Regime**

The disgorgement rationale has an important incidence outside civil law. The Criminal Assets Bureau is a public body empowered to seize property resulting from crime.\textsuperscript{87} This has the “public policy objective of depriving beneficiaries of criminal conduct of proceeds of such conduct”.\textsuperscript{88} In Criminal Assets Bureau v JWPL, the plaintiff applied to seize assets deemed to be the result of corrupt enrichment. The defendant disputed the jurisdiction of the Irish courts, invoking the Brussels Regulation. The case turned on the distinction between disgorgement to the State and civil remedies. The defendant argued that the State’s claim was equivalent to a civil law action for restitution for wrongs. Feeney J held that even if AG v Blake reflects Irish law, the powers of the Criminal Assets Bureau are more extensive: it must not show that the assets were derived at the expense of any party, and there is “no suggestion of any breach of duty fiduciary or otherwise”.\textsuperscript{89} Consequently, Feeney J found that the powers of the Criminal Assets Bureau were not comparable to any private law right.

**Conclusion**

Irish civil law recognises a number of tools which directly pursue disgorgement. The remedial constructive trust is relatively frequently used, as are statutory disgorgement provisions, especially for intellectual property infringements. While the law has for many years allowed for disgorgement damages arising from *mala fides*

\textsuperscript{85} Law Reform Commission n 82 above, paras 1.25-1.26.
\textsuperscript{86} Conway v Irish National Teachers Organisation [1991] 2 IR 305, 310.
\textsuperscript{88} Criminal Assets Bureau v JWPL [2007] IEHC 177, para 4.4.
\textsuperscript{89} Ibid para 3.6.
transgressions in contract and tort, this principle is rarely used and there is uncertainty about the criteria for its operation. Besides these true disgorgement remedies, there are other circumstances in which compensatory or exemplary damages may be calculated by reference to the defendant’s gain from a breach. However, despite the availability of mechanisms to achieve disgorgement, the exclusion of class actions in claims for damages may be a practical obstacle to disgorgement taking place in circumstances where wrongdoing has affected many individuals.
C. French legal systems

Belgium

Disgorgement of Profits in Belgian Private Law

Marc Kruithof

A. Introduction

While loss compensation is considered to be part of a “horizontal system” called civil liability, based on general principles applicable to all legal relations independently of their legal qualification, the standard narrative of Belgian civil law does not contain a chapter on disgorgement of profits, listing the conditions under which this remedy is available. However, if one searches for gain-based remedies, they can be discovered, even though they tend to be camouflaged under the (misleading) banner of compensation (civil liability) or as a material rule of law giving the claimant a right to the profits (proprietary claims).

B. Civil Liability

1. No Disgorgement in Theory

Belgian civil liability is based on three constitutive elements: (a) a loss, (b) a fact recognized as a basis for liability, such as negligence or breach of statutory or regulatory duty for the fault-based liability of Article 1382 of the Belgian Civil Code (“CC”), and (c) causation, showing that the loss was caused by the fact that serves as the basis for the liability. A loss is a negatively valued difference between the actual situation the harmed party is in and the hypothetical position it would have

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1 Professor of Law, Center for the Law of Obligations, Ghent University Law School. Lic. Law, UGent; Lic. Economics, UGent; LL.M., Yale Law School; PhD Law, UGent.

Civil liability results in an obligation to “undo” the loss.\footnote{J. Ronse et al., supra note 4, nr. 220, p. 162-164 & nr. 230-232, p. 172-174; Dirix, supra note 4, nr. 28, p. 33; Simoons, supra note 4, nr. 10, p. 21-23; B. Weyts, “Punitieve elementen in het} The injured party is restored into the situation it would have been in if the event would not have occurred.\footnote{J. Ronse et al., supra note 4, nr. 1, p. 13; J. Ronse et al., supra note 4, nr. 2, p. 2-4; Simoons, supra note 4, nr. 5, p. 13.} In principle, the harmed party has the right to specific restoration,\footnote{Cornelis, “Schade en schadeherstel”, supra note 4, nr. 3, p. 24; Simoons, supra note 4, nr. 9, p. 20.} and it is obliged to accept such restoration if it is offered.\footnote{Cass. 21 April 1994, nr. 189; Pas. 1994, I, 388, Arr.Cass. 1994, 392; Cass. 26 June 1980, nr. 686, Pas. 1980, I, 1341, Arr.Cass. 1979-1980, 1365; J. Ronse et al., supra note 4, nr. 278, p. 211-212.} In case of reputational harm, for instance, the remedy often takes the form of apologies or a retraction of the wrongful insult or the unwarranted accusation, or the publication of the court’s decision.\footnote{See e.g. Com. Antwerpen 22 April 1993, *Rechtspraak van de Haven van Antwerpen* 1994, 176; Dirix, supra note 4, nr. 58, p. 49.} As a consequence, damages must be “equivalent” to restoration, usually referred to as “integral compensation” (restitutio in integrum). The damages compensate the loss and nothing but the loss.\footnote{For exemples, see A. Van Oevelen, G. Jocqué, C. Persyn & B. de Temmerman, “Overzicht van rechtspraak. Onrechtmatige daad: schade en schadeloosstelling (1993-2006)\textsuperscript{2}”, *Tijdschrift voor Privaatrecht* 2007, 933-1529, nr. 15, p. 978 (hereinafter: Van Oevelen et al., "Overzicht 1993-2006"); A. Van Oevelen, “Schade en schadeloosstelling bij de schending van grondrechten door private personen”, in: K. Rimanque (ed.), *De toepasselijkheid van grondrechten in private verhoudingen*, Antwerpen: Kluwer rechtswetenschappen, 1982, 421-461, nr. 16-17, p. 435-436 (hereinafter: Van Oevelen "Schending Grondrechten"); see also D. de Callataý & N. Estienne, *Responsabilité civile. Chronique de jurisprudence 1996-2007*, vol. 2: *Le dommage*, Les dossiers du Journal des Tribunaux 75, Brussel: Larcier, 2009, p. 481-482 (hereinafter: De Callataý & Estienne).}
In setting damages, courts cannot take into account other elements such as the seriousness of the wrong, whether a party is insured, or the fact that the tortfeasor obtained a gain. 

Belgian law does not know punitive damages. The idea is that civil liability is not supposed to punish the wrongdoer. Integral compensation means that the loss is not only the minimum but also the maximum a judge can grant. So in determining the damages, the court has to deduct the profits the injured party has gained. The idea is that civil liability is not supposed to enrich the injured party. These principles seem to leave no room any gain-based damages.

There is one specific element that indirectly results in disgorgement through civil liability. Normally, if a loss is caused both by a wrong committed by a third person and a wrong committed by the victim, the burden of the loss is split among them:


This principled objection to punitive damages is shared by several authors. See e.g. SIMOENS, supra note 4, nr. 139, p. 263-264; L. CORNELIS, Beginzelen van het Belgische buitencontractuele aansprakelijkheidsrecht, vol. 1, De onrechtmatige daad, Antwerpen: MAKLU Uitgevers, 1989, nr. 7, p. 12. Some others do not agree with this objection, and would prefer some form of punitive damages, without however having elaborated under which conditions they would organize such remedies. See e.g. WEYTS, “Punitieve elementen”, supra note 12, nr. 6-7, p. 176-177; WEYTS, “Lucreatieve fouten”, supra note 12, nr. 3, p. 1641 & nr. 16, p. 1646; CAUFFMAN, supra note 13, nr. 28, p. 818; BAETEMAN et al., “Overzicht 1995-2000”, supra note 14, nr. 213, p. 1704; E. GULDIX & A. WYLLEMAN, “De positie en de handhaving van persoonlijkheidsrechten in het Belgisch privaatrecht”, Tijdschrift voor Privaatrecht 1999, 1589-1657, nr. 44, p. 1653-1655 (hereinafter: GULDIX & WYLLEMAN).

CAUFFMAN, supra note 13, nr. 28, p. 818.

third party liability is limited to part of the loss, called “divided liability”.

However, this result is considered unacceptable when the third party committed an intentional wrong taking advantage of the negligence of his victim. The case in which the principle was stated, involved criminal fraud by a manager of a collective investment scheme which had been able to succeed because of the lack of supervision by the bank promoting the scheme. The highest court, specifically invoking the principle fraus omnia corrumpit, ruled that a person that has committed an intentional wrong is precluded from invoking the negligence of the injured party in order to have the damages he owes reduced: one should not be able to profit from one’s fraud or dishonesty with the aim of hurting another or gaining a profit in an illegitimate manner.

2. Hidden Disgorgement Possible in Practice (but Rare)

Deciding on the extent of the loss is a question of fact, to be answered by the trial court. The highest court (Cour de Cassation – Hof van Cassatie) has no jurisdiction to establish facts: it only can reverse and remand judgments that contain procedural errors or errors on questions of law. So while the highest court will reverse a judgment if it awards higher damages than the loss it established, it cannot intervene if a lower court were to award damages equal to the loss it established, but has valued this factual loss at an inflated amount.

In principle, the court has to establish the loss as it occurred (in concreto). However, if the pecuniary equivalent of the loss cannot be determined, the court is allowed to estimate the damages ex aequo et bono and award a lump sum. This creates a
margin within which a trial court can set damages at a higher level than the actual
loss in order to punish the wrongdoer or to force him to disgorge the whole or part of
his illegitimately obtained gains.

This is most clearly possible in cases awarding moral damages, compensation for
losses that do not consist in a reduction of the pecuniary situation of the victim.\textsuperscript{25}
Under Belgian civil liability, moral losses are fully compensated.\textsuperscript{26} The highest court
has ruled that moral damages only serve to compensate for pain or any other moral
suffering, and in particular cannot be used to punish the wrongdoer.\textsuperscript{27} However,
courts can only estimate moral damages \textit{ex aequo et bono}.\textsuperscript{28} This creates a margin
to set the damages at a higher level than the actual loss, by holding the losses to be
higher than they are in fact, a decision that is cassation proof.

Even though most moral damages awarded by Belgian courts can be characterized
as low, one cannot escape the impression that sometimes courts set the amount not
merely based on the suffering by the victim, but also on the seriousness of the
wrong.\textsuperscript{29} Moral damages aim to compensate for suffering and pain, and it can easily
be reconciled with the compensatory nature of civil liability to justify higher damages
by pointing out that the intensity of suffering is in fact influenced by the seriousness
of the wrong.\textsuperscript{30} Hence, courts can take the type of wrong and the intentions of the
wrongdoer into account when setting moral damages.\textsuperscript{31}

\textsuperscript{25} DIRIX, \textit{supra} note 4, nr. 86, p. 62.
\textsuperscript{26} See \textit{already} Cass. 17 March 1881, \textit{Pas.} 1881, I, 163; SIMOENS, \textit{supra} note 4, nr. 136, p. 257-258;
VAN OEVERLEN “Schending Grondrechten”, \textit{OpCit. supra} note 10, nr. 10, p. 431.
\textsuperscript{27} Cass. 20 February 2006, nr. 100, \textit{Pas.} 2006, 413, \textit{Arr.Cass.} 2006, 414; Cass 10 October 1972,
\textit{Pas.} 1973, I, 147, \textit{Arr.Cass.} 1973, 146; e.g. CFI Hasselt 14 June 2010, \textit{Auteurs & Media} 2011,
250; CFI Brussel 7 April 2009, \textit{Auteurs & Media} 2010, 99; WEYTS, “Lucratieve fouten”, \textit{supra} note 12,
nr. 13, p. 1644.
\textsuperscript{28} WEYTS, “Lucratieve fouten”, \textit{supra} note 12, nr. 13, p. 1644; SCHUERMANS \textit{et al.}, “Overzicht 1977-
18.1, p. 1019-1020; VAN OEVERLEN \textit{et al.}, “Overzicht 1993-2006”, \textit{supra} note 10, nr. 17, p. 979; J.
RONSE \textit{et al.}, \textit{supra} note 4, nr. 356-365, p. 255-261.
\textsuperscript{29} See e.g. CFI Brussel 16 November 1999, \textit{Auteurs & Media} 2000, 132.
\textsuperscript{30} G. JOCQUÉ, “Bewustzijn en subjectieve verwijtbaarheid”, in: \textit{Aansprakelijkheid, aansprakelijkheids-
CAUFFMAN, \textit{supra} note 13, nr. 33, p. 820. See e.g. CA Liège 16 January 1962, \textit{Revue générale des
assurances et des responsabilités} 1964, nr. 7,204; Pb. Antwerpen 14 January 1960, \textit{Revue
générale des assurances et des responsabilités} 1963, nr. 7,084; see also SCHUERMANS, “Overzicht
1961-1968”, \textit{supra} note 24, nr. 51, p. 126; see also SCHUERMANS \textit{et al.}, “Overzicht 1969-1976”,
\textit{supra} note 24, nr. 31, p. 506 & nr. 32, p. 509.
\textsuperscript{31} A clear example is the decision of the Gent Assize Court in the case of Kim De Gelder, who was
convicted for his “Dendermonde nursery attack”, killing three and wounding twelve more, ordering
him to pay moral damages to the victim’s next-of-kin far exceeding the usual amounts, stating that
his atrocious attack was not comparable to traffic violations and more middle of the road delicts.
See “De Gelder moet slachtoffers hogere schadevergoeding betalen”, \textit{De Standaard Online}, 30
amounts of damages more probably linked to the profits made by the wrongdoer involve the infringement of personality rights, and they will be dealt with later.\textsuperscript{32}

C. Non-Compliance Penalties in Fact Disgorge Profits

Some authors object to supercompensatory damages because that would create an “unjust” enrichment of the injured party.\textsuperscript{33} Framing it that way, the correct statement that civil liability does not give an injured party a right to more than compensation, is turned into a broader principle that would exclude an injured party from having any right to anything different or more than compensation on any another basis. By generalizing such a principle outside the realm of civil liability law, the appearance is created that private law in general would never allow an injured party to obtain a “windfall profit” from an occurrence.

This is not correct, as courts can impose a non-compliance penalty or, to be paid when the court’s order is not complied with.\textsuperscript{34} Such a penalty has to be paid to the claimant,\textsuperscript{35} and in no way reduces that person’s right to full compensation of losses suffered.\textsuperscript{36}

Although such penalty is not possible for orders for the payment of a sum of money,\textsuperscript{37} and therefore liability decisions seldom include such penalties,\textsuperscript{38} one can find judgments based on liability including a non-compliance penalty if they award specific restoration. Most such cases involve orders of a person that has infringed a personality right of the victim to refrain from further infringements, or involve the court ordering the publication of the judgment as a form of specific restoration of the loss

\begin{footnotes}
\footnote{September 2013; “Zaak De Gelder: Eén miljoen euro schadevergoeding”, \textit{De Standaard} 1 October 2013, 12.}
\footnote{\textit{See infra} section E.2.}
\footnote{Article 1385\textit{quater}, Code of Civil Procedure.}
\footnote{Article 1385\textit{bis}, Code of Civil Procedure.}
\end{footnotes}
consisting of reputational harm suffered by the injured party because of the wrongful act of the person held liable.\(^{39}\)

It is clear that courts in practice tend to set the penalty high enough for it to have a dissuading effect. Although this is not specifically stated in the court’s reasoning, this means that the gains the wrongdoer can expect from refusing to comply are taken into account.\(^{40}\)

### D. Proprietary Claims for Profits

Some forms of disgorgement in Belgian law are traditionally not presented as a remedy for certain wrongs, but as a proprietary claim of a rightholder under a material rule of law.

#### I. Fruits of Property

Belgian property law states that the owner of a good also becomes the owner of its fruits.\(^{41}\) This does not only cover natural fruits of plants and in a broader sense the young of animals or increase in livestock, but also the so-called “fruits of labor” or the “civil fruits”, such as for instance interest on capital or rental income from an asset. The person committing the labor that has made it possible to produce the fruits, is only to be compensated for his costs.\(^{42}\)

However, while the owner can always re vindicate his good, the same is not true for the fruits. Only a possessor *mala fide* is obliged to give the fruits he produced to the

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\(^{39}\) Civil liability does not impose a duty to abstain from committing a wrong, neither does it impose a duty to abstain from causing losses through wrongs. Liability is therefore no basis to order a person to refrain from committing a wrong. *See* CORNELIS, “Schade en schadeherstel”, *supra* note 4, nr. 2, p. 22; Cass. 4 January 1984, nr. 227, *Pas.* 1984, 468, *Arr.Cass.* 1983-1984, 493 (holding that an order not to repeat a wrong cannot constitute compensation for losses already suffered); *see also* SCHUERMANS *et al.*, “Overzicht 1983-1992”, *supra* note 11, nr. 24, p. 1055. A right, however, can provide the basis for the rightholder to ask for injunctive relief, confirmed by Article 18 of the Code of Civil Procedure. This explains why judgments in cases where the wrong consisted of the infringement of a right (*e.g.* a personality right) can impose injunctive relief while judgments in cases where the wrong did not consist of the infringement of a right where only an interest of the victim was hurt can only impose restoratory or compensatory remedies.

\(^{40}\) *See e.g.* CFI Gent 19 November 2003, *Auteurs & Media* 2004, 384 (penalty of €12,400 for Omega Pharma if it reuses Kim Clijsters’ name in publicity, but granting Kim only €1 damages for the infringement that had already taken place); CFI Brussel 17 May 2002, *Auteurs & Media* 2003, 138 (€300 in damages for unauthorized use of photographs of girls by Christian Dior, but setting a non-compliance penalty of €2,480 per violation of the order prohibiting further use); CFI Brussel 19 May 2000, *Auteurs & Media* 2000, 338 (702,000 BEF in damages for unauthorized broadcasting of secretly filmed private conversation, adding a penalty of 5,000,000 BEF for each instance violating an order to refrain from reusing the footage).

\(^{41}\) Article 547 CC.

\(^{42}\) Article 548 CC.
owner of the good. A _bona fide_ possessor can keep the fruits he has produced up to the moment he discovered his possession was tainted, at which moment he ceases to be in good faith. With respect to fruits, the _bona fide_ possessor is legally treated as if he were an usufructuary.

Although this is presented as a rule of material law, adding a _ius fruendi_ to property, it can also be understood as a remedy: any person who in bad faith uses someone else’s property to produce a gain, can be forced to hand over the “civil fruits” and thus the profits realized through this illegitimate use. Apparently, this disgorgement of profits is a remedy available to the owner against someone else in bad faith trying to realize gains by using his good and thereby infringing his subjective right of ownership, specifically aimed at preventing such bad faith infringement to be lucrative, and possibly providing the owner with a windfall profit.

2. Interest on Undue Payment

One can also discover such a remedy in the rules relating to undue payments. According to the basic principle, the _accipiens_, _i.e._ the person who has received a payment by error, is bound to make restitution to the _solvens_, _i.e._ the person from whom he has unduly received it. However, the _accipiens bona fide_ does not have to pay interest and can keep the fruits. The _accipiens mala fide_, on the other hand, is not only required to return the capital but also has to pay interest and hand over

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44 Article 549 CC.

45 Article 585-586 CC.


47 See KRUTHOF, _supra_ note 2, nr. 17-18, p. 32-36.

48 Cf. VAN OEVELEN, “Subjectieve goede trouw”, _supra_ note 43, nr. 17, p. 1109, who notes the similarity of the relevance of good and bad faith in both the rules on undue payment and on proprietary claims on fruits.


the fruits he has gained from the day of payment.\footnote{Article 1378 CC. CA Brussel 13 December 2007, Tijdschrift voor Fiscaal Recht 2008, 445; CFI Mons 10 September 2003, Courrier fiscal 2003, 684; CA Brussel 20 June 2003, Jurisprudence fiscale 2004, 705. Recently, the highest court has ruled that the accipiens has to pay interest from the moment he was asked to return the unduly paid sum, and cannot be ordered to pay interest for the period between the moment of the undue payment and the moment he was summoned to restitution unless the court establishes that he accepted the payment in bad faith: Cass. 12 November 2012, nr. 609, Pas. 2012, 2192.} Again, if one looks at it from our present perspective, this is an example of a remedy of disgorgement of profits (fruits or interests) imposed when a person in bad faith has infringed on the rights of another, to make sure this person does not earn any gains from its bad faith.\footnote{See KRUITHOF, supra note 2, nr. 35, p. 52.}

E. Cases on the Border: Civil Liability or Proprietary Claims?

In some circumstances, it is theoretically debatable whether the sum awarded is a form of compensation based on liability or a proprietary claim to profits based on a right. In these cases, mostly in the field of intellectual property rights and personality rights, one can see courts and doctrine struggling with remedies that seem appropriate in the given circumstances but that do not really fit theoretically into the frame of civil liability. Although most courts and literature continue to treat these cases under the umbrella of civil liability, I would suggest that they can be better understood as examples of bad faith infringements of subjective rights, giving the rightholder a remedy consisting of disgorgement of profits.

1. Infringement of Intellectual Property Rights

The statutes on intellectual property rights contain several remedies against infringements. Apart from injunctive relief,\footnote{Article 53 of the Patent Act of 28 March 1984; Article 86ter of the Author Rights Act of 30 June 1994; Article 12quinquies of the Database Protection Act of 31 August 1998; Article 14 of the Protection of Topographies of Semiconductor Products Act of 10 January 1990; Article 36, §4 of the Plant Variety Rights Act of 20 May 1975; Article 2.22 and 3.18 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005; see C. DE MEYER, “Het bevel tot staking naar Belgisch recht”, in: F. BRISON (ed.), Sanctions et procédures en droits intellectuels, Larcier: Brussel, 2008, 193-220; B. MICHAUX & E. DE GRYSE, “De handhaving van intellectuele rechten gereorganiseerd”, Revue de Droit Commercial Belge 2007, 623-648, nr. 25-31, p. 633-637 (hereinafter: MICHAUX & DE GRYSE).} the rightholder can claim damages, and in case of bad faith infringement,\footnote{Bad faith means that the infringer knew or had to know that the idea was protected by an intellectual property right and that his use without permission boiled down to an infringement of that right. See CA Brussel 4 April 2007, Auteurs & Media 2007, 466. However, all relevant circumstances have to be taken into account, including the attitude of the right holder after he} he can claim civil confiscation or some form of disgorgement of profits.
a. Compensatory Damages

The statutes explicitly state that the holder can demand compensation for the losses he has suffered, a right he already has based on the general principles of civil liability. An infringement of an intellectual property right can cause different types of losses. First, there is the *lucrum cessans*, i.e. the profits the rightholder would normally have gained from exploitation of his right but that now are no longer available because the infringer appropriated opportunities that should have been exclusively enjoyed by the rightholder. Second, there is the *damnum emergens*, usually consisting of the costs the rightholder had to make in investigating and prosecuting the infringement and potentially also the reputational harm. Third, there can be moral losses.

According to the general principle of liability, the damages have to equal the losses (integral compensation”). The extent of the loss has to be judged *in concreto*. However, in practice it can be very hard to exactly establish the extent of the losses.
Therefore, damages in cases of infringement of intellectual property rights are very often set as a lump sum. Several judgments have awarded damages set at a multiple of the normal license fee, considered necessary to avoid it being lucrative to systematically infringe on intellectual property rights, knowing that one will not always be caught and therefore still be better off if one only risks having to pay the avoided fee. Some courts have explicitly stated that they set the amount of damages so that the infringer will not be able to keep gains from his infringement.

However, the highest court has recently reaffirmed the general principle that damages cannot be set higher than the actual loss. It ruled that awarding 25% on top of the avoided licensing fee to finance the global battle against violations of intellectual property or to provide for an incentive to seek the permission of the rightholder, is not consistent with Belgian law. But as already pointed out, the trial courts sovereignly establish the facts and thus the extent of the loss. Therefore, nothing keeps a court from finding that the actual losses of the company whose copyright on professional software that had been illegally copied and used by the employee of another company amounts to much more than the originally avoided license fee, thereby in effect using the concept of compensation to in effect impose some form of disgorgement of profits.

b. Civil Confiscation: Optional Disgorgement

The infringer in bad faith can be forced to hand over any goods infringing the intellectual property right (“civil confiscation”). If these goods are no longer in his

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possession, the court can award the rightholder a payment equivalent to the price the infringer has received in return for the goods.\textsuperscript{65}

Civil confiscation is to be distinguished from the possibility courts have to order the transfer of the infringing goods to the rightholder as a form of compensation, in which case the rightholder has to compensate the infringer if these goods have a higher value than his losses.\textsuperscript{66} Under civil confiscation, the amount disgorged is counted towards the damages,\textsuperscript{67} but the rightholder never has to compensate the infringer if the value he receives is higher than his losses.\textsuperscript{68} The amount the court can award in cases of infringement in bad faith based on the civil confiscation provisions is therefore “noticeably greater” than the amount in damages based on civil liability, applicable in case of infringement in good faith.\textsuperscript{69} The similarity between civil confiscation and the rule on fruits of common law property is striking: the infringing goods can be considered to be “fruits of the intellectual property”, and only the possessor in bad faith is required to hand them over to the owner, the rightholder.

\textsuperscript{65} Article 52, §6 of the Patent Act of 28 March 1984; Article 86bis, §3 of the Author Rights Act of 30 June 1994; Article 12\textit{quater}, §3 of the Database Protection Act of 31 August 1998; Article 13, §3 of the Protection of Topographies of Semiconductor Products Act of 10 January 1990; Article 36, §3 of the Plant Variety Rights Act of 20 May 1975. Before the amendment of these provisions by the Act of 9 May 2007 on the Private Enforcement of Intellectual Property Rights, which has adjusted Belgian law to Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, the statutes imposed mandatory civil confiscation in case of bad faith infringement. However, courts were reluctant to establish bad faith because this would force them to impose this remedy. See the Explanatory Memorandum accompanying the Draft Statute on Private Enforcement of Intellectual Property Rights, \textit{Parlementaire Stukken} Kamer 2006-2007, nr. 51K2943/001, 26 February 2007, p. 31; M\textsc{ichaux} & D\textsc{egryse}, supra note 53, nr. 46, p. 642; C. R\textsc{onse}, supra note 56, nr. 28, p. 247-248. Now, the statutes leave it up to the court to decide whether it is appropriate to impose this remedy.


\textsuperscript{67} Article 52, §6 of the Patent Act of 28 March 1984; Article 86bis, §3 of the Author Rights Act of 30 June 1994; Article 12\textit{quater}, §3 of the Database Protection Act of 31 August 1998; Article 13, §3 of the Protection of Topographies of Semiconductor Products Act of 10 January 1990; Article 36, §3 of the Plant Variety Rights Act of 20 May 1975. See M\textsc{ichaux} & D\textsc{egryse}, supra note 53, nr. 46, p. 642; C. R\textsc{onse}, supra note 56, nr. 28, p. 248.

\textsuperscript{68} See J\textsc{anssens}, supra note 56, nr. 29, p. 940.

\textsuperscript{69} CFI Brussel 8 December 2004, \textit{Auteurs & Media} 2005, 249.
c. Disgorgement of Profits (or is it Loss Compensation?)

In case of bad faith infringement of an intellectual property right, the court can also order the disgorgement of all or part of the profits realized by the infringer.\textsuperscript{70} The aim of this remedy, which following the example of German law was first introduced in the former Benelux Uniform Trademark Act and subsequently kept in the Benelux Convention on Intellectual Property (Trademarks and Designs) and then generalized for all intellectual property rights but as shall be shown in a distorted manner, is to avoid that the wrongdoer who willingly and knowingly infringes someone else’s intellectual property right would be able to keep his gains even after having been held liable by a civil court.\textsuperscript{71}

In the structure of the Belgian statutes, the remedy is placed in a provision that in its first paragraph clarifies how the court can establish the amount of (compensatory) damages in cases where the exact extent of the loss cannot be determined. The statutory provisions also explicitly state that the court can order this disgorgement “by way of compensation of the losses”, suggesting that this remedy is not really a true disgorgement of profits at all.\textsuperscript{72}

However, if this were correct, I fail to see why this remedy would be limited to cases of bad faith. Under Belgian law, any infringement is a wrong\textsuperscript{73} and under civil liability gives a right to full compensation, which can always take the form best fit for the circumstances. Understood this way, this provision is completely superfluous.\textsuperscript{74} The only rational explanation why this particular remedy would be limited to bad faith

\begin{footnotesize}
\begin{enumerate}
\item Article 52, §5, third paragraph, of the Patent Act of 28 March 1984; Article 86bis, §2, third paragraph of the Author Rights Act of 30 June 1994; Article 12quater, §2, third paragraph, of the Database Protection Act of 31 August 1998; Article 13, §2, third paragraph, of the Protection of Topographies of Semiconductor Products Act of 10 January 1990; Article 36, §2, third paragraph, of the Plant Variety Rights Act of 20 May 1975. In calculating this profit, only the costs directly related to the infringing production activity will be deducted from the returns earned by the infringer.
\item See \textit{supra} note 56.
\item Cf. C. RONSE, \textit{supra} note 56, nr. 23, p. 244-245, who considers this remedy to be a type of compensation only, but then realizes that this means the remedy will never be invoked in reality, as it does not offer anything extra over what the rightholder can obtain by way of compensation based on Article 1382 CC.
\end{enumerate}
\end{footnotesize}
infringement, is that this form of “damages” would possible be greater than the losses, as it is based on the illegitimate profits made.\textsuperscript{75} This interpretation would also bring the Belgian statutes on intellectual property in line with the provision on disgorgement of profits in the Benelux Convention on Intellectual Property (Trademarks and Designs),\textsuperscript{76} which allows for disgorgement of profits in cases of bad faith infringements as a separate remedy, independent of compensation.\textsuperscript{77}

2. Infringement of Personality Rights

An area where some divergence from civil liability principles can be observed going into the direction of some form of disgorgement of profits under the guise of damages, is the field of personality rights.\textsuperscript{78} Although such rights are not statutorily defined or protected in Belgium,\textsuperscript{79} they are part of existing positive law as the highest court recognizes them to be based on the general principle of law that prohibits the intrusion into someone else’s personality.\textsuperscript{80}

Restoration in case of an infringement of a personality rights in Belgium often takes the form of damages.\textsuperscript{81} Analysis of the case law shows that although plenty of

\textsuperscript{75} For an example, see Com. Liège 18 October 2000, *Revue de Droit Commercial Belge* 2000, 386.

\textsuperscript{76} Article 2.21.4 of the Benelux Convention on Intellectual Property (Trademarks and Designs) of 25 February 2005: “In addition to or instead of the action for compensation, the holder of a trademark may institute proceedings for transfer of the profits made following the use referred to in Article 2.20 (1), and for the provision of accounts in this regard. The court shall reject the application if it considers that this use is not in bad faith or the circumstances of the case do not justify such an order.” See also Article 3.17.4. of this Convention. Cf. C. Ronse, *supra* note 56, nr. 25, p. 246, who suggests that the interpretation which reduces the disgorgement of profits remedy in other statutes on intellectual property to a form of compensation leads to a different protection of brand names and designs on the one hand versus the other intellectual property rights on the other, which might not pass the constitutional equal protection test.


\textsuperscript{78} These rights give the holder legal control and authority in relation to other persons over the protection and the use of the intrinsic elements or expressions of his personality. E. Guldix, *De persoonlijkheidsrechten, de persoonlijke levenssfeer en het privéleven in hun onderling verband*, PhD thesis VUB, Brussels, 1986, nr. 195-200 (hereinafter: Guldix); Guldix & Wylleman, *supra* note 15, nr. 3, p. 1594.

\textsuperscript{79} Belgian law does not know a provision like the one found in Article 9 of the French Civil Code, protecting the privacy of persons. There is, however, an indirect recognition of the portrait right in Article 10 of the Author Rights Act of 30 June 1994, which limits the intellectual property right of a photographer with respect to portraits, by stating that the author or owner of a portrait or any other person possessing a portrait does not have the right to reproduce it or to make it public without the permission of the portrayed person or, during twenty years after his death, without permission of his heirs. In the new Code of Economic Law this will become Article XI.174, included in Book XI, which will be devoted to Intellectual Property.


\textsuperscript{81} De Callatay & Estienne, *supra* note 10, p. 481.
judgments continue to apply the general principles of civil liability, requiring the showing of specific losses caused by a wrongful act for liability to attach and imposing an obligation to pay damages to the injured party, some systematic deviation from this pattern can be discerned.

First, in many cases the infringement of the personality right is in itself considered to be a sufficient basis for liability. Some authors have defended this, arguing that the infringement of a subjective right is as such a wrongful act. That this theory correctly reflects practice, is shown by the fact that often courts require evidence that harming someone’s reputation – which is not a subjective right but is mere legitimate interests – was done in a wrongful way for liability to attach, but do not require such evidence when the privacy of a person is infringed or his name, image or voice are exploited without his permission.

While the traditional view remains that the private law protection of personality rights once they are infringed is limited to the remedies offered by civil liability, some

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82 As opposed to under Dutch law (see Article 6:162(2) New Dutch Civil Code), infringement of a right is in the traditional rendering of Belgian law not recognized as a separate type of wrong. However, Bocken has shown that an infringement of a subjective right is also a wrong under Belgian law, as the negation of a subjective right in itself is the violation of a specific behavioral rule existing in objective law that requires respect for the rights of others. See H. BOCKEN, “Nog iets over inbreuk op recht”, in: Liber amicorum Walter Van Gerven, Deurme: Kluwer, 2000, 183-202.

83 See CFI Tournai 22 November 2010, Auteurs & Media 2011, 109 (court distinguishes harming somebody’s reputation, only resulting in liability if it was done in a wrongful way, and violating somebody’s right to privacy, which in itself is sufficient for liability); CFI Brussel 20 September 2001, Auteurs & Media 2002, 77 (explicitly recognizing the right to one’s portrait as a subjective right but holding the interest one has in one’s good name and reputation not to be a subjective right, so compensation in case of reputational harm is only due when the good name or reputation was harmed in a wrongful way).


85 See e.g. WEYTS, “Punitieve elementen”, supra note 12, nr. 10, p. 179. This author explains the fact that courts very easily conclude that an infringement of a personality right in itself constitutes a
authors have argued that the personality right itself can serve as a basis for a claim of damages.\textsuperscript{86} Under this theory, damages can be awarded without the requirements of civil liability having been met. And indeed, while some courts explicitly state that the infringement of the personality right is a wrong on which civil liability can be based, there are plenty of court decisions that go straight from the establishment of the fact of the infringement to the conclusion that damages are due, without referring to a tort and without even mentioning Article 1382 CC.\textsuperscript{87}

An infringement of a personality right can cause pecuniary losses, for instance when the infringement results in a loss of opportunity for the rightholder to earn income from exploiting the aspect or expression of his personality that the wrongdoer used without his permission.\textsuperscript{88} Because in practice many court decisions award a lump sum, they do not give much insight in the elements that in fact determine the height of the damages, so we cannot verify if the profits the wrongdoer realized were taken into account.\textsuperscript{89} Occasionally, however, a court hints that the amount of damages awarded was in fact based on the profits the wrongdoer had been able to realize thanks to the illegitimate use of the personality of the rightholder.\textsuperscript{90}

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\textsuperscript{86} GULDIX & WYLLEMAN, supra note 15, nr. 9, p. 1607 and nr. 22, p. 1629-1630; see e.g. CFI Gent 24 June 2002, Auteurs & Media 2003, 143 (exploiting somebody's picture without permission is a violation of a personality right, giving the right holder a claim for compensation independent of any civil liability so also without requirement of a fault established).

\textsuperscript{87} GULDIX & WYLLEMAN, supra note 15, nr. 43, p. 1652.

\textsuperscript{88} Although historically the Belgian courts considered the personality right to one’s image to be aimed at protecting the moral, psychological or emotional interests of a person, since the eighties the courts have come to recognize that the portrait right also serves to protect economic interests of the portrayed person. See D. VOORHOOF, “Commercieel portretrecht in Belgïe”, in D.J.G. VISSE (ed.), Commercieel Portretrecht, Amsterdam: Uitgeverij deLex, 2009, 147-167, at p. 152. See e.g. CFI Brussel 19 January 2001, Auteurs & Media 2002, 450, Rechtsgundig Weekblad 2001-2002, 207 (awarding the singer Rocco Granata 500,000 BEF as compensation for lost income when his voice was immitated in a recording of a commercial, explicitly based on an estimation of the fee he could have charged for singing the song, which he had refused); for a much older case, see CFI Brussel 29 June 1981, Rechtsgundig Weekblad 1981-1982, 2616 (awarding 20,000 BEF to an amateur whose picture taken dressed up in a clown character was used without permission in a published calendar and in publicity for such calendars, specifically referring to the income he could have earned when asked to pose for that picture).

\textsuperscript{89} GULDIX & WYLLEMAN, supra note 15, nr. 39, p. 1650.

\textsuperscript{90} See e.g. CA Gent 21 February 2008, Auteurs & Media 2008, 318 (Court awarded Kim Clijsters damages set at €790 or 10% of the return – i.e. price times number of circulation – the publisher of a poster-magazine had realized through the sale of an issue of the magazine including a poster with Kim together with Justine Henin, after noting that this was the only picture of Kim in the magazine, while all other pictures and posters showed Justine Henin. Kim had asked €25,000 in damages, but the court refused that amount as it was more than the total return of the magazine, which was circulated at 2,000 copies and sold at €3.95 per copy).
An infringement of a personality right can also cause moral losses, such as psychological suffering or discomfort, physical pain or emotional distress.\(^{91}\) As was already mentioned, such damages are set as a lump sum, as there is no way to exactly establish the pecuniary equivalent of such losses.\(^{92}\) A historically very important author on Belgian civil law has written that the very fact that a subjective right of a person was infringed or not respected constitutes a moral loss, irrespective of any other interest of the rightholder being hurt.\(^{93}\) While nowadays few authors still invoke this general principle,\(^{94}\) it is generally agreed that in case of infringement of personality rights, the rightholder feels his value as a person diminished by the negation or dismissal of his legal power of self-determination.\(^{95}\)

Some authors have argued that the claim for damages in case of infringement of a personality right can be based directly on the right itself and does not need to be based on civil liability, so that the requirement of an actual loss is not applicable here, allowing the courts to award damages while the injured party in fact did not suffer a loss.\(^{96}\) In fact, the conceptually different constituent elements of civil liability, fault and loss, are “merged” into one single requirement in cases involving personality rights, consisting of the infringement of the right. Based on this sole requirement, some courts impose a remedy consisting of damages.\(^{97}\)

While up to the seventies, such awards tended to be very low and courts in fact only awarded nominal damages to allow for the principled establishment that a wrong had occurred but did not use the instrument of civil liability to try to create incentives to

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\(^{92}\) GULDI\(X\) & WYLLEMAN, *supra* note 15, nr. 41, p. 1651.


\(^{95}\) GULDI\(X\) & WYLLEMAN, *supra* note 15, nr. 41, p. 1651; GULDI\(X\), *supra* note 78, nr. 312; BAET\(E\)\(T\)\(E\)\(M\)AN et al., “Overzicht 1995-2000”, *supra* note 14, nr. 211, p. 1700; DE CALLATAY & ESTIENNE, *supra* note 10, p. 495, criticizing a judgment by the CFI Brussel of 20 February 1996, *Auteurs & Media* 1998, 259, that found the right to one’s portrait infringed but refused to award any damages as in the eyes of the Court no loss had been caused, because according to these authors the absence of prior approval by a person for the publication of their nude picture in itself is moral loss.

\(^{96}\) GULDI\(X\) & WYLLEMAN, *supra* note 15, nr. 22, p. 1629-1630.

\(^{97}\) GULDI\(X\) & WYLLEMAN, *supra* note 15, nr. 25, p. 1632-1633. For a very explicit example, see CFI Antwerpen 24 June 1985, *Rechtskundig Weekblad* 1985-1986, 2645; see also CFI Brussel 28 September 2010, *Auteurs & Media* 2011, 334 (use of a portrait without permission gives person right to moral damages without specific loss to be shown); CFI Dendermonde 26 October 2001, *Rechtskundig Weekblad* 2002-2003, 1068 (family members have a moral interest to protest against the illegitimate use of their name).
promote the recognition of personality rights, analysis has shown that since the eighties and definitely since the mid-nineties, Belgian courts have been more willing to award higher amounts of moral damages in cases of infringements of personality rights. Specifically, it must be noted that such moral damages are regularly higher than the amounts Belgian courts award for the loss of a loved one or a next-of-kin. As it is hard to accept that the actual moral loss that a person suffers from the infringement of a personality right is much graver than the grievance and emotional distress one suffers when losing a parent, partner or child, one cannot help but feel that the courts in fact base the amounts of damages in cases of infringement of personality rights also on other elements than the extent of the actual loss.

Occasionally, one can find court decisions awarding high moral damages in part to tackle the profits the wrongdoer has realized by negating the exclusive rights of the injured party. But even if this is the case, it is clear that Belgian courts are very


99 Some have remarked that the change was triggered by the Dutroux-case, involving the kidnapping and murder of several children, that as a side effect brought several high profile cases of people involved with the criminal investigation that were wrongly accused of improprieties in a hysteric media atmosphere. See DE CALLATAY & ESTIENNE, supra note 10, p. 484-485.

100 See e.g. CFI Brussel 11 January 2011, Auteurs & Media 2013, 263 (€2,000 for publishing nude photograph of celebrity on vacation); CFI Antwerpen 12 June 2008, Auteurs & Media 2008, 321 (€9,000 for publishing picture taken for purposes of book about breast cancer above review of the book in a magazine traditionally having a scarcely dressed woman on its cover); CFI Brussel 30 April 2006, Auteurs & Media 2007, 390 (€2,500 for infringement of right of privacy of a private person mentioned by name and address as probably having an affair with a politician); CA Antwerpen 5 May 2003, Rechtskundig Weekblad 2004-2005, 1145, Auteurs & Media 2004, 67 (€2,500 for commercial use without permission of nude photograph taken with permission); see for older cases SCHUERMANS et al., “Overzicht 1977-1982”, supra note 12, nr. 1, p. 517.

101 See e.g. the decision by the CFI Brussel in the case of the wife of the singer Helmut Lotti, which was described in “‘Dag Allemaal’ en ‘Het Laatste Nieuws’ veroordeeld voor publicatie naaktfoto van ‘Mevrouw Lotti’”, Knack 11 September 2013, 44-45. The case involved a nude photograph taken with permission to be published in a poetry book, but shown without permission in a very popular humoristic television quiz, and afterwards several printed media reported about that incident, again publishing the photograph without permission. The court reportedly awarded moral damages of no less than €25,000. The amount is so high compared to other decisions involving nude photographs published without permission (see supra note 100), and the wrong committed by the newspaper and magazine was comparably light, as they in fact were reporting on a row after a television show and therefore could be argued to have been bringing “news”, that the only plausible justification for such an amount is to assume that the court was in fact reacting to tabloid style newspapers and gossip magazines earning money on the back of people whose right to privacy and right to their portrait they knowingly violate, and that by setting the damages so high, the court in a way was trying to create incentives so this segment of the press will have less reason to behave in this way. The only fact the court mentioned in its judgment that can be understood as an element helping to set the amount of damages owed to the woman whose personality right was infringed, is the fact that photograph was being published in a newspaper and magazine with (according to Flemish standards) a very high circulation. For another example, see CFI Brussel 19 May 2000, Auteurs & Media 2000, 338, awarding 702,000 BEF to a woman who had participated in the audience of a television show and whose private conversation in a bar after the apparent ending of the show had been secretly filmed and
timid in applying this method, and still in general refrain from imposing high damages, even if this would be necessary to have the wrongdoer disgorge the profits he realized through the negation of a personality right of the injured party.\textsuperscript{102} As a matter of theory, the consensus seems to remain that even if one accepts the theory that the remedy in case of infringement of personality rights is not based on civil liability but can directly be based on the personality right itself, this does not change the character of the remedy, which in the eyes of most authors and courts remains compensatory and therefore not aimed at disgorging profits as such.\textsuperscript{103}

\textbf{F. No Disgorgement based on Unjust Enrichment (\textit{actio de in rem verso})}

Claims based on unjust enrichment are relatively rare in Belgium.\textsuperscript{104} As opposed to several other legal systems, Belgian law contains no explicit statutory recognition of this action. It is based on case law, going back to a decision of the highest court of

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\textsuperscript{102} The cases involving Kim Clijsters show this very well. I already referred to one decision \textit{supra} in footnote 90 estimating her lost earning opportunity because of the use of her name or picture without her permission as a fraction of the return the wrongdoer realized in sales. In CFI Hasselt 19 December 2003, \textit{Auteurs & Media} 2004, 388, she was awarded €2,000 in moral damages for a telecommunications company having placed an add in newspapers congratulating her with her reaching her first grand slam final, in fact trying to attract attention to their brand name using Kim’s fame. The court holds that Kim had not convinced them that she had potentially lost earnings because of this infringement. In these circumstances, the awarded amount can hardly be understood to only reflect the moral or psychological distress Kim actually must have felt because her personality was not recognized by the outside world and therefore more likely is an attempt by the court to order the company to at least partially disgorge her profits. However, if one looks at the decision in CFI Gent 19 November 2003, \textit{Auteurs & Media} 2004, 384, involving exactly the same infringement of Kim’s personality rights by Omega Pharma, Kim was only awarded €1 in moral damages, as the Court found that apart from the infringement of her personality right, she had not shown any additional losses. In fact, the moral or psychological distress Kim has felt from both infringements must have been exactly the same, and the difference in awards can only be attributed to the willingness of the Hasselt court to take the illegitimately gained profits of the wrongdoer into account and the unwillingness of the Gent court to do the same.

\textsuperscript{103} \textit{Guldix & Wylleman, supra} note 15, nr. 38, p. 1650; \textit{see also} CFI Brussel 20 September 2001, \textit{Auteurs & Media} 2002, 77; CFI Tournai 22 November 2010, \textit{Auteurs & Media} 2011, 109.

27 May 1909. Since the eighties, the highest court specifically names it as a general principle of law.

As opposed to a claim based on liability, this action is only available if the defendant has been enriched. On this basis one might expect that the claim would result in a duty to disgorge profits. However, under Belgian law this action just as much requires the claimant is impoverished. In this context, the mere infringement of a subjective right of the claimant is not enough, so the claimant has to show that he suffered a disadvantage that has pecuniary value. Without an impoverishment, no action based on unjust enrichment is available, so under Belgian law this action cannot truly be considered to be a disgorgement of profits.

The remedy in case of unjust enrichment may at first sight look like disgorgement, as it is usually referred to as restitution. However, the sum awarded can never exceed the loss suffered, so the claimant can receive no more than compensation. Unjust enrichment is therefore often referred to in Belgian literature as “patrimonial shift without legal cause”, stressing that it is the amount that shifted from the defendant to the claimant that has to be restored, not the enrichment. Therefore, unjust enrichment under Belgian law is an alternative to civil liability to obtain compensatory relief, damages, in cases where no fault can be established, but as it is understood

105 Cass. 27 May 1909, Pas. 1909, I, 272.
108 Bæck, supra note 104, nr. 13, p. 207; De Page, vol. III, supra note 107, nr. 38, p. 48; Van Gerven, supra note 107, 289; SAGAERT, supra note 49, nr. 28, p. 89.
109 Sagaert, supra note 49, nr. 28, p. 89. So an action based on unjustified enrichment is under Belgian law as it is generally understood in the literature today not available under the conditions that it would be under German law (see G. Dännemann, The German Law of Unjustified Enrichment and Restitution, Oxford: Oxford University Press, 2009, p. 91-103) or the Draft Common Frame of Reference, which only requires the enrichment to have been attributable to another’s disadvantage, which includes another’s use of that person’s assets (see Articles VII.–1:101 and VII.–3:102(1)(c) DCFR).
110 This difference between the Belgian understanding of this action and the content of such action in other legal systems has to be stressed. See R. Zimmerman, “Unjustified Enrichment. The Modern Civilian Approach”, Oxford Journal of Legal Studies 1995, 403-429, 418-421.
111 Bæck, supra note 104, nr. 13, p. 207.
113 The highest court referred to the general principle of law according to which no one is allowed to enrich himself at the expense of another: Cass. 27 September 2012, C.11.0159.F.
today, it is not a basis for disgorgement of profits without this amount serving to compensate the claimant for an actual loss suffered.\textsuperscript{114}

**G. An Agent’s Duty to Account for his Management: Disgorgement**

Under a contract of agency, the agent is bound to account for his management, and to return to the principal everything he received because of his assignment, even if what he received was not owed to the principal.\textsuperscript{115} This rule represents the basic principle that agency can never become a source of enrichment for the agent in his relations to third parties.\textsuperscript{116} If apart from the agreed remuneration an agent were to obtain any other personal gain because of the way he performs his tasks or uses the power of attorney he has received under the agency agreement, he is bound to not only report this gain but is also required to hand over the gains to the principal. This means that a principal can force his agent to disgorge his profits if he has used his powers for his personal gain in violation of their agency agreement.

**II. Does Belgian Law Contain a (Hidden) General Rule on Disgorgement of Profits?**

Based on an analysis of the examples of disgorgement spread throughout positive law, I have proposed a theory that Belgian private law apparently includes a general principle of law that gives the holder of a subjective right a claim for disgorgement of profits realized by another person because of his bad faith infringement of the exclusive authority the subjective right grants to its holder.\textsuperscript{117} This remedy is clearly available in cases of infringement of property rights to physical goods, as the possessor in bad faith has to turn over the fruits he produced. This remedy can also be recognized in the statutory provisions on intellectual property rights, which allow

\begin{itemize}
  \item \textsuperscript{114} J. RONSE et al., supra note 4, nr. 275, p. 208, pointing out that the claimant who has been compensated for his loss no longer is impoverished.
  \item \textsuperscript{117} KRUIITHOF, supra note 2, nr. 37-42, p. 54-60.
\end{itemize}
for civil confiscation of “fruits” of the intellectual property right and thus disgorgement of profits in cases of bad faith infringements. This concept can also help understand what a lot of courts apparently are trying to do in cases of infringement of personality rights that can be economically exploited.

It is too early to tell whether this theory will find any support in Belgium. I hope that this comparative project might shed some light on the question whether the hidden general horizontal principle I think to have recognized in Belgian private law can also be found in other legal systems. ¹¹⁸

¹¹⁸ In my dissertation I have tried to show that this principle, as I found it hidden in Belgian civil law, can help to explain the concept of fiduciary duties as it is understood in the United States. See M. KRUITHOF, Belangenconflicten in financiële instellingen. Conceptueel juridisch onderzoek van het fenomeen en analyse van de financieelrechtelijke regelering, PhD thesis UGent, 2009, nr. 238-243, p. 251-257.
Comment le droit français ordonne-t-il la restitution du profit illicite ? Les voies qu’il emprunte, et celles qu’il envisage, sont actuellement sur le devant de la scène.

En voici une illustration récente. Au mois de septembre 2013, plusieurs grandes enseignes de bricolage ont souhaité ouvrir leurs portes le dimanche, en dépit de l’interdiction posée par la législation sur ce point, et alors même qu’elles ne remplissaient pas les conditions pour bénéficier d’une dérogation. Un de leurs concurrents, qui respectait cette interdiction, a saisi le juge de l’urgence pour faire cesser ce qu’il considérait comme un trouble illicite.

Dans un premier temps, le juge des référés condamna les sociétés défenderesses à fermer leurs magasins le dimanche, et cette condamnation fut assortie d’une astreinte.
Rappelant les termes de l’article 873 al. 1er du Code de procédure civile\(^1\), le Président du Tribunal de commerce en déduisit ceci : « il importe au juge des référés de faire cesser un trouble manifestement illicite, et (...) pour ce faire, l’astreinte doit être fixée à un niveau qui rende la poursuite des infractions économiquement non rentable (...) ; qu’usant de son pouvoir d’appréciation, nous fixerons le montant de l’astreinte provisoire à 120.000 euros par magasin et par jour d’infraction constatée le dimanche »\(^2\).

Or, dès le prononcé de la sanction à leur encontre, les grandes enseignes firent savoir qu’elles refusaient d’appliquer cette décision de justice. Le dimanche suivant, elles ouvrirent plus d’une quinzaine de magasins, puisque

\(^1\) Art. 873, al. 1er CPC : « Le président peut (...) prescrire en référé les mesures conservatoires ou de remise en état qui s'imposent, soit pour prévenir un dommage imminent, soit pour faire cesser un trouble manifestement illicite » ; ces pouvoirs appartiennent au Président du Tribunal de commerce, mais rappelons qu’un autre texte confère le même genre de pouvoirs au Président du Tribunal de Grande instance en matière de référé : V. spéc. l’art. 809, al. 1 CPC : « Le président peut toujours, même en présence d'une contestation sérieuse, prescrire en référé les mesures conservatoires ou de remise en état qui s'imposent, soit pour prévenir un dommage imminent, soit pour faire cesser un trouble manifestement illicite ».

leur chiffre d’affaires réalisé chaque dimanche était bien supérieur au montant de l’astreinte\textsuperscript{3}.

De nombreux enseignements peuvent être tirés de cette illustration, mais deux d’entre eux appellent particulièrement l’attention.

Le premier est que, même lorsque le juge dispose d’un fondement textuel pour éviter la réalisation d’un profit illicite, toutes les difficultés ne sont pas résolues pour autant. Il lui faut encore être en mesure d’évaluer correctement l’étendue du profit pour éviter une restitution partielle, laquelle n’aurait aucun effet dissuasif. L’exemple des magasins de bricolage le montre bien : les sociétés défenderesses n’ont pas craint de braver la condamnation judiciaire pour engranger davantage de gains. Sans doute le juge français n’a-t-il pas encore suffisamment l’habitude d’évaluer le montant du gain ou de l’économie réalisé grâce à la commission d’une faute.

\footnotesize{\textsuperscript{3} V. « Ouverture le dimanche, Leroy Merlin et Castorama bravent l’interdiction », Le Parisien, 27 septembre 2013 ; 
Si cette habitude lui manque, c’est peut-être parce que jusqu’à une époque très récente, les procédés de restitution du profit illicite étaient souterrains. Ce n’est que depuis quelques années que le droit français s’est doté de textes permettant, dans certains secteurs seulement, la confiscation ou le reversement du profit illicite. Mais il faut du temps pour que le juge acquière une culture économique suffisante pour lutter efficacement contre les ruses déployées par les professionnels dans tous les secteurs. De cette variété de secteurs dans lesquels sont réalisés des gains illégitimes découle l’autre précepte.

Le second enseignement est que le thème de la restitution du profit illicite n’est pas réservé au droit de la responsabilité civile délictuelle ou contractuelle. Plusieurs voix se font entendre pour qu’il soit même tenu à l’écart de la responsabilité civile. Leurs arguments ont d’ailleurs de quoi convaincre. En particulier, l’on fait valoir que, conformément à la justice commutative prononcée par Aristote, l’objet de l’obligation du responsable ne peut être que de rendre indemne la victime ou le créancier insatisfait, en comblant la

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À proprement parler, la procédure d’urgence devant le juge des référés n’appartient pas au contentieux de droit de la responsabilité civile, même s’il est vrai que l’ordonnance de référé a pour but de faire cesser le trouble illicite, c’est-à-dire, notamment, d’empêcher d’aggravation du préjudice subi par la société demanderesse.
perte patrimoniale subie\textsuperscript{5}. Il est vrai que tel est le sens exact de « l’indemnisation ». Par conséquent, tout mécanisme tourné vers un autre but que la compensation du préjudice devrait se développer \textit{hors} de la responsabilité civile, qu’il ait pour objet soit la \textit{punition} du responsable, soit la restitution du profit illicite, même lorsque ce profit est supérieur au préjudice\textsuperscript{6}. À première vue, le droit positif conforte cette vision, la seule finalité \textit{officiellement} assumée par la responsabilité civile étant la « réparation intégrale » du dommage\textsuperscript{7}. Compenser le préjudice, rétablir la victime ou le créancier insatisfait dans la situation qui était la sienne avant la survenance du dommage, tel est l’objectif énoncé par le Code civil\textsuperscript{8}, et régulièrement rappelé par la Cour de cassation\textsuperscript{9}.


\textsuperscript{7} V. pour une étude récente et éclairante, C. COULON, « L’étendue de la réparation en droit français », in \textit{Le droit français de la responsabilité civile confrontée aux projets européens d’harmonisation}, Recueil des travaux du Groupe de Recherche Européen sur la Responsabilité Civile et l’Assurance (GRERCA), IRJS éditions, Bibliothèque de l’Institut de Recherche juridique de la Sorbonne-André Tunc, t. 36, p. 679 s.

\textsuperscript{8} V. spéc. pour la responsabilité extracontractuelle, l’art. 1382 c. civ. : « Tout fait quelconque de l’homme, qui cause à autrui un dommage,
Cependant, tant que le strict respect de cette équivalence entre le préjudice et la réparation n’est pas complété par un autre dispositif, l’auteur d’une activité dommageable est incité à la développer puisque son exécution lui procure un gain plus grand ou une économie plus importante que le montant du dommage causé.

Il en est ainsi en matière de contrefaçon, de concurrence déloyale, de parasitisme, de certaines atteintes à l’environnement, d’atteintes aux droits de la personnalité par voie médiatique, de surréservation dans les transports, de non-respect des règles de sécurité que doivent observer les professionnels mais dont la méconnaissance leur permet d’économiser des sommes considérables, et la liste n’a pas plus de limite que la cupidité humaine.

oblige celui par la faute duquel il est arrivé à le réparer » ; adde, pour la responsabilité contractuelle, l’art. 1149 c. civ. : « Les dommages et intérêts dus au créancier sont, en général, de la perte qu’il a faite et du gain dont il a été privé, sauf les exceptions et modifications ci-après ».

Dans quelques secteurs où les occasions de réaliser un profit illicite sont plus souvent saisies que dans d'autres, les pouvoirs publics ont timidement tenté d’opposer un mécanisme qui en permette la restitution. Mais chacun de ces instruments de reversement étant né d’une réaction à une situation particulière, il possède un champ d’application très limité. En revanche, il n’existe toujours pas de texte ou de principe général ordonnant la restitution du profit illicite en-dehors de ces différents secteurs. Cela ne veut pas dire que la restitution soit impossible. Mais elle intervient de manière occulte et sans encadrement, ce qui pose des problèmes de sécurité juridique auxquels plusieurs projets de réforme tentent de remédier.

Il faut dire qu’il n’est pas toujours aisé de délimiter le thème de la restitution du profit illicite. Ce qui est sûr, c’est que pour restituer, il faut d’abord percevoir. Le thème est donc plus restreint que la simple sanction du profit illicite. Mais cette distinction n’est pas sans poser question. Ainsi, par exemple, lorsqu’un professionnel libéral et un client particulier s’accordent sur des honoraires manifestement excessifs eu égard au service que rendra le professionnel, la réduction judiciaire de sa rémunération, que les juges
s'autorisent à prononcer depuis l'Ancien Régime\textsuperscript{10}, entre-
telle dans le champ de l'étude ? La réponse nous paraît être
négative pour deux raisons. La première est qu'il manque
l'idée de restitution : les contentieux interviennent le plus
souvent \textit{avant} que le client ait payé les honoraires, si bien
qu'il n'y a pas à proprement parler de « restitution » du profit
illicite. La seconde est que l'illicéité n'est pas clairement
caractérisée : la force obligatoire des conventions laisserait
plutôt penser que le juge n'a aucun pouvoir, à défaut d'une
disposition spéciale, pour effectuer une telle révision. En
outre, l'illicéité n'est pas présente dans les mêmes termes
que ceux que suggère le sujet. Le propre du thème de la
restitution du profit illicite est la réalisation d'un profit bravant
un interdit qui, tout en étant clairement posé, n'a pas suffi à
dissuader celui qui l'engrange de passer à l'acte. Or, dans la
réduction judiciaire des honoraires convenus, s'il est vrai
que l'attitude du prestataire est teintée de filouterie, l'on ne

\textsuperscript{10} V. sur ce point, parmi une bibliographie abondante : E. VAN DIEVOET
et G. VAN DIEVOET, « Le pouvoir du juge de réduire le salaire
contractuellement fixé de l'agent d'affaires, Histoire d'une
jurisprudence », in Mélanges en l'honneur de Jean DABIN, II, Droit
positif, Sirey, 1963, p. 911 s. ; s'agissant de la jurisprudence, V. spéc.
Req., 11 mars 1824 : S. 1822-1824, chronol. p. 413 ; Req. 12 janv. 1863,
\textit{DP} 1863. I. 302, spéc. p. 304 : « Qu'en cet état, la cour avait le droit et le
devoir de rechercher, comme elle l'a fait, le rapport de l'importance des
soins, démarches, et peines des mandataires, avec l'importance de la
rémunération convenue, et de la réduire dans le cas où elle paraîtrait
excessive » ; Civ. 29 janv. 1867, H. CAPITANT, F. TERRE et Y.
retrouve pas exactement cette idée de persévérance dans la contravention 11. Quoi qu'il en soit, ces hésitations témoignent de ce que la restitution du profit illicite n'est pas juridiquement encadrée en tant que telle 12.

C'est ce que montre l'étude des voies empruntées pour atteindre la restitution du profit illicite (I). Elle sera suivie par l'examen, en droit prospectif, des voies envisagées pour y parvenir (II).

11 De même, la sanction des organisateurs d'une loterie publicitaire qui promet des gains qui s'avèrent fallacieux ne relève-t-elle pas de la « restitution » du profit illicite. Ni le montant d'une condamnation à une peine d'amende, ni l'argent versé au destinataire du courrier trompeur ne correspond à des « restitutions ». Il s'agit de simples versements de somme d'argent.

I – LES VOIES EMPRUNTEES

Si l’on veut rendre compte de l’état actuel du droit positif français en la matière, deux constats s'imposent. La restitution du profit illicite est permise par des voies qui sont, soit officielles (A), soit détournées (B).

A – La restitution par voies officielles

Trois ensembles de mécanismes permettent officiellement de confisquer le profit pour le reverser. Ils ont en commun leur caractère sectoriel : aucun d’entre eux ne peut servir de fondement à portée générale.

1°) La première série de dispositions est issue de la loi du 29 octobre 2007 de lutte contre la contrefaçon, qui a transposé la directive européenne du 29 avril 2004 relative au respect des droits de propriété intellectuelle13.

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Plusieurs articles offrent au demandeur une alternative dont les deux branches évoquent ouvertement le profit illicite engrangé par le contrefacteur, et qui « permettent au demandeur d’inclure la restitution de ce profit intégralement ou forfaitairement dans la somme que celui-ci devra verser »

14 Ces textes, rédigés sur le même modèle, concernent respectivement la propriété intellectuelle

15, les dessins et modèles

16, les brevets


15 Art. L. 331-1-3 du Code de la propriété intellectuelle (CPI) : « Pour fixer les dommages et intérêts, la juridiction prend en considération les conséquences économiques négatives, dont le manque à gagner, subies par la partie lésée, les bénéfices réalisés par l’auteur de l’atteinte aux droits et le préjudice moral causé au titulaire de ces droits du fait de l’atteinte. Toutefois, la juridiction peut, à titre d’alternative et sur demande de la partie lésée, allouer à titre de dommages et intérêts une somme forfaitaire qui ne peut être inférieure au montant des redevances ou droits qui auraient été dus si l’auteur de l’atteinte avait demandé l’autorisation d’utiliser le droit auquel il a porté atteinte ».

16 Art. L. 521-7 CPI.

17 Art. L. 615-7 CPI.
produits semi-conducteurs, les obtentions végétales, et les marques.

D'autres dispositions créées par la même loi évoquent clairement la confiscation des profits illicites. L'article L. 331-1-4, alinéa 4 du Code de la propriété intellectuelle énonce que « La juridiction peut également ordonner la confiscation de tout ou partie des recettes procurées par la contrefaçon, l'atteinte à un droit voisin du droit d'auteur ou aux droits du producteur de bases de données, qui seront remises à la partie lésée ou à ses ayants droit ». Cette confiscation est-elle un mécanisme de responsabilité civile, ou une mesure à caractère pénal ? La réponse est difficile à apporter, mais l'on remarquera tout au plus que deux autres articles rédigés de la même manière sont situés à l'intérieur d'un

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18 Par renvoi de l'art. L. 622-7 CPI.
19 Art. L. 623-38 CPI.
20 Art. L. 716-14 CPI.
chapitre intitulé « Dispositions pénales » \(^{22}\). Ce sont les articles L. 335-6 et L. 335-7 du même code, qui énoncent, de façon tout aussi claire, que la juridiction peut prononcer, à l’encontre des personnes physiques qui se rendent coupables de contrefaçon, « la confiscation de tout ou partie des recettes procurées par l’infraction (...) ». Précisons que cette confiscation peut s’ajouter à des dommages et intérêts \(^{23}\), ce qui indique que, dans ce cas précis, la confiscation du profit illicite n’est pas considérée comme étant une indemnisation. Enfin, le caractère récent de cette loi ainsi que le faible nombre de condamnations complique l’évaluation de l’efficacité de ce dispositif : combien de contrevenants ont-ils dû subir la confiscation de leurs profits, combien ont-ils été condamnés à restituer le profit illicite ? Il n’est pas possible de le dire actuellement \(^{24}\).

\(^{22}\) Chapitre V (Dispositions pénales) du Titre III (Prévention, procédures et sanctions) du Livre III (Dispositions générales relatives au droit d’auteur, aux droits voisins et droits des producteurs de bases de données).

\(^{23}\) Cf. art. L. 335-6, al. 3 CPI : « [La juridiction] peut ordonner la destruction, aux frais du condamné, ou la remise à la partie lésée des objets et choses retirés des circuits commerciaux ou confisqués, sans préjudice de tous dommages et intérêts ».

\(^{24}\) V. pour une appréciation critique du dispositif de la loi de 2007, où l’auteur s’étonne de ce que les mesures répressives ne soient pas davantage sollicitées par les plaideurs, F. STASIAK, « Les sanctions de la contrefaçon », Communication commerce électronique, 2009, n° 1, étude 1.
Quoi qu’il en soit, certains auteurs émettent des doutes sur l’efficacité de tous ces dispositifs issus de la loi de 2007. Il est vrai que les travaux parlementaires comportent des ambiguïtés, en ce qu’ils laissent entendre que ces mécanismes ne doivent pas porter atteinte au principe de réparation intégrale issu du droit de la responsabilité civile.

En outre, une réponse ministérielle émise par le Ministère de la Justice en 2009 aggrave cette ambiguïté, en affirmant que ces dispositions existent « sans pour autant remettre en cause le principe de réparation intégrale du préjudice ».

Enfin, le rapport d’information sur l’évaluation de la loi de 2007, déposé en 2011 à la présidence du Sénat, perpétue l’idée d’une restitution du profit illicite qui ne devrait pas dépasser le seuil de la réparation intégrale.

Mais la contrefaçon n’est pas le seul domaine où la restitution du profit illicite est officiellement admise. En revanche, la loi de 2007 est la seule qui crée un mécanisme.

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26 V. en ce sens, C. MARECHAL, « L’évaluation des dommages-intérêts en matière de contrefaçon », art. préc.
exclusivement consacré à cette restitution. C’est ce qui fait la différence entre ce premier mécanisme et les deux autres, qu’il convient à présent d’évoquer.

2°) Le deuxième dispositif est l’amende civile\(^{29}\) prévue en matière de pratiques restrictives de la concurrence. Depuis la loi du 4 août 2008\(^{30}\), le Code de commerce prévoit que le ministre chargé de l’économie et le ministère public peuvent demander à la juridiction saisie « la répétition de l’indu » et de prononcer une sanction qui, tout en ne pouvant jamais dépasser deux millions d’euros, « peut être portée au triple du montant des sommes indûment versées » (art. L. 442-6, III C. com.). Mais s’il est remarquable que cette amende vienne s’ajouter aux dommages et intérêts compensatoires, l’existence d’un plafond permet la persistance d’une faute lucrative lorsque le profit illicite dépasse les deux millions d’euros. Cette amende est donc considérée comme une « peine ». Or, comme le rappelle justement le Professeur VINEY, « la peine est généralement fixée, non pas en fonction des profits, mais de la gravité de l’infraction »\(^{31}\). Il faut surtout noter que, malgré son nom, l’amende « civile »


est soumise aux exigences fondamentales du droit pénal, ce qu’a confirmé le Conseil constitutionnel en 2011\textsuperscript{32}. Ce sont notamment : \textit{i}) le prince de légalité, qui interdit le raisonnement par analogie en réduisant le champ d’application du texte à ce qui y est strictement énoncé ; \textit{ii}) le droit à un procès équitable, qui s’est considérablement développé autour de l’article 6 de la Convention européenne des droits de l’homme ; \textit{iii}) ou encore la présomption d’innocence, proclamée par l’article 6§2 de la Convention EDH, et qui prohibe les présomptions de responsabilité dont le droit civil est friand\textsuperscript{33}.

3°) Quant à la troisième série de dispositions, elle est entièrement rattachée au droit pénal. L’on songe, en premier lieu, à la matière des délits d’initiés. Le Code monétaire et financier (CMF) prévoit une amende de 1,5 million d’euros « dont le montant peut être porté au-delà de ce chiffre,

\textsuperscript{32} V. spéc. la décision du Conseil constitutionnel n° 2010-85 en date du 13 janvier 2011, Question prioritaire de constitutionnalité (QPC), \textit{Etablissements Darty et Fils} ; JCP G 2011, note 274, D. MAINGUY ; \textit{Revue des Contrats} 2011, p. 536, obs. M. BEHAR-TOUCHAIS.

jusqu’au décuple du montant du profit éventuellement réalisé, sans que l’amende puisse être inférieure à ce même profit » (art. L. 465-1 CMF). Ce mécanisme dépasse largement l’objectif de restitution du profit illicite, puisqu’il prévoit, en outre, la punition du responsable. Il s’agit donc d’une voie officielle de restitution du profit illicite, mais qui n’est pas exclusivement conçue pour cela. La même observation peut être effectuée s’agissant des sanctions prévues par le Code pénal en matière de recel et de blanchiment34, où l’amende peut atteindre la moitié de la valeur des fruits du délit : la restitution des profits illicites n’est pas l’objectif premier de ces sanctions, mais sert l’objectif de punition en aggravant le châtiment.

De ces trois voies officielles, retenons ceci : en les empruntant, il est possible de restituer le profit illicite, mais cela n’est pas garanti. Cette garantie est encore moins forte lorsqu’une telle restitution passe par des voies détournées.

B – La restitution par voies détournées

Nombreuses sont les voies détournées qui permettent la restitution du profit illicite, sans être conçues pour cela. Malgré leur diversité, elles ont en commun de se développer derrière le paravent du pouvoir souverain d’appréciation des juges du fond.

Les praticiens constatent, par exemple, que dans le cadre du procès civil, la condamnation de la partie perdante aux frais irrépétibles (art. 700 du Code de procédure civile), qui résulte d’une prise en compte de l’équité par le juge\textsuperscript{35}, sert

\begin{quote}
\textsuperscript{35} Art. 70 CPC : « Le juge condamne la partie tenue aux dépens ou qui perd son procès à payer : 1°) À l’autre partie la somme qu’il détermine, au titre des frais exposés et non compris dans les dépens ; 2°) Et, le cas échéant, à l’avocat du bénéficiaire de l’aide juridictionnelle partielle ou totale une somme au titre des honoraires et frais, non compris dans les dépens, que le bénéficiaire de l’aide aurait exposé s’il n’avait pas eu cette aide. Dans ce cas, il est procédé comme il est dit aux alinéas 3 et 4 de l’article 37 de la loi n° 91-647 du 10 juillet 1991. Dans tous les cas, le juge tient compte de l’équité ou de la situation économique de la partie condamnée. Il peut, même d’office, pour des raisons tirées des mêmes considérations, dire qu’il n’y a pas lieu à ces condamnations. Néanmoins, s’il alloue une somme au titre du 2° du présent article, celle-ci ne peut être inférieure à la part contributive de l’État ».\end{quote}
souvent à punir l’auteur du dommage\textsuperscript{36}, mais aussi à restituer le profit illicitemment engrangé\textsuperscript{37}.

Une autre voie détournée de restitution peut être puisé dans l’astreinte, qui n’est pas non plus principalement conçue pour éviter la réalisation d’un profit illicite. Son objet est plutôt d’assurer l’exécution d’une condamnation. En cela, elle joue un rôle dissuasif, et non pas correcteur. Pourtant, nous l’avons vu avec l’affaire des magasins de bricolage, en cas de poursuite de l’infraction malgré le prononcé d’une astreinte, celle-ci quitte son rôle préventif pour devenir un mécanisme de restitution du profit illicite. Certes, par hypothèse, lorsque cela se produira la restitution ne sera pas intégrale. Mais il y aura quand même eu, de manière détournée, une restitution partielle.

Plus souvent, lorsque la restitution du profit illicite n’est pas expressément prévue par un texte, elle intervient de manière occulte en se glissant dans la responsabilité civile, qui n’est pourtant pas conçue pour atteindre un autre but que la réparation intégrale du préjudice.

\textsuperscript{36} V. spéc. A. ANZIANI et L. BETEILLE, Rapport d’information n° 558, enregistré à la présidence du Sénat le 15 juillet 2009, p. 82, relatant les propos d’un avocat à la Cour de cassation et au Conseil d’État.

C’est donc par un détournement des principes de la responsabilité civile que la restitution du dommage illicite peut avoir lieu.

L’hypothèse de détournement la plus évidente est celle de la réparation du dommage moral, qui est très difficile à évaluer en argent. Les juges du fond ayant un pouvoir souverain d’appréciation pour déterminer l’étendue du dommage\textsuperscript{38}, la liquidation du préjudice moral échappe au contrôle de la Cour de cassation et permet l’allocation de dommages et intérêts qui servent, en réalité, à restituer le profit illicite\textsuperscript{39}.

C’est particulièrement vrai en matière d’atteintes aux droits de la personnalité par voie de presse, où la Cour de cassation décide, depuis près de 20 ans, et sur le fondement de l’article 9 du Code civil, que la constatation d’un préjudice n’est même pas exigée pour que la réparation soit ordonnée. Les dommages et intérêts sont donc détachés de l’évaluation du préjudice, puisque seule l’atteinte suffit à justifier leur allocation\textsuperscript{40}. En outre, une seule

\textsuperscript{38} Civ. 23 mai 1911, D.P. 1912. 1. 421.
atteinte peut donner lieu à deux séries d’indemnisations : l’une sur le fondement du respect du droit à la vie privée, et l’autre sur la base du respect du droit à l’image⁴¹. Cela ne facilite pas l’appréciation des dommages et intérêts, appréciation rendue encore moins transparente par le fait qu’il est rare que l’instrument médiatique qui porte atteinte à la vie privée soit entièrement consacré à commettre cette atteinte, si bien qu’« il semble difficile d’établir un lien de

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⁴¹ V. spéc. Civ. 1ère, 12 déc. 2000, préc. en note précédente. Dans cet important arrêt, la société de presse, demanderesse au pourvoi, contestait ce qu’elle estimait être une « double indemnisation », puisqu’une seule publication avait entraîné sa condamnation à deux séries de dommages et intérêts : l’une pour atteinte à la vie privée, et l’autre pour atteinte au droit à l’image. La Cour de cassation rejette le pourvoi en ces termes : « Mais attendu que la seule constatation de l’atteinte au respect dû à la vie privée et à l’image par voie de presse caractérise l’urgence et ouvre droit à réparation ; que la forme de cette réparation est laissée à la libre appréciation du juge, qui tient tant de l’art. 809, al. 2, du nouveau code de procédure civile que de l’art. 9, al. 2, du code civil, le pouvoir de prendre en référé toutes mesures propres à empêcher ou à faire cesser l’atteinte, ainsi qu’à réparer le préjudice qui en résulte (…) ; Et attendu que la décision est encore justifiée légalement en ce qu’elle retient que l’atteinte au respect dû à la vie privée et l’atteinte au droit de chacun sur son image constituent des sources de préjudice distinctes, ouvrant droit à des réparations distinctes ». Le pourvoi est donc rejeté.
causalité précis entre une telle publication et les bénéfices dégagés à cette occasion »

Les difficultés d’indemniser le dommage moral fournissent donc un prétexte pour modifier discrètement – et imparfaitement – la fonction des dommages et intérêts, en leur faisant jouer un rôle de restitution du profit illicite. Mais le dommage moral n’est pas le seul point d’entrée de cette évolution.

Un autre domaine où la responsabilité civile sert d’expédient aux carences législatives est celui des « micro-dommages » causés à une multitude de victimes. À l’heure où ces lignes sont écrites, il semble que le projet de loi relatif à la consommation ait été voté par le Parlement français, ce qui permettrait enfin l’introduction d’une action

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43 M. FABRE-MAGNAN, Droit des obligations, t. II, Responsabilité civile et quasi-contrats, op. cit., p. 437.
45 L’adoption du projet de loi par le Parlement date du jeudi 13 février 2014 (Projet de loi relatif à la consommation, n° EFIX1307316L).
de groupe\textsuperscript{46}. Mais depuis longtemps, la jurisprudence réfléchit à des façons de contourner l’absence de support législatif sur lequel elle puisse s’appuyer pour éviter que les auteurs de ces micro-dommages ne continuent de s’enrichir grâce à la multiplication de dommages dont les montants sont si faibles, qu’il n’est pas rentable, pour les victimes, d’engager d’importants frais de justice pour en demander la compensation. Récemment, face à un fournisseur d’accès à Internet qui continuait d’exiger le paiement intégral des abonnements tout en faisant subir des dysfonctionnements répétés à ses abonnés, la Cour de cassation a admis qu’une association de défense des consommateurs pouvait demander réparation de « l’intérêt collectif » lésé\textsuperscript{47}. Grâce à

\textsuperscript{46} L’article 1\textsuperscript{er} de ce projet de loi détaille les modalités de cette action de groupe à la française. Le lien entre les actions de groupe et la lutte contre la commission de fautes lucratives est régulièrement caractérisé par les auteurs : V. récemment encore, M. NUSSENBAUM, « Comment mieux punir les fautes lucratives ? », Les Echos, n° 20917 du 21 avr. 2011, p. 8.

\textsuperscript{47} Civ. 1\textsuperscript{er}, 13 nov. 2008, n° 07-15.000, non publié au Bulletin, JCP G, 2009, I, 123, n° 2, obs. P. STOFFEL-MUNCK. Sous le visa de l’article L. 427-1 du Code de la consommation, la Cour de cassation censure la décision des juges du fond selon laquelle la preuve d’un préjudice direct de l’association n’était pas rapportée. Le motif de censure est rédigé en ces termes : « en se déterminant ainsi, après avoir constaté la recrudescence du nombre de dossiers relatifs aux dysfonctionnements de l’accès à Internet proposé par la société Free [fournisseur d’accès à Internet], ce dont il résultait que l’intérêt collectif des consommateurs ayant contracté avec cette société se trouvait lésé et que, dès lors, l’association était en droit de réclamer réparation du préjudice direct et indirect qui en découlaît, la juridiction de proximité n’a pas tiré les conséquences légales de ses constatations »
cet élargissement de la notion d’atteinte à l’intérêt collectif dont une association de consommateurs peut demander la réparation, une possibilité est ouverte pour que les économies ou les gains réalisés par l’auteur des micro-dommages soient restitués à l’association demanderesse.

Il ressort des développements qui précèdent une impression globale de flou. L’absence d’encadrement légal crée un désordre et une insécurité juridique qui ne sont pas acceptables. D’où une réflexion menée en droit prospectif.

II – LES VOIES ENVISAGEES

*De lege ferenda*, la restitution du profit illicite fait l’objet de réflexions approfondies qui alimentent le débat doctrinal (A), et se manifestent dans les divers projets de réforme du droit des obligations et de la responsabilité civile (B).

*A – Dans le débat doctrinal*

La restitution du profit illicite alimente les réflexions doctrinales. Quelles que soient leurs divergences, parfois fortes, les auteurs ont plusieurs points en commun.
Le premier est qu’ils plaident tous pour qu’un encadrement légal mette fin à l’insécurité juridique qui résulte de l’opacité avec laquelle les profits illicites sont reversés. Le deuxième est qu’ils placent tous leurs espoirs dans le droit de la responsabilité civile comme instrument de restitution des profits illicites. Un mouvement est donc en marche, qui s’éloigne du monopole occupé par le principe de réparation intégrale, et qui se dirige vers d’autres missions assignées au droit de la responsabilité civile et assumées au grand jour. Le troisième point commun entre les auteurs est l’idée selon laquelle la lutte efficace contre les profits illicites passe par un texte de loi ayant une portée générale, et non pas une approche sectorielle qui additionne les textes ayant un champ d’application limitée. Enfin, le quatrième point de convergence est la dénomination choisie pour désigner la faute qui justifie la restitution du profit illicite : il s’agit de la « faute lucrative ».

Là s’arrête l’unanimité. Car dès qu’il est question de la façon dont la responsabilité civile devrait encadrer la restitution du profit illicite, ce sont les divergences qui dominent.

48 V. cependant le Rapport d’information du Sénat rendu en 2009, dans lequel c’est une approche sectorielle qui est préférée à un texte de portée générale.
Elles apparaissent dès l’opération de définition de ce qu’est une « faute lucrative ». Deux définitions très différentes en sont proposées.

Un premier courant de pensée y voit une faute « génératrice d’un gain ou d’une économie pour son auteur, complémentairement ou indépendamment du préjudice qu’elle provoque »49. Selon les auteurs qui défendent cette vision, la faute lucrative est évaluée à la seule mesure des profits illicites engrangés, qu’il s’agisse de gains ou d’économies. Peu importe, donc, la gravité de la faute et sa dimension morale : aucune référence n’est faite à l’intention de l’auteur du dommage. Par conséquent, les dommages et intérêts qui correspondent à la faute lucrative ainsi définie n’ont rien de punitif. Ils sont simplement « restitutifs »50.

50 R. MESA, « L’opportune consécration d’un principe de restitution intégrale des profits illicites comme sanction des fautes lucratives », D.
particulier, Monsieur Rodolphe MESA propose la consécration d’un principe de « restitution intégrale » qui tendrait à « replacer le fauteur dans la situation dans laquelle il se serait trouvé si la faute n’avait pas été commise, ceci de la même manière que le principe de la réparation intégrale replace la victime dans la situation dans laquelle elle se serait trouvée si le fait dommageable n’avait pas eu lieu ».

Cette première vision comporte plusieurs avantages.

En séparant clairement le domaine de la *punition*, d’une part, et celui de la *restitution*, d’autre part, cette vision permet au


droit de la restitution du profit illicite de se développer pleinement dans la sphère du droit civil, sans passer par le droit pénal. Ainsi, les présomptions de responsabilité pourraient être restaurées, puisque le principe de la présomption d’innocence serait écarté.

Ensuite, le calcul de l’indemnité restitutive serait facilité, puisqu’il serait strictement égal au montant du profit illicite, sans inclure d’aggravations au titre des intentions dolosives ou de la gravité de la faute. Un plafonnement de l’indemnité restitutive ne pourrait être envisageable qu’en cas de clause pénale dûment convenue par avance. Au lieu d’élargir l’office du juge, ce qui agiterait le spectre de l’arbitraire, la marge de manœuvre du juge serait extrêmement faible : il ne pourrait pas octroyer une restitution moindre que celle du profit illicite.

En revanche, au sein même des partisans de cette vision purement restitutive, deux divergences apparaissent.

La première est relative à la possibilité, pour le bénéficiaire du profit illicite, de faire prendre en charge la condamnation par une police d’assurance. Certains auteurs estiment que cette garantie est « tout à fait acceptable lorsque la
condamnation tend à la restitution d’un profit illicite »\(^{52}\), tandis que d’autres s’y opposent, en faisant valoir l’atténuation du rôle dissuasif de la responsabilité et la difficulté de concevoir une assurance pour une faute qui est, la plupart du temps, intentionnelle\(^{53}\). L’avenir sera peut-être pavé sur une voie médiane, que connaît déjà l’assurance de responsabilité, et qui « concilie à la fois l’intervention de l’assurance et le durcissement de son entrée en lice »\(^{54}\).

La seconde divergence concerne l’attribution des dommages et intérêts restitutifs. Certains auteurs ne trouvent aucune objection sérieuse à la restitution des profits en faveur de la victime ou du créancier insatisfait, et proposent même que le Trésor public en soit bénéficiaire\(^{55}\).


\(^{53}\) R. MESA, « L’opportune consécration d’un principe de restitution intégrale des profits illégaux comme sanction des fautes lucratives », art. préc.


\(^{55}\) G. VINEY et P. JOURDAIN, Les effets de la responsabilité civile, op. cit., p. 28.
D'autres, au contraire, rejetent cette possibilité. D'une part, il ne faudrait pas, selon eux, que la victime s'enrichisse grâce à la commission d'une faute, car le profit illicite ne ferait, alors, que changer de camp. D'autre part, si l'argent est restitué au Trésor public, pourra-t-on encore dire qu'il s'agit seulement d'une simple peine « privée » qui ne justifie pas l'application du droit pénal ? Ces auteurs proposent que l'argent soit donc reversé à des fonds de garantie conçus pour indemniser les intérêts atteints\

Selon un second courant de pensée, en sens inverse, la définition de la faute lucrative est trop restreinte si elle se limite au simple enrichissement permis grâce à la commission d'une faute. Ainsi, pour Madame Laureen SICHEL, l'élément déterminant est « la stratégie mise en œuvre en vue de la réalisation d'un gain ou d'une économie »\57. La faute lucrative ferait donc partie des fautes intentionnelles, dolosives\58, et même inexcusables\59.

57 L. SICHEL, La gravité de la faute en droit de la responsabilité civile, Thèse dactyl., Paris 1, dir. G. LOISEAU, 2012, n° 551. L'auteur ajoute : « Lorsque le bénéfice perçu par l'auteur de l'inconduite est purement fortuit, lorsqu'il est le fruit d'un heureux concours de circonstances, la faute ne sera pas jugée lucrative. Pour qu'une telle qualification soit retenue, l'agent coupable doit avoir véritablement anticipé les risques encourus – parmi lesquels l'action en justice d'une victime réclamant réparation de son préjudice et la réaction subséquente du droit civil – et
Il en résulte que seule la peine privée peut être une réponse adéquate à la commission d’une faute lucrative. La dimension punitive est donc très présente dans ce second courant de pensée. Restituer le seul profit illicite n’est alors pas suffisamment intimidant : il faut que le montant des dommages et intérêts « soit supérieur au gain – ou à l’économie – procuré par l’activité dommageable, ce qui aboutira à la priver de tout intérêt »  

La solution serait donc de prononcer des dommages et intérêts qui seraient, non pas restitutifs, mais « exemplaires ». Ils seraient composés, « d’une part, de l’équivalent du bénéfice que son comportement illicite a procuré au responsable et, d’autre part, de la fraction destinée à empêcher toute forme de

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59 L. SICHEL, La gravité de la faute en droit de la responsabilité civile, th. préc., n° 551 : « la faute lucrative ne s’identifie pas à une qualification unique : participant à la fois de la faute intentionnelle et de la faute inexcusable, elle ne se confond entièrement avec aucune des deux. De fait, sa définition combine deux éléments tout aussi importants : la conscience de l’agent et la cupidité qui l’anime ».
60 L. SICHEL, La gravité de la faute en droit de la responsabilité civile, th. préc., n° 555 ; adde, n° 560 : « La menace de ce que l’on pourrait appeler une "opération blanche" ne le découragera pas de récidiver, ni d’autres de l’imiter. Bien au contraire, en quoi la perspective du "tout à gagner, rien à perdre" serait-elle un obstacle à de tels agissements ? La prévention de ce type de conduites déviantes requiert immanquablement que la sanction excède la simple restitution des profits illégitimes ».
récidive»61. Si le caractère intentionnel de la faute lucrative exclut, dans cette vision, toute couverture assurantielle, il faut noter que le caractère inexcusable de la faute n’y fait pas obstacle. Madame SICHEL propose ainsi, judicieusement, que l’assureur puisse verser les dommages et intérêts exemplaires à la victime ou au créancier insatisfait, et qu’il dispose ensuite d’un recours contre le responsable62.

Ces points de convergence et de divergence apparaissent aussi dans les divers textes proposés par les divers projets de réforme du droit de la responsabilité civile.

B – Dans les projets de réforme

Dès 2005, l’avant-projet de réforme du droit des obligations et de la prescription (dit « avant-projet CATALA ») comportait un projet d’article 1371 énonçant que la faute lucrative devait être sanctionnée par des dommages et intérêts punitifs63. Mais ce texte avait fait l’objet de vives

61 L. SICHEL, La gravité de la faute en droit de la responsabilité civile, th. préc. n° 560.
62 Ibid.
63 P. CATALA (dir.) Avant-projet de réforme du droit des obligations et de la prescription, Rapport remis au Garde des Sceaux le 22 septembre
critiques, en ce qu’il mélangeait le droit civil et le droit pénal, en déformant la mission réparatrice de la responsabilité civile par l’insertion d’un mécanisme répressif.

Puis, les sénateurs ANZIANI et BETEILLE recommandèrent, dans un rapport d’information rendu en 2009, que ces mêmes dommages et intérêts *punitifs* luttent contre la faute lucrative\(^\text{64}\), ce qui apparut ensuite dans une proposition de 2005, art. 1371 : « L’auteur d’une faute manifestement délibérée, et notamment d’une faute lucrative, peut être condamné, outre les dommages-intérêts compensatoires, à des dommages-intérêts punitifs dont le juge a la faculté de faire bénéficier pour une part le Trésor public. La décision du juge d’octroyer de tels dommages-intérêts doit être spécialement motivée et leur montant distingué de celui des autres dommages-intérêts accordés à la victime. Les dommages-intérêts punitifs ne sont pas assurables » ; *add* S. CARVAL, « Vers l’introduction en droit français des dommages-intérêts punitifs ? », *RDC* 2006, pp. 822 s.

\(^\text{64}\) A. ANZIANI et L. BETEILLE, *Rapport d’information n° 558*, enregistré à la présidence du Sénat le 15 juillet 2009, Recommandation n° 24, p. 100 : « Autoriser les dommages et intérêts punitifs en cas de fautes lucratives dans certains contentieux spécialisés, versés par priorité à la victime et, pour une part définie par le juge, à un fonds d’indemnisation ou, à défaut, au Trésor public, et dont le montant serait fixé en fonction de celui des dommages-intérêts compensatoires ». La confusion dans le vocabulaire est apparente. Pour les auteurs de ce rapport, les dommages et intérêts « restitutaires » sont ceux qui permettent la *compensation* du préjudice, c’est-à-dire sa réparation. Ceux qui sanctionnent la faute lucrative sont, eux, appelés « dommages et intérêts *punitifs* ». Cf. le glossaire annexé à ce rapport : « Dommages et intérêts *restitutaires / compensatoires* : Dommages et intérêts destinés à réparer intégralement le dommage subi par la victime afin de la remettre dans la situation antérieure au dommage. Dommages et intérêts *punitifs* : Dommages et intérêts s’ajoutant aux dommages et intérêts compensatoires ayant vocation à sanctionner le responsable du dommage en amoindrisant ou annulant le bénéfice qu’il tire de la faute
loi portant réforme de la responsabilité civile\textsuperscript{65}. Mais à nouveau, la proposition d'article 1386-25 ne remplissait pas l’objectif de restitution intégrale du profit illicite, puisque le texte prévoyait que le montant total de la condamnation ne peut jamais dépasser le double de ce qui est prévu à titre compensatoire. La dissuasion n’est donc pas assurée pour tout profit illicite dont le montant dépasse le double de ce qui est causé comme dommage.

Parallèlement, un avant-projet de réforme du droit des contrats, dirigé par le professeur TERRE dans le cadre de l’Académie des Sciences morales, prévoyait un article 120, destiné à lutter contre le « dol lucratif », « c’est-à-dire l’inexécution volontaire de la partie qui préfère s’exposer à une résolution et à des dommages et intérêts pour pouvoir, par exemple, contracter ailleurs, à des conditions plus lucrative qu’il a commise » (SENAT, \textit{Rapport d’information n° 558}, 15 juillet 2009, p. 116).

\textsuperscript{65} Proposition de loi n° 657, présentée par le Sénateur Laurent BETEILLE, 9 juillet 2010 ; V. spéc. projet d’art. 1386-25 : « Dans les cas où la loi en dispose expressément, lorsque le dommage résulte d’une faute délictuelle ou d’une inexécution contractuelle commise volontairement et a permis à son auteur un enrichissement que la seule réparation du dommage n’est pas à même de supprimer, le juge peut condamner, par décision motivée, l’auteur du dommage, outre à des dommages et intérêts en application de l’article 1386-22, à des dommages et intérêts punitifs dont le montant ne peut dépasser le double du montant des dommages et intérêts compensatoires ». 
avantageuses»⁶⁶. Mais cet article 120 prévoyait que la restitution du profit illicite pût être partielle⁶⁷, ce qui fut également critiqué.

Enfin, en 2011, un autre groupe dirigé par le Professeur TERRE proposa un avant-projet de réforme en droit de la responsabilité, contenant un article 54 ayant pour but d’appréhender les fautes lucratives⁶⁸. Cette fois, ce ne sont plus des « dommages et intérêts punitifs », qui servent à sanctionner la réalisation d’un profit illicite, mais tout simplement la restitution du « montant du profit retiré par le défendeur ». Autrement dit, il s’agit de la « restitution intégrale » que Monsieur Rodolphe MESA appelle de ses vœux. Cependant, il n’est pas certain que la lettre de ce texte permette de sanctionner, outre le gain engrangé, les

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⁶⁷ Art. 120 de l’avant-projet de réforme Terré du droit des contrats : « Toutefois, en cas de dol, le créancier de l’obligation inexécutée peut préférer demander au juge que le débiteur soit condamné à lui verser tout ou partie du profit retiré de l’inexécution ».
⁶⁸ Art. 54 de l’avant-projet de réforme Terré du droit de la responsabilité civile : « Lorsque l’auteur du dommage aura commis intentionnellement une faute lucrative, le juge aura la faculté d’accorder, par une décision spécialement motivée, le montant du profit retiré par le défendeur plutôt que la réparation du préjudice subi par le demandeur. La part excédant la somme qu’aurait reçue le demandeur au titre des dommages-intérêts compensatoires ne peut être couverte par une assurance de responsabilité ». 

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économies réalisées. Mais l’argument n’est pas invincible, car le mot « profit » peut être interprété de façon large, puisqu’il n’y a plus de dimension répressive qui en impose une interprétation stricte. Il est également regrettable que ce texte impose au juge de choisir entre, d’une part, la compensation du préjudice, et d’autre part, la restitution du profit illicite.

Aucun de ces projets de réforme n’a donné lieu à un véritable changement à ce jour. La simplicité du Digeste est loin derrière nous. On y retrouvait ces mots de Pomponius : « Nul ne doit s’enrichir aux dépens d’autrui ». Qui aurait pu croire qu’il serait si difficile de restituer le fruit du profit illicite ?


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69 V. en ce sens, R. MESA, « La faute lucrative dans le dernier projet de réforme du droit de la responsabilité civile », LPA, 27 fév. 2012, n° 41, p. 5 s.

70 V. en ce sens également, R. MESA, « La faute lucrative dans le dernier projet de réforme du droit de la responsabilité civile », art. préc.

71 Dig., Pomponius, 50-17.
Italy

DISGORGEMENT OF PROFITS

PAOLO PARDOLESI

1. IN YOUR LEGAL SYSTEM WHICH BRANCH OF LAW IS OR SHOULD BE IN CHARGE FOR DISGORGEMENT DAMAGES? WHAT INSTRUMENTS COULD THEY OFFER TO ENSURE THAT LAW INFRINGEMENTS DO NOT PAY AND THAT ILLEGALLY GAINED PROFITS ARE DISGORGED?

In order to respond to these questions, it will be useful to start from the observation that one locus classicus of comparative analysis, with regard to different approaches to the problem of quantum of damages, is the consistent gap between remedial solutions available in the Italian legal context and those adopted in common law.

Let me explain. In the Italian judicial system, as in the majority of civil law systems, the concept of compensation is prevalent, to the exclusion of any function of punishment or sanction; whereas a salient feature of the common law is the principle that no-one should be able to benefit or profit from illicit conduct, so that the use of remedial instruments which include a considerable element of punishment and/or sanction has become over time indispensable.

However, it cannot be taken for granted that the certainties of the past, with all their authoritative weight, will inevitably determine the direction of current developments, much less those of the future. Setting out a framework which can adapt to unforeseen exigencies, while remaining deeply rooted in the fundamental quest for ‘actual’ justice (commensurate with the interests of those concretely involved), calls for a mode of thinking ‘outside the square’, if necessary beyond the usual models.

The area of the law concerned with the workability of a legal instrument capable of giving the victim the possibility to recover the profit accrued by the perpetrator of the illicit act must be compatible with the ‘macro-area’ of compensation for damages. Yet, it must be acknowledged that the role of forerunner has been assumed by industrial law, that has demonstrated a propensity for investigating and developing innovative legal solutions. In fact, as
will be seen in the course of this survey, our field of enquiry will necessarily focus on aspects related to the relationship between the infringement of IPRs and compensatory damages.

In this context, particular attention should be devoted to the academic and jurisprudential elaborations regarding the modifications [introduced with the decreto legislativo (hereinafter d. lgs.) of March 16 2006, n. 140, relating to the implementation of Directive 2004/48/CE of the European Parliament and the Council of April 29, 2004 on the enforcement of IPRs] of the new remedies provided by so-called restitution of the illicit profits (otherwise: retroversione degli utili). To put it more clearly, the mode of operation of this remedial instrument has been completely assimilated, and has become a necessary step in the process to be followed by a judge in the determination of the quantum of compensation. A new dimension has been added to the ‘normal’ dynamics of the assessment of damages for actual loss and loss of profit; in relation to the latter, it is similar to the general rule, but is nevertheless absolutely innovative, even eccentric, when compared with past approaches. The calculation now covers not only the earnings lost by reason of the illicit activity of another, but also includes an estimate of the amount that such activity earned for the perpetrator of the illegal conduct.

2. STARTING WITH THE ABSENCE OF UNIFORM UNDERSTANDING RELATED TO DIFFERENT LEGAL SYSTEMS, DOES YOURS RECOGNISE THIS TOPIC AS A SPECIFIC ISSUE?

Beyond the first impression that there is nothing in the Italian legal system similar to the range of remedies provided by the common law\(^1\) (and in particular nothing like the institution of disgorgement damages), traces of what could take

\(^1\) Knowing full well that the Italian legal system differs considerably from the ensemble of remedies provided by the common law, some of my previous work has given me insight into how, adopting a more flexible approach, it is possible to identify at least two paths [1) one based on an alternative reading of Art. 1223 c.c., and 2) one relating to the institutions which govern the ‘crisis in contract law’] capable of arriving at a remedial framework which has many similarities with that operating in Anglo-American judicial systems (see P. PARDOlesi, Profitto illecito e risarcimento del danno, Trento, 2005, 138 et seq.; see also Rimedi all’inadempimento contrattuale: un ruolo per il disgorgement?, in Riv. dir. civ., 2003, I, 717, 748 et seq.).
on the character of a progressive change in the Italian legal system can be found in an analysis of so-called enrichment by illicit means, which relates to any circumstance in which the economic advantage gained by the person who has acted illicitly is much greater — in terms of profit — than the direct loss suffered by the right-holder\(^2\). In Italy, the traditional approach to the complex matter of compensation for damages (whether in relation to contracts or not) has been based on the idea that the perpetrator of the illegal action should be required to compensate the victim for the damage suffered. Nevertheless, this principle — even though it is based on the accepted tenet that no-one should be permitted to have a negative effect on the legal rights or assets of another, without the consent of the owner of those rights and/or assets — clearly involves a level of inconsistency when the question at issue is the very notion of enrichment by means of an illicit act. In fact, with the law anchored in the traditional system of remedies (where the perpetrator of the illicit act is required ‘merely’ to compensate for the loss), the result would be to ‘reward’ the perpetrator of the illicit conduct. Hence, it is reasonable to wonder whether it would not be opportune to provide for the restitution to the right-holder of an amount equal either to the loss, or to the profit realized by means of the illicit conduct, whichever is the greater\(^3\). These problematic issues, accentuated by the ‘deafening silence’ of the legislature, have pushed scholars and courts to interrogate themselves as to the need to find ‘alternative’ solutions, aimed not only at making restitution for the misappropriation, but at obliging the perpetrator of the illicit act to award the injured right-holder the profit resulting from the illegal conduct.


\(^3\) On this point, see F. FLORIDIA, *Risarcimento del danno e reversione degli utili nella disciplina della proprietà industriale*, in *Dir. ind.*, 2012, 5, 7.
2.1. DOCTRINAL DEVELOPMENTS

On a doctrinal level, a first attempt to overcome the legislative impasse in our legal system has been to recognize “the effectiveness … of a principle under which to require the restitution of profits obtained ‘by means of an unjust action’, independently both of the impoverishment inflicted and of the subjective state of the perpetrator of the act at the time of the injurious action”\(^4\). Ultimately, a tangible response to the need to avoid such a (serious) grey zone in our remedial mechanisms should come from a systematic analysis of the discipline provided for in Art. 2032 civil code (hereinafter c.c.) in relation to the *negotiorum gestio* (management of the affairs of another). On closer inspection: a) it is assumed that the ratification of the interested party may produce, in relation to such management, the effects that would have resulted from an actual mandate, even if the management was carried out by someone who believed himself to be acting in his own interests; b) the above represents “the manifestation of a more general principle, according to which the owner of assets may always claim from another who takes or uses such assets, the profit which thereby accrues”\(^5\). It follows that whoever enriches himself by means of actions injurious to the rights of another shall be required to transfer to the victim of the injury the entire profit realized therefrom, independently of the impoverishment caused (and therefore independently of the possibility that absolutely no impoverishment was caused). This unwritten principle — beyond the consideration of the subjective nature of intentionality — has its roots in the objective element of the infringement (or injury) committed by the perpetrator of the illicit conduct to the detriment of the victim of the injury\(^6\). Using such a framework, the rules concerning disposal, damage or destruction of the assets of others, as well as those relating to the enjoyment of the proceeds of such actions, and to their rehabilitation, addition and reparation, “would be reduced


\(^5\) V. R. Sacco, *L’arricchimento* cit., 114 et seq.

\(^6\) For an in-depth examination of these aspects see, once again, R. Sacco, *L’arricchimento* cit., 114 et seq.
… to a mere extension and/or elaboration of that principle”\(^7\). This would possibly have a double effect: removal of the profit realized by the perpetrator of the illicit act and pursuit of the objective of prevention/deterrence\(^8\).

A further cause for reflection comes from that aspect of legal doctrine according to which the essential assumption underlying provisions for the restitution of profits illegitimately achieved can be found in the principle of unjustified enrichment\(^9\). In short, starting from the concept that the net profit of an economic activity should accrue to the person who in good faith was the author of the initiative, that authoritative doctrinal position recognized the obligation, for the individual who had acted in bad faith, to restore the unjustified profit to the victim of the injury, even beyond the limits of the harm suffered\(^10\).

Finally, to conclude this brief exploration of theoretical / doctrinal developments aimed at overcoming the inadequacies of civil responsibility which result from the possibility that the benefits accruing to the tortfeasor are much greater than the losses suffered by the injured party, mention should be made of the position of those who — basing their reasoning on the discipline of revenues deriving from goods\(^11\) and on the means of acquiring property on the basis of an original endowment\(^12\) — felt that a more efficacious solution was available, which would not only guarantee to the victim compensation for the injury suffered due to the illicit conduct, but also function as a real deterrent for the ‘violator’ or ‘usurper’, preventing him from retaining the profits realized by means of injury to the rights of others.


\(^8\) The effectiveness of the principle of restitution theorized in this way has not failed to arouse strongly critical comments: see, as one example among many, C. Lo Surdo, *op. cit.*, 702 et seq.


\(^12\) See P. Barcellona, *La lesione della proprietà intellettuale come conflitto non aquiliano*, a paper presented in Palermo, 7 February 2002, as part of a course in general private law.
2.2. JURISPRUDENTIAL SOLUTIONS

Shifting our attention to the jurisprudential aspects of the matter, the outcome does not change: given the necessity of overcoming the often cited legislative impasse, the Italian courts have seen fit to devise a number of different (and complicated) solutions, amongst which stands out, without a shadow of a doubt, the attempt to perform an extensive exegesis of Art. 158 of the Act of 22 April 1941 n. 633 (otherwise: *legge sul diritto d’autore* – copyright law, hereinafter l.a.)\(^{13}\), by means of which the expression “damages award” could be interpreted as being in conformity with Art. 45 TRIPs\(^{14}\).

More prosaically, the question has been raised as to whether compensatory techniques could be actually directed to the recovery of the earnings/profits illegitimately realized by the ‘usurper’. The affirmative position rested on two arguments. The first was based on the conviction that disgorgement damages constitutes a minimal, indeclinable rule [to be inferred from, amongst other factors, an interpretation of the fact that in the preparatory proceedings of copyright law it was decided to omit, as superfluous, Art. 161 of the bill in Parliament according to which “the owner of a right of use (copyright) can request the restitution into his assets of the pecuniary benefits obtained by its improper use, by means of a sentence, against the violator of the right, to payment of a sum equivalent to those benefits, as well as interest at the legal rate from the date of the judgment”]\(^{15}\).

The second argument rested on the particular interpretation of Art. 158 l.a. formulated by the Tribunal of Modena in relation to a charge of unintentional

\(^{13}\) See App. Bologna 22 April 1993, in *Foro it.*, Rep. 1996, item *Diritti d’autore*, n. 121, and also in AIDA, 1995, 429. In this sense see, also, Cass. 24 October 1983 n. 6251, in *Foro it.*, Rep. 1984, item *Diritti d’autore*, n. 49 and also in *Dir. autore*, 1984, 52; App. Roma 15 February 1959, in *Foro it.*, Rep. 1958, item *Diritti d’autore*, nn. 21, 22, 86; Cass. 7 August 1950 n. 2423, *id.*, 1951, I, 17. In its original draft Article 158 l.a. states that “a person whose exercise of economic rights to which he is entitled is infringed can take legal action to ensure that the state of affairs that resulted in the infringement be annulled or eliminated or to obtain compensation for the damage”. For the new text of Article 158 l.a. as modified by the d. lgs. of 16 March 2006, n. 140, see, *infra*, paragraph 3.2.

\(^{14}\) For an interesting reconstruction of the Italian case law in relation to compensation see A. PLAIA, *Proprietà intellettuale e risarcimento del danno*, Torino, 2005, 29 et seq.

falsification of copyright. In short, the expression “damages award” can refer either to the action of compensation (ex Art. 2043 c.c.), or to enrichment without just cause (ex Art. 2041 c.c.), which — without the need to establish extreme malice or negligence — gives rise to the transfer to the copyright owner of the economic benefits obtained by the illegitimate user. This interpretation was confirmed on appeal on the assumption that, in case of unintentional infringement of copyright, the only possible solution available to the victim of the injury was to seek compensation equal to the enrichment obtained by the perpetrator from the illegitimate use of the work of another. Restitution of profits thus came to be defined as “a rule not infrequently applied in cases of compensation for damage due to infringement of copyright”: a possible alternative remedial resource in relation to the criterion, widely applied in jurisprudence, of the so-called ‘just price for consent’, i.e. consideration for allowing use.

A case in the same vein is a recent decision of the Court of Appeal of Rome, relating to compensation for damage for copyright infringement: the case concerned the infringement — claimed by the company possessing the license — of the contractual obligation to reproduce and distribute the works of the singer-songwriter Renato Zero, based on curatorial sub-division of the published collections of his work in accordance with its artistic evolution and maturation. Also in this case, the appellate court (confirming in its entirety the decision of the lower judge) established that the appellant company had, by means of the illicit production of a ‘new’ collection, “obtained a profit it was not entitled to”, at the same time inflicting on the author “damages corresponding to the profit he could have obtained if he himself had produced the composition, as was his right”. The argument on which this decision stands (confirming the decision of the trial court) is based on the principle that “the damage can be compensated, at a minimum, and in the absence of proof of greater damage, with a sum equal to the

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16 This judgment, brought down on 2 October 1990, appears — as far as can be discovered — not to have been published.
17 See App. Bologna 22 April 1993 cit., 429. On this profile see L. ATTOLICO, Requisiti di tutelabilità dell’opera di elaborazione e di collaborazione e azione risarcitoria, in Dir. autore, 1988, 410, 417 et seq.
19 In this regard see Cass. 6251/1983 cit., 54 et seq.
net profit obtained by the illicit use of the copyright, for the reason that this profit could have been gained by the owner of the copyright if he/she had directly used the composition\textsuperscript{21}.

Along the same lines there is the case concerning a company which — offering services in the electronic collection of authoritative news dailies and journals — was sued by these latter “because it reproduced on-line in electronic form whole articles from their newspapers, put systematically at the disposition of its clientèle from 6 o’clock in the very morning of publication, providing the entire text in the same format as the printed hard-copy journal”\textsuperscript{22}. The Court of Appeal of Milan, recognizing the illegality of the activity undertaken by the company being sued, sentenced it to pay damages corresponding to the financial advantage derived from the illegal act. In particular the appeal emphasized the fact that, in the specific case of extra-contractual responsibility for the illicit economic use of a literary or other creative work, or the illegal reproduction of the qualities of the competitive product, the profit thereby lost must be compensated for taking into account the element of greatest significance for determining the severity of the offense and the loss sustained by the business affected, that is, the profit obtained by the perpetrator of the illegal act\textsuperscript{23}.

Of course the proposition of developing an equitable determination of damages, given that the underlying assumption is strained at the very least, has entailed a trade-off in terms of certainty of outcome. It is not in fact uncommon for Italian courts to opt for diametrically opposed solutions\textsuperscript{24}. In one relevant

\textsuperscript{21}See App. Roma 18 April 2005 cit., 514.


\textsuperscript{24}In this regard, a sentence brought down in the Court of Appeals is emblematic: the case related to the market in welding machines (see App. Milano 15 February 1994, in Giur. ann. dir. ind., 1995, 3222). The court, aware that the case had to do with a limited and specialist market sector, ruled that “those who acquired the machines in question from [the company which carried out the counterfeiting, Fimer], which had neither produced the machines nor brought them to market, would have purchased them from the [company which brought the counterfeiting case, Gen Set]”. Therefore, “although the company had recourse to a criterion of an equitable settlement — legitimated by the evident impossibility of demonstrating with
decision concerning the unauthorized commercialization of the texts of lectures given by a university professor, the court, far from using definite and available information which would have allowed for easy recourse to the criterion of the profit gained by the perpetrator of the illicit act (in other words, the price at which the notes were available in a bookshop)\textsuperscript{25}, preferred to opt for the evaluation of the damages in terms of the profit lost to the injured party\textsuperscript{26}.

3. **In Your Legal System Can Disgorgement Damages Be Considered As A General Remedy For All Kind Of Law Infringements?**

In the Italian judicial system, disgorgement damages cannot be considered a general remedy for any hypothetical infringement of copyright. As we will see set out in more detail below (see paragraphs 5. and 5.1.), the inclination towards punishment and sanction, evident within the ‘interstices’ of the institution we are discussing, effectively collides with the strongly compensatory and remedial approach characterizing the Italian judicial system. However, the phenomenon of ‘convergence’ that we have already noted between the doctrinal and jurisprudential ‘souls’of Italian law, in the direction of bridging the *lacuna* in relation to enrichment resulting from illegal activity, represents the basis for legislation which offers an opportunity (in one sector at least, industrial law, which has always shown itself open to finding innovative solutions) to develop a legal remedy capable of achieving the double objective of punishing the perpetrator of the illicit act while dissuading anyone else from emulating such illegal conduct: here I refer to ‘restitution of the illicit profits’, see Articles 125 Codice di Proprietà Industriale (C.P.I.) and 158 l.a. as revised by Art. 5 of the d. lgs. of 16 March 2006, n. 140, covering the response to Directive 2004/48/CE of the precision how the market would have behaved in a situation different from what actually occurred — it is correct to hypothesize that Gen Set had suffered an injury, due to the loss of sales, equal to the profit obtained by Fimer through the sale of machines which it should not have marketed.”. In other words: “since the number of machines sold by Fimer during the period under consideration (verified by the technical consultant in the lower court) is not contested, it appears to be easy to estimate the liquidated damages (...) by referring to the profit which Fimer itself has obtained (at the expense of Gen Set) by the sale of that number of machines”.


\textsuperscript{26} See A. PLAIA, *op. cit.*, 45.
European Parliament and the Council of 29 April 2004 on intellectual property rights (henceforth the Enforcement decree).

3.1. **Restitution of the illicit profits ex art. 125 C.P.I.**

The opportunity for the much-invoked change in direction (mainly but not solely at the legislative level) materialized when — by virtue of the mandate provided by Art. 15 of the Act of 12 December 2002 no. 273 — the Government entrusted to a dedicated inter-ministerial commission the task of drawing up a new legal code on industrial property rights, the C.P.I.. The avowed objective was to simplify and reorganize the multiple laws currently in force (of national, international and European community origin) which had become ever more complex in interpretation, not only due to the diversity of languages used, but chiefly because of the unraveling of systematic linkages and of the necessary coherence of the individual legal systems. One of the most interesting (but arduous) dispositions in this new codification is the section of Art. 125 which addresses the delicate problem of compensation for damages in relation to hypothetical enrichment from an illicit act (see paragraph 3.1.1. on the genesis of this regulation). In fact, with this rule the ministerial Commission — responding to the common charge that the remedial system in Italian law was insufficient, or rather inadequate in addressing hypothetical enrichment from illicit acts — introduced a new remedial solution, which equates the amount of compensation due to the profits obtained by the counterfeiter in violation of the copyright.

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28 For an incisive analysis of the evolution and logical implications of this article see F. FLORDIA, *Risarcimento del danno e reversione degli utili* cit., 5 et seq.

29 This is the text of Article 125, as modified by Article 17 d. lgs. on enforcement: “1. The compensation due to the injured party is calculated according to the provisions of Articles 1223, 1226 e 1227 of the civil code, having regard to all relevant aspects of the injured right-holder, such as the negative economic consequences, including loss of earnings, the gains realized by the tortfeasor and, in appropriate cases, elements other than the purely economic, such as moral damage to the proprietor of the right which has been infringed. 2. The judgment awarding compensation can base the calculation of its global amount on the proceedings of the case and the assumptions deriving from them. In this case the lost of profits is in any case determined at an amount not less than the fee that the perpetrator of the infringement would have had to pay had he obtained a license from the injured right-holder. 3. In any case the injured right-holder can ask for disgorgement damages as restitution of the profits obtained by the perpetrator of the
3.1.1. THE TORMENTED ADVENTURE OF ART. 125 C.P.I.

In its original draft (completed 22 July 2003), the provisional text of the C.P.I. dedicated Article 134 to the discipline of compensation for damages. With this disposition the legislature had a double aim. On the one hand, it guaranteed an essential continuity with the guiding principles in relation to compensation (ex Articles 1223, 1226, 1227 c.c.). On the other, drawing on the many instances of complaint (as well as the demand for the upgrading and modernization of the law from both the academic and professional legal communities), it gave owners of industrial property rights the concrete possibility of claiming “in addition” the profits obtained by the counterfeiter.

Such a legislative intervention, however, constituted only the first in a series of moves that characterized the introduction of the legal instrument of disgorgement damages into the range of Italian legal remedies. In December of the same year the legislature again amended the regulations in question (meanwhile renumbered as Art. 125), calling for both a formal modification (by which the expression “profits obtained by the counterfeiter” in the second clause of Art. 125 was replaced by the formulation “profits obtained by means of copyright infringement”), and the addition of a third clause (of less interest in terms of this discussion), which introduced a financial penalty.

An effective reformulation of the article in question took place only following the third provisional draft of the Code (dated 10 September 2004), which — by means of an outright compression of the conclusions to the first and second clauses of the original Art. 125 — produced the following result: to the original infringement, as an alternative to compensation for the loss of profit or by the amount by which those profits exceed such compensation”. For a more in-depth scrutiny of the new addition introduced by the enforcement decree see F. FLORIDIA, Risarcimento del danno e reversione degli utili cit., 9 et seq.; G. COLANGELO, Diritto comparato della proprietà intellettuale, Bologna, 2011, 274 et seq.; L. ALBERTINI, Restituzione e trasferimento dei profitti nella tutela della proprietà industriale (con un cenno al diritto d’autore), in Contratto e impr., 2010, 1149; E. Di SABATINO, Proprietà intellettuale, risarcimento del danno e restituzione del profitto, in Resp. civ., 2009, 442; M. BARBUTO, Il risarcimento dei danni da contraffazione di brevetto e la restituzione degli utili in Riv. dir. ind., 2007, 172; G. SAVORANI, Rimedi civilisticì dopo la direttiva enforcement, in Danno e resp., 2007, 500; G. BONELLI, L’attuazione della direttiva enforcement nel diritto d’autore, in Dir. ind., 2007, 195; C.E. MENZETTI, Il risarcimento del danno fra vecchio e «nuovo» diritto della proprietà intellettuale: utili, benefici e meriti come rimedi di liquidazione, in Giur. it., 2006, 1881; A. Vanzetti, La “restituzione degli utili” di cui all’art. 125, n.3, C.P.I. nel diritto dei marchi, in Dir. ind., 2006, 323; P. PARDOLESI, Un’innovazione in cerca d’identità: il nuovo art. 125, in Corriere giur., 2006, 1605.
wording (according to which “the compensation due to the injured party is to be calculated in accordance with the terms of Articles 1223, 1226 and 1227 of the civil code”) was added the directive that the lost profits be calculated “also taking into account the profits obtained by means of copyright infringement”.

Nevertheless, Art. 125 (in this new formulation) underwent a further modification with the definitive draft of the C.P.I. (d. lgs. of 10 February 2005, n. 30). It is not by chance that the legislator in this case — having stated that in determining the lost earnings the judge should also take into account the profits gained in violation of copyright — makes clear that this calculation should also take into account the so-called price of consent. As a consequence, the earnings gained by the perpetrator of the illicit conduct should be calculated taking into account not only the illicit profit but also (if only virtually) the costs avoided by means of that specific conduct.

The tormented ‘adventure’ of Art. 125, however, was still far from its conclusion. The formulation envisaged in d.lgs. 30/2005, in fact, triggered two doggedly critical reactions. On the one hand, the ministerial commission emphasized that the wording of the draft entailed a notable divergence from the objective of filling the considerable legislative gap in the matter of illicit enrichment. On the other hand, a careful interpretation finds that the domestic legislature, working in this way, has the effect of discarding the instrument of ‘disgorgement damages’, limiting itself to producing “a measure which is functional in terms of recovering lost profits but is aimed at compensation (...) rather than an ‘objective’ measure on the model of the ‘TRIPs’”. In other words, according to the same author, it represents a lost opportunity: the legislature, rather than adopting an autonomous legal instrument (disgorgement damages), capable — in accordance both with international rules (Art. 45 TRIPs) and with the less forceful rules of the European Community (Art. 13 of Directive 2004/48/CE) — of excluding the subjective element, apparently preferred to include it within the possible instruments of damages award.

Finally — with the bill on enforcement — arrives the last ‘restyling’ (at least for the moment, given the need for the law to be rendered less insecure) of the Article under consideration. The reformulation brings three relevant innovations: 1) in the first place, it foreshadows — in the introduction to the Article in question — a decisive separation between the remedial instruments for
damages award and “restitution of profits”; 2) secondly, there is provision for a minimum limit to global liquidation corresponding to the price of consent to the exploitation of the intellectual property being protected; and, lastly, 3) there is the possibility that the restitution of the profits obtained by the perpetrator of the copyright infringement can be claimed as an alternative to compensation for damages, or — only in the event that the profits to be restituted exceed the amount of compensation due — be combined with lost profits.

3.2. RESTITUTION OF THE ILLICIT PROFITS EX ART. 158 L.A.

In this survey of the statutory provisions, it is worth mentioning Art. 158 of the law on copyright (as updated by Art. 5 of the decree on enforcement). In the article in question the legislator, having conveniently cited the need to calculate damages in accordance with the dispositions of clauses 1223, 1226 and 1227 c.c., states that the judge — in calculating the value of lost profits — must also take into account the “profits gained by means of the copyright infringement”30.

At first blush, given the ‘counter-intuitive’ choice not to include copyright law within the ambit of the legislation on industrial intellectual property31, it is not surprising that there is a substantial similarity between the article under discussion and Art. 125 C.P.I. (and, in particular, one of its last versions; that is, the draft formulated in the bill dated February 10 2005, no. 30)32. Art. 158 l.a.

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30 This is how the ‘new’ Art. 158 reads:<<1. Whoever is injured in the exercise of a right to economic utilization to which he is entitled may take legal action to ensure, not only that he receive compensation for the damage, but that the state of affairs which led to the infringement be destroyed or removed at the perpetrator’s expense. 2. The compensation due to the injured party is calculated in accordance with the provisions of Articles 1223, 1226 and 1227 of the civil code. The lost of profits is assessed by the judge in accordance with Article 2056 of the civil code, second clause, also taking into account the profits obtained by the infringement of the right. The judge can moreover assess damages as a lump sum on the basis at least of the value of the rights which would have been recognized, if the perpetrator of the infringement had asked the right-holder for authorization to use the right. 3. Non-pecuniary damages are also due in accordance with Article 2059 of the civil code>>. For a more in-depth analysis of the issues related to Art. 158 l.a. see G. COLANGELO, op. cit., 93 et seq.; G. CASABURI, Il risarcimento del danno nel diritto d'autore, in Giur. merito, 2010, 1194; E. DI SABATINO, op. cit., 442; C. E. MENZETTI, op. cit., 1881.

31 On this point see G. CASABURI, op. cit., 1194.

32 The text of Art. 125 (in the version given by the d. lgs. of 10 February 2005, n. 30) provides that: <<the compensation due to the injured party is assessed according to the provisions of Articles 1223, 1226 and 1227 of the civil code. The loss of profit is evaluated by the judge also taking into account the profits obtained by the infringement of the right and the fee that the perpetrator of the infringement would have had to pay in the event that he had obtained authorization from the right-holder>>. I seems hardly necessary to point out that in the
also expresses the clear intention, on the one hand, of guaranteeing continuity with our system of legal remedies (by means of the reference to the principles of loss of profit, of actual loss, of fair assessment of damage, as well as the contributory negligence of the creditor), and on the other hand, actually overcoming the reluctance to innovate in proposing recourse to a remedial solution capable of satisfying simultaneously the multiple functional requirements arising from violation of copyright. Not by chance, Art. 158 l.a. would also appear to have been intended to fulfill the double function (prevention/deterrence and punishment/sanction) to be found in Art. 125 C.P.I.

More specifically, loss of profit may be quantified in two ways. Firstly, by means of an equitable settlement, based on an impartial evaluation of the circumstances of the case (Art. 2056 c.c.), which include the profits obtained by the counterfeiter. To achieve this, therefore, the judge ‘is obliged’ to include in the process of calculation of damages the profits obtained by the counterfeiter. In contrast to the provisions of Art. 45 of the TRIPs Agreement (in which the legislature affords to the member states — “in appropriate cases” — the capacity to “authorize the judicial authorities to order the recovery of profits and/or the payment of pre-established sums” even in the absence of guilt), the national legislation seems to incline towards a complete ‘assimilation’ of the new remedial approach.

More in detail. The use of the expression “also taking into account the profits obtained”, thus overcoming the extreme limitation expressed in Art. 45 of the Agreement with the phrase “in appropriate cases” (limiting the cases in which it would appear possible to take advantage of the remedy offered by disgorgement damages), would seem to offer a wider range of remedial solutions or, better still, greater room to maneuver in the Italian remedial system. In other words, within the ‘normal’ dynamics of the assessment of actual loss and loss of profit, in the same manner as the general rule, in relation to the second item, a really innovative dimension has been inserted, which is quite revolutionary in relation to the reference model. This no longer covers only the profits lost due to the illegal

second clause (of the same Article) it is stated that: <<the sentence which awards compensation can, at the request of one of the parties, set the amount as a lump sum established on the basis of the proceedings of the case and of the assumptions deriving from them>>.
activities of others, but also a modified computation of the proceeds that such illicit activities have provided to the counterfeiter.

Secondly, as an alternative to the “ordinary criterion”, Art. 158 l.a. provides that lost profits can be quantified by means of a fixed rate settlement based at a minimum on the rights that would have been recognized if the perpetrator of the copyright infringement had asked the copyright owner for authorization for the use of the right. Therefore compensation for the damage is to be determined “by quantifying the fee usually sought in the market for that specific type of use of the work” (that is, measuring it against the objective or market value of the work).

3.3. THE MAIN DIFFERENCES BETWEEN THE TWO PROVISIONS

In the light of these premises, let us attempt to outline succinctly the principal differences between Articles 158 l.a. and 125 C.P.I.

To this end, it is important to start by considering the absence of a consistent literature on copyright law. In other words, in the absence of such a body of preventive information, there is ample space for hypotheses of unintentional infringement such as to justify the burden on the injured party to prove not only that the tortfeasor had benefited from the action, but also that the infringement was negligent or malicious. Furthermore, “while for patents, brands etc. the monopoly arises out of legally enacted regulations and there is a system of legal publicity (...), this does not apply to copyright. In the case of the former, therefore, the perpetrator of the infringement would be hard pressed to declare himself totally free of guilt, given that in any case there exists the duty to inform; thus, even if there is no concrete proof of his malice or negligence, it is not unfair that he be required to pay a compensation restitution.

33 “This is a criterion — at least in principle (...) — which is marginal with respect to disgorgement damages, and essentially equitable”: G. CASABURI, op. cit., 1208. On this point, see also C. E. MENZETTI, op. cit., 1883.
35 On this point see G. CASABURI, op. cit., 1194 et seq.
36 See C. E. MENZETTI, op. cit., 1884.
commensurate with the economic benefit he has obtained. In the second case, on the other hand, a completely unintentional infringement is possible (...), and in the absence of a system of publicity the alleged perpetrator could not even be required to inform himself in advance of the existence of pre-existing rights which his activities may infringe”. Therefore, the same careful analysis points out — combining the absence of constitutive proceedings and of publicity with the substantial difference in treatment between original and derivative creation that characterizes copyright generally, and patents in particular — that “in the province of copyright not only does unintentional infringement exist, but (i) it is far from improbable, (ii) it can involve an autonomous ‘investment’ both in terms of creativity and in terms of the ‘dissemination’ of the work; (iii) it can even take on the guise of a worthy act, by bringing to the market a product which may not be absolutely new, but which nevertheless makes a contribution to cultural progress, to the sum of available information, or of available entertainment etc. The absence of an obligation for compensation (or restitution) to be borne by the innocent person thus appears efficient from the point of view of the public interest in the diffusion of creative works”\(^ {37}\).

A further element of differentiation between the two dispositions under discussion can be seen in the determination of loss of profit. On closer inspection, in fact, Art. 125 C.P.I. — following the indications provided by 45 TRIPs and Art. 13 of Directive 2004/48/CE\(^ {38}\) — recalls the wider concept (in the case of negligent infringement) of “profits obtained by the perpetrator of the violation” as an autonomous element in the evaluation process highlighted by its similarity to lost earnings\(^ {39}\). In Art. 158, in the other hand, without having recourse to the optional provisions of Directive 2004/48/CE concerning disgorgement damages, reference is made to the more restricted concept of “profits obtained by means of copyright infringement” as the criterion for equitable restitution (which, as previously pointed out, the judge on the bench is required to take into account in the evaluation of lost profits) to be employed in relation to a negligent infringer of copyright.

\(^{37}\) C. E. MENZETTI, *op. cit.*, 1885.

\(^{38}\) For a more in-depth analysis of this profile see C. E. MENZETTI, *op. cit.*, 1884.

\(^{39}\) G. CASABURI, *op. cit.*, 1199.
From this it follows that the tool of disgorgement damages represents the “optimal method, but the legal procedure which results from it appears milder, and lacks the gradation of ‘sanctions’ between someone who has violated private rights with negligence or malice, as opposed to someone who has done so without such negligence or malice. The first will be required to pay compensation for the lost profits only, the second appears to bear no duty to compensate”⁴⁰.

4. In your legal system does a coherent theory of disgorgement damages exist? What are the functional characteristics of your remedial system?

In the Italian legal context it is possible to imagine a substantial convergence of theoretical, jurisprudential and legislative models in the direction of the adoption of remedial instruments capable of guaranteeing both punishment and sanction⁴¹. However, there does not seem to be a coherent theory relating to disgorgement damages. To put it more clearly: to fully understand this omission, we must consider how problematic it is for the Italian remedial system to acknowledge the need for a role beyond that of mere reparation/compensation. Not be chance, this difficulty has found specific confirmation in the alternating positions manifested in a number of very recent decisions of the Supreme Court which, after an initial period of effective standstill, would seem to have proposed an authoritative change in attitude in the functional characteristics of the Italian remedial system.

4.1. The fluctuating orientations of the Italian Supreme Court

In 2007, the Supreme Court, in a decision strongly criticized by scholars⁴², denied legal recognition to a sentence passed by the Jefferson County District

⁴⁰ C. E. Menzetti, op. cit., 1884.
⁴¹ I refer, in particular, to the above-mentioned remedial instrument of disgorgement damages ex Articles 125 C.P.I. and 158 l.a. which is capable of taking as a reference point the profit obtained rather than the loss alone.
⁴² A concise criticism in relation to Cass. 19 January 2007 n. 1183, Foro it., 2007, I, 1460, can be found in G. Ponzanelli, Danni punitivi: no grazie, ibid., 1461; P. Parolesi, Danni punitivi all’indice, in Danno e resp., 2007, 1125. On this profile see, also, P. Fava, Punitive damages e ordine pubblico: la cassazione blocca lo sbarco, in Corriere giur., 2007, 497; A.
Court which called for punitive damages of one million dollars against the Italian manufacturer of a protective helmet which at the moment of collision, due to a defect in the design and construction of the buckle, came off the victim’s head. This decision was based on the assumption that objectives in terms of punishment and sanction of such compensation were in clear conflict with public policy, given that the regulatory principles of our civil law system regarding civil responsibility in relation to illegal extra-contractual actions set the payment by the perpetrator as equivalent to reparation for the damage suffered by the injured party. In particular, besides the way in which the judges of the Supreme Court had rejected the rationale for the appeal, many questions were raised by the opinion, which not only ignored the provisions pointing in the opposite direction, but excluded the possibility of taking advantage of the opening in the Italian remedial system (in relation to punishment and sanctions) offered by legal literature and jurisprudential practice acting jointly.

Nevertheless, and although everything seemed to confirm the trend towards the ‘crystallization’ of our civil responsibility in relation exclusively to compensation, the Supreme Court, with two almost contemporaneous decisions (the first relating to illicit use of image copyright and the second concerning infringement of author’s copyright), became the protagonist of an unexpected change in direction.

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43 “[I]n the current system the idea of punishment and sanction is extraneous to compensation, as is the conduct of the person causing the injury. Civil responsibility is required to take on the principle task of restoring the assets of the person who has suffered the injury, by means of the payment of a sum of money intended to eradicate the consequences of the injury suffered. And that is the case for any type of injury, including non-economic or moral injury; for compensation for this type of injury, precisely because it may not involve punitive objectives, not only are the state of need of the injured party and the economic capacity of the respondent irrelevant, but there also must be proof of the existence of suffering caused by the wrongful act, through the identification of concrete circumstances from which to presume cause, given that such a proof cannot be assumed to be self-evident in re ipsa”: Cass. 1183/2007 cit., 1460.

44 See infra, paragraphs 6., 6.1., 6.2., 6.3. and 6.4.

45 On this point see P. Pardolesi, Contratto e nuove frontiere rimediali cit., 132 ss.


47 Cass. 15 April 2011 n. 8730, in Foro it., 2011, I, 3073 (with a note by P. Pardolesi, Violazione del diritto d’autore e risarcimento punitivo/sanzionatorio).
With the first decision, the Court established that, in the case of compensation for the illicit use of the image of a young and unknown dancer (made for profit by the dancing school where he had been a pupil for a number of years), the settlement could have been determined “by reference to the profit presumably made by the perpetrator of the illegal act”\(^{48}\). On this basis the Court opted for the application of the instrument of disgorgement damages in a way which resembles the ‘almost punitive’ steps of disgorgement damages. Thus, taking to heart the modifications introduced by Art. 5 of the enforcement decree to Art. 158 l.a.\(^ {49}\), the Cassazione has established that the victim of the illicit conduct, above and beyond the traditional techniques of quantification (such as the price of consent, the dilution of the image, and moral damage), could be offered the opportunity to obtain compensation adequate, on one hand, to simplify the critical issues related to the determination of the amount of restitution and, on the other hand, to overcome the risks implicit in the traditional concept that the perpetrator of the illegal act is required to compensate the victim only for the damage caused to him.

This position was confirmed a few months later when the Supreme Court — addressing a controversy about the quantification of damages for infringement of copyright\(^ {50}\) — returned to pronounce in favor of the employment of disgorgement damages (to address the critical issues implicit in the so-called hypothesis of enrichment by illicit means)\(^ {51}\). Pursuing the objective of “preventing the illegal user from obtaining advantage from his illicit conduct, withholding the profits in the place of the holder of the legitimate right of appropriation”, the Court seems to have marked a decisive rehabilitation in a multi-functional sense of the remedial system (a perspective too often sacrificed on the altar of the systematic guaranteed coherence of the most moderate function of compensation) “bending the institution of compensation for damages

\(^{48}\) Cass. 11353/2010 cit., 540.

\(^{49}\) On this point see, supra, paragraph 3.2.

\(^{50}\) Specifically, the controversy in question consisted of the unlawful broadcasting of a television series by companies which colluded at the expense of the plaintiff company which had acquired the exclusive rights of economic utilization over the whole country (see Cass. 8730/2011 op. cit., 3073).

\(^{51}\) In relation to the concept of unlawful enrichment by means of illicit actions see paragraph 2.
to perform a partly sanctioning function, (…), rather than compensation for the loss of assets.\(^{52}\)

### 4.2. A Draastic Change in the Approach to Reparation for Damages: The Need to Rediscover the Multi-Functional Character of the Italian Tort System

In this context, the novelty is not of slight moment: the idea, first simply foreshadowed in theory (and, successively, validated, if only tangentially, by the legislature), that the range of relevant remedies available could extend, on the basis of suggestions arising from the experience of the common law, as far as to include restitution of the illicit profits, would appear to have been validated by the Supreme Court.\(^{53}\) This implies that compensation with a nuance of punishment and sanction no longer constitutes a chimera.\(^{54}\) Naturally, taking a critical stance, one can reply that the reference to the profits of the perpetrator of the illicit action represents a mere proxy in support of an attitude which is problematic to define. The fact is that, faced with an injury which is impalpable or of limited dimensions, one can proceed to measure the more evident advantage accruing to the infringer of the right: going beyond interpretative contortions, this is in fact the logic of private punishment, or, if you will, of punitive damages and ‘disgorgement damages’.

\(^{52}\) Cass. 8730/2011 cit., 3073.

\(^{53}\) Nevertheless, it should be pointed out that a very recent judgment (see Cass. 17 February 2012 n. 1781, in Corriere giur., 2012, 1068, with a note by P. PARDOLESI, La Cassazione, i danni punitivi e la natura polifunzionale della responsabilità civile: il triangolo no!) saw a counter-intuitive about-face by our Supreme Court in denying the exequatur of a judgment brought down by the Supreme Court of Massachusetts (which called for compensation for injury suffered by a worker, in the amount of five million dollars — raised to more than eight million dollars due to a very high rate of interest — against an Italian company which produced a defective machine) which had been approved by the Court of Appeal of Torino. More specifically, what raised much perplexity were the reasons given by the Supreme Court for its decision to deny the exequatur: in fact, irrespective of the lack of any reference to the concept of punitive damages, granting such a large sum would appear in any case to manifest a punitive leaning foreign to the Italian legal system (not forgetting, furthermore, that the absence of any indication as to the criteria adopted in the North American judgment to arrive at the amount of compensation made it impossible to verify whether the judgment did or did not contain aspects in relation to damages not admitted in the Italian system). For an incisive analysis of the critical aspects of this judgment, see G. PONZANELLI, La Cassazione bloccata da un risarcimento non riparatorio, in Danno e resp., 2012, 609, 613.

\(^{54}\) In this regard it is useful to point out how recently not only legal scholarship but also the Supreme Court (cfr. Cass. 19499/2008 op. cit., 2786) have been moved to re-consider the applicability of the instrument of disgorgement damages in the context of contracts as well. For a closer examination of the peculiarities underlying such a decision see, infra, paragraph 6.4.
Nevertheless, the need/demand to assure systematic coherence requires a drastic change in approach to the matter of reparation for damages, rediscovering (and fortifying) its multi-functional character, permanently rooted in its DNA but, in the last half-century, overshadowed by the predominance of compensation.

It therefore appears evident that the cases just examined constitute a first important step in the direction of legitimizing an approach different from the merely compensatory; nevertheless, only future developments will permit to ascertain whether the Italian juridical landscape is really mature enough to develop a coherent theory of disgorgement damages capable of envisaging remedial instruments (encompassing punishment and sanction) capable of assuming the legal response roles which in the common law are occupied by disgorgement damages.

5. **What is the *modus operandi* of the courts of your legal system in the quantification of disgorgement damages? Are they practically relevant?**

Beyond the jurisprudential efforts cited above\(^{55}\), there is no large body of case law from which to identify the *modus operandi* of the Italian courts in the quantification of disgorgement damages. Recently, however, the Tribunal of Genoa, in a pronouncement on the improper use of a registered trademark, speculated on the concrete practicability of disgorgement damages (*ex Art. 125 C.P.I.*), as well as the difficulties inherent in their calculation. Despite their apparent conceptual simplicity, the actual quantification of disgorgement damages is a rather controversial subject: “the profits must be given back, but it is certainly not necessary for the restitution to be equal to what appears in the books of the perpetrator of the infringement because these accounts could include not only the competitive advantage deriving from the copyright infringement but also a number of other factors which have nothing to do with the competitive advantage”\(^{56}\). The trajectory of the argument therefore becomes very complex.

\(^{55}\) On this point see, *supra*, paragraph 2.2.

\(^{56}\) G. FLORIDIA, *Risarcimento del danno e retroversione degli utili* cit., 10.
It must be remembered, above all, that any form whatever of calculation/evaluation raises very delicate critical issues; in this specific case, apart from the ‘evidentiary’ difficulties in relation to compensation for injury\textsuperscript{57}, the applicability of disgorgement damages was excluded by the Tribunal on the basis of the absence of two essential prerequisites: 1) “the verification of the profits obtained” and 2) “the necessary causal relationship between the infringement and the resulting profit”\textsuperscript{58}. Furthermore, it is essential to clarify what is meant by ‘profit realized by the perpetrator of the infringement’ (and thus what is the structural ‘profile’ to be taken into consideration), to avoid the risk of a worrying over-punishment of the counterfeiter. Not by chance, as attentive legal scholarship observed, while “counterfeiting the patent on a drug which is unique and irreplaceable for therapy gives rise to profits which can be completely restored precisely because they are totally due to the competitive advantage illicitly exploited by the counterfeiter”, the matter becomes ‘slippery’ when “the copyright infringement concerns a brand and does not involve the illicit application of the brand to products commercialized by the right-holder but the use of the brand on similar products; or else when the brand being counterfeited is very well-known and is illicitly used in a merchandising operation, in a situation in which there is no relationship between the products thus branded by the counterfeiter and those of the right-holder”\textsuperscript{59}.

To sum up, it appears evident that the efficacy as ‘para-sanction’ of the instrument of disgorgement damages (which is recommended as a prudent measure to deal with the possibility of enrichment by illicit means) may be counterbalanced by the possible difficulties in calculating the amount of the restitution according to the specificities of the case in question. As mentioned previously, it is one thing to identify the profits made in relation to a unique and irreplaceable patent; it is quite another to follow this trajectory when — as in the

\textsuperscript{57} Proof of this can be seen in the fact that the court pointed out in strong terms that the effects of the injury arising from the illicit use of a registered trademark (that is “the loss of market share, in terms of diminishing — or more slowly increasing — turnover”, as well as the “tarnishing of the brand caused by the commercialization — with the counterfeit label — of products of inferior quality”) must be “alleged and proved by the injured right-owner” (as in the judgment of the Trib. Genova of 23 February 2011, in \textit{Danno e resp.}, 2012, 788, with a note by P. PARDOLESI, \textit{Retroversione degli utili da uso illecito di marchio registrato: come si applica, come si quantifica}).

\textsuperscript{58} Trib. Genova 23 February 2011 cit., 788.

\textsuperscript{59} G. FLORIDIA, \textit{Risarcimento del danno e retroversione degli utili} cit., 10.
case under examination — the target of the infringement is a brand and, more specifically, its illicit application to related products. In short, the game could be not worth the legendary candle.

Again, a valuable suggestion could be drawn from the experience of the common law, in which the courts are in a position to adopt one of a number of available solutions for calculating damages (‘restitutory’, ‘reliance’, ‘expectation’ and ‘disgorgement’ damages), choosing from time to time the solution they consider most appropriate in view of the actual circumstances, convenience, and the objective difficulty of calculation. Put more clearly, in the presence of a serious risk of under-compensation for the victim of the infringement (due, for example, to an abuse of contract in which the injured party is left with defective performance, with absolutely no possibility of recuperating the damage resulting from the loss actually suffered)\(^{60}\), compensation is calculated by means of disgorgement damages, an instrument permitting the injured party to ‘recover’ the whole of the profit from the counterpart. Such a solution, however, would be completely subverted if the injury suffered (which, let us suppose, corresponds to the diminution of the market value of the asset in question) was much greater than the profit realized by the perpetrator of the illicit action: the victim would choose to claim ‘expectation damages’ precisely because, in the hypothetical case, that instrument guarantees more appropriate compensation.

The decision of the Tribunal of Genoa bears witness (once again) to the fact that notwithstanding the significant steps forward made by our legislature in relation to compensation for damages, there is still a long way to go.

\(^{60}\) Consider of the case in which a builder — having signed a contract with a client for the construction of a building, setting a high contract price because it involved using a particularly high quality material — decides to substitute for it a material of much lower, even shoddy, quality (thus realizing a substantial cost saving), without however reducing the contract sum. In such a context problems arise when the buyer, at the moment of selling the building, finds out that, because of the use of the alternative material ‘cunningly’ chosen by the builder, not only has the market price of the building been substantially reduced, but that replacing it eventually with the material originally specified would entail spending an amount equal to half the total cost of the building itself, because of the costs involved in the partial demolition and reconstruction of the building. This is how, as described by E.A. FARNSWORTH in *Your loss or my gain? The dilemma of the disgorgement principle in breach of contract*, 94 Yale L. J. 1339 (1985), 1382, on the assumption that the court would in all probability decide to exact compensation in a sum corresponding to the reduction in the market price of the building, the plaintiff would run the serious risk of ending up with a defective building and with the practical impossibility of achieving any compensation for the damage.
6. **In your legal system do functional equivalents to disgorgement damages exist? Under which circumstances are they applied and how are they used in practice?**

In the light of the above considerations it appears possible to identify certain techniques which – moving beyond mere compensation — present interesting analogies with disgorgement damages, demonstrating that the notion of a remedial instrument with clear utility in terms of punishment and sanction is not completely foreign to our legal system.

In this context emphasis should be placed on the principal statutory provisions in which it is possible to read the will of the legislature to introduce legal instruments capable of guaranteeing the double objective of sanctioning the perpetrator of illicit acts and of dissuading anyone else from emulating such illegitimate actions: 1) in the first place, disgorgement damages as discussed previously, *ex* Articles. 125 C.P.I. and 158 l.a.; 2) the sanction measures *ex* Art. 709 *ter* c.p.c. (otherwise: Codice di Procedura Civile); 3) pecuniary reparation *ex* Art. 12 of the Act of 8 February 1948, n. 47 (subsequently known as the ‘press law’); 4) compensation for environmental damage *ex* Art. 18 of the Act of 8 July 1986 n. 349; and, lastly, 5) damages for monetary devaluation *ex* Art. 1224, clause 2, c.c.

6.1. **The sanction measures *ex art.* 709 c.p.c.**

Returning to the preceding paragraphs for further analysis of the instrument of disgorgement damages\(^{61}\), in this context attention should first be paid to the measures in Art. 709 *ter* c.p.c., which, by virtue of the possibility they provide for both punishment and sanction, present notable analogies with the common law instrument\(^{62}\).

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\(^{61}\) On this profile see, *supra*, paragraphs 3.1. and 3.2.

\(^{62}\) This is the substance of Article 709 *ter* c.p.c. (Resolution of disputes and provisions in the case of default or infringement): <<(1) For the resolution of disputes between the parents in relation to the exercise of parental authority or the arrangements for custody the competent authority is the judge presiding in the proceedings underway. For proceedings referred to in Article 710 the competent forum is the tribunal of the minor’s place of residence. (2) When a case is brought to court, the judge summons the parties and adopts the most appropriate provisions. In the case of serious breaches or of actions which might be prejudicial to the
In reforming the discipline on joint custody of children and on cooperation between parents\textsuperscript{63}, Art. 709 ter c.p.c. introduces “a special procedure aimed at regulating the conflicts arising between spouses in relation to the implementation of procedures for the custody of minors, and at managing in a positive way the relationship between parents and children; this now sanctions breaches and non-fulfillment of judicial provisions during the pathological phase of a relationship, within the framework of the final objective of better and more effective achievement of outcomes compatible with the pre-eminent interests of the minor involved, inevitably affected by the breakdown of the family unit”\textsuperscript{64}.

Starting with the “principle of shared parenting [bigenitorialità]”, it recognizes the need for more effective protection of the interests of the minor which will guarantee the essential continuity of the child-parent relationship in the most balanced and harmonious way possible\textsuperscript{65}.

The mechanism hinges on the seriousness of any conduct which damages the rights of the children employing a punitive logic which, with the aim of welfare of the minor, or constitute obstacles to the correct implementation of the arrangements for child custody, can modify the existing arrangements and can, do any or all of the following: 1) reprimand the defaulting parent; 2) make a compensation order against one of the parents on behalf of the minor; 3) make a compensation order against one of the parents on behalf of the other; 4) sentence the defaulting parent to the payment of a pecuniary administrative fine, from a minimum of 75 euro to a maximum of 5,000 euro to be paid into the Cassa delle ammende. The provisions laid down by the presiding judge can be appealed in the normal way>>.


\textsuperscript{63} The rationale for this is the objective of guaranteeing that children can grow up in a balanced and harmonious way in an environment of family collaboration, no longer centered on the continuity of the family unit but focused on the enhancement of their relationships with their parents. For an incisive analysis of the provision introduced by the Act of 8 February 2006, n. 54, see S. PATTI – L. ROSSI CARLEO, L’affidamento condiviso, Milano, 2006; A. GRAZIOSI, Profili processuali della L. n.54 del 2006 sul cd. affidamento condiviso dei figli, in Dir. Famiglia, 2006, 1856; B. DE FILIPPI, L’affidamento condiviso dei figli nella separazione e nel divorzio, Padova, 2006; M. MARINO, L’affidamento condiviso dei figli, Milano, 2007; G. FINOCCHIARO – E. POLI, Esecuzione dei provvedimenti di affidamento dei minori, in Digesto civ., Torino, 2007, i, 532.

\textsuperscript{64} E. LA ROSA, op. cit., 64.

\textsuperscript{65} See E. LA ROSA, op. cit., 70.
preserving and protecting the interests of the minor, disregards the compensation of the injury suffered by the latter (as well as the proof of their existence): "the relevant issue is not the injured party, that is, the injury concretely suffered by the minor; it is the conduct of the perpetrator of the illicit act, which because it serves as an example, evaluated a priori by the legal system, dictates recourse to instruments of sanction and deterrence. Therefore, with the conduct in question evaluated by the law in terms of its potential dangerousness, the judge has only to ascertain the actual existence of the relevant prerequisites for the application of the legal remedy".

From this it follows that, by virtue of such a logic of punishment and sanction, the compensation measure provided for in Art. 709 ter c.p.c. (as well as the various cases considered within it) should be proportionate and commensurate to the seriousness of the conduct detrimental to the value to be protected.

These observations find timely confirmation in a very recent pronouncement made by the Tribunal of Messina about what is known as illegal intra-familial conduct. This makes quite clear the Tribunal’s intention to exercise a deterrent function, by means of ‘afflictive’ measures ex Art. 709 ter c.p.c., which would dissuade the defaulting parent from continuing in seriously obstructive or retaliatory behavior likely to psychologically damage the minor. Therefore,

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66 “[I]n setting the level of compensation it is necessary first to consider the seriousness of the defaulting parent’s conduct, taking into account also the fact that the remedies set out in Art. 709 ter c.p.c. have essentially punitive objectives, and there is no requirement for a specific proof of the existence of injury, which can be considered a natural consequence of the unacceptable behavior of one of the parents.” Trib. Messina 8 October 2012, in Danno e resp., 2013, 409 (with a note by P. PARDOLESI, Vocazione sanzionatoria dell’art. 709 ter c.p.c. e natura polifunzionale della responsabilità civile).

67 E. LA ROSA, op. cit., 72.

68 For an introduction to how the payment of compensation can enhance the function of both punishment and sanction ex Art. 709 ter c.p.c. see A. D’ANGELO, Il risarcimento del danno come sanzione? Alcune riflessioni sul nuovo art. 709-ter c.p.c., in Famiglia, 2006, 1048; G. CASABURI, La legge sull’affido condiviso (ovvero, forse, tanto rumore per nulla), in Corr. merito, 2006, 565; A. GRAZIOSI, op. cit., 1884; L. SALVANESCHI, I procedimenti di separazione e divorzio, in Aa. Vv., Il processo civile di riforma in riforma, a cura di CONSOLO, I, Milano, 2006, 152; G. DE MARZO, L’affidamento condiviso—I profili sostanziali, in Foro it., 2006, V, 90 et seq. However, it should be noted that alongside this interpretive option it is also possible to identify two different approaches: I) the first emphasizes the pre-eminence of an approach based on compensation (on this point see A. GRECO, Affido condiviso, (l. 54/2006) e ipotesi di responsabilità civile, in Resp. civ. prev., 2006, 1199); II) the second on the other hand, adopting an intermediate position, not only recognizes the restorative function of compensation but at the same time does not deny its purpose as sanction [see Trib. Reggio Emilia 5 November 2007 n. 1435, in Fam. pers. succ., 2008, 74].

based on the need to guarantee an equal exercise of parental authority and balanced fulfillment of parental educational responsibilities, even though in the field of a heated and conflicted relationship with the spouse, this punitive instrument can be employed in an effectively intimidatory fashion to induce the mother to stop obstinately obstructing the father’s parental role\textsuperscript{70}.

6.2. \textbf{The pecuniary reparation ex art. 12 of the ‘press law’}

Another remedial tool to which we should turn our attention is pecuniary reparation as provided by Art. 12 of the ‘press law’, which states: “in the case of libel by press, the injured person can demand, in addition to damages in accordance with Art. 185 Codice penale (c.p.), a sum by way of restitution. The sum is determined in relation to the seriousness of the offense and the dissemination of the libelous printed matter”. In other words, given the possibility of submitting to judicial scrutiny under the criminal code, the injured person can ask not only for compensation for financial losses (ex Art. 2043 c.c.) and moral injury (ex Art. 2059 c.c.), but also for so-called pecuniary damages.

Besides the problematic nature of its status in the civil law (as opposed to the penal code)\textsuperscript{71}, we should identify its effective scope in functional terms (in other words, whether it can also have the punitive/deterrent character of disgorgement damages).

From this perspective, it is worth pointing out the presence of a vigorous confrontation between courts and scholarly literature. While the first academic opinions stated that pecuniary damages constituted a sort of duplication of criminal moral injury\textsuperscript{72}, there has been a subsequent change in direction. In fact, some authors — relying upon the preparatory work for, and the literal wording of, the provision in question\textsuperscript{73} — have identified in the monetary redress a punitive/deterrent function aimed at ‘draining away’ the economic advantage realized by means of willful injury to the reputation of another, and discouraging

\textsuperscript{70} Trib. Messina 8 October 2012 cit., 409.
\textsuperscript{71} On this point see V. D’ACRI, op. cit., 143.
\textsuperscript{72} See A. JANNITI-PIROMALLO, \textit{La legge sulla stampa}, Roma, 1957, 121.
\textsuperscript{73} On this profile see M. G. BARATELLA, \textit{La riparazione pecuniaria}, in Resp. comunicazione e impresa, 2001, 287 et seq.
behavior of this type\textsuperscript{74}. In the light of these observations, the reference made by our legislature — as far as the severity of appropriate sanctions is concerned — to the “seriousness of the offense” and to the “dissemination of the libelous printed matter” legitimates a level of reparation significantly greater than the injury suffered by the victim\textsuperscript{75}. This interpretation found timely jurisprudential endorsement\textsuperscript{76}. After an initial disbanding, the Supreme Court stated that “Art. 12 of the law cited does not confuse restoration with compensation for damages, whether monetary or non-monetary […], but defines and configures it differently from compensation, as can be clearly understood from the text of the regulation”\textsuperscript{77}. It then added, in two subsequent judgments, that pecuniary reparation can be asked for in a civil suit even when “the injured party intends, without filing charge, to take the matter directly to court (provided that the constitutive elements of the libel have been substantiated in the case)”\textsuperscript{78}; and, again, that the ‘private penalty’ (the amount of which is “determined in relation to the seriousness of the offense and to the dissemination of the libelous printed matter”) can also be sought from the publisher of the newspaper, “given that damages are due not only from the writer of the libelous matter but from anyone who has contributed to causing the action constituting the crime, whether by committing it, or by having failed to stop it, being legally required to do so”\textsuperscript{79}.

6.3. The Compensation for Environmental Damage ex Art. 18 of the Act of 8 July 1986 n. 34

In this survey, it is worth referring to the compensation for environmental damage ex Art. 18 of the Act of 8 July 1986 n. 349, which — before very recent

\textsuperscript{74} On this point see V. Zeno Zencovich, Il risarcimento esemplare per diffamazione nel diritto americano e la riparazione pecuniaria ex art. 12 della legge sulla stampa, in Resp. civ., 1983, 40.

\textsuperscript{75} V. D’Acri, op. cit., 144.


\textsuperscript{77} Cass. 29 January 1965, n. 2300, in Giur. it., 1966, I, 726.


legislative events\textsuperscript{80} — testified to the uncertainties and difficulties which our legislator has to address whenever it is called upon to introduce measures of a definitely punitive/inhibitory nature. In fact, before it came into force, Art. 18 of Act 349/1986 was seen as a regulatory measure extending beyond the logic of mere compensation for injury in order to guarantee a real opportunity for punitive sanctions with the objective of discouraging such actions\textsuperscript{81}. This trajectory found convincing confirmation precisely from the criteria laid down by the legislator to provide for the quantification of damages: where it is not possible to proceed to a precise quantification of the environmental damage, the judge would determine the amount in an equitable manner, taking into account not only the expenditure necessary for rehabilitation, but above all the “seriousness of the offense” and the “profit obtained by the perpetrator”\textsuperscript{82}. In this way, beyond the affinity with punitive damages assessed on the criterion of serious negligence (which, making a pair with the concepts of malice and gross negligence at common law, set itself up as a subjective paradigm for establishing the \textit{an} and the \textit{quantum} of compensation/punishment due from the perpetrator), the affinity with disgorgement damages was made clear by reference to the profit obtained by the perpetrator of the illicit conduct.

Nevertheless, with the passing into law of the d.lgs. of 3 April 2006 n. 152 (known as the Environmental Code) the situation has been radically reversed. Ignoring the difficulties inherent in the transformation “[of the] special case of environmental damage contained in the now abrogated Art. 18 into a real hotchpotch of definitions, concepts and principles often absolutely antithetical

\textsuperscript{80} See d. lgs. 3 April 2006 n. 152 [known as the Environmental Law (\textit{Codice dell’Ambiente})] setting out the “regulations for compensatory protection against environmental damage”, which implemented the legge delega n. 308/2004 on the environment as well as the directive 2004/35/CE of the European parliament and Council of 21 April 2004, on environmental responsibility in relation to the prevention and reparation of environmental damage.


\textsuperscript{82} This is the text of the Clause Six of Art. 18 of Act 349/1986: «the judge, when a precise assessment of the damage is not possible, shall determine the sum equitably, having regard to the seriousness of the individual culpability, to the necessary cost of reparation, and to the profit obtained by the law-breaker as a result of his environmentally destructive behavior».
one to another”\textsuperscript{83}, it is necessary to point out how, back-tracking drastically, the legislator has ended up with closing off any glimmer of hope for a workable system of punitive sanctions furthering the aim of discouraging illicit conduct. Not by chance, in the new Art. 311, relating to compensation for environmental damage, the reference to the criteria of gross negligence and to the profit obtained by the perpetrator (with the objective of accurate quantification of the environmental damage) has disappeared; there remains only the criterion of the cost of “rehabilitation to the pristine situation and, in the absence of such rehabilitation, of compensation at an equivalent financial level in favour of the State”\textsuperscript{84}. In other words, the legislator — opting for a more traditional solution — has eliminated in a single stroke the punitive/inhibitory approach that for years had characterized compensation for environmental damage. In short, environmental offenses — losing the ‘typicality’ provided by Act 349/1986\textsuperscript{85} — were patterned on the model of tort (see Art. 2043 c.c.): thus “environmental damage also becomes an ‘atypical’ offense, which could thus have to do with any behavior whatever, whether intentional/malicious or unintentional/negligent”\textsuperscript{86}.

\textsuperscript{83} The innovations introduced by the d.lgs. 152/2006 do not convince L. PRATI, Le criticità del nuovo danno ambientale: il confuso approccio del “Codice dell’Ambiente”, in Danno e resp., 2006, 1049.

\textsuperscript{84} This is the text of Art. 311 contained in Section III of Part Six of the d.lgs. 152/2006: «1) The Minister for the Environment and the Protection of the Territory [\textit{Ministro dell’ambiente e della tutela del territorio}] acts, even taking civil action in the penal justice system, in the interests of the restoration of the actual environmental damage and, if necessary, by a pecuniary equivalent, or else proceeds in accordance with the provisions of Part Six of the present decree. 2) Whoever, by committing an illegal act, or by neglecting to carry out an obligatory activity or behavior, constituting a violation of a law, of a regulation, or of a technical rule, causes damage to the environment, altering it, despoiling it or destroying it in whole or in part, is required to restore it to its preceding condition and, if this is not possible, to provide compensation in terms of a pecuniary equivalent in favor of the State. 3) For the assessment of the damage, the Minister for the Environment will apply the criteria enunciated in Attachments 3 and 4 of Part Six of the present decree. 4) For the assessment of the responsibility for compensation and for the collection of the sums due as pecuniary equivalent the Minister for the Environment follows the procedures as set out in Section III of Part Six of the present decree».

\textsuperscript{85} On this point see D. FEOLA, Analisi della disciplina ex art. 18 l. 349/86 in materia di danno ambientale ed evoluzioni giurisprudenziali, in Resp. civ., 1996, 1078.

\textsuperscript{86} For an analysis of these aspects, see, once again, L. PRATI, \textit{op. cit.}, 1052 \textit{et seq.}
6.4. The damages for monetary devaluation *ex art. 1224, paragraph 2, c.c.*

To conclude this survey of legal instruments akin to disgorgement damages which have actually been applied in practice, it is worth analyzing a recent decision of the Supreme Court (sitting in joint session, its most authoritative mode) which among other matters — though it had been called upon to make a pronouncement not specifically on the level of reparatory damages but on the burden of proof required to claim such reparation — rationalized in a radical manner the criteria applicable in determining further damage caused by currency devaluation *ex Art. 1224, 2\textsuperscript{nd} clause, c.c.*\(^87\). Overturning two famous pronouncements from the past\(^88\), the joint session chose to rewrite the entire discipline in relation to breach of pecuniary debt, thus causing the collapse of the regime which — not without some difficulty\(^89\) — had held sway for a quarter of a century.

More specifically, starting with the statement that the operational orientations developed in the wake of the two above pronouncements do not appear to be aligned with the original intention\(^90\), the Joint Session updated the framework of the relevant data. It is true, in fact, that starting from the doubling of the official interest rate in 1990, and the later introduction of a flexible rate-setting methodology, starting from 1 January 1997, its level has always been higher than the increase of the cost-of-living index (with the exception of 2000 and what is likely for the current year). But it is just as evident that the gross return on the most common forms of investment — exemplified by the median


\(^88\) I refer to Cass., sez. un., 4 July 1979, n. 3776, in *Foro it.*, 1979, I, 1668 (with a note by R. PARDOLESI, *Interessi moratori e maggior danno da svalutazione: appunti di analisi economica del diritto*) and to Cass., sez. un., 5 April 1986, n. 2368, in *Foro it.*, 1986, I, 1265 [with a note by R. PARDOLESI, *Le sezioni unite su debiti di valuta e inflazione: orgoglio (teorico) e pregiudizio (economico)*] in which the Italian Supreme Court — seeking, on the one hand, to put an end to a heated argument and, on the other, to reduce the evident embarrassment of the relevant area of jurisprudence about an approach which, characterized by a rigorous attitude to the evidence to be provided by the disappointed creditor, ended by removing from consideration the damage caused by devaluation — dictated the conditions for consideration of "<further damage>" according to paragraph 2 of Art. 1224 c.c., due to the debased purchasing power of the currency.

\(^89\) For an incisive analysis of this matter, see, once again, R. PARDOLESI, *Debiti di valuta* cit., 155.

\(^90\) For an in-depth examination of these aspects see R. PARDOLESI, *Debiti di valuta* cit., 155.
gross return on Treasury bonds with terms under 12 months — has always been constantly higher than the official interest rate (with the sole exception of 1994). Thus there is always the concrete danger that, for the debtor, it is profitable to choose to defer meeting his obligations as long as possible. To counteract this perverse incentive, the Joint Session rediscovered the deterrent value of contractual responsibility: the unsatisfied creditor is entitled to receive a larger sum, corresponding at least to the minimum economic profit that the debtor obtained or could have obtained from retaining the money that he should have paid and has not paid. This is a minimum which, on the basis of the updated text of Art. 1284 c.c., is in fact related to annual net earnings (after tax) of Treasury bonds (a parameter that the Minister of the Treasury must utilize, bearing in mind meanwhile the rate of inflation, to determine the legal rate). Provided that the rate of inflation is not higher, as has happened only in 1994, in which case it is necessary to take the latter parameter into account. In short — overturning the traditional approach in which compensation for contractual default had the effect of placing the creditor in the same ‘indifference curve’ in which he/she would have found himself/herself if the obligation had been respected in a timely fashion — the Joint Session, in a belated intervention calling for the application of equitable evaluation ex Art. 1226 c.c., suggested instead the adoption, as a term of reference for compensation, the profit that the perpetrator of the illicit action obtained (or should have obtained in minimally normal circumstance) by the choice to delay fulfillment of his contractual obligation and retain the sum owed for himself.

The impact of such a decision is very evident: disgorgement damages (or, more accurately, the remedial instrument of restitution of the illicit profits) in contractual matters are no longer a mirage; on the contrary, the idea that the range of remedies available in this context could be extended, following the suggestions coming from the experience of common law, to include the restitution of the illicit profits, receives the unhesitating approval of the highest judicial body in Italy.

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91 On this point see R. PARDOLESI, Interessi moratori cit., 2624 ss.
7. DO YOU THINK THAT YOUR LEGAL SYSTEM IS AN EFFICIENT ONE WHEN IT COMES TO DISGORGEMENT BY PRIVATE LAW MECHANISMS? WHICH KIND OF SUGGESTIONS COULD ENHANCE THE FIGHT AGAINST ILLEGAL PROFITS?

The analysis of the Italian legal experience leads to a necessary conclusion: the problematics inherent in quantifying damages do not lend themselves to being crystallized into a simplistic regulatory directive. Even while recognizing the synecdochical tendency typical of the civilian approach to regulation, one should not ignore its inappropriateness to the issue of confronting the range of situations in which reference to the notions of actual loss and loss of profit does not succeed in itself to assure the victim of the illicit conduct (whether in a contractual or an extra-contractual context) effective compensation for the damage suffered. Therefore, if we remain anchored to the traditional regulatory approach according to which the perpetrator of the illicit action is required to compensate the victim within the limits of the damage suffered, we must resign ourselves to being mired in desperate situations in which ‘the damage exists, but cannot be seen’.

Thus, comparison with the experience of the common law is very valuable. In fact, the theme of compensation for breach of contract belongs in a legal context in continual evolution, aimed at assuring for victims of breach of contract the best form of compensation in relation to the specific characteristics of each kind of situation. The inclusion of disgorgement interest in the ambit of contract law (making it an issue worthy of legal protection) attests, once again, to a propensity to confront without fear the difficulties inherent in the delicate matter of quantifying damages.

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92 In this type of controversy, the prize probably goes to the celebrated Meroni case (Cass. 26 January 1971 n. 174, Foro it., 1971, I, 342; 29 May 1978 n. 1459, id., 1979, I, 827), which relates to the issue of extra-contractual liability, but is symptomatic of a more general concern. This painful affair had a double outcome: on the one hand (in the perspective whether there existed liability), it affirmed and consolidated the possibility of bringing the protection of credit as one of the interests safeguarded by Art. 2043 c.c., while, as far as the quantum was concerned, the result was a total failure. The Supreme Court did not succeed in establishing any type of compensation: in the first place, because — compared with the year in which Meroni played — subscriptions had increased, and, secondly, since the Torino football club, replacing a famous (and expensive) player such as Meroni with the more modest Facchin, saved money by the engagement, and thus ended up with an economic advantage.

93 For an in-depth examination of these issues two theoretical models deserve attention — at least as far as the response they have elicited is concerned: those set up, on the one hand, by Kull, around the appropriation and extension of the concept of restitution [A. Kull,
Naturally, the effectiveness of the common law experience in widening the range of techniques for evaluating the loss amount, betrays the ‘straight jacket’ effect of regulatory indicators entrenched in the principle of compensation (as in Art. 1223 c.c. or Art. 2043 c.c.). From this perspective, one very important move would be to decisively overcome these regulatory restrictions (for example, in the context of the law of contract, making use of the opportunity for compensation which would result from a more dynamic use of the concept of lost opportunity). In fact there is clearly a need to (re)define what is meant by compensation or, better still, what functional outcomes it should aim for: with the result of directing attention towards logical approaches (in part already known from the formative theoretical and jurisprudential sources of the law) on the basis of which the courts could apply techniques for calculating liquidated damages with subtle variations according to the specific nature of each case. Therefore, looking at the more elastic model provided by the common law, we can get closer to the possibility of overcoming the traditional (but no longer acceptable) limits of an exclusively compensatory approach, which the Italian legal system itself now puts at issue when it appears to opt resolutely for a move towards punishment and sanctions\footnote{Think of the predictability of the injury and its irrelevance in the event that the breach is found to be criminal.}.

The door is open, but most of the work is still to be done.

\textit{Disgorgement for breach, the "restitution interest", and the Restatement of contracts, 79 Tex. L. Rev. 2021 (2001)}; and on the other, by Eisenberg, on a broad interpretation of section 344 of Restatement Second of Contracts [M. A. EISENBERG, \textit{The disgorgement interest in contract law}, 105 Mich. L. Rev. 599 (2006)]. It would also be useful to highlight the acceptance at a more specifically pragmatic level of the instrument of disgorgement damages as a remedy for breach of contract. In fact, section 39 emerges in the interstices of the \textit{Restatement [Third] of Restitution and Unjust Enrichment} (American Law Institute, St. Paul MN, 2011); the section expressly provides for the ‘bold remedy’ of disgorgement damages to address the possibility of “profit derived from opportunistic breach”.

\footnote{Think of the predictability of the injury and its irrelevance in the event that the breach is found to be criminal.}
Portugal

Disgorgement of profits: a journey between the present and the future

(Portuguese report)

Henrique Sousa Antunes

1. The alleged missing link between civil liability and disgorgement of profits

The debate as to the pertinence of the means for remedying the consequences of harmful action has been widely discussed in the writings on civil liability within the Anglo-Saxon legal systems. There is a somewhat different scenario in the legal orders from the Roman-Germanic family, where harm constitutes the presupposition and the limit of the agent’s obligations. Review of the reach of fault, reinterpretation of causation and re-examination of the concept of relevant harm are themes which have been the primary focus of attention of these legal systems, in which the issue of the conditions of liability is given precedence over the remedies that this justifies.

In Portuguese private law, as it happens in other legal systems in continental Europe, the removal of the benefits obtained by the injuring party as a result of his committing the unlawful act do not fall within the scope of civil liability. In the words of Júlio Gomes: “(...) when the party committing the unlawful act gains profit from his conduct which is greater than the harm caused, the legal theory which is clearly dominant in the civil law countries shrugs its shoulders, in resignation, and repeats, as if evident, the principle that the obligation to indemnify may not be transformed into a source of enrichment for the injured party. In the expressive words of Pereira Coelho one injustice should not be committed in order to avoid another”. Unlawfulness does not

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1 Professor at the Lisbon School of Law of the Catholic University of Portugal.

pay. The principle that one who engages in illegal behaviour should not benefit from this conduct is common to all areas of Law.\(^3\)

\(^3\) On the issue of contractual liability Ernest J. Weinrib writes: “Favoring gain-based awards are strong ethical intuitions that promises should be kept and that those who breach their contracts should not profit from their wrongs” [Punishment and Disgorgement as Contract Remedies, in “Chicago-Kent Law Review”, vol. 78 (2003), p. 71]. In Israel and in England, the Supreme Court and the House of Lords, respectively, on the basis of the marked moral significance, ruled in favour of restitution of the profits obtained as a result of breach of contract. It is, however, recognized that, within this area, the solution is not unquestionable, both from the point of view of the economic analysis of the law, and from the perspective of corrective justice. In Adras Building Material v. Harlow & Jones (1988), the Supreme Court ruled on the consequences of the breach of the obligation to sell steel, which in the meantime had been sold to a third party for a higher price than that agreed with the buyer, due to a change in market conditions. The existence of damage was not proven, since the claimant did not acquire steel, paying more than the amount agreed with the defendant. The court ordered the defaulting party to restore the amount corresponding to the difference between the price agreed and the price at which the steel was sold to the third party. In Attorney General v. Blake (2000), the House of Lords ruled on the behaviour of a former employee of the secret services who, having been found guilty of espionage and having escaped from prison, published his memoirs, in breach of, amongst others, the obligations arising out of the employment contract he had entered into with the Crown. The House of Lords awarded the latter the amount owed to Blake by the publisher, alleging the legitimate interest of the Crown in preventing the defaulting party from benefiting from his behaviour (cf., for example, Ernest J. Weinrib, Punishment and Disgorgement as Contract Remedies, cit., p. 72 et seq.).

As has been highlighted, there are two directions which, with different arguments and reach, contest the restitution to the creditor of gains obtained via breach of an obligation. In an economic assessment of the imposition of the duty to disgorge, the solution goes against the efficiency of the default. The breach is justified when the advantage it gives to the debtor is greater than the loss to the creditor, thus contributing to increase the common good: “in this way, the self-interested preferences of the parties tend to the production of the greatest social good. From the economic point of view, therefore, no reason exists for the law to discourage such a breach” (Ernest J. Weinrib, Punishment and Disgorgement as Contract Remedies, cit., p. 73). From the perspective of corrective justice, one may question the legitimacy of the injured party as the receiver of the restitution. Weinrib highlights the need for a normative link between the gain obtained by the debtor and the creditor’s right to that gain: “the vindication of the morality of promise-keeping against the amorality of economically efficient breach is insufficient to ground a legal entitlement in the promisee to the promisor’s gains” (Punishment and Disgorgement as Contract Remedies, cit., p. 76). According to Weinrib, the duty to disgorge is only an appropriate remedy when the default constitutes a breach of a right of ownership of the injured party (Punishment and Disgorgement as Contract Remedies, cit., p. 77 et seq.). It is, therefore, innate to extra-contractual liability: “just as the owner’s exclusive right to the object implies a duty on others to abstain from it, so the owner’s right to the profits that accrue from its alienation imports a correlative duty in others to abstain from such profits or, if there was a failure to abstain, to yield these profits to the owner” (Punishment and Disgorgement as Contract Remedies, cit., p. 77).

Thus, it can be concluded that it is improper to impose the duty to restore to the creditor as a sanction for breach of an obligation: “(…) nothing is available for the promisor to expropriate or alienate, since these verbs are inapplicable as descriptions of what the promisor does with respect to an entitlement that consists of his own actions. Consequently (…) disgorgement is an inappropriate remedy for contract breach” (Punishment and Disgorgement as Contract Remedies, cit., p. 81). In Portuguese law, this is the position held by Júlio Gomes: “In contractual liability, there are other means of dissuading and punishing the practice of harmful unlawful acts: in addition to the advantages that each of the parties seeks to obtain from an onerous contract, they may set out penalty clauses and even, inclusively, genuinely punitive penalty clauses. Up to a point, it might even be said that the level of protection that each of the parties has, given the opportunistic behaviour of the other party, is the level of protection that he wishes to have, and that he was careful enough to ensure, in the contract, for himself. One might add that the rights arising out of a contract do not necessarily have the same status as
There are very few legal situations which allow the judge to consider the economic advantage gained as a result of the practice of the harmful action in his calculations of the indemnity. This basically occurs in situations where there is an undetermined level of damage, in some cases, via the transposing of European legislation.

This is what happens, particularly, in the field of compensation for non-patrimonial damage. Article 496(1) of the Portuguese Civil Code rules on this issue. The law refers to any damage which, due to its severity, warrants protection under the law, and it lays down that, by reference to the criteria of Article 494 of the same Civil Code (on the reduction of indemnity in the case of mere recklessness), the amount due is established equitably, considering the level of fault of the injuring party, the economic situation of both parties and the other circumstances in the case. There is no limit in the legislation regarding the type of non-patrimonial damage to be compensated, and the judge is responsible for assessing the seriousness of the harm which has occurred. In a Judgment of the Coimbra Court of Appeal issued in 1979, one may read that serious damage “is considerable damage, which, at least, reflects the intensity of pain, of anguish, of heartbreak, of moral suffering which, according to the rules of experience and good sense, one cannot be required to resign oneself to”\(^4\).

The Portuguese courts base their decisions, with some consistency, on the simultaneously compensatory and punitive nature of the indemnity provided for in Article 496. In line with this classification, which is, in fact, permitted by the criteria set out in Article 494, the advantage obtained by the injuring party via the practice of the harmful act forms the basis for some compensations for non-patrimonial damage, namely regarding infringement of the right to privacy and

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the legitimate rights and interests safeguarded by tort liability. In our opinion, there may be good reasons for the protection afforded to absolute rights, in terms of tort liability, to be different to and more intense than the protection afforded to contractual rights” (\textit{O Concelito de Enriquecimento, o Enriquecimento Forçado e os Vários Paradigmas do Enriquecimento Sem Causa}, cit., p. 767 et seq.).

Also in Portuguese law, Manuel A. Carneiro da Frada has written on this topic, advocating respect for the fulfilment of obligations and, given circumstances which justify the restitution of the profits from the non-compliance, emphasizing among them the particular censurability of the agent’s conduct and the type of relation in question, the consequent application of the institution of unjust enrichment (\textit{Direito Civil – Responsabilidade Civil. O Método do Caso}, Coimbra, 2006, p. 71).

\(^4\) In “Colectânea de Jurisprudência”, year IV, 1979, volume III, p. 892 et seq.
the right to honour, credit and good name. Thus, the Supreme Court of Justice ruled in 2000 that “profit from sales achieved at the expense of including material which offends the dignity of the persons concerned, as well as the economic capacity of the respondents” should affect the calculation of the indemnity claimed\(^5\).

Profit is also considered in Article 73(3) of Decree-Law No. 236/98, of 1 August, on the subject of protection of the aquatic environment: where it is not possible to accurately quantify the damage caused, the judge, using fairness criteria, should establish the amount of the indemnity, considering, in particular, the harm to the environment, the estimated cost of restoring the situation prior to the practice of the harmful act and any possible economic gain obtained as a result of the infringement.

According to Article 211 of the Code of Copyright and Related Rights, “when determining the amount of indemnity for loss and damage, whether patrimonial or non-patrimonial, the court should pay attention to the profit obtained by the infringing party, to the lost profits and resulting harm suffered by the injured party and the costs borne by the latter in order to protect the copyright and related rights, and also to investigate and cease the conduct which harmed his right” (paragraph 2) and “when calculating the compensation due to the injured party, it should pay attention to the amount of the proceeds derived from the unlawful conduct of the infringing party, namely from the performance or performances which have been unlawfully held” (paragraph 3). Article 338-L (2) and (3) of the Industrial Property Code also provides in the same sense.

In this context, it is worth highlighting Law No. 83/95, of 31 August, on the right of popular action in civil liability. The passing of this law provided the civil law with the means of overcoming its proverbial lack of efficacy in compensating harm to diffuse interests or to homogeneous individual interests or rights. Interests protected by the Constitution, such as public health, the environment, quality of life, consumers’ rights, cultural heritage and the public domain (Article 1(2)) justify the specific nature of the intervention, due to the nature of the protected interests or the lack of proportion between the individual

The impacts of the harm and the collective repercussions of the damage. In this last case, the classic substantive and procedural forms of civil liability prove to be inadequate regarding compensation that only acquires expression when, due to the nature of the characteristics they take on, it is possible to combine them into a single sum.

The damages actions provided for in Law No. 83/95 relate to damage caused to transindividual and indivisible rights (for example, harm to the natural environment, which benefits all the persons in a community, due to the discharge of pollution by a company) and harm, with a common origin, to individual rights (personal or material damage suffered by the members of the aforementioned community).

Once the action has been admitted, Article 22(2) of the law in question provides that compensation shall be fixed globally. Given that the harm has evident social repercussions and, also, that the lack of determination of the damage is innate to compensation of supra-individual rights or interests, we are of the opinion that the obligation to compensate should, in this situation, follow a clearly preventive function. In this context, and regarding homogeneous individual interests, Miguel Teixeira de Sousa writes: “(...) the rules on popular action, when they define a global compensation which is intended to be shared by the injured parties, (...) are more concerned with preventing the injuring party from gaining any advantage from the harmful act than with ensuring that each of those injured parties is really compensated in the exact measure of the loss suffered. The global compensation seeks to distribute the injuring party’s gains among the injured parties, although the result of this may be a certain breach of corrective justice, since this distribution cannot guarantee that all the damage suffered is effectively compensated in its exact amount. In order to quantify the global compensation the (global) gain obtained by the injuring party is used more than the (equally global) loss inflicted by him, which means that in quantifying it the criterion of restoring the hypothetical situation which is established in Article 562 of the Civil Code is not followed” 6.

Lastly, it is of interest to refer to the rules contained in Article 1271 of the Civil Code, on the fruits of possession in bad faith: “The possessor in bad faith

shall restore the fruits that the thing has produced up to the end of the possession and respond, in addition to this, for the value of those that a diligent owner could have obtained. The law determines that the gains are restored and punishes the agent with the duty of handing over the amounts which correspond to a diligent action. In both cases, this is regardless of the alternative behaviour of the owner.

2. The traditional framework for the disgorgement of profits

In general, the restitution of patrimonial advantages obtained via intervention in the legal rights of another has been dealt with in law according to the rules of unjust enrichment. This is what happens with the unlawful use of certain personal rights or immaterial rights. This understanding is summarised by Manuel Carneiro da Frada: “(...) the sensitive task of eliminating the profit obtained by the party committing the unlawful act already falls, in theory, to unjust enrichment, although the idea of prevention may also corroborate the need for that elimination in the form of civil liability. The distinction between the two institutions will be difficult to establish in some cases, but it is important to respect it: we may note that disgorging the profit does not present any intrinsic connection of meaning with the idea of prevention in the form of liability for damage. Since what is at issue is the interference by the party committing the harm with rights which grant a reserved sphere of action to their holder (rights of exclusivity), the doctrine of allocation (Zuweisungsgehalt) will be charged with justifying, according to the principles of unjust enrichment (and not forgetting here the rules of improper negotiorum gestio), the obligation to disgorge the profits obtained as a result of the harm”.

Much has been written on this subject, and there appears to be a predominant opinion which is inclined towards restricting the obligation to disgorge to the impoverishment, if this is less, or, according to those who do not agree with this limit, to the amount which corresponds to the market value of the good that the debtor has unlawfully appropriated. In support of this latter idea, Luís Menezes Leitão writes: “(...) what should be restored is always the value of

7 Direito Civil – Responsabilidade Civil. O Método do Caso, cit., p. 67.
the exploitation and not the patrimonial gains of the intervener. The restitution of the patrimonial gains obtained by the intervener is an admissible solution within the frameworks of improper negotiorum gestio, but it does not correspond to a solution provided for within the scope of unjust enrichment. It is sufficient to confirm that, in Article 479 (of the Civil Code), there is only an obligation to restore that which has been obtained at the expense of the impoverished party and not the profits obtained by the enriched party.8

The disgorgement of profits resulting from the interference in the proper order of things is, therefore, governed by recourse to other institutions, namely to improper negotiorum gestio or, in more serious situations, to rules provided for in criminal law or the law of administrative offences. The legitimacy for applying the rules on the benevolent intervention in another’s affairs is found in the interpretation of Article 472 of the Civil Code, on the management of another’s affair in the mistaken belief it is one’s own. Thus, Júlio Gomes writes: “We believe that the possibility granted therein to the principal to approve the management and call for the gains made by the “manager” will apply, and all the more so, to whoever has acted with wilful intent.9

The proposals appear to be clearly unsatisfactory, for a number of reasons.

In the first place, obtaining an advantage of a patrimonial nature at the expense of a third party does not always correspond to the use of the right of another which may be assessed in monetary terms. This is the case, for example, with an environmental disaster which, caused by an ill-considered business decision to reduce costs, has led to serious physical injury to members of a given group. Manuel Carneiro da Frada highlights this difficulty, by means of another example: “In the situation (...) of gains obtained by a magazine as a result of its defamation of someone, the doctrine of allocation presents certain difficulties since this is not, obviously, a case of taking advantage of the benefits of a right reserved to its holder and from whom these have been deflected. Here it appears that the disgorgement of the profit may be based on the idea, which is persuasive and easy to formulate, but which it is not

9 O Conceito de Enriquecimento, o Enriquecimento Forçado e os Vários Paradigmas do Enriquecimento Sem Causa, cit., p. 801.
easy to include within a simplifying theory of the enrichment in question, that nobody should be allowed to keep for himself the gain from an unlawful act which he has committed. In any case, it seems that this obligation to disgorge the profits depends on the fault – on the type of fault –, it being plausible in the case of wilful intent. This means we are confronted with the preventive and punitive functions of the actual unjust enrichment.\footnote{Direito Civil – Responsabilidade Civil. O Método do Caso, cit., p. 67 et seq.}

Secondly, the fiction on which improper negotiorum gestio is based transforms it into a fragile basis for the injured party’s claim for restitution. The duty of the principal to waive his right to compensation, reimburse the intervener for the expenses incurred and compensate him for the loss he has suffered (Article 469 of the Civil Code) is somewhat of a paradigm.

Thirdly, the decision to disgorge, in whole or in part, the gain resulting from the unlawful act may also be conceived as a natural effect of civil liability. This is our own theory, which will be described below.

Lastly, the legitimacy that the State gives itself and other public and private entities to receive benefits obtained from the practice of crimes and administrative offences is open to question. This receipt should respect the subsidiarity of heteronomous intervention in private legal relations. In continental Europe, the legislator and case law have given civil liability the role of protecting personal rights, involving methods which, implicitly, frustrate, either totally or partially, the practical effects of criminal law or administrative law. Although the phenomenon of conforming civil law to constitutional law, or, even, of the immediate regulation of private legal relations by constitutional law, appears to be more extensive, the use of civil liability via the principle of effective protection of fundamental rights has the characteristic of being one of its most significant expressions, without prejudice to the limits that other principles impose on it.

It should be highlighted that, in Portuguese law, Article 18(2) of the Administrative Offences Act lays down that “if the agent gains from the infringement an economic benefit which can be calculated as being higher than the upper limit of the fine, and there are no other means to eliminate it, the latter may be raised up to the amount of the benefit, although this increase may not
be more than one third of the upper limit established by law”. The fine may, therefore, not actually disgorge the gain. Given that the determination of the sanction also depends on the seriousness of the administrative offence, the fault and the economic situation of the agent (Article 18(1)) it is possible, at least in theory, to calculate an amount which, inclusively, is below the established upper limit.

3 – Review of the theme

In a recently published text, we demonstrate the relationship between the presuppositions of civil liability and the recognition of the duty to disgorge illegal profits and, even, of punitive effects (Henrique Sousa Antunes, Da Inclusão do Lucro Ilícito e de Efeitos Punitivos entre as Consecuências da Responsabilidade Civil Extracontratual, Coimbra, 2011). In our opinion, it is, therefore, necessary to review the theme, even in terms of the present law.

We may recall the extent to which the Portuguese legal system allows compensation for non-patrimonial damage. According to Article 496(1) of the Civil Code, any non-patrimonial damage which, due to its severity, warrants legal protection is indemnifiable.

In our view, relevant non-patrimonial damage occurs whenever an economic benefit for a third party is the result of the culpable sacrificing of rights of the injured party. It is damage which is born out of a rupture in the fair patrimonial relationship between individuals. Compensation for this damage may only, naturally, be achieved by passing into the sphere of the injured party the advantages that the third party obtained unlawfully.

What is at issue is the passage, either in whole or in part, from the sphere of the injuring party to the sphere of the injured party of the advantages obtained, thus seeking to satisfy the offended person. The grounds for awarding the profit to the injured party lie in the fact that the exercise of his rights has been encroached upon. This is the reason for the loss, whether the other damage is non-patrimonial, patrimonial or even non-existent.

In this regard, we may speak of an injury of a non-patrimonial nature, because the sense of justice is offended. The preparatory work on the Portuguese Civil Code clarifies that the direction of Article 496 followed a clear
aim to grant the victim satisfaction for a range of different non-patrimonial grievances. We may recognize within the duty to indemnify the task of enabling "a satisfaction to be provided to the injured party for the pain and offence caused to him, a satisfaction that does not provide real redress, a measurable equivalent of the "joie de vivre" lost, but rather a certain compensation for the offence suffered and, with this, for the unlawfulness caused to him personally. Seen in this light, the money for the pain is not, therefore, only related to the harm to the injured party, but essentially also to the actions of the injuring party, that is, to the more or less offensive and culpable nature of his actions"\textsuperscript{11}. The assumptions of the duty set out give it a significant extension, based on the provision of a general clause, since “a list of the acts capable of giving rise to compensation for non-patrimonial damage has the disadvantage of potentially leaving out some acts which are just as worthy of inclusion as others which are included in the list, or even more so\textsuperscript{12}.

The intention of obtaining advantages by unlawfully intervening in the legal sphere of another is, certainly, innate to the history of Man. Modern times appear, however, to have multiplied the phenomenon of “parasitism”. Nowadays, the diversification of patrimonial property and the patrimonialization of personal property explain this phenomenon, in part. The protection granted to creations of human intellect and the economic use of image, voice or name provide new instruments for the unlawful use of the property of others. If we add to this the technological evolution of modern society and the expansion of the human and geographical impact of the offences committed, the intervention of civil liability in the moralization of social relations seems justified. The magnitude of the actions has demonstrated the inappropriateness of recourse to negotiorum gestio and unjust enrichment and has shown the severity of the non-patrimonial injury that the unlawfully obtained profit constitutes.

In the legal systems which contain a principle of typifying indemifiable non-patrimonial damage, the extension of the social reach of offences has added new grounds to that duty to indemnify. The reference in Article 496 to the severity of the damage may not be interpreted otherwise. If the choice of a

\textsuperscript{11} Vaz Serra, Reparação do Dano não Patrimonial, in “Boletim do Ministério da Justiça”, no. 83 (1959), p. 82.

\textsuperscript{12} Vaz Serra, Reparação do Dano não Patrimonial, cit., p. 89.
general clause sought, amongst other aims, to prevent the rules from becoming obsolete, then, given how ideas change over time, and that “non-patrimonial damage which the legal conscience of today does not consider worthy of compensation may tomorrow come to warrant it”\textsuperscript{13}, the solution includes injuries which the requirement of social peace has made worthy of consideration.

The culpable enrichment of a third party wounds the injured party’s sense of justice. In the absence of consent for this intervention in his legal sphere, the behaviour of the wrongdoer upsets the just order of things. The judge should, therefore, presume non-patrimonial damage and indemnify the victim in line with the severity of the act. The claimant is not required to prove that his sense of justice has been offended, since this will have been shown once the existence of profits for the injuring party has been established. Nobody may benefit from unlawful and wrongful behaviour.

It is only this understanding which also allows for an adequate response to be given to the need for prevention which underlies the highlighted principle. The conclusion is strengthened by the opinion of those who, despite supporting the application of unjust enrichment to the duty to disgorge, stress the reassuring complementary nature of the duty to indemnify for non-patrimonial damage. Pereira Coelho’s position, in relation to this, is a significant example. It is worth quoting some parts of that text. Regarding whether limiting the duty to disgorge the profits to the real damage suffered by the injured party, or rather, the objective value of the use or of the goods consumed or sold, is in line with the wrongful nature of the intervention in the legal sphere of another, he writes: “(…) it may be said that the solution proposed will encourage the intervener to interfere in the legal sphere of another or, at least, not to be too concerned about whether the goods which are the object of his intervention are his own or are the property of another, since he knows that, even if they belong to another, he will make a profit from the intervention and only has to pay to the holder of the right the current value of those goods. (…)”. Pereira Coelho then goes on to state “we should not overestimate the fear that encroachments on and interference with the rights of others will thus multiple and that unlawful intervention will go unpunished. In this context – and not to mention the criminal

\textsuperscript{13} Vaz Serra, Reparação do Dano não Patrimonial, cit., p. 89.
sanctions which may apply – we may immediately note that the intervention will often cause non-patrimonial damage (...). The threat of that compensation for non-patrimonial damage may therefore be an effective counter-stimulus to the unlawful intervention.\textsuperscript{14}

We consider that the proposal to limit the duty to disgorge to real damage, if applied to unlawful and wrongful acts, demonstrates weak foundations, in its terms. Making the virtue of the solution depend on the hypothetical recourse to the preventive effect of indemnifying for non-patrimonial damage means recognizing that, in the absence of that duty, the restitution of the objective value of the use or of the goods consumed or sold is unsatisfactory. Besides anything else, it appears that the need to determine the existence of non-patrimonial damage, which serves as an impulse for removing the profit, perhaps using the gain obtained as a criterion for establishing the indemnity, “hides” the real aim of the compensation. This, strictly speaking, is intended to remove the advantage acquired in an unlawful and wrongful manner.\textsuperscript{15}

The inadequacy of Pereira Coelho’s position is clearly revealed in the Judgment of the Supreme Court of Justice of 22 April 1999\textsuperscript{16}: the defendant, a construction and repairer of industrial machinery company, manufactured and sold devices with the characteristics of the claimant’s invention patent. According to the Court, the latter’s “exclusive right” was unlawfully and wilfully offended: “indeed, the defendant/respondent has been manufacturing industrial machinery which it then markets, and which it well knows has the characteristics of the claimant’s invention, and it was requested by the latter to cease the unlawful activity”\textsuperscript{17}. The Court of Appeal, when pronouncing on the defendant’s obligation to indemnify, concluded that there had been no damage and, as a consequence, confirmed the ruling of the court of first instance in favour of the defendant. The decision was based on the circumstance that the

\textsuperscript{14} O Enriquecimento e o Dano, Coimbra, 1999 (reprint), p. 69 et seq.

\textsuperscript{15} We may allow ourselves to conclude that if “any respectable person would suffer a great shock on seeing their name or image printed on large posters, advertising toothpaste on the walls of the city” (Francisco Manuel Pereira Coelho, O Enriquecimento e o Dano, cit., p. 72, note 166), even more of a “great shock” would result from becoming aware of the profit obtained, in that way, by another at their expense.

\textsuperscript{16} In “Colle\c{c}t\'{a}nea de Jurisprud\'{e}ncia – Ac\c{c}\'{o}rd\~{a}os do Supremo Tribunal de Justi\c{c}a”, year VII, 1999, volume II, p. 58 et seq.

\textsuperscript{17} P. 59.
claimant had never placed his invention on the market, either via the direct manufacture and marketing of the product which was the object of the patent, or via the sale of his “exclusive right”. The judgment demonstrates the lack of sensitivity of the case law, regarding patrimonial rights, in considering the profit obtained by the party which committed the unlawful act.

The Supreme Court partially conceded the appeal: “yet, the fact still remains that the defendant unlawfully gained economic advantages from the use of an invention the patent for which he knew belonged to the claimant, and he interfered unlawfully and unjustifiably with the industrial property of the claimant, and from which he took advantages which were only intended for the claimant, according to the legal order on property”\(^\text{18}\). The decision followed the legal theory of Pereira Coelho: “while it is established that the defendant/respondent should pay the claimant the amount of his enrichment, it remains to be said that the measure for such restitution is not given, as the appellant intends, by the profit obtained by the intervener in the marketing of the machinery, but rather by that which some legal theory calls the objective value of the good, and which, in this case, would be the price which, normally, the patent holder would receive for granting its use, and which, in some way, is demonstrated in the established matter of fact, where it is stated that the claimant would obtain “a commission of 15 to 20% of the sale price of the machinery”\(^\text{19}\).

The Judgment is clearly unsatisfactory, since, although the Supreme Court of Justice recognized the existence of the defendant’s wilful intent, the obligation to indemnify for unjust enrichment, calculated in line with the objective value of use of the good, was not accompanied by any other sanction. In short, the decision becomes an incentive to the forceful appropriation of the goods of another.

The pursuit of justice and the need to prevent offences against the rights of others are objectives which require a different understanding of the reach of compensation for non-patrimonial damage. It was accepted as proven that “the defendants and their staff comment on the situation in a jocular fashion!” The intentional nature of the offence appears to justify the success of the claim for

\(^{18}\) P. 59.
\(^{19}\) P. 59.
disgorgement of profits. That was the aim of the claimant, who, despite providing incorrect grounds for his claim in terms of compensation for patrimonial damage, undoubtedly deserved such protection. This was an autonomous non-patrimonial damage. The Supreme Court of Justice, despite being called on to rule on compensation for non-patrimonial damage suffered by the claimant, not only failed to make any reference to the complementarity of that means when applying the rules of unjust enrichment to unlawful and wrongful acts, considering, in relation to this, the advantages obtained by the infringer, but also, clearly in discord with the seriously culpable conduct of the defendant, gave no attention to the claim for compensation for non-patrimonial damage: “regarding the alleged non-patrimonial damage, we may say that, although it is not difficult to imagine the upset caused by the defendant’s abusive action, on the other, we should not forget the rule in Article 496(1) of the CC, in the part where it limits the damage to that which “due to its severity, warrants the protection of the law”. In line with the Court of Appeal, we consider that there is no non-patrimonial damage which deserves the protection of the legal order”\textsuperscript{20}.

With due respect, it appears unacceptable to reduce the non-patrimonial harm noted to an upset. We may reiterate that it is the offence to the sense of justice which legitimizes the inclusion of the gaining of advantages, in the noted terms, within the category of non-patrimonial damage. The lesson is an old one and has its roots in the Aristotelian understanding of corrective justice: “The equal is the mean between the more and the less of a particular feeling. The more of good and the less of pain produce a gain, and the opposite situation triggers a loss. A wrongdoing causes an excess of gain on the agent’s part and an excess of pain on the victim’s part, for the one has done injustice and the other has suffered it. The just is a mean between loss and gain. Doing injustice and suffering injustice forges a link – a synallagma – between the parties and nobody else” \textsuperscript{21}.

A metaphoric sense can be recognized in the Aristotelian concepts, with no correspondence in patrimonial disadvantage or advantage: “Consider

\textsuperscript{20} P. 59 et seq.
Aristotle’s example of a man who strikes a blow against another: the gain and the pain are correlative, but they are not identical, for a gain can also consist in the agent’s satisfaction for having performed the action which caused pain. Aristotle did not refer to patrimonial advantages or disadvantages. If justice can be attained if the victim has suffered a financial loss but the agent has not obtained a corresponding financial gain, one can infer that it will also be attained if the agent has obtained a financial gain which does not correspond to a patrimonial loss of the agent” 22.

If, considering Aristotle, gain may merely mean the satisfaction of the injuring party and, accepting his thinking, there is no need for an economic benefit of the agent for compensation of the injured party, loss, devoid of any patrimonial equivalence with the gain, may be non-patrimonial in nature, thus justifying, with the same aim of corrective justice, the restitution of the economic gain of the injuring party. The synallagma which requires the practice of corrective justice includes, in this respect, both compensation for patrimonial loss and restitution of unlawful profit 23.

There needs to be a reconsideration of the concept of non-patrimonial damage, stripping it of the characteristic which makes it incapable of being assessed in monetary terms. The harm has repercussions in the extra-patrimonial sphere of the injured party, and, although it may be measured, it is different from a patrimonial loss or the frustration of a profit. The injustice of non-patrimonial damage and, as a result, its need to be attended are gauged according to a two-sided consideration of the interests in conflict, against the backdrop of the regular characteristics of existence and cohabitation of human beings.

4. The compensatory nature of restitution of profits

In most continental legal systems, there is common reference to the punishment of the actor via removal of a part or the whole of the gain associated with the act committed. The uncritical manner in which that


23 This is an outcome of the research done by Francesco Giglio, *The Foundations of Restitution for Wrongs: a Comparative Analysis*, cit., p. 231.
statement is so often accepted is a cause of clear discomfort to us. The formula is used indiscriminately. The *label* is attached, in this way, to any duty to *indemnify* the injured party, provided for in law or imposed by the judge, with no regard for the impact of the award on the injuring party's patrimony. The sense of punishment is distorted when no more is required than the restitution of the profit obtained. What justification is there to confirm the assertion of the punitive nature of a duty which puts the injuring party in the situation he would have been in but for his committing the unlawful act?

Retribution of the actor is based on the assumption of a disadvantage which is added to the loss resulting from the compensation of the damage. It is in this sense, as we have seen, that Anglo-Saxon law distinguishes, in the field of civil justice, between restitutionary damages, without any harm to the patrimony of the actor as it was before the practice of the unlawful act, and punitive or exemplary damages. Thus, any award of compensation for non-patrimonial damage which is confined to the limits of the profit of the party causing the harm only satisfies, without punishing.

Advocating restitution of profit as a consequence of civil liability is nothing more than complying with the need to *satisfy* the injured party, both with regard to the fixing of compensation for other non-patrimonial damage, and in the autonomous restoring of the situation prior to this harm.

The legal theory which refers to private penalties, perhaps influenced by the punitive nature which it attributes to them, often suggests that the amounts paid by the injuring party should revert to public funds or entities, distorting, in part, the private nature of the sanction. The difficulty with this theory lies in an inadequate understanding of the aim associated with suppressing the gain which has been unlawfully obtained. The sanction satisfies the interest of the person who bears the profit of the third party.

We may immediately consider the patrimonial advantage gained by the party causing the harm with the sacrificing of personal, unmarketable, goods of the third party. Consider, for example, the physical harm caused by the discharge of pollution from a factory which wilfully fails to comply with a duty of safety. The suppression of the economic benefit of the injuring party, in the form of reduced expenses, is, in all probability, regarded by the injured party as a necessary consequence of the sanctioning of the unlawful act, which should be
added to the compensation for patrimonial damage and to the reparation for physical suffering. Only then is he fully satisfied. This is a scenario different to unjust enrichment. The protection lies, therefore, in the field of compensation. We may also consider the trafficking of human beings, for prostitution, adoption or other illegal activities, or the removal of organs without the consent of the offended person, or a murderer’s publication for sale of the details of his crime. The answer is no different when we are dealing with the use of goods, whether personal or material, which can be assessed in monetary terms.

5. The theory as an expression of the time of private enforcement

In our view, the theme of the aims of civil liability serves as a paradigm of the dysfunctional evolution of law in a globalized world, where the lack of conformity of legal concepts is safeguarded by the sovereignty of the States.

Our thinking is based on the following premises: recognition and protection of fundamental rights, the crisis of the Social State and growing exposure of individuals to disputes between private parties, for the time being, is still very scarcely mirrored in the phenomenon of the delegation of public powers. The philosophical or political ideologies and the historical and social circumstances which formed the basis for the rules separate the Anglo-Saxon family, where the individual is an important agent of social transformation, from the Roman-Germanic family, where the distinction between public action and private action appears to be clearly formulated. Yet, the complexity of today’s world, and the universality, severity and repeated nature of offenses between private parties, warrants that the physical person or the private legal person be rediscovered, as well as the collective extent of their action within the systems of continental Europe.

The opening up of the common law system to social evolution explains the creativity of legal solutions, even in branches with a strong historical tradition such as that of private law. Some inspiration is to be found in Rafael Domingo’s perspective: “The new legal order must above all be a jurisdictional law and not an interstate jurisdictional model: consensual, not bureaucratic, positive, or official. It should be proposed and not imposed – based more on mutual agreement than on laws and codes and led by a civil society protected
by global institutions and not by hierarchical and technocratic state entities. From this perspective, the common law system – because of its proximity to the quotidian and its own methodology and system of sources – is better suited to globalization than European civil law, which is one reason why common law finds itself at such ease in the world of international business and transnational arbitration. With the new global law, the public would be identified more with social issues than with matters of state, which certainly is not now the case in Europe and Latin American contexts” 24.

The State ought to recognize that globalization has redefined its role in applying the law and adjust sovereignty to the idea that private enforcement lends to social regulation. In overt contrast to the extension of the powers of certain American courts, some European decision-makers consider it to be contrary to public order to recognize and enforce foreign decisions which order payment of punitive damages, even if the degree of intensity regarding connection of the procedure with the jurisdiction is said to be weak. Quoting Helmut Koziol, though, “punitive damages do not have to be admitted into the seventh legal heaven but neither would eternal damnation be appropriate. I think they should be condemned to purgatory and after a due period of purification some may graciously be admitted to the first legal heaven” 25.

There is a tendency to identify penalties with the characteristics and aims of the solemnity of criminal repression which, certainly, provides an argument in favour of the impropriety of private law. The primarily bilateral and relational nature of the sanctions resulting from civil liability justifies that some caution be exercised in defending private penalties. What cannot be disputed, however, is the historical and conceptual archaism of the expansive phenomenon of the intervention of public law sanctions, namely in the form of administrative sanctions. These sanctions benefit the Public Administration without attending to the essentially individual nature of the goods harmed. The Public Administration’s powers to sanction have exceeded the original limits which justified them and now include relationships in which private interest is paramount.

The protection of intellectual property, consumer rights, competition relations, or the collective exercise of rights has revealed the importance of the issue of private enforcement. There has therefore been a greater openness of the courts and lawyers towards a new understanding of the function of the traditional legal systems, such as compensation for moral damages. We may consider the illegal profit gained from publicly exposing the private life of a public figure. The greed shown by the party causing the injury and the profit gained from the action have led to judicial decisions which include the profits in the calculation of damages. Compensation is also an expression of the patrimonial benefit acquired from the illegal use of actual utilities. It is a gain which corresponds to a loss of the injured party.

Recognition of the virtues of permitting private individuals to initiate proceedings, in their own name or via a representative, and, of course, of the need to stimulate this initiative, establishes an important approximation between European law and American Law and contributes decisively to relieving the pressure on recourse to jurisdictions which are more favourable to the individual.

At a time when harmful actions have global repercussions, the exposing of illegal practices and general and special prevention of reprehensible behaviour is a path more easily trodden by the injured party, who is thus called on to exercise an important social function. Considering law from a transnational perspective means reviewing the reach of retributive sovereignty and adapting it to the geographically dispersed nature of the interests involved and, also because of this, to the essentially individual nature of the harm caused.

Accordingly, we may object to some of the options taken in the Commission Recommendation of 11 June 2013 on common principles for injunctive and compensatory collective redress mechanisms in the Member States concerning violations of rights granted under Union Law (2013/396/EU), in particular, and insofar as this harms the provision of disgorgement damages, the terms in which a prohibition of punitive damages is established (31.): “The compensation awarded to natural or legal persons harmed in a mass harm situation should not exceed the compensation that would have been awarded, if the claim had been pursued by means of individual actions. In particular,
punitive damages, leading to overcompensation in favour of the claimant party of the damage suffered, should be prohibited”. There is, primarily, an underlying philosophy which, in the light of what has been written above, ought to be reconsidered (Recital 6): “It is a core task of public enforcement to prevent and punish the violations of rights granted under Union law. The possibility for private persons to pursue claims based on violations of such rights supplements public enforcement”.
1. The legal instruments affected to the recovery of losses are *numerus clausus* in the Romanian legal system and the liability is based on tort (I), as well as disbursement restitution (II), applicable in unjust enrichment, annulment or rescission of contracts and others). The restitution may result from the recovery of losses, as well as profits, not all of the instruments entailing disgorgement being grounded on misconduct from the defendant. Presently, all the sources entailing disgorgement of profits/damages are provided in the Civil Code of 2011; however the recovery mechanisms are limited to *actio de in rem verso*, action for damages and action for restitution, depending on the obligation legal source.

   I. Tort

2. The previous Romanian Civil Code of 1864 merely provided six ineffective articles (articles 998-1003) for the entire tort system; most of the rules applicable to tort resulted from the doctrine and jurisprudence. Compensation further to tort is governed by several principles that have been developed in case law and obfuscator prior to the entry into force of the Civil Code of 2011 and that are nowadays regulated *per se*. The principles applicable to disgorgement ensued by tort are:\(^3\): the reparation of direct *damnum emergens* or *lucrum cessans* entirely, predictable and

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1 Ms Adriana Almășan Ph.D. is a Lecturer of Private Law, Property Law, Civil Obligations, Dynamics of Obligations, Secured Transaction, Contract Negotiation and Competition Law, she is the author of Negotiation and Formation of Contracts, published by C.H.Beck Romania, co-director of the Private Law Club of the Faculty of Law, University of Bucharest, she holds a post-doctorate degree in civil law.
2 Ms Cristina Zamșa Ph.D. is a Lecturer of Private Law, Property Law, Civil Obligations, she is the author of Effects of the Civil Obligations, published by Hamangiu Publishing House and of Civil Law. Property Law – Workbook, Civil Law. Obligations – Workbook, both published by C.H.Beck Romania, co-director of the Private Law Club of the Faculty of Law, University of Bucharest, she holds a post-doctorate degree in civil law.
unpredictable at the moment it is done, joint liability of the perpetrators. In order to compensate the victim of an animal attack for the encountered damage, the entire damage must be certain in order to restore the status quo prior to the damaging act⁴. Also, the restitution is based on the specific economic situation of the wrongdoer and the amount that has been rendered may be subject to modification if circumstances alter.

3. Special rules apply for the “loss of chance” that is covered proportionally with the probability obtaining a profit or avoiding a loss and for moral damages⁵ in which the law courts may render nominal reparation (especially in media case law), or render damages valuated according to the specific case circumstances. The act of publishing a creation by a publishing house established by a university through the authorisation of the publisher’s company that is part of the university’s foundation, without the authors’ consent, represents a breach of the author right entailing the liability of the university as well as the obligation for the latter to pay compensation for moral damages⁶. The moral damage is a variety of general damage and also a relatively independent factor in order to trigger a tort action; these specific damages regard the individual moral values of a person⁷. Even though the moral damages cannot be pecuniary determined, damages inflicted have particular forms and the court has the possibility to assess the damage intensity and gravity and in order to rule in favour of compensating the moral damage⁸.

4. Criminal, respectively administrative, liability may be cumulated with tort, and the procedural rules applicable enable the victims to recover within the criminal action frame or by means of separate action the damages incurred.

5. Particular cases where tort is applicable include recovering damages incurred form the breach of competition law rules (antitrust law), as well as unfair business conduct (unfair competition), administrative and intellectual property infringements. The usage by an ex-employee of a label that has been registered with OSIM (note by AA, CZ:

⁴ Supreme Court, Civil Section I, Decision no. 1130 of 21 February 2012.
⁶ Supreme Court, Civil and Intellectual Property Section, Decision no. 4614 of 13 May 2011.
⁷ Supreme Court, Civil and Intellectual Property Section, Decision no. 6416 of 5 October 2007.
⁸ Supreme Court, Civil and Intellectual Property Section, Decision no. 1534 of 21 February 2011.
the national trademarks registrar), knowing that the patentee has been producing under that specific label for a long period of time, is an act of unfair competition and ensues disgorgement of profits\(^9\). A simple material contact is neither sufficient nor able of causing damages to the author of the intellectual property creation, unless it is of a considerable consistency and gravity in order to affect the author’s reputation and honour\(^{10}\). When determining the damages encountered by the patentee, the unjust profit obtained by the wrongdoer as well as the revenue that the patentee has been deprived of, due to act of infringement of a patent, are relevant criteria\(^{11}\). Until it has been proven that the derived creation is not the translator’s fruit of creation, the performed translation is protected as an author’s right and ensues disgorgement of profits\(^{12}\). The use of a commercial name that is similar or identical with a trademark registered by another can create confusion regarding the background of the products or services of both the entrepreneurs and this could result in a conflict between the two intellectual property rights; in this case, the damaged entrepreneur could file an action with the court in order to recover damages\(^{13}\).

6. However, in comparison with the intellectual property infringements practice that has reached an efficient level of applicability, the competition law tort recovery is scarce to none in Romania. Despite the fact that the special law affords the possibility to obtain disgorgement, the practical difficulties in fulfilling the conditions for tort, especially the damage valuation and the direct causality of the damages, have strong dissuasive effect on victims of antitrust conduct. More specifically, the calculation of losses and profit is important and has to be precise in order for damages to be awarded. Also, the causality between the deed and the damage has to be direct, which triggers a difficulty in principle. Due to the fact that the victim (an underage girl) was hospitalized in several medical unities it was necessary to determine the moment when the victim was infected with HIV in order to trigger the action in damages against the culpable hospital\(^{14}\).

7. Tort may be applied for personal wrongdoing or for another person falling into a

\(^9\) Supreme Court, Civil Section II, Decision no. 240 of 26 January 2012.
\(^{10}\) Supreme Court, Civil Section I, Decision no. 606 of 3 February 2012.
\(^{11}\) Supreme Court, Civil and Intellectual Property Section, Decision no. 7041 of 12 June 2009.
\(^{12}\) Supreme Court, Civil and Intellectual Property Section, Decision no. 963 of 2 February 2007.
\(^{13}\) Supreme Court, Civil and Intellectual Property Section, Decision no. 3828 of 11 May 2007.
\(^{14}\) Supreme Court, Civil and Intellectual Property Section, Decision no. 3607 of 3 June 2008.
certain category (parents are liable for the deeds of their children, employers for their employees, teachers for pupils). In the latter, subrogation is availed to the person liable for another, the perpetrator bearing the entire liability. Even though the victims decided to claim damages from the employer of the actual perpetrator, eventually the personal liability prevails, and the wrongdoers must be held personally liable for their actions; the employer has the right to recourse with an actions against the employees (wrongdoers) in order to recover the paid sums.\footnote{Supreme Court, Civil Section I, Decision no. 290 of 20 January 2012.}

8. The recovery of losses and profit is in most of the cases solved by individual claims. Class actions are possible in principle, according to the Code of Civil Procedure of 2013; however in practice they are seldom made use of and with little success.

9. In case the liability is sourced from contract but may also be qualified as tort, the representative Romanian doctrine considers that both forms of civil liability - contractual and tort liability - “are forms of civil liability, being dominated by the fundamental idea of remedying the monetary damage caused by an unlawful and guilty deed”, with the specification that “the tort civil liability forms the common law of the civil liability, as long as the contractual liability is a liability with special derogatory feature” but “there is no difference of essence between the two forms.”\footnote{C. Stătescu, C. Bîrsan, Civil Law. The general theory of obligations, the IX-th edition, Hamangiu Publishing House, Bucharest, 2009, p.135-136}

10. As a practical matter, cumulating the tort civil liability with the contractual liability means the following situations:

(i) the victim is not entitled, in case of the same unlawful and harmful deed, to obtain two remedies, one based on contractual ground and the other on tort ground, by exceeding the full value of the incurred damage;

(ii) the victim is not entitled to initiate a hybrid, mixed legal action, by claiming simultaneously both the rules related to the contractual liability and to the tort liability, in order to benefit by a more favorable regime, since the tort liability is more severe and the contractual liability is easier, and, finally,

(iii) the use of the tort legal action is not admissible after having used the contractual legal action, based on which the remedies have been obtained.\footnote{C.Stătescu, C.Bîrsan, Civil Law. The general theory of obligations, the IX-th edition, Hamangiu Publishing House, Bucharest p.140; Liviu Pop, The general theory of obligations, Lumina Lex Publishing}
11. Nonetheless, the overlap between contract and tort is not possible\textsuperscript{18}. The differences between the two liability forms for which the cumulus is forbidden refer to the following issues: the capacity of the perpetrator of the unlawful deed; the delay notification sent to the debtor of the indemnification obligation; the value of the remedy; the joint and several feature of the tort liability. The simple act of inserting the possibility of supplementing the circulation of a publication in the initial contract cannot represent sufficient basis in order to consider that the act of not publishing a new circulation is a predictable damage at the time of the execution of contract\textsuperscript{19}. However, unpredictable damage is to be disgorged in case of tort.

\textit{II. Disbursement restitution}

12. Following the model of the Quebec Civil Code, the new Romanian Code settles a distinct chapter/title named Disbursement Restitution, at the end of the Book V (Obligations). Under this title (art. 1635 - 1649), the Romanian Code of 2011 establishes the general rules governing the disbursement restitution, regardless the cause generating the restitution. These provisions in the Civil Code represent the main legislation (\textit{ius commune}), applicable whenever no special law concerning restitution is in place, or in addition of an insufficient special law provision. As a rule, the right of restitution belongs to the person who performed the disbursement – subject to restitution, or to another person entitled by the law (pursuant to article 1636 Civil Code of 2011) which is by force of law the creditor of the restitution from the very moment generating the restitution. When a debt has been paid further to the issuance of a court order and afterwards a different court order invalidates the act that represented the grounds for the enforcement order, the payer is entitled to disgorgement due to the fact that the nullity has retroactive effect and the payment has become undue\textsuperscript{20}.

13. The institution of the disbursement restitution does not overlap the hypothesis of the damages caused by a civil tort. In case of tort, damages are granted whereas in

\textsuperscript{18} Cristina Zamsa, Effects of the Civil Obligations, Hamangiu Publishing House, 2013.
\textsuperscript{19} Supreme Court, Civil and Intellectual Property Section, Decision no.7982 of 23 November 2007.
\textsuperscript{20} Supreme Court, Civil Section I, Decision no. 917 of 22 February 2013.
case of restitution, no misconduct is taken into consideration. Nonetheless, a hypothesis of disbursement restitution can be completed with a request of paying damages, if the restitution in itself does not cover the entire damage suffered by the claimant and the defendant meets all the condition provided by the civil tort. For example, in case of contract rescission there are three possible solutions rendered by the court: cancelation of the contract, disbursement restitution (thereby granted) and the payment of the damages.

14. Each one of these measures obeys - partially or entirely - to specific rules:
- annulment of the contract follows the art. 1549-1551 of the Civil Code of 2011 in respect to the conditions implied for annulment or rescission, by case, and the art. 1639 of the Civil Code of 2011 (ruling the disbursement restitution) in respect with the effects of the annulment, if a disbursement is already obtained
- payment of the damages follows the rules of tort in respect to the conditions (illicit deed, damage, direct causality between the deed and the damage, the guiltiness of the defendant) and to the rules applicable for repairing the damage.

15. In article 1638 of the Civil Code of 2011 it is stipulated that the disbursement performed or enforced based on a contract annulled for illegal or immoral cause is always subject to restitution. Traditionally, in this situation it is applicable the nemo propriam turpitudinem allegans principle. Thus, the Romanian Civil Code of 2011 has chosen, among the several mechanisms used by other law systems, to apply the principle of restitution in integrum, considering that the scope of the action in annulment of a contract is the restitution21.

16. Restitutions may only be enforced for legally binding disbursement and the restitution may have the form of a good (asset), tangible or intangible property, whenever the good was obtained:
   a) with no legal basis or unrightfully: in case of breaching the promise to marry (article 268), in the cases of contract termination (as mentioned in art. 1321: term expiry, waiver of contract, non-performance of the obligation etc); in case of an unjust enrichment (art. 1345-1348) etc. There cannot apply a waiver of tort.
   b) by mistake: in case of the payment not due at the date of disbursement (art. 1341-

c) based on a contract terminated with retroactive effect: as an effect of annulment (art.1254) or resolution (article 1554) of a contract;

d) in case of an impossibility to perform the contractual obligation: hypothesis issued in art.1634, as a result of occurring a force majeure or fortuity case situations;

e) in case of a future event that cannot occur if the contract is affected by such condition precedent (art. 1407 par.4).

17. The principles governing the restitution are set in art. 1639 - 1649 of the Civil Code of 2011. We emphasize that there are many sources of restitution, albeit only one set of rules and principle for restitution, regardless the source.

18. As a general rule, the restitution operates in nature (allowance in kind) or by equivalent (payment of an amount of money), according to article 1637. In particular, the value of the restitution depends on many aspects, following article 1639-1649 of the Civil Code of 2011:

- the good or bad faith of the accipiens (the recipient of disbursement, thereby being deemed as debtor of the restitution),

- the nature of the good (asset), object of the disbursement: immovable good/property or personal estate

- the material possibility of restituting the asset (depending if the good perishes fortuitously or not)

- the legal possibility of restituting the asset (the good has already been transferred to a third person by the time of restitution, depending if the third party is in good or bad faith). The revocative court order of the dispossesson for public purposes, issued after the registration of damages and the effective payment of damages, is null and void if the proprietorship (right) has already been transferred from the expropriated person to the state22.

19. Unjust enrichment represents the particular application of restitution where special rules apply, in addition to the general rules. The Romanian case law and literature avail to the person that has suffered an unjust diminishment of patrimony actio de in rem verso against the person that profited thereof. The representative civil

22 Supreme Court, Civil Section I, Decision no. 491 of 6 February 2013.
doctrine has always considered the legal institution of unjust enrichment in the chapter on the origins of the obligations and presents it as “another lawful legal act considered by the unanimity of the legal literature as origin of the obligations and established as such by the judicial” and defines it as “being the legal act whereby the assets of a person are increased by using the assets of another person, there being no legal ground for such event.”

19.1. Even though there are no available statistics of existing unjust profits or their recovery, it is self evident that most of the practice in tort and negotiorum gestio, as well as in infringements of competition law, unfair competition practices, intellectual property rights, or for victims of criminal deeds are resolved by disgorgement of profits or damages, by case.

19.2. The former Romanian Civil Code enacted at 1864 that was vastly based on the Napoleon Code regulated solely applications of the legal institution of unjust enrichment, providing the restitution obligation for the one that increased its assets by decreasing the assets of another person (possession - art. 484 of the Civil Code, artificial confusion of immovable assets - art. 494 of the Civil Code, undue payment - art. 997 of the Civil Code, deposit agreement - art. 1618 of the Civil Code etc.). That Civil Code did not regulate disgorgement of profits or the disgorgement of damages as a principle, in a legal text with general value. Despite the lack of legal specific provisions, the practice was unequivocally decided on the application of the theory of action de in rem verso and neminem laedit in order to recover profits or damages, by case.

19.3. The actual Civil Code entered into force on October 1\textsuperscript{st} 2011 regulates the legal situations occurred subsequent to that date and it remedies this legislative gap, by expressly establishing of such institution in article 1345 and the pursuant of the Civil Code of 2011. The rule applied is however the same as the theory applied prior to the enactment of the Civil Code of 2011, i.e. whenever it is established a legal relationship whereby the person that suffers an unjust decrease of its patrimony (assets) is entitled to recover its loss by a specific action - actio de in rem verso – against the person that benefits from an increase of patrimony (assets) and the

disgorgement of profits is due within the limits of such increase. It results that the legal institution of unjust enrichment represents a source of obligations whose applicability to the Romanian law system is beyond any doctrinal or jurisprudential dispute.

19.4. Conditions for the successful filing of *actio de in rem verso* are (i) factual and (ii) legal:

**Factual conditions:**
- a) the increase of the assets or the defendant’s enrichment, which can consist in: the obtaining of an asset, rendering of work or services etc.;
- b) the decrease of the assets or claimant’s impoverishment, which can consist in: the exit of certain valuables of the patrimony, making of expenses not reimbursed, performance of activities or services not having been paid etc;
- c) there should be a direct connection between the defendant’s enrichment and the claimant’s impoverishment, which means that both of them should have a joint cause or origin, irrespective whether the same result from the deed of the impoverished person, of the enriched person, of a third person or of a fortuitous event, it being sufficient that the enrichment and the impoverishment have a joint cause - an act or event. Also, in spite of the fact that the increase or decrease conditions are factual conditions of the institution of unjust enrichment they should be understood as a matter of law. Therefore, these factual conditions of the unjust enrichment shall also be fulfilled when the increase or decrease of the assets results indirectly, pursuant to the same act or event.

19.5. Legal conditions:
- a) the absence of a legitimate cause of the increase of assets of a person to the detriment of another, the legitimate causes of the enrichment being deemed: the existence of an agreement, court decision etc. For instance, in case of a *negotiorum gestio*, the *gestor* can act both in his personal interest as well as in the interest of another person and the ratification of the *negotiorum gestio* retroactively converts it into a mandate contract. Under article 1346 of Civil Code.

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25 The Romanian case law has assimilated the absence of the legitimate cause and the hypothesis of exceeding the contractual framework between the parties. Decision no. 5197/2004 of the High Court of Cassation and Justice, the Commercial Section provides “The co-existence possibility of the unjust enrichment and contractual relationship”.

26 Supreme Court, Civil Section I, Decision no. 271 of 20 January 2012.
examples of just enrichment are provided, with the scope to determine the unjust ones by means of per a contrario: the performance of a valid obligation, failure in exerting a right by the impoverished person, the execution of a voluntary act of impoverishment, such as gratification of another. b) the absence of any other legal mean for recovering the incurred loss; to this effect, it is discussed the subsidiary feature of actio de in rem verso. In case the claimant has the action based on agreement, tort or another origin of obligations, the action based on unjust enrichment cannot be initiated.²⁷

19.6. The co-existence possibility of unjust enrichment and contractual relationship
Upon mentioning the first legal condition of the initiation of actio de in rem verso, we specified that the Romanian case law has assimilated the absence of the legitimate cause and the hypothesis of exceeding the contractual framework between the parties. The preeminent case where this matter has been solved in this sense is Decision no. 5197/2004 of the High Court of Cassation and Justice, the Commercial Section, which, in the context of the existence of a construction agreement between the parties, admitted actio de in rem verso for recovering the costs by performance of required additional works not specified upon contracting. This case has been noticed by the relevant legal writings and commented distinctly by several important civil law authors, just because of the fact that it “broke” and rendered peculiar a certain tradition and automatism in the field of preventing any actio de in rem verso in the hypothesis of the existence of an agreement: “the practice of the supreme court approved the admissibility of an action based on the unjust enrichment principle, initiated by the constructor against the beneficiary, having as object the ordering of the latter to pay the additional repair work, besides those representing the subject of the construction agreement and of the additional works….It has also been held that such repairing, additional and un-contracted works have been required since, if absent, the works representing the subject of the construction agreement could no longer be performed, fact which would have caused the failure to complete and deliver the objectives, on the contractual term provided therefore…It has been concluded that the only way to recover the amounts related to the additional repairing works consisted in initiating a legal action based on the unjust enrichment principle,

by considering that the works had been performed on the decision ruling date, so that, given that the beneficiary accepted and thereafter, confirmed the works performance, it was groundless to retain that the contractor could benefit by the conclusion of a new procurement agreement, for recovering the value thereof.  

19.7. Based on such hypothesis, there is no contradiction between the existence of a contractual relationship and the admission of *actio de in rem verso*, since the institution of unjust enrichment represents the legal ground of the recovery of the expenses made for the performance of additional works not provided by the parties upon the execution of the agreement, fact which is equivalent to exceeding of the initial contractual framework. As long as the necessity of the performance of additional works is admitted, it is obvious that the constructor incurred a loss and the beneficiary enjoyed a profit; given that this situation is not findable in the contractual provisions agreed by the parties and that it is not covered by the initially stipulated price, the sole settlement manner consists in the application of the mechanism of *actio de in rem verso*. Therefore, the subsidiary feature of *actio de in rem verso* is not ignored, as long as the unjust enrichment does not constitute a ground that might be overlapping with the contractual ground of the costs recovery. In such hypothesis, the claimant does not enjoy the contractual legal action for recovering the costs, as long as the additional and compulsory performed works required for the performance of the object of the agreement have not been stipulated in the agreement.

19.8. In the conditions of the hypothesis of the application of the unjust enrichment principle while an agreement between the parties exists, with its limits exceeded, the jurisdictional body must assess the de facto and de jure situation through reference to the content of the agreement submitted to it (respectively, to analyze the clauses thereof and to verify whether there is an applicable mechanism for considering the additional works) and to the effective performed works (for estimating whether the contractual framework has actually been exceeded). As regards this issue, we stress that the existence of an agreement as an impediment for the application of the unjust enrichment principle contemplates the existence, under legal form, of an agreement valid and efficient from legal point of view.

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19.9. Therefore, in case one of the parties has limited its liability, by a clause, with respect to the occurrence of the necessity of additional works, such clause shall be part of the agreement and shall prevent the application of the unjust enrichment principle solely to the extent such liability limitation clause has been validly assumed. According to the legal writings, any liability limitation clause is valid in the Romanian civil law solely insofar the party benefiting by the liability limitation had not previously breached, in bad faith (namely, deliberately) or by gross negligence, its obligations related to the liability limitation. Same solution is sustained further to the applicability of the principle *nemo propriam turpitudinem allegans*, i.e. the beneficiary of the liability limitation clause is not entitled to claim it, in case the fault is ascertained or, more serious, its misrepresentation, in connection with the circumstances of such clause activation.

19.10. This category also includes the obligation to inform the co-contractor upon the conclusion of the agreement. In case the party failed to fulfil accordingly such obligation to inform and to make available to the adverse party all data required for outlining the performance obligation, e.g. certain works, the clause whereby the party limits its liability related to additional works can no longer receive the legal efficiency and the value of the additional works can be recovered by way of *actio de in rem verso*.

19.11. The effects of unjust enrichment
a) the enriched person (the defendant) is bound to disgorge to the impoverished person the value of his benefits. He shall be bound to pay legal interests solely if he acted in bad faith; this situation involves differences in the doctrine solely with respect to the legal ground for granting interest (i) by application, through analogy with the undue payment, the case of the bad faith creditor (art. 994 of the Civil Code 1864) or (ii) by the triggering of the tort liability of the defendant.

b) the impoverished person (the claimant) is entitled to obtain disgorgement solely in the value of his impoverishment, and also in the hypothesis in which the enriched person (the defendant) acted in bad faith, the claimant shall obtain interests, as

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well\textsuperscript{31}. The disgorgement is limited on a two tier level, i.e. the enrichment upper level and the impoverished lower level.

19.12. The Civil Code of 2011 brought to this instrument for disgorgement of profits \textit{(action de in rem verso)} several amendments deemed to improve the conditions and to expedite the process. Due to the fact the Civil Code of 2011 is not retroactively enforceable; the case law grounded on it is yet scarce and is difficult to assess at this moment its impact on the jurisprudence. Also, the doctrine has commented little on the new legislation that regulates \textit{actio de in rem verso} in the same fashion as the judicial practice and scholars have interpreted the Roman Law principle applied prior to the current Civil Code. A novelty of the Civil Code of 2011, the non compliance of fiduciary obligations may lead to contractual liability and, in subsidiary to unjust enrichment applicability.

20. In conclusion, the disgorgement of profits/damages is duly regulated in the Civil Code of 2011, being functionally applicable, including the class action instrument. The mechanisms availed to disgorgement creditors vary depending on the nature of their title/receivable. Tort entails different rules than unjust enrichment and contractual restitutions (in case of rescission or annulment). In practice, the most convenient mechanism pertains to disbursement restitution, the conditions being more lenient than for recovery pursuant to tort.

21. Due to the little time lapsed from the entry into force of the Civil Code of 2011 (and - in regard to class action – of Code of civil Procedure of 2013), a proper impact assessment in jurisprudence of the newly regulated institutions such as \textit{actio popularis} is unlikely. In respect with the newly regulated instruments (unjust enrichment and disbursement restitution), since they are the result of prior stable and unequivocal practice in law courts and in accordance with the scholar opinions, it is improbable that it might have different result than the already established practice in these regards.

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Spain

Disgorgement of profits

Spanish report

Carlos Gomez Ligüerre, PhD
Profesor titular de universidad
Universitat Pompeu Fabra (Barcelona)

Executive summary

Spanish Civil Code rejected the idea of including a general regulation on unjust enrichment. Hence, restitutionary remedies have been usually understood as a by-product of a proper compensation in cases of tort and breach of contract. Spanish private law has set aside unjust enrichment claims, mostly designed by the case law as a subsidiary remedy only available in specific cases. Such particular view of the restitution explains that Spanish private law lacks a general theory on disgorgement. Disgorging profits is just possible in a couple of specific situations statutorily established. In addition, disgorgement is understood as a proxy of compensation in cases in which the asses of damages is unfeasible.

I. The legal distinction between contracts and torts

The Spanish Civil Code was enacted in 1889 and it followed the model of the French Civil Code of 1804. Like in the French case, the Spanish Civil Code abhorred limitations to the freedom of contract and the freedom of transfer the property rights. There is no duty to transfer the assets by their fair or accurate price. According to the liberal view of the Spanish Code, the market should be the only way of determining the transferability of assets and their price.¹ Under such a way of understanding private relationships within the market, the

¹ For a general explanation of the formation of the Spanish private law, see Antoni VAQUER ALOY, Introducion to Spanish Patrimonial Law, Comares, Granada, 2006.
contract is the best way for conveying assets voluntarily, while torts are the proper means for redressing the involuntary transfers of wealth.

Following the pattern of the French Civil Code, the Spanish Civil Code drafted a system of remedies mostly based in a clear distinction between breach of contract and tort. The former tries to grant to the victim of a breach of contract with the expectation damages, while the latter is limited to the reliance damages. In other words, remedies for breach of contract intend to leave the victim in the same position he should enjoy if the contract would have been duly performed. Tort remedies aim to compensate to the victim for loss or injury by reverting the victim, as far as possible, to the position before such loss or injury occurred.\(^2\)

Although the most of the parts of the Spanish Civil Code have been modified since its enactment, the aforementioned distinction has remained unaltered. Accordingly, rights as well as remedies for their protection arise under Spanish private law either from a contract or from a tort. Hence, the Spanish Civil Code provides remedies for the protection of contractual rights and general tort remedies as well. The two categories should always fit in the real cases since the scope of the Spanish tort law includes all kind of harms and losses. As was done before by article 1382 of the French Civil Code\(^3\), the article 1902 of the Spanish Civil Code sets forth the general rule on tort law in very broad and general terms.\(^4\) Tort claim does not require the breach of specific statutory duties or a reckless behavior against particular rights. The tort claim is not

\(^2\) In the same way that the rest of Civil law systems, Spanish tort law does not apply *punitive or exemplary damages*. Anyway, non-pecuniary damages tend to be higher when the tortfeasor has caused the harm intentionally or the accident has been caused with gross recklessness, slight or scant care. Otherwise, the legal mandate attached to the tort recovery encompasses losses with compensation, without taking into account the tortfeasor’s intention. See, Fernando GÓMEZ POMAR, “Daño moral”, *Indret 01/2000* (http://www.indret.com/pdf/006_es.pdf)

\(^3\) Article 1382 of the French Civil Code sets forth that: “Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate it.”

\(^4\) Article 1902 of the Spanish Civil Code sets forth that: “The person who, as a result of an act or omission, causes damage to another by his fault or negligence shall be obliged to repair the damage caused.”
restricted to specific situations. Under Spanish law, the tort claim may include any kind of harm or loss suffered by the victim, economic as well as non-economic, with no other limits than those required by the cause-in-fact and the proximate causation (Objektive Zurechnungslehre) links.

Therefore, in the structure of liabilities and remedies designed by the drafters of the Spanish Civil Code what should not be claimed as a result of a contractual breach, should be protected by a tort claim. The loss should be only the consequence of either a wrongful breach of contract or the causation of harmful consequences by a tortfeasor.

The only exception to the dual system of liability and remedies envisaged by the Spanish Civil Code consists of the regulation of the so-called «quasi-contracts» or «implied-contracts». Spanish Civil Code includes two of them: the management of another business (negotiorum gestio) and the payment or collection of undue debts (indebiti solutio).

Differently from the remedies designed for breach of contract and tort situations, «quasi contracts» deserved just a restitutionary remedy based on the devolution of, first, what was unduly paid or, second, the payment of what was done without a previous order or assignment. In any case, the restitution is limited to the real advantage provided as a consequence of the management or the payment done outside a contractual relationship.

Legal scholars agree on the exceptional nature of the «quasi contracts». They are uncommon means of recovery in specific situations that cannot be applied

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analogically. They are exceptions to the general idea according to which the explanation of the transfer of assets has to do only either with valid contracts or with the compensation due to torts.

II. The case of the unjust enrichment. Restitutionary versus Compensatory remedies

The legal system should enhance enrichments and all of them are fair, unless they have been obtained as a consequence of a void or invalid contract or as a consequence of a wrong. If the contract is invalid or it has been not duly performed, contractual remedies will arise. If there is no contractual relationship between the tortfeasor and the victim, redresses in case of tort will apply. There is no place, at least in theory, for a third way of imposing liability, a tertium genus, concerned with unfair attributions of assets. Everyone benefitted at another’s expense is committing either a breach of contract or a tort.

In fact, by introducing the requirement of a valid «causa», a legal ground that gives validity to the contract, the Spanish Civil Code is widening the realm of the contractual remedies. Each and every transfer should correspond with a valid and legal ground. Contracts as well as the transfer of assets made by virtue of them are valid only to the extent that they correspond with a legal ground. Contracts made against mandatory rules or pursuing illegitimate goals will be void because of the unfairness of its «causa». The necessity of a legal

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8 According to the article 1261 of the Spanish Civil Code: “There is no contract unless the following requirements are present: 1. Consent of the contracting parties; 2. A certain object which is the subject matter of the agreement; 3. Cause of the obligation established.”
9 The Spanish legal regime follows the pattern given by the French Civil Code. See, among others, Daniel Visser, “Unjustified Enrichment in Comparative Perspective”, in Mathias Reimann, Reinhard Zimmermann (editors), The Oxford Handbook of Comparative Law, cit., pp. 969-1002; James Gordley, Arthur Taylor von Mehren, An Introduction to the Comparative Study of Private Law, Cambridge University Press, Cambridge, 2006, p. 555. There is nothing in the Spanish contract law like the German Abstraktionsprinzip. Then, cases in which someone becomes the owner of something as the result of an invalid contract are much less frequent than in Germanic legal systems. See, Konrad Zweigert, Hein Kötz, Einführung in die Rechtsvergleichung, 3. Auflage, Mohr Siebeck, Tübingen, 1996, pp. 538-567.
ground for a valid contract introduces into the scope of the contractual remedies situations that otherwise would be covered by the traditional doctrine of the unjust enrichment.

However, Spanish private law has traditionally faced problems when dealing with situations that have two common features: First, they imply a transfer of assets; and second, they are neither contract nor tort. Such situations can arise from a different set of situations. Some of them come up as a consequence of the breach of fiduciary duties. Some are consequences of the unauthorized use of a thing or right vested to another. Some, finally, refer to enrichments obtained by chance, like some kinds of encroachment.

All of them have in common that someone has got some enrichment. Since such a transfer of assets has been made beyond or independently of the performance of a specific contract, compensatory remedies based on expectation damages are not an accurate redress. Since such enrichment is not a consequence of a wrongful action, the situation cannot be dealt with as a tort. However, since the enrichment has been obtained without a legal ground it can be deemed as unjust or unjustified and a restitutionary remedy should apply.

Hence, despite the absence of a general regulation of the unjust enrichment in the Civil Code, Spanish case law has traditionally considered the victim of an unjust enrichment entitled to relief. The claim is subject to three requirements:

a) Firstly, the absence of a legal explanation that allow the defendant to retain the enrichment. In such cases, the enrichment cannot be considered as unjust or unfair and therefore there is no reason to give it back to the plaintiff.

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b) Secondly, the absence of any contractual or tort remedy that can redress the wrong. It means that the unjust enrichment claim is subsidiary, as it is usually referred by the Spanish case law. There is place for an unjust enrichment claim only in cases in which there is no other relief based on contractual or tort remedies.

c) Thirdly, the victim is entitled to claim only for the loss he had suffered. The defendant’s enrichment should correspond with the loss suffered by the plaintiff, who is entitled to claim exactly for the amount of his loss.

Therefore, under Spanish law, restitution is conceived as a subsidiary remedy limited to the amount of the impoverishment unduly suffered by the claimant. In addition to the lack of a legal ground, to qualify the enrichment as unjust, it has to amount to the loss that the plaintiff aims to recover.

III. Unjust enrichment mirrors claimant’s losses. The problem of disgorgement

Under Spanish law, unjust enrichment refers to restitution, that is to say, to the act of giving back what was unduly earned or obtained. The unjust enrichment claim also works when the defendant has saved something that otherwise he should pay. The key issue is, in any case, that the plaintiff has experienced a loss or has lost a benefit and that both can be deemed as unfair or unjustified. From the point of view of the defendant, the unjust enrichment claim can be based on an unduly increase of his assets (lucrum emergens) as well as in an unfair saving of a due payment (damnnum cessans). In both cases, the unjust enrichment doctrine compares the current plaintiff and defendant assets with those assets that each of them would have in absence the unjust conveyance of assets.

The unjust enrichment claim may follow situations in which the plaintiff has given something to the defendant expecting some kind of activity by the latter. Being the activity not carried out, the plaintiff is entitled to be recovered. Usually, the best way for recovering will be the restitution in natura. Without
such restitution, the defendant would retain with no legal ground the assets given by the plaintiff. When specific restitution (*in natura*) is not possible, monetary relief should apply.

Payments of another’s debts per mistake or investments in another’s projects may also entail an unjust enrichment claim. The frustration of contracts for conveying ownership rights as a consequence of the application of rules governing the protection of the third parties’ good faith is also an unjust enrichment case. In all of these cases, the legal system usually entitles the plaintiff with a right to enter as a surrogate in an alien legal relation.

In any case, it is generally understood that the claim of action for unjust enrichment requires that the plaintiff suffered an impoverishment that corresponds to the equivalent enrichment gained by the defendant.

In addition, the unjust enrichment doctrine asks for the proof of the causation link between the enrichment and the impoverishment. The latter should be the consequence of the former. What the plaintiff done or how much he did pay should correspond with the amount the defendant earned or obtained. The burden of proof rests on the plaintiff, and his cause of action is limited to the extent that his impoverishment equals the benefit unduly obtained by the defendant. The exact amount of the claim will be quantified according to the *Saldotheorie*: the calculation should deduct the costs made by the defendant that the plaintiff ought to face in case he would obtained the same benefit that he is claiming for by the unjust enrichment doctrine.

The relationship between the enrichment and the impoverishment poses a real problem in cases in which the wrongdoer has made an unduly use of another’s right or legal position. In such cases, the wrongdoer may have obtained some benefits that do not correspond with a real loss experienced by the rightholder. Giving up the profits illegally or wrongly obtained when the plaintiff has not suffered losses is something that does not fit with the purpose traditionally attached to the unjust enrichment claims under Spanish law.
IV. When the profits amount to damages

When a wrongdoer makes profit by using another’s right, the rightholder is entitled to claim for redress. Under Spanish law, the problem in such cases is to identify the kind of remedy that can be claimed. Since there is no contract between the wrongdoer and the rightholder, contractual remedies apply. At the same time, since there are no losses, neither tort nor unjust enrichment doctrines give to the rightholder a clear way for protecting his legal position. What these situations have in common is the existence of an unduly obtained benefit, although it does not correspond to any loss suffered by the plaintiff.

In spite of the aforementioned limitations, it seems clear that when someone is legally vested with a right, specifically a property right, the legal system is attributing to the rightholder the entire economic content of the right and the freedom to decide how to use and to invest it. Then, the rightholder should be entitled to get back the benefits obtained by profiting his right without or beyond his consent.

Under Spanish law such situations have been solved statutorily. A handful of legal provisions set forth that the rightholder is entitled to receive the profits unduly obtained by the wrongdoer that used or took advantage of the plaintiff’s rights. This is the case in the article 9.3 of the Spanish Freedom of Speech Act.\textsuperscript{11} The provision allows the plaintiff to receive the profits earned by the publisher of false or illegitimate obtained information. The article 140 of the Spanish Intellectual Property Act\textsuperscript{12} establishes the same principle regarding the violation of copyrights. In the same way, the article 43 of the Spanish Trademark Act\textsuperscript{13} also allows the rightholder to get compensated according to the profits obtained by the offender.

\textsuperscript{11} Ley Orgánica 1/1982, de 5 de mayo, de protección civil del honor, la intimidad personal y familiar y la propia imagen.
\textsuperscript{12} Real Decreto Legislativo 1/1996, de 12 de abril, por el que se aprueba el Texto Refundido de la Ley de Propiedad Intelectual.
\textsuperscript{13} Ley 17/2001, de 7 de diciembre, de Marcas.
These are the most prominent examples of disgorgement of profits under Spanish private law. Regarding them, three issues should be highlighted:

a) First, all the legal provisions that foresee disgorgement attach it to intentional wrongs affecting property rights. Then, it seems that no disgorgement should follow to pure negligence.

b) Second, since such disgorgements are provided by specific statutes, it seems clear that, under Spanish law, disgorgement is a specific remedy that is only feasible when a legal provision allows the plaintiff to ask for wrongdoer’s profits.

c) Third, and most relevant, the mentioned examples are legally qualified as cases of damages, and the profits unduly obtained by the wrongdoer are used as a basis for quantify the compensation that the victim of a false information or a violation of the copyright or of a trademark is entitled to claim for. The legal cases of disgorgement are presented, in fact, as a mean of calculating damages instead of as a specific case of unjust enrichment.

Hence, there is no general principle of disgorging profits under Spanish private law, and the specific legal provisions deal with disgorgement cases as damages. Disgorgement is just a way for calculating damages in cases in which the absence of a loss or injury suffered by the victim makes him very difficult to prove the extent of the compensation he is entitled to receive. They are statutory torts cases and damages are statutorily established.

There is a dogmatic critique to this situation. The mentioned legal provisions, at the end, blur the distinction between restitution and compensation. Spanish legal scholars have largely stand for the categorization of disgorgement within the scope of the unjust enrichment doctrines and they are reluctant to
conceived disgorgement as compensation remedy. Dealing disgorgement as unjust enrichment would make clear its restitutionary nature. At least in theory, nothing prevents, at least in theory, the victim of such statutory torts from claiming for higher damages than those calculated according to the profits obtained by the wrongdoer. Then it seems accurate to distinguish restitution from compensation and to place disgorgement within the scope of the unjust enrichment doctrines, though the profits to be disgorged do not correspond with claimant’s losses.

It generally understood among legal scholars that the solution provided by the article 32 of the Spanish Unfair Competition Act suits technically much better with the goals pursued by the disgorgement remedy as a mere restitutionary way of redress. The article allows the victim of an unfair competition activity to claim for disgorging profits obtained by the wrongdoer in addition to damages, provided that they can be assessed.

V. Final remarks

Spanish private law does not have a general principle on disgorgement. In fact does not have a general regulation on unjust enrichment, neither. Restitution is a remedy enclosed in the general compensatory remedies in case of breach of contract or tort.

The traditional category of the «quasi contracts» is exceptional and case law has made a very restrict interpretation of the legal provisions regarding such category. They have not been understood as a general mean of allowing claims for unjust enrichment. At its turn, unjust enrichment itself has been traditionally

15 “As a general rule, damages are based on loss to the claimant and not on gain to the defendant”, Edwin PEEL, *Treitel on the Law of Contract*, 12th edition, Sweet&Maxwell, London, 2007. Thus, the normal field of disgorgement seems to be the unjust enrichment doctrine rather than damages.
considered subsidiary to claims for breach of contract or tort. The few legal provisions that allow disgorging profits acknowledge the remedy as a substitute of the damages that otherwise should pay the wrongdoer. Disgorgement is statutorily understood as a proxy of compensation.

Probably because of the abovementioned reasons, disgorgement has been traditionally seen as an elusive institution, a last legal response to difficult cases. A better understanding of the disgorgement remedy could make it more common in cases in which the legal system tries to promote the benefits of a legal position to its rightholder. A broader concept of disgorgement could apply the principle in all cases of wrongdoing in which the wrongdoer has taken advantage of the wrong. For instance, in cases compensating the possession of another’s property or as a way for assessing the compensation for breach of contract.

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The idea that unlawful conduct should not pay is very common in Austrian law. It underlies various statutory provisions and also appears in legal literature. In assessing to what extent Austrian law provides for the disgorgement of unlawfully gained advantages, criminal and private law mechanisms both have to be considered.

I. Criminal law

As a start, Austrian criminal law provides regulations aiming at disgorgement of unlawful profits gained in connection with criminal offenses. In the context of the present topic, sections 19a and 20 of the Austrian Criminal Code are of special interest.

Section 19a regulates confiscation of items and thereby determines that inter alia items generated through a deliberate crime have to be confiscated. Examples cited in literature constitute goods produced by an environmentally hazardous factory.¹ These products may be confiscated by virtue of section 19a which to some extent serves the aim of disgorging unlawfully gained advantages.

Even more relevant is section 20.² It states that assets received for committing a criminal act or acquired through a criminal act are subject to forfeiture. Other than section 19a, section 20 provides that the asset must already exist at the time the criminal act is committed. In contrast, an item generated through a crime in the meaning of section 19a comes into existence only through the crime.³ Accordingly, the forfeiture under section 20 captures various kinds of unlawfully gained advantages: Examples are proceeds due to trading with arms or illegal narcotics,

¹ Fuchs/Tipold in Höpfel/Ratz (Hrsg), Wiener Kommentar zum StGB² § 19a Rz 4, 15 and § 20 Rz 16 (state of November 2012).
² See as to the following Fuchs/Tipold in WK StGB² § 20 Rz 1 et seqq.
³ Fuchs/Tipold in WK StGB² § 19a Rz 3 and § 20 Rz 12.
bribes an office holder received and generally the remuneration the offender received from a third party for executing his offense. The forfeiture does not only lead to disgorgement of the offender’s net profits as his expenses do not reduce the amount subject to forfeiture. Therefore, more than the actual profit has to be given away. This is why forfeiture under section 20 is regarded as a punishment rather than a compensation claim among legal scholars. In addition, interests arising from the asset subject to forfeiture and substitutions that replaced the relevant asset (e.g., consideration for the sold stolen good) may be disgorged by virtue of section 20. Plus, also assets belonging to third parties are subject to forfeiture. However, it is questionable whether expenses the offender saved himself due to the offense may be disgorged by way of section 20. Also, for instance the advantage somebody gained due to bribing an office holder is (as against the bribe itself) not subject to forfeiture. Moreover, naturally section 20 as well as section 19a only encompasses criminal acts and thereby does not capture profits due to unlawful but non-criminal conduct.

The aforementioned restrictions of the scope of application show the limited reach of the provisions: Although sections 19a and 20 do aim at profit disgorgement and thereby encompass certain important kinds of unlawful advantages, the provisions are everything but comprehensive. Therefore, Austrian criminal law contributes to the idea that unlawful conduct should not pay but does not suffice by itself. Concerning disgorgement of unlawful profits Austrian law places the main focus of attention on remedies arising under private law.

II. Private law

A. Unjust enrichment

When an Austrian private lawyer discusses profit disgorgement, the law of unjust enrichment comes to his mind first. The fundamental principle underlying this branch of law is that nobody is allowed to enrich oneself at another’s expense without legal cause; enrichment gained in violation of this principle must be

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4 Fuchs/Tipold in WK StGB Vor §§ 19a-20c Rz 13.
5 Compare Fuchs/Tipold in WK StGB Vor §§ 19a-20c Rz 3.
Therefore, disgorgement of unlawfully gained advantages through the law of unjust enrichment is a typical legal consequence for illegalities.\(^6\)

Austria’s law of unjust enrichment is split into two categories of claims: Firstly, claims that aim at undoing wilful benefits the claimant provided for the plaintiff without legal cause and secondly, all other kinds of unjust enrichment.\(^7\)

Given that in typical cases where disgorgement damages are discussed (e.g. infringements of competition law, ip-law or personal rights by mass media), the claimant did not provide a direct benefit for the plaintiff, the latter category is of special interest in this context. The elementary provision here (and of the law of unjust enrichment on the whole) is section 1041 of the Austrian Civil Code of 1811.\(^8\)

Its relatively broad interpretation leads to the following understanding of the provision: Whenever a legal interest allocated to a person by the legal order is used by somebody else in a way that contradicts the right of the entitled person, the enriched person has to **disgorge** the **advantages gained by the unlawful usage**.\(^9\)

As examples for cases that create disgorgement claims in virtue of section 1041 are cited: selling another’s property, grazing of one’s cattle at another’s land, infringement of another’s hunting right, using another’s trademark for own goods, building on another’s land while mistaking it for one’s own land, infringing the privilege as to one’s own image by publishing photos of a famous dancer, making use of a competitor’s business secret that was found out unlawfully and outcompeting competitors by providing wrong information.\(^10\)

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\(^{7}\) Compare e.g. Welser, Bürgerliches Recht II\(^1\) (2007) 273 et seq; Koziol in Koziol/Bydlinski/Bollenberger (eds), Kommentar zum ABGB\(^3\) (2010) § 1041 Rz 4; Enzinger, Lauterkeitsrecht. Eine systematische Darstellung zum Gesetz gegen den unlauteren Wettbewerb (2012) Rz 640.

\(^{8}\) See e.g. Perner/Spitzer/Kodek, Bürgerliches Recht\(^3\) (2012) 354 et seq.

\(^{9}\) Koziol in KBB\(^3\) § 1041 Rz 1; F. Bydlinski, System und Prinzipien des Privatrechts 240.

\(^{10}\) Fundamentally F. Bydlinski, System und Prinzipien des Privatrechts 239 et seq; Perner/Spitzer/Kodek, Bürgerliches Recht\(^3\) 362 et seq.

\(^{11}\) Wilburg, Die Lehre von der ungerechtfertigten Bereicherung (1934) 36 et seqq; see also Perner/Spitzer/Kodek, Bürgerliches Recht\(^3\) 362 et seq.
Therefore, section 1041 serves as the legal basis for disgorgement claims in many cases. However, **section 1041 is not all-embracing**, it is held that claims in unjust enrichment would not encompass profits gained by destruction of another’s property because destruction would not constitute “usage” in the meaning of section 1041. Accordingly, whenever an entrepreneur destroys a competitor’s machine and thereby is able to increase his profit, the competitor could not demand this profit by a claim under the law of unjust enrichment. Also, when an entrepreneur hurts his competitor physically or in cases where a media company considerably increases its profits by publishing a faked interview with a celebrity, the law of unjust enrichment would – according to that opinion – not take effect. It is also held that profits due to the obstruction of competitors would not trigger a claim in virtue of section 1041. Accordingly, not every unlawful advantage may be disgorged by way of a claim in unjust enrichment; the law of unjust enrichment leaves gaps that could imaginably be filled by the law of damages.

**B. Disgorgement damages**

1. **Starting Point: The Civil Code**

   The Austrian law of damages is mainly governed by the Austrian Civil Code of 1811 and especially by its sections 1293 et seqq. These sections do not contain any provisions that expressly establish a general legal basis for **disgorgement damages**. For a plaintiff who claims damages under Austrian law, the Civil Code offers (at the most) only two ways of calculating the extent of his damages: They may be assessed either abstractly or concretely, which means that the plaintiff may either claim the current market price of e.g. his destroyed good (abstract calculation) or the difference between his actual wealth and his hypothetical wealth he would have.

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13 Contrary Wilburg, Die Lehre von der ungerechtfertigten Bereicherung 44, who supports a claim in unjust enrichment in a comparable case.
15 Enzinger, Lauterkeitsrecht, Rz 638.
16 If damage is not caused by an act of gross fault the plaintiff even has only recourse to one single way of assessing damages (namely the abstract calculation), see e.g. Perner/Spitzer/Kodek, Bürgerliches Recht § 283.
have without the damaging event (concrete calculation).\textsuperscript{17} There is no indication for a third kind of calculation in the Civil Code. Therefore, the Civil Code does not (at least expressly) offer the possibility to demand by claim for damages the advantages gained by the wrongdoer through his unlawful conduct. That is the situation in the Austrian Civil Code of 1811. However, there are special areas of private law where the statutory situation seems to be quite different.

2. Intellectual property law (ip-law)

a) Remedies available under ip-law

Austrian ip-law is governed by several statutory acts. Depending on the kind of ip-right infringed, following statutes may for example be applicable: The Protection Of Trademarks Act of 1970 if trademark rights are held to be violated, the Copyright Act in case of copyrights being infringed and the Patent Act concerning patent right violations. However, although it seems that every ip-right is subject to different, special rules and has its own statutory act, in terms of potential remedies the difference is insignificantly small. All statutes in question give recourse to the same identical remedies.\textsuperscript{18}

Besides the right to forbearance and the right to abatement, statutory ip-law especially provides different rights to claim money.\textsuperscript{19} At first, it enables plaintiffs to claim an appropriate license fee. This right is held to be a claim belonging to the law of unjust enrichment rather than to the law of damages. Accordingly, the claim is independent from fault.\textsuperscript{20} Although this remedy obviously already aims at disgorging an unlawful advantage from the wrongdoer (namely the saved license fee)\textsuperscript{21}, statutory ip-law still goes further in case of the wrongdoer having acted culpably: It provides (alternatively to the appropriate license fee) the right to either claim regular compensatory damages or to disgorge the whole profit the violator gained through

\textsuperscript{17} Karner in KBB\textsuperscript{3} § 1293 Rz 8 et seqq.
\textsuperscript{18} See Heidinger in Wiebe (ed), Wettbewerbs- und Immateriagüterrecht\textsuperscript{2} (2012) 234 et seq.
\textsuperscript{19} See regarding this paragraph Koppensteiner, Markenrecht\textsuperscript{4} (2012) 184 et seqq (in particular regarding trademark law) and Heidinger in Wiebe\textsuperscript{2} 234 et seq.
\textsuperscript{20} Koziol in FS Medicus 244; Koziol, Grundfragen des Schadenersatzrechts, Rz 2/38; Koppensteiner, Markenrecht\textsuperscript{4} 189; Kodek in Kletečka/Schauer, ABGB-ON 1.01 § 1293 Rz 27.
\textsuperscript{21} Compare H. Torggler, Der Bereicherungsanspruch beim Mißbrauch von Unternehmenskennzeichen, JBl 1971, 8 et seq; Heidinger in Wiebe\textsuperscript{2} 234 et seq.
the infringement. Also, if the violator acted deliberately or at least gross negligently (for copyright infringements even slight negligence suffices), the injured party is enabled to claim even double license fee. This is held to be lump sum damage compensation in order to avoid difficulties arising from proving the concrete loss.\textsuperscript{22} In order to prepare his actions, the infringed party is entitled to claim for submission of accounts.\textsuperscript{23}

b) In particular: The claim to disgorge the violator’s profits

The \textbf{nature} of the title to disgorge the violator’s profits is highly \textbf{controversial}. While some commentators consider it to be a claim within a specific branch of the law (unjust enrichment, damages etc.),\textsuperscript{24} others are of the opinion that it is a title sui generis.\textsuperscript{25} In spite of that discussion and independent from the legal category the claim belongs to, it appears that intellectual property law (in contrast to the Civil Code) provides for an instrument that is at least closely \textbf{related to disgorgement damages}: It requires fault and entitles the violated party to claim the net profit arising from the infringement. The net profit amounts to the whole proceeds the violator earned reduced by variable costs. Fixed cost does not reduce the claim. However, the violator is not obliged to hand over those parts of his proceeds that are due to other reasons than the law infringement (e.g. quality of sold products, intensity of advertisement). Given that difficulties in proving the concrete amount of net profits can arise, the Austrian Code Of Civil Procedure allows that the deciding judge estimates the amount of net profits.\textsuperscript{26}

Although ip-law is the only branch of law where a claim in disgorgement damages (or at least a closely related remedy) is implemented in such a general and distinct way by the applicable statutes, there are some indications for the same kind of remedy in another field too.

\textsuperscript{22} \textit{Heidinger} in Wiebe\textsuperscript{2} 234 et seq; \textit{Guggenbichler} in Kucsko/Schumacher (eds), marken.schutz. Systematischer Kommentar zum Markenschutzgesetz\textsuperscript{2} (2013) § 53 Rz 47 et seqq, especially Rz 49.

\textsuperscript{23} Compare Kucsko, Geistiges Eigentum (2003) 532.

\textsuperscript{24} Implicitly for a claim in law of damages \textit{Kodek} in ABGB-ON § 1293 Rz 26 et seq; for a claim in law of unjust enrichment \textit{Koppensteiner}, Markenrecht\textsuperscript{4} 191; see also \textit{Guggenbichler} in Kucsko/Schumacher\textsuperscript{2} § 53 Rz 38; inconsistently OGH (= Austrian Supreme Court) 14.10.1986, 4 Ob 376/86 (available on http://www.ris.bka.gv.at/Jus).

\textsuperscript{25} Compare \textit{Koziol}, Grundfragen des Schadensersatzrechts Rz 2/45.

\textsuperscript{26} \textit{Guggenbichler} in Kucsko/Schumacher\textsuperscript{2} § 53 Rz 42 et seqq.
3. Competition law

Basically, the relevant statutory act aiming at avoiding unfair competition (namely the Act Against Unfair Competition of 1984) does not include any provision that expressly establishes disgorgement damages in general.\footnote{Compare section 16 Act Against Unfair Competition of 1984; Kodek/Leupold in Wiebe/Kodek (eds), Kommentar zum UWG\textsuperscript{2} § 16 Rz 67 et seqq (state of November 2012); OGH 13.07.1953, 3 Ob 417/53 = SZ 26/189.} In this regard, the statutory situation seems to be just like in the Civil Code.\footnote{See above.} However, section 9 para 4 of the Unfair Competition Act provides recourse to disgorgement damages (or a closely related remedy) under certain circumstances: \footnote{Schmid in Wiebe/Kodek § 9 Rz 178 (state of November 2012); compare also Kodek/Leupold in Wiebe/Kodek § 16 Rz 67 (state of November 2012).} The provision refers to the Patent Act and thereby declares applicable the remedy to claim the profits gained by the wrongdoer in case of violations of company symbols. Hence, statutory competition law recognizes sort of disgorgement damages to some extent.

However, the scope of the aforementioned provision is quite narrow and does not include all acts of unfair competition; it only encompasses abuses of names, firms, special company designations, domain names, titles of print work, special configuration of companies and/or products and non-registered trademarks.\footnote{Compare section 43 Austrian Civil Code.} Regarding acts of unfair competition going beyond the scope of section 9 para 4, a legal basis for disgorgement damages is lacking under statutory competition law. Even more surprising, in two judgments the Austrian Supreme Court nonetheless indicated that disgorgement damages were principally available for breaches of competition law. Indeed, the said decisions are relatively old (they date back to 1953 respectively 1962). However, the Court expressly held that beside claiming the plaintiff's missing profit or missing license fee, a third mean of assessing damages was available by resorting to the profit gained by the defendant. The court also referred to the situation under ip-law where explicit provisions provided for

\footnote{Compare section 17 et seqq Austrian Enterprise Code.}

\footnote{Enzinger, Lauterkeitsrecht, Rz 420 et seqq.}

\footnote{OGH 13.07.1953, 3 Ob 417/53, although the judgment is about an infringement governed by section 9 Act Against Unfair Competition the court could not argue with paragraph 4 (and the express claim to disgorge the violator's profits therein contained) because the said paragraph was not enacted until 1999 (see Markenrechts-Novelle BGBl I 111/1999; compare also the research of H. Torggler, JBI 1971, 1, concerning the old legal situation); OGH 08.05.1962, 4 Ob 319/62 = ÖBI 1962, 69.}
disgorgement claims.\textsuperscript{34} Both judgments referred to section 273 Austrian Code Of Civil Procedure (already indicated above) that allows estimation of the amount of damages in case of difficulties in proving the actual amount of damages.\textsuperscript{35} The court argued that by way of section 273 \textit{disgorgement damages may be awarded.}

The \textbf{academic echo} following this judicial advance was \textbf{mainly negative.}\textsuperscript{36} Honsell for instance states that the profit gained by the wrongdoer does not constitute the plaintiff’s loss. Therefore, by awarding disgorgement damages, the fundamental principle of the law of damages – the plaintiff must not be enriched by the award of damages – would be violated. However, he supports that the violator’s profits gained by violation of business secrets may be awarded by way of a claim in unjust enrichment.\textsuperscript{37} In contrast, Enzinger recently argued for a third way of assessing damages and states that for some kinds of competition law infringements plaintiffs have recourse to disgorgement damages.\textsuperscript{38} In addition, he supports the opinion that by way of a claim in unjust enrichment disgorgement of profits is – in some cases – possible.\textsuperscript{39} Ostensibly, he deems – in principle – both ways being available.

Given this state of opinions and the statutory situation, it is \textbf{doubtful whether disgorgement damages} (or an at least closely related remedy as it exists under ip-law) do \textbf{exist} under Austrian competition law. Plus, the fact that in 1999 the legislator amended the Act Against Unfair Competition and thereby enacted an express disgorgement claim in section 9 exclusively for company symbol violations\textsuperscript{40}, could be used as a counter argument. However, it seems that concerning some\textsuperscript{41} kinds of competition law violations, scholars at least do support profit disgorgement

\textsuperscript{34} OGH 13.07.1953, 3 Ob 417/53.
\textsuperscript{35} See as to the application of section 273 in competition law Kodek/Leupold in Wiebel/Kodek § 16 Rz 37 et seq (state of November 2012); see also Enzinger, Lauterkeitsrecht, Rz 625.
\textsuperscript{36} Honsell, Der Geheimnisschutz im Zivilrecht, in Ruppe (ed), Geheimnisschutz im Wirtschaftsleben (1980) 61 et seq; H. Torggler, JBl 1971, 2, 4, 6; Kodek/Leupold in Wiebel/Kodek § 16 Rz 70 et seq and Rz 38 (state of November 2012); Rummel, JBl 1971, 391; see also Kodek in ABGB-ON § 1293 Rz 26 et seq; differing opinion Enzinger, Lauterkeitsrecht, Rz 624.
\textsuperscript{37} Honsell in Ruppe 62 et seq; see also Wilburg, Die Lehre von der ungerechtfertigten Bereicherung 44; see also H. Torggler, JBl 1971, 1 (passim), who also sticks up for a claim of unjust enrichment as against a claim in law of damages in order to disgorge the violator’s profits (concerning company symbol violations).
\textsuperscript{38} Enzinger, Lauterkeitsrecht, Rz 624.
\textsuperscript{39} Enzinger, Lauterkeitsrecht, Rz 636 et seqq.
\textsuperscript{40} Markenrechts-Novelle BGBl I 111/1999.
\textsuperscript{41} Compare Rummel, JBl 1971, 385, 394.
by way of claims in unjust enrichment.\textsuperscript{42} In any case, implementation of an express provision providing or excluding disgorgement claims by the legislator would clarify the situation. In 2008, the Austrian minister for consumerism stuck up for an amendment of the Act Against Unfair Competition concerning this matter by including an express disgorgement claim for acts of unfair competition.\textsuperscript{43} Apparently, the attempt failed.

4. Disgorgement claims in general?

In recent literature indication is visible as to the tendency of Austrian private law being to acknowledge disgorgement claims in general: Recently, Helmut Koziol\textsuperscript{44} analyzed cases in which the infringer gains profit by destroying another's legal interest (e.g. by physically hurting a competitor so that the competitor has to shut down his business or by destroying machines of a competitor) and cases where a media company considerably increases its profits by publishing a faked interview with a celebrity. He holds that under such circumstances it was not possible to claim the unlawful profits by way of a claim in law of unjust enrichment.\textsuperscript{45} Neither a claim in law of damages would result in profit disgorgement because law of damages focused exclusively on the disadvantage of the infringed party. Consequently, only disadvantages of the infringed party (as against advantages of the infringing party) could be claimed; the problem would remain that the advantages of the wrongdoer could still be considerably higher. Therefore, Koziol argues for the admission of disgorgement claims in general under private law for cases like those mentioned above where the law of unjust enrichment does not take effect. As against the law of unjust enrichment, a breach of duty was precondition for this special kind of claim. In order to back up his argumentation, he refers to the provisions under ip-law that explicitly contain disgorgement claims and holds that by way of analogy these provisions applied in general. Koziol does not classify this disgorgement claim into the law of damages or into the law of unjust enrichment but holds that it constituted a

\textsuperscript{42} Compare also Wilburg, Die Lehre von der ungerechtfertigten Bereicherung 44 et seqq.
\textsuperscript{44} Koziol in FS Medicus 237 et seqq; again Koziol, Grundfragen des Schadenersatzrechts, Rz 2/33 et seqq.
\textsuperscript{45} See already above.
sui generis claim that is situated in between the law of damages and the law of unjust enrichment. It remains to be seen whether his thesis will be adopted by the courts.
Disgorgement of Profits in German Law

by Prof. Dr. Tobias Helms, Marburg

§ 1  Definition and concepts of disgorgement

Disgorgement of profits can be viewed as the opposite of a damages claim. While damages compensate the loss that an aggrieved party has suffered, disgorgement of profits serves to restore the benefit gained by a person who illegally encroached on another person’s rights. However, the concept of disgorgement of profits is not as clear as it seems at first glance because the profits gained from the infringement can be assessed in two different ways: on the one hand, an illegal benefit can be seen as the entirety of the assets that have accrued to the infringer as a result of the infringement; alternatively, an illegally gained benefit can be seen in the sum of money the infringer avoided paying by using another person’s right without authorisation. In German law the term ‘disgorgement of profits’ usually only refers to the first form of – comprehensive – disgorgement of profits and will therefore only be used in this manner in the following article.

§ 2  Private law

I.  Intentional acts in one’s own interest

1.  De lege lata

Disgorgement of profits is explicitly enshrined in statute law in section 687(2) in connection with sections 681 and 667 Civil Code (BGB). According to these provisions, any person knowingly treating another person’s affairs as his own must surrender anything he obtained as a result of his actions. This form of liability is known as ‘non-genuine’ negotiorum gestio (unechte Geschäftsführung ohne Auftrag or Geschäftsannahme). This concept is based on the traditional rules for ‘genuine’

1 I cordially thank Mr. Jeremy Fenner, LL.M., M.A., doctoral candidate at the University of Marburg, for the translation of this article.
negotiorum gestio (echte Geschäftsführung ohne Auftrag), which prescribe that any person enforcing the interests of another person without having been authorised to do so is liable to surrender any proceeds of his actions in the same manner as an agent (actio negotiorum gestorum directa). However, liability for ‘genuine’ negotiorum gestio is dependent on the animus negotia aliena gerendi – on a person knowingly managing another person’s affairs with the intention of benefiting that other person, since liability along contractual lines requires that the parties have reached a quasi-contractual concurrence of their intentions. But German law went a step further and developed the concept of ‘non-genuine’ negotiorum gestio which is laid down in section 687(2) BGB: in instances where someone intentionally takes advantage of another person’s legally protected interests to his own benefit, the lack of animus negotia aliena gerendi does not present an obstacle to an actio negotiorum gestorum directa: for equitable reasons the unauthorised person can be treated as if he had acted with animus negotia aliena gerendi (unechte Geschäftsführung ohne Auftrag or Geschäftsanmaßung).

But Section 687(2) BGB is actually not particularly relevant in practice: the prevailing opinion is that it does not apply to intentional breaches of contract, while the most important instance where it might apply – the infringement of intangible property rights – is covered by other, more specific claims which already provide for disgorgement of profits where the infringement was merely negligent (cf. below at III.1). The practical use of the provision is further diminished by the fact that, according to the wording of section 687(2) BGB, Geschäftsanmaßung is not given with just any intentional infringement of another person’s rights, but in fact requires the management of another person’s affairs ("Führung eines fremden Geschäfts"). An example of this deficiency is the Caroline of Monaco decision from 1994, where this requirement – according to the prevailing opinion – was not fulfilled. The case involved an infringement of the right of personality through the publishing of a

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3 Helms (footnote 2), p. 120 et seq.
A further example can be seen in another decision of the Federal Supreme Court from 2006, in which it rejected a claim under section 687(2) BGB. In that case a landlord had initially rented out an 8,000 m² property as a parking lot, but then later rented out part of the same property again to third parties for the use of market stalls without the initial tenant either noticing or suffering any concrete losses from this action. The first tenant’s claim for the disgorgement of the profits which the landlord had accrued through this second rental was rejected by the Federal Supreme Court. The Court’s decision turned on the fact that the landlord had not managed the first tenant’s affairs within the meaning of section 687(2) BGB by renting out part of the property a second time as, according to their tenancy agreement, the first tenant would not have been permitted to rent out the property to a third party himself.

Although its practical importance is rather limited under the current state of German law, the approach to disgorgement of profits under section 687(2) BGB is based on the convincing idea that disgorgement of profits should be made available where the rights of another person have been intentionally infringed. On the one hand, this is because the belief of a person who intentionally infringes another person’s right that he will be allowed to keep his illegally gained profits is not worthy of protection. On the other hand, the intentional infringer poses a specific potential danger in light of the fact that he is in a position to weigh up whether the benefit he will receive from the infringement is greater than the damage he will cause (and may have to pay for).

2. De lege ferenda

In light of section 687(2) BGB’s limited practical relevance it would appear congruous to declare the provision’s limitation to cases where the infringer had managed another person’s affairs obsolete and to give up on it, instead basing claims for disgorgement of profits specifically on the intentional infringement of another person’s rights. This is precisely what was proposed by Gerhard Wagner at the 66th German Jurists’ Forum (Deutscher Juristentag) in 2006 when he advocated deleting section 687(2) BGB and adding the following subsection 3 to section 251 BGB:


“Where the person liable in damages has intentionally infringed the obligee’s [= the injured party’s] right, the obligee can demand disgorgement of the profits achieved by the person liable in damages instead of compensation and that he render account of those profits.” (“Hat sich der Ersatzpflichtige vorsätzlich über die Berechtigung des Gläubigers [= des Geschädigten] hinweggesetzt, so kann dieser statt des Schadensersatzes die Herausgabe des Gewinns, den der Ersatzpflichtige erzielt hat, und Rechnungslegung über diesen Gewinn verlangen.”).

However, the participants at the German Jurists’ Forum reacted to this suggestion in a contradictory fashion: although there was widespread agreement over disgorgement of profits being the preferred solution for deterring intentional infringements of others’ rights for the sake of profit, Wagner’s suggested amendment of section 251 BGB was rejected by an overwhelming majority. The overly broad wording of Wagner’s provision was probably partly responsible for this rejection. It would not be appropriate for any and all intentional infringements of another’s right to automatically entitle him to a disgorgement of profits, even where that action only played a very minor part in achieving that profit. Or should a thief be required to surrender game shot with a stolen gun? It could still be argued from a theoretical perspective that such cases would only lead to a partial disgorgement of profits, but dividing profits is immensely difficult in practice.

It would be preferable to develop more precise rules for determining which intentional infringements of another person’s rights can justify a disgorgement of profits. I am of the opinion that the deciding factor therein is whether the infringement merely amounts to usurping another person’s right without having been authorised to do so, or whether the injured party was additionally deprived of the opportunity to profit from that right because he had the option to refuse to permit another to make use thereof on strategic grounds in order to realise the opportunities for profit granted by that

10 Example offered by v. Monroy, Die vollmachtlose Ausübung fremder Vermögensrechte, 1878, p. 160.
right himself.\textsuperscript{11} A constellation such as that would almost necessitate the disgorgement of the illegal profits in favour of the rightholder.

II. Breach of fiduciary duties

Further justification for an order to disgorge profits can derive from the particular nature of the infringed duty. This applies specifically to fiduciary duties, which obligate the fiduciary to exclusively pursue the interests of the beneficiary, as is the case with, for example, partners, directors or administrators. The most common infringements of these duties which are of great practical importance are the acceptance of bribes from third parties,\textsuperscript{12} the pursuit of economic activities in competition with those of the beneficiary\textsuperscript{13} or the use of the entrusted goods and resources for his own purposes.\textsuperscript{14}

Although explicit provisions for disgorgement of profits only exist in relation to prohibition of competition (\textit{Wettbewerbsverbote}, cf. section 61(1) Commercial Code (HGB); section 113(1) HGB; section 88(2) Companies Act (AktG)), a general principle that mandates that breaches of fiduciary duties lead to disgorgement of profits can be found in German law.\textsuperscript{15} if the (intentional or negligent) infringement of a fiduciary duty creates a conflict of interests, the profits attained are to be restored to the beneficiary even if the latter has not suffered any measurable damage and would never have made the profits himself.

In this instance the liability to surrender all illegal profits can be seen as a natural consequence of the specific nature of the duty that has been infringed: where an autonomous and influential position is entrusted to someone, there is inevitably a risk

\textsuperscript{11} Helms (footnote 2) p. 156 et seq.
\textsuperscript{12} Entscheidungen des Reichsgerichts in Zivilsachen (RGZ) 99, p. 31; BGHZ 38, p. 171; BGH Wertpapier-Mittellungen (WM) 1992, p. 879 et seq.; BGH NJW-RR 1987, p. 1380.
\textsuperscript{13} RGZ 45, p. 31; BGH WM 1957, p. 1128; BGH WM 1976, p. 77; BGH WM 1977, p. 194; BGHZ 38, p. 306; BGHZ 80, p. 69, 74; BGHZ 89, p. 162, 171; BGH NJW-RR 1989, p. 1255, 1257.
that he will exploit it to his own benefit. At the same time, the possibility of supervising the fiduciary’s activities is limited by the autonomous nature of his position. Unconditional trust in the loyalty and trustworthiness of the fiduciary is therefore essential for granting such an influential position. However, this trust is destroyed where the fiduciary exploits his position to his own benefit. Where a breach of duty is constituted by the breaching party achieving a benefit for himself the law’s reaction cannot be anything other than to deprive him of that benefit.

III. Reaction to the inadequacy of compensation

1. Intangible property rights

Disgorgement of profits also plays an important role in Germany as a special form of compensation. German law explicitly provides for disgorgement of profits as a special form of compensation for a number of different types of infringements, such as copyright infringements (section 97(2) UrhG)\textsuperscript{16}, patent infringements (section 139(2) PatG)\textsuperscript{17}, design patent infringements (section 42(2) GeschMG)\textsuperscript{18}, infringement of utility models (section 24(2) GbmG)\textsuperscript{19} and trademark infringements (section 14(6) MarkenG)\textsuperscript{20}. The current wording of the respective provisions is based on the EU Directive on the enforcement of intellectual property rights of 29 April 2004 (Dir 2004/48). According to Art. 13(1)2 lit. a of this Directive, in case of an infringement of intellectual property rights the ‘actual prejudice’ (Art. 13(1)1) is to be compensated whilst taking all ‘appropriate aspects’ into account, including ‘any unfair profits made by the infringer’.\textsuperscript{21}

Claims of this type are also recognised as being part of legal custom where other kinds of rights have been infringed, such as the right of personality\textsuperscript{22}, insofar as economic value can be attributed to the right of personality, the same applies to the

\textsuperscript{16} BGH Gewerblicher Rechtsschutz und Urheberrecht (GRUR) 1959, p. 379.
\textsuperscript{17} RGZ 43, p. 56; RGZ 156, p. 65, 67; BGH GRUR 1962, p. 401, 402.
\textsuperscript{18} BGH GRUR 1963, p. 640, 642.
\textsuperscript{19} RGZ 50, p. 111, 115 et seq.
\textsuperscript{20} BGHZ 34, p. 320; BGH GRUR 2006, p. 419.
\textsuperscript{21} On the impact on German law see Meier-Beck, Wettbewerb in Recht und Praxis (WRP) 2012, p. 503.
\textsuperscript{22} BGH NJW 2000, p. 2195, 2201; cf. also BGHZ 20, p. 345, 352 et seq. and BGH NJW 2007, p. 689, 690.
infringement of naming rights and company name rights.\footnote{BGHZ 60, p. 206, 208 et seq.} Other types of cases in which disgorgement of profits have been recognised as a remedy include certain forms of unfair competition, as long as a legal status similar to an absolute legal interest has been infringed.\footnote{BGHZ 57, p. 116, 117 et seq.; BGHZ 122, p. 262; BGH GRUR 1995, p. 349. On the exploitation of trade secrets see BGH GRUR 1977, p. 539, 541 et seq.}

Conceptually, the idea of disgorgement of profits being a special type of compensation appears contradictory at first glance since disgorgement of profits is defined as the conceptual opposite of compensation (cf. above under § 1). However, a closer look reveals important similarities between the two approaches. To begin with, it is evident that illegal gains made through the infringement of another person’s right can correspond to the damage suffered by the aggrieved party. But even where the profits made do not correspond to the damages suffered the profit made through the illegal exploitation of another person’s legal interest indicates the potential for pecuniary exploitation inherent in that interest. Moreover, demanding precise evidence of actual damages suffered by the aggrieved party is sometimes unrealistic. Especially problematic in this context is the infringement of intangible rights. If, for example, a patent or a right of personality is infringed the aggrieved party suffers no direct tangible damage (unlike with damage to a material object). Indeed, the patent or personality right can still be used and/or exploited unreservedly by its holder. It is also often difficult to prove what gain the aggrieved party has foregone through the unauthorized use of the right by the other person. If compensation were to be confined to specific damages that can be shown by the aggrieved party this would run the risk of having no effective sanction for such infringements in the abovementioned types of cases.

Nonetheless, until 2000 disgorgement of profits had almost no role to play in practice in cases such as these. Firstly, this was down to the fact that only that part of the profits that directly resulted from the exploitation of the infringed legal interest could be reclaimed.\footnote{RGZ 35, p. 63, 75; BGH GRUR 1962, p. 509, 512; BGH NJW 1992, p. 2753, 2757 et seq.; BGHZ 150, p. 32, 42 et seq.; on the practice of the division of profits cf. Grabinski, GRUR 2009, p. 260, 264 et seq.} Secondly, the infringer could deduct not only any and all costs associated with the particular infringing act from the profit, but also a proportion of his
This burdened the calculation of that profit with so many uncertainties that it was much simpler for the injured party to demand compensation in the amount that the infringer would have had to pay if he had acquired a licence to exploit the respective legal interest (cf. the second profit calculation method mentioned above in § 1). This was fundamentally changed by a decision of the Federal Supreme Court in 2000 in which it was held that when calculating the profit to be disgorged the flat proportion of the infringer’s general overhead could no longer be deducted. Instead, only those costs that were specifically caused by his actions that led to the accrual of the illegal gains, e.g. materials, production, administrative and distribution costs, would be deductible. This decision completely changed the importance of claims for disgorgement of profits – in some fields it has even become predominant in practice.

2. Rights of personality

Case law has followed a similar tack in relation to the calculation of compensation for the infringement of rights of personality, for example where photographs are published without permission, false or derogatory accusations are made or contrived interviews are published. In the year 1994 the Federal Supreme Court expressly emphasized that the award of damages must also reflect the fact that the rights of personality were infringed in order to attain a profit. The Court stated that a ‘real deterrent effect’ must be inherent in the damages such that they can ‘counterbalance’ the perpetrator’s illegal gain.

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27 BGHZ 145, p. 366, 372.
28 Grabinski, GRUR 2009, p. 260, 262 (on infringements of patents and utility models); comprehensive on this issue Janssen, Präventive Gewinnabschöpfung, 3. Teil, Kapitel 1, E.III.2. (unpublished). However, disgorgement of profits continues to be irrelevant where financially valuable rights of personality have been infringed.
29 Where a financial value is attributed to the right of personality the rules relating to disgorgement of profits as a special form of compensation take effect, cf. footnote 22.
32 BGHZ 128, p. 1.
(moderate) increase in the amounts awarded for compensation where media organisations in particular infringe rights of personality in contemplation of profiting therefrom.\textsuperscript{34}

Even though the Federal Supreme Court does not prescribe a true disgorgement of profits where rights of personality have been infringed, rather treating the illegal profit as a mere factor in the calculation of compensation for the infringement, the similarity to disgorgement of profits as a special form of compensation for the infringement of intangible property rights (cf. 1.) is immediately apparent: in both situations disgorgement of profits is employed as a measure to ensure extensive compensation of the injury, thus allowing the sanction to fulfil its role as a deterrent. However, achieving that goal in relation to infringements of rights of personality would necessitate the courts having the ability to order a genuine disgorgement of profits in particularly egregious cases of systematically calculated infringement.\textsuperscript{35}

3. Competition law

Similar to infringements of intangible property rights (cf. 1.), under section 33(3)3 of the Act against Restraints of Competition (GWB), which was reformed in 2005, profits made by a corporation in intentional breach of antitrust law can be taken into account when calculating damages. Disgorgement of profits was also introduced in this instance in reaction to the fact that a precise calculation of the concrete loss suffered is not always feasible, since it is difficult to determine how market prices would have developed if antitrust law had not been breached.\textsuperscript{36} However, asserting claims under section 33(3)3 GWB is plagued by severe evidentiary difficulties as only the profit that directly resulted from the breach of antitrust law must be disgorged. The provision currently appears to be of little relevance in practice.\textsuperscript{37}

In addition to the abovementioned provision, section 10(1) Unfair Competition Act (UWG) allows certain organisations and institutions to demand the disgorgement of

\textsuperscript{34} Helms (footnote 2) p. 295 et seq.


illegal profits achieved through intentional breaches of competition law at the expense of a multitude of consumers. A parallel provision can be found in section 34a GWB for intentional breaches of antitrust law. The legislature hereby intended to compensate for sanction deficits in relation to dispersed and petty losses. 38 Thus far these claims have been of little relevance in practice 39 because, firstly, an intentional breach of law must be proven and, secondly, the disgorged profit has to be surrendered to the Federal budget, which means that the organisations and institutions entitled to assert these claims have no incentive to shoulder the risks of litigation. 40

§ 3 Criminal law and the law of administrative offences

Not allowing a perpetrator to illegally profit from his actions is not only an important purpose of criminal law, but also of the law of administrative offences. In some respects disgorgement of profits is easier to effect in these branches of law than it is in private law, particularly since the offender has perpetrated a very grave wrong and is to be punished in any event.

Under section 73 et seq. of the Criminal Code (StGB) a criminal court can order the disgorgement of any profits accrued by an offender from the commission of a criminal offence (Verfall). This instrument has become very important in practice. 41 However, under section 73(1)2 StGB the claims of individually injured persons take priority. This leads to, for example, drug dealers and arms dealers being subjected to disgorgement of profits while priority is given to the return of stolen property when punishing thieves. Criminal law disgorgement of profits is also much simpler than its private law equivalent because the 1992 change in the law provides for the

38 BT-Drucks. 15/1487, p. 23 and BT-Drucks. 15/3640, p. 36.
disgorgement of the entire profit without enabling the offender to subtract any costs incurred in his illegal endeavour (*Bruttoprinzip*).\textsuperscript{42}

A similar option of ordering disgorgement of profits is also given where an administrative offence has been committed (section 29a Administrative Offences Act (OWiG), cf. also section 34(1) GWB for antitrust law). However, unlike its criminal law equivalent, this is merely a subsidiary instrument that may only be employed where no fine has been ordered.\textsuperscript{43} The law of administrative offences prioritises fines as a means of indirect disgorgement of profits.\textsuperscript{44} Section 17(4) OWiG explicitly provides that a fine must exceed the economic advantage that the offender achieved through the commission of the administrative offence.

\textsuperscript{42} BGH NJW 2002, p. 3339; Rönau, Vermögensabschöpfung in der Praxis, 2003, no. 182 et seq.

\textsuperscript{43} Rönau (footnote 41) no. 27.

\textsuperscript{44} Retemeyer, wistra 2012, p. 56, 57.
I. Introduction

There can be little doubt that Lord Hatherly’s famous quote “This Court never allows a man to make profit by a wrong”, 1 reflects an imperative of justice and is thus in principle shared by all legal systems. The disgorgement of illegal gains is essential not only from a moral, but also from a deterrence perspective: If the wrongdoer anticipates that he will not be able to keep his profits, he will have no incentives to engage in such an activity in the first place. Nevertheless, this approach has been proven to be quite a challenge in its implementation, as it seems that in reality wrongful conduct often does pay at the end. This is especially so when the behavior of the wrongdoer does not lead to physical damage of a resource but rather to the infringement of immaterial goods (such as intellectual property rights, the right of publicity of a person or trade secrets) or to the breach of other statutory provisions which, among other objectives, aim at the protection of legal interests of private persons as well (such as regulations on competition law, unfair business practices or insider trading).

Under Greek law, an unlawful behavior may give rise to both criminal and administrative sanctions as well as to civil liability. 2 This notwithstanding, it is not seldom that the expected benefits from the unlawful act outweigh the expected costs of the wrongdoer either because the sanctions are themselves inadequate

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1 Lecturer in Civil Law at the Law Faculty of Aristotle University of Thessaloniki, Greece. I would kindly like to thank Assistant Professor Angelos Kornilakis and Dr Dimitris Tzakas for their useful suggestions.

2 See Jegon v. Vivian (1870-1871), Law Reports. Ch. 6, 742 et seq, at 761.

See e.g. Arts 65, 65A and 66 of Law 2121/1993 on civil, administrative and criminal sanctions for infringements of copyrights; Arts 1 (in combination with Art 914 of the Greek Civil Code – hereinafter: GrCC), 25 and 44 of Law 3959/2011 on civil liability as well as on administrative and criminal sanctions in case of violation of the law on free competition through forming cartels.
or because the probability that they will be imposed (and enforced) is low. This
can be attributed to a number of factors, varying from informational asymmetry
leading to difficulties regarding the identification of the wrongdoer, the proof of
the conditions of liability or the assessment of the extent of the accrued profits, to
the inertia as to the initiation of the relevant proceedings. Given that each of the
instruments for the disgorgement of profits has different strengths and
weaknesses a combination of all seems desirable.3

This paper focuses on disgorgement remedies in Greek private law. Such
remedies are not based on a single legal ground, but are rather dispersed over
the private law system. Special provisions on disgorgement damages exist as to
certain type of infringements, especially to intellectual property rights (section II).
The claim for disgorgement of profits may be also based on institutions of Civil
law other than damages, namely on false (or non-genuine) agency without
authorization (negotiorum gestio)4, on unjust enrichment or, if the gains arose out
of breach of contract, on the creditor’s claim for the ‘substitute’ (section III). In
addition, further instruments may indirectly skim-off the wrongdoer from unlawful
profits. The special collective redress mechanisms established in consumer law
provides such an example and may thus qualify as a functional equivalent to
disgorgement damages (section IV). Following this analysis, the paper concludes
with a de lege ferenda proposal for the adoption of disgorgement damages as a
general remedy, following the pattern of Art 6:104 of the new Dutch Civil Code.

II. Disgorgement damages

1. The aim of the law of damages

According to the traditional approach, which is still the prevailing one in
Greece, the main aim of damages is to compensate the victim.5 According to the

3 This issue has been examined in Greece especially within the framework of private enforcement
of competition law. For an overview of the relevant discussions see L. Athanasssiou, in D.
Tzouganatos (ed), Law of free competition [in Greek], 2013, § 24 nr 1 et seq, esp nr 37-50.
4 In Greek ‘μη γνήσια διοίκηση αλλοτρίων’ (Art 739 GrCC), which is the equivalent to the German
5 See M. Stathopoulos, General Part of the Law of Obligations [in Greek], 4th ed 2004, § 8 nr 7;
P. Filios, Law of Obligations. General Part [in Greek], 6th ed 2011, § 168 B 1; Ast. Georgiades,
principle of *restitutio in integrum* the plaintiff is entitled to full compensation for his (pecuniary) losses, meaning that he should be placed in the position he would have been in, had the damage not occurred.\(^6\) Compensation is thus in principle tailored to meet the exact needs of the specific victim, who is at the focal point of the whole procedure, while the circumstances under which the damage occurred or the degree of fault of the wrongdoer are in principle immaterial.\(^7\) This rule, which is primarily meant to protect the victim, sets at the same time an upper limit on damages, in the sense that these shall not exceed the loss that the victim has actually incurred.\(^8\)

The deterrence effect of compensation is widely acknowledged, but it is considered as a positive side-effect rather than as an aim in itself.\(^9\) To the extent

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\(^{7}\) Damage is in principle assessed on the basis of the ‘concrete calculation method’. Deviations to this rule are foreseen by special provisions. On this issue see, among many others, M. Stathopoulos, *supra* note 5, § 8 nr 7-8 and 93 et seq; Ast. Georgiades, *supra* note 5, § 5 nr 72; Ap. Georgiades, *supra* note 5, § 5 nr 5 and § 10 nr 3.


that full compensation of the victim serves both purposes, as it is usually the case in negligently inflicted damage to property assets, no difficulties arise. This is no longer the case when deterrence considerations advocate for the imposition of damages, which exceed the victim’s actual loss. Based on the primacy of the compensatory aim of damages, the prevailing opinion objects to this possibility, unless an exception to this rule is explicitly provided by the law. Hence remedies such as punitive damages are considered alien to the Greek legal system, though not per se contrary to the Greek ordre public.

2. The particularities of immaterial goods and the shortcomings of the traditional approach

The application of the traditional approach to damages does not lead to satisfactory results in case of infringement of rights on immaterial goods, such as copyrights, patents, trademarks, trade secrets, or even aspects of a person’s identity. Such goods are non-rival in their use, in the sense that the use by one person does not prevent the simultaneous use by another person, which comes at zero marginal cost. Moreover, their enforcement, i.e. the exclusion of third

10 Art 65 Law 2121/1993 provides an example of such a provision. See in more detail infra section 3a. On the possibility of the legislator to deviate from the compensatory aim of damages and proceed to the enactment of such provisions see esp M. Stathopoulos, supra note 5, § 9 nr 9; Ph. Doris, supra note 5, 678. Contra P. Papanikolaou, Monetary ‘satisfaction’ awarded in collective actions as means of fighting against abusive general terms and conditions [in Greek], ChrID 2007, 289, esp at 290 et seq and K. Roussos, supra note 5, 82 who claim that the legislator should provide special justification when enacting such provisions.

11 See the landmark decision AP (Plenary) 17/1999, published in Dikaio Epichiriseon kai Etairion (Greek Law Review – hereinafter: DEE) 2000, 181. This decision regarded the enforcement in Greece of a punitive damages award of the court of Houston, Texas. Areios Pagos ruled that punitive damages are not per se contrary to the Greek ordre public, unless they are excessive. This decision has been in principle well-received in the literature. See G. Nikolaidis, Contravention or no contravention of punitive damages to the Greek public order, KritE 2000/1, 319 et seq, esp at 321 and 332; K. Panagopoulos, supra note 9, esp 231-232; Ph. Doris, supra note 5, 679; M. Stathopoulos, Punitive damages, compensatory aim and public order [in Greek], Elliniki Dikaiosyni (Greek Law Review - hereinafter: EllDni) 2010, p 609 et seq, esp at 621; Ch. Themeli, On the penalty clause in Greek law, in Essays in Honour of Penelope Agaliopoulos, 2011, pp 1399 et seq, esp at 1416; Cf G. Dellios, General Terms and Conditions [in Greek], 2nd ed 2013, nr 75. Contra A. Valtoudis, supra note 5, 205; Cf. K.D. Kerameus/S. Vrellis/A. Grammatikaki-Alexiou, supra note 5, esp at 35. Cf also K. Roussos, supra note 10.

parties from making use of them, comes at high cost. It is for this reason that, when it comes to such goods, the free-riding problem is acute.\textsuperscript{13}

On this premises, and especially because the consumption of immaterial goods is non-rival, their infringement does not lead to the reduction of the rightholder’s assets, but rather to lost profits, like e.g. the decrease of the sales of the original product due to the availability of counterfeit products or the loss of royalties that the rightholder would earn in order to provide his consent for the use of his right by another person.\textsuperscript{14} Setting evidentiary difficulties aside and assuming that these lost profits are indeed refunded to the rightholder, he will then be indeed placed in the position he would have been in, had the infringement not occurred. Nevertheless, only by coincidence will his loss match the profits of the wrongdoer. Often the wrongdoer’s profits are higher than the lost profits of the rightholder, especially if the former had greater skills regarding the exploitation of the right, as compared to the latter.\textsuperscript{15} The issue is even thornier in cases in which the holder of the right did not wish to exploit it commercially. Typical such cases arise when it comes to the violation of the right of publicity of a person. Namely, according to Greek case-law, if the person whose image has been unlawfully published in the press claims that he would not have consented to its commercial use, he is not entitled to compensation for pecuniary harm, on the grounds that, had he not given his consent, he wouldn’t

\textsuperscript{13} See, among many others, R.E. Hall/M. Lieverman, \textit{supra} note 12; D. Besanko/R. Braeutigam, \textit{supra} note 12, p 723.

\textsuperscript{14} See Art 298 GrCC which defines lost profits as the profits that would be expected with a high degree of probability in the usual course of events, taking into account the special circumstances, and particularly the preparatory measures taken.

\textsuperscript{15} See M. Th. Marinos, \textit{supra} note 9, 2042; A. Karagounidis, Damages in intellectual property law [in Greek], in \textit{The competitive activity and its protection}, Association of Greek Commercialists 2011, pp 93 et seq, at 95.
have derived any profit from the use of his image anyway.\textsuperscript{16} In such cases the
victims may be only granted damages for their non pecuniary losses.\textsuperscript{17}

In all preceding cases, the specific damage inflicted to the rightholder, more
often than not, does not correspond to the benefit of the wrongdoer and thus the
unlawful behavior of the wrongdoer pays. As a result compensation for lost
profits it is not a suitable remedy to confront violations of immaterial rights.

3. Special provisions on damages for the infringement of intellectual
property rights

property rights

In view of the particularities of immaterial goods, special provisions regarding
their protection were gradually enacted in Greece in the late 1980’s-early 1990’s,
following the German model of the so-called ‘triple damage calculation’
(dreifache Schadensberechnung).

Law 1733/1987 on patents grants to the patent holder whose right has been
culpably infringed the choice to claim, alternatively, damages based on his actual
loss (in the form of lost profits), the license fees he would have been entitled to,
or the profits of the wrongdoer.\textsuperscript{18} Similar provisions have been enacted for the
protection of topographies of semiconductor products,\textsuperscript{19} as well as for industrial
designs.\textsuperscript{20}

Law 2121/1993 on copyrights went even a step further as compared to the
aforementioned provisions. Namely, it provides that when a copyright is infringed
the rightholder shall claim both pecuniary and non pecuniary damages for his

\textsuperscript{16} See AP 940/1995, NoV 1997, 1109; decision 4661/2004 of the Multi member Court of First
Instance of Athens (hereinafter: PPrAth), NoV 2005, 114. On this issue see T. E. Synodinou, The
image in the law [in Greek], 2007, p 295; K. Fountedaki, The natural person [in Greek], 2012, pp
417 et seq. Cf I. Karakostas, Law of personality [in Greek], 2011, p 335, who confronts this
approach of case law with skepticism and K. Karagiannis, The compensation claim for unlawful
use of a person’s image [in Greek], 2007, pp 83 et seq, esp at 86 who heavily criticizes it.

\textsuperscript{17} On the function of such damages, especially in cases of infringement of the right of publicity by
the mass media, see infra section IV a.

\textsuperscript{18} See Art 17 para 2 of Law 1733/1987.

\textsuperscript{19} See Art 17 para 2 of Presidential Decree (hereinafter: PD) 45/1991.

\textsuperscript{20} See Art 28 of PD 259/1997.
loss, while it also stipulates that compensation for pecuniary damages shall not be less than double the license fees that are due in such cases. Hence the legislator opted for the assessment of damages on the basis of the abstract calculation method, in order to facilitate the victim to ground his claim. It further stipulates that instead of compensation, the copyright holder can claim the enrichment of the wrongdoer or the profits the latter derived from his unlawful activity, even if he did not act culpably.

From a legal-dogmatic point of view it has been debated whether the plaintiff’s claims for the license fees and for the profits of the wrongdoer qualify as compensation claims, assessed according to the abstract calculation method, or whether they rather constitute special claims based on unjust enrichment or false agency without authorization. Given that the conditions of these claims are explicitly stated in the law, their legal categorization is of rather limited practical significance. In any case, these provisions are well justified from a

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21 In Art 65 para 2.
22 Art 65 para 3.
23 This debate refers mainly to the provisions of Art 17 para 2 of Law 1733/1987 on patents. According to the prevailing opinion the options provided in this article constitute alternative ways of assessment of damages. See N. Rokas, *Industrial Property* [in Greek], 2nd ed 2011, § 12 nr 8; V. Antonopoulos, *Industrial Property* [in Greek], 2nd ed 2005, nr 1013-1015; G. Panou, Award of an amount corresponding to the license fees as damages for the infringement of an immaterial good [in Greek], *DEE* 1999, 1109 et seq who refers to three ways of assessing damages. See also decisions 478/2008 of the Piraeus Court of Appeals (hereinafter: EfPir), *DEE* 2008, 1371; 454/1990 of the Athens Court of Appeals (hereinafter: EfAth), *EllDni* 1991, 198; PPArAth 1808/2010 *Intrasoft-Nomos*. Contra (rightly, in my opinion) A. Valtoudis, *supra* note 5, 206-207. Cf also A. Karagounidis, *supra* note 15, p 100. The wording of Art 65 of Law 2121/1993 on copyrights is clearer, as it states that the wrongdoer’s enrichment or his profits may be claimed instead of compensation. It is therefore accepted that the law provides special claims of unjust enrichment and false agency without authorization respectively. See E. Stamatoudi, *Compensation claim for wrongful infringement of copyrights* [in Greek], *Dikaio Meson Mazikis Enimerosis* (Greek Law Review - hereinafter: *DiMEE*), 2011, 21 et seq at 21-22; O. Garoufalia, Application of false agency without authorization in copyright law [in Greek], *ChrID* 2003, 102 et seq; D. Kallinikou, *Copyrights and related rights* [in Greek], 3rd ed 2008, nr 269; L. Kotsiris, *Copyright Law* [in Greek], 5th ed 2010, nr 419. Cf also A. Valtoudis, *supra* note 5, esp 211, according to whom both claims should be rather based on unjust enrichment.
24 The most important issue where the practical significance persists pertains to the prescription of the rightholder’s claims. The claim for damages in tort is prescribed in 5 years (Art 937 GrCC), the claim for unjust enrichment in 20 years (Art 249 GrCC), while, according to the prevailing opinion claims deriving from false agency without authorization are prescribed in 20 years. See I. Sakketas, in *Commentary on the Civil Code* (hereinafter: *Ermak*) [in Greek], Art 739 nr 6; P. Papanikolau, in Ap. Georgiades/M. Stathopoulos (eds), *The Civil Code - Commentary* [in Greek], Vol III, 1980, Art 739 nr 11; Ap. Georgiades, *Law of Obligations. Special Part* [in Greek],
policy perspective, have a strong deterrence effect and, despite evidentiary difficulties especially regarding the proof of the wrongdoer’s profits, they have considerably enhanced the protection of the rights they apply to. Where no such provisions exists, like e.g. in trademarks (until 2012), the right of publicity or even trade secrets, it has been maintained in the legal literature that the existing provisions should apply by analogy. Nevertheless, courts have been rather reluctant to do so.

b. Changes brought about by the transposition of Directive 2004/48/EC into Greek law

Directive 2004/48/EC ‘on the protection of intellectual property rights’ has further enhanced the protection of these rights through both substantive and procedural rules, the most significant of which, for the aims of this analysis, are the following:

i. Damages according to Art 13 of the Directive

Art 13 of the Directive grants to the holder of the right that has been infringed a claim for damages and provides that "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.”

In order to comply with the Directive, the Greek legislator repeated the
provision of Art 13 of the Directive (with the exact same wording) in the special
law on patents,27 which applies also for industrial designs and semiconductor
products.28 Similar provisions, have been included in the new law on trademarks
which entered into force in 2012.29 As regards copyrights, no amendment to Law
2121/1993 was deemed necessary, since it already granted greater protection to
the holder of the copyright, as compared to Art 13 of the Directive.30 This
enhanced protection of copyrights under Greek law is considered compatible with
Directive 2004/48/EC, since this Directive is of minimum harmonization.31

27 See Art 53 of Law 3966/2011 which amended Law 1733/1987 on patents. This reform has
been criticized as hasty, since it introduced in Law 1733/1987 a new article (namely Art 17Δ),
which repeats Art 13 of the Directive, without nevertheless repealing the already existing
provisions of the same law (Art 17 para 2), which contains very similar rules. On this point see A.
Karagounidis, supra note 15, pp 97-98.
28 See Art 17 para 3 of PD 45/1991 on semiconductor products and Art 28 para 2 of PD on
industrial designs, that were also amended by Art 53 of Law 3966/2011.
29 See Art 150 of Law 4072/2012 and especially para 7 that reads: “When assessing damages
the court takes into consideration, among other factors, the negative financial consequences and
the loss of profits of the rightholder, as well as the profits derived by the person who infringed the
trademark” and para 8 according to which “If the wrongdoer did not act culpably, the rightholder
has a claim for the amount by which the wrongdoer has profited from the exploitation of the
trademark without his consent, or for the gains that the wrongdoer derived from this exploitation”.
30 See Art 65 of Law 2121/1993.
31 See M. Th. Marinos, supra note 9, 2048; idem, Issues on damages due for infringement of
intellectual property rights according to Directive 2004/48/EC – A contribution to the interpretation
of Art 13 of the Directive and at the same time of Art 65 para 2 of Law 2121/1993 [in Greek],
ChrID 2010, 601 et seq, at 603; A. Karagounidis, supra note 15, p 102. Nevertheless, both claim
that a restrictive interpretation of Art 65 of Law 2121/1993 is necessary, in the sense that only if
the wrongdoer acted with gross negligence or intent should compensation amount to double the
The provisions of Directive 2004/48/EC leave no doubt that for the European legislator the primary aim of damages, at least in cases of infringements of intellectual property rights, is deterrence. Art 13 of the Directive, as well as the provisions which incorporated it in Greek law, move past the traditional approach, according to which in the assessment of damages it is the victim who stands at the focal point, and turn their attention to the wrongdoer. As Professor Marinos aptly put it “(...) the European legislator is neither interested in legal-dogmatic, national categories nor thinks in this way, but he is almost exclusively orientated to the efficient realization of his aims in each national legal system (...).”

**ii. Measures addressing the informational asymmetry between the parties**

In intellectual property rights' infringements, the plaintiff faces considerable problems as to the proof of his damage and/or the profits of the wrongdoer. In order to achieve its goal, Directive 2004/48/EC includes procedural rules regarding the presentation to the court of evidence which lies in the control of the wrongdoer, while it also grants to the plaintiff the right to information on the origin and distribution networks of the goods or services which infringe his intellectual property right.

The Greek law on copyrights has been amended in order to comply with the Directive already in 2007, while the reform of the laws regarding other intellectual property rights followed in 2011-2012. It is worth noting that the relevant Greek provisions go a step further than the Directive, stating that if the party who has been ordered to present evidence to the other party refrains from doing so, without due reason, the allegations of the latter are considered

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license fees. Cf also D. Kallinikou, supra note 23. A. Valtoudis, supra note 5, 205, however, expresses his reservations as to the compatibility of Art 65 of Law 2121/1993 with the Directive.

32 See supra note 9, at 2029.

33 See Art 6 of Directive 2004/48/EC.

34 See Art 8 of Directive 2004/48/EC.

35 Art 2 para 3 of Law 3524/1997 introduced a new article in Law 2121/1993, namely Art 63A.

36 Art 53 of Law 3966/2011 introduced a new article in Law 1733/1987 (namely Art 17 A), which applies also in industrial designs and semiconductor products (see supra note 28). In addition, the new law on trademarks (Law 4072/2012) includes these rules in Art 151.
admitted. After the incorporation of these provisions in Greek law, the overall level of protection of intellectual property rights has indeed increased.  

III. Legal grounds for the disgorgement of profits beyond damages

In the absence of a special provision on disgorgement of profits, the civil law instruments which are better fit for this aim are false agency without authorization and unjust enrichment. Notwithstanding the difficulties as to the proof of the wrongdoer’s profits, both possibilities have been thoroughly examined in the context of the right of publicity and it is therefore on these cases that lies the focus of the analysis. Contract law remedies may be also of interest if there is a contractual relation between the parties.

a. False agency without authorization

Agency without authorization (negotiorum gestio) is a legal institution that deals with cases in which a person manages another’s affairs without being instructed by the latter, or otherwise entitled, to do so. In such a case the intervenor (gestor) shall act in the benefit of the principal and according to his actual or presumptive will.  

If, on the contrary, the gestor knowingly treats the affairs of another person as his own and in his own benefit, the ‘agency without authorization; is characterized as false (or non-genuine). The gestor is then liable in tort, but he also bears all obligations that stem from the law in cases of

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38 See Art 730 of the GrCC.
39 According to the rather prevailing opinion, false agency without authorizations exists when the gestor acted with intention (no matter if this intention had been immediate or eventual). See P. Papanikolaou, supra note 24, Art 739 nr 4; V. Oikonomopoulou, in I. Karakostas (ed), The Civil Code (Commentary) [in Greek] Vol 5, 2008, Art 739 nr 3; A. Tasikas, supra note 24, Art 739 nr 3; Contra G. Kalimopoulos, supra note 24, p 61, who restricts the application of this provision only in cases of immediate intention. 
40 On the tort liability of the gestor in case of false agency without authorization see G. Kalimopoulos, supra note 24, pp 81-82; I. Sakketas, supra note 24, Art 739 nr 1; P. Papanikolaou, supra note 24, Art 739 nr 12; V. Oikonomopoulou, supra note 39, Art 739 nr 3; A. Tasikas, supra note 24, Art 739 nr 9. See also decision 3488/2004 of the Multi member Court of First Instance of Piraeus, ChrID 2005, 30.
agency without authorization, i.e. he is obliged to restitute to the principal whatever he acquired by reason of the management of the latter’s affairs as well as render account for the affair he managed.\footnote{See Arts 739, 734 and 719 GrCC. According to the prevailing opinion the gestor has to return to the principal all profits, even if these are partially due to the former’s special capabilities. See P. Filios, \textit{Law of Obligations. Special Part} [in Greek], 9th ed 2011, § 101; Ap Georgiades, \textit{supra} note 24, § 37 nr 66-67; A. Tasikas, \textit{supra} note 24, Art 739 nr 7. Contra G. Kallimopoulos, \textit{supra} note 24, pp 189 \textit{et seq}; P. Papanikolaou, \textit{supra} note 24, Art 739 nr 10; K. Karagiannis, \textit{supra} note 16, p 102, who claim that the profit should be distributed between the gestor and the principal, depending on the circumstances. Cf also I. Karakostas, \textit{supra} note 16, p 333, who claims that the provisions on false agency without authorization are stricter for the gestor compared to the provisions of unjust enrichment and torts.}

On this premises, false agency without authorization can be used as a legal basis of the disgorgement of unlawful profits. According to the prevailing opinion, every infringement of an absolute (\textit{erga omnes}) right of another (e.g. intellectual property rights or, more importantly given the lack of special provisions, the right of publicity) constitutes an intervention in another’s (i.e. the rightholder’s) affair.\footnote{See G. Kallimopoulos, \textit{supra} note 24, p 52; P. Papanikolaou, \textit{supra} note 24, Art 739 nr 3; Ap. Georgiades, \textit{supra} note 24, § 37 nr 63; A. Tasikas, \textit{supra} note 24, Art 739 nr 1; I. Karakostas, \textit{supra} note 16, p 332. Cf also K. Christodoulou, Notes on the general theory of immaterial goods, \textit{DiMEE} 2007, 180 \textit{et seq} at 196, with specific reference to the application of Art 739 in case of infringement in immaterial goods. If the gestor did not knowingly manages the affairs of another, the provisions on false agency without authorization do not apply and he is therefore only liable on unjust enrichment, or probably also on torts. See Art 740 GrCC as well as P. Papanikolaou, \textit{supra} note 24, Art 740 nr 4; A. Tasikas, \textit{supra} note 24, Art 740 nr 4-5.} However, the field of application of this provision is constrained by the fact that the gestor must have acted intentionally.\footnote{If the gestor did not knowingly manages the affairs of another, the provisions on false agency without authorization do not apply and he is therefore only liable on unjust enrichment, or probably also on torts. See Art 740 GrCC as well as \textit{supra} note 39. On the comparison of the provisions of Art 739 GrCC with Art 65 of Law 2121/1993 on copyrights see in detail O. Garoufalia, \textit{supra} note 23, 102 \textit{et seq}.} Hence, unlike the special claims for disgorgement of profits in case of violation of intellectual property rights, the provisions on false agency without authorization do not apply if the infringement has been negligent (even grossly negligent).\footnote{See also Art 740 GrCC, as well as \textit{supra} note 39. On the comparison of the provisions of Art 739 GrCC with Art 65 of Law 2121/1993 on copyrights see in detail O. Garoufalia, \textit{supra} note 23, 102 \textit{et seq}.}

Case-law on disgorgement of profits on the legal basis of the general provisions on false agency without authorization is rather poor. It seems that in practice few claims are brought on this basis. Even if such a claim is brought, the courts acknowledge the possibility of disgorgement of profits on this legal basis,
but they then seem rather reluctant to proceed to the disgorgement of profits.\(^{45}\)

This is evident in the decision 4661/2004 of the Multi member Court of First Instance of Athens. In this case the plaintiff, who was a model, brought a claim against the owner of a magazine for the unauthorized publication of (half-naked) photos of hers and demanded damages for her non pecuniary harm, as well as 60% of the profits from the circulation of the issue of the magazine in which her photos were included. The court ascertained that in acting so the magazine had infringed the plaintiff’s right on her own personality, and in particular it had violated her right on her own image. It thus granted the plaintiff damages for her non pecuniary harm. It nevertheless rejected her claim for the disgorgements of the magazine’s profits, on the ground that the magazine did not manage the plaintiff’s affairs, but rather the affairs of the photographer, who had the copyright over the photos. This line of argumentation is hard to follow and has been thus heavily criticized in the literature.\(^{46}\)

**b. Unjust enrichment**

An alternative legal basis for the disgorgement of profits is unjust enrichment. According to Art 904 of the Greek Civil Code “whoever has become richer without legal cause from the property or at the cost of another person shall return the benefit”. It is generally accepted that enrichment from the property of another does not occur only when a person has used a property asset of another, but also when he has employed means which fall within another’s legal sphere, like e.g. the unauthorized use of the name or the image of another for advertising purposes.\(^{47}\) Disgorgement of profits on the basis of unjust enrichment is possible even if the beneficiary did not act culpably.


Nevertheless it will often not be possible to disgorge the full profits of the beneficiary on the basis of unjust enrichment. According to the prevailing opinion the beneficiary shall retain the part of the profits which he acquired due to his own efforts and capabilities (e.g. using of his networking and know-how).\textsuperscript{48} The distinction between the profits that should be returned on the basis of unjust enrichment and the profits that the beneficiary is entitled to keep is particularly difficult and is, ultimately, decided on the basis of experience-based knowledge. In addition, unless the defendant acted in bad faith, he shall return the enrichment only to the extent he was still richer at the time he was served the claim.\textsuperscript{49} He shall thus subtract the expenses that he incurred before he had been served, provided that they are directly related to the object of his enrichment (e.g. hiring of specialized staff for the commercial exploitation of the infringed right).\textsuperscript{50}

In practice the significance of unjust enrichment in the disgorgement of profits is rather limited. This is mainly due to the fact that according to the prevailing opinion in case-law, the claim of unjust enrichment is subsidiary to other claims,\textsuperscript{51} meaning that it can be brought only if no other claim is available. This opinion has been heavily, and rightly, criticized in the legal literature for lack of legal foundations.\textsuperscript{52}

\begin{footnotes}
\textsuperscript{48} See M. Stathopoulos, supra note 5, § 16 nr 103; P. Kornilakis, supra note 5, § 69 nr 7; Ap. Georgiades, supra note 5, § 57 nr 12; A. Valtoudis, in SEAK, Art 908 nr 17 and idem, ChRI 2009, 209.
\textsuperscript{49} See Art 909 GrCC.
\textsuperscript{50} See ad hoc A. Valtoudis, supra note 5, 210 and in detail M. Stathopoulos, supra note 5, § 16 nr 109; A. Valtoudis supra note 48, Art 909, nr 9 et seq.
\textsuperscript{52} See M. Stathopoulos, supra note 5, § 23 nr 25; P. Kornilakis, supra note 5, § 62 nr 17; A. Valtoudis, supra note 5, 211.
\end{footnotes}
c. The claim for the ‘substitute’ as a contract law remedy
i. The ‘substitute’ in case of impossibility of performance

If the performance of a contract is impossible through no fault of the debtor, the latter is released from his obligation.⁵³ Even so, the debtor shall grant to the creditor any eventual ‘substitute’ (surrogatum), i.e. everything that has devolved upon him as a result of the impossibility of performance.⁵⁴ If the impossibility of performance is due to the fault of the debtor, as it is presumed, the creditor is entitled to damages instead.⁵⁵ Nevertheless, according to the prevailing opinion, if the creditor ‘waives’ his right to compensation, he can still claim the substitute.⁵⁶

Given that this ‘substitute’ may arise out of a subsequent contract that the debtor has concluded, which eventually led to the impossibility of the performance of the initial contract, e.g. when the debtor transfers the object of the sale to a third person (lucrum ex negotiatione),⁵⁷ it can serve for the disgorgement of the debtor’s profits that arise out of breach of contract.⁵⁸ It is immaterial whether the debtor is still in possession of the gains at the time he is served the claim.⁵⁹ It is debated, though, whether the creditor is entitled to the whole substitute, even if he could not have acquired such gains himself, e.g.

⁵³ See Art 336 GrCC. See also Art 363 GrCC on the initial impossibility of performance, i.e. the impossibility which existed already at the time of the conclusion of the contract. See also Art 380 GrCC on reciprocal contracts.
⁵⁴ See Art 338 GrCC.
⁵⁵ See Arts 335 and 362 GrCC on the subsequent and on the initial impossibility of performance respectively. Cf Art 382 GrCC on reciprocal contracts.
⁵⁶ See M. Stathopoulos, supra note 5, § 19 nr 44. See also A. Gazis, in ErmAK, Art 338 nr 2; I. Spyridakis, supra note 6, nr 120.5; S. Koumanis, SEAK, Art 338 nr 3.
⁵⁸ On the function of the claim for the substitute see in detail A. Konilakis, supra note 57, pp 428 et seq, and esp at 430, referring the significance of this claim as a means for the disgorgement of the debtor’s profits.
because the debtor acquired this profit due to his own special skills or due to extraordinary circumstances.\textsuperscript{60}

\textit{ii. The right of subrogation in case of breach of fiduciary duties in particular}

In case of breach of fiduciary duties the law often provides special remedies for the disgorgement of the wrongdoer's profits. A characteristic such example can be retrieved from the legislation on limited companies and on public limited companies. Namely, the relevant laws include special provisions according to which the directors or/and managers of such companies shall refrain from activities which are competing with the company’s business, unless the general assembly of the company has consented to this activity. If they fail to do so and they enter into a transaction in their own name or in the name of a third party, the company can claim either compensation or the benefits they derived from this activity.\textsuperscript{61}

\textbf{IV. Functional equivalents to disgorgement damages in private law}

Apart from the remedies that aim specifically at the disgorgement of unlawful profits, further mechanisms may lead to comparable outcomes. The most significant ones in Greek law are the following:

\textsuperscript{60} See M. Stathopoulos, \textit{supra} note 5, § 19 nr 46; Ast. Georgiades, \textit{supra} note 5, § 20 nr 30; I. Spyridakis, \textit{supra} note 6, nr 120. 5; S. Koumanis, \textit{supra} note 56, Art 338 nr 9, according to whom in such cases the creditor shall receive only part of the substitute, similarly as in cases of unjust enrichment (see \textit{supra} section III b). Contra P. Filios, \textit{supra} note 41, § 125 B, according to whom the creditor is entitled to the whole substitute. Cf also A. Kornilakis, \textit{supra} note 57, pp 427-428, who concludes that the claim for the substitute differs functionally from the claim of unjust enrichment.

\textsuperscript{61} See Art 23 para 2 of Law 2190/1920 on companies limited by shares and Art 20 para 3 of Law 3190/1955 on limited liability companies. This is equivalent to the German ‘Eintrittsrecht’, provided in Art 113 HGB. In is worth noting that in case of limited liability company, the company has a claim for the profits only if the director entered into a transaction in the name of a third party. If he did so in his own name, he is only liable to pay damages to the company. See also M. Th. Marinos, \textit{supra} note 9, 2044 noting the deterrence effect of these provisions.
a. Monetary ‘satisfaction’ for non-pecuniary loss for infringement of the right of publicity

In all cases of infringement of the right to one’s personality, as well as in all torts, the law provides that the victim shall seek monetary ‘satisfaction’ for his non pecuniary loss.\textsuperscript{62} According to the prevailing opinion, the function of this remedy is compensatory.\textsuperscript{63} The reason that it is named ‘satisfaction’ rather than compensation relates to the difficulties as to its assessment. Indeed, it lies upon the judge to decide on the amount that will be granted to the victim, after taking into consideration all relevant circumstances.\textsuperscript{64}

Despite the fact that the punitive aim of such damages is in principle rejected, a closer look into the criteria on the basis of which judges assess these damages may lead to a different conclusion. More concretely, the judges do not only look at the victim, but also at the wrongdoer. Factors such as the degree of fault of the wrongdoer, his motives, the nature of his activity as profit or non-profit as well as his financial situation in general, are often taken into account.\textsuperscript{65} This assumption regarding the latent punitive aim of monetary satisfaction for non pecuniary losses seems to be reinforced by special laws which set minimum amounts of damages for such losses, sometimes exceedingly high, for certain types of violations, such as e.g. in case of libel by the mass media.\textsuperscript{66}

\textsuperscript{62} See Arts 59 and 932 GrCC.
\textsuperscript{63} See M. Stathopoulos, supra note 5, § 8 nr 63; Ast. Georgiades, supra note 5, § 5 nr 7; P. Filios, supra note 5, § 168 B 2; P. Kornilakis, supra note 5, § 106 nr 4; Karakostas, Die Entschädigung in Geld für Nichtvermögensschäden und die Anerkennung eines Angehörigenschmerzensgeldes im griechischen Recht, ZEuP 2005, 107 et seq, at 109; idem, supra note 16, p 381.
\textsuperscript{64} In Greece there exist no tables regarding damages for non pecuniary losses, and thus the amounts granted to the victim may diverge significantly from one case to the other.
\textsuperscript{66} See Art 4 para 10 of the only Art of Law 2328/1995 on infringements by Radio and TV. See also para 2 of the only Art of Law 1178/1981, as amended by para 1 of the only Art of Law 2243/1994 referring to minimum compensation of the non pecuniary loss of the victim in case of libel by the press. It has been debated in case law whether these minimums amounts may be reduced by the courts, if in a specific case, considering all the relevant facts, the prescribed amount of minimum compensation is inconsistent with the constitutional principle of proportionality (see Art 25 para 1 of the Greek Constitution). Decision 6/2009 of the full bench of Areios Pagos, published in Armenopoulos (Greek Law review - hereinafter: Arm) 2009, 1162,
On these premises, and out of equity considerations, judges seem sometimes to employ monetary satisfaction for non pecuniary losses in order to remedy legal deficiencies, especially in cases in which the legal framework is not comprehensive.\(^\text{67}\) Thus the high amounts that are granted to the victims as non pecuniary damages for the infringement of their right to publicity may factually lead to the disgorgement of the profits of the wrongdoer. In the aforementioned case of the model whose photos have been published by the magazine without her consent,\(^\text{68}\) the court rejected the plaintiff’s claim for the profits of the magazine, but granted her 40,000 Euros for her non pecuniary loss. Even though this approach can be applauded as to the result, it is flawed from a methodological perspective, while it also lacks in transparency.

b. Collective redress mechanisms

Collective redress mechanisms do not technically qualify as remedies but rather as means to facilitate the enforcement of the rights of individuals. These instruments are particularly useful when the loss is dispersed over many persons, each one of whom has suffered a minimal loss. Such instances may arise especially in cases of violation of competition law, unfair business practices or insider trading regulations to the detriment of consumers or investors, respectively. In such cases it is highly unlikely that each individual separately will bring a claim for damages, since his costs for doing so exceed his expected benefit. Collective redress mechanisms can function as a counter-balance for the rational apathy of the victims, ensuring that the gains will not stay with the wrongdoer. Their aim seems thus to be deterrent rather than compensatory.\(^\text{69}\)

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\(^\text{67}\) See also K. Karagiannis, supra note 16, p 120 fn 250.

\(^\text{68}\) Cf however L. Athanassiou, supra note 3, § 24 nr 84 who discusses the aims of private enforcement of competition law to conclude that they are primarily compensatory.
ii. Collective action in consumer law

Law 2251/1994 on consumer protection grants consumer associations the right to file actions for the protection of consumer interests. Such actions can take two forms: First, consumer associations are entitled to pursue the legal protection of the rights of the member of the association.\textsuperscript{70} Second, consumer associations with at least 500 active members may bring a suit in their own name for the protection of the interests of consumers in general.\textsuperscript{71} In this last suit, the consumer organization may, along with other claims, demand monetary ‘satisfaction’ for the non pecuniary losses suffered because of the wrongful behavior of the supplier. The law explicitly stipulates that in assessing these damages the court shall take into consideration the intensity of the violation, the size of the supplier’s business, and its annual turnover in particular, as well as the need of general and special deterrence.\textsuperscript{72} In order to avoid inequitable results the law provides that such monetary satisfaction for non pecuniary harm shall be granted only once for each violation.\textsuperscript{73} Such collective claims can be also filed by the chambers of commerce, manufacturing and industry as well as by professional chambers.\textsuperscript{74}

While all forms of collective redress address the issue of rational apathy of the consumers, it is this last possibility, namely the collective actions claiming ‘satisfaction’ for non pecuniary losses, that is of utmost interest for the disgorgement of profits of the wrongdoer. Consumer associations have made widely use of collective claims and courts have granted to them considerable damages.\textsuperscript{75} Given the traditional approach that damages aim at the protection of the victim, the aforementioned provision seems to have initially puzzled both the courts and the legal literature. Almost 20 years after the enactment of this provision it is no longer debated that monetary satisfaction for non pecuniary loss

\textsuperscript{70} Art 10 para 15 of Law 2251/1994.
\textsuperscript{71} Art 10 para 16 of Law 2251/1994.
\textsuperscript{72} Art 10 para 16 (β) of Law 2251/1994.
\textsuperscript{73} Art 10 para 22 of Law 2251/1994.
\textsuperscript{74} Art 10 para 24 of Law 2251/1994.
functions as a ‘civil sanction’, aiming primarily at deterrence. This conclusion is reinforced by the fact that consumer associations are not free to dispose of this amount in any way they wish. Namely, according to the law, damages shall be spent for the education, information and in general for the protection of consumers. In addition special legal provisions regulate the distribution of this amount: 35% shall stay with the consumer association which brought the claim, another 35% is granted to consumer associations of second degree (i.e. associations of consumer associations), while the rest 30% ends up the state budget.

iii. Collective action for violations of competition law?

Similarly to consumer law violations, the consequences of competition law, may spread over a large number of persons, leading to considerable profits for the wrongdoer. Nowadays there is no longer much doubt on the importance of private enforcement of competition law. Nevertheless, when it comes to compensation claims, the opinion in favor of disgorgement damages does not seem to have prevailed. This can be mainly attributed to the practical difficulties as to the assessment of the profits of the wrongdoer as well as to concerns regarding over-deterrence. Even under a regime of compensation for the concrete damages suffered by the plaintiffs in each specific case, collective

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76 See G. Nikolaidis, supra note 11, 326; K. Panagopoulos, supra note 9, 226; Ph. Doris, supra note 5, 677; G. Georgiades, Punitive damages in Europe and the USA: Doctrinal differences and practical convergence, Revue Héllénique de Droit International 2005, 145 et seq, at 156; G. Dellios, supra note 11, nr 74; Ch. Apalagaki in E. Alexandridou (ed), Consumer Protection Law [in Greek], 2008, Art 10 nr 70; M. Stathopoulos, supra note 11, 616; L. Athanassiou, supra note 3, § 24 nr 176. See also P. Papanikolaou, supra note 10, esp at 292 with heavy criticism of this provision. On case law see supra note 75; Contra I. Karakostas, Consumer protection [in Greek], 2008, esp nr 1013-1018, who insists on the compensatory aim of this claim, claiming further (at nr 1026) that deterrence is just a positive side effect. Nevertheless I. Karakostas seems in the meanwhile to have adopted a more moderate approach. See supra note 16, p 381 fn 1147, accepting the punitive aim of such damages.


78 Ibid.

79 See in detail L. Athanassiou, supra note 3, § 24 nr 1 et seq, esp 37 et seq.

80 See L. Athanassiou, supra note 3, § 24 nr 84-87.
redress mechanism could significantly contribute to the enforcement of competition law.

The introduction of collective redress mechanism has been thoroughly discussed in a European level. However, the final draft of the proposal of a Directive “on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union” refrained from including any relevant provision. In addition, no such provisions have been adopted in the new Greek competition law of 2011.

This notwithstanding, when competition law violations lead to damage to the consumers, the collective redress mechanism which is provided in consumer law can apply. Namely it is accepted that consumer associations, as well as other professional organizations, are entitled to both pursue the claims of their members and file collective claims in their own name, even when these pertain to violation of competition law. Nevertheless, the legal framework of the collective action for consumer law violations does not fit well the needs of cases on competition law violations. It is thus doubtful whether such a claim has been filed to date.

V. Concluding remarks

Disgorgement damages are confronted with skepticism in Greece. They are often rejected as a matter of principle, since according to the (still) prevailing

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82 See Law 3959/2011.
83 See L. Athanassiou, supra note 3, § 24 nr 177-178. Cf I. Karakostas, supra note 76, nr 978 who also claims that collective claims of consumer associations are not restricted in cases where the provisions of consumer law are violated, but they can be filed in case of violations of other legal provisions as well, provided that the relation between the parties is a consumer-supplier relation. Cf also EfAth147/2004, NoV 2005, 289 and S. Koumanis, Consumer protection through collective action according to Law 2251/1994 for unlawful processing of personal data (Law 2472/1997) [in Greek], Arm 2005, 502.
84 See in more detail L. Athanassiou, supra note 3, § 24 nr 179 et seq, referring especially to the very short prescription time for this claim.
85 See L. Athanassiou, supra note 3, § 24 nr 184.
opinion in Greece the aim of damages is primarily compensatory. Pragmatic approaches in the literature, though, led to the enactment of special provisions on disgorgement damages for infringements of intellectual property rights. In cases which do not fall within the field of application of these provisions disgorgement of profits is in theory possible through other institutions, namely false agency without authorization and unjust enrichment, provided that their respective conditions are met. In practice, however, few claims are brought on these legal bases. The issue seems less thorny when there is a contractual relation between the parties. The debtor can then claim the gain that arises out of the impossibility of performance as ‘substitute’, while special provisions regulate the disgorgement of profits in case of breach of fiduciary duties. Finally, further private law instruments, such as collective claims, may lead to results which are functionally comparable to disgorgement damages, even if this is not their main aim.

Although disgorgement of profits, as a remedy, is not alien to Greek private law, the relevant legal framework seems to be rather fragmented. The adoption of disgorgement damages as a general remedy would considerably enhance the deterrent effect of damages, which is logically prior to its compensatory aim. From a lege ferenda perspective a flexible provision on the pattern of Art 6:104 of the new Dutch Civil Code, which enables the judge to take into account the profits of the wrongdoer in the assessment of damages, depending on the circumstances of each case, would serve practical needs. In order to avoid inequitable results, which would also lead to over-deterrence, the judge should consider eventual administrative or criminal sanctions which have been imposed on the same wrongdoer for the same violation. Finally, the enactment of such a provision should come with special rules to facilitate the proof of the wrongdoer’s profits, as this would greatly enhance its applicability.

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86 See esp M. Stathopoulos, supra note 11, 621.
Turkey

“Disgorgement of Profits”

National Report of Turkey

By Dr. Başak Başoğlu, Istanbul Bilgi University

I. Introduction

The Republic of Turkey is a country, which follows the civil law tradition. Accordingly, the primary feature of Turkish legal system is that laws are written as comprehensive codes.\(^1\) Since 1926, it is the legislature’s political choice to adopt both Swiss Civil Code and its inseparably linked Code of Obligations.\(^2\) Turkish Civil Code consists of five books: Law of Persons, Family Law, Law of Inheritance, Law of Property and Turkish Code of Obligations. Although Turkish Code of Obligations is separate from Turkish Civil Code, as stated in article 646 of Turkish Code of Obligations, it is the fifth book and complementary part of Turkish Civil Code. Turkish Code of Obligations is divided into two main parts: General Provisions and Special Types of Obligations. Contracts, torts, unjust enrichment and other provisions with general application, are regulated in the First Part (General Provisions) of the Turkish Code of Obligations. Sales contracts, rent contracts, loan contracts, service contracts, work contracts, mandate and other types of special contract provisions are regulated in the second part (Special Types of Obligations).

Under Turkish Law, disgorgement of profits is considered to be a remedy with a punitive characteristic since it is independent from loss. Therefore, such remedies

\(^1\) Despite the fact that the judicial precedents are not considered as the primal source of law, the first instant courts have the tendency to follow the case law of the Court of Cassation. The Court of Cassation is the last instance for reviewing rulings and judgments rendered by first instance courts of civil and criminal law and the examination courts. The Court of Cassation reviews the judgments upon appeal. The judgments of the Court of Cassation are taken as precedents for legal rulings in the first instance courts.

\(^2\) As Turkish Code of Obligations is adopted from Swiss Code of Obligations, Swiss jurisprudence and their interpretations of same laws is an important reference for the Turkish legal doctrine. For further information on reception and development of the Swiss legislation in Turkey, please see Yeşim M. Atamer, "Rezeption und Weiterentwicklung des Schweizerischen Zivilgesetzbuches in der Türkei", Rabels Zeitschrift für ausländisches und internationales Privatrecht, Mohr Siebeck Publishers, RabelsZ 72 (2008), pp. 723-754.
are foreseen mainly in Penal or Administrative Law. As a rule, private law remedies do not have a punitive character. The main objective of the remedial system in private law is to compensate the loss. Accordingly, loss is the most important element for determining the compensation since loss determines the maximum limit of the compensation. Therefore, as a rule, it is not possible to claim for compensation independent from loss.

On the other hand, under Turkish private law, it could be observed that certain provisions have punitive character. For example, sending of unsolicited goods does not constitute an offer and the recipient is not obliged to return or keep such goods according to article 7 of Turkish Code of Obligations. Likewise, in accordance with article 81 of Turkish Code of Obligations, no right to restitution exists for the things given to produce an illegal or immoral outcome. Accordingly, Court may decide to

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3 For example in articles 158/2 and 235/4 of Turkish Criminal Code, it is stipulated that the criminal fines should be calculated regarding the illegal profit. In article 18 of Law of Misdemeanour and article 17 of Law on Prevention of Laundering of Proceeds of Crime, it is stipulated that the illegal profits are to be confiscated by State.

4 However, treble damages are regulated both in article 68 of Law on Intellectual Property and article 58 of Law on the Protection of Competition. Major difference is that gross negligence or intent is required to claim for treble damages under article 58 of Law on Protection of Competition, whereas treble damages can be claimed independent from fault under article 68 of Law on Intellectual Property. (Selin Özden Merhacı, Karşılaştırmalı Hukukta Cezalandırıcı Tazminat (Punitive Damages), Ankara, Yetkin, 2013, 199.) Both provisions are of punitive character under the influence of American Law. For article 58 of Law on the Protection of Competition, please see; Nurkut İnan, “4054 sayılı Rekabetin Korunması Hakkında Kanun’un Özel Hukuka İlişkin Düzenlemelerine Eleştirel Bir Bakış”, Rekabet Hukukunda Güncel Gelişmeler Sempozyumu II (9 Nisan 2004), Kayseri, 2004, 43-66 (51); Selin Özden Merhacı, ibid, 189-190. For article 68 of Law on Intellectual Property, please see: Fırat Öztan, Fikir ve Sanat Eserleri Hukuku, Ankara, Turhan, 2008, 649. On the other hand, it should be noted that due to its punitive character, article 68 of Law of Intellectual Property has been brought before the Constitutional Court. It has been discussed whether treble damages is against the proportionality principle or not. The Court held that a treble damages is not against the proportionality principle since it determines a limit for compensation. [Please see Decision of Constitutional Court dated 28.02.2013, numbered 133/33]. In other words, Constitutional Court did not find treble damages regulated under article 68 of Law on Intellectual Property as of punitive character.

5 Although both of these provisions are examples of treble damages, there are certain differences between them.

6 It is accepted that this provision is applicable when the price of the unsolicited goods are indicated since otherwise an offer does not exist. Moreover, the contract shall not be formed upon the express acceptance of the recipient, but the sender must expressly or implicitly accept this declaration. This provision is adopted from the article 6a of the Swiss Code of Obligations. This article is actually designed for the consumer sales since in Switzerland there is not a separate code for the protection for the consumers. However, under Turkish Law, it is stipulated as general provision applicable to all types of sales. For detailed information on sending of unsolicited goods; please see M. Murat İnceoğlu; Başak Başıoğlu; “Sipariş Edilmemiş Malların Gönderilmesi”, Prof. Dr. Rona Serozan’a Armağan, Cilt:2, İstanbul, XII Levha Yayıncılık, 2010, 981-1027.
assign these goods to the State Treasury. These provisions are considered to be punitive.\(^7\)

Undoubtedly, disgorgement of profit is regulated as a remedy in case of benevolent intervention in another’s affairs under Turkish law. Benevolent intervention in another’s affairs is regulated in Special Part of Turkish Code of Obligations between articles 526 and 531. According to article 530, the principal has a right to appropriate any resulting benefits even the intervener did not carry out the activities for the predominant interest of the principal. Disgorgement of profit aims to penalize a person who has used another’s right for her/his own benefit. Therefore, disgorgement of profit is considered to be punitive.\(^8\)

Disgorgement of profits is also regulated as remedies in other special types of benevolent intervention to another’s affairs. Disgorgement of profits can be also be found as remedy in cases of infringement of personality rights under article 25/II of Turkish Civil Code; of liability of possessor in bad faith for any damage resulting from wrongful possession, including any benefits he or she collected or failed to collect in accordance with article 995 of Turkish Civil Code, of infringement of intellectual property rights under article 70/III of Law on Intellectual and Artistic Works and of unfair competition in accordance with article 56/I (e) of Turkish Commercial Code. Therefore, it is observed that Turkish legislator aims to penalize those who have wrongfully attacked to another’s rights with her/his own fault and for her/his own benefit.

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\(^7\) Rona Serozan, Medeni Hukuk, Genel Bölüm Kişiler Hukuku, Vedat Kitapçılık, Istanbul, 2013, I § 1 N 22. Punitive provisions could also be found in Inheritance Law. For example; grounds for disinheritation and unworthiness to inherit stipulated in articles 510 and 578 of Turkish Civil Code are of punitive character. Likewise, article 610 of Turkish Civil Code which regulates that heirs who have already appropriated or concealed objects belonging to the inheritance, are not entitled to disclaim the inheritance, is a punitive sanction.

II. Restitution for Things Given to Produce an Illegal or Immoral Outcome

According to article 81 of Turkish Code Obligations, it is not possible to restitute things given to produce an illegal or immoral outcome.\(^9\) Court may decide to assign these goods to the State Treasury.\(^10\) This provision is to prevent the restitution of acquisitions made in order to produce an illegal or immoral outcome. It has been claimed in the legal doctrine that this provision has a punitive purpose.\(^11\)

The Judge’s right to assign the goods to State Treasury, is a confiscation rule. However, the right to confiscation is to be decided by the Judge considering the merits of the case.\(^12\) On the other hand, it should be noted that judge’s discretion is limited with either confiscation of the goods to the State Treasury. Judge may not decide on the restitution of the acquisitions made in order to produce an illegal or immoral outcome.\(^13\)

III. Outlook of Benevolent Intervention In Another’s Affairs

a. General Rule in Special Part of Turkish Code of Obligations

Under Turkish Law, benevolent intervention in another’s affairs is not stipulated as a general provision in the General Part of Turkish Code of Obligations. Controversially, it is stipulated under Special Part of Turkish Code of Obligations between articles 526 and 531. However, these provisions have general character. In other words, these are actually general provisions, which are erroneously situated

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\(^9\) This provision is comparable with Article 27 of Turkish Code of Obligations, which regulates that a contract is void if its terms are impossible, unlawful or immoral. However, it should be noted that article 27 is applicable when the scope of the contract or the aim of both parties are illegal or immoral whereas article 81 is applicable when the aim of the person who delivers the things is illegal or immoral.

\(^10\) The Judge’s right to assign the goods to State Treasury, has been brought to this provision with the new Turkish Code of Obligations dated 2011. This amendment was made upon the critics to the old provision. For the critics, please see: Turgut Öz, “BK 65 Kuralının Sınırlandırılması Sorunu ve BK 20 Kuralı ile İlişkisi Rüşvet – Başlık Parası”; İstanbul Barosu Dergisi, no:1-2-3, İstanbul, 1985; 105 (130).

\(^11\) Hüseyin Hatemi; Hukuka ve Ahlaka Aykırılık Kavramı ve Sonuçları, Özellikle BK m. 65 Kuralı, İstanbul, 1976; 613; Öz, supra note 10, 108.

\(^12\) Kemal Oğuzman; Turgut Öz, Borçlar Hukuku Genel Hükümler Cilt: 2, İstanbul, Vedat Kitapçılık, 2013; 362.

\(^13\) Oğuzman/ Öz, supra note 12, 362.
under Special Part of Turkish Code of Obligations. It is generally accepted in the legal doctrine that benevolent intervention in another's affairs and disgorgement of profits should have been stipulated under General Part of Turkish Code of Obligations.\textsuperscript{14} Moreover, as explained below there are other special provisions where disgorgement profits are regulated. Although these provisions do not directly refer to the benevolent intervention to another's affairs, it is accepted in the legal doctrine that these provisions are special application of the benevolent intervention to another's affairs.

The most important remedy of the benevolent intervention in another's affairs is the disgorgement of profits (benefits).\textsuperscript{15} Disgorgement of profits is a right to claim specified to the Principal. In case when it is claimed by the Principal, the intervener is obliged to transfer all benefits that are obtained due to benevolent intervention and have monetary value, to the Principal.\textsuperscript{16} Accordingly, net profits may be claimed. Net profit is calculated by adding interest to the gross profit and subtracting expenses from the total amount.\textsuperscript{17}

Disgorgement of profits is a unique remedy since it is independent from the conditions of loss and impoverishment.\textsuperscript{18} Therefore, it is different than claims of compensation and restitution. Undoubtedly, there should be a causal link between the gained profits and the benevolent intervention.\textsuperscript{19} Principal has the right to claim profits which himself would not have acquired or thought to acquire and even the intervener has acquired more profits than usual due to intervener's own talent and efforts.\textsuperscript{20} The amount shall be calculated without considering the personal efforts of the intervener. It will be calculated over the actual profits gained. However, in some cases it could be difficult to determine or prove the actual profits since the intervener


\textsuperscript{15} Azra Arkan Akbıyık; Gerçek Olmayan Vekaletsiz İş Görme, Alfa, İstanbul, 1999, 47.

\textsuperscript{16} Haluk Tandoğan, Mukayeseli Hukuk ve Hususiyle Türk-İsviçre Hukuku Bakımından Vekaletsiz İş Görme, İstanbul, 1957, 192; Yavuz/ Özen/ Acar, supra note 14; 801.

\textsuperscript{17} Tandoğan, supra note 16, 193.

\textsuperscript{18} Arkan Akbıyık, supra note 15; 47.

\textsuperscript{19} Tandoğan, supra note 16, 195.

\textsuperscript{20} Serozan; supra note 8, § 24 N 18.
holds all the information regarding the actual profits. In such cases, it is accepted that the method of calculation for compensation shall be applied by analogy.\textsuperscript{21} Accordingly, in cases where it is not possible to determine or prove the actual profits, the judge shall decide on the amount of profits considering all related conditions. On the other hand, the profit that the intervener failed to gain is controversial.\textsuperscript{22} Such profit shall not be considered. Only actual profit could be subject to the claim of disgorgement of profits.\textsuperscript{23} However, loss of profits due to benevolent intervention of another’s affairs could be claimed as a tort claim. It should be further noted that disgorgement of profits could be claimed even the intervener has disposed all the profits. In such cases, claim for actual profits may not be limited with the remaining amount.

It is alleged by a view in the legal doctrine that claims for disgorgement of profits could only be accepted if the claims for pecuniary and non-monetary damages are deducted from this claim.\textsuperscript{24} However, it is the author’s opinion that claims for disgorgement of profits should be accepted along with the claims for pecuniary and non-monetary damages. However, in case the scope of the pecuniary damages is limited with the loss of profits, then either loss of profits or disgorgement of profits should be claimed since both claims coincide.

b. Infringement of Personality Rights

Claims of injured in case of infringement of personality rights has been stipulated in Article 25 of Turkish Civil Code. Accordingly, right of injured to claim for disgorgement of profits is reserved, as clear reference is made to benevolent intervention to another’s affairs in the second paragraph of the said article. Thus, the application of benevolent intervention to another’s affairs is not limited with the rights to assets, but also applicable in case of infringement of personality rights.

\textsuperscript{21} Arkan Akbiyik, supra note 15; 49.
\textsuperscript{22} For this debate, please see Arkan Akbiyik, supra note 15, 45.
\textsuperscript{23} Arkan Akbiyik, supra note 15, 48.
\textsuperscript{24} Serozan, supra note 7, § 5 N 58.
On the other hand, it should be noted that benevolent intervention to another’s affairs is not applicable in all cases of infringement of personality rights. Therefore, the conditions of benevolent intervention to another’s affair should be determined in each case of infringement of personality rights. Also, the intervener must have gained profits due to the benevolent intervention in order for the injured to claim for disgorgement of profits. If the intervener has not gained any profits due to the benevolent intervention, injured only has the right to claim compensation.

According to the wording of Article 25/II, the injured has the rights to claim compensation for pecuniary and non-monetary loss and disgorgement of profits. However, this is controversial in the legal doctrine. According to the first view in the legal doctrine,\textsuperscript{25} which is parallel to the wording of the provision; it is possible to claim both compensations for pecuniary and non-monetary loss and disgorgement of profits. According to another view,\textsuperscript{26} compensation for pecuniary or non-monetary loss and disgorgement of profits may not be claimed together. For the third view,\textsuperscript{27} it is possible to claim both the compensation for non-monetary loss and the disgorgement of profits together while the claims for pecuniary loss and the disgorgement of profits are competitive claims; it is only possible to claim one of them. As for the final view in the legal doctrine,\textsuperscript{28} it is possible to claim both the compensation for non-monetary loss and the disgorgement of profits together. As for the claim for the compensation of pecuniary loss, this view distinguishes the compensation for the actual damage and compensation for loss of profits. Accordingly, in case of actual damage, both the compensation for pecuniary loss and the disgorgement of profits may be claimed together, while in case of loss of profits, either compensation for pecuniary loss and or disgorgement of profits may be claimed.

\textsuperscript{25} Mustafa Dural, Tufan Öğüz, Türk Özel Hukuku Cilt II Kişiler Hukuku, İstanbul, Filiz, 2012, 156-157.
\textsuperscript{26} Abdülkadir Arpacı, Kişiler Hukuku (Gerçek Kişiler), İstanbul, Beta, 2000. 162.
\textsuperscript{27} Hüseyin Hatemi, Kişiler Hukuku Dersleri, İstanbul, Filiz, 2001, 97.
\textsuperscript{28} Arkan Akbiyık, supra note 15; 79-80.
c. Infringement of Intellectual Property Rights

According to article 70/III of Law on Intellectual and Artistic Works, the person whose intellectual property rights are infringed may, apart from the damages, also claim the profits gained by the infringing party. This provision is the application of the benevolent intervention to another’s affairs in Law on Intellectual and Artistic Works. Thus, claim for gained profits is subject to fault.\(^{29}\)

First two paragraphs of article 70 stipulate the rights to claim non-monetary and pecuniary compensation of the infringed party. Parallel to above explanations,\(^{30}\) gained profits may be claimed along with the non-monetary compensation. As for the claim for the compensation of pecuniary loss, this view distinguishes the compensation for the actual damage and compensation for loss of profits. Accordingly, in case of actual damage, both the compensation for pecuniary loss and the disgorgement of profits may be claimed together, while in case of loss of profits, either compensation for pecuniary loss and or disgorgement of profits may be claimed.

Also, it should be noted that disgorgement of profits also stipulated in article 66 of Decree-Law Numbered 556 regarding the Protection of Trademarks;\(^{31}\) article 140 of Decree-Law Numbered 551 regarding the Protection of Patent rights\(^{32}\) and article 52

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\(^{30}\) Please see above III a.

\(^{31}\) “The injury suffered by the owner of the trademark include not only the value of the actual loss but also the loss of profits incurred due to the infringement of the trademark rights. The loss of profit shall be calculated in accordance with one of the following methods, to be chosen by the injured trademark owner:

a) According to the possible income that the proprietor of the trademark would have generated if the competition of the infringing party did not exist;

b) According to the profit generated by the infringing party from the use of the trademark;

c) According to a license fee that would have been paid if the party infringing the trademark right would have utilized the trademark under a legal licensing contract.” (For English text of the Decree-Law, please see http://www.tpe.gov.tr/dosyalar/EN_khk/Trademark_DecreeLaw.htm).

\(^{32}\) “The damage/prejudice suffered by the proprietor of the patent includes, not only the value of the effective loss, but also includes the income non-realized because of the infringement of the patent right. The non-realized income shall be calculated in accordance with one of the following evaluation methods, on the option of the proprietor of the patent who has suffered damage/prejudice:

a) According to the income that the proprietor of the patent might have possibly generated if the competition of the infringing party did not exist;
of Decree-Law Numbered 554 regarding the Protection of Industrial Design. All three provisions are similar to each other.

d. Liability of Illegal Possessor in Bad Faith

Upon claims depending on rights or presumption of possession, the scope of the restitution obligation of the illegal possessor is stipulated under articles 993-995 of Turkish Civil Code depending on whether the possessor is in good faith or bad faith. According to article 993, illegal possessor in good faith is not liable for perish or damages of the possessed goods. Illegal possessor in good faith is not liable even she/he destroys the goods intentionally. Moreover, illegal possessor in good faith is not liable for utilization of the possessed goods or profits gained or failed to gain. It is controversial in the legal doctrine whether it is possible to claim for the disgorgement of profits depending on the benevolent intervention of another’s affairs. However, as stated above, the prevailing view claims that article 531 of Turkish Code of Obligation is only applicable for the intervener in bad faith. Therefore, gained profits may not be claimed from the illegal possessor in good faith depending on the article 531 of Turkish Code of Obligation.

b) According to the income generated by the infringing party from the use of the patent;

c) According to a license fee that would have been paid if the party, infringing the patent right, would have lawfully utilized the patent under a licensing contract." (For English text of the Decree-Law, please see http://www.tpe.gov.tr/dosyalar/EN_khk/Patent_DecreeLaw.htm)

The injury suffered by the design right holder include not only the value of the actual loss but also the income loss incurred because of the infringement of the design rights. The loss of income shall be calculated in accordance with one of the following evaluation methods, on the option of the design right holder who has suffered the injury:

a) according to the possible income that the design right holder would have generated if the competition of the infringing party did not exist;

b) according to the income generated by the infringing party from the use of the design;

c) according to a license fee that would have been paid if the party infringing the design right would have utilized the design under a legal licensing contract. (For English text of the Decree-Law, please see http://www.tpe.gov.tr/dosyalar/EN_khk/IndustrialDesign_DecreeLaw.pdf)


Oğuzman/ Seliçi/ Özdemir, supra note 34, 109; Özen, supra note 34,123; Selahattin Sulhi Tekinay; Sermet Akman; Haluk Burcuoğlu; Atilla Altop; Eşya Hukuku, cilt I, İstanbul, Filiz, 1989, 206-208.

Oğuzman/ Seliçi/ Özdemir, supra note 34, 109; Özen, supra note 34,123; Tekinay/ Akman/ Burcuoğlu/ Altop; supra note 35, 212.

Arkan Akbıyık, supra note 15; 82; For opposing view, please see Tandoğan, supra note 16, 314.
Scope of the restitution obligation of the illegal possessor in bad faith is stipulated under article 995 of Turkish Code of Obligations. Accordingly, illegal possessor in bad faith is strictly liable for perish or damages of the possessed goods. Accordingly, liability of illegal possessor in bad faith is independent from fault. In cases where the illegal possessor in bad faith has sold the possessed goods, it is controversial in the legal doctrine; whether it is possible to claim compensation from the illegal possessor in bad faith if there is chance to restitute the goods from the buyer. According to a view in legal doctrine, it is not possible to claim for compensation of the value of the goods from the illegal possessor in bad faith, while another view accepts that the claim for the value of the goods from the illegal possessor in bad faith. According to the second view, such claim would be a claim for disgorgement of profits since it is independent from the loss and impoverishment.

Moreover, illegal possessor in bad faith is liable for utilization of the possessed goods or profits gained or failed to gain. This is not claim for compensation but disgorgement of profits. In other words, this provision is a special application of benevolent intervention to another’s affairs and illegal possessor in bad faith is liable for the profits independent from the loss. On the other hand, it should be noted that Court of Cassation had controversial decision on this issue.

Consequently, in case where the possessor in bad faith who is the benevolent intervener in bad faith, has acquired profit from the possessed, owner could claim such profit independent from loss. As far the profits that the possessor in bad faith failed to gain, the objective market value of such profits may be claimed in accordance with the benevolent intervention to another’s affairs.

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38 Özen, supra note 34, 202. In such a case, gained profits may be claimed due to article 531 of Turkish Code of Obligations instead of compensation. It is more beneficial to claim for gained profits when the market price of the possessed goods are lower than the sale price. Arkan Akbiyik, supra note 15, 48.

39 Özen, supra note 34, 193.

40 Oğuzman/ Seliç/ Özdemir, supra note 34, 114.

41 Tekinay/ Akman/ Burcuoğlu/ Altop; supra note 35, 210-211.

42 In 1950, Court of Cassation has rendered that in order to claim for profits gained or failed to gain from illegal possessor in bad faith, it should be proven that the legal possessor would have gained the profits if she/he had possessed the goods. According to this decision, loss is required in order to claim for compensation illegal possessor in bad faith for utilization of the possessed goods or profits gained or failed to gain. Lately, Court of Cassation has rendered that

43 Özen, supra note 34, 263-264.
e. Unfair Competition

Unfair competition has been stipulated under article 54-62 of Turkish Commercial Code. According to article 56 (e), the judge may also decide on the payment of the value of profits, which the defendant might have acquired due to unfair competition, as compensation on behalf of the injured and in accordance with the provision paragraph (d).

Essentially, this provision is the application of the benevolent intervention to another's affairs in Law on Intellectual and Artistic Works. However, the wording of this provision is controversial.

Firstly, the wording of “judge may decide” is misleading. Such wording would mean that it is at judge’s discretion to award on disgorgement of profits as compensation. However, that is an unacceptable interpretation as well since judge is bound by the claims. Thus, award of disgorgement of profits may only be awarded when it is claimed.

Secondly, the wording of “the value of profits, which the defendant might have acquired due to unfair competition” is also ambiguous. Such wording would mean that even the defendant did not acquire any profits, the profits she/he might would have acquired due to unfair competition, may be claimed. However, as explained above in the liability of the illegal possessor in bad faith, only actual profits could be claimed under benevolent intervention to another’s affairs.

Thirdly, the wording of “as compensation” is confusing since such wording would mean claims for disgorgement of profits is available when it is not possible to calculate the compensation. However, such interpretation could not be accepted since this provision is an application of the general rule of benevolent intervention to another’s affairs. Disgorgement of profits is a claim that is independent from loss. This is the most important difference between the claims of disgorgement of profits

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44 According to article 56 (d), injured may claim for compensation of damages if there is fault.
45 Arkan Akbıyık, supra note 15, 89.
46 Arkan Akbıyık, supra note 15, 90.
47 Arkan Akbıyık, supra note 15, 88.
and compensation. Accordingly, depending on the benefits of the claimant, either disgorgement of profits or compensation for the loss of profits should be claimed in case of unfair competition. In cases where the profits acquired by the defendant are more the damages; it would be more beneficial for the claimant to claim for the disgorgement of profits. However, such would be determined in each case.

Finally, the wording of this provision leads to the false understanding that in all types of unfair competition, it is possible for the claimant to claim disgorgement of profits. On the other hand, disgorgement of profits may not be claimed in all types of unfair competition since this provision is the application of the benevolent intervention to another’s affairs in Law on Intellectual and Artistic Works. Therefore, there should be a benevolent intervention to another’s affairs in order to claim disgorgement of profits. However, not all types of unfair competition constitute benevolent intervention to another’s affairs. Acts, which are example to unfair competition, are counted in article 55 of Turkish Commercial Code. Among these examples, taking an illicit advantage from trading or manufacturing secrets obtained or trying to create confusion with the goods and products of the work, the activity or the commercial undertaking of another person; would constitute benevolent intervention to another’s affairs.

IV. Conclusion

Conclusively, under Turkish Law, disgorgement of profits is not stipulated as a general provision. On the other hand, although it is stipulated under special part of Turkish Code of Obligations, characteristic of article 530 of Turkish Code of Obligations, which stipulates the benevolent intervention in another’s affairs, is general. In other words, this provision is actually a general provision, which is regulated under Special Part of Turkish Code of Obligations. Furthermore, it is possible to accept a general concept of disgorgement of profits by collective analogy (rechtsanalogie) regarding article 530 of Turkish Code of Obligations, article 25/II of Turkish Civil Code; article 995 of Turkish Civil Code; article 70/III of Law on Intellectual Property and article 56/I (e) of Turkish Commercial Code. Also it is

48 Tandoğan, supra note 16, 344.
generally accepted in the legal doctrine that benevolent intervention in another’s affairs and disgorgement of profits should have been stipulated under General Part of Turkish Code of Obligations, instead of the Special Part.\textsuperscript{49} Accordingly, one who is harmed due to the intentional tort or infringement of contract of another should have a right to appropriate any resulting benefits arising from such harm.

On the other hand, application of such provision may be problematic in cases where multiple people are harmed due to the benevolent intervention. In such cases, all of the people who are harmed have a right to claim disgorgement of profits. On the other hand, it is possible that these people file different lawsuits in different times since a model of class action is not available under Turkish Law. In this case, distribution of the profit may be problematic.

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No Separate Branch of Law Dealing with Unjustified Enrichment

In Norwegian law there is no separate branch of law dealing with unjustified enrichment.

There are, however, numerous rules giving grounds for enrichment claims. As in jurisdictions that have a “law of unjustified enrichment”, Norwegian law contains rules concerning e.g. claims based on enrichment by subtraction (“restitusjonskrav”), restitutionary damages (reasonable royalty) and disgorgement damages (“vederlagskrav” og “vinningsavståelseskrav”, respectively).¹ Notwithstanding the existence of such rules, the legal doctrine has not been preoccupied with systematization of enrichment claims and development of such a separate branch of law.

The lack of a separate branch of law dealing with unjustified enrichment undoubtedly has had an effect on the development of enrichment claims, since such claims, and the connections between them, have for the most part not been analysed in depth in Norwegian law. For instance, in books on tort law there are some traces of restitution damages and disgorgement damages being dealt with, but since tort law’s main focus have been and still is personal and property damage the legal writing has only to a very limited extent analysed restitutionary damages and disgorgement damages. Furthermore, a rather specialized legal discipline called «the law of monetary claims» (“pengekravsrett”) deals with some claims concerning enrichment by subtraction, e.g. *condictio indebiti* and recourse. However, this legal discipline does not purport to give a systematized account of claims based on enrichment by subtraction. For instance,

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a cohabitant’s claim for remuneration upon breakup for contributing to the other party’s capital increase is dealt with in family law.

Some writers have been preoccupied with the so-called law of obligations. The main work within the law of obligations is Viggo Hagstrøm’s book «Obligasjonsrett». In this book, Hagstrøm analysed enrichment as a legal ground for monetary claims. He seemed to argue in favour of the existence of a general reasonableness rule that gives grounds for enrichment claims.² Such a rule has not been acknowledged by the Norwegian Supreme Court (“Høyesterett”), and Hagstrøm’s point of view has not been adopted by the legal doctrine as a starting point for establishing a separate branch of law dealing with unjustified enrichment.

No General Legal Basis for Disgorgement Damages
In Norwegian law there is no general rule providing that a person who is unjustly enriched at the expense of another is under a duty to make restitution to him.

Surely, the Supreme Court has recognised the existence of broad principles concerning unjustified enrichment. For instance, the Supreme Court made reference to “general principles of restitution and enrichment” (“alminnelige restitusjons- og berikelsesprinsipper”) in 1984 in a case concerning a cohabitant’s claim for remuneration upon breakup for contributing to the other party’s capital increase (Rt. 1984 p 497), and later in a similar case in Rt. 2000 p 1089. In the same vein, the Supreme Court has awarded restitution damages on the basis of a general rule (“alminnelige rettsgrunnsetninger”) which it recognized on grounds of adjacent positive law (Rt. 2009 p 1568).

However, the Supreme Court has not acknowledged the existence of a general enrichment rule comprising enrichment by subtraction and restitution for wrongs, nor has it acknowledged a general rule concerning disgorgement damages. In fact, there are few case law examples concerning disgorgement damages. In effect this means that it is quite uncertain if and to what extent disgorgement damages may be awarded on the basis of non-statutory law.

In 2005, the Supreme Court decided a case concerning unlawful passing off in which the plaintiff claimed damages for loss and, alternatively, disgorgement damages,

² Viggo Hagstrøm, Obligasjonsrett, 2nd ed. 2011 p 687.
arguing that the defendant should not be allowed to make a profit from a wrong, notwithstanding any proof of the plaintiff having suffered a loss as a consequence of the wrong (Rt. 2005 p 1560). The Supreme Court awarded only damages for loss. The Court did not find it necessary to decide whether or not there is a non-statutory legal basis for disgorgement damages in cases concerning passing off, since disgorgement damages, according to the Court, would not provide any better result for the plaintiff than the claim for damages for loss. Without acknowledging any legal basis for disgorgement damages, the Supreme Court stated that the profits from the wrong would consist of only profits that were a consequence of the customers by mistake having bought the defendant’s product instead of the plaintiff’s.

In my mind this cannot be correct, since the profits obtained by passing off surely may exceed the profits that are obtained by sales that are caused by such mistake by the customers. One may argue that the case illustrates the uncertainty in Norwegian law when it comes to disgorgement damages.

The same can be said about a Supreme Court decision which was handed down in 2007 (Rt. 2007 p 817). In this case, the plaintiff claimed disgorgement damages for violation of a non-competition clause. The Supreme Court pointed out that the case law, in particular one of its own judgements from 1966 (Rt. 1966 p 305), gave some support for the existence of a non-statutory legal basis for a claim for disgorgement damages in cases concerning violation of non-competition clauses. However, the Court found in favour of the defendant since he had acted only negligently. The Court did not decide whether Norwegian law contains a non-statutory legal basis for awarding disgorgement damages in cases concerning violation of non-competition clauses. It only stated that such a claim in any event would be conditional upon the defendant having acted with gross negligence or maybe even in bad faith.\(^3\)

Whilst the non-existence of a general legal basis for enrichment claims is quite symptomatic of the lack of a separate branch of law dealing with unjustified enrichment, the latter surely does not exclude the existence of a general legal basis

\(^3\) It should be noted here that shortly prior to this Supreme Court decision, Borgarting Appeal Court (“Borgarting lagmannsrett”) handed down a judgement, in a case concerning patent infringement, which clearly indicates a general non-statutory basis for disgorgement damages. The Patent Act (“patentloven”) at that time did not give legal basis for disgorgement damages. The Appeal Court stated that the Act needed to be supplemented by “non-statutory principles concerning disgorgement of profits” (“må suppleres med ulovfestede prinsipper om fraleggelse av berikelse”), and hence that the damages claim could equal the defendant’s “unjustified enrichment” (“den uberettigede vinning”).
for disgorgement damages. As will be shown below, the statutory law on disgorgement damages has undergone quite considerable development lately, and this development can turn out to be important for a possible recognition of a general legal basis for disgorgement damages.

**Arsenal of Instruments Focussing on Unlawful Profits**

Norwegian law contains several rules, both in penal, administrative and private law that are focussing on the disgorging of profits obtained by a wrong.

The Penal Code ("straffeloven") § 35 provides that profits resulting from criminal acts may be confiscated. The confiscated profits will in general accrue to the Norwegian state. The Penal Code § 37d does however authorize judgements stating that the confiscated profits shall be used to cover a claimant’s claim for damages.

Also administrative law contains regulations providing for disgorgement of unlawful profits for the benefit of the state. For instance the Securities Act ("verdipapirhandelloven") § 17-2 states that profits resulting from unlawful inside trading may be the subject of such confiscation. A similar provision in the Competition Act ("konkurranseeloven") was deleted in 2004, the reasons being, according to the preparatory works, that the provision had never been applied and that fines would be a sufficiently effective sanction.

In the private law sector there are numerous rules regarding disgorgement of unlawful profits. In July 2013 important new legislation came into force: In cases of intentional or negligent intellectual property infringement the right holder may claim damages for loss, restitution damages or disgorgement damages, whichever gives the highest amount. The legislator has taken a pragmatic approach to the labelling, treating restitution damages and disgorgement damages as ways of calculating the monetary claim. If the infringer has acted intentionally or grossly negligent the infringed party may, in cases of intellectual property infringements, choose to claim double restitution damages. Also in cases of passing-off and misuse of trade secret

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the infringed party may choose between damages for loss, restitution damages and disgorgement damages.\(^5\)

The background for the legislator’s acknowledgement of restitutionary damages and, in particular, disgorgement damages is in general an assumption that a claim for damages for loss does not offer sufficient compensation, partly because the loss may be very difficult to prove. Moreover, the legislator assumes that restitutionary damages and disgorgement damages may have deterrent effect, because the wrongdoer’s profits may not only be easier to prove than the right holder’s loss, but it will often also be higher than the loss. More specifically in relation to the rule concerning double restitution damages, the legislator assumes that it may serve a useful purpose in terms of disgorgement of profits in cases in which the profits are difficult to prove and assess, and thereby it may have an important deterrent effect.\(^6\)

The new legislation was adopted by the legislator based on a proposal worked out by the Ministry of Justice and Public Security and does not affect the Copyright Act (“åndsverkloven”), since this Act falls under the Ministry of Culture’s field of responsibility. The Copyright Act § 55 does, however, contain a provision regarding disgorgement of profits resulting from infringement of copyright. Disgorgement according to this provision is not conditional upon the infringer having acted negligently, whereas the abovementioned new legislation sets out negligence as a pre-condition for disgorgement damages.

A case decided in 1987 by the Supreme Court can serve as an example of the application in practice of the Copyright Act § 55 (Rt. 1987 p 1082). The case was about unlawful use of a picture in Norway’s biggest newspaper. On the basis of the predecessor to the disgorgement rule in the Copyright Act § 55, the Court laid down that the use of the picture clearly influenced the infringer’s financial results, and that this was sufficient to conclude that the infringed had a claim for disgorgement of profits. Since the disgorgement damages could not be calculated exactly based on some form of commercial analysis, the calculation, the Court stated, had to be based on a discretionary assessment by the Court.

\(^5\) See the Marketing Act (“markedsføringsloven”) §§ 28 – 30.
\(^6\) See preparatory work, Prop.81 L 2012-2013 pp 42.
With respect to invasions of privacy by way of unlawful use of pictures, case law shows that an alternative route for the injured party may be to allege the Penal Code § 390 and redress according to the Damages Act (“skadeserstatningsloven”) § 3-6. This was done in Rt. 2007 p 687, a Supreme Court case concerning a celebrity magazine’s unlawful use of pictures of two participants in the tv-show «BIG BROTHER». The court put much emphasize on the magazine’s profits when it calculated the claim.

Regarding unlawful use of real estate and chattel there is no legislation in force which directly deals with disgorgement of unlawful profits. In 1981, the Supreme Court ruled that the owner can claim restitution damages in cases of intentional unlawful use of real estate (Rt. 1981 p 1215). The legal doctrine argues that the same goes for unlawful use of chattel, and that negligence on the part of the infringer suffices. The Supreme Court expressly stated that it did not decide whether the owner could claim disgorgement damages, since such a claim had not been put forward. Hence, it is uncertain whether the owner can claim disgorgement damages in these cases.

There is legislation dealing with different issues concerning real estate and the owner’s rights which to a certain extent can serve as legal basis for disgorgement of unlawful profits. The Neighbour Act (“naboloven”) § 11 regulates inter alia situations concerning unlawful construction of buildings on adjoining land. As a main rule such a building shall be torn down. However, there is room for exceptions to this rule, and an exemption is conditional upon the owner of the adjoining land receiving a compensation that normally must not be less than the profits obtained by building on adjoining land.

In the Easement Act (“servituttloven”) § 17 there is a provision concerning persistent default. If either the owner or the right holder acts unlawfully in such a way, the innocent party can claim «adequate compensation» («høveleg skadebot»). When applying this provision the courts have taken into account and put emphasize on the defaulting party’s profits as a result of the default. In 2011, the Supreme Court decided a case concerning construction of a building contrary to a negative obligation. For the compensation to have preventive effect, the Court stated, it is appropriate that the infringer disgorges «some of the profits» gained from the project (Rt. 2011 p 228).
Norwegian law also has an act concerning so called random ownership (the Random Ownership Act ("lov om hendelege eigedomshøve")), which deals with both compensation to a party that randomly loses ownership due to inter alia incorporation, and possession of another man’s assets. In general a party that loses ownership may claim compensation from the party that has acquired ownership due to for instance incorporation, and such compensation shall as a main rule at least correspond to the value that the former party has contributed with. Regarding possession of another man’s assets by way of accident (random), the Random Ownership Act § 15 provides that a possessor who is in good faith will be entitled to keep so called «fruits», whereas he will be obliged to hand the «fruits» over to the owner as from the point in time where the owner sues him for the return of the asset.

With respect to disgorgement damages for breach of contract there is much uncertainty. Norwegian contract law concerning what can be called traditional goods and services contracts will in general offer the purchaser the possibility to claim inter alia a price reduction, which may serve the purpose of obliging the seller to disgorge profits. The uncertainty is more evident when it comes to contracts concerning other types of obligations. This is illustrated by the abovementioned Supreme Court case from 2007 concerning violation of a non-competition clause and disgorgement of profits (Rt. 2007 p 817). As mentioned above, the Court laid down that disgorgement damages is conditional upon the defaulting party having acted grossly negligent or even in bad faith. This judgement was of course handed down prior to the adoption of the abovementioned legislation concerning disgorgement of profits in cases concerning inter alia misuse of trade secret and passing-off.

Regarding disgorgement of profits in cases concerning breach of contract one can also refer to the Companies Act ("selskapsloven") § 2-23. According to this provision a participant in a company is prohibited from taking part in competing business, and in cases of violation of this prohibition the defaulting party is obliged to hand over to the company «an amount corresponding to the benefits he has received as a consequence of the unlawful act». Here, one can also refer to the (Public) Limited Liability Companies Act ("aksjeloven") § 6-17: A company representative may not when acting on behalf of the company receive any remuneration from any other than the company. Any remuneration which is agreed or received by the representative accrues to the company. The same goes for profits from, or any surrogates for, the
remuneration. These rules do arguably deal with disgorgement of damages in fiduciary relationships.

**Is the Norwegian System an Efficient One when it comes to Disgorgement of Unlawful Profits by Private Law Mechanisms?**

That part of the legal doctrine that has been preoccupied with disgorgement damages has mainly discussed restitution damages and disgorgement damages within the sphere of intellectual property rights. The arguments put forward in favour of disgorgement damages comprise the fact that monetary sanctions have the potential to offer real deterrent effect when it comes to infringements of intellectual property, because such infringements often follows a cost-benefit-analysis by the infringer. This coupled with indications that damages for loss do not offer sufficient prevention since the loss can be difficult to prove and calculate, and it may be smaller than the infringer’s profits, has played an important role in the doctrine’s analysis and it is an important reason for the new legislation.

Adoption of the new legislation weakens the argument that the Norwegian system is not an efficient one when it comes to disgorgement of unlawful profits by private law mechanisms. There are good reasons to believe that the new rules, hereunder the rules on disgorgement damages and double royalty, will be applied by the courts in such a way that the monetary sanctions within the sphere of intellectual property rights play a real and important role in preventing infringements.

Outside the sphere of intellectual property rights and copyright there is uncertainty regarding whether or not there is legal basis for disgorgement damages. This is so in relation to unlawful use of real estate and chattel and certain types of breach of contract. If the Supreme Court’s decision from 2007 concerning breach of a non-competition clause is maintained at the next crossroad, it may be argued that the Norwegian system is an inefficient one in this respect. This is so because cases concerning breach of such clauses often involve situations that are characterized by the fact that the infringed company in any event would lose the customers that have followed the defaulting party to his new business. Hence, the infringed company

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7 See e.g. Monsen *op.cit.* (footnote 1) and Ole-Andreas Rognstad and Are Stenvik, «Hva er immaterialretten verd?» («What are intellectual property rights worth?»), in Kirsti Strøm Bull, Viggo Hagstrøm, Steinar Tjomsland (eds.), Bonus Pater Familias, 2002.
would not have suffered any loss because of the breach, making disgorgement damages a very important (default) sanction.

Because of the uncertainty that reigns outside the sphere of the new legislation it is difficult to have a definite opinion regarding the Norwegian system’s efficiency. An important question is to what extent the Supreme Court is prepared to make adequate use of positive law, hereunder the new legislation, and develop an efficient system regarding disgorgement damages. This question has a link to the development of a separate branch of law dealing with unjustified enrichment, see below.

**Is there Basis for Development of a Separate Branch of Law Dealing with Unjustified Enrichment?**

The legal doctrine as it is now, deals with disgorgement damages in such specialized literature as books on intellectual property and company law, and for the most part quite superficially. Enrichment claims fall between the traditional legal disciplines. Because of this, the doctrine scarcely analyses for instance disgorgement damages for breach of contract.

One way forward could be for the doctrine to develop a separate branch of law dealing with unjustified enrichment. This would surely provide for enrichment claims being analysed more thoroughly and comprehensively.

One vital question is whether the legal material invites such a development. In my view it does. One interesting point is that there is quite a lot uncertainty regarding the legal basis for some claims concerning enrichment by subtraction, e.g. claims in *quantum meruit*.8 Seeing that the Supreme Court in 1984 denotes “general principles of restitution and enrichment” (Rt. 1984 p 497, cf. above), it would not be very surprising if this case law could serve as a springboard for developing more general rules on claims based on enrichment by subtraction. I have argued in this direction in an article from 2005.9 Furthermore, the new legislation concerning restitution damages and disgorgement damages could perhaps turn out to give important arguments when discussing restitution for wrongs in general. It will undoubtedly be an important argument in the upcoming legislative process concerning disgorgement

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8 This term is, however, unknown in Norwegian law and doctrine.

9 Monsen *op.cit.* (footnote 1) pp 184.
damages for copyright infringement; there seems to be no reason whatsoever to allow for disgorgement damages on a non-fault basis in such cases, whereas the new legislation sets out negligence as a precondition for awarding disgorgement damages. Bringing together enrichment claims in a separate branch of law, will make it easier to compare and treat alike what should be treated alike. In the same vein, the development of such a branch of law would make it easier to compare Norwegian rules on enrichment claims and for instance similar rules in the English or German legal system, i.e. the communication across borders would profit from such a development.

Whereas the development of a separate branch of law dealing with unjustified enrichment in my mind would be favourable for the analysis and development of enrichment claims, I do not think that this would lead to the acknowledgement of a general rule providing that a person who is unjustly enriched at the expense of another is under a duty to make restitution to him. Such a general rule is too vague to offer any real guidance when applying the law, meaning that the rule only gives a basis for deductions and practically no information as to what deductions may be made. The more sensible way forward is by applying the inductive method, and in this respect Norwegian law has already taken some important steps: There is perhaps a general rule on enrichment claims in cases concerning enrichment by subtraction and the Supreme Court has laid down a general rule regarding restitution damages. Perhaps the new legislation on disgorgement damages gives reasons to believe that the Supreme Court will acknowledge a non-statutory rule that also comprises breach of contract and unlawful use of real estate and chattel?
F. Mixed legal systems

Canada

Disgorgement of Profits: Canada

Lionel Smith\textsuperscript{1}

Jeff Berryman\textsuperscript{2}

McCamus draft

1. Introduction

Canada is a federation, with legislative competence shared between the federal Parliament and the ten provincial legislatures.\textsuperscript{3} Private law belongs to the provincial level.\textsuperscript{4} One province, Quebec, has a civilian system of private law, derived from the customary French law that was applied during the time that it was a colony of France. The other provinces and the territories have adopted the tradition of English common law.

The Supreme Court of Canada has the role of unifying the common law of Canada across the common law provinces. In this it differs from the Supreme Court of the United States. As far as Quebec civil law is concerned, the Supreme Court of Canada is the highest court of appeal, but since there is only one civilian jurisdiction in Canada, the Court does not have a unifying function.\textsuperscript{5}

\textsuperscript{1} Director, Paul-André Crépeau Centre of Private and Comparative Law, and James McGill Professor of Law, Faculty of Law, McGill University; Professor of Private Law, Dickson Poon School of Law, King’s College London.

\textsuperscript{2} Professor, Faculty of Law, University of Windsor, and of the Faculty of Law, University of Auckland (fractional chair).

\textsuperscript{3} The spheres of competence are set out in ss. 91-2 of the Constitution Act, 1867. There are also three territories, which exist by virtue of federal legislation, but which are treated for most purposes as separate jurisdictions at the provincial level. They have their own legislative assemblies and legislate in areas that belong to the provincial level.

\textsuperscript{4} Constitution Act, 1867, s. 92(13).

\textsuperscript{5} By s. 6 of the Supreme Court Act, RSC, 1985, c S-26, at least three of the nine judges of the Supreme Court of Canada must be appointed from Quebec. By convention, the number of Quebec judges is exactly three. Another convention is that when an appeal turns principally on a matter of
2. Scope

In common law Canada, as in other jurisdictions, there has been academic debate about the relationship between unjust enrichment, in the strict or narrow sense that denotes an independent cause of action, and gain-based remedies for wrongdoing. Some authors argue that gain-based remedies for wrongdoing can be seen as part of the law of unjust enrichment. But it is not clear how claims that depend on wrongdoing can, at the same time, somehow be independent of the law of wrongs. The majority view, however, is that unjust enrichment claims do not require proof of any wrongdoing; conversely, any claim that does require proof of wrongdoing is not based on unjust enrichment. A remedy will follow, usually compensation, but in at least some cases, disgorgement of gains. And, since such a case is not based on unjust enrichment, it is not necessary to prove the elements of the cause of action in unjust enrichment, elements that include a deprivation of the plaintiff that corresponds to the enrichment of the defendant.

In other words, disgorgement for wrongdoing (unlike restitution for unjust enrichment) is not related to any loss on the plaintiff’s part. Other commentators therefore argue that gain-based remedies for wrongdoing are an aspect of the pure civil law, the Court hears the appeal in a panel of five that includes the three Quebec judges, so that those with civilian expertise form a majority.

6 P. Maddaugh and J. McCamus, *The Law of Restitution* looseleaf ed. (Toronto: Canada Law Book) at 24-2, footnote 4. Another way to read the claim is simply that disgorgement for wrongdoing is part of the law of restitution; this uses “restitution” in a wide sense that goes beyond restitution for unjust enrichment (giving back) and extends to disgorgement for wrongs (giving up).
7 The idea seems to be that gain-based remedies for wrongdoing require proof of wrongdoing, but may at the same time be independent inasmuch as they might be available even if the plaintiff cannot prove all of the elements of a civil wrong. Maddaugh and McCamus (ibid) assert at one and the same time that wrongdoing is required, but that the breach of a legal duty is not required. In *Aronowicz v Emtwo Properties Inc.*, 2010 ONCA 96, 98 OR (3d) 641, the Ontario Court of Appeal said, in the context tort claims (at [82]): “Whether the claim exists as an independent cause of action or whether it requires proof of all the elements of an underlying tort aside, at the very least, waiver of tort requires some form of wrongdoing.”
law of remedies for these wrongs, and do not form part of the law of unjust enrichment. The Supreme Court of Canada has aligned itself with this view.

In common law Canada, there are different legal techniques for bringing about disgorgement. Some come from the principles developed by the courts of Equity. One of these is called the “accounting of profits”. Some people in fiduciary positions are always required to produce accounts of their management; this is not a remedy for wrongdoing, but is a normal incident of the fiduciary role. Examples would be trustees and agents. Here the obligation to account is primary; it does not arise from wrongdoing. However, the courts of equity also developed the possibility of ordering an accounting of profits against a party that was not otherwise required to render an account. In this context, it could be used as a way of taking away profits. The accounting, as such, is subject to judicial supervision and legal principles govern it (for example, as to which expenses are deductible). Once the profit is determined through the accounting, the defendant must surrender it.

Another technique is the constructive trust. All trusts are situations in which one person holds property, but owes an obligation to another person to hold the benefit of that property for the other. If the obligation is undertaken voluntarily, it is an express trust; if it is imposed by law, it is a constructive trust or a resulting trust. Therefore, if the outcome of a wrongful act is that the defendant holds particular property, and the court concludes that he is obliged to hold the benefit of that property for the plaintiff, a constructive trust will be declared.

Still another technique comes only from the common law, in the narrow sense that excludes equity. This used to be called “waiver of tort”, in the old days when pleading was more formal. Here the idea is simply that in relation to some torts,
the plaintiff could have a common law remedy measured not by his own loss, but by the defendant’s gain. In the words of the Supreme Court of Canada:

Waiver of tort occurs when the plaintiff gives up the right to sue in tort and elects instead to base its claim in restitution, “thereby seeking to recoup the benefits that the defendant has derived from the tortious conduct”.\textsuperscript{11}

Although the language of “waiver of tort” seemed to have died out, it has recently and strangely be revivified in common law Canada, as will be discussed below.

In Quebec civil law, the split between restitution and disgorgement for wrongdoing is clearer. Unjust enrichment, in the strict sense used by the Civil Code of Québec, is a small and residuary category of the law of obligations.\textsuperscript{12} There is a set of codal articles on restitution, that do not apply in unjust enrichment cases (as the Code uses the term unjust enrichment) but rather in cases where a juridical act is annulled, or in cases of undue payments.\textsuperscript{13} Thus in Quebec civil law, there are many situations outside of unjust enrichment in which an obligation to make restitution arises (although many of these would be considered cases of unjust enrichment in other systems, and might be described as unjust enrichment in a wide sense by Quebec jurists). Both of these possibilities clearly stand apart from the law of civil wrongs (\textit{responsabilité civile}). As we will see below, the Code does provide for gain-based remedies in some situations that are not cases of restitution or unjust enrichment, as the Code uses those terms.

The subject of this report is gain-based remedies that arise from wrongdoing, not from unjust enrichment. These are recourses that do not pay attention to any loss the plaintiff might have suffered, but are rather calculated by the gain that the

\textsuperscript{11} Pro-Sys Consultants Ltd. v Microsoft Canada CIE 2013 SCC 57 at [93], quoting Maddaugh and McCamus, above, note 6, p. 24-1.
\textsuperscript{12} CCQ, arts. 1493-4.
\textsuperscript{13} CCQ, arts. 1699-1707.
defendant acquired from the wrongful act. The report is also confined to private law remedies.14

3. Claims based on duties of loyalty

3.1 Common law: Fiduciary duties

Common law Canada has been a leader in the development of fiduciary law and the extension of fiduciary relationships into new areas.15 Where fiduciaries acquire profits in the course of performing their duties, the usual remedy is the imposition of a constructive trust over the profits. If necessary, the plaintiff can exercise his claim over the traceable proceeds of the original profits.16 Even if a trust is not possible, for example because the particular property has been dissipated, an account of profits constitutes an alternative remedy; this means that the court inquires into the profits acquired by the defendant, and orders him to pay that amount to the plaintiff. On the other hand, where loss is caused, for example by the non-disclosure of a conflict of interest, the plaintiff may secure an award of equitable compensation for loss caused.17

The gain-based remedies in fiduciary relationships are often described as arising from “breach of fiduciary duties”. However, there is an alternative analysis that has attracted significant support.18 This is that the correct understanding of the fiduciary’s obligation to give up gains is not a secondary obligation that arises in

14 Some statutes, both federal and provincial, may provide for the disgorgement (or forfeiture) of gains acquired from activity that is criminal or otherwise prohibited by public law. To take one example, the Ontario Securities Act, RSO 1990, c. S.5, ss. 127(1)10 and 128(3)15 allow disgorgement orders for gains acquired in breach of that Act.
response to a wrong; rather it is a primary duty, arising out of the relationship, to transfer to the beneficiary any assets acquired in the fiduciary role. This account allows a clear understanding of many of the features of the fiduciary landscape that are otherwise difficult to explain.\textsuperscript{19} It also helps understand why the law attributes not only unauthorized gains and profits, but (if the principal so chooses) loss-making opportunities.\textsuperscript{20} All rights, opportunities and information arising in the sphere of fiduciary management are attributed to the principal.\textsuperscript{21}

Regardless of the correct theory, profit-stripping claims against fiduciaries are quite common. The Supreme Court of Canada has recently explored the issues in \textit{3464920 Canada Ltd. v Strother}.\textsuperscript{22} The plaintiff company operated a successful business that structured tax-assisted film production service opportunities (TAPSF) as an investment vehicle for its clients. The defendant, Strother, a lawyer who worked for the second defendant, the Davis law firm, had been instrumental in creating the appropriate tax instruments. Changes in the tax legislation brought to an end the TAPSF tax shelters. Strother believed that there was no way around the tax changes and he communicated that opinion to the plaintiff, which remained a client of Davis. Within two months of Strother’s expressing his opinion to the plaintiff, he learnt of a possible fix from Paul Darc, a former executive of the plaintiff. Together, they formulated a new and successful

\textsuperscript{19} For example, it is well-known that fiduciaries cannot reduce their liability by showing that the gain could never have been acquired by the beneficiary (\textit{Regal (Hastings) Ltd. v Gulliver} (1942) [1967] 2 A.C. 134 (H.L.)). Similarly, the fiduciary must give up his gains even if he did not act against the beneficiary’s interest, but rather aligned his interest with the beneficiary so that both profited (\textit{Boardman v Phipps} [1967] 2 A.C. 46 (H.L.)). Again, the fiduciary cannot reduce his liability by showing that he could have acquired the gain in a non-wrongful way (\textit{Murad v Al-Saraj} [2005] EWCA Civ 959). All of these principles show that the obligation to give up the gain is primary and does not depend on proof that the gain is connected to a wrongful act.

\textsuperscript{20} In \textit{Soulos v Korkontzilas}, [1997] 2 S.C.R. 217, an agent acquired an estate in land that his principal wished to acquire, by concealing the vendor’s willingness to negotiate. The value of the estate later declined. Nonetheless, a constructive trust was declared, requiring the agent to convey the estate to the principal in exchange for the price he had paid.

\textsuperscript{21} The same principle is thus capable of explaining fiduciaries’ obligations to disclose information about their fiduciary management; again, this obligation does not depend on wrongdoing but arises from the relationship.

tax credit scheme. Strother left Davis and went into business with Darc. The new
scheme earned Darc and Strother over $64 million in profits.

The plaintiff argued that Strother was obliged to inform it of the new tax scheme
that he discovered. The majority held that Strother was in breach of fiduciary duty
in that he engaged in a competing business at a time when he was still required
under the retainer to advance the business interest of the plaintiff. This conflict
compromised Strother’s ability to “zealously” advance the interests of the plaintiff.
The majority made it clear that fiduciaries may be required to give up profits even
when there has been no loss suffered by the beneficiary; this is tied to the
objective of ensuring that the fiduciary is not swayed by personal considerations
to act in conflict with the client’s interests. The profits earned by Strother
therefore had to be disgorged.\textsuperscript{23}

\subsection*{3.2 Quebec civil law}

The Civil Code of Québec, differently from many civil codes, expressly provides
for duties of loyalty, often also regulating conflicts of interest, and it expressly or
implicitly provides for gain-based remedies in these situations, sometimes
through a requirement of accounting.\textsuperscript{24} The relationships that are covered by
these provisions are similar to those that are fiduciary in the common law:
mandate,\textsuperscript{25} partnership,\textsuperscript{26} directors of legal persons,\textsuperscript{27} and administration of the
property of another\textsuperscript{28} (which in Quebec law includes the trust\textsuperscript{29}).

\textsuperscript{23} The majority held that Strother could keep the (substantial) profits that he acquired after leaving
Davis; at this point, the conflict was “spent”. This was arguably more generous to Strother than
traditional equitable doctrine. The majority, however, declined to allow Strother any allowance in
respect of what his own skill and experience had contributed, although he was allowed to deduct
expenses he had incurred.

\textsuperscript{24} See M. Cumyn, “L’encadrement des conflits d’intêrets par le droit commun québécois” in D.

\textsuperscript{25} Arts. 2138, 2143, 2146-7, 2184.

\textsuperscript{26} Arts. 2200, 2204, 2238. Partners are also mandataries towards the partnership (i.e. towards one
another) (art. 2219), just as common law partners are mutual agents.

\textsuperscript{27} Arts. 322-6. The Code states that directors are mandataries of the legal person (art. 321); this
however is a legal error, since a mandatary acts under the direction of the mandator, while directors
are the ones who decide how the legal person shall act (see M. Cantin Cumyn, “Le pouvoir juridique”
Under the previous Civil Code of Lower Canada, the Supreme Court of Canada held that unauthorized profits acquired by a defendant in the course of acting as a mandatary must be disgorged to the mandator. This was said to flow from the obligation to account that is owed by all mandataries.\(^{30}\) In a more recent case, under the current code, the Superior Court was faced with a faithless real estate agent (mandatary) who had acquired an immovable which the mandator wished to acquire. The Court held that the mandatory could be ordered to transfer the immovable to the mandator.\(^{31}\) The Court relied on art. 2184, which requires a mandatary to render an account, and to return to the mandator anything the mandatary has received in the performance of his duties, even if what he received was not due to the mandator.\(^{32}\) In a subsequent case, the Court of Appeal held that disgorgement in cases of misappropriation of corporate opportunities under art. 2146.\(^{33}\) This article forbids a mandatary from using for his own benefit information he obtains in the course of his mandate, and specifically provides for a gain-based remedy in such a case.

4. Breach of confidence

\(^{(2007)}\) 52 McGill L.J. 209 at 234; English version, “The Legal Power” (2009) 17 European Review of Private Law 345 at 363-4. The corresponding error is often made in the common law, when it is said that directors are agents of the corporation.

\(^{29}\) Arts. 1309-14, 1366. Cantin Cumyn argues (ibid.) that the Code’s regime of administration of the property of others should be seen as the common law governing all situations where one person holds powers over the legal sphere of another. See generally M. Cantin Cumyn and M. Cumyn, *L’Administration du bien d’autrui* (Montreal: Les Éditions Yvon Blais, 2014).

\(^{30}\) Art. 1278.


\(^{32}\) *Lefebvre v Filion* (2007), [2008] R.J.Q. 145 (S.C.). The court referred to *Bank of Montreal v Ng* and also *Soulos v Korkontzilas* (noting, however, that there are no constructive trusts in Quebec law).

\(^{33}\) This provision also therefore reflects the approach mentioned above for the common law: the duty to account for everything received in the course of the fiduciary management is not one that arises out of wrongdoing.

\(^{33}\) *Gravino v Enerchem Transport Inc.*, [2008] R.J.Q. 2178, 2008 QCCA 1820. There is an unofficial translation into English in B. Welling, L. Smith, and L. Rotman, *Canadian Corporate Law: Cases, Notes & Materials*, 4th ed. (Toronto: LexisNexis Canada, 2010), 377. The trial judge ordered disgorgement of profits. The Court of Appeal confirmed the jurisdiction to make such an order, but held (with reference to common law and civilian cases and commentary) that the opportunity taken by the departed corporate managers was sufficiently remote that they were not liable to disgorge.
Obligations relating to confidential information can arise from contract or fiduciary obligations. But in the common law, there is a free-standing obligation, arising from the equitable tradition, that requires a person to use confidential information only for the purposes for which it was given. In *Lac Minerals v. International Corona Resources*, the Supreme Court of Canada held that obligations relating to confidential information are separate from fiduciary obligations. The Court also held that a constructive trust can be imposed to take away the profits of a breach of confidence. More recently, the Court held that there is remedial flexibility in breach of confidence claims: they can lead to constructive trusts, accounting of profits, or compensation for loss.

Subsequent cases have embraced the remedial flexibility approach adopted by the Supreme Court. The reasons for awarding a proprietary remedy of constructive trust, an account of profits, or compensatory damages assessed under the principles of equitable compensation are not always explicitly articulated but depend upon the factual context. A constructive trust is often justified on the grounds of difficulty in quantifying monetary damages particularly for prospective losses. An account of profits is often seen as an alternative to a proprietary remedy, but also is imposed where the breach of confidence relates to information that is “very special”, and where the information is likened to “property” that can only be taken from the “owner” through a consensual exchange.

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37 See for example *GasTOPs Ltd. v Forsyth* 2012 ONCA 134.
5. Breach of Contract and Restrictive Covenant Claims

In common law, it remains controversial whether an account of profits remedy can be given for breach of contract.\(^{40}\) Academic discussion has been generated by the decision of the English House of Lords in Attorney General v Blake.\(^{41}\) A number of Canadian cases have mentioned Blake as if it would apply in common law Canada.\(^{42}\) However, no Canadian common law decision has applied Blake for breach of contract as such.\(^{43}\) Where there have been other claims in breach of fiduciary duty, breach of confidence, or tort, such relief has been granted in Canada, for the reasons set out in other sections of this report. Similarly, there are cases in Canada that follow the principle enunciated in Wrotham Park Estates v Parkside Homes Ltd.,\(^{44}\) namely, that in the case of the breach of a restrictive covenant over property, damages can be measured on the basis of what a person would negotiate to be released from the performance of the covenant. This measure may represent a percentage of the gains made by the defendant by breaching the restrictive covenant.\(^{45}\)

\[\text{Jostens Canada Ltd. v Gibsons Studio Ltd}^{46}\] has come closest to awarding an account of profits for breach of contract. The defendant was the plaintiff’s agent and misappropriated business opportunities to itself. On an appeal regarding the

\(^{40}\) The arguments are fully set out in P. Maddaugh and J. McCamus, The Law of Restitution looseleaf ed. (Toronto: Canada Law Book) at ch. 25.


\(^{43}\) The decision was applied to grant a disgorgement remedy for breach of contract in Amertek Inc. v Canadian Commercial Corp. (2003), 229 D.L.R. (4th) 419 (Ont. S.C.J.), additional reasons at (2003), 39 B.L.R. (3d) 287 (Ont. S.C.J.), further reasons at (2003), 39 B.L.R. (3d) 290 (Ont. S.C.J.); however, this decision was reversed on the ground (inter alia) that there was no breach of contract, (2005), 76 O.R. (3d) 241, 256 D.L.R. (4th) 287 (C.A.), and leave to appeal to the Supreme Court of Canada was refused (2005), 219 O.A.C. 400 (note) (S.C.C.).

\(^{44}\) [1974] 1 W.L.R. 411 (Ch.).


\(^{46}\) 1999 BCCA 273.
measure of the award, the British Columbia Court of Appeal held that the remedy should be disgorgement of any benefit obtained by the defendant through its wrong. The particular wrong was the breach of the duty of good faith and fidelity; of course, one might observe that an agency relationship is always a fiduciary relationship.

In *Huttonville Acres Ltd. v Archer*, the defendant was contractually obliged to submit architectural plans and commence building a home in conformity with other terms of the agreement within 120 days of purchasing the land from the plaintiff vendor. The defendant failed to comply with this term and eventually sold the property to a third party, who, ultimately built a home in conformity with the building requirement set out in the agreement. The plaintiff experienced no compensable loss but sought to recover the profits made by the defendant on its resale of the property. The court declined to make any award. The facts did not fit within any criteria where an account of profits had been awarded in the past. There was no fiduciary relationship. The exceptional criteria of *Blake* were not met. The court declined to award damages based on *Wrotham Park*, that is, damages set at a fee that a reasonable person would have paid to be released from the restrictive covenant. This was because the plaintiff had delayed in bringing suit and in registering its covenant in the land registry.

The most recent decision to discuss disgorgement and breach of contract is *Nunavut Tunngavik Inc. v Canada (Attorney General)*. The plaintiff represented the Inuit people who had entered into a land treaty with the Canadian federal Crown, the defendant. Under the land treaty agreement the defendant was obliged to create and fund a general environmental and economic monitoring plan by 2003. The plan was never implemented within this period, although after the commencement of the litigation in 2008, the defendant finally created a business case that put the cost of implementation at $11 million over five years.

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48 2012 NUCJ 11 (Nunavut Ct. Jus.). Nunavut is one of the three territories in northern Canada.
A final plan was eventually commenced in 2010. The loss experienced by the plaintiff was the failure to have a monitoring plan put into place in accordance with the time schedules set out in the agreement. The plaintiff saw this plan as providing essential information so that it could exercise better decision-making about land use and environmental protection. In not complying with the agreement the court found that the defendant had breached its fiduciary duty owed to Canada’s aboriginal people and its obligation to conform to the “honour of the crown”.\(^{49}\) Infringement of these obligations meant that “at a minimum, … the Crown should not be able to derive benefit from its own failure to carry out its obligations and the remedy should vindicate this requirement.”\(^{50}\) The court awarded the plaintiff the amount saved by the defendant in not expending the $11 million to implement the monitoring plan. In the alternative, and if it was not accepted that the Crown owed fiduciary, or fiduciary-like, duties to the plaintiff, the court explored whether it would give a similar remedy for the breach of contract standing alone. Here, the court accepted the plaintiff’s argument that the facts brought the case within the exceptional nature of \textit{Blake} and that the plaintiff had proved the “something more”\(^{51}\) to justify a disgorgement approach. The “something more” is a synthesis of a number of cases and academic writings that suggests an account of profits is available if some of the following criteria are present: that the relationship is “fiduciary-like”; where the breach is opportunistic, heinous or unusually wrongful; where the plaintiff has a legitimate interest in preventing the profit making activity of the defendant; and where damages would be inadequate compensation. In this case, the facts were akin to a fiduciary relationship. Compensatory damages would be nominal and thus inadequate. The plaintiff had an interest to see that the Crown honoured its land treaty agreements so as not to undermine relationships with aboriginal people, a real fear if the Crown was seen to benefit from such a breach.

\(^{49}\) The obligations that the doctrine of honour of the crown entails have recently been explained by the Supreme Court in \textit{Manitoba Metis Federation Inc. v Canada (Attorney General)} 2013 SCC 14 at [73].

\(^{50}\) Note 48 at [210].

\(^{51}\) Note 48 at [322], [334].
6. Intellectual Property

Most of the law on intellectual property belongs to the federal level of government, which means that the relevant legislation applies in all parts of Canada, without regard to the common law-civil law distinction. The legislation provides for the remedy of an account of profits in cases of infringement.\(^{52}\) The remedy of an account of profits is an alternative to compensatory damages, save in copyright infringement where the remedies are cumulative subject to minimizing any double recovery.\(^{53}\) Excluding copyright, a claimant must elect between taking damages or an account of profits. The election can be exercised after determination of liability and after the defendant has been required to produce accounting details that allow the claimant to make an informed choice.\(^{54}\) Canadian courts have stressed that the rationale for awarding damages or an account in these cases is to provide compensation, avoid an unjust enrichment, and to protect property rights.\(^{55}\) Punishment is not the goal; punitive damages can be awarded separately and in addition to any damages or account award,\(^{56}\) although the deterrent effect of an account remedy is also recognized.\(^{57}\)

The decision to elect an account of profits over compensation is not an unfettered right. Canadian courts have insisted that it lies in the discretion of the court to allow the claimant to elect an account of profits.\(^{58}\) A variety of factors will influence the court when exercising a discretion concerning an account of profits,

\(^{52}\) Patent Act, R.S.C. 1985, c. P-4, s.57(1); Trade-marks Act, R.S.C. 1985, c. T-13, s.53.2; Copyright Act, R.S.C. 1985, c. C-42, s. 34.
\(^{53}\) Copyright Act, R.S.C. 1985, c. C-42, s. 35.
\(^{54}\) AlliedSignal Inc. v Du Pont Canada Inc. [1995] FCJ no. 744 (C.A.) at [77], Wellcome Foundation Ltd. v Apotex Inc [1992] FCJ No. 1194 (T.D.) at [17].
\(^{56}\) Lubrizol Corp. v Imperial Oil [1996] 3 F.C. 40 (CA) at [37].
\(^{57}\) Strother, above note 22 at [76].
\(^{58}\) AlliedSignal Inc. v Du Pont Canada Inc., above, note 54 at [77], and Merck & Co v Apotex Inc. 2006 FCA 323 at [127].
including; the complexity and length of the proceedings, excessive delay, misconduct on the part of the plaintiff, and the good faith of the infringer.\textsuperscript{59}

Despite the availability of an account of profits remedy in the area of intellectual property, it presents practical challenges in implementation. The remedy requires ongoing dealings between the litigants to determine the extent of the profits made, which can often engage further and complex legal motions before the court. It has been described as “rarely chosen over an enquiry as to damages.”\textsuperscript{60}

The quantification of an account of profits can be problematic. The preferred method is what is known as the “differential profit approach” in which the claimant is entitled to recover the difference between the profits actually earned by the infringer and what the infringer would have earned had he not infringed upon the claimant’s intellectual property.\textsuperscript{61} This isolates the profits that flow from the infringement and calls for an apportionment of the profit making aspects of the infringer’s activities.\textsuperscript{62} There must also be a causal connection between the infringement and the profit. Thus, in the recent decision of the Supreme Court of Canada in \textit{Monsanto Canada Inc. v. Schmeiser}\textsuperscript{63} the infringement constituted of the use of the plaintiff’s patent over modified canola seed, which made it immune to the use of the pesticide “Roundup”, which could then be sprayed to destroy weeds in any crop. The defendant was found to have infringed the plaintiff’s patent, but, because the defendant had not applied Roundup to his crop, and thus no advantage accrued from the use of the plaintiff’s patented seed, there was no difference in the profitability of his canola crop. The plaintiff’s claim for the “profits” from the sale of the crop failed because there was no causal connection to any of the profits. As the court determined, no profits flowed as a result of the

\textsuperscript{59} \textit{Merck & Co. v Apotex Inc.}, ibid at [134]-[135], and \textit{Valence Technology Inc. v Phostech Lithium Inc.} 2011 FC 174 (T.D.) at [234].

\textsuperscript{60} \textit{Beloit Canada Ltd. v Valmet Oy} [1992] FCJ No. 825 (CA), and D. Vaver, \textit{Intellectual Property Law 2\textsuperscript{nd} ed.} (Toronto: Irwin Law, 2011) at 654.

\textsuperscript{61} \textit{Monsanto Canada Inc. v Schmeiser}. above note 55 at [102].

\textsuperscript{62} \textit{Lubrizol Corp. v Imperial Oil}, above note 56 at [9].

\textsuperscript{63} Above note 55.
invention infringed.\textsuperscript{64} The causal requirement and prospect of apportionment means that parties can spend an inordinate amount of time attempting to separate the infringing property into its legitimate and infringing components.\textsuperscript{65}

7. Waiver of Tort

It has long been accepted that there can be disgorgement for at least some torts.\textsuperscript{66} It remains unclear, however, whether it is available for all torts. The cases generally relate to torts that protect interests in property.\textsuperscript{67} Negligence (unlike many torts) requires proof of loss. Since loss is constitutive of the cause of action, negligence does not obviously lend itself to gain-based remedies.

Perhaps the most remarkable recent development in Canada concerning disgorgement has been the rise in interest in “waiver of tort”. As noted earlier, the phrase is considered out of date, and tied to pleading rules that are no longer relevant.\textsuperscript{68} However, the concept has recently been revived in the context of class actions. Canadian provinces have class action legislation in which a class action is “certified” (allowed to proceed) before a substantive determination of the allegations.\textsuperscript{69} Certification requires a representative plaintiff to demonstrate a cause of action, that there are two or more claimants, that the claims of the plaintiff class raise common issues for resolution, and that the class action procedure is the preferable procedure for resolving those common issues.\textsuperscript{70} In

\begin{itemize}
\item \textsuperscript{64} Ibid at [103].
\item \textsuperscript{65} Bayer v Apotex Inc. 2002 CanLII 18194 (Ont. C.A.).
\item \textsuperscript{67} There is an argument to the effect that many of these cases actually concern not gain, but a form of compensation: not compensation for a loss suffered, but compensation for the value of a right that was misappropriated. See R. Stevens, Torts and Rights (Oxford: Oxford University Press, 2007), ch. 4.
\item \textsuperscript{68} Above, Section 2.
\item \textsuperscript{69} Civil procedure belongs to the provincial level of legislative competence.
\item \textsuperscript{70} See for example the Class Proceedings Act, S.O. 1992, c. 6, s.5.
\end{itemize}
class actions, certification is a hotly fought battle. If an action is certified, the claim is usually settled; few actions ever go to trial of the substantive merits.\textsuperscript{71}

While the substantive causes of action at the basis of class actions are numerous, many view the negligence action as the way to advance consumer actions. Canada does not have a similar product liability regime as the one in the USA. An impediment to any class action proceeding based upon a negligence claim is that actual proof of loss is an integral part of the substantive claim. This requirement impedes certification because it undermines a claim of a common issue, and more importantly, results in the class action proceeding not being the preferable procedure for resolving those common issues. Against this background, plaintiffs’ counsel have argued that suits be brought as waiver of tort claims rather than bringing them as negligence actions. Because waiver of tort favours disgorgement of wrongful gains, a matter that is more readily capable of quantification, this avoids the need for determination of any class individual’s actual loss, and so makes the proceeding a preferable procedure for certification.

This was the precise issue in \textit{Serhan Estate v. Johnson & Johnson}.\textsuperscript{72} The claimants were diabetics who had used blood glucose monitors and strips manufactured by the defendants. At the time of their use, the defendants were aware that on occasion the meter would return a false reading. The claim was brought on various grounds including negligence, negligent misrepresentation, constructive trust, conspiracy and waiver of tort. Only the last claim was certified for a class action proceeding. On appeal to the Ontario Divisional Court, a majority of the court confirmed the certification. However, all members of the court recognized the novelty of the claim, suggesting that it needed a full evidential record upon which to determine whether waiver of tort was available in the circumstances.

\textsuperscript{71} As of July 2012 only 17 class actions had gone to a full trial in Ontario despite hundreds being launched. Ontario Law Commission, \textit{Review of Class Actions in Ontario} (November 2013) < http://www.lco-cdo.org/class-actions-issues-to-be-considered.pdf >, at 12.

Two competing views on the nature of waiver of tort were offered to the court. One was that waiver of tort was confined to property torts; conversion, trespass, and misappropriation of goods, and that it could not be extended to negligence claims. This accepts that waiver of tort is essentially a gain-based remedy that follows on proof of a tort; it may thus be confined to the property torts. The second view was that waiver of tort exists as an independent cause of action available wherever a defendant has profited through wrongdoing. Following certification in Serhan the case settled and thus no definitive judicial treatment was accorded the doctrinal parameters of waiver of tort. Subsequent cases, including one in the Supreme Court of Canada, have also declined to pronounce on whether waiver of tort is somehow an independent cause of action, or simply a label for a gain-based remedy for torts.\(^73\)

8. Conclusion

Canadian law clearly allows gain-based remedies. However, it may be that only some of them are remedies for wrongdoing. In both common law and civil law, in situations where one person is managing the affairs of another in a fiduciary capacity, it is arguable that the law ascribes rights acquired by the manager to the principal, not as a response to wrongdoing, but simply as the correct legal implementation of the parties’ relationship.

In situations of genuine wrongdoing, including breaches of contract and torts, the law is somewhat less clear. There is a strong suggestion that gain-based remedies are available, but the courts have been hesitant. In the context of breaches of intellectual property rights, the legislation make clear that gain-based remedies are available, although this is in the discretion of the court. The same is true for breaches of confidence, without the need for statutory support.

\(^{73}\) Pro-Sys Consultants Ltd. v Microsoft Canada CIE 2013 SCC 57 at [93]-[97]; Aronowicz v. Emtwo Properties Inc. 2010 ONCA 96 at [82] (see above, note 7); Koubi v Mazda Canada Inc. (2012) 35 B.C.L.R. (5th) 74 (C.A.), leave to appeal refused 2012 SCCA No. 298.
1. Introduction

The study of disgorgement of profits in Israeli law demonstrates the availability of this remedy in nearly all legal areas. The extensive development of this remedy can only be explained in view of Israeli private law being the product of a mixed legal system with special characteristics. Accordingly, this study offers an overview of the special characteristics of Israeli private law (part 2); addresses the terminology regarding disgorgement of profits (part 3); the application of disgorgement of profits in different areas of the law (part 4); the calculation of profits to be disgorged (part 5); adjacent areas, such as negotiorum gestio (part 6) and punitive or aggravated damages (part 7); the links between administrative financial sanctions and private law remedies (part 8); and ends with an evaluation (part 9).

2. Israeli Private Law – a Mixed Legal System with Special Characteristics

The Israeli legal system is mixed. Yet, it differs from other mixed, or hybrid, jurisdictions, in that it was not originally a civilian jurisdiction that was subsequently exposed to the influence of common law, but rather the other way around. Major parts of it, such as the law of torts, trust and insolvency, are based on English common law imported into Palestine during the British Mandate (1918-1948). Other, no less important parts of the law of obligations and property have been reformed by the Knesset in a series of enactments.

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* Professor of Law (Ordinaria), Ariel University Department of Economics and Business Management, Israel/ Visiting Senior Research Fellow, Tel-Aviv University Faculty of Management.


based on Continental, essentially German law. These laws may or may not eventually form the basis for the long-awaited Israeli Civil Code.

Until 1980, lacunae in the Israeli legal system had to be solved by the courts in accordance with the provisions of Article 46 of the Palestine Order in Council, enacted by the British Government in 1922, following the approval of the British Mandate for Palestine by the League of Nations. Under Article 46, gaps in Israeli law, especially in those areas which were not reformed by the Knesset, were filled by Israeli courts turning to English common law and equity. Israeli lawyers had to be versed in English law no less than in Israeli law. The legal rules, adopted in this manner, have remained in force, to the extent that they had not been changed subsequently. In 1980, the Knesset enacted the Foundations of Law, 5740-1980, which severed the ties to English law, by repealing Article 46. This law provides that if the court finds no answer to a legal question in statute law or case law or by analogy, "it shall decide it in the light of the principles of freedom, justice, equity and peace of Israel's heritage".

Although the Israeli legislation is similar to Continental law in form, and the drafting of the separate statutes has sought to follow a comparative law analysis, the style and method of legal development are in the tradition of the Common Law.³ This is due to the British Mandate and the legal education in Israeli law schools. However, there are significant differences. In England, there is much higher concentration of the judiciary than in Israel and the courts follow the precedents strictly, with the understanding that in such a legal system the precedents are the only source of stability. In Israeli law, the Supreme Court is much less hesitant to deviate from its former rulings. Israeli law has also discarded the distinction between common law (rules) and equity (discretion), placing much more emphasis on providing discretion to the judge to decide cases according to his sense of justice.

Israel is a small country, it is not an international commercial center, and the Hebrew language is not spoken or read by many outside Israel. Consequently, the Israeli legal system cannot be expected to develop from

one precedent to another. New problems arise and, in the absence of legislation and precedents, ever more problems end up being brought to court. In the absence of legislation and precedents, the courts too have not much guidance.

In 2006, a Draft Civil Code was published. It differs from existing civil codes in important respects. Unlike a restatement which is addressed to the courts, a civil code has to be addressed primarily to the general public, in order for it to be informed without having to go to court first to find out. The Israeli Draft contains provisions that leave wide margins of discretion to the courts, without guidelines or presumptions that would inform the judge how to apply his discretion, thus corresponding to the situation which obtains in Israel at present. Another characteristic of the Draft is the diminished weight given to the organization of the rules according to legal categories. The Drafting Committee adopted a "holistic" approach, whereby the law is presented as a continuous process of "mutual diffusion" among the legal categories, and the importance of drawing distinctions between them is diminished. The Draft passed the first hearing by the Knesset on 20 June 2011, but not yet the second and third hearings.

3. Terminology

Israeli law uses mostly the term "restitution of profits" or "restitution of benefits" (hashavat revahim, or hashavat tovet hana’ah, respectively). A statute adopted by the Knesset in 2005 – Disgorgement of Profits derived from Publications Concerning Criminal Acts Law, 5765-2005 –, uses the term "disgorgement of profits" (hilut revahim). The statute provides for criminal disgorgement gain penalties, if the profits were derived from a publication concerning a criminal offence that the person, benefiting from the publication, had committed. The implications of the statute for private law remedies are discussed in para. 8.2 infra.

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4 For an English translation of the Draft, see Siehr and Zimmermann, supra n. 2, pp. 249-365.
5 M. Deutch, Interpretation of the Civil Code (Bursi 2005) (in Hebrew), at pp. 27f.
4. Disgorgement of Profits in Different Areas of Israeli Law

4.1 Contracts/ culpa in contrahendo

4.1.1 Contracts

(a) Disgorgement of profits derived from breach of conflict

(1) Breach of contract for the sale of fungible goods

Israeli law grants very strong remedies for breach of contract. The injured party may have recourse to all remedies not only under contract law but also in unjust enrichment. Contractual rights are likened to property rights and, as such, a disgorgement principle applies to the breaching party, who may be stripped by the courts of all gain, even if that exceeds the injured party's loss. The landmark Israeli Supreme Court decision in the case of Adras,\(^6\) which was the first to apply the disgorgement principle to a breach of a contract not involving fiduciary relations,\(^7\) has blurred the lines between contract law, property law and unjustified enrichment, and has profoundly affected Israeli private law ever since.

The factual situation of Adras was as follows: In 1973, the defendant, a German company, contracted to sell to the plaintiff, an Israeli company, iron for a determined price. As a result of the October 1973 war between Israel and its neighboring Arab countries delivery of some of the iron was delayed. The defendant notified the plaintiff that, because of the high storage costs, it had to sell the remaining quantity to a third party. The plaintiff responded promptly with a demand that the iron be delivered to it. The defendant did not comply and, instead, sold the iron for a much higher price to a third party. In 1976 the plaintiff sued for recovery of the defendant's gains. By that time the market price of iron returned to its former level and therefore the plaintiffs could not recover losses under their contract. Instead, it claimed the profits made by the defendant under unjust enrichment.

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\(^7\) With respect to fiduciary relations cf. para. 4.9 \textit{infra}.
In its first decision, the Supreme Court dismissed the claim on the basis of ULIS (Convention relating to a Uniform Law for the International Sale of Goods). Since the plaintiff could not prove that it had suffered a loss due to the breach it could not succeed in its claim. Had the plaintiff avoided the contract immediately after the breach it could have sued for the difference between the contract price and the market price on the date of avoidance (Art. 84, ULIS). The claim in unjust enrichment was likewise dismissed, since the law of unjust enrichment was considered inapplicable between the parties to a contract. §6(a), Unjust Enrichment Law, 5739-1979, provides that “[t]he provisions of this Law shall apply where no other Law contains special provisions as to the matter in question and no agreement between the parties provides otherwise.”

The plaintiff was granted a further hearing, in which two questions had to be decided by an extended panel of five justices of the Supreme Court: Whether unjust enrichment law applies between the parties to a contract? If the answer to the first question is positive – what would be the consequences for the parties in this case?

The majority decided that unjust enrichment law applied also between parties to a contract. Consequently, the seller was required to transfer its profits to the buyer. The grounds for their decisions could be summarized as follows:

(1) Israeli unjust enrichment law is similar to a great eagle which spreads its wings over all other laws (Barak, para. 10). If the contracting parties did not explicitly exclude remedies arising out of unjust enrichment, those would apply. Even such exclusion should be considered subject to public policy (para. 4). It is conceded that both the Contracts (General Part) Law, 5733-1973 and the Contracts (Remedies for Breach of Contract) Law, 5731-1970, 8


contain provisions regulating specific aspects of unjust enrichment. However, this difficulty is overcome by interpreting §6(a), Unjust Enrichment Law, as stating that specific rules on unjust enrichment in other laws should prevail over the general provisions of the Unjust Enrichment Law;

(2) The remedies offered by the laws on obligations (contracts, torts and unjust enrichment) do not aim at protecting only the reliance interest and expectation interest of parties to a contract. They further protect a third interest prohibiting unjust enrichment. Consequently, claims in unjust enrichment and torts should be allowed concurrently. Hence, the plaintiff may choose from all remedies available under any of the branches of the law of obligations, provided only that he does not himself become unjustly enriched from this multiple choice, and that receiving one remedy does not substantively conflict with receiving another. Finally, the Court concludes (Barak, para. 17) that the modern approach to the law on unjust enrichment – in Israel, England, the US and in Continental Europe alike – accepts that the general law on unjust enrichment applies to contracting parties regardless of whether a contract still exists between them or not;

(3) Israeli law recognizes a general rule according to which the injured party has, as a matter of policy, a right to the gain made by the breaching party, even if it had sustained no loss and even if the contract has not been avoided. The extension of the “disgorgement principle” should apply to any case where justice so requires, regardless of the right in question being a property right or not, it being conceded (Levin, para. 5; Barak, para. 23) that some jurists do not accept this thesis.\(^\text{10}\)


(4) Israeli law perceives contractual doctrines very differently from common law legal systems. Under the Israeli legal system enforcement of contractual rights is the rule rather than the exception.\(^{12}\)

Under §39, Contracts (General Part) Law, a party to a contract has to fulfill its obligations in good faith. Accordingly, Israeli law has developed a rule according to which a party to a contract has to behave *be-emunah* (in a trustworthy manner) with his friend (*haver*) with whom he has contracted. Such a requirement implies that a party motivated to breach a contract by availing itself of an opportunity to become enriched, at the expense of the other party, will not be forgiven.

This contractual approach fits the sense of justice prevalent in Israeli society that a sinner should not profit from his wrongful doings (para. 21). Restitution should be granted where conscience and equitability so dictate (*ex aequo et bono*). “Equitability” in this sense is neither a technical term nor is it a subjective matter for any individual judge. The judge should use, as a yardstick for his decision, the sentiment of justice and fairness shared by the enlightened public in Israel. In applying this yardstick the judge should take into account a large number of considerations: the intensity of the plaintiff’s right, the character of the injury inflicted on his interest, the behavior of the parties, and the kind of activity whereby the defendant made the profit. If these considerations point in different directions, as they well may, the judge must exercise judicial discretion.

(5) Under the law of Unjust Enrichment the profit has to be made “at the expense” of the plaintiff. Barak J (para. 24) decides that such is the case. The defendant has been enriched by selling property to which the plaintiff was entitled, the property being the contractual right (para. 24). Does such enrichment at the expense of another require that a right in property or quasi-property be misappropriated? According to Barak J there is no such need (para. 25). A contractual right is part of a person’s property and therefore part of his “account”.\(^{13}\) In a clear turnabout the classification of the right becomes

\(^{12}\) §4, Contracts (Remedies for Breach of Contract) Law.

\(^{13}\) Reference is made to D. Friedmann, *Unjust Enrichment*, 2nd ed. (Bursi 1982), 46; id., *Columbia L. Rev.*, supra n. 9, 513 – “Contract relations may also give rise to interests that
once again necessary for rendering a decision. Furthermore, S. Levin J (para. 5(d)) extends such protection also to the appropriation of any interest which is entitled to protection. This conclusion, according to his analysis, should apply a fortiori to a full-fledged contractual right.

(6) Finally, as an express obiter dictum, Barak J mentions (para. 28) two more possible causes of action in this case: (a) under §62(a) of the Civil Wrongs Ordinance (New Version) inducing the breach of contract is a tort. A party to a contract should not induce a third party to commit such a tort. Thus, if the seller is approached by a third party, it should inform the third party that the “opportunity” to sell the goods now belongs to the buyer: (b) the sale of the goods to the third party may be considered a breach of the duty to act in good faith for which restitution is the appropriate remedy.

(2) Breach of contract/ memorandum of understanding for the sale of land

In Israel, “[a]n undertaking to effect a transaction in immovable property requires a written document” (§8, Land Law, 5729-1969). Initially, the Supreme Court held that, unlike the situation obtaining prior to the adoption of the Land Law, when the written document was necessary only as evidence of the transaction, the §8 requirement is a substantive one. The written document must be complete and definite, with all necessary details included in it. The Court pointed out that, in enacting this provision, the Knesset followed civilian legal systems in which, in the absence of a complete document, the contract for the sale of land is invalid. The requirement was intended to make the parties aware of the seriousness of the transaction, and therefore meriting careful consideration of its details. The writing requirement has since been watered down by the Supreme Court. In most cases a signed,
or even unsigned, memorandum of understanding suffices, provided only that the Court can fill the missing details.  

Disgorgement of profits was awarded in the following circumstances. The parties signed a memorandum of understanding, according to which the defendant had undertaken to sell her apartment to the plaintiffs for USD 140,000. The parties agreed to sign a contract of sale within four months, and the plaintiffs deposited a check of NIS 1000 (ca. USD 250) with the sellers to secure the commitment. The four months elapsed without a contract being concluded. Thereafter, the defendant offered the plaintiffs to sell them the apartment for USD 180,000, noting that this was a discounted price, since the market price at that time was, according to the defendants, USD 200,000. The plaintiffs declined, and the apartment was sold to a third party for USD 192,000.

Having become aware of the sale, the plaintiffs terminated the contract, and initiated proceedings, demanding the USD 52,000 profit that the defendants had made, by not selling the apartment to them. The trial court held that the memorandum of agreement was a valid contract for the sale of the apartment, which was breached by the seller, however considered that, since they had only deposited ca. USD 250, it would be unfair to award them the full sum. The Supreme Court admitted the plaintiffs' appeal, holding that the defendants should hand over all of the profits they had made by selling the apartment, above the price agreed with the plaintiffs, considering that it is important to deter persons from committing a breach of contract.

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16 Cf., eg, Butkovski & Co. v. Gat, CA 692/86, 44(1) PD 57 (10 December 1989) – the case concerned an unsigned document, containing the location of the real estate in Tel Aviv, the price and schedule of payments, however no information regarding the mode of securing 90% of the price, that were to be paid months after the signing of the proper contract, that the parties had agreed would be drafted by a lawyer. The contract has never been concluded. Instead, the land was eventually sold to a third party for a lower price, and the disappointed plaintiff initiated proceedings demanding compensation for breach of contract. The Supreme Court held that the unsigned document sufficed, and remanded the case to the District Court to determine the quantity of damages.

17 Einstein v. Ossi Ltd., Application for Permission to Appeal 2371/01, 57(5) PD 787 (31 July 2003).

18 In Israel, information regarding the sale of land and the sale price are made readily available to the public, by the Betterment Tax authorities.
(3) Breach of a negative stipulation in the contract

In *Agrippham International Ltd. v. Mayerson et al.*, the defendants, shareholders in a public company, sold some of their shares on the stock exchange, in breach of the contract they had concluded with the plaintiff, another shareholder, according to which they had undertaken to grant the latter a right of first refusal, at a price which turned out to be lower than the market price on the date of sale.

The Supreme Court, per Danziger J, held that the profits should be transferred to the plaintiff. If such a remedy were denied, the purpose of a right of first refusal, to prevent the entrance of unwelcome business partners, unacceptable to the plaintiff, would be frustrated (para. 37). The defendants' behavior is incompatible with the requirement, stipulated in §39, Contracts (General Part) Law, that a contract has to be performed in good faith. If the defendants were concerned about the plaintiffs' plans, following the purchase of their shares (in terms of oppression of minority shareholders), they should have turned to the court to settle this matter and not turn to self-help (para. 46). In this case restitution was necessary as a deterrence measure (para. 41), however courts should use this remedy sparingly, in circumstances which justify its application.

*In casu*, the defendants had offered the plaintiff their shares (although not in written form, as required under the contract, but by having its accountant make an oral inquiry on its behalf). By not pursuing the oral offer and negotiating its terms, and by not alleviating the defendants' substantiated fear, that the plaintiff may take measures that would amount to oppression of the minority shareholders, following his purchase of the defendant's shares, the behavior of the plaintiff cannot be considered to have acted in good faith either. The case was remanded to the District Court to decide the part of the profits to be disgorged, on the basis of the above considerations.

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19 CA 8728/07, Nevo electronic database (15 July 2010).
20 The considerations that the Court should take into account in such cases are further elaborated in para. 4.3.2 *infra.*
4.1.2 Culpa in contrahendo

(a) Culpa in contrahendo between private parties

Most recently, the District Court in Haifa awarded disgorgement damages, in a case concerning the sale of an apartment.\footnote{Uliel v. Adler, Civil Case (District Court, Haifa) 10103-11-13, Nevo electronic database (9 December 2013).} After brief negotiations, a contract for the sale of the apartment was drafted. At the last minute, at the request of the buyer’s attorney, the meeting set for signing the contract was postponed for one week. During that period a foreign couple became interested in the apartment (as it was nearby a hospital in which one of them was going to be treated), and they concluded a contract with the sellers on that same day for a price that was higher (by ca. USD 36,000) than the price agreed upon with the first buyer. The next day the purchasers returned to their home country, planning to return to Israel for the medical treatments later on. The disappointed first buyer brought proceedings to disgorge the sellers of their profits, arguing that the profit should have been hers.

The Court held that, by not offering the first buyer the opportunity to purchase the apartment for a higher price, the sellers had not acted in good faith. On the basis of previous Supreme Court decisions,\footnote{Sonnenschein v. Brothers Gabsu Ltd., CA 702/89, 42(2) PD 278 (12 June 1988); Klammer v. Guy, CA 986/93, 50(1) PD 185 (12 June 1996). In the latter case, the contract had been partially performed. It is submitted that performance by the parties should substitute the need for a written document.} the Court held that the good faith principle allows for overcoming the lack of a written contract between the sellers and the first buyer, as against the seller who had not acted in good faith.

Under §12(b), Contracts (General Part) Law, a party who did not act in customary manner and in good faith has to pay only reliance damages (ie, “the damage caused to [the other party] in consequence of the negotiations or the making of the contract”). But, on the basis of a Supreme Court precedent,\footnote{Kal Binyan Ltd. v. A.R.M. Ra’anana Ltd., 56(3) PD 289 (17 February 2002). In this case, the defendant, a private company, made a request for proposals for construction works. The plaintiff was the lowest bidder, the terms of the contract were negotiated by the company management, however the company’s board of directors refused to approve the contract, a matter which should have been a pure formality, according to the Supreme Court. Thereafter, a contract was concluded with a company that had not participated in the bid. The Supreme} the Court held that, where the contract would have been
concluded if not for the bad faith of a party, §12(b) should be read as including also the "positive", expectation damages caused to the injured party by not concluding the agreement. According to the Supreme Court precedent, the decision to award reliance damages or expectation damages should depend upon the circumstances of each case, account being taken of the measure of lack of good faith, the parties' expectations, the stage that the negotiations had reached, and other considerations that may be pertinent.

In this case, the District Court held that, since it was unclear that the first buyer would have found buyers, such as the foreign couple who needed that particular apartment. Consequently, the Court decided that the sellers will be disgorged half the profit they had made (USD 18,000).

(b) Culpa in contrahendo of the State

It is noteworthy that in a case that involved the Ministry of Construction and Housing, the Supreme Court held that, even though the Ministry had not acted in good faith, in conducting extensive negotiations with the plaintiff, and creating the impression that the Ministry was about to conclude with the plaintiff a contract for the building of a neighborhood, thereby allegedly causing the plaintiff to invest substantial sums in vain. A memorandum of agreement had been signed, but the final approval of the Ministry of Finance was not forthcoming.

In line with the prevailing case law, the District Court held that a contract had been concluded and that the Ministry of Construction and Housing, on behalf of the State, could not retreat from the contract any more. The Supreme Court reversed, holding that the administration, even if it had not acted in good faith, may avail itself of an "administrative release" from obligations that it had undertaken. The public interest mandates that public money be guarded. Business people dealing with the State must be aware

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Court held that, once the terms of the contract had been negotiated and concluded, the defendant could no longer back out of the contract. By doing so, the defendant acted in bad faith. Since the terms of the contract with the plaintiff had already been agreed, and it was just the refusal of the defendant's board of directors that prevented the contract from coming into effect, the Court held that §12(b) should not bar an award of expectation damages, ie, the profits that the plaintiff had expected to make by performing the work.

that the approval of the Ministry of Finance must be obtained before a contract can be concluded definitively. Consequently, the plaintiff was only allowed to claim reliance damages but not expectation damages. The Supreme Court ordered the plaintiff to pay the State substantial trial costs, by Israeli standards – NIS 200,000 (ca. USD 50,000), noting expressly that it made this order notwithstanding its conclusion that the State had not negotiated in good faith. Since Israeli courts exercise wide discretion in determining the trial costs that the unsuccessful party has to pay the party that prevailed, this sum may be taken to reflect the dissatisfaction of the Court with the insistence of the plaintiff that the State should pay its expectation damages.

4.2 Torts

By committing a tort, a person may make a profit. This may happen, eg, as a result of the misappropriation of, or trespass to, the property of another, defamation, and the torts mentioned in the Commercial Torts Law, 5759-1999, ie, unfair trade practices (passing off, false description, unfair interference with the business of another, misappropriation of trade secrets, etc.

Under Israeli law, it used to be considered that the aim of an award of damages in tort is to put the injured party in the same position as he would have been in if the tort had not occurred. The Supreme Court changed this rule in a case of building contractors who had purchased a parcel of land, after having received a formal document from the local committee of building and construction, certifying that a building of 16 apartments could be built there. As it turned out, the parcel could not at all be used for building and the certificate had been issued negligently. After losing hope to realize their plans, the contractors sold the parcel at a profit and brought proceedings, based on torts, to recover their expectation damages.

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25 Zalski and Navi v. The Local Committee for Construction and Building, Rishon Le-Zion, CA 5610/93, 51(1) PD 68 (7 April 1997).
The Supreme Court upheld the general rule in principle, that a victim of a tort should not be compensated for more than his real damage, noting that in cases of deceit there may be room to adopt a stricter approach, compensating for expectation damages, to satisfy the need to deter fraud. In cases, such as the pertinent one, however, the reliance principle should take account of alternative investments that the plaintiffs could have made. The yardstick for compensation in torts should be similar to that obtained in contracts. Consequently, the Supreme Court held that the plaintiffs should recover the difference between the price they had paid and the real value of the parcel, without need to prove that such alternative investments were considered in casu. The profit that the plaintiffs had made in fact should not be taken into account at all, not even as a form of mitigation of damages, since it was not related to the tort, but just to market conditions.

With respect to trade secrets, the Commercial Torts Law provides expressly (§7(b)), that even if a trade secret was misappropriated in circumstances that exempt the person who misappropriated it from liability, none the less "if that person makes use of the trade secret and thereby gains a benefit, the court may, if it sees fit in the circumstances of the case, order such person to restitute the benefit in whole or in part to the owner of the secret".

According to Israeli case law, if the plaintiff may avail himself of remedies on the basis of several causes of action, such as torts and unjust enrichment, or contracts and torts, he may collect damages under each, provided that he is not compensated twice for his damages. Consequently, under Israeli law there is no need to waive the tort before suing for disgorgement of the profits.

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26 Cf. Sh.G.M. Parking Ltd. v. The State of Israel, CA 290/80, 37(2) PD 633 (25 May 1983). That case concerned the use made by a State entity, during the 1973 Yom Kippur War of the parking lot, without permission. The Supreme Court held that the State entity was a trespasser. Since the plaintiff incurred no losses (during the War the parking lot was nearly empty, so the trespassing cars did not prevent other cars from parking there), it brought proceedings (successfully) for the sums that the State should have paid for the use it made of the property; cf. A. Herman, Introduction to the Law of Torts (2006) (in Hebrew), 327ff., with further references.
4.3 Unjust enrichment

In the *Adras* case,\(^{27}\) it was held that Israeli unjust enrichment law is similar to a great eagle which spreads its wings over all other laws. Consequently, in any case in which plaintiffs seek disgorgement of profits, they base their claim on unjust enrichment, whether or not there is another legal basis for a cause of action.

In *Agripharm*,\(^{28}\) The Court noted that the duty to disgorge the profit may have existed even if there had been no valid contract between the parties (as suggested by the defendants). The duty to restitute profits exists also in situations in which the enrichment has been made in an "unjust" manner. The term "unjust" has to be judged in an objective manner, according to the values and interests of the parties and public, reflecting the attitude of the Israeli people to the requirements of good faith in the area of restitution (para. 36).

4.3.1 Wrongfully Issued Preliminary Injunctions

An early case, in which profits were disgorged on the basis of unjust enrichment, was *Palimport v. Ciba Geigy*.\(^{29}\) In that case the Court had issued an injunction, prohibiting Palimport the marketing of a product which allegedly infringed Ciba Geigy's patent. After the Court had eventually held that the patent was invalid, Palimport claimed the profits made by Ciba Geigy, at its expense, while the injunction was in effect. The Court considered that there was no remedy in torts, since the enforcement of an injunction is not a civil wrong for which compensation can be given. None the less, the Court decided that, since Palimport and Ciba Geigy were the only companies that marketed the product in Israel, Ciba Geigy had enjoyed a monopoly over the market as long as the injunction was in force, and consequently unjustly enriched thereby. The case was therefore remanded to the District Court to determine the profits made by Ciba Geigy during the relevant period.

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\(^{27}\) *Supra* n. 6.

\(^{28}\) *Supra* n. 19.

4.3.2 Disgorgement of profits because "a sinner should not be rewarded"

In *Agripharm,* the Court noted that unjust enrichment could serve as an independent basis for disgorging profits, to ensure that "a sinner should not be rewarded." The Court underlined that this remedy should be used sparingly, in circumstances justifying its application, the main considerations being the severity of the defendant's behavior, the importance that the law attributes to the rule which he had broken, and the existence of a close enough plaintiff, to whom the profit may be transferred. Other consideration that courts have to take into account include (para. 42): (a) the existence of penal or administrative measures that take care of the need to deter the defendant's behavior; (b) the existence of a person, other than the defendant, who has a closer relationship to the wrongful incident; (c) "Deterring restitution" should not be allowed where the defendant had already compensated a person for his wrongful act, or returned the benefits he had derived. The list of considerations is not closed, and each case must be evaluated on its facts.

4.4 Property law

§33, Land Law, provides that "a joint owner who has used the joint property shall pay to the other joint owners, according to their shares in the property, suitable recompense for the use thereof". Under §35, "every joint owner is entitled to a share in the proceeds of the joint property according to his share in the property". These rules apply also to movable property (§9(e), Movable Property Law, 5731-1971). Likewise, if a person collects the rent from an asset owned by another, the profit he makes will be disgorged by the court.

Recently, the State initiated proceedings for disgorgement of profits, estimated by the State at 24 million NIS, derived during the seven years preceding the initiation of the proceedings, against a couple who had used for

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30 Supra n. 19.
31 This is the Talmudic expression for the principle that a wrongdoer should not profit thereby.
commercial purposes the land leased to them by the State for agricultural cultivation.\textsuperscript{33}

4.5 Intellectual and industrial property

With respect to infringement of rights in intellectual and industrial property, Israeli IP laws provide that, when determining the damages to be paid to the rightholder, the Court has to take account of the profits made by the infringing user. Such a rule is provided expressly in the Patents Law, 5727-1967 (§183(b)(3)) and in the Copyright Law, 5768-2007 (§56(b)(5)). However, the profits are only one consideration that the Court should take into account when determining the damages, other considerations being the direct damage that the plaintiff suffered, the extent of the infringement, and reasonable royalties that the defendant would have had to pay, had he been licensed to exploit the patent at the same extent (in the case of patents) and the extent of the infringement, its duration, its severity, the real damage suffered by the plaintiff, according to the court's evaluation, the characteristics of the defendant's activities, the relationship between the defendant and the plaintiff and the good faith of the defendant (in the case of copyright). The Trade Mark Ordinance (New Version) and the Patent and Industrial Designs Ordinance do not include a similar provision, however, in case of infringement of trade marks and goodwill, both regulated by the first Ordinance, or industrial designs, regulated by the second, the plaintiff may sue for restitution of the profits, under Unjust Enrichment.\textsuperscript{34}

On the basis of Adras,\textsuperscript{35} the Supreme Court developed another line of cases awarding, on the basis of unjust enrichment, injunctions and compensation to protect interests falling short of intellectual property rights in circumstances that the court considered as constituting “unfair competition”.\textsuperscript{36}


\textsuperscript{33} Ella Levy-Weinreb, "The State Sues the Operators of the Parking Lot 'Tassim' Nearby Ben-Gurion Airport", Globes Daily Newspaper (17 November 2013).
\textsuperscript{34} Friedmann, The Law of Unjust Enrichment, supra n. 32, para. 15.12f., with further references.
\textsuperscript{35} Supra n. 6.
misappropriating such an interest of another and the latter’s expectations to
profit from its exploitation. Examples are the copy of unregistered designs or
inventions that do not merit the protection of patent law despite the time and
effort invested in developing them into a useful product.

The Court held that, in order to recover under unjust enrichment, it is
not enough that the product has been copied. The plaintiff must prove that the
defendant acted in bad faith, that the imitation was slavish, that although the
plaintiff has no intellectual property right nevertheless the product was novel
enough and much effort was required to develop and manufacture it. The
remedies for such acts of unfair competition should be left to the discretion of
the court, since, whereas it is clear that they cannot be the same as in the
case of full-fledged intellectual property rights, it is nonetheless unclear
which remedy would be adequate in each case.

4.6 Personality rights

§2(6), Protection of Privacy Law, 5741-1981, provides that using a person’s
name, appellation, picture or voice for profit, is an infringement of privacy. It
has been pertinently pointed out that it is the right to publicity, rather than
privacy, that §2(6) seeks to protect. §4 provides that an infringement of
privacy is a civil wrong. As aforementioned, torts do not provide for
disgorgement of profits under Israeli law. However, it is possible to rely on
unjust enrichment to have the profits disgorged.

37 The difference between full fledged IP rights and unregistered ones has been underlined in
a recent Supreme Court decision – Merck & Co Inc v Teva Pharmaceutical Industries Ltd,
Application for Permission to Appeal 6025/05 (19 May 2011), holding that, as long as the
patent has not been granted, its use cannot be enjoined on the basis of patent law, and that,
by relying on the registration files of innovative medicines for the registration of generic
medicines during the pre-grant period, the Ministry of Health did not misappropriate Merck’s
trade secret, in the sense of the Commercial Torts Law. Until the patent is granted the plaintiff
has no property right that Israeli law protects. If a patent is eventually granted, the competitor,
who had marketed the patented product in the interim period, may end up paying the patent
owner infringement damages, retroactively from the date of the application. On the basis of
the regulation provided by the Patent Law, on the one hand, and the Unjust Enrichment Law,
on the other, the Court concluded that unjust enrichment law should not be integrated into the
patent law rules with respect to the issue under consideration. It is noteworthy that under
Israeli law the grant of a patent may take considerable time, since opposition to a patent is
held following the submission of the application, prior to its grant.

38 Friedmann, The Law of Unjust Enrichment, supra n. 32, para. 15.18f.
4.7 Company law

§234(a), Companies Law, 5759-1999, provides that the obligations of shareholders are governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. §256(a), Companies Law, provides that the breach of a duty of loyalty by an officer towards the company, is governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. §283 provides that an officer who did not disclose his personal interest is deemed to have breached the duty of loyalty. A controlling shareholder in a public company who did not disclose his personal interest is deemed to have breached the duty of fairness, and the company may claim from such persons the damages caused to it by the non-disclosure. §192 provides that a shareholder must exercise its rights and fulfill its obligations towards the company and towards other shareholders in good faith and customary manner, and will refrain from abusing his power in the company. The breach of these duties is governed, *mutatis mutandis*, by the legal rules applicable to breach of contract. The breach of the duty of fairness is deemed equal to a breach of duty of loyalty (§193(b)).

The coherence of these rules has been correctly questioned.\(^{39}\) It may have been intended to establish different levels of obligations: a duty of fairness for shareholders, on the one hand, and a duty of loyalty for company officers. But the selection of contract law, as providing the rules governing the duties, creates the impression that the standard chosen falls short of the expected standard regarding breach of a duty of loyalty. This conclusion seems to fit neither the Israeli legal system in general nor the legislative history of the Companies Law itself.

In some cases the Supreme Court applied to the damages, that officers in breach of duty of loyalty owed the company, just the rules of the Contracts (Remedies for Breach of Contract) Law. Consequently, no disgorgement of profits was awarded.\(^{40}\) The reliance on contract law and on the good faith

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\(^{40}\) Lieberman v. Tadbik Ltd., CA 10137/05, Nevo electronic database (14 August 2008); cf. the analysis with further references by Licht, *supra* n. 39, at pp. 281ff.
principle, in case of breach of the duty of loyalty, has been criticized.\textsuperscript{41} In another case, the Supreme Court considered that the Unjust Enrichment Law provided a proper normative basis for a claim for damages caused by the breach of the duty of loyalty, and ordered the company directors to restitute to the company (in fact, to the receiver, since the company had become insolvent) the profits that they had made by selling the company's asset and misappropriating the proceeds.\textsuperscript{42}

It has been pertinently proposed that the rule, which provides that the remedy for a breach of fiduciary duty is that which obtains for breach of contract, should be interpreted as referring to a breach of a specific kind of contract, that which is concluded with a fiduciary.\textsuperscript{43} Such an interpretation will provide a much more adequate standard for remedying such situations, than that provided by the Contracts (Remedies for Breach of Contract) Law, which provides remedies for breach of contracts in general. Such an interpretation will help to clarify the extent of the obligations, and create more certainty regarding the available remedies.

§52H, Securities Law, 5728-1968, provides that, subject to certain defenses, a company may claim the profits that a person had made by insider dealing. The profit is the difference between the price of the security at the time that the transaction was made and its price shortly after the inside information had become publicly known. This rule reflects the understanding that inside information is an asset of the company, and therefore insiders, who hold such information as fiduciaries of the company, as well as any other person to whom such information has been divulged, are prohibited from using such information for their personal benefit.\textsuperscript{44}

Unfortunately, despite criminal proceedings brought against insiders and others for insider trading, companies have not availed themselves of §52H, since its adoption in 1981. It has been noted that companies do not

\textsuperscript{41} Licht, ibid., pp. 286ff.
\textsuperscript{42} Klein v. Balas, attorney-at law and CPA, CA 4845/04, Nevo electronic database (14 December 2006).
\textsuperscript{43} by Licht, supra n. 39 para. 3.3, at pp. 288ff.
\textsuperscript{44} E. Tsafrir, Inside Information (Bursi 2005) (in Hebrew), ch. 9 – the civil obligation, pp. 177-184.
have incentives to bring such claims for a variety of reasons: if the person who used the confidential information was a controlling shareholder, a director, or a person appointed by either; if the company risks that its expenses in conducting the case may be larger than the losses it had incurred from the insider trading, or than its gains if it prevails; if the company itself engaged in insider trading, while acquiring its own shares, in which case the company suffered no harm.

4.8 Competition law

In theory Israeli law offers sufficient sanctions to enable disgorgement of profits in cases of violation of competition law. In reality, in the 16 years up to 2012 only 16 criminal proceedings have been initiated, civil law remedies have not proved to be effective and profits have not been disgorged.

In one criminal case, the District Court of Jerusalem pointed out that real quantification of the damages caused to the public by a cartel is unnecessary to determine the penalty in criminal proceedings. This is different where the prosecutor applies to determine the penalty according to the extent of damage caused to the public, or according to the benefit derived by the parties to the cartel. In such a case, the Court may order the convicted party to pay a fine of four times the value of the damages caused, or the benefit derived by the crime. However, the Court doubted that it is appropriate to adopt a practice seeking to quantify the benefits derived and the damage caused to the public by the cartel, and, at any rate, this should not be done routinely, since such quantification involves complex calculations that require economic opinions and the presentation of evidence that complicates the litigation in cases which are complicated enough even without seeking to prove the profits made by the parties to the cartel. In the pertinent case, the

45 Tsafrir, ibid., p. 179. Nevo electronic database was searched for such cases on 2 April 2014 – TE.
proceedings lasted 8 years since the opening of the investigation, out of which the trial itself took 6 years.

In civil proceedings, the private party seeking to prove that the defendant had violated Israeli competition law, usually faces an even greater difficulty. The reports made by the Competition Authority are not handed over to him, and he has to find the evidence himself. The proof of the defendant's profits is next to impossible.\footnote{Cf. In general, regarding the difficulties facing private claimants in bringing civil proceedings Gal and Israeli, \textit{supra} n. 46, pp. 31ff; cf., in particular, the difficulties faced by Karmit as a result of the injunction obtained by Straus Ltd. enjoining the Director General of the Israel Antitrust Authority from granting access to Karmit to the report the Authority had made in that case, concluding, on the basis of ample evidence, that Straus-Elite had abused its monopolistic position in the Israeli market (Elite, which later merged with Straus, was declared a monopoly in the chocolate market by the Director-General of the Antitrust Authority on 26 March 1989) to prevent Karmit from marketing Cadbury chocolate in Israel – \textit{Karmit v. Straus}, CC (Magistrate Court, Tel Aviv) 23419/08, Nevo electronic database (24 May 2011). The criminal case, initiated by the Antitrust Authority, was settled for ca. 1 million USD (approved by the Restraints of Trade Tribunal, 10 January 2007), notwithstanding the very harsh report prepared at the Authority on the case. In 2010, on the basis of additional evidence, Karmit initiated civil proceedings against Straus – Civil Case (District Court, Central District) 38852-01-10, claiming that its losses (including expected profits) were ca. 50 million NIS, but, to limit court fees, it limited the claim to 22 million NIS (ca. 5.5 million USD). Cf., further, Ella Levy-Weinreb, “Cadbury-Elite – One of the Most Blatant Antitrust Cases with Unequivocal Evidence Substantiating Harm to Competition”, \textit{Globes Daily Newspaper}, 15 January 2014.}

\subsection*{4.9 Fiduciary relations}

In the case of fiduciaries there is a duty of loyalty and an imminent danger that trustees would take advantage of their beneficiaries. Hence the law must ensure that there is a joining together of interests of beneficiary and trustee, and that any abusive behavior be controlled by deterrence and ethical standards. Even modification of the fiduciary contractual relationship requires more than simple consent of the beneficiary. A disgorgement of profits is therefore a perfect instrument to remedy misbehavior of fiduciaries.

Fiduciary duties are dealt with in the Agency Law, 5725-1965, the Trust Law, 5739-1979, and the Companies Law, 5759-1999.\footnote{Regarding disgorgement under company law, cf. para. 4.7 \textit{supra}.}

The Trust Law\footnote{The Israeli trust differs from the common law trust, in that it defines (§1) a trust as a “relationship to any property by virtue of which a trustee is bound to hold the same, or to act...”} provides the most rigorous rules. The trust property must be held separately by the trustee (§3(c)). The property of the trust...
includes the income that it generates, as well as anything for which it has been exchanged (§3(b)). A trustee may not acquire for himself, or for any of his relatives, any trust property or derive for himself, or for any of his relatives, any other benefit from the property or activities of the trust and may not do anything involving conflict of interests between the trust and himself or any of his relatives (§13(a)). Any profit derived by a trustee in consequence of the trust is treated as part of the trust property (§15(c)).

§10, Agency Law, provides that "any property which comes into the possession of the agent in consequence of the agency is held by him as the trustee of the principal" and that "the principal is entitled to any profit or benefit accruing to the agent in connection with the object of the agency".

Accordingly, Israeli case law provides examples of disgorgement of profits, as well as tracing of assets, or proceeds.\(^{51}\) Regarding tracing, the Supreme Court held that the Israeli rules concerning tracing have been taken from the English common law rules, via Article 46 of the Palestine Order in Council,\(^{52}\) and that they are still in force in Israeli law, to the extent that they have not been amended, or replaced, by Knesset legislation.\(^{53}\) The Court noted that a second basis for disgorgement was the law of unjust enrichment.

Regarding third parties, "[w]hen an act is done in violation of a duty imposed by the trust and the third party knows, or ought to know, of the violation, or it is done without consideration, the court may invalidate it, and the third party will incur the responsibility and obligations of a trustee. Knowledge of the existence of the trust shall not by itself be taken to imply

in respect thereof, in the interest of a beneficiary, or for some other purpose". The Supreme Court has held that the said "relationship" need not be ownership, and that exercise of control suffices. In fact, a leading commentary expressly warns against the risks of transferring title to trustees – cf. S. Kerem, *The Trust Law*, 5739-1979, 4th ed. (Pearlstein-Ginossar 2004) (in Hebrew), pp. 7-11, stating specifically that, as a general rule, one should refrain from transferring title in the trust assets to the trustee (p. 9) and that one should only do so when strictly necessary (p. 11).

\(^{51}\) For a critical analysis of the Israeli case law on disgorgement of profits and tracing in the context of fiduciary relations cf. Licht, *supra* n. 39, paras. 4.3.1ff., pp. 312-373. Licht criticizes especially the following in Israel of outdated English law, distinguishing between, on the one hand, "following" which is proprietary in nature, and therefore governed by property law, and "tracing" which is quasi-proprietary, and governed by unjust enrichment law, on the other – Licht, ibid., at 318ff., referring to the Supreme Court's decision in *Canaan v. US Government*, Further Hearing 2568/97, 57(2) PD 632, 673 (20 February 2003).

\(^{52}\) Cf. part 2 *supra*.

\(^{53}\) *Canaan v. US Government*, *supra* n. 51, with further references to pre-1980 Israeli precedents in this matter.
knowledge of the violation of a duty imposed by it" (§14, Trust Law). Regarding agents, if the agent infringes his obligations and a third party is privy to the infringement, the principal is entitled to repudiate the infringing act and claim also from the third party the compensation due to him from the agent (§9(b), Agency Law).

5. Calculation of Profits to be Disgorged

Israeli law has not developed a systematic approach to the calculation of profits. Since the Israeli legal system is adversary, it is usually up to the claimant to prove his claim, but sometimes the onus of proof may shift, a matter of great importance. For example, in company law, cases involving conflict of interest are decided on the basis of onus of proof which, in turn, depends upon the standard of review chosen (as a duty of care or a duty of loyalty). In a landmark decision in Israeli law, given still under the Companies Ordinance, the Supreme Court held that, where there is real danger that a director did not act in good faith and in the interest of the company, he has to discharge the onus of proof. Where the duty of loyalty, or entire fairness, is the standard for review, the self-dealing fiduciary must show that the transaction was at an entirely fair price.

A full study of the relevant case law is outside the scope of this paper. On the basis of anecdotal evidence, it seems that, even in cases in which disgorgement of profits could be claimed, parties do not always claim it. The reason may be that it is difficult to calculate the profits that the defendant made by his wrongdoing. In fact, it is easiest to demand it in cases involving the sale of land, since the Betterment Tax authorities publish the sale prices of all transactions. In other cases, collecting the evidence and proving it to the court, may be time consuming and expensive. As above-mentioned, in antitrust cases the private party can hardly quantify the profits made by the anticompetitive behavior without the help of the antitrust authority, and the support of the court, and those are not forthcoming.

Since much of the case law relating to disgorgement is based on unjust enrichment, this leaves the courts with a very large measure of discretion. §1, Unjust Enrichment Law, provides that, where a person obtains property, service or some other benefit from another person without legal cause, that person "shall make restitution", and if restitution is impossible or unreasonable, he "shall pay him the value of the benefit". However, §2 provides grounds for exemption from the whole or part of the duty of restitution, if the court "considers that the receipt of the benefit did not involve a loss to the beneficiary or that other circumstances render restitution unjust". §2 provides no guidelines to direct the courts in their considerations.

§3, Unjust Enrichment Law, allows for the deduction from the sums restituted of the reasonable expenses made, or undertaken, or invested, by the enriched person. One question concerns illegal payments, such as bribery, that the defendant claims that he had to make, or otherwise the profit would not have been made. In one case, the Supreme Court considered, without however deciding this matter definitively, that such an expenditure should not be allowed.56

6. Negotiorum gestio/benevolent intervention

Negotiorum gestio is not relevant to disgorgement of profits in Israeli law. The Unjust Enrichment Law (§4) provides that a person who pays another person's debt without being under duty towards him to do so is not entitled to restitution, unless that person has no reasonable cause to object to that payment. Restitution is limited to the amount paid. Likewise, the provision regarding indemnification of a person who acts to protect another person's life, physical integrity, health, honor or property, without being under duty towards him to do so (§5), is not relevant to disgorgement.

56 Ben-Tal v. Ben-Tal, CA 578/75, 31(1) PD 57 (21 September 1976); Friedmann considers that such an expense may be allowed, depending upon the nature of the illegality, but that, in any case, it will be up to the defendant to prove that the profits would not have been made without making the illegal payment. If there is any doubt about it, deduction of the expenditure should not be allowed – Friedmann, The Law of Unjust Enrichment, supra n. 32, para. 18.6.
7. Punitive or Aggravated Damages

In one case concerning breach of fiduciary duty, the Supreme Court noted that in Israel courts do not usually award punitive damages.\textsuperscript{57} However, they did recognize, in certain instances, aggravated, or exemplary, damages.\textsuperscript{58} In another,\textsuperscript{59} Procaccia J, considered, in an \textit{obiter dictum}, that it cannot be excluded that, in an appropriate case, an Israeli court will award exemplary damages also for breach of fiduciary duty by an officer who owes a special duty in discharging his duty, even if the claimant has not succeeded in proving that he had suffered a special damage, as a result of the breach. Procaccia J added that such damages should be awarded only in exceptional cases of severe breach of duty and grave fault.

8. Administrative Financial Sanctions

8.1 Disgorgement of Profits Derived from Infringement of the Securities Law

On 17 January 2011, the Knesset adopted the Optimizing of Enforcement Proceedings in the Securities Authority Law, 5771-2011 (hereafter – "The Enforcement Proceedings Optimizing Law", that amended several laws regulating securities in Israel, with the object of enhancing and making more efficient the enforcement in this area.\textsuperscript{60} Pertinent to this study are the financial sanctions, inserted as an amendment to the Securities Law, 5728-1968, to be administered by an administrative enforcement committee, which decides cases in panels, composed of three committee members (§52XXXlff.)

§52LIV(a)(1)(b), Securities Law, provides that a panel may order a person, who infringed the Securities Law, to pay the Commissioner a sum,


\textsuperscript{58} Eg, in defamation cases – Haaretz v. Mizrahi, CA 670/79, 41(2) PD 169 (12 April 1987), Azur v. Can West Global Communications Corp., CC (Tel Aviv) 1702/07, Nevo electronic database (20 June 2012); intentional harm to person and to property – eg, Rabinovich v. Sela Ltd., CA 277/55, 12 PD 1261 (17 July 1958); mishandling of human remains – Ben Zvi v. Prof. Yehuda Hiss, CA 4576/08, Nevo electronic database (7 July 2011).

\textsuperscript{59} Seiman v. Komeran, CA 9225/01, Nevo electronic database (13 December 2006).

\textsuperscript{60} For an in-depth study of the Law, including its legal history, cf. Z. Gabbay, \textit{Administrative Enforcement of Israeli Securities Law} (Bursi 2012) (in Hebrew).
that will be distributed, at the Commissioner's discretion, among the those who had been harmed by the infringement, and will be calculated as follows:

1. If a financial sanction had been imposed with respect to that infringement, the higher of the following sums:

   a. the damage caused to all persons harmed by the infringement, up to 20% of the financial sanction imposed on the infringing person;
   b. The profits or benefits, including losses avoided, derived by the infringing person, directly or indirectly, on account of the infringement, provided that the sum does not exceed the maximum financial sanction that may be imposed for that infringement.

2. If a financial sanction was not imposed on the infringing person on account of the infringement – the sum will equal the profit, or benefit, derived by the infringing person, provided that it does not exceed the maximum financial sanction that may be imposed for that infringement.

§52LIII determines the sums that may be imposed by the panel for infringements of the Securities Law. Those range between NIS 2,000,000 to NIS 5,000,000 for an incorporated entity, NIS 25,000 to NIS 1,000,000 for company employees who are not senior officers, and NIS 400,000 to NIS 1,000,000 for private persons who are company officers.\textsuperscript{61}

In the draft bill it was originally intended that the profits made by the infringing person will be disgorged and passed to the State budget.\textsuperscript{62} However, by the time the law was adopted this sanction was eroded, and assimilated to compensation. It was also decided that the money will be distributed among the persons harmed by the infringement. The reason seems to be the difficulty in calculating the profits, benefits, or losses avoided, as the case may be, that were caused by the infringement.\textsuperscript{63}

The Securities Law, as amended, authorized the Minister of Justice to enact regulations, after consulting with the Securities Authority, regarding the

\textsuperscript{61} Decisions of the Commission (in Hebrew) are available on <http://www.takdin.co.il/searchq/%D7%94%D7%95%D7%95%D7%A2%D7%93%D7%94%20 %D7%9C%D7%A2%D7%99%D7%A6%D7%95%D7%9D%20%D7%9B%D7%A1%D7%A4% D7%99%20%D7%9E%D7%A9%D7%A8%D7%93%20%D7%94%D7%90%D7%95%D7%A6 %D7%A8.html>
\textsuperscript{62} Gabbay, ibid., at pp. 282ff.
\textsuperscript{63} Gabbay, ibid., at p. 283.
appointment of the Commissioner. The regulations will also regulate the submission of applications by the persons harmed by the infringement, the procedure for ascertaining the damage caused to each, the distribution of the financial sanctions, and the reports to be submitted by the Commissioner (§52LIX(d)).

So far, the panels have imposed financial sanctions of millions of NIS, however the regulations regarding the Commissioner, his mode of operation, and the distribution of the money, have not been forthcoming.64

8.2 Disgorgement of Profits Derived from Publications Concerning Crimes

In 2005, the Knesset adopted the Disgorgement of Profits from Publications Concerning Crimes Law, 5765-2005 (hereafter – the "Disgorgement Law"). The Disgorgement Law authorizes the Attorney General to apply to the District Court for an order that a person, who was convicted of a crime, the maximum punishment for which is at least seven years, shall be disgorged, in whole or in part, of the profits that he has derived from publications concerning that crime. The publications may be written or unwritten, eg, interviews. The application must be made within 5 years from the date of conviction and no later than 5 years since the day of publication.

The Law has left it to the discretion of the Court not to order disgorgement if there are circumstances that justify such a decision. Among others, the Court may take into account the educational or rehabilitative value of such a publication, as well as the effect that the publication has on the victim of the crime. The "profits", that may be disgorged, include the right to derive a profit as well as assets for which the profit was exchanged. Following the disgorgement of the profits, the victim of the crime will be able to receive compensation, provided that he had obtained a judgment ordering the person who had committed the crime to compensate him. The compensation will exceed neither the sum due to him under the judgment nor the sum disgorged. So far there is no case law applying this Law.

64 Cf. Securities Authority, Minutes of Authority meeting no. 2013-4 of 12 May 2013, part 3 – Regulations regarding compensation of infringement victims.
9. Evaluation

Disgorgement of profits is, at least in theory, a widely available remedy in Israeli law, cutting through all of its categories – contracts, torts, unjust enrichment, property law, IP law, company law and securities, competition law and fiduciary relations. However, obtaining this remedy in practice may often prove difficult, uncertain and costly in many cases, and problematic in others, for the following reasons:

(1) The special characteristics of the Israeli mixed legal system have contributed to the "mutual diffusion" of the legal categories, which are no more properly demarcated from each other, and it is unclear which category should serve as the legal basis for any given claim.

(2) Even after determining the legal category, it is unclear which remedy will be available. Thus, with respect to damages, jurisprudence has, in many cases, enabled the courts to choose from among reliance damages, expectation damages and disgorgement of damages, regardless of the legal basis.

(3) The extensive reliance on unjust enrichment law, in addition, or as an alternative, to any other legal basis, has left practically all remedies at the discretion of the courts. The considerations enumerated by the Supreme Court as guidelines for exercising this discretion are confusing and may very often lead to opposite conclusions, leaving the decision at the end of the day to the sense of justice of the presiding judge. In particular, the courts apply the good faith principle not in order to arrive at principled decisions, but rather as a yardstick for measuring the behavior of the parties in the case at hand, at times only to find that none was in good faith. This approach turns the profits, whose disgorgement is claimed, into unjust enrichment in the eyes of the judge, not unjustified enrichment in the eyes of the law.

(4) Contract law, especially the sale of real estate, is one of the very few areas in which the profit can be easily calculated, since the price of each transaction is made available to the public by the Betterment Tax authorities. The development, whereby disappointed potential buyers, with whom final
agreements have not been concluded, bring claims for disgorgement of profits, has its tradeoffs:

(a) The legal analysis, based upon recognizing a property right in the contractual right, fails to draw the distinction between two very different legal categories, that fulfill different functions;

(b) When the Land Law was enacted, it was understood that only the final contract, with all specific details, will count as the "written document" required by that statute. The underlying motivation was to emphasize the seriousness of the transaction. People sign memoranda of understanding, or prepare drafts that they may still wish not to pursue, *inter alia*, because of changes in the market conditions that may affect their interests, because they discover that the terms they had written down without receiving professional advice were detrimental to their interests, or for any other reason;

(c) The result is also unfair in so far as it gives the potential buyer an exclusivity for which he has neither paid nor contracted. By contrast, it is hard to foresee a case in which the seller would be able to sue successfully a potential buyer for abandoning the negotiations.

It is submitted that the "written document" requirement should be strictly upheld, in line with the first decisions of the Supreme Court in this matter. Until that "written document" is signed, a party that does not negotiate in good faith should be ordered to pay reliance damages, but not be disgorged of its profits.

(5) In other areas of the legal system, in which it should be possible to claim disgorgement of profits in appropriate cases – property law, IP law, company law and securities, competition law and fiduciary relations – there is need for rules that would clarify and limit the courts' discretion in adjudicating such claims, on the one hand, and facilitate the calculation of profits and provide judicial assistance that would help in obtaining evidence, on the other.
Scotland

Disgorgement Of Profits In Scots Law

National Reporter: Martin A. Hogg*

Scots private law provides what may be called ‘gain-based awards’ as a response to certain types of (in a broad sense) ‘wrongful’ conduct¹, but these awards are not classified as damages. In consequence, in Scots law there are strictly no ‘disgorgement damages’ (or ‘restitutionary damages’) of the sort commonly encountered in English law and the law of other Common Law systems. The disgorgement response is largely (though not entirely) achieved through remedies granted to reverse the retention of unjustified enrichment, though in some circumstances of delictual wrongdoing a disgorgement remedy may be an alternative to a more commonly sought remedy (usually compensatory damages) of a non-disgorgement nature. In such cases the pursuer usually has the freedom to choose whether to pursue the disgorgement remedy or (compensatory) damages, but the classification of the disgorgement remedy (as delictual or unjustified enrichment in nature) is not a wholly clear matter in Scots law (as later discussion will show).

To understand why Scots law does not possess the disgorgement or restitutionary ‘damages’ of the Common law, some explanation will first be given of structural, doctrinal, and terminological differences between Scots and English private law (A), before an examination is undertaken of the terminology of gain-based awards (B and C), and the extent to which such are available in Scots law (D).

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* Professor of the Law of Obligations, University of Edinburgh.

¹ That is, not just delict (perhaps the paradigm the civil wrong,) but also breach of contract, breach of fiduciary duty, and other sorts of conduct which are contrary to legal duties undertaken by, or imposed upon, a party.
A. STRUCTURAL UNDERPINNINGS OF SCOTTISH AND ENGLISH PRIVATE LAW

Scots law is a mixed legal system. That simple point needs little further explanation to a scholarly comparative legal audience. The private law of England is not the same as that of Scotland, and in this field of disgorgement remedies (where the ancient common law/equity divide has been so important in English law) that is particularly so. Scots law does not recognise, and has never recognised, any law/equity division: equitable principles and ideas are generally accepted as being infused throughout the law of Scotland, albeit that some sorts of remedy (e.g. of recompense for unjustified enrichment) are said particularly to disclose an ‘equitable’ character (in a general, and not an English law sense). As Scots law recognises no division between ‘common law’ and ‘equitable’ remedies in the English sense, there is, for instance, no question of a barrier to the award of disgorgement remedies in contract and delict merely because these fields of private law are not fundamentally equitable in nature – the fact that disgorgement of gain is not generally available as a remedy in those two fields has more to do with the existence of other parts of Scots law (especially unjustified enrichment) which have the stripping of improperly held gains at their heart, and the functions which these parts of the law serve in Scotland. The functions of these well-established parts of the law often perform the role played by aspects of the Common law which are absent from Scots law, for instance the proprietary torts of the Common law.

The territory of the Scots law of obligations is different to that of England, and there is a much stricter divide between obligations and property law than exists in England (so there are no ‘proprietary torts’ of the sort just mentioned). In Scotland there are five major obligations recognised in the law: the two voluntary obligations of contract and unilateral promise; and three involuntary obligations of delict, unjustified enrichment, and negotiorum gestio (benevolent intervention). Unjustified enrichment has a great deal to do with disgorgement in Scots law. Indeed it is perhaps the pre-eminent field of private law dealing

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with disgorgement, allowing recovery both in cases of transfer (restitution narrowly so called) and in cases of enrichment 'by other means' (disgorgement narrowly so called). In this latter category fall such cases as (i) gains made by an enriched party (E) through his debts being paid by a consequently impoverished party (I), (ii) profit made through E’s land or buildings being improved by I in the belief mistakenly held by I that the land/buildings belonged to I, and (iii) gains made by E through interference with certain rights possessed by I (e.g. through unauthorised use by E of I’s moveable property). Notably in the field of unjustified enrichment, Scots law had a developed action of recompense (for enrichment unjustifiably retained at the expense of another) at an early stage, in contrast to England’s late development of a comparable enrichment-based action – this early Scots development somewhat obviated the need to develop other sorts of remedy which were used in English law to strip gains held by another wrongfully or without justification.

B. THE TERMINOLOGY OF GAIN-BASED AWARDS AND DAMAGES

The terminology employed in Scotland in the field of gain-based remedies and damages is different in a number of respects to that employed in the Common Law, and this reflects the different structure of our private law explained above.

In the case of the former – gain-based awards – the case law discloses a variety of different terminology which has been employed in gain-based award cases scattered across Scots private law: ‘ordinary profits’,3 ‘violent profits’,4 a ‘reasonable sum’,5 a ‘royalty’,6 a ‘notional licence fee’,7 ‘quantum lucratus’8 (the amount by which a party is enriched), ‘quantum meruit’9 (the ‘amount

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3 See discussion in main text at D.(3)(e).
4 Nothing to do with physical violence, but a remedy used in cases of tenants staying on leased property without authority beyond the termination of their lease: see later discussion below.
5 See discussion in contract section below.
6 See discussion in IP law section below.
8 See discussion below on recompense for unjustified enrichment.
9 See discussion below on contract.
merited’), and an ‘award of profits’ in an action of accounting and payment of profits. These are all regarded by some as varieties of ‘gain-based award’, though – given the precise measure of recovery applicable in each – not all of them appear to strip gains or profits from a defenser. The various nomenclatures and class are award are discussed further at D. below.

As to the latter – damages – the absence of ‘disgorgement damages’ or ‘restitutionary damages’ from the gain-based terminology list is noteworthy. Damages (in all fields of Scots private law, including contract and delict) are restricted to the idea of monetary compensation for loss suffered by the party bringing the claim. By contrast, the idea of damages in English law encompasses not only compensatory damages, but also aggravated, exemplary, disgorgement, restitutionary, punitive, and nominal damages. As one respected commentator has put it, damages in English law “means nothing more specific than a monetary award for a wrong”, a definition of sufficient breadth to allow compensation, gain-stripping, punishing, and other aims to be met in Common law systems through a damages award.

What all of the foregoing means is that, while ‘gain based awards’ are available in Scots law in the cases discussed below, these awards ought not to be termed damages. That being so, comparative judicial recourse to English cases awarding so-called ‘gain based damages’, ‘restitutionary damages’, or ‘disgorgement damages’ can only be undertaken with caution: a disgorgement result may be mirrored in both Scots and English law in certain types of factual circumstance, but the classification, terminology, and often underlying doctrine, properly to be deployed in order to reach the same result will often differ. As for ‘punitive damages’, these have no place in Scots law, nor have ‘aggravated damages’.

C. DEVELOPING THE TERMINOLOGY OF GAIN-BASED AWARDS

No agreement yet exists on the preferable terminology for use in Scotland in

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10 See discussion below in relation to passing-off, breach of confidence, and IP rights.
11 In theory, nominal damages can be awarded by a Scottish court too, though this rarely happens (one area where it does, is in defamation cases).
13 Though see the discussion below on ‘violent profits’ which have been argued by some to be damages awards.
relation to disgorgement awards: should all such awards be classed as ‘disgorgement’ in nature? Or as an ‘accounting of profits(s)’? Or as ‘restitutionary’? And would any common terminology assert a common measure of recovery, and/or a common theory as to the purpose underlying the award? Do we even need a single term to describe all such awards? Scots law is only in the infancy of exploring such questions systematically, though it seems relatively clear (to this observer at least) that ‘restitutionary’ is unlikely to do as an umbrella term: whilst the late Peter Birks asserted\(^\text{14}\) that the idea of ‘restitution’ includes not just giving back, but also giving up, the intuitive sense of ‘restitution’ is of restoring/returning some value or thing to a party; a stripping of a gain which was never transferred is not about restitution, but concerns ‘disgorgement’, and if it is that which is at the heart of a claim it would seem appropriate to use that term as an umbrella term (if such an umbrella term is indeed desirable). That said, disgorging itself may also have intuitive limitations: it suggests a stripping of something from a party and a giving it to another, whereas in some cases of stripping of gains what is awarded is the equivalent value of what was gained, rather than the exact thing gained. Account(ing) of profit seems a better term for such cases, but this may simply show that no one term is entirely apt for capturing the essence of the multitude of awards made by the Scottish courts.

One taxonomic solution to the terminological debate may be to group the entirety of the various remedies available in this field (and discussed further below) under a single general heading of remedies for ‘disgorgement of profits and redress of unjustified enrichment’, which would encompass both restitution and disgorgement. That is the approach currently proposed for the forthcoming reissue of the ‘Obligations’ title in volume 15 of *The Stair Memorial Encyclopaedia of the Laws of Scotland*,\(^\text{15}\) the principal scholarly encyclopaedia of Scots law (and a publication which has had a very pronounced effect upon court practice and judgments).

The vastly larger Common Law world enjoys a more developed debate on terminological issues, the debate having benefitted from a particularly

\(^\text{15}\) Draft of para 9.17 of volume 15, current as at December 2013 (the text and numbering of the paragraph are both likely to change before publication).
scholarly and impressive effort by James Edelman to achieve terminological order\textsuperscript{16}. On Edelman's approach, there are two species of non-compensatory, gain-based damages: (1) "restitutionary damages" and (2) "disgorgement damages". Edelman explains the terminology as

"a vocabulary in which the word 'restitution' whether in the law of unjust enrichment ('restitution for unjust enrichment') or the law of wrongdoing ('restitutionary damages') is used to refer to an award which reverses a transfer of value from a claimant to a defendant, and therefore focuses on the immediate benefit received by the defendant. In contrast, the word disgorgement should be used where, in the law of wrongdoing, a personal award is made to disgorge actual profits made by a defendant".\textsuperscript{17}

Ignoring for the moment the usage of 'damages' in these two terms (a borrowing of which would not, given the point made earlier about the Scots idea of 'damages', be appropriate for Scots law), the distinction made by Edelman between 'restitution' (the reversal of a transfer of value) and 'disgorgement' (a disgorging of profits made by a party) mirrors the distinction suggested above in these ideas. It is a usage which merits some consideration in Scots law, albeit without the addition of the term damages (the simple term 'award' would suffice as a replacement).

**D. DISGORGEMENT OF GAINS IN DIFFERENT AREAS OF SCOTS PRIVATE LAW**

The general position on the availability of gained-based awards in Scots private law can be succinctly stated: there is no general 'disgorgement award' available in all cases of 'wrongful' conduct, i.e. of breach of duty owed by a defender, or in all cases of delictual conduct, or even in all cases of intentional harm (e.g. the delict of assault gives rise to an entitlement only to damages


for loss caused). There are merely pockets of law where gain-based awards may be available to pursuers: these pockets are now considered.

(1) Contract
In Scots law, the primary remedy for breach of contract (i.e. contractual non-performance) is specific implement (the equivalent of the Common law’s specific performance).\(^{18}\) by ‘primary remedy’ is meant that, except in certain exceptional cases, a party which has suffered a breach of contract is entitled to a court order that the party in breach perform the duty in question. This primary remedial entitlement in theory takes pressure off the need to develop damages awards in contract which might strip a contract-breaker of profits made through breach; instead, the victim of the breach is entitled to the actual performance promised, enforcing such entitlement by a request for specific implement. The extent to which, in practice however, specific contractual duties are enforced in Scotland which would not be enforced in Common law countries is debateable. One divergent field, however, is that of ‘keep open’ and trade clauses in commercial leases (i.e. clauses requiring tenants of commercial premises to keep them open and trade from them): these have been enforced, via specific implement, in Scotland when similar clauses have not been so in England.\(^ {19}\) The Scottish landlord thus gets to enforce occupation by a trading tenant, when the English landlord will likely have to rely on damages assessed merely by reference to likely losses (often very hard to assess, and usually worth a lot less to the landlord than occupation by a trading tenant) and not to any profit made through breach.

As for the most commonly sought contractual remedy – damages – the basic principle for assessing such damages is clear: damages are assessed by reference to the loss suffered by the victim. Such loss is measured primarily by reference to the so-called performance interest (i.e. by considering the position in which the innocent party would have been had the

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\(^{18}\) On the history of the development of this approach, see A Smith, ‘Specific Implement, ch 8 of vol 2 of K Reid and R Zimmermann (eds), A History of Private Law in Scotland (OUP, 2000).

\(^{19}\) Compare Retail Park Investments v Royal Bank of Scotland plc (No 2) 1996 SC 227 with Co-operative Insurance Society Ltd v Argyll Stores (Holdings) Ltd [1998] AC 1.
other party’s duty been performed\textsuperscript{20}, though there are cases where the so-called restoration, or \textit{status quo ante}, interest (assessed by reference primarily to the victim’s wasted expenditure) has been awarded instead. The general approach to compensatory damages expressed for English law by Haldane LC in \textit{British Westinghouse Electric} is thus accepted as a formulation of the general totality of loss which can be claimed in damages for breach of contract in Scots law: “[T]he fundamental basis [of damages] is thus compensation for pecuniary loss naturally flowing from the breach”.\textsuperscript{21} This measure encompasses both \textit{damnum emergens} (losses rendering a party worse off) and \textit{lucrum cessans} (loss opportunities/profit of the victim).

Because damages for breach are not fault-based, it matters not to their assessment by a Scottish court whether the breach was intentional or inadvertent (i.e. there are no greater damages available for intentional breach). Furthermore, and crucially for the present discussion, damages based upon any profit made by the contract-breaker are not permitted (even if they were a foreseeable result of the breach\textsuperscript{22}): this rule is clearly set out in the leading case of \textit{Teacher v Calder}..\textsuperscript{23} This common law rule cannot be evaded by the use of an agreed damages clause in the contract entitling the party in breach to an amount equalling any profit made upon breach by the defaulting party, as a Scottish court will only enforce an agreed damages clause to the extent that it embodies a reasonable assessment of the likely losses to the victim which will flow from the breach in question.\textsuperscript{24}

Are any exceptions made to this rule? It has been said that the availability of so-called ‘violent profits’ in lease cases is one such exception. Violent profits are a financial award which may be ordered by a court to be paid by a tenant who remains in occupation beyond the agreed end date of the lease without the permission of the landlord. Such an award is designed to act as a deterrent against tenants refusing to quit the leased premises at the

\textsuperscript{20} “[T]he damages should be what the party would have received had his contract been fairly fulfilled”: \textit{Watt v Mitchell} (1839) 1 D 1157 at 1168, per Lord Justice-Clerk Boyle.

\textsuperscript{21} [1912] AC 673, 689.

\textsuperscript{22} In other words, the rule in \textit{Hadley v Baxendale} that losses which were a foreseeable result of the breach are claimable is trumped by the rule that loss is not to be measured by profit made by the party in breach.

\textsuperscript{23} (1898) 25 R 661.

\textsuperscript{24} For a summary of the approach taken to agreed damages clauses in general, see H L MacQueen & J Thomson, \textit{Contract Law in Scotland} (2012), paras 6.47 – 6.52.
agreed date, and – in some cases at least – to strip the tenant who refuses to quit of profits made through continued unlawful possession. In urban leases, a somewhat arbitrary amount of double the agreed rent for the period of unlawful possession has become established as the measure of such violent profits: this arbitrary level of the award matches neither the likely losses of the landlord nor (except by chance) any profit made by the tenant through a refusal to quit the premises. However, in other leases, the courts have assessed violent profits according to the measure of the greatest profit that the landlord could have made either by possessing the leased subjects himself or by letting them to others, together with the measure of all losses which the landlord may have suffered at the hands of the wrongful possessor. Is this gain stripping? Indirectly perhaps, though note that the measure is of the landlord’s likely lost profits, not the actual gain of the tenant. Given the varying ways in which violent profits may be assessed, it is too simplistic (and inaccurate given the idea of damages discussed earlier) to call the remedy ‘damages’ or even ‘penal damages’, though such usage exists, it may perhaps be arguable that (indirect) gain-stripping forms part of the award in some cases (only for non-urban leases), but strictly such cases are focused on compensating the landlord’s losses, both damnum emergens and lucrum cessans.

A related question concerning the occupation of land or buildings is how to deal with cases where there is never any express entitlement to occupy to begin with. The Scottish courts’ approach to such cases has often been to say, in vague terms, that such occupation gives rise to a ‘presumption to pay’, the occupier being able to counter such presumption by demonstrating a clear agreement that the occupier was entitled to occupy without charge. Speaking of a ‘presumption to pay’ is not however sufficient to determine whether the basis of the requirement to pay lies in contract (under

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an implied lease\textsuperscript{27} or in unjustified enrichment, or to identify the appropriate measure of recovery. The answer to the first question is not necessarily provided by the answer to the second. As to the second question – the measure of recovery – the courts have variously required occupiers to pay a ‘reasonable sum’,\textsuperscript{28} a ‘fair value’,\textsuperscript{29} or a ‘market rent’.\textsuperscript{30} Some such awards (especially market rent) smack of a quantum meruit approach to valuation, which is itself more suggestive of a deemed contractual analysis; however, in some cases where the courts have explicitly made an award in recompense for unjustified enrichment, the measure of the award has also been assessed by reference to the market rent.\textsuperscript{31} Looking at the body of such cases, it must be admitted that there has often been a judicial vagueness in specifying the basis of recovery, and also that, while some cases have justified awards as compensation for the rent lost to the landlord, others have used language more indicative of a desire to prevent the occupier from unjustifiably gaining from the occupation. Gain-based awards have therefore played some part in this area of the law (albeit that whether they are based in contract or unjustified enrichment is not always clear).

Leaving aside cases of the occupation of property, there is the further contractual issue of what status decisions such as \textit{Wrotham Park}\textsuperscript{32} (and \textit{Experience Hendrix}\textsuperscript{33}) have in Scots law, i.e. do cases of ‘breach of covenant’ (that is, breach of a specific contractual undertaking not to do a specific act) give rise to an entitlement to an award which goes beyond any loss made by the victim of the breach (which may be nothing)? The short answer is that it is unclear: neither \textit{Wrotham Park} nor \textit{Experience Hendrix} have been directly applied in Scotland. In any event, are such cases actually about stripping gains from defendants? When such cases have arisen in England, the courts have permitted recovery in damages in a fictional measure (without the need

\textsuperscript{27} This analysis seems to have been employed in \textit{Glen v Roy} (1882) 10R 239, where the Lord Justice-Clerk characterised matters (at 240) as being that “the presumption of law is that he occupied as tenant”.
\textsuperscript{28} \textit{Earl of Fife v Wilson} (1864) 3 M 323; \textit{H.M.V. Fields Properties Ltd. v Skirt 'N' Slack Centre of London Ltd} 1986 SC 114; \textit{GTW Holdings Ltd v Toet} 1994 SLT (Sh Ct) 16.
\textsuperscript{29} \textit{Glen v Roy} (1882) 10R 239.
\textsuperscript{30} \textit{Secretary of State for Defence v Johnstone} 1997 SLT (Sh Ct) 37.
\textsuperscript{31} \textit{Secretary of State for Defence v Johnstone} 1997 SLT (Sh Ct) 37.
\textsuperscript{32} \textit{Wrotham Park Estate Co Ltd v Parkside Homes Ltd} 1974 1 WLR 798 (Ch).
\textsuperscript{33} \textit{Experience Hendrix LLC v PPX Enterprises Inc} [2003] EMLR 25 (CA).
to demonstrate any loss), such measure being the amount which the court considers the victim of the breach might reasonably be imagined to have charged for a relaxation or waiver of the covenant. Many consider such awards to be ‘gained-based’ or as designed to ‘disgorge profits’ from the party in breach: such an argument seems to proceed from the basis that, by having evaded a possible payment for a waiver/relaxation, the defendant has ‘gained’ because it is better off than it would have been had it paid for such a waiver/relaxation. However, the courts have accepted that such awards are appropriate even in cases where it is clear that the claimant would not have agreed to any such waiver. As the court is assessing damages according to a deemed (albeit fictional) performance interest loss by the claimant (the claimant gets what it has theoretically lost from not being able to bargain for the relaxation or waiver, i.e. there is compensation for imagined *lucrum cessans*), there seems to be a stronger case for not classifying this sort of recovery as genuinely ‘disgorgement’ in nature.

Moving away from damages, there is also the question of whether an ‘account of profits’ (not classed as a damages award, but as a separate species of remedy) of the sort seen in *A.G. v Blake*[^34] is ever available in Scots law for breach of contract. Such a remedy was said to be justified in *Blake* on account of the quasi-fiduciary position in which the defendant stood towards H.M. Government, for whom he had worked in the British Secret Intelligence Service, his conduct being in breach of a contractual duty of confidence which he owed. However, when the *ratio of Blake* was later applied in *Esso Petroleum v Niad*,[^35] no such quasi-fiduciary relationship was present. It is very difficult to narrate a justification of the award of an account of profits in either case (the justification that a normal award of damages would be inadequate is too broad) which would be sufficiently tightly drawn to prevent inroads being made into the general rule that breach should not give rise to a remedy based upon the profit made by the breaching party. Neither case has been applied in Scotland, so, as with the breach of covenant cases, the status of awards for an accounting of profits in similar circumstances is doubtful. Breach of a clear fiduciary duty (discussed below at **D.(5)**) is of course a quite different matter.

[^34]: [2001] 1 AC 268.
[^35]: [2001] EWHC 6 (Ch).
in which an accounting of profits is an available remedy (as it is in infringement of intellectual property cases, also discussed below, at D.(6)).

(2) Delict
In delict (and note, Scots law has not just a number of nominate delicts, but also a general action for the reparation of wrongly inflicted harm), the principal remedy is that of damages, with interdict (the equivalent of the Common law injunction) also being available to prevent anticipated harm. Where interdict is granted, it may of course have the effect of preventing a defender from making a gain through delictual conduct in the first place.

As in contract, the purpose of damages in delict is compensation for loss suffered by the pursuer. Damages are thus intended to restore, so far as possible in monetary equivalent terms, the pursuer to its status quo ante position. This measure of recovery means that, in general terms, the stripping of a profit made by a defender through delictual conduct is irrelevant so far as the pursuer's remedial entitlement is concerned. There are no exemplary or punitive damages.\(^{36}\)

So, are gain based-remedies ever available in the event of a delict in Scotland? In the case of two nominate delicts, it appears that they are, though there is uncertainty as to whether the gain-stripping response should be seen as a delictual or unjustified enrichment in nature. Both of these delicts have a connection to the idea of intellectual property. The first of these nominate delicts is passing off. In the first instance decision of Treadwell's Drifters Inc v RCL Ltd\(^{37}\), the judge held that, in a claim for passing off, the pursuer might choose either to have an inquiry made as to damages in respect of his loss or an inquiry as to profits made by the defender through the passing-off, but not both, and must therefore choose whether he wishes to pursue the remedy of damages or the remedy of accounting and payment of profits. What is unclear however is whether the availability of the latter remedy should be seen as triggered by the commission of the delict or else as a remedy for the unjustified enrichment of the defender (albeit without mirror loss to the pursuer).

\(^{36}\) Hyslop v Miller (1816) 1 Mur 43 at 54; Black v North British Railway Co 1908 SC 444.

\(^{37}\) Treadwell's Drifters Inc v RCL Ltd 1996 SLT 1048 (OH).
The same taxonomic issue affects the second area of delict having some relevance to gain-based awards, namely breach of confidence. The tort of breach of confidence was absorbed into Scots law as a nominate delict.\(^{38}\) By analogy with the English law, in Scotland a remedy of an accounting and payment of profits may be available to a pursuer in a breach of confidence case. There are no Scots cases awarding an accounting of profits as a delictual remedy; however, in *Levin v Caledonian Produce (Holdings) Ltd*\(^ {39}\), the court overcame doubts as to the relevancy of a claim for the enrichment-based remedy of recompense (and allowed the litigation to proceed to a proof before answer). This one scant authority shows a preference for treating any gain-based remedy for breach of confidence in enrichment-based terms and not in delictual terms. In English law, a new emerging tort of ‘misuse of private information’\(^ {40}\) (an offshoot of breach of confidence) may also be remedied, in appropriate cases, by an account of profits; how this tort will fare in Scotland (as a new nominate delict?) is yet to be seen.

With both passing-off and breach of confidence, the same factual circumstances may constitute both a delict (giving rise to a remedy of damages) and an unjustified enrichment resulting from the unwarranted interference in the pursuer’s rights (giving rise to a remedy of accounting and payment of profits). The treatment of the gain-based remedy in breach of confidence as enrichment in nature has academic support.\(^ {41}\) It is suggested that the correct answer is that the classification of the remedial response is determined by the cause of action: if the cause of action lies in unjustified enrichment, then the disgorgement response is properly treated as a remedy in unjustified enrichment; if the cause of action lies in delict, then the remedial response is delictual. This analysis, if it is to be applied, will require clearer judicial statements as to the cause of action when disgorgement is ordered by courts.

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\(^{38}\) *Lord Advocate v Scotsman Publications Ltd* 1989 SLT 705.
\(^{39}\) *Levin v Caledonian Produce Holdings Ltd* 1975 SLT (Notes) 69.
(3) Unjustified enrichment
A full recitation of the recent semi-transformation of the law of unjustified enrichment in Scots law is not possible here: reference is made to other sources for this. Briefly, however, the old actions of repetition, restitution and recom pense, have been swept aside; these so-called ‘3 Rs’ are no longer to be seen as separate actions, but instead merely examples of remedies which may be available in unjustified enrichment cases: (i) repetition where reversal of the transfer of a monetary sum is sought, (ii) restitution where reversal of the transfer of something other than money is sought, and (iii) recom pense where what is sought is a sum of money representing the monetary gain made by a defender (often at the expense of the pursuer, but in some cases without any mirror loss having been suffered by the pursuer). The first two are simply variations of a restitutionary response; the focus of the third is on disgorging, rather than restitution, and is the response applied in cases where the defender made a gain (or had a liability reduced, or avoided an expense, or was protected from a loss) by the conduct of the pursuer, for instance through the provision of a service.

In place of the three old actions, there is now a general principle against unjustified enrichment: no one should be unjustifiably enriched at the expense of another. Further development has yet to be solidified (e.g. it remains unclear whether a general action will develop or not), but there is a growing consensus that analysis of different cases according to the Germanic Wilburg/von Caemerrer typology helps to make sense of the Scottish cases.

More detail is now provided on the precise nature and measure of recovery in different sorts of unjustified enrichment case.

(a) Enrichment by transfer
In cases of enrichment by transfer (either of money or some other thing), the entitlement of the impoverished party is to the return of (i) the sum of money (plus interest) or (ii) the thing in question (or its monetary equivalent if the

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43 See the judgment of Lord Rodger in Shilliday v Smith 1998 SC 725.
44 Though, of course, in reversing a transfer one could describe this as also stripping the recipient of a gain.
45 See Hogg (n 42).
thing has been consumed or disposed, plus any fruits not the result of the recipient’s own efforts, so, e.g. calves born to a cow may be reclaimed, but products made through the application of the industry of the recipient to the thing received (e.g. machinery) are not claimable. Because in such transfer cases the focus is not on profits made by the defender, but on restitution of the thing transferred (or its monetary equivalent), such cases are focused essentially on restitution rather than disgorgement (to adopt the distinction drawn earlier). The right to restitution is subject to any available defences, the application of which may mean that the pursuer receives only the value remaining in the defender’s hands at the time of recovery.

(b) Enrichment by ‘other means’
It is in cases of unjustified enrichment by means other than transfer that the focus lies on disgorgement of the defender’s gain. Such cases may be distinguished into two broad sorts: (i) enrichment by means of imposition of a gain upon the defender, and (ii) enrichment by taking from another, or by means of interference with certain rights of another.

(c) ‘Other means’ 1: imposition
In the first category fall inter alia two important types of case: payment of another’s debt; and the improvement of another’s property in the bona fide but mistaken belief that it is the improver’s. Both of these entitle the impoverished party to the remedy of recompense in Scots law, enabling such party to recover the amount by which the defender has been enriched by the pursuer’s conduct (quantum lucratum), e.g. in payment of another’s debt to the amount by which the payment has reduced the defender’s liability to a third party.

(d) ‘Other means’ 2: taking/interference
In the second category fall a number of circumstances where the defender has taken something from the pursuer or has interfered, without authority, in

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46 Subject to a defence of ‘bona fide consumption and perception’, which limits liability to the value of what remains in the defender’s hands.
47 Stair, Institutions of the Laws of Scotland, I.vii.10.
48 See for the detail of the law in this area, N Whitty and L Macgregor, “Payment of Another’s Debt, Unjustified Enrichment and ad hoc Agency” (2011) 15 Edin LR 57.
certain rights of the pursuer’s. Included in this category are cases of: (a) enrichment by the taking of a thing from another, or by interference with another’s rights of corporeal property or money; (b) enrichment by interference with another’s intellectual property rights; and (c) gain-based remedies for the commission of certain sorts of wrongful behaviour. The precise remedy/measure in such cases varies (see the following paragraphs for the detail).

(e) Enrichment by the taking of a thing from another, or by interference with another’s rights of corporeal property

The cases in this area can be broken down into the following sub-categories: (a) enrichment by interference with another’s exclusive right to the use and occupation of corporeal property (ius utendi); (b) enrichment by taking fruits to which another is entitled (ius fruendi); (c) enrichment by interference with another’s right of disposal of property (ius disponendi); (d) enrichment by interference with another’s right to consume moveable property (ius abutendi); (e) enrichment by original mode of acquisition (accession or specification) depriving another of title to property; (f) enrichment by unauthorised appropriation of another’s money; (g) enrichment by unauthorised abstraction of minerals from strata unworkable by owner and third party; and (h) some miscellaneous cases. 49

The remedies in such cases are various, for instance (and by reference to the foregoing list) in category (a), for authorised occupation of property, a “reasonable sum”, 50 or, for unauthorised occupation of property, “ordinary profits”, i.e. the actual income of the occupier during the period of unauthorised possession, 51 violent profits 52 (see earlier discussion of contract), or a reasonable sum for the use and occupation itself; for cases

49 See the treatment of such cases by reference to this categorisation in the forthcoming reissue of the Obligations title of volume 15 of the Stair Memorial Encyclopaedia of the Laws of Scotland (hereinafter “SME”).
50 Rochester Poster Services Ltd v A G Barr plc 1994 SLT (Sh Ct) 2. The alternative approach of seeing such occupation as based upon an implied lease was discussed earlier in the contract section of this text.
51 K G C Reid, SME “Property” title, SME vol 18, para 168 states: “Familiar examples of ordinary profits include crops grown on land, the young of animals, honey from bees, and, where the possession enjoyed is civil rather than natural, rent … Industrial growing crops may be claimed despite the fact that they may have involved the possessor in both money and skill”.
52 K G C Reid, SME “Property” vol 18, para 169.
where an owner of property has been deprived of the fruits of the property, an accounting for the income or other fruits produced during the period of wrongful deprivation ("ordinary profits"); in category (g), cases of unauthorised (i.e. bad faith) extraction of minerals, the entirety of any net profits made by the extractor (though whether this is properly seen as a delictual award of damages, or an unjustified enrichment remedy, is unclear), but, in cases of good faith extraction, a “royalty” or “lordship” measured by reference to the amount which might have been obtained by the owner of the minerals under a hypothetical bargain for the right to mine them (this being reminiscent of the “negotiating damages” encountered in the English law of trespass), together with compensatory damages for any surface damage caused by the extraction.

(f) Enrichment by interference with another’s intellectual property rights
As for enrichment by interference with intellectual property rights, gain-based awards are available for the infringement of such rights, including patent, copyright and related rights (e.g. design right), and trade marks (both registered and unregistered). In respect of patent, the Patents Act 1977 provides that in patent infringement proceedings a claim may be brought for, inter alia, “an account of the profits derived by [the infringer] from the infringement”, with the important caveat that a court “shall not, in respect of the same infringement, both award the proprietor of a patent damages and order that he shall be given an account of the profits”. In relation to copyright, the Copyright Patents and Design Act 1988, s 96(2) provides that “in an action by the copyright holder all such relief by way of damages, interdict, count, reckoning and payment or otherwise is available to the pursuer as is available in respect of the infringement of any other property

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53 K G C Reid, SME “Property” vol 18 (Pt I)(1993) paras 167 and 168.
54 Davidson’s Trs v Caledonian Railway Co (1895) 23 R 45.
55 Livingstone v Rawyards Coal Co (1879) 6 R 922. See at 926, per Lord President Inglis: “a fair bargain without any advantage on either side”, and at 928, per Lord Deas: “I think the price which would probably have been fixed by an arbiter, if the one party had been willing to purchase and the other to sell, would afford a fair criterion for estimating the value, …”.
56 The latter are protected through the delictual action of passing-off, discussed earlier.
57 Section 61(1).
58 Section 61(2).
right". 59 Similar provision is made for infringement of registered trade marks in section 14 of the Trade Marks Act 1994. It seems that, apart from these statutory entitlements to an accounting of profits, common law recovery in recompense (for unjustified enrichment) is alternatively available to the right holder.60

An intellectual property right holder will wish to consider whether he may get more by way of (i) damages for his loss resulting from the infringement (which damages may include lost profits), (ii) an accounting of profits in respect of the infringer’s gain (here the measure is the net profit of the infringer attributable to his infringement, 61 and there is no inclusion of expenses saved, as there is in quantum lucratu3); (iii) a reasonable royalty or the market price of a (notional) licence fee; 62 (iv) quantum lucratu3 (the extent of the enrichment of the infringer), which is the standard measure appropriate to an obligation of recompense reversing unjustified enrichment, 63 and is likely to be measure, in intellectual property infringement cases, by reference to the market value of the use of the relevant intellectual property (referred to as a “reasonable royalty”64).

(g) Three party enrichment cases
By way of a final remark on unjustified enrichment, a little should be said on three party, indirect enrichment cases. Scots law is generally antagonistic to enrichment claims by a party suffering loss (I) against an enrichment party (E) whose enrichment has been acquired indirectly, through the medium of a third party (T). Such antagonism stems from a number of factors, including a desire to avoid the possibility of double recovery by I or double liability of E, a desire not to undermine contractual arrangements (and thus contractual risk) which may exist in the relationships I-T and T-P, and the absence of a direct causal

59 Copyright Patents and Design Act 1988 (c 48), s 96, read with s 177 (which contains adaptations of expressions for application of the Act in Scotland).
60 See the (draft) text of para 9.56 of the reissue of the ‘Obligations’ title in volume 15 of the SME.
61 United Horse Shoe and Nail Co v Stewart & Co (1886) 15 R (HL) 45 at 48 per Lord Watson.
62 This was recognised as a possible alternative measure for the right holder by Lord President Clyde in British Thomson-Houston Co. v Charlesworth Peebles & Co 1923 SC 599 and by Lord Wilberforce in General Tire and Rubber Co v Firestone Tire and Rubber Co Ltd [1975] 1 WLR 819 (HL).
63 See, for recompense in an intellectual property infringement setting, Mellor v William Beardmore & Co 1927 SC 597.
64 See remarks of Lord Justice-Clerk Alness in Mellor v Beardmore 1927 SC 596 at 609.
relationship in the transfer of the enrichment from I to E.\textsuperscript{65} However, one clear instance where Scottish courts are willing to allow enrichment claims by I against E despite the transmission of the enrichment through intermediary T is in cases where T obtained the enrichment fraudulently and E is aware of this.\textsuperscript{66} Recovery in such cases is in recompense, and is by reference to the legal maxim that “no one should be allowed to profit from another’s fraud”.

(4) \textit{Negotiorum gestio/benevolent intervention}

In general, \textit{negotiorum gestio} claims (increasingly referred to by the English language term ‘benevolent intervention’) are not relevant to the issue of disgorgement of gains, as the entitlement of the \textit{gestor} (the intervener) is not to any gain made by the \textit{dominus} (the party whose affairs are administered) as a result of the benevolent intervention (even if such have arisen) but to the reasonable expenses of the intervention. However, there may be cases where the expenses of the intervener directly match a gain made by the party whose affairs are administered, and in such cases it would be accurate to say that the satisfaction of the intervener’s claim coincidentally has the effect of disgorging a gain of the other party. One example is the payment of the debt of a party who is absent or otherwise unable to consent to the payment: a claim in benevolent intervention would be possible in such a case (as an alternative to a recompense claim), and the amount of the claim (the debt discharged) would equal the gain made by the benefited party.

(5) Breach of fiduciary duties

In Scotland, breach of duty by a fiduciary is remediable in two ways which have the effect of stripping gains made by the fiduciary as a result of such breach:

(a) through the proprietary route of a ‘constructive trust’,\textsuperscript{67} such a trust enforcing a fiduciary's obligation to account for unauthorised gains and

\textsuperscript{65} See generally on indirect unjustified enrichment claims, N Whitty “Indirect Enrichment in Scots Law” 1994 Juridical Review 200 (Part 1) and 239 (Part 2).

\textsuperscript{66} See \textit{M & I Instrument Engineers v Varsada} 1991 SLT 106.

\textsuperscript{67} Great care must be taken when comparing the English law of constructive trusts. In Scots law, the constructive trust is almost entirely confined to the role it plays in relation to breach of fiduciary duty.
to make them available to the beneficiary under the trust (in a so-called “action of forthcoming”\textsuperscript{68}) – the alternative English remedy of an “equitable charge” or “equitable lien” is not available in Scots law\textsuperscript{69}; or

(b) through the personal route of an action of accounting (“count, reckoning and payment”) sometimes referred to by the English name “account of profits”.

The beneficiary of the fiduciary obligation may choose which of these routes to pursue, though a limit on the availability of the first route is that constructive trust claims may only be mounted in relation to pre-existing assets of the beneficiary.\textsuperscript{70}

The first option – the constructive trust route – provides two main benefits to the beneficiary under the trust: (1) constructive trust property is not available to the fiduciary’s personal creditors in the event of the fiduciary’s bankruptcy or liquidation, not may such property be attached by the fiduciary’s creditors by means of diligence; (2) the beneficiary is entitled to “trace” the property of the constructive trust to (or through) mixed or substituted property.\textsuperscript{71}

So far as the second option is concerned – the personal action of accounting – the measure of recovery is the fiduciary’s gain\textsuperscript{72} (no limit on this is placed by the loss to the beneficiary – indeed in many cases there may be no such loss), thus the same measure as that in an action of recompense (\textit{quantum lucratum}).

It has been argued that the fiduciary’s duty to account in cases of breach of duty resulting in personal gain to the fiduciary should be classified separately from obligations deriving from unjustified enrichment. In part this is because the gain of the fiduciary may not be mirrored by any loss of the

\textsuperscript{68}See the remarks of Lord Wood in \textit{Cochrane v Black} (1857) 19 D 1019 at 1029: “The rule of law … is, that the defenders are not entitled to make profit for their own benefit of trust-money belonging to the pursuers … but are bound to render such profit forthcoming to the pursuers”.


\textsuperscript{70}A limitation expressed in the recent English case of \textit{Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd} [2011] EWCA Civ 347 (see judgment of Lord Neuberger at para [88]). Such limitation is likely to be accepted as applicable in Scotland too, given the limited appetite for the use of constructive trusts in Scots law.

\textsuperscript{71}See further draft text of the reissue of the Obligations title, vol 15 of the SME, para 20.1.2.

\textsuperscript{72}\textit{Laird v Laird} (1858) 20 D 972, 983.
principal, though additional reasons have also been advanced for separate classification.\textsuperscript{73}

\textbf{E. PROCEDURAL ISSUES}

Procedural issues are not of obvious relevance to the substantive question of whether gain-based remedies are, or ought to be, available in the law. However, the questionnaire raised one procedural issue about which it is worth commenting: class actions.

Class actions are not possible in Scots law, though they were broadly supported in the Scottish Law Commission in its 1996 Report on Multi-Party Actions.\textsuperscript{74} The lack of class actions means that there is no procedural means for lots of small-value claims against wrongdoers to be joined together, and therefore that there is the likelihood that some wrongdoers will be able to avoid having gains made through their wrongdoing stripped from them given the economic disincentive to the small claimholders to bringing a claim.

Change is imminent in one area, however. The Government’s Department for Business, Innovation and Skills (BIS) consulted in April 2012 on the possibility of allowing class actions in UK competition law litigation. Following this consultation, competition litigation reforms were announced on 29\textsuperscript{th} January 2013. These reforms will confer much wider powers on the Competition Appeal Tribunal to hear both ‘stand alone’ and ‘follow-on’ competition cases. The most significant change will be the permissibility of collective actions (on an ‘opt-out’ basis\textsuperscript{75}). The changes will be effected through amendment of the Competition Act 1998, a UK-wide statute. The one difference concerning the introduction of the changes in Scotland is that the Court of Session will retain jurisdiction in relation to any interdicts sought in respect of competition law causes of action. The changes proposed would mean that, for instance, in cases of price-fixing, businesses and consumers would be able to raise actions claiming losses suffered through any anti-

\textsuperscript{73} Draft text of reissue of Obligations title, vol 15 of the SME, para 20.2.2.
\textsuperscript{74} Scottish Law Commission Report No. 154 of 1996.
\textsuperscript{75} Modeled on the Netherlands’s Mass Settlement Act 2005, which is specifically cited in the UK Government’s proposals.
competitive overcharging from the offending parties. While the focus in such collective claims will be on compensating loss, such loss could be conceptualised as being taken from assets of the offending parties gained at the expense of the consumer (and hence as an indirect form of gain-stripping).

**F. CONCLUSIONS**

The Questionnaire asked reporters to consider whether, in our opinion, our legal systems are efficient when it comes to disgorgement of unlawful profits by private law mechanisms, and, if not, what suggestions we had for enhancing the overall situation regarding the combatting of ‘illegal’ profits. The answer must be that, for Scots law, while there is clarity in the view of the nature of damages (these are never disgorgement in nature), there is a lack of clarity in most issues concerning disgorgement awards: the cause of action triggering the award is not always clear (e.g. whether a disgorgement award is being ordered because of the commission of a delict or because of an unjustified enrichment); the terminology of the remedy varies (there is no clearly agreed term to describe disgorgement awards, rather a plethora of different names), and not all awards which are considered disgorging in nature by some in fact appear to be so (e.g. hypothetical release awards, and some instances of ‘violent profits’); there is no uniform measure of recovery; and there appears to be no single justification for the making of disgorgement awards (sometimes there are overtones of a penalty, sometimes the focus is on deterrence, sometimes the reason is simply ‘equity’ in general). Much of the law is found in nineteenth century cases; other portions have been borrowed unthinkingly from English law, thereby applying language, structure and analysis which is not always appropriate.

Some greater clarity and consistency is likely to follow the publication of the “Obligations” title in the forthcoming reissue of volume 15 of the *Stair Memorial Encyclopaedia*, but in this field, like so many others in Scots private law, the real problem is caused by the lack of a civil code which could provide a coherent structure and language. Whilst further judicial development of the field is awaited, some preliminary suggestions have been made in this paper:
(i) the concepts of restitution and disgorgement should be distinguished, albeit that both involve (in a broad sense) taking something from a defender and giving it to a pursuer;

(ii) whether a remedy is labelled 'delictual', 'contractual', 'enrichment-based', etc., should depend on the cause of action triggering the remedy; the courts must be clearer when they are stating the obligational source of a remedy (this is important because, for instance, of available defences in specific obligational fields);

(iii) if a remedy is to be considered disgorgement in nature it must, in fact, have as its focus the stripping of gains made by a defender; if remedial entitlement is assessed by reference to the loss of the pursuer (including hypothetical lost profits/gains of the pursuer), then it is not a remedy directed at disgorgement/gain-stripping of the defender;

(iv) greater uniformity in the language used to describe remedial entitlement would be welcome, and vague terms such as 'fair price' and 'ordinary profits' would be best avoided;

(v) any opportunity should be taken by the courts to settle uncertain legal developments, such as the status of the Wrotham Park and Blake cases in Scots law;

(vi) caution must be shown in borrowing from England: the historical development of English gain-based remedies, as well as their present taxonomy, is quite different in many cases to that of Scotland.
South Africa

Disgorgement of Illegal Profits - South Africa

by Jacques du Plessis* & Daniel Visser**

I Introduction: definition of theme; branches of law applicable

The central theme of this report is how South African law deals with situations where illegal conduct or a wrong (often amounting to a delict or tort) has resulted in a profit, gain, benefit or enrichment on the side of the defendant, and especially to what extent such a profit must be surrendered or ‘disgorged’. As the General Reporters’ Questionnaire points out, various branches of law and instruments could apply in these situations. South African law amply illustrates this proposition. In the context of public law, for example, provisions of criminal law and administrative law may impose a variety of sanctions or punishments, leading effectively to the neutralisation of the illegal profit.¹ But here the focus will mainly be on private and commercial law, and especially on the role the laws of delict and unjustified enrichment (but also certain statutory provisions that cannot specifically be classified) could play in ensuring the disgorgement of illegal profits.

The South African experience bears out the general observation in the Questionnaire that the relevant remedies are generally latent, in the sense that it is not readily apparent that they could be applied to cases of profiting as a consequence of illegal conduct. More specifically, South African law has not adopted the conceptual

* Head of the Department of Private Law and Professor in Private law, University of Stellenbosch.
** Deputy Vice-Chancellor (Research and Academic Affairs) and Professor of Law, University of Cape Town.
¹ See eg section 18 of the Prevention of Organised Crime Act 121 of 1998 on confiscation orders aimed at ensuring that persons cannot benefit from their wrongdoing; section 300 of the Criminal Procedure Act 51 of 1977 on orders compelling criminals to compensate victims of crime; and section 8 on the Promotion of Administrative Justice Act 3 of 2000 on orders to make restitution where a person has gained from unauthorised administrative action; JE du Plessis The South African Law of Unjustified Enrichment (2012) 15-116.
apparatus, favoured by some in the common-law context,\(^2\) whereby a strong distinction is drawn between ‘compensatory’ damages, which is aimed at making good a loss, and ‘gain-based’ damages (or some functionally equivalent term), which focuses on the defendant’s gain. South African law does use the concept ‘restitutionary damages’, but only in limited contexts. These include cases where contractual consent is obtained in an improper manner\(^3\) or where there has been breach of contract,\(^4\) and the award of ‘restitutionary’ damages is aimed at restoring the parties in their previous positions.

The report is divided into two parts. The first part sets out some general principles of private law, and especially of the laws of delict and unjustified enrichment, in regard to the disgorgement of illegal profits. The second part in turn focuses on specific fact patterns or cases that are potentially concerned with such disgorgement. Against the background of these overviews, the concluding section evaluates the current position and potential directions South African law could take.

II General principles of the laws of delict and unjustified enrichment

Often, when a legal problem lies at the periphery of two or more established fields of law, its solution is hampered by the uncertainty of which area provides its true home and by the fact that ‘the core assumptions of the dogmatic structure of each field can be expected to begin to show their imperfections more clearly the further one moves from the centre’.\(^5\) Hugh Collins\(^6\) has remarked that when courts or legislators create practical solutions to problems that do not fall within established legal doctrine, jurists typically ‘seek ways to refine or revise the rules of subsystems in order to restore formal rationality’. In South Africa, parliament and the courts (applying and interpreting the common law) have indeed produced disgorgement responses (or the

\(^3\) See III.4 below Mkhwanazi v Quartermark Investments (Pty) Ltd 2013 (2) SA 549 (GSJ) para [61] (upheld on appeal in Quartermark Investments (Pty) Ltd v Mkhwanazi [2013] ZASCA 159 (01/11/2013)); further see Davidson v Bonafede 1981 (2) SA 501 (C).
\(^4\) See Mainline Carriers (Pty) Ltd v Jaad Inv CC 1998 (2) SA 468 (C).
\(^6\) ‘Productive learning from the collision between the doctrinal subsystems of contract and tort’ 1997 Acta Juridica 55.
functional equivalent) to certain instances of improper profit-taking, but insufficient doctrinal analysis has been devoted to the issue, and thus there is as yet no generally accepted theoretical map of this area of our law. But there is also a further problem: many instances that would be the subject of a surrender order in other legal systems escape this sanction in ours simply because the South African courts have been immobilised by the doctrinal uncertainties. This means that the purpose of scholarly analysis of this issue in South Africa should be both for the purpose of bringing doctrinal order and to provide guidance on whether, and if so, how the gaps should be filled.

As will appear from the discussion below of the specific instances that involve disgorgement of profits, South African law has developed remedies that in effect erase improper profits mostly by way of statutory interventions\(^7\) or in the law of delict,\(^8\) while the law of enrichment has made very little contribution in this area (although it has the greatest potential to do so if the courts were to be sufficiently bold in reworking certain fundamental principles).

The two signposts that send those looking for the home of the disgorgement of illegal profits in South Africa into no-man's-land are these: On the one hand, the law of delict in South Africa rests on the fundamental precept, as formulated in *Montres Rolex SA v Kleynhans*\(^9\) ‘that the commission of a delictual act entitles the injured party [only] to compensation from the wrongdoer for calculable pecuniary loss actually sustained or likely to be sustained in consequence of the wrong’.\(^10\) In other words, the South African law of delict is able in to remedy improper gains that also involve a loss on the part of the plaintiff (as the discussion of the *actio ad exhibendum* and the *condictio furtiva* below will show),\(^11\) but it does not contemplate the annulment of improper gains that do not involve loss on the part of the plaintiff.\(^12\) On the other hand, the law of unjustified enrichment has as one of its most basic principles that an enrichment claim can neither exceed the defendant’s enrichment

\(^{7}\) See sections III.2 and III.5 below.

\(^{8}\) See sections III.1(a), III.1(b), III.1(c) and III.3 below.

\(^{9}\) 1985 (1) SA 55 (C) at 66 per Seligson AJ.

\(^{10}\) Ibid; and see also *Cadac (Pty) Ltd v Weber-Stephen Products Co* 2011 (3) SA 570 (SCA).

\(^{11}\) See section III.1.

nor the plaintiff’s impoverishment – the so-called ‘double-cap’ or ‘double-ceiling rule’. Therefore, if the plaintiff has suffered no impoverishment, as is often the case where illegal profits are made, the law of enrichment cannot provide a remedy.\textsuperscript{13} In both areas of law the real issue is the requirement of a loss. Take the example of a company director’s duty to disgorge secret profits.\textsuperscript{14} This is firmly part of South African law\textsuperscript{15} and came into it as a result of the influence of the English notion of breach of a fiduciary duty as part of restitution for ‘equitable wrongdoing’. However, it floats in the air with no doctrinal home: it cannot be classified as an enrichment action because the secret profit has to be disgorged even if the company is no worse off (or even better off) as a result of the director having made the profit – that is to say, even if the company has not been impoverished; and it cannot be classified as a delict action for the very same reason: the law of delict makes good losses and this remedy strips the profit away even if there is no loss.

There has been nothing in this country as vigorous as the English-law debate which has resulted in the now-dominant view that draws a firm distinction between restitution of an unjust enrichment and restitution of a wrong.\textsuperscript{16} nor is there the even older certainty of German law that the reversal of a profit resulting from an ‘Eingriff’ (invasion) of another’s rights is part of the law of unjustified enrichment.\textsuperscript{17} There is, however, some awareness of the fact that the different sections of South African law that deal with (or could deal with) disgorgements of profits are insufficiently co-ordinated to allow a principled approach to when and how illegal profits should be reversed. Thus, already in \textit{Montres Rolex SA v Kleynhans}\textsuperscript{18} Seligson AJ, while denying the remedy of account of profits as being contrary to the basic principles of our law of delict, acknowledged that it is unsatisfactory that there is no remedy available to deal with the problem:

\textsuperscript{13} See Daniel Visser \textit{Unjustified Enrichment} (2008) 161 and Du Plessis \textit{SA Law of Unjustified Enrichment} 41 et seq.
\textsuperscript{14} See for more detail section III.5 below.
\textsuperscript{15} \textit{Robinson v Randfontein Estates Gold Mining Co Ltd} 1921 AD 168. See generally P M Meskin et al \textit{Henochsberg on the Companies Act} 289 (ad s 76 of the Companies Act), quoting \textit{Industrial Development Consultants Ltd v Cooley} [1972] 2 All ER 162 (Birmingham Assizes).
\textsuperscript{16} See Andrew Burrows \textit{The Law of Restitution} 3\textsuperscript{rd} ed (2011) 9-12.
\textsuperscript{17} See Gerhard Dannemann \textit{The German Law of Unjustified Enrichment and Restitution: A Comparative Introduction} (2009) 102.
\textsuperscript{18} 1985 (1) SA 55 (C) at 68.
'All this is not to say that the policy of preventing the unjust enrichment of the infringer at the expense of the trade mark proprietor has nothing to commend it. On the contrary, it would be an inequitable result if the deliberate infringer is able to retain the profits made from the unlawful use of the plaintiff's trade mark in circumstances where such profits do not represent the plaintiff's actual loss.'

He held that there should be an ‘innovative fashioning of a remedy in our law to deal with the situation where an infringer clinches, by filching the trade marks of another, sales which the latter would probably not have made’, but he did not see himself able to refashion the law to accommodate such a remedy.¹⁹

Since this case there has been some academic analysis of the problem in Montres Rolex and similar situations. Mr Justice Deon van Zyl, commenting on the case, thought that the law of delict was a more promising site for the development of this kind of remedy than the law of unjustified enrichment:

‘There is certainly a need for an equitable remedy to enable a plaintiff to claim benefits unjustly acquired by a defendant, without the plaintiff having been impoverished or having otherwise suffered damages as a result of such acquisition. Pauw has suggested (in (1980) 97 SALJ 221 at 224.) that Aquilian liability may be extended to provide for the recovery of wrongfully acquired benefits. The action would be delictual, although it would closely approach an enrichment action directed at the recovery of unjustly acquired benefits.’²⁰

The law of delict can confidently be described as one of the most dynamic parts of South African law and it has time and again proved itself to be adaptable to the circumstances of the day. Over time, English law, Scots law, German law and modern Dutch law have all been used to mould the received Roman-Dutch law of delict into a modern, flexible and progressive system. Why judges are more activist in certain areas of the law and not others is a difficult question to answer, but there can be no doubt that South African judges have consistently been bold in developing the law of delict. So if one were a betting man, one would put one’s money on the law of delict.

¹⁹ For more detail, see section III.5 below.
delict to be the area where our law is most likely to come up with an answer to the present conundrum. However, the problem is that for the law of delict to reverse improper gains would require, on the one hand, the abandonment of one of its most basic tenets, namely that it is aimed at making good harm suffered by the plaintiff, and, on the other, an investigation into fault on the part of the defendant, which is not appropriate to this kind of claim.

Others have thought that the law of unjustified enrichment can and should be adapted, by relaxing the double-cap/ceiling rule to allow the reversal of improperly acquired benefits by taking from another or by invading the rights of others. Unlike the law of delict, change in the law of unjustified enrichment in South Africa has happened only in small incremental steps, and even the creation of the conceptual apparatus for a general enrichment action in *McCarthy Retail v Shortdistance Carriers* has not brought anything along the lines of the dramatic advances that we have become accustomed to see in the law of delict. So no-one would say that the odds are in favour of the desired remedy being fashioned in this area of the law. Yet, ironically, since the very business of the law of unjustified enrichment is to strip away benefits that are being unjustifiably retained, this is precisely where the remedy should be created. It is true that the double-ceiling rule is a long-standing rule in the law of enrichment, but it is a pragmatic rule, the relaxation of which would not do any violence to the fundamental precepts of this area of law. Relaxing the double-ceiling rule would merely require that appropriate rules would have to be fashioned to determine the quantum of the enrichment in these cases – and this would not be too difficult, as the experience in many other legal systems demonstrate. At present, because the law requires both the defendant to have been enriched and the plaintiff to have been impoverished, the measure of enrichment across the board is stated simply as being the defendant’s enrichment or the plaintiff’s impoverishment,

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21 See generally J R Midgley and J C van der Walt ‘Delict’ in LAWSA vol 7 para 143.
22 Du Plessis *SA Law of Unjustified Enrichment* 47.
24 2001 (3) SA 482 (SCA).
25 Du Plessis *SA Law of Unjustified Enrichment* 47.
26 Ibid at 39ff and 44ff.
whichever is the lesser. This would still remain the case outside of enrichment through invasion of rights, but in the latter case one could make use of devices such as reasonable rental fees and other market-related standards to determine the measure by which the defendant has been enriched.\textsuperscript{27}

It is clear that any private-law remedy (be it in delict or in enrichment) should not amount to punishment. Thus Midgley and Van der Walt\textsuperscript{28} remark that ‘people who face the prospect of punishment are accorded certain procedural safeguards … [and therefore] punitive damages in delict may very well be unconstitutional’. That would also be true of any enrichment remedy that purports to punish. But the mere fact that a particular remedy strips away a profit does not place it in the category of punishment. On the contrary, for a private law system to have an appropriate set of remedies to reverse profits obtained through the invasion of the rights of others contributes to its ability to fulfil its role of dispensing corrective justice. Thus Julius Coleman states in an early contribution:

‘In my view, corrective or compensatory justice is concerned with the category of wrongful gains and losses. Rectification, in this view, is a matter of justice when it is necessary to protect a distribution of holdings (or entitlements) from distortions which arise from unjust enrichments and wrongful losses. The principle of corrective justice requires the annulments of both wrongful gains and losses.’\textsuperscript{29}

The law of unjustified enrichment is not entirely explicable in terms of corrective justice, but there can be little doubt that this concept lies at the heart of this area of South African law, and that enrichment law should accordingly be developed in such a way by the courts that it achieves compensatory justice as perfectly as possible. This means that whenever a court identifies an instance where a gain is unjustified – as it did in \textit{Montres Rolex} – it has a duty to fashion a remedy to restore equality; it is not good enough to identify that which must be corrected without also creating a remedy where none exists. After all, South African law does not proceed, as Roman law did, from the position of \textit{ubi remedium, ibi ius}; rather its stance is \textit{ubi ius, ibi remedium}.

\begin{itemize}
\item \textsuperscript{27} Ibid.
\item \textsuperscript{28} Delict’ in \textit{LAWSA} vol 7 para 143.
\item \textsuperscript{29} Jules Coleman \textit{Markets, Morals and and the Law} (1998) 185.
\end{itemize}
Any private-law remedy for reversing an unjustified gain that results from invading the right of another should be such that it ensures that both plaintiff and defendant receive what they deserve – there must be, in Hanoch Dagan’s words – ‘correlativity between the defendant's liability and the plaintiff's entitlement, as well as between the plaintiff's entitlement and the remedy’. The basic principle of correlativity in corrective justice insists that the defendant should not have to give up more than that by which he or she has been enriched; but at the same time it also insists that the plaintiff should not receive more than the injustice suffered requires. In instances of enrichment other than those induced by wrongdoing, the imbalances that have arisen are appropriately corrected by ordering the economic loss, the impoverishment that the plaintiff has actually suffered, to be repaid. But where the injustice is embodied in someone being enriched by, for example, arrogating to him- or herself the right to use another’s property without permission, or by publishing private information about that other person, the resulting imbalance cannot be restored by using this measure, since the plaintiff would not necessarily have suffered any economic loss. To determine what exactly the plaintiff is entitled to claim necessitates a consideration of the social values that the law wishes to advance in the particular situation.

In some cases, ordering the disgorgement of the whole profit will be necessary to repair the disturbed equilibrium. Thus, in a case of the unauthorized publication for gain of private information concerning a celebrity, only an order to pay to the wronged party the whole profit that emanated from that publication will be appropriate – anything less would effectively mean that the publisher could give itself a licence to exploit the publicity value of the celebrity at a discount rate. In other cases it would not be appropriate to order the whole profit to be disgorged. For instance, in cases where there is exploitation of a resource in circumstances where it is likely that that permission would have been given if it had been sought, a reasonable licence fee (fair market value) would restore the balance between the parties.

Dagan comments as follows on these two measures:

30 ‘The distributive foundation of corrective justice’ 98 (1999) *Michigan LR* 138 at 143. ‘This correlativity’, says Dagan (ibid at 151) ‘between the two parties is what distinguishes private law from regulation, whereby individuals are penalized for harms committed against society.’
31 Ibid at 152.
32 Visser *Unjustified Enrichment* 683.
‘The profits measure reflects and reverses a breach of the plaintiff's entitlement to control the resource, while the fair market value reflects and reverses a breach of her entitlement to the well-being embodied by the resource. The claims to control and well-being ... entail the applicable measures of recovery in the very strict way the correlativity thesis requires. Thus, in order for control to be respected, the resource holder must be entitled to the infringer’s profits. (Deterrence is thus an entailment of the entitlement to control, which is intrinsic, rather than extrinsic, to the parties' relationship.) And once an infringement has occurred, nothing but the restitution of profits can rectify it. On the other hand, where the only legitimate claim of the plaintiff respecting the resource is to the well-being which it embodies, she is entitled to the fair market value of its use or alienation, and even an intentional circumvention of the market should not trigger any additional recovery.’

The precise ambit of the remedies that should be available can only be determined in the context of the situations where they are or might be required. We will now proceed to consider the specific instances in which disgorgement of profits is recognised or could be recognised in South African law.

III Specific cases potentially involving disgorgement of profits

1 Infringing the right to use, dispose of or consume corporeal property

It is well-established in South African law that a broad range of rights may be held with respect to corporeal property. These include the right to use, consume or dispose of it. Where another person gains by infringing such a right, the holder of the right is provided with a variety of remedies, some of which could directly or indirectly oblige the infringing party to surrender these gains.

a) Profiting by using property\(^{33}\)

Certain special cases of gaining through use of property could give rise to statutory

\(^{33}\) See Visser Unjustified Enrichment 665-678; Du Plessis SA Law of Unjustified Enrichment 346-349.
relief. For example, legislation imposing formal requirements for the sale of land allows the seller under a formally invalid contract to recover reasonable compensation for the occupation, use or enjoyment the purchaser may have had of the land. The statutory relief also concerns cases where the use may have been lawful at the time, but subsequently has to be accounted for. Thus, where a consumer exercises a statutory right to return the goods, consumer legislation entitles the supplier to charge a reasonable amount for the use of the goods.

Under the South African common law, infringing the right to use may entitle the holder of the right to a delictual claim for damages arising from not being able to use the property. Such a claim is aimed at compensating for the plaintiff’s loss, rather than at disgorging the defendant’s actual gain (although the amount may often be the same, for example if the defendant’s gain was not paying the same rental which the owner would have earned).

South African law awards other remedies aimed at making the defendant account for his gain, but generally these remedies operate ‘indirectly’, by way of deducting or setting-off an amount for use from an enrichment claim that the defendant in turn has against the plaintiff. For example, an owner whose property has been improved without authorisation may deduct an amount for use from the improver’s enrichment claim. And when a transfer is made in fulfilment of an invalid sale, the seller may set off the enrichment of the purchaser through the use of the _merx_ against the purchaser’s claim for repayment. It is only rarely that a ‘direct’, independent enrichment claim is awarded, for example where property is occupied after termination of a lease with the previous landlord, and no agreement has been concluded with the new owner.

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36 See _Hefer v Van Greuning_ 1979 (4) SA 952 (A).
37 See Du Plessis _SA Law of Unjustified Enrichment_ 282-283. Occupiers and holders (ie improvers who do not intend to hold as owners) must account for their use. _Bona fide_ possessors (ie improvers who intend to hold as owners) do not have to account for enrichment merely by enjoying use and occupation, but are liable for fruits earned, such as rental.
38 _Lodge v Modern Motors Ltd_ 1957 (4) SA 103 (SR) 122E–123B; further see _Portion 29 Golden Highway (Pty) Ltd v Patel_ [2010] 4 All SA 219 (GSJ).
39 See _Lobo Properties (Pty) Ltd v Express Lift Co (SA) (Pty) Ltd_ 1961 (1) SA 704 (C). There is support in Roman-Dutch law for imposing liability for use on a former fiduciary who continued
However, there are some indications that South African law may in future develop to be more willing to award an enrichment claim if a person’s property is used by another who has no right to do so. Such a claim would have to meet the general requirements for enrichment liability, and would have to be quantified in accordance with the principles governing the measure of enrichment claims. As mentioned above in section II, it may be necessary to reconsider whether to adhere to the general requirement that the plaintiff had to be impoverished, and whether the claim should be measured by applying the double ceiling rule, which limits its ambit to the lesser of the plaintiff’s impoverishment and the defendant’s enrichment. The classic example is the situation where a person is enriched by staying for free in another’s house without permission, and thereby infringes the owner’s right to occupy the house, but the owner cannot prove that he suffered impoverishment or loss. It especially remains to be resolved when the defendant’s enrichment should be measured in terms of what constitutes a reasonable rental, and when the defendant might be obliged to disgorge actual gains derived from using the property. In terms of the discussion in section II above, a reasonable rental might be the more appropriate measure to adopt in this instance.

b) Profiting by consuming property

The main forms of relief when gains are obtained by infringing the right to consume property are also delictual in nature. If someone wrongfully and culpably consumes another’s property in the knowledge of the owner’s title or claim, the owner may claim delictual damages with the *actio ad exhibendum*. If the person who consumed the property obtained it through theft, the owner could be entitled to the *condictio furtiva*, which is also regarded as a delictual remedy in South African law.


41 See Visser *Unjustified Enrichment* 655-680; Du Plessis *SA Law of Unjustified Enrichment* 357-363.

42 See *S Polwarth & Co (Pvt) Ltd v Zanombairi* 1972 (2) SA 688 (R) 691–692; *Philip Robinson Motors (Pty) Ltd v N M Dada (Pty) Ltd* 1975 (2) SA 420 (A); *Clifird v Farinha* 1988 (4) SA 315 (W) 319; *Frankel Pollak Vinderine Inc v Stanton NO* 2000 (1) SA 425 (W) 429G–430B.
(despite a name which suggests it is an enrichment claim), but the measure is more generous, since it is the highest value of the property since the theft.\textsuperscript{43}

These delictual claims are only available if the enriched was at fault. If the plaintiff is unable to establish fault, an enrichment remedy could be awarded even if the defendant was enriched by consuming another’s property without being entitled to do so; the appropriate enrichment action is the \textit{condictio sine causa specialis}.\textsuperscript{44}

This action was for example awarded in \textit{Greenhills Producers (Pty) Ltd (in Liquidation) v Benjamin},\textsuperscript{45} where the plaintiff gave the defendants possession of farm land for grazing in terms of a joint venture agreement and the agreement was subsequently terminated, but the defendants remained in occupation in good faith, and were enriched through continuing to use the land for grazing. The enrichment claim is not available where property was received in good faith and for value, and was then consumed.\textsuperscript{46} It has been expressly held that South African law has not received the doctrine of conversion of English law, whereby even the innocent ‘consumer’ for value could be liable.\textsuperscript{47}

c) Profiting by disposing of property\textsuperscript{48}

The delictual remedies considered above in the context of illegal consumption are also relevant to illegal disposal of property: the \textit{actio ad exhibendum} applies when one person knowingly disposes of another’s property,\textsuperscript{49} whereas a thief who

\begin{footnotesize}
\textsuperscript{43} See \textit{Minister van Verdediging v Van Wyk} 1976 (1) SA 397 (T) 400D; \textit{Krueger v Navratil} 1952 (4) SA 405 (SWA).

\textsuperscript{44} As to its exact requirements, and especially to what extent the property had to be obtained through ‘dealings’ (\textit{a negotium}) with the owner, see JG Lotz ‘Enrichment’ in W Joubert (ed) \textit{The Law of South Africa} vol 9 reissue 2 updated by F D J Brand (2005) para 220(b); Visser \textit{Unjustified Enrichment} 655; Du Plessis \textit{SA Law of Unjustified Enrichment} 355-357. Where property is ‘consumed’ through being attached to or joined with other property, so as to deprive the original owner of ownership, the claim to account for the benefit is presumably also based on unjustified enrichment (see Du Plessis \textit{SA Law of Unjustified Enrichment} 357; Simon van Leeuwen \textit{Censura Forensis Theoretico-Practico} (1741) 2 5 3; C G van der Merwe \textit{Sakerreg} 2ed (1979) 231, 243, 246, 256, 262).

\textsuperscript{45} 1960 (4) SA 188 (E).

\textsuperscript{46} See Brand ‘Enrichment’ \textit{LAWSA} vol 9 para 220(b) n 10. Strictly speaking, the rule has only been applied to property in the form of money, but presumably other forms of corporeal property are also covered.

\textsuperscript{47} See \textit{Leal & Co v Williams} 1906 TS 554; \textit{Van der Westhuizen v McDonald & Mundel} 1907 TS 933; Brand ‘Enrichment’ \textit{LAWSA} vol 9 para 220.

\textsuperscript{48} See Visser \textit{Unjustified Enrichment} 655-680; Du Plessis \textit{Unjustified Enrichment} 357-363.

\textsuperscript{49} Visser \textit{Unjustified Enrichment} 660-661; Du Plessis \textit{SA Law of Unjustified Enrichment} 363.
\end{footnotesize}
disposes of another's property (and a complicit third party),\textsuperscript{50} may also have to face the \textit{condictio furtiva}.\textsuperscript{51} These remedies could indirectly serve to compel a party who profited by disposing of the property to surrender these gains to pay the damages claim. However, a delictual claim would fail in the absence of fault. It may again be convenient to resort to a remedy based on unjustified enrichment (presumably the \textit{condictio sine causa specialis}) to strip the defendant of his gain, even if there was no fault on his side.\textsuperscript{52} For example, in \textit{Union Government (Minister of Agriculture) v Lombard},\textsuperscript{53} government employees took buchu from Lombard’s farm, and sold it in good faith to a third party; it was held that the government was liable to the extent to which it had benefited, and that it could not be allowed to enrich itself at Lombard’s expense. Unfortunately, the details as to the application of such an enrichment claim are quite complex, and requires differentiation between a variety of defendants, whose positions vary depending on whether they were given possession by the owner, took possession from the owner, or obtained it from a third party, and whether they gave value in return.\textsuperscript{54} This is one of the areas in which the uncodified, civil-law based South African law of unjustified enrichment is least developed.

\section*{2 Infringing intellectual property rights\textsuperscript{55}}

South African law recognises various statutory remedies that arise from illegally infringing intellectual property rights, such as trademarks, copyright, patents or

\begin{thebibliography}{99}
\item\textsuperscript{50} See \textit{S Polwarth & Co (Pvt) Ltd v Zanombairi} 1972 (2) SA 688 (R) 691; \textit{Van der Westhuizen v McDonald and Mundel} 1907 TS 933 at 945.
\item\textsuperscript{51} Visser \textit{Unjustified Enrichment} 661-665; Du Plessis \textit{SA Law of Unjustified Enrichment} 363.
\item\textsuperscript{52} Brand ‘Enrichment’ \textit{LAWSA} vol 9 para 220 n 9; Visser \textit{Unjustified Enrichment} 341, 665. It may simplify matters if the enrichment claim is described as being based on taking through unauthorised disposal of another’s property, and if the label of the \textit{condictio sine causa} is avoided – see Du Plessis \textit{SA Law of Unjustified Enrichment} 350.
\item\textsuperscript{53} 1926 CPD 150.
\item\textsuperscript{54} See \textit{Van der Westhuizen v McDonald and Mundel} 1907 TS 933. Military personnel unlawfully, but apparently in good faith, requisitioned tobacco which belonged to Van der Westhuizen, and sold it at a bargain price to McDonald and Mundel. Acting in good faith, they in turn resold part of it at a profit. It was held that McDonald and Mundel were not liable to pay Van der Westhuizen the value of the tobacco, or even the profits. Support exists for awarding an enrichment claim against a third party who gratuitously obtained property from another and disposed of it for value (see Johannes Voet \textit{Commentarius ad Pandectas} (Paris ed 1829) 6110; \textit{Van der Westhuizen v McDonald and Mundel} 1907 TS 933 at 941–943).
\item\textsuperscript{55} See generally Visser \textit{Unjustified Enrichment} 685-689; Du Plessis \textit{SA Law of Unjustified Enrichment} 364-365; Blackie & Farlam ‘Enrichment by act of the party enriched’ in Zimmermann, Visser & Reid (eds) \textit{Mixed Legal Systems in Comparative Perspective} 469 at 485–486, 490.
\end{thebibliography}
designs. These include statutory claims for damages or for a reasonable royalty in lieu of damages,\textsuperscript{56} but not for the disgorgement of actual profits. At best, there may be an indirect ‘skimming off’ of profits to pay these claims. It is only in cases of copyright infringement that courts are statutorily empowered to award a claim which could target the defendant’s actual profits. This is an exceptional claim for additional damages, which courts may award as they may deem fit; they have to be satisfied that effective relief would not otherwise be available to the plaintiff, having regard, in addition to all other material considerations, to the flagrancy of the infringement and ‘any benefit shown to have accrued to the defendant by reason of the infringement’.\textsuperscript{57} The quoted part of the provision indicates that the claim for additional damages could achieve the effect of forcing the disgorgement of the defendant’s actual profits.

It is a matter of statutory interpretation to determine to what extent further common-law remedies are available beyond these statutory sources of relief in cases of infringing intellectual property rights. As mentioned in section I above, South African courts have refused to recognise the English practice of allowing a plaintiff in an action for infringement of a trade mark (or passing-off) to choose between asking for ‘an inquiry as to damages’ or ‘an account of profits’.\textsuperscript{58} This refusal is not a problem as long as the statutory protection against infringement is adequate. Often the plaintiff would be satisfied with a claim for damages or a reasonable royalty in lieu of damages. However, if the plaintiff seeks to strip the enriched of actual profits, the only statutory protection, as indicated above, is provided in cases of copyright infringement. In other cases of infringement of intellectual property rights, the plaintiff would have to rely on the common law, but the options are not promising. The law of delict would be inappropriate inasmuch as it is aimed at compensating actual losses,

\textsuperscript{56} Where a trade mark registered in terms of the Trade Marks Act 194 of 1993 has been infringed, section 34(3) provides that any High Court having jurisdiction may grant the proprietor certain forms of relief. These include a) an interdict, b) an order of removal, c) damages and ‘d) in lieu of damages, at the option of the proprietor, a reasonable royalty which would have been payable by a licensee for the use of the trade mark concerned …’. Comparable provisions on paying a reasonable royalty in lieu of damages are contained in section 35(3)(d) of the Designs Act 195 of 1993, section 65(6) of the Patents Act 57 of 1978, and section 24(1A) of the Copyright Act 98 of 1978.

\textsuperscript{57} Section 24(3) of the Copyright Act 98 of 1978.

\textsuperscript{58} See Klimax Manufacturing Ltd v Van Rensburg 2005 (4) SA 445 (O) para 60-61; Montres Rolex SA v Kleynhans 1985 (1) SA 55 (C). An ‘account of profits’ is only available in South African law if specifically provided for by contract, statute or a fiduciary relationship.
rather than disgorging profits.\textsuperscript{59} The law of unjustified enrichment is, in principle, more appropriate for this goal, but it presents the plaintiff with the formidable obstacles outlined in section II. First, there is the double-ceiling rule, which limits or caps any enrichment claim for the defendant’s actual enrichment to the plaintiff’s impoverishment. Secondly, such a claim would be novel, and the plaintiff would have to convince the courts to impose enrichment liability outside the scope of the existing specific enrichment actions – and, as we have already observed, this may be quite challenging.\textsuperscript{60} As a corollary to this proposition, one can assert that it would probably be inappropriate to award such a claim in certain cases of infringement, for example where the defendant independently and innocently profited from an invention that happened to infringe a patent, because, as outlined above, the actions of an innocent infringer do not threaten the right-holder’s entitlement to control the resource.\textsuperscript{61}

3 Infringing personality rights\textsuperscript{62}

South African law does not traditionally recognise claims that are directly aimed at disgorging profits obtained by infringing another’s personality rights, such as the rights to bodily integrity (\textit{corpus}), dignity or sense of selfworth (\textit{dignitas}), and reputation (\textit{fama}).\textsuperscript{63} The preferred form of relief is to award a common-law delictual claim for damages by way of the \textit{actio iniuriarum}. The action can be used to claim general damages to compensate the plaintiff for the injured feelings and for the hurt to his or her dignity and reputation,\textsuperscript{64} and a claim for special damages to compensate for actual patrimonial loss. South African courts are not in favour of awarding exemplary or punitive damages in cases of defamation.\textsuperscript{65}

The inability of the \textit{actio iniuriarum} to ensure that the defendant disgorges profits earned as a consequence of infringement of personality rights is understandable,

\textsuperscript{59} See II above and Visser \textit{Unjustified Enrichment} 686 on problems with awarding (punitive) damages claims that are actually aimed at preventing unjustified enrichment.

\textsuperscript{60} See \textit{Kommissaris van Binnelandse Inkomste v Willers} 1994 (3) SA 283 (A); \textit{McCarthy Retail Ltd v Shortdistance Carriers CC} 2001 (3) SA 482 (SCA).

\textsuperscript{61} See Visser \textit{Unjustified Enrichment} 690 on the desirability of ordering an infringer of copyright to surrender profits, but allowing the (innocent) infringer of a patent to retain them.

\textsuperscript{62} See Visser \textit{Unjustified Enrichment} 680–683; \textit{Du Plessis SA Law of Unjustified Enrichment} 365


\textsuperscript{64} ‘Defamation’ in W Joubert (ed) \textit{The Law of South Africa} vol 7 updated by F D J Brand para 260.

\textsuperscript{65} See \textit{Fose v Minister of Safety & Security} 1997 (3) SA 786 (CC).
given the traditional compensatory nature of this remedy. However, there are South African cases involving unauthorised publication of personal information where for the reasons outlined in section II, it may be more appropriate to order the defendant to disgorge profits, rather than to award damages. The preferred instrument to achieve this goal could be a claim based on unjustified enrichment, which is aimed at balancing out unacceptable gains. Again, we find the well-known obstacles in the plaintiff’s way; the plaintiff must prove impoverishment, and the ‘double ceiling rule’ would limit or cap any enrichment claim aimed at disgorge the defendant’s actual enrichment to the plaintiff’s impoverishment; The plaintiff would further have to convince the courts to impose enrichment liability outside the scope of the existing specific enrichment actions. However, the unauthorised publication of private facts implicate the right to human dignity protected in section 10 of the Constitution of the Republic of South Africa, 1996, and the courts may be obliged to develop the common law to give effect to the rights contained in the Bill of Rights. A definite lacuna in the protection of dignity has been identified and the mechanism for eliminating it through expanding the law of unjustified enrichment has been created. It is suggested that this places strong pressure on our courts to develop such an enrichment claim.

4 Breach of contract

A party in breach of contract is liable to pay the amount of contractual damages required to place the other party in the position it would have been, had there been

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66 See Visser Unjustified Enrichment 682-683, referring to National Media Ltd v Jooste 1996 (3) SA 262 (A); O’Keeffe v Argus Printing and Publishing Co Ltd 1954 (3) SA 244 (C); Du Plessis SA Law of Unjustified Enrichment 365.

67 See Blackie & Farlam ‘Enrichment by act of the party enriched’ in Zimmermann, Visser & Reid (eds) Mixed Legal Systems in Comparative Perspective 469 at 490–491; Visser Unjustified Enrichment 680–683; Du Plessis SA Law of Unjustified Enrichment 365. Whether the gain is unacceptable depends on how the requirement that the enrichment is without legal ground has to be defined. For example, where profits are made through research that uses a person’s body parts without his consent, there may have been an infringement of his personality rights, but this cannot give rise to a duty to pay him the profits, since he could never have consented to the profitable use of his body parts in any event. Donors may not receive any reward beyond their reasonable costs for use of certain body parts (see ch 8 of the National Health Act 61 of 2003, especially section 60(4)).

68 See Kommissaris van Binnelandse Inkomste v Willers 1994 (3) SA 283 (A); McCarthy Retail Ltd v Shortdistance Carriers CC 2001 (3) SA 482 (SCA).

The purpose of the contractual claim for damages is to compensate the other party, and not to strip the party in breach of his profits, although this could of course happen indirectly, inasmuch as the party in breach would use these profits to pay the damages claim. A party in breach could further be awarded a reduced contract price, in the courts discretion, if there other party utilised the incomplete performance. Through reducing the price, the courts could in effect prevent the party in breach from profiting by it. For example, if the party in breach saved certain expenses by not performing in full, these expenses could be deducted from the contract price. The reduction in price could have the effect of stripping the party in breach of the savings he made by not performing in full.

Comparative studies reveal that obtaining disgorgement of profits arising from breach of contract could be desirable if the normal compensatory claim for damages based on a loss on the side of the other party is inadequate, for example in certain cases of breach of confidentiality clauses or ‘skimped performance’. At present, the scope for developing the South African common law to provide such relief is very limited.

First, within the law of contract, a major obstacle is that contractual damages claims are limited to patrimonial loss. It is therefore not possible to ‘compensate’ a party who has been deprived of his bargain, but who has not suffered patrimonial loss, by compelling the party in breach to pay him an amount that makes good his ‘loss of amenity’, or inconvenience. Awarding such a claim for non-patrimonial losses could conceivably indirectly force the party in breach to surrender his profits. South African law therefore would not assist the owner in the classic case where a builder profited by saving expenses in building a slightly less deep pool than the contract provided for, but the owner cannot prove actual patrimonial loss.

Secondly, any claim based on unjustified enrichment would face at least two

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70 See Novick v Benjamin 1972 (2) SA 842 (A) 857; Holmdene Brickworks (Pty) Ltd v Roberts Construction Co Ltd 1977 (3) SA 670 (A) 687; Katzenellenbogen Ltd v Mullin 1977 (4) SA 855 (A) 875.
71 See BK Tooling (Edms) Bpk v Scope Precision Engineering (Edms) Bpk 1979 (1) SA 391 (A).
72 See Administrator Natal v Edouard 1990 (3) SA 581 (A); some support for awarding (contemplated) damages based on inconvenience, though not hurt feelings, can be found in earlier cases like Jockie v Meyer 1945 AD 354 at 363.
difficulties. The old bogey, namely that South African law requires that the plaintiff must prove impoverishment is once again relevant here, and the courts would therefore have to recognise that this is one of the occasions where the impoverishment requirement must be relaxed. The defendant’s enrichment further has to be unjustified, which may be difficult to prove, given that there is a valid contract in place between the parties. It may be possible, though, to find that the enrichment is nonetheless unjustified, inasmuch as the profit has been obtained as a consequence of infringing these rights. However, local commentators favouring such a development are mindful of the importance of making it an exceptional remedy, and accept that it may at times be preferable to award general damages for non-patrimonial loss.\textsuperscript{74}

5 Breach of fiduciary duties\textsuperscript{75}

In a famous passage in \textit{Robinson v Randfontein Estates Gold Mining Co Ltd}, Chief Justice Innes stated that

‘Where one man stands to another in a position of confidence involving a duty to protect the interests of that other, he is not allowed to make a secret profit at the other’s expense or place himself in a position where his interests conflict with his duty. The principle underlies an extensive field of legal relationship. A guardian to his ward, a solicitor to his client, an agent to his principal, afford examples of persons occupying such a position. As was pointed out in \textit{The Aberdeen Railway Company v Blaikie Bros} (1 Macq 461 at 474), the doctrine is to be found in the civil law (Digest 18.1.34.7), and must of necessity form part of every civilised system of jurisprudence. It prevents an agent from properly entering into any transaction which would cause his interests and his duty to clash. If employed to buy, he cannot sell his own property; if employed to sell, he cannot buy his own property; nor can he make any profit from his agency save the agreed remuneration; all such profit belongs not to him, but to his principal. . . . Whether a fiduciary relationship is

\textsuperscript{74} See Blackie & Farlam ‘Enrichment by act of the party enriched’ in Zimmermann, Visser & Reid (eds) \textit{Mixed Legal Systems in Comparative Perspective} 469-493; Visser \textit{Unjustified Enrichment} 696-697; Du Plessis \textit{SA Law of Unjustified Enrichment} 371.

\textsuperscript{75} Visser \textit{Unjustified Enrichment} 690-692; Du Plessis \textit{SA Law of Unjustified Enrichment} 365-368.
established will depend upon the circumstances of each case..."  

There is indeed no limited number of cases where a fiduciary relationship is established. In addition to the examples Innes CJ mentions of guardians, legal practitioners, and agents, they include trustees, employees, company directors and company officers. Unfortunately, South African law has never properly explored the exact legal nature of the duty not to make a secret profit, and of the remedies that arise from breach of this duty. In the context of company law, it has for example simply been said that the action based on breach of trust by company directors is *sui generis*, but without exploring existing doctrinal niches. One possibility is to regard breach of the duty as wrongful, and to base the liability in delict. However, such an analysis faces the familiar obstacles that the person bound by the duty belongs does not necessarily have to be at fault, and that the person to whom the duty is owed traditionally need not suffer a loss. If the fiduciary duty happens to originate in contract, its violation could constitute breach of contract, but then the typical remedy is again a contractual damages claim, which may not necessarily be appropriate for disgorging profits.

The possibility has been raised of locating claims for disgorging profits obtained as

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77 See *Volvo (Southern Africa) (Pty) Ltd v Yssel* 2009 (6) SA 531 (SCA) para [16].
78 Further see *Robinson v Randfontein Estates Gold Mining Co Ltd* 1921 AD 168 at 177; *Phillips v Fieldstone Africa (Pty) Ltd* 2004 (3) SA 465 (SCA) para [30]; *Jowell v Bramwell-Jones* 2000 (3) SA 274 (SCA) para [14].
79 See *Phillips v Fieldstone Africa (Pty) Ltd* 2004 (3) SA 465 (SCA) especially paras [29] sqq; *Ganes v Telecom Namibia Ltd* 2004 (3) SA 615 (SCA).
80 Section 77(2)(a) of the Companies Act 71 of 2008.
81 See *Robinson v Randfontein Estates Gold Mining Co Ltd* 1921 AD 168 242; *Cohen NO v Segal* 1970 (3) SA 702 (W) 706G.
82 See *Du Plessis NO v Phelps* 1995 (4) SA 165 (C) 170D.
83 See *Robinson v Randfontein Estates Gold Mining Co Ltd* 1921 AD 168 at 177-178, 241; *Symington v Pretoria-Oos Hospitalle Bestryf* (Pty) Ltd 2005 (5) SA 550 (SCA) para [24]. The South African common law traditionally recognised a claim for disgorgement of profits obtained by a director in breach of a fiduciary duty. However, section 77(2)(a) of the Companies Act 71 of 2008 provides that ‘a director of a company may be held liable (a) in accordance with the principles of the common law relating to breach of a fiduciary duty, for any loss, damages or costs sustained by the company as a consequence of any breach by the director of a duty contemplated in section 75, 76(2) or 76(3)(a) or (b)’ (own italics). The fact that reference is only made to ‘loss, damages or costs’ renders it uncertain whether the legislature (inadvertently) abolished the common-law claim for disgorgement of profits (see Michele Havenga ‘Directors’ exploitation of corporate opportunities and the Companies Act 71 of 2008’ 2013 *Tydskrif vir die Suid-Afrikaanse Reg* 257 at 267).
84 The same conduct could give rise to two responses: if an employee takes a bribe, he could be accountable for breach of contract or for breach of a fiduciary duty.
a consequence of breach of fiduciary duties within the law of unjustified enrichment, or at least to regard them as aimed at redressing or undoing such enrichment. In this regard it is of interest that earlier case law which introduced the *sui generis* claim described the remedy as one of ‘account of profits and payment over’, which (as indicated earlier) clearly reflects the influence of the English common law. In those days, English law hardly had any conception of unjust or unjustified enrichment as a possible source of such obligations. However, nowadays there is some support in English law for regarding the claims for profits due to breach of these fiduciary duties as arising from unjust enrichment, and it stands to reason that South African law, which traditionally has a much stronger awareness of unjustified enrichment as source of liability, should also explore the possibility of such a development. In this regard there is growing appreciation that enrichment by infringing another’s rights should enjoy greater prominence as a distinct source of enrichment liability. Breach of fiduciary duties could then be regarded as an example of such an infringement.

However, such a development would, once again, require some adjustment to existing principles. First, as emphasized throughout this contribution, as the law currently stands, the plaintiff must prove actual impoverishment. This means that the plaintiff may have to prove that its assets would have increased, had it not been for the breach of the duty. However, it is traditionally not required that the plaintiff suffers a loss when laying claim to profits obtained in violation of fiduciary duties. It would therefore be essential to relax the impoverishment requirement. Secondly, it may be necessary for policy reasons not to allow the defendant to raise the defence of loss of enrichment. This defence would in any event not be available where he knew or ought to have known that he is not entitled to the profit, but it might be desirable to deprive him of the defence even in cases where he was ‘innocently’ enriched. If it were to be classified as an enrichment action, the social value of deterrence would provide the basis for saying that in this instance giving

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85 See Blackie & Farlam ‘Enrichment by act of the party enriched’ in Zimmermann, Visser & Reid (eds) *Mixed Legal Systems in Comparative Perspective* 469 at 492; Du Plessis *SA Law of Unjustified Enrichment* 365-368; Visser *Unjustified Enrichment* 692.
86 Further see Visser *Unjustified Enrichment* 692; Du Plessis *SA Law of Unjustified Enrichment* 367-368.
87 Compare the discussion in Visser *Unjustified Enrichment* 692 and Du Plessis *SA Law of Unjustified Enrichment* 368.
up the whole profit to the plaintiff satisfies the correlativeity requirement of corrective justice.

6 Unfair and anti-competitive commercial practices

South African law provides a variety of remedies that could apply when a person profits from unfair commercial practices. Some of these remedies may have the effect of directly or indirectly compelling the disgorgement of illegal profits.

In the field of competition law, if a firm engages in certain prohibited practices or breaches the provisions on mergers, the Competition Act 89 of 1998 empowers the Competition Tribunal to impose penalties payable to the State. Unlike private law remedies, there is no reason why public-law legislative measures of this kind should not have a punitive intention and effect. These penalties may not exceed 10 per cent of the firm’s annual turnover. In determining an appropriate penalty, the Competition Tribunal must consider a variety of factors, including the level of profit derived from the contravention. The firm may therefore in effect be obliged to disgorge the profit through having to pay the penalty. The Consumer Protection Act 68 of 2008 in turn provides consumers various rights against suppliers, such as the right to fair and responsible marketing, to fair and honest dealing, to fair terms, and to fair value, good quality and safety. Infringing these rights could give rise to a host of statutory remedies. These include an administrative fine in respect of prohibited or required conduct, which may not exceed the greater of 10 per cent of the respondent’s annual turnover during the preceding financial year or R1 000 000. When determining an appropriate administrative fine, the Tribunal must consider a variety of factors, which again includes the level of profit derived from the contravention.

The South African common law further recognises that unlawful competition, and more specifically unlawful interference with another’s trade or business, may amount to a delict. As indicated earlier, delictual claims for damages are determined with

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89 Section 59(3)(e) of the Competition Act 89 of 1998.
90 Section 112(3)(2) of the Consumer Protection Act 68 of 2008.
91 See Dun & Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 (1) SA 209 (C) 216; Geary & Son (Pty) Ltd v Gove 1964 (1) SA 434 (A).
reference to the defendant’s loss, and not the plaintiff’s gain. It has thus far not been recognised that a plaintiff could rely on the law of unjustified enrichment to lay claim to profits made as a consequence of unlawful infringement of his right to carry on his trade without unlawful interference. It has been argued that in principle such a claim could be recognised, and that (as in the context of certain intellectual property rights) it may be especially desirable in flagrant cases of infringement. However, for the proper application of such a remedy it will once again be necessary to relax the operation of the ‘double ceiling’ rule, which otherwise would limit disgorgement to the plaintiff’s actual impoverishment.

7 Profiting as a consequence of unfair discrimination

Many South Africans have borne the burden of being disadvantaged as a consequence of unfair discrimination, and many have benefited from it. It is a complex matter to determine between whom and how the law should correct or balance out these gains. The difficulty is that the gains often were obtained lawfully, for example due to legislation which enabled the expropriation of land to promote racial segregation, or which reserved certain forms of employment or access to social benefits to particular racial groups. The general approach in post-apartheid South Africa has been to accept that existing gains remained in place, but to ensure some form of redress by way of large-scale programmes aimed at social upliftment and economic empowerment. It is only in limited cases where those who were disadvantaged as a consequence of unfair discrimination were allowed more direct relief. In this regard the Restitution of Land Rights Act 22 of 1994 allows for restitution of land which persons were dispossessed of, or for equitable redress in the form of compensation or the award of state land. Persons from whom the land is reclaimed could in turn be entitled to compensation by the State. Some provision has been made for limited reparation by way of the truth and reconciliation process, but again the relief is provided by the State, and not by individuals who may have gained from

93 See Visser Unjustified Enrichment 9, 147-155; Du Plessis SA Law of Unjustified Enrichment 374.
94 Further see section 25(7) of the Constitution of the Republic of South Africa, 1996: ‘A person or community dispossessed of property after 19 June 1913 as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to restitution of that property or to equitable redress.’
political injustice. Outside South Africa, victims of apartheid have brought class actions under American law in terms of the Alien Tort Claims Act\textsuperscript{95} against large corporations that supported the apartheid government by providing the police and military with equipment, and by financing these activities. Some claims were settled, but US courts thus far have maintained that this statute does not apply extraterritorially in these cases.\textsuperscript{96}

It is generally accepted that the private-law rules of unjustified enrichment are ill-equipped to address profiting as a consequence of unfair discrimination. This is mainly because of difficulties with proving that the particular plaintiff was impoverished, that the particular defendant was enriched without legal ground, that the enrichment was at the plaintiff’s expense, and the likelihood than any claim may in any event have prescribed.\textsuperscript{97} However, it has been argued that the law of unjustified enrichment could be relevant in the public sphere in at least two contexts.

First, support has been expressed for the view that it may be productive to explain the statutory land reform processes referred to above in terms of unjustified enrichment, and more specifically, to link these processes with other instances of profiting by wrongdoing or invasion of another’s rights.\textsuperscript{98} It is conceded that the traditional (private-law) rules of the law of unjustified enrichment are ill-equipped to assist in correcting systematic enrichment of one group at the expense of another,\textsuperscript{99} but the point is essentially that the underlying private-law values, rather than the rules themselves are relevant, and that these values may also underlie public-law remedies provided by land reform legislation.

\textsuperscript{97} See sections 10–16 of the Prescription Act 68 of 1969. The cut-off date for land reform is 19 June 1913, when the Black Land Act of 1913 commenced operation; see Richtersveld Community v Alexkor Ltd 2003 (6) SA 104 (SCA); Alexkor Ltd v Richtersveld Community 2004 (5) SA 460 (CC).
\textsuperscript{98} See Visser Unjustified Enrichment 152; D Visser & T Roux ‘Giving back the country: South Africa’s Restitution of Land Rights Act, 1994 in context’ in M R Rwelamira & G Werle (eds) Confronting Past Injustices—Approaches to Amnesty, Punishment, Reparation and Restitution in South Africa and Germany (1996) 89–111. In In re former Highlands Residents: Sonny and others v Department of Land Affairs 2000 (2) SA 351 (LCC) 361 the court left it open whether these arguments are convincing.
\textsuperscript{99} Also see Du Plessis SA Law of Unjustified Enrichment 21-22.
The second view applies this type of thinking on an even broader front. Section 9(2) of the Constitution permits taking legislative and other measures to protect or advance persons or categories of persons disadvantaged by unfair discrimination. A typical example is legislation mandating ‘affirmative action’ in the employment context. The possibility has been raised of developing a public-law enrichment remedy which could also fulfil this function, and give effect to what Mr Justice Laurie Ackermann calls ‘restitutionary or remedial equality’ envisaged by section 9(2).

The argument essentially is that private-law principles of unjustified enrichment are relevant in a public-law context, and that these principles could be used as a basis and rationale for fashioning a public-law enrichment remedy, or for interpreting and applying an existing one. Such a public-law remedy would be analogous to the private-law remedy, the crucial link being that in both the duty of restitution arises from the defendant’s unjustified enrichment, and not from proof of guilt or fault. Thus conceived, such a remedy would be one through which the beneficiaries of apartheid ‘bear the negative effects of the restitution made to those previously disadvantaged, not because the former wrongfully and culpably harmed the latter, but because they were unjustifiably enriched at the expense of the latter’.

IV Conclusions

Thus far there has been limited attention to the treatment of disgorgement of profits as a general theme in South African law. The lack of a comprehensive, holistic treatment of this phenomenon, based on a proper understanding of the relevant underlying values and principles, comes at a price. The ‘fragmented’ practice of only focussing on specific problems in certain areas of law gives rise to inconsistency. The restitutionary response is also clearly inadequate in some cases where a gain has been obtained through infringing another’s rights, but that person cannot prove actual loss or impoverishment. However, even if it is accepted that it is desirable to order

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100 The land reform provisions relate to section 25 of the Constitution, rather than to section 9(2).
102 Ibid at 349 and Visser Unjustified Enrichment 147-8 and 153.
103 Ackermann Human Dignity 345.
104 Ibid at 345-6.
105 See III 1 (a) on the holiday house case and III 4 above on skimping profits.
disgorgement of profits in these cases, it remains unclear where such a development is to be located. It is suggested that rather than expanding the law of delict so that the plaintiff does not have to suffer a loss, it may be preferable to develop the law of unjustified enrichment so that it deprives the defendant of the profit without requiring that the plaintiff has to be impoverished.
Central & Eastern Europe

Croatia

DISGORGEMENT OF PROFITS
NATIONAL REPORT FOR CROATIA
by Dr. Ana Keglević, LL.M. (London)¹

I. INTRODUCTION

The topic of disgorgement entwines two ideas. The first one considers the idea of restitution and skimming off illegally gained profit from the wrongdoer, thus returning it to the injured party. The second one, the disgorgement and punishment of the wrongdoer. The latter is based on the idea of corrective justice. The statement that the wrongdoer should not be allowed to profit from the wrong, repeated more than once,² only strengthens this idea.

There appears to be little support for the notion that the disgorgement remedy is universally available. Perhaps on first glance, disgorgement is more widely accepted in common law countries, for both equitable and legal wrongs. Some of the examples are breach of fiduciary duties, breach of confidence, but it is also available for some torts (tortuous liability), conversion, trespass to land and passing off.³ Contrary to this, the first impression is that disgorgement is not so widely accepted in civil law systems, mostly due to differences in the way of thinking on the fundamental institutes, as well as due

¹ Dr. Ana Keglević LL.M. (London), Faculty of Law, University of Zagreb, Chair of Civil Law, akeglevic@pravo.hr
to the civilian concept of damages and unjust enrichment. However, some branches of law such as criminal and administrative law, intellectual property law, capital market law, unfair competition and unfair commercial practices could sometimes offer similar functional equivalents to disgorgement damages. Thus, this paper tries to answer from the Croatian perspective: does a coherent theory of disgorgement damages exist, is there any legal basis for disgorgement in the law, if not is there any movement to introduce disgorgement damages and what would be the potential underlying reasons for disgorgement.

II. TERMINOLOGY AND CONCEPTUAL PROBLEMS UNDER CROATIAN LAW

Croatian law does not recognise the topic of disgorgement damages as such. Unlike many common law systems where there is more than one kind of damages and disgorgement damages may be awarded in certain cases in some specific areas of law, such a general concept is foreign to Croatian law. Maybe terminology is one part of the problem. The term “damage” in Croatian law on damages means only the loss suffered by the claimant. The classical concept of damage in Croatia has no function of disgorging the defendant beyond the recovery of the loss the claimant has suffered. The damages are primarily compensatory. Thus the difference in the concepts of nominal, punitive, compensatory, exemplary or disgorgement damages are foreign to Croatian law. This is especially true for the area of contract law and tort. Maybe a more appropriate term for this topic for Croatian law would be the disgorgement of “profit” or “gain”. Both terms are based on the

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5 Croatia has civil law system of a continental type.
enlargement of assets of the wrongdoer (defendant), even if such a breach 
has not led to loss for the victim (claimant).

The traces of disgorgement of profits could be found in different areas of law. 
For instance in the area of and criminal law such traces are more clearly 
visible. However intellectual property law, competition law, unfair commercial 
practices law and commercial law offer some *sui generis* remedies which 
might allow skimming off, seizure, transfer or confiscation of unlawful gain. 
Croatian law may also offer some “functional equivalents” which do not 
include all elements of disgorgement of profits but the final result is similar to 
the disgorgement. All of them will be dealt in the texts.

### III. CONTRACT LAW AND PROBLEMS OF DISGORGEMENT DAMAGES

The traditional Croatian private law approach is that the relief in the 
disgorgement damages could not be available for contract law and tort.\(^7\) One 
of the main purposes of the Croatian law on damages is the compensation of 
the injured party. According to the Article 1045 of the Code of obligations\(^8\) “A 
person who causes damage to another person is under obligation to 
compensate it, unless he proves that such damage occurred without his 
fault”.\(^9\) The notion of “damage” should be understood broadly and includes all 
types of losses. The Law defines “damage” as the diminution of the ones 
property/assets (regular damage), the hindering of its increase (loss of

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\(^8\) Croatian Code of obligations, Official Gazette 35/05, 41/08, 125/11.

\(^9\) This is so called subjective concept of liability based on a persons fault. Nevertheless there are many exceptions to this rule, where the person causing the damage is responsible to compensate injured party irrespective of his/hers fault. This is so called objective standard of liability. See Article 1963-1981 Code of obligations.
profit)\(^10\) or breach of personality rights (non-material damage).\(^11\) The damage rules are primarily **compensatory in character**. The situation should be restored as if the circumstances creating the claim for damages had not occurred.\(^12\) Thus the obligation to compensate the injured party (claimant) is completely independent of the gain of the liable party (respondent). For example, in the case of breach of contract, damages are awarded since the breach of contract has caused harm to the claimant, even if the breach has not led to the profits of the defendant. Disgorgement functions in the opposite way. The disgorgement must be awarded exactly because the breach of contract has caused profit for the defendant, even if such a breach has not led to loss for the claimant. The basis of the claim for disgorgement is independent from the damages claim or any other claim for the breach of contract.

The functional difference is also visible in the **assessment** of damages/disgorgement. When assessing damages the court shall calculate the actual diminution of the claimant’s property, either in the form of **actual loss** or the **loss of a future gain**.\(^13\) The court needs to determine fully the scope and amount of damage and respective compensation. Bearing in mind the slight difference between contractual, extra-contractual liability and pre-contractual liability,\(^14\) the general rule follows the “principle of full

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\(^10\) Both together are named by Law as "material damage".
\(^11\) Article 1046 Code of obligations.
\(^12\) Article 1085 Code of obligations.
\(^14\) Under extra contract liability the wrongdoer is liable to compensate damage fully, regardless of the loss which has occurred (Art 1090 COD). Under contractual liability the wrongdoer is liable to compensate damage only limited to a foreseeable damage. Foreseeable damage is the damage the debtor, based on the facts that were known or should have been known to him, should have foreseen as the possible consequence of a breach of a contract at the moment the contract was concluded (Art 346(1) COD). Only in the case of breach of contract intentionally or in gross negligence the wrongdoer is liable to compensate damage fully (Art 346(2) COD). Under pre-contractual liability the party who has, contrary to the principle of good faith, negotiated without the real intention to conclude a contract is liable for the damage caused by other party (Art 251(2-3) COD). Here the compensation could be judged in accordance with the rules of extra-contractual liability which are applicable as general rules.
compensation", as one of the main principles of Croatian law on damages.\textsuperscript{15} In the case of breach of \textbf{personality rights}, such as the case of damage of reputation caused by mass media,\textsuperscript{16} intellectual property law infringements,\textsuperscript{17} or competition law infringements\textsuperscript{18} the court may apply a more "normative" approach. The court may take into account the damage to someone's morality or integrity, duration and intensity of physical, emotional or psychological pain and fear as well as other elements relevant for the circumstances of the case. The case law for both kinds of damage is well developed.\textsuperscript{19} Contrary to this, when assessing disgorgement of profits the court should only take into account the value of profit the defendant gained. It is in no relation to the damage of the injured party. Moreover disgorgement could be claimed even if the injured party suffered no damage at all. Although an award for damages often forces the defendant to disgorge profits resulting from the breach it is not always so. An award for damages creates opportunity for profit taking, but the amount of damages must not be equal to the defendant's gain.

One possibility for disgorgement of illegally gained profits could be extracted from the rules on \textbf{pre-contractual liability} and gain based damages. Croatia is one of the few legal systems whose law clearly regulates pre-contractual liability.\textsuperscript{20} The party who has, contrary to the principle of good faith, negotiated without the real intention to conclude a contract is liable for the damage


\textsuperscript{16} I. Crnić, \textit{Mediji i njihova odgovornost za štetu} (Media and its Responsibility for Damages), Informator, 5833, 30.01.2010.


\textsuperscript{18} M. Bukovac Puvača, V. Butorac Malnar, \textit{Izvanugovorna odgovornost za štetu prouzročene povredom tržišnog natjecanja} (Extra-contractual Liability for the Infringements of Competition Law), Aktualnosti građanskog i trgovačkog prava i pravne prakse, 6(2008), pp. 246-272.


caused to the other party. But, the pre-contractual liability for damage also arises for the breach of any other duties in connection with negotiations, such as the obligation to preserve the secrecy of information obtained during the negotiations. In other words if one party uses the classified information, which came to her knowledge during the negotiation, for her own profit the injured party may claim damages and the profit gained by using such classified information. This is a new provision introduced in the Code of obligations in 2005. At the moment there is no case law on the issue, but the legislators argued that such provision was introduced as an instrument "of combat against unfair competition".

At the moment there are no significant academic or legal discussions on the topic of introducing disgorgement damages/profit into Croatian law on damages. One reason is probably based on the argument of a tradition and well developed case law of the current law on damages. In foreign legal literature there are discussions on pros and cons of introducing this remedy especially for breach of contract. Some of the arguments against such a legal remedy is that many of the breaches (especially contract breaches) are innocent. Thus the court should be obliged to determine in each single case the bad faith of the wrongdoer. Such uncertainty may cause uncertainty of the system itself. Another argument against disgorgement is that it would influence the behaviour of the parties. It would “undermine the principle that the victim of a breach of contract has a duty to mitigate loss”. Contrary, the theory of efficient breach offers arguments pro disgorgement in contract law. The theory argues that there is a positive value in structuring the law of damages to facilitate contract breaches that will lead to efficient behaviour. However, there have been many criticisms of the theory which, as of today, has still not been accepted. Another argument pro disgorgement derives from

22 Article 251(4) Code of obligations.
23 Article 251(5) Code of obligations.
the famous sentence that “the wrongdoer should not be allowed to profit from his wrong…”26 This is an idea based on the concept of justice and the protection of some fiduciary duties, breach of confidence and some tortuous wrongdoings. It is only partially supported by the famous Blake case27 in the context of breach of contract.28 Unfortunately, such disgorgement debate is not present in Croatian law on damages.

IV. POSSIBLE FUNCTIONAL EQUIVALENTS?

a) Unjust Enrichment

The classical approach of Croatian private law, in particular the Code of obligations, is that it does not accept disgorgement damages/profit as such. However, there are some remedies which may functionally lead to similar results such as disgorgement. One remedy could derive from the law on unjust enrichment. If someone makes a profit by infringing somebody else’s rights the claimant under certain conditions might ask for restitution of this gain. According to the Article 1111 of the Croatian Code of obligations if one person is enriched on the account of another person without legal grounds for doing so, such as the contract, the decision of a court or any other competent body or the provisions of the law; or in “any other manner” including his own performance then enriched party is under a duty to make restitution to him. This duty also exists if the legal grounds later lapse or if the result intended to be achieved by those efforts in accordance with the contents of the legal transaction does not occur. The law clearly states that the wording “enrichment on the account of another person” includes gain of a “certain profit”.29 It is a claim based on restitution of such enrichment.30 The

27 Attorney General v Blake, 2001, 1 AC 268.
29 Art 1111(2) Code of obligations.
Law does not require that enrichment should be unlawful or illegal, nor that the enrichment is done by the wrong. The Law does not even require that the enriched person is *male fide* (bad faith). However, this distinction is relevant when deciding on the range and scope of the claim for restitution. The enriched person (recipient) must return everything he gained without legal ground including *fructus* and interests. The *bona fide* recipient is under obligation to return interests from the moment the claim for restitution has been filed and *male fide* (bad faith) recipient from the moment he actually obtained profit.\(^{31}\)

Under the unjust enrichment the cause of action requires the claimant to show: 1. that there has been *enrichment* to the defendant and 2. a corresponding *deprivation* to the claimant (that is a transfer of wealth from the claimant to the defendant); 3. clear *causal link* between enrichment of the defendant and deprivation of the claimant; 4. there were *no legal grounds* for such a transfer of wealth, or that the legal ground later lapsed; 5. the enrichment must not be a commitment of a tort (*delict*), because then the tort law and not law on unjust enrichment will be applicable.\(^{32}\)

The assumption of causal link is one of the most difficult to prove in the course of court proceeding. At the same time this is one of the most important analytical distinctions to disgorgement of profits. The claim in unjust enrichment depends on the proof of one person’s enrichment on the account of another. The defendant must return what he gained (restitution), and if that is not possible the defendant must pay the value of the unjust enrichment with interests and *fructus*. Disgorgement of profits on the other hand is based on the idea of restitution (like unjust enrichment), but does not require corresponding deprivation to the claimant’s wealth. These two claims are interdependent of each other. Thus, the restitution remedy based on the

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unjust enrichment is possible but very limited regarding application on the disgorgement of profits. It allows restitution of illegally gained profit only under the five assumptions discussed above. The case law is also very restrained in allowing taking of profit gained in this way.\(^{33}\)

**b) Spurious negotium gestio**

*Negotium gestio* or benevolent intervention in another’s affairs could be another instrument of restitution of profits, but only in limited cases. Under regular benevolent intervention in another’s affairs one person (*gestor*) conducts a transaction for another person (*principal*) without being instructed by him or otherwise entitled towards him in such a way as to protect or to preserve the interests of the principal.\(^{34}\) The *gestor* is actually performing the intervention not for his own benefit, but for the benefit of the principal. The reasons for such intervention could be various and are not legally relevant. In the case of regular benevolent intervention in another’s affairs there could be no grounds for the profit to the *gestor* (profit is made on the account of the principal) and thus there is no reasoning for the disgorgement of profits.

However, restitution of profit could be possible in the case of “spurious” *negotium gestio* under Article 1128 of the Code of obligations. Here, the *gestor* performs another person’s business knowing that it is not his own, and knowing that he is not entitled to do so, with the purpose of illegally gaining profits for himself. There must be a clear intention of unlawful gain and proof of fraudulent behaviour.\(^{35}\) As a consequence the *gestor* is under obligation to report and submit his accounts to the principal and the principal is entitled to


\(^{34}\) Article 1121 Code of obligations.

claim the reimbursement of everything the gestor gained.\(^{36}\) Because spurious negotium gestio is at the same time commitment of a tort (delict), thus causing damage to the principle, alternatively to the claim for profit, the principal may require restitution and damages for tort.\(^{37}\) Thus, this remedy might functionally allow disgorgement of illegally gained profit of a gestor on the account of the principal. Although there have not been many writings on the topic,\(^{38}\) Croatian case law acknowledged the existence of this institute. The Appellate Court found that the person renting a property of another person, knowing this to be the business of another person, with the aim to gain profit for himself, must submit and transfer his accounts to the principle in accordance with the rules on spurious benevolent intervention in another’s affairs.\(^{39}\)

c) Mandate relationship and related relationships

The relationship arising from the mandate could be another instrument functionally allowing restitution of unlawful profits. There are several rules that might allow this. Under a typical contract on mandate (contractus mandati) by accepting a mandate, the mandatary agrees to carry out a transaction entrusted to him by the mandator for the account of the mandator.\(^{40}\) The mandatary is entitled to receive a reward for his work although the parties may agree differently.\(^{41}\) One of the main obligations of the mandatary is to submit his accounts and hand over/transfer to his mandator “everything he received” during the performance of the mandate and from carrying out the business, no matter whether this gain was agreed with the mandator or not.\(^{42}\)

\(^{36}\) Art 1128(1) Code of obligations.
\(^{37}\) In accordance with the art 1128(2) Code of obligations. P. Klarić et al., Građansko pravo (Civil Law) Narodne Novine, Zagreb, 2013., p. 655.
\(^{38}\) Most of the writings refer to regular benevolent intervention in another’s affairs. For example J. Ćuveljak, Poslovodstvo bez naloga (Benevolent Intervention in Another’s Affairs), Hrvatska pravna revija, 4(2004), 11, pp. 8-15.; D. Sessa, Stjecanje bez osnove, poslovodstvo bez naloga, javno obećanje nagrade (Unjust Enrichment, Benevolent Intervention in Another’s Affairs, Public Invitation for a Reward) Informator, 5378, 21.09.2005., p. 7.; Žaklina Harašić, Poslovodstvo bez naloga (Benevolent Intervention in Another’s Affairs), magistarski rad (Master Thesis), Pravni fakultet Sveučilišta u Zagrebu, 1998.
\(^{40}\) Article 763(1) Code of obligations.
\(^{41}\) Article 763(2) Code of obligations.
\(^{42}\) Article 768 Code of obligations.
The same rule applies for the contract of commission. In legal theory the wording “everything he received” is interpreted very broadly. This obligation could consist of the transfer of all documents he received (contracts, documentation, money, certain items etc.), but also the transfer of any monetary claims and obligations (including interest in cases of delay), and any rights obtained from a third party. A broader interpretation of this provision could maybe functionally allow the transfer of profit the mandatary gained illegally during the performance of the mandator business. Here German jurisprudence allows the disgorgement of a certain percentage (provision) from the contract or even a bribe from the mandatary. Unfortunately Croatian courts made no decision on the issue, nor was this a topic of discussion in academic circles.

Another rule concerns deviation from the strict instructions of a mandator. If a mandatory exceeds his mandate without the previous consent of the mandatary, he will be liable for any of such action. By Law the mandatary will be treated as the gestor and the respective rules on negotium gestio will be applicable. As a consequence the principal is entitled to claim the reimbursement of everything the mandator (now gestor) gained, including the profit. However the mandatary will not be regarded as gestor entirely, but only in the part where his actions deviated or exceeded his mandate. According to this provision there is no clear basis for the disgorgement of profits, but the broader interpretation could allow the similar functional effect.

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43 Article 794(2) Code of obligations.
46 Article 766(1) Code of obligations.
48 Art 1128(1) Code of obligations.
49 V. Gorenc, Komentar Zakona o obveznim odnosima (Code of Obligations Commentary), RRIF, Zagreb, 2005., pp. 1134-1135.
50 More on mandate contract in national literature see Z. Slakoper at el., Obvezno pravo - Poseban dio I (Law on Obligations - Special Contracts I), Informator, Zagreb, 2012., pp. 467-504; Z. Slakoper Ugovor o nalogu u DCFR i izabranim propisima kontinetalne tradicije (Mandate Contract under DCFR and other Legislations of Continental Legal Tradition) Aktualnosti gradanskog i trgovačkog zakonodavstva i pravne prakse, 9(2011), pp. 124-141;
Since a mandate is one element of agreement of representation, power of attorney, proxy statement, procurator statement etc. these provisions are applicable *mutatis mutandis* on the deviation duties arising out of these legal relationships.\(^{51}\)

**V. OTHER PRIVATE LAW SUI GENERIS REMEDIES**

*a) Commercial Law - Transfer/subrogation of a gain or a business transaction, breach of fiduciary duties*

The Croatian Commercial Code\(^ {52}\) might, in certain cases, allow the transfer of unlawfully gained profit. This instrument mostly arises from the relationship between members of a company and/or their fiduciary duties. Under Article 67 of the Commercial Code any member of a public limited company ("*javno trgovačko društvo*") may not, without the explicit approval of other members, enter into business transactions or perform any other business activity outside the registered business activities of that company for his own or for a third party’s account, nor is he allowed without approval of the others to participate in other public limited company.\(^ {53}\) If he fails to do so and violates the obligation arising out of Article 60 the other members of the company may claim damages, or alternatively they may claim to take over, for the company’s account, the transaction entered into by the member of the company for his private account. But, more importantly they may claim a transfer of “everything he gained” from the business transaction with third persons, and/or to subrogate “any legal right” he should have gained from the business transaction with a third person.\(^ {54}\) In this respect the Commercial Code functionally might allow the transfer of unlawfully gained profits of one member of a public limited company into company’s account. The limitation period for mentioned claims is three months from the moment at which the

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\(^{52}\) P. Klarić et al., *Građansko pravo* (Civil Law) Narodne Novine, Zagreb, 2013., p. 561.

\(^{53}\) Commercial Code, Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13.

\(^{54}\) Article 76(1) Commercial Code.

\(^{54}\) Article 77(2) Commercial Code.
company became aware of the business transaction in question (subjective time limit), and in five years from the conclusion of such transaction (objective time limit).55

A similar rule derives from Article 248 of the Commercial Code for members of the board of directors of a joint-stock company (“dioničko društvo”), and Article 429 for members of the board of directors of a limited liability company (“društvo s ograničenom odgovornošću”). If one member of a board of directors without approval of the board and outside the scope of authorisation, enters into a business transaction with a third person for his own or for a third party’s account, the company may claim damages. Alternatively the company may claim the transfer of “everything he gained” from a business transaction with a third person, or to subrogate “any legal right” he should have gained from the business transaction with a third person.56 The limitation period is equal to the previous case; three months from the moment at which the company became aware of the conclusion of the business transaction in question, and five years from the conclusion of such transaction.57 The identical rules apply in the case of an action of a member of the executive board of a limited liability company.58, 59

The Croatian Commercial Code names this remedy as “restriction on competition”.60 From the point of legal classification, this remedy constitutes transfer of the unlawful gain or more precisely subrogation of the gain and/or entire legal transaction (business) concluded with a third person into company’s account. But, since it allows the transfer of unlawful profit to the

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55 Article 77(3) Commercial Code.
56 Article 248(2) Commercial Code.
57 Article 248(3) Commercial Code.
58 Article 429 Commercial Code.
59 More on these issues J. Barbić, Pravo društava, Knjiga druga, Društva kapitala (Company Law, Book two, Corporations) Organizator, Zagreb, 2013.
60 More on this topic Z. Slakoper, V. Buljan, Trgovačka društva prema ZTD-u u domaćoj i inozemnoj sudskoj praksi (Company Law according to Commercial Code and Domestic and International Case Law), TEB, 2010.; Z. Slakoper, Što je zabranjeno članovima društva s ograničenom odgovornošću (What is forbidden to the Members of the Limited Liability Company), Računovodstvo i financije, 45(1999), 3, pp. 85-89; D. Mišković, Prava društva s ograničenom odgovornošću u hrvatskom, njemačkom i talijanskom pravu: zastupanje, zabrana nalicjanja i odgovornost (Limited Liability Company in Croatian, German and Italian Law: Representation, Restriction on Competition and Reponsibilities), Hrvatska gospodarska revija, 45(1996), 5, pp. 707-718 (71-82).
company as the injured party, functionally it might serve for the disgorgement of profits. Croatian High Commercial Court confirmed, that under the provisions on “restriction on competition”, the company itself is to be the only one actively legitimate to claim to the transfer of illegally gained profit into its own account. 61

b) Competition law and unfair commercial practices - administrative criminal measures/fines

Under the strong influence of European legislation and in particular the need to protect Article 101 and Article 102 of the Treaty on the functioning of the European union, 62 the Croatian legislature introduced new sui generis remedies which might allow skimming off unlawful gain in the area of competition law and unfair commercial practices. Provisions of the Croatian Unfair Competition Act 63 prohibit all agreements between two or more independent undertakings, decisions by associations of undertakings and concerned practices, which have as their object or effect the distortion of competition in the relevant market. 64 If the Croatian Competition Agency 65 establishes the existence of the prohibited agreement it may impose measures for the removal of adverse effect of the prohibited agreements and other activities which infringe competition, as well as impose certain fines in accordance with the Act. 66 By their legal nature such measures are partly administrative and partly criminal. The objective of these measures is to ensure effective competition and the protection of Article 101 or 102 of the Treaty on the functioning of the EU, to sanction the infringements of the law, to eliminate the consequences of anticompetitive behaviour and to deter undertakings from engaging in unfair commercial practices. 67 The administrative-criminal measures/fines are divided into three categories: fines

61 VTS (High Commercial Court), Pž-4459/02, 08.09.2004.
63 Competition Act, Official Gazette 79/09, 80/13.
64 Article 8(1) Competition Act.
65 Croatian Competition Agency, www.aztn.hr
66 Article 9 Competition Act.
67 Article 60 Competition Act.
for severe infringements, for less severe infringements and other infringements of the law. The first two categories allow the Agency to skim off between 10% - 1% of profit (net turnover) in the last year calculated in accordance with the official financial statements of the party in the proceedings. The third category concerns monetary fines which relate to some other infringements of an undertaking which is not a party of the proceeding.

In this way the Act gives the right to the Agency to skim off some profits made under intentionally committed infringement of competition law and unfair commercial practices. But, unlike other disgorgement remedies, the skimmed off percentage of a profit is to be returned into the Budget of the Republic of Croatia and not to the injured party. If the fine is not paid voluntarily within the indicated time frame, the final decision of the Agency will be enforced by the Croatian tax authorities, following the same procedure as the enforced collection of taxes. Another difference from disgorgement remedies is that the Law prescribes different criteria on reduction or immunity than on administrative-criminal measures/fines. The goal of the Law is to “punish the wrongdoer and not to ruin him”. In this regard skimming off the profit is performed only partially and not to a full extent.

c) Criminal law - freezing and confiscation of proceeds of crime

68 Articles 61-63 Competition Act.
69 There are special provisions on the criteria on calculation of the administrative-criminal measure/fines, on reduction and immunity from the measures. See Articles 64 - 65 Competition Act.
71 Article 63 Competition Act.
72 Article 70 Competition Act.
73 V. Butorac Malnar, J. Pecotić Kaufman, S. Petrović, Pravo tržišnog natjecanja (Competition Law), Pravni fakultet Sveučilišta u Zagrebu, Zagreb, 2013., p. 58.
Another important measure also influenced by EU legislative initiatives\textsuperscript{75} is the remedy in respect to freezing and confiscation of the proceeds of crime. Although, the legal basis of this remedy could be found in more than one legislative act, in 2010 Croatia adopted a comprehensive Law on confiscation of proceeds acquired by a criminal offence.\textsuperscript{76} The Law followed the need to provide clear rules on freezing and confiscation of illegally gained profits by any type of criminal offence. This was initially prescribed by Article 82 of the Croatian Criminal Code,\textsuperscript{77} Article 76 Croatian Offences Law\textsuperscript{78} which includes both criminal and administrative offences, Article 557-564 Law on Criminal Proceedings\textsuperscript{79} and some other legal acts.\textsuperscript{80}

The idea behind the Law is that no one may make a profit or gain an asset by any criminal offence. According to the provisions of the Law the Court may freeze and confiscate the proceeds or property of the wrongdoer. “Proceeds” here means any advantage derived from the criminal offence, and “property” here means property of any description, whether corporeal or incorporeal, movable or immovable capable of being sold in the enforcement procedure, as well as business share, stocks, bonds, monetary claims, precious stones or metals, all in the possession of the offender or a connected person.\textsuperscript{81} The Decision of the Court on the confiscation of proceeds must be detailed and reasoned, final and the claimant must be found guilty.\textsuperscript{82} Although such a decision usually follows a final conviction for the criminal offence, the request for confiscation itself may be put before, at the same time and even after the

\begin{footnotes}
\item[76] Law on confiscation of proceeds acquired by a criminal offence, Official Gazette 145/10.
\item[77] Criminal Code, Official Gazette 125/11, 144/12.
\item[79] Law on criminal proceedings, Official Gazette 152/08, 76/09, 80/11, 121/11, 91/12, 143/12, 56/13, 145/13.
\item[80] For example: Law on responsibility of legal persons for criminal offences, Official Gazette 151/03, 110/07, 45/11, 143/12; Law on the state office against corruption and organised crime, Official Gazette 76/09, 116/10, 145/10, 57/11, 136/12, 148/13.
\item[81] Article 3(1) al. 1-2 Law on confiscation of proceeds acquired by a criminal offence.
\item[82] Article 4 Law on confiscation of proceeds acquired by a criminal offence.
\end{footnotes}
procedure for criminal offence.\textsuperscript{83} This is a new solution introduced into Croatian law by the new Law on confiscation of proceeds acquired by a criminal offence. The confiscated proceeds and property shall become the property of the Republic of Croatia in accordance with the detailed rules on execution and transfer prescribed by the Law.\textsuperscript{84} Once confiscated proceeds shall be managed by the Central state office for managing state property.\textsuperscript{85} As in the case of competition law here the profit and proceeds shall not be returned to the injured party, but shall become the property of the state. If the decision was not made in the criminal proceeding, the injured party shall be instructed to file a private claim within the regular civil law proceeding.\textsuperscript{86} The claim may be directed to the restitution of damages, the return of the individual property deprived by the criminal offence or the annulment of the contract.\textsuperscript{87}

Although this remedy allows for the disgorgement of profits gained by criminal offence it has been heavily criticized by the Supreme Court of the Republic of Croatia, mostly on procedural grounds.\textsuperscript{88} Some of the problems are now solved with the Law on confiscation of proceeds acquired by a criminal offence especially in regard to procedure of determination of the value of the proceeds, right to appeal, question whether the proceeds or property has been transferred to a third party or a member of the family, question of death or permanent illness of the accused person, fluctuation of currency etc.

Although this is the only remedy on the disgorgement more comprehensively regulated in Croatian law, legal theory\textsuperscript{89} and practice,\textsuperscript{90} this remedy clearly

\textsuperscript{83} Article 2(1) and Article 6 Law on confiscation of proceeds acquired by a criminal offence.
\textsuperscript{84} Article 5 Law on confiscation of proceeds acquired by a criminal offence.
\textsuperscript{85} http://www.duudi.hr; Article 22 Law on confiscation of proceeds acquired by a criminal offence.
\textsuperscript{86} For procedure see Articles 23-25 Law on confiscation of proceeds acquired by a criminal offence.
\textsuperscript{87} Articles 141-142 Offences Law.
\textsuperscript{88} See M. Petranović, \textit{Oduzimanje imovinske koristi ostvarene kaznenim djelom} (Confiscation of Proceeds Acquired by a Criminal Offence), stručni radovi sudaca Vrhovnog suda RH, on line www.vsrh.hr/.../MPetranovic-Oduzimanje_imovinske_koristi_osstv.doc; D. Kos, \textit{Problematika oduzimanje imovinske koristi} (The Problems of Confiscation of Proceeds), stručni radovi sudaca Vrhovnog suda RH, on line www.vsrh.hr/.../DKos-Problematika_oudzimanja_imovinske_koristi.doc
\textsuperscript{89} See A. Garačić, \textit{Kazneni zakon u sudskoj praksi} (Criminal Code in Practice), Organizator, Zagreb, 2006.; E. Ivičević, \textit{Utvrđivanje imovinske koristi stečene kaznenim djelom u hrvatskom pravu i sudskoj praksi} (Confiscation of Proceeds Acquired by a Criminal Offence in
differs from other disgorgement remedies and especially disgorgement damages. Here illegally gained profits and proceeds are disgorged in the name of the State and not the injured party.

d) **Intellectual property rights infringements - payment of remuneration/licence fee or penalty, restitution of a gain**

Disgorgement could also be discussed in Croatia within the infringements of intellectual property rights. The basic solutions on legal remedies for the breach of intellectual property rights are formed under the strong influence of EU legislation in particular Directive 2004/48/EC on the enforcement of intellectual property rights. The owner of intellectual property rights, as the injured party, is entitled to the protection of his intellectual property rights. The measures of protection shall be directed against the person who breached his right or in some cases his successor. The law offers more than legal remedy.

Amongst other measures, the right owner is entitled to claim **damages** appropriate to the actual prejudice suffered by him/her as a result of the infringement. Additionally, the right owner could demand payment of **remuneration/licence fee** in the amount which is “usually obtained” for such
use of his intellectual property right on the market.\textsuperscript{95} The amount of remuneration/licence fee is not prescribed by law in a fixed sum, but must be determined in single case.\textsuperscript{96} It is the amount the infringer would usually have been due if he had requested authorisation to use the intellectual property right from the right owner.\textsuperscript{97} Additionally, only in the in case of breach of right of an author under Copyrights and other related rights act, the author is additionally entitled to claim \textit{penalty}.\textsuperscript{98} If an author’s right was breached intentionally or by gross negligence, an author is entitled to claim payment of up to double the amount of remuneration (penalty) which has been contractually agreed upon, or if not contractually agreed upon, to double the corresponding regular remuneration for “such use” from the person who infringed his right intentionally or by gross negligence.\textsuperscript{99} The latter is a classic example of concept of penalty from the Code of obligations, but in this case prescribed by specialised copyright law. Other intellectual property right laws hold no such provision on penalties. Finally, the injured party could claim the \textit{restitution of a gain (profit)} made by the infringer as a result of the infringement of his intellectual property rights, in accordance with the rules of \textit{unjust enrichment}.\textsuperscript{100}

Although Croatian intellectual property legislation offers more than one remedy for the protection of intellectual property rights none of them fully fits into the concept of disgorgement of profits. When it comes to a claim for damages the law directs to the application of the general principles of tort law from the Code of obligations.\textsuperscript{101} When it comes to the \textit{restitution of a gain (profit)} the law directs to the application of the general principles of \textit{unjust enrichment} also from the Code of obligations.\textsuperscript{102} The law thus clearly

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\footnote{\textsuperscript{95} Article 179(1) Copyrights and other related rights Act; Article 95.e(2) Patent Act; Article 78(2) Trademarks Act; Article 56(2) Industrial Design Act.}
\footnote{\textsuperscript{96} In some cases tariffs of the specialised guilds or professional association might offer a certain standard.}
\footnote{\textsuperscript{97} The same is prescribed by the Directive 2004/48/EC.}
\footnote{\textsuperscript{98} This “special” provision was inspired by the concept of punitive damages, usually not existent in Croatian law on damages.}
\footnote{\textsuperscript{99} Article 183 Copyrights and other related rights Act.}
\footnote{\textsuperscript{100} Article 179(3) Copyrights and other related rights Act; Article 95.e(3) Patent Act; Article 78(3) Trademarks Act; Article 56(3) Industrial Design Act.}
\footnote{\textsuperscript{101} Article 178 Copyrights and other related rights Act.}
\footnote{\textsuperscript{102} Article 179 Copyrights and other related rights Act.}
\end{footnotes}
separates a classic claim for damages which must be based on the loss for the claimant (injured party), from a claim for restitution of illegally gained gain based on the unjust enrichment of the defendant (infringer). Both claims are based on two different sets of rules and neither fits the concept of disgorgement of profits. Claim for damages is based on the loss of the injured party and not on the gain of the infringer, and thus does not meet the requirements for the disgorgement of profits. Claim for the restitution of a gain (profit) is indeed based on the gain of the infringer, but restitution must be made according to the rules of unjust enrichment. Amongst other problems, unjust enrichment implies the causal relationship between the enrichment of the defendant and a corresponding deprivation to the claimant (that is a transfer of wealth from the claimant to the defendant). Therefore, as earlier explained, this concept also does not meet the requirements of disgorgement of profit. Finally, payment of remuneration/licence fee as the third legal remedy may be closest to disgorgement of profits but still it does not fit entirely. This is because the injured party may claim the payment of remuneration/licence fee only in a limited amount - only what is “usually obtained” for such use of his intellectual property right on the market. The legal character of such a claim is not skimming off all illegally gained profit from the infringer. Thus, neither the purpose of the remedy nor the amount of the remuneration meets the purpose of the disgorgement of profits. In a broader view payment of remuneration/licence fee does have influence on the reduction of profit of the infringer (because he simply needs to pay it, which means loosing his profit), but still the rest of the profit will still be kept by the infringer. Thus, we may conclude the Croatian legislation clearly does not provide clear legal basis for disgorgement of profits in the case of intellectual property rights infringements.

103 See discussion on the unjust enrichment supra paragraph IV.a.
104 For example, the practice showed the remuneration in publishing contracts amounts only 8%.
Another problem is the question of calculation of the damages/remuneration/illegally gained profit. The law does not provide for any other particularities how to calculate, administer or enforce the institute itself. The Croatian civil law system of a continental type is well accustomed to tort and claims for damages. The value of damages could be calculated by actual prejudice suffered by claimant as a result of the infringement of his rights, by using the standard elements of tort law and very developed case law until today.\textsuperscript{106} Croatian law is embracing the concept of “normative damages” taking into account breach of integrity and morality. Even the value of remuneration/licence fee could be calculated in each specific case as this is the amount what is “usually obtained” for such use of his intellectual property right. On the other hand the value of illegally gained profits is not easily determinable. There are no legally binding rules on its calculation, nor there is a court practice on the issue. Should we take into account all appropriate aspects, such as the negative economic consequences, including lost profits of the injured party, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right owner by the infringement?\textsuperscript{107} But even if illegally gained profit is established could the full amount be skimmed off even if it is exceeding the claimant’s losses? These questions need to be solved in the future.

VI. CONCLUSIONS AND DE LEGE FERENDA PROPOSITONS

The general legal basis for disgorgement damages for general infringements of law in Croatian law is lacking. This is especially true for the area of civil law and tort. The Croatian Code of obligations makes no provision for disgorgement damages, nor are there many academic debates on the topic.

\textsuperscript{106} See discussion on damages, supra paragraph III.

\textsuperscript{107} As it is suggested by the Directive 2004/48/EC.
The function of restitution could be satisfied by some other remedies as discussed in the text. However, none of them fully meets the requirements of disgorgement. Claims based on unjust enrichment, benevolent intervention in another’s affairs, damages and disgorgement are independent of each other and are based on different legal requirements. This is because the theory of unjust enrichment is based on the idea of restitution - that is enrichment of the defendant and the corresponding deprivation to the claimant. The theory of spurious benevolent intervention in another’s affairs is based on the idea of restitution, but of the gain of the claimant. The theory of damages is based on the idea of compensation of the claimant. The situation should be restored as it was before the circumstances creating the claim for damages had occurred. The obligation to compensate the injured party (claimant) is completely independent of the gain of the liable party (respondent). Contrary to this disgorgement is a response based on the gain of the respondent based on a wrongdoing and not the loss of the claimant.

In my opinion disgorgement may not be part of any of the analysed categories. It may not constitute a special kind of negotium gestio or part of the law on unjust enrichment or the law on damages. Disgorgement requires elements different from these categories. It is based on the separate elements and thus simply constitutes a new and different remedy for the breach of contract. Since it does not exist in the Croatian law on obligations this could be de lege ferenda challenge for the Croatian legislature. One of the fears of domestic academia is that the introduction of such a new remedy would undermine the well established remedies such as the restitutio in integrum or damages as the compensation of the claimant for the loss suffered.

Here the argument of “independency” could be raised. We already stated that the basis of a claim for disgorgement is independent from a claim for damages or any other claim discussed in chapter four. In the de lege ferenda scenario disgorgement could only act as an alternative to other legal remedies. It could be raised either independently or together with other remedies. This remedy of disgorgement could influence the overall outcome of the case but it may not undermine or change other legal remedies. Thus,
the idea of the implementation of the disgorgement must not change the present structure of legal remedies but may offer another alternative within the present system of principles. However this should be done carefully and with consideration.

Other areas of law, discussed in chapter five, reacted differently to the problem of disgorging unlawful profit. All of them did not provide a clear legal basis for disgorgement, but they all developed some *sui generis* remedies adapted to their specific needs. These remedies under certain conditions might allow skimming off, seizure, transfer or confiscation of unlawful gain. For instance criminal law is the only one offering more comprehensive rules allowing freezing and confiscation of illegally gained profits by any type of criminal offence. The idea behind the Law is that no one may make a profit or gain asset by any criminal offence. Commercial law offers a legal basis for the transfer or subrogation of illegal gain of its member or a business transaction as a whole to the company’s account. The core of this remedy derives from the breach of fiduciary duties and the relationship between a company and its members. Competition law provides a clear legal base to the Competition law Agency to impose certain administrative-criminal measures (fines) which might allow skimming off a certain percentage of profit gained by the infringements of competition law and unfair commercial practices. But the purpose of the law and these measures is to punish the wrongdoer and not to ruin him. They serve as a kind of prevention against future infringement. Finally, intellectual property legislation offers three legal remedies against infringements of intellectual property rights: claim for damages, payment of remuneration/licence fee or penalty and restitution of a gain in accordance with the rules of unjust enrichment. All three are *sui generis* remedies specifically developed for the protection from loss of the right owner, and not for skimming off illegally gained profit of the wrongdoer.

We may conclude that in Croatia there is no universally accepted concept of the remedy of disgorgement damages/profit and that the general legal basis is lacking. However some functional equivalents and *sui generis* remedies have been recognised in different areas of private law, with a substantial level of
diversity. They also serve a different purpose: mostly compensation and restitution and in some cases prevention and punishment. However, in my opinion, this is still not sufficient to develop a coherent theory on disgorgement of profits. At the moment there is no discussion on the topic, nor many writings.

The final question pointed out by general reporters is whether these discussions and criteria on disgorgement are practically relevant. They pointed out that in the past it seemed that, at least in some areas such as intellectual property, claimants seldom asked for disgorgement of profits as they were too difficult to calculate or did not exceed the suffered losses substantially. I believe that this issue could be relevant for Croatia. Introducing a clear legal basis for disgorgement of profits could enhance combat against infringements of the law and illegally gained profit and could allow the development of case law in that direction. As already pointed out, my opinion is that if introduced, the idea of the implementation of disgorgement must not change the present structure of legal remedies but may offer another alternative within the present system of principles. However, this should be done slowly, carefully and with consideration, with utmost respect to our legal tradition and the current structure of legal mechanisms.
Slovenia

Disgorgement of profits in Slovenian law

Damjan Možina, University of Ljubljana

1. Introduction

Everyone agrees that unlawful conduct should not pay. A wrongdoer is not allowed to profit from his own wrong\(^1\) – a timeless statement of natural justice that Slovenian judges, as well as presumably the judges of other countries, would have no problem signing on to. One would expect that this principle of both private and public law is reflected in the legal remedies in both areas of law. Criminal and administrative law explicitly prescribe that no one is allowed to keep benefits gained by a criminal offense or minor offense and the state can seize any benefits gained in this way.

In private law, there is no general remedy aimed at the disgorgement of ill-gotten gains. Tort law\(^2\) – the area of private law primarily concerned with the consequences of wrongs between individuals – aims at restitution for wrongfully caused damage (loss) to the wronged person, rather than at the disgorgement of profits from the wrongdoer. Damages should compensate for but also not exceed the loss (damage) of the wronged person. There is some discussion in the legal literature as to whether in cases of violations of personality rights by the media damages for immaterial loss (pain and suffering) should be higher than the actual loss in order to provide an incentive to the publisher not to (systematically) infringe the rights of individuals. This discussion is not reflected in the case law. Copyright law contains a damage multiplier that also functions as a means of disgorgement of profits: in the event of infringements, the amount of damages can be up to three times the amount of the loss or three times the amount of “the usual fee”. There are some possibilities regarding the disgorgement of profits in the law of unjustified enrichment, but they have rarely been used in this respect thus far. According to a basic principle of contract law, damages in the event of a breach of contract are limited to the damage that was foreseen or foreseeable by the debtor. However, if the breach is intentional

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\(^1\) See, e.g., § 3 of Restatement (Third) of Restitution and Unjust Enrichment, American Law Institute, 2011.

\(^2\) The expression “tort law” is used in the sense of non-contractual liability for damage and covers delicts (fault liability) as well as quasi-delicts (strict liability).
or fraudulent, the creditor may demand restitution for the entire damage caused by the breach. This “growth” of liability can also be seen as a means of disgorging profits, but it is not used in this manner by the courts.

Most Slovenian lawyers would translate the “disgorgement of profits” or the “skimming-off of profits” as the “seizure” or “confiscation of benefits” (“odvzem premoženjske koristi”), which is an institute of criminal law and administrative law. In private law, the terms “disgorgement of profit” is unknown. As already mentioned, tort law is concerned with the “lost profit” of the wronged person, not the profit gained by the wrongdoer. However, Slovenian private law knows the duty to forfeit profit gained by (some type) of wrongful conduct in the following two situations:

(A): if someone (a “gestor”) intervenes into another man’s affairs not with the intention to help him but rather to keep the benefits (so called false negotiorum gestio), he is obliged to hand over to the principal all the benefits gained, in addition to damages, if the principal so demands.³

(B) Corporate law knows a similar provision in relation to the non-competition clause: If a person violates the prohibition of competition, the company may, in addition to damages, demand that all benefit gained thereby be handed over to the principal.⁴ In both of the mentioned cases, the duty to hand over any benefits so gained applies only if the wrongdoer had intentionally violated the rights and interests of the wronged person.

2. Tort law

The basic principle of Slovenian tort law is found in Art. 131 (1) of the Obligations Code: if someone has wrongfully caused damage to another by his own fault, he has to make good the damage.⁵ Fault (negligence) is presumed until proven otherwise;

³ See Art. 205 of the Obligations Code.
⁴ Art. 42 of the Companies Act (ZGD-1, Official Gazette 42/2006, most recent amendment 82/2013). However, this claim must be filed within three months after the company discovered the violation and the liable person, or within five years from the occurrence of damage, at the latest.
⁵ See Art. 131(1) of the Obligations Code. The fault (negligence) is presumed until proven otherwise. The general clause of Art. 131 of the Obligations Code does not mention wrongfulness. However, it is undisputable that “wrongful conduct” is one of the elements of fault liability; see, e.g., Supreme Court of Slovenia Judgement No. VIII Ips 314/2004, dated 24 May 2005. In addition to the fault principle, the loss has to be made good by the person carrying out the “dangerous activity” or the holder of the “dangerous thing”, regardless of their fault (strict liability) if the loss is attributable to the increased risk of inflicting damage arising out of the “dangerous” activity or thing, see Art. 131(2) of the Obligations
however, intention and recklessness have to be proven by the plaintiff. The focus of tort law is on the damage (loss) of the wronged party and not on the profit the wrongdoer might have gained. The primary aim of tort law is the reparation of (material and immaterial) damage. The wronged party is to be put as much as possible into the position in which it would have been if the damage had not occurred. It follows that, in principle, the wronged party may not be awarded more in damages than its loss (material and immaterial) amounts to – in other words, the wronged party may not “profit” or become “enriched” by damages. For this reason, any benefits the wronged party may have received from the event giving rise to the damage should be deducted from the damage (\textit{compensatio lucri cum damno}).

Damage refers to either material or immaterial damage. Material damage is calculated in two ways: either as the cost of restitution (e.g. repair) or as a reduction in the value of property (assets), including the prevention of an increase in value, i.e. lost profit. If, due to his wrongful conduct, the wrongdoer has gained profit that the wronged person was reasonably expecting, the wronged person may demand damages for lost profit. However, the case law has not expressly discussed this effect as it is only concerned with the loss of the wronged party. Immaterial damage relates to physical or emotional suffering or fear; here a monetary claim for damages is not seen as the “reparation” of damage, but rather as the “equitable satisfaction” of the wronged person.

With regard to material damage, an exception applies to cases where a “thing” was destroyed or damaged intentionally; here the damages do not cover only the “objective” loss (calculated either as the cost of reparation or the reduction in value, both in market terms), but also the special (subjective) value the thing had to the wronged party (\textit{pretium affectionios}). These damages contain a certain punitive element as the extent of the sanction depends on the degree of fault. On the other

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6 See Art. 169 of the Obligations Code.
7 However, if the wronged party receives sympathetic help or gifts from volunteers, this is not deducted from the damages, as the purpose is to help (and, in this sense, to enrich) the wronged person. The principle that the wronged party should not benefit is violated also in cases where social support is given to the wronged party, see, e.g., Supreme Court of Slovenia Case No. II Ips 50/1994, dated 15 September 1994.
8 See Arts. 132, 164, and 169 of the Obligations Code.
9 See Arts. 178-181 of the Obligations Code.
10 Art. 168 (3) Obligations Code.
hand, a certain immaterial element (the emotional connection of the wronged party to the “thing”) is taken into account when calculating material damage. Even though it is difficult to imagine that the wrongdoer would profit by destroying or damaging a thing, the focus is still on the loss of the wronged party and not on the profit of the wrongdoer, even if the damages are higher than the objective “loss”.

In the legal literature there is some discussion as to whether damages may exceed (material and non-material) loss where the latter is the result of a media company violating the personality rights of individuals. If the media company profits by violating personality rights, disgorgement of profit cannot be claimed by a damages claim for lost profit, since, in most cases, it was not the intention of the wronged person to commercialize his or her personality in such manner. Thus, damages for non-material loss remain the only option. Neither the case law nor the legal literature approach these situations from the viewpoint of disgorging profit, the discussion rather focuses on the “punitive” element of damages. The prevailing view seems to very much oppose the idea of punitive damages due to the notion that they are inconsistent with principles of private law and insist that penalization is exclusively reserved for criminal law.\textsuperscript{11} The latter, \textit{inter alia}, guarantees the defendant the constitutional procedural rights that, if tort law included punishment, the defendant could be deprived of in a civil procedure.\textsuperscript{12} However, some younger authors underline that damages in the amount of the actual (immaterial) loss do not protect personality rights effectively against media corporations.\textsuperscript{13} One of the reasons is that the wrongdoer – the media company – gets to keep the profit exceeding the immaterial loss of the wronged person, which is clearly unacceptable. The prevailing case law rejects the idea of punitive damages. However, a recent judgment of the Supreme Court shows that a change of attitude is not impossible: the Court discussed the question of from whom punitive damages may be sought – the liability of the public hospital and state health insurance fund [at issue in the case] would “punish” all the beneficiaries and was rejected. It would seem that such a claim could be upheld under different circumstances.

\textsuperscript{11} See, e.g., Polajnar-Pavčnik, Prava mera odškodninskega prava, Podjetje in delo, 3-4/2011, p. 1284.
\textsuperscript{12} See, e.g., Vuksanović, Kaznovalna funkcija odškodnin in Ustava, Pravna praksa 20/2010, p. 11.
\textsuperscript{13} See, e.g., Mežnar, Odškodnina kot kazen na primeru medijskih kršitev – zakaj (ne)? Izbrane teme civilnega prava 2006, p. 77; Mežnar, Novejši trendi v odškodninskem pravu, Podjetje in delo 6-7/2008, p. 1264.
The conflict between these contradictory principles, i.e. the unacceptability of the wrongdoer being allowed to keep the profit gained by a wrong (and exceeding the damage), on the one hand, and the principle that the wronged party should not “profit” from damages, together with a negative attitude towards punitive measures in civil law, on the other, is resolved in favour of the latter.

3. Intellectual property law

In principle, infringements of intellectual property rights give rise to liability in tort according to the general rules of the Obligations Code. There are, however, two important exceptions that only apply to infringements under intellectual property law.

The first one is the possibility of an alternative calculation of damages in addition to the general rules: an amount that corresponds to the usual royalty or license fee for legitimate use. This is applicable to infringements of copyrights, patents, trademarks, industrial designs, and topographies of integrated circuits. According to the latest case law, this not as a special case of calculating (abstract) damages, but a case of restitution due to unjust enrichment as a result of the expenses that the wrongdoer has “saved”. An analogy can be drawn by using another person’s property that is regulated as a case of unjust enrichment in Art. 198 of the Obligations Code; “property” is understood in a broad sense, including rights, such as intellectual property rights. This can also be seen as a case of the disgorgement of profits in the sense of the disgorgement of the expenses the wrongdoer has saved.

The second exception only applies to copyright infringements. In addition to damages calculated either on the basis of general rules or as the usual fee, the wronged person may demand from the wrongdoer a “civil penalty”. According to Art. 168 (3) of the Copyright and Related Rights Act, the wronged party may, irrespective of any damage, claim up to three times the amount of the usual fee for legitimate use of such rights, if the infringement was intentional or reckless. The punitive character of the provision stems from the fact that damages representing a multiplied loss

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14 See Art. 168(2) of the Copyright and Related Rights Act (“Zakon o avtorski in sorodnih pravicah”, Official Gazette 21/1994, with subsequent changes, most recently 110/2013).
15 See Art. 121a (2) of the Industrial Property Act (“Zakon o industrijski lastnin” – ZIL-1, Gazette – 51/06, consolidated version 100/13). See also Art. 17 of the Act on the Protection of Topographies of Integrated Circuits (Official Gazette 81/2006).
17 Cigoj, Veliki Komentar obligacijskih razmerij, Uradni list, Ljubljana, 1984, Art. 219, p. 848.
(triplum) is available only in cases involving intent or recklessness and also from the fact that such may be claimed regardless of actual damage. It is the wronged party and not the state who receives the “penalty”. The damages multiplier is an important exception to the principle that the wronged party may not gain more in damages than its damage (loss). The effect of the “civil penalty” is also that the wrongdoer is disgorged of the profit to the extent that it exceeds “normal” damages (up to three times this amount). In the literature and case law, the disgorgement viewpoint is not discussed. It seems somewhat odd that the Industrial Property Act, which was adopted subsequently, does not contain a similar provision regarding the infringement of patents, trademarks, and industrial designs. Although such situation is comparable with copyright infringement, the application of a “civil penalty” for the infringement of industrial property rights is neither discussed in the literature nor applied by analogy by the courts.

4. Law of unjustified enrichment

It would seem that the law of unjust enrichment provides more possibilities for the disgorgement of unlawfully gained profit than tort law, as it is based on the principle of natural law according to which no one may be enriched at the expense of another without a legal basis.¹⁸ Thus, the aim of restitution is to abolish the unjustified enrichment, i.e. enrichment without a legal basis. It follows that the wrongdoer should not be allowed to keep the profit gained without a legal basis.

The basic principle of Slovenian law of unjustified enrichment is determined in Art. 190(1) of the Obligations Code: if someone is unjustly enriched at the expense of another, he must return what he has received if possible, or pay restitution for the benefits gained. Thus, the duty of restitution only arises where there has been a “shift” of property from one person to another without legal justification.¹⁹ In order words: the enrichment of one party must be related to the deprivation of another. Therefore, the wrongdoer can be disgorged of the profit only if this profit is a result of the deprivation of the wronged person, which significantly narrows the range of

¹⁸ “Nam hoc natura aequum est neminem cum alterius detrimento fieri locupletiorem”, Pomp. D. 12,6,14.
application of the law of unjustified enrichment as a way of disgorging the profit. In fact, the situation is comparable to tort law (lost profit).

Two further points should also be stressed. Firstly, the legal foundations of different claims in the Slovenian law of obligations may overlap. The non-cumul principle is not force. On the contrary, the Code explicitly provides for a plaintiff’s choice between a claim for damages and a claim for restitution (due to unjustified enrichment), if the conditions of both are met. Therefore restitution is, in principle, a remedy available for a wrong. It is often more advantageous for the claimant to base the claim on unjustified enrichment since the period of prescription for claims for damages may be shorter.\(^{20}\) And secondly, the boundaries between claims for damages and claims for unjustified enrichment are blurred. The courts sometimes consider the same (or similar) facts as giving rise to a claim for unjustified enrichment in one instance, and in others as giving rise to a damages claim.\(^{21}\)

5. Contract law

In contract law, if a debtor breaches a contract, the creditor may demand specific performance. Thus, the debtor may, in principle, not simply choose to breach the contract if the breach is more profitable to him than performance. However, this only holds true for obligations that, by their nature, are executable (excluding, e.g., obligations which only the debtor can perform). It could be argued that the claim for specific performance also has the function of preventing profitable breaches.

\(^{20}\) Art. 189 of the Obligations Code makes it clear that the wronged person may, after the prescribed period for filing a claim for damages (within three years following the discovery of the damage and the liable person, or within five years from the occurrence of the damage), still demand restitution amounting to what the wrongdoer has received by the act giving rise to the damage. See, e.g., Higher Court in Ljubljana Case No. III Cp 1164/2009, dated 3 June 2009, and Case No. II Cp 1219/1994, dated 5 April 1995.

\(^{21}\) See, e.g., Supreme Court Case No. II Ips 444/2004, dated 16 March 2006 (the defendant had rented out an apartment of which he was only co-owner; the Court upheld the claim of the other co-owner for damages); Supreme Court Case No. II Ips 364/2000, dated 1 March 2001; here, the plaintiff was co-owner of the house, too. She claimed that the defendant hindered her use of the house, although he himself was only using his part of the house. The court upheld a claim for unjustified enrichment.
The creditor is also entitled to damages for breach of contract. The debtor is liable for damages in the amount of loss foreseeable to him.\textsuperscript{22} If, however, the breach of contract was intentional or fraudulent, the foreseeability limitation falls away: the damages then must cover the “entire” loss arising from breach, i.e. also the loss due to particular circumstances not foreseeable to the debtor.\textsuperscript{23} This is an instance of damages with a punitive character in contract law. Although this still entails the recovery of the loss of the creditor rather than the disgorgement of the gains of the debtor in breach, it may enable disgorgement of some or all of the profit if any was gained and it also provides an incentive for the debtor not to (intentionally or fraudulently) breach the contract. Unfortunately, the case law with regard to intentional and fraudulent breaches is rare and the question of the disgorgement of profits is never discussed.

6. \textbf{Competition law}

A violation of competition law is also a tort. The general rules on damage and liability apply.\textsuperscript{24} Although the gaining of profit is the primary aim of any anticompetitive practices, the profit can only be disgorged by way of damages claimed to the extent that they represent the loss of the wronged party (i.e. lost profit). No special tort law rules exist for competition law. The possibility of the disgorgement of profit as one of the methods of remedying damage is discussed by the legal literature, but has not yet found any reflection in the case law.\textsuperscript{25} Furthermore, it should be noted that the courts apply high standards for proving lost profit in claims for damages due to anticompetitive practices.\textsuperscript{26} Judgements granting claims for damages due to such in the last two decades cannot be found. Any debate as to whether private enforcement of competition law should include the element of disgorging the wrongdoer of the profit is therefore purely academic.

\textsuperscript{22} See art. 243(1) of the Obligations Code. Oddly, the moment of reference is not the time of the conclusion but the time of the breach of contract.
\textsuperscript{23} See Art. 243(2) of the Obligations Code.
\textsuperscript{24} See Art. 62(1) of the Competition Act ("Zakon o preprečevanju omejevanja konkurence" – ZPOmK-1, Official Gazette 36/2008, most recent amendment 63/2013).
\textsuperscript{25} See, e.g., A. Vlahek, M. Ahtik, Določanje odškodnine v primeru kršitve antitrusta, Podjetje in delo 6-7/2011, p. 1344; and L. Bernard, Računanje škode zaradi kršitve antitrusta, Podjetje in delo 3-4/2011, p. 503.
\textsuperscript{26} See, e.g., Higher Court in Ljubljana Case No. I Cpg 1473/2010, dated 18 May 2011.
7. Administrative law: fines and the seizure of “benefits” for minor offenses

Infringements of competition law\textsuperscript{27} and copyright law\textsuperscript{28} as well as violations of numerous other laws or rights (but not patents, trademarks, and industrial designs) are not just torts giving rise to claims for damages, but also minor offenses ("prekršek"). This means, on one hand, that they are punishable by monetary fines imposed by different government agencies. Fines can also be seen as a method of disgorgement of wrongfully gained profits to the benefit of the state budget.

The fines in cases of anticompetitive practices may amount to up to 10\% of the annual turnover of the company.\textsuperscript{29} They are imposed by the Slovenian Competition Protection Agency, which also assesses restrictive agreements and abuses of a dominant position, and as well examines concentrations. Unfortunately, the extremely small number of imposed fines in the last two decades does not allow the conclusion that Slovenian companies respect the rules. Rather, it shows an underdeveloped anti-competition culture and non-efficient public enforcement of competition law.

On the other hand, minor offenses are also subject to rules on the seizure of benefits gained by minor offenses. Art. 28 of the Minor Offenses Act\textsuperscript{30} clearly states that “No one is allowed to keep any material benefits gained by or for a minor offense”. The agency that imposes a fine issues an order by which the benefits are confiscated from the perpetrator or from another recipient of benefits. As with fines, confiscated benefits go into the state budget. However, the case law on the seizure of benefits is very scarce.

\textsuperscript{27} See Arts. 73 and 74 of the Competition Act.
\textsuperscript{28} See Arts. 184 and 185 of the Copyright Act.
\textsuperscript{29} See Arts. 73 and 74 of the Competition Act.
\textsuperscript{30} The Minor Offenses Act (“Zakon o prekrških” – ZP-1, Official Gazette 7/2003, with subsequent amendments, most recently 111/2013).
8. Criminal law

Violations of competition law by which “great” damage is caused to the wronged company or by which the perpetrator gains “great” material benefit, are not just minor offenses, but also criminal offenses. The same is true if someone uses foreign trademarks, industrial designs, patents, and other industrial property rights “in the course of his business.” The infringement of copyrights and related rights can also represent a criminal offense, as well as the violation of personality rights and numerous other types of violations. It is quite possible that the same conduct represents a minor as well a criminal offense: in such a case, criminal procedure takes precedence. Not only natural persons, but also legal entities are punishable.

The perpetrator (wrongdoer) is not just liable for any damage he has caused, but he is also not allowed to keep any benefits he might have gained which exceed the damages (if they are claimed at all). As is the case with the Minor Offenses Act, the “confiscation of benefits” gained by criminal act is based on a very clearly formulated principle according to which no one is allowed to keep benefits gained by a criminal offense. Of course, seizure is possible only if the defendant is found guilty of a criminal offense. Confiscation is imposed by a criminal court ex officio, together with sentence for the criminal offense. The benefits may be seized from the perpetrator or from a person who has received the benefit. The Penal Code regulates the relation between a seizure and a claim for damages, which may also be filed in a criminal court: if the court has upheld the wronged person’s claim for damages, then only the benefits exceeding the damages are seized. In this sense, the confiscation (to the benefit of the state budget) is of a secondary nature, the damages of the wronged person are primary.

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31 Both “greater” damage and “greater” material benefit are defined in Art. 99(9) of the Penal Code as exceeding EUR 50,000.
33 See Art. 233 (trademarks, industrial designs) and Art. 234 (patents, topographies) of the Penal Code.
34 See Arts. 147-149 of the Penal Code.
35 See Arts. 158-160 of the Penal Code.
36 See Art. 11 of the Minor Offenses Act.
38 See Art. 74(1) of the Penal Code.
39 See also Supreme Court Case No. Ips 34619/2011-416, dated 12 September 2013.
However, confiscation of benefits in practice may cause significant difficulties. In a simple and straightforward criminal case, e.g. if the defendant has sold drugs in exchange for money, it is easy to seize the benefits, i.e. the money received. However, in more complex cases, e.g. violations of competition law, it may be very difficult for a criminal court to ascertain the benefits to be seized and to exclude other factors that may also have influenced the economic position of the defendant. If the wronged person claims damages under criminal procedure, the court will decide on the claim only if the case is relatively simple. If the case is more complicated, the criminal court will direct the plaintiff to a civil or commercial court. This is a possibility that a Criminal court does not have with regard to the seizure of benefits. There is scarce case law on the confiscation of benefits under criminal law in general and none on the confiscation of benefits in cases of violations of competition and intellectual property law, as well as on violations of personality rights.

The goal of the disgorgement of profits can also be achieved by means of monetary penalties (fines) and, when legal entities are defendants, also by the seizure of property as a criminal sanction (not property gained by the offense, but pre-existing property). As is the case with the seizure of benefits, monetary penalties go into the state budget. They are determined on the basis of a range of (extenuating or aggravating) circumstances, one of which is the profit expected from or gained by the criminal offense. Still, such a monetary fine is abstract in the sense that the actual profit does not need to be ascertained. In this respect, it is much easier to set a penalty that to determine the benefits to be seized.

The Act on the Liability of Legal Entities for Criminal Offences prescribes an extremely wide range of monetary penalties: for criminal offenses that are punishable by a prison sentence of less than three years, the monetary penalty may be as much as € 500,000 or one hundred times the amount of the damage caused or the benefits gained by the criminal offense. For criminal offenses punishable by a prison sentence of more than three years, the minimum monetary penalty is € 50,000 and may reach up to two hundred times the amount of damage caused or the wrongfully gained

41 See Art. 49 of the Penal Code.
benefit.\textsuperscript{42} Whether such a manner of prescribing monetary penalties is an example of sensible regulation is a different question. The disgorgement of profits is surely only a “by-product” of such a penalty. It has to be noted, however, that since 1999 there has not been a single (!) judgement imposing a monetary penalty on a legal entity in Slovenia.

Recently, the Forfeiture of Assets of Illegal Origin Act was adopted in Slovenia\textsuperscript{43} – a measure that should supplement the Penal Code in the fight against “commercial” crime. If there exist reasons for suspicion that a person has committed one of the listed criminal offenses, and this person’s income is not proportional to his or her expenditures, the act sets the presumption that its assets (property) have been acquired illegally. The burden of proof is reversed: the suspect must prove that he or she has acquired the assets in a legal way or the assets are confiscated to the benefit of the state budget. Assets can be seized even without a criminal conviction. The confiscation procedure is a civil procedure; it commences when a state prosecutor files a claim. With regard to this Act, too, it has to be noted that there has not been a single (!) successful seizure of assets since its adoption in 1999.

\section*{9. Conclusions}

In Slovenian law, complete disgorgement of profits is possible only in criminal and administrative law (via public enforcement), but generally not in private law (via private enforcement). In public law, it is the state budget that receives the wrongfully gained “benefits”. However, the scarce case law indicates that such seizure rarely occurs in practice. This creates some doubt with regard to the effectiveness of the public enforcement of the principle that no one may keep profit gained by his own wrong. Furthermore, in more complex cases, such as violations of competition law, it may be very difficult for a criminal court or government agency to ascertain the exact amount of profit resulting from the violation. An easier to apply functional equivalent of the disgorgement of profits is monetary penalties or fines (to the extent that they are prescribed).

\textsuperscript{42} See Art. 26 of the Liability of Legal Entities for Criminal Offences Act.  
\textsuperscript{43} “Zakon o odvzemu premoženja nezakonitega izvora”, Official Gazette 81/2011.
In private law, there is no general remedy aimed at the disgorgement of profits. In tort law, such profit may be disgorged by way of a damages claim only to the extent that it represents the legally relevant damage (lost profit) of the wronged person. It would seem that tort law is more concerned with preventing the wronged party from getting more in damages than its damage (loss) amounts to, than it is with preventing the wrongdoer from keeping profit gained by wrongful infliction of damage (and exceeding the “loss” of the wronged party).

There are some exceptions in intellectual property law: on one hand, the damage may be calculated either according to general rules or on the basis of the usual fee for legitimate use. The latter may be seen as a way to prevent the enrichment of the wrongdoer, as he must pay restitution amounting to the expenses he saved due to his wrong. On the other hand, damages for infringement of copyright (but not patents, trademarks, and industrial designs) may be multiplied and may amount to up to three times the actual damage. This so-called “civil penalty” also functions as a manner of disgorgement of profits. In contract law, the damages are generally limited by foreseeability, but this limitation does not apply in cases of intentional or reckless breaches. This also serves as a way of preventing (profitable) breaches and achieving the disgorgement of profits (to some extent).

Having in mind that private law does not allow for complete disgorgement of profits via private enforcement and considering the scarce number of cases where “benefits” gained by criminal or minor offenses have been seized via public enforcement, one must wonder whether in Slovenia tort actually does pay.
Introduction

Chinese laws of damage mainly aim at compensating the injured party for loss suffered. The court ordered indemnity is therefore in most cases compensatory in nature rather than punitive. The calculation of indemnity amount is based on the actual loss suffered by the injured party, who will be entitled to an indemnity for damage that is equal to the actual loss. Where there is no actual loss or such loss could not be proven, the court normally will not support the plaintiff's claim for damage. However, society evolvement and legislative reforms have brought about changes to this. In some Chinese cases and legal practices, the loss of the injured party is calculated based on the gain of the infringer or wrongdoer. This is called disgorgement damage or gain-based damage, a relatively new phrase in Chinese law. The disgorgement damage system was first established in China’s company law. It was later introduced to other topical laws including intellectual property, securities, torts and the contract law. It is necessary to study this system in a systematic way and analyze it thoroughly. In this paper, we examine the issues in the rules and system of the existing disgorgement damage and

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* Xiang Gao, Professor of Law and Dean, College of Comparative Law, China University of Political Science and Law.

** Chengwei Liu, Professor of Law, College of Comparative Law, China University of Political Science and Law.
provide suggested solution that we believe will make the system more practical and effective in protecting parties’ rights and interests.

I. Relevant Provisions of Disgorgement Damage System in Chinese Law

With regard to the disgorgement damage system, different legal subject matters have their respective provisions. Relevant provisions mainly appear in four areas of law - intellectual property, torts, contract law and company and securities law. These provisions are also categorized into four corresponding types - intellectual property infringement disgorgement damage, personal right infringement disgorgement damage, default disgorgement damage and corporation disgorgement damage.

A. Regulations of the Disgorgement Damage System in Intellectual Property Law

The laws on intellectual property have been revised multiple times. But the provisions on disgorgement damages have stayed largely unchanged.

Copyright Law Article 49 provides that “if a copyright or copyright-related right is infringed, compensation shall be paid according to the actual loss of the right owner by the person who made the infringement; if the computation of the actual loss is difficult, compensation may be paid according to the illegal gains of the person who made the infringement. The compensation shall also include the reasonable expenses of the right owner for preventing the act of infringement. If the actual loss of the right owner or the illegal gains of the person who made the infringement could not be ascertained, the people’s court shall judge the compensation not exceeding 500,000 yuan depending
on the circumstances of the act of infringement”.

Patent Law Article 65 provides that “the amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement; where it is difficult to determine the actual losses, the amount may be assessed on the basis of the profits the infringer has earned because of the infringement. Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under a contractual license. The amount of compensation for the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act”.

Trademark Law (2013) Article 63 provides that “the amount of damages for infringement upon the right to exclusively use a registered trademark shall be determined according to the actual losses suffered by the right holder from the infringement; where it is difficult to determine the amount of actual losses, the amount of damages may be determined according to the benefits acquired by the infringer from the infringement; where it is difficult to determine the right holder's losses or the benefits acquired by the infringer, the amount of damages may be a reasonable multiple of the royalties. If the infringement is committed in bad faith with serious circumstances, the amount of damages shall be the amount, but not more than three times the amount, determined in the aforesaid method. The amount of damages shall include reasonable expenses of the right holder for stopping the infringement. Where the right holder has made its best efforts to adduce evidence but the account books and materials related to infringement are mainly in the possession of
the infringer, in order to determine the amount of damages, a people's court
may order the infringer to provide such account books and materials; and if
the infringer refuses to provide the same or provide any false ones, the
people's court may determine the amount of damages by reference to the
claims of and the evidence provided by the right holder.”

Anti-Unfair Competition Law Article 20 provides that “where an operator,
in contravention of the provisions of this Law, causes damage to another
operator, i.e., the injured party, the infringer shall bear the responsibility for
compensating for the damages. Where the losses suffered by the injured
operator are difficult to calculate, the amount of damages shall be the profit
gained by the infringer during the period of infringement through the infringing
act. The infringer shall also bear all reasonable costs paid by the injured
operator in investigating the acts of unfair competition committed by the
operator suspected of infringing the injured operator’s lawful rights and
interests”.

B. Regulations of the Disgorgement Damage System in Torts

Tort Liability Law Article 20 governs the infringement disgorgement
damage. It provides that “where any harm caused by a tort to a personal right
or interest of another person gives rise to any loss to the property of the victim
of the tort, the tortfeasor shall make compensation as per the loss sustained
by the victim as the result of the tort. If the loss sustained by the victim is
difficult to be ascertained and the tortfeasor obtains any benefit from the tort,
the tortfeasor shall make compensation as per the benefit obtained. If the
benefit obtained by the tortfeasor from the tort is difficult to be ascertained, the
victim and the tortfeasor disagree to the amount of compensation after
consultation, and an action is brought to a people’s court, the people’s court shall determine the amount of compensation based on the actual situation”. This Article serves as the basis for the infringement disgorgement damage system in tort law in China. It is a very important provision in torts.

Some Chinese legal scholars believe that this provision has its root in relevant provisions of intellectual property law. Some other Chinese legal scholars believe that this provision is borrowed directly from similar provisions in the Netherlands Civil Code or German Civil Code. As early as 2001, before the Tort Law was even promulgated, the Supreme People’s Court issued the Interpretation of the Supreme People’s Court on Problems Regarding the Ascertainment of Compensation Liability for Emotional Damages in Civil Torts. Some of the provisions in the Interpretation recognized the infringement disgorgement damage system to some extent. Article 10 of the Interpretation expressly recognizes “circumstances regarding earnings gained through the infringement” as an important basis for calculating emotional damages. Though the Interpretation is not a general rule for infringement disgorgement damage, it essentially recognized the rule of disgorgement damage by using the infringer’s gains as calculation factor and method.

C. Regulations of the Disgorgement Damage System in Company Law

In commercial law, Company Law and Securities Law both provide provisions on corporation disgorgement damage. In Company Law, there are four articles about corporation disgorgement damage.

First, Article 61 governs the gains in violation of prohibition of business strife. “A director or the general manager may not engage in the same business as the company in which he serves as a director or the general
manager either for his own account or for any other person's account, or engage in any activity detrimental to company interests. If a director or the general manager engages in any of the above mentioned business or activity, any income so derived shall be disgorged to the company. Unless otherwise provided in the articles of association or otherwise agreed by the shareholders' committee, a director or the general manager may not execute any contract or engage in any transaction with the company”.

Secondly, Article 147 governs promoters and administrators’ gains from improper shares transfer. “Shares of a company held by its promoters shall not be transferred for a period of 3 years commencing from the date of the company's establishment. Directors, supervisors and general manager of a company shall report to the company the number of the company's shares held thereby, and shall not transfer such shares while they are in office”.

Thirdly, Article 214 (2) governs company management improper personal gains. “Where a director or the general manager misappropriates company funds or lend company fund to third parties, he shall be ordered to return the company fund and shall be disciplined by the company, and the gains derived from such transaction shall be turned over to the company. Where such action constitutes a crime, criminal liability shall be imposed in accordance with the law. Where, in violation hereof, the directors or the general manager use company assets as security for personal debt of any director of the company or any other person, the security arrangement shall be ordered to be canceled, and such persons shall be held liable for damages in accordance with the law, and the gains derived from the illegal provision of security shall be turned over to the company. Where the circumstance is serious, such persons shall be disciplined by the company.”
Fourthly, Article 215 governs gains in violation of prohibition of business strife. “Where, in violation hereof, a director or the general manager engages in the same business as the company either for his own account or for another person’s account, in addition to turning over any income so derived to the company, such person may also be disciplined by the company.”

C. Regulations of the Disgorgement Damage System in Securities Law

There is only one article in the Securities Law on corporation disgorgement damage, which provides that majority shareholders’ gains from “short-swing trading” shall belong to the company. “Where any director, supervisor and senior manager of a listed company or any shareholder who holds more than 5% of the shares of a listed company, sells the stocks of the company as held within 6 months after purchase, or purchases any stock as sold within 6 months thereafter, any gains therefrom shall belong to the company. The board of directors of the company shall obtain the gains from these transactions for the company. However, where a securities company holds more than 5% of the shares of a listed company, which are the unsold stocks that the securities company has purchased from the company for resale, the sale of these stocks will not be limited by a term of 6 months. Where the board of directors of a company fails to implement the provisions as prescribed in the preceding paragraph herein, the shareholders concerned have the right to demand that the board of directors implement them within 30 days. Where the board of directors of a company fails to implement them within the aforesaid term, the shareholders have the right to directly file a law suit with the people’s court in their own names for the interests of the company. Where the board of directors of a company fail to implement the provisions as
prescribed in paragraph one herein, the directors in charge shall be jointly and severally liable according to law. ” Compared to regulations in Company Law, this provision in Securities Law is better designed technically. But the provisions in Company Law include more instances of corporation disgorgement damage and thus cover a wider regulatory area.

In addition, there are similar provisions in two special laws of Securities, Trust Law and Securities Investment Fund Law. Trust Law Article 26 provides that “the trustee must not take advantage of the trust property to seek profits for his own except getting remuneration according to the provisions of this Law. If the trustee violates the provisions of the preceding paragraph to take advantage of the trust property to seek profits for his own, the profits he obtains shall be brought into the trust property.”

Securities Investment Fund Law (2012) Article 130 provides that “a fund management institution or fund custodian which commits any act as set out in items (1) to (5) and item (7), paragraph 1 of Article 74 of this Law or violates paragraph 2 of Article 74 of this Law shall be ordered to make rectification and be fined from 100,000 yuan up to one million yuan; and the directly responsible person in charge and other directly liable persons shall be warned, with their fund business qualifications suspended or revoked, and be each fined from 30,000 yuan up to 300,000 yuan. Any property and income obtained from the utilization of fund assets by a fund management institution or fund custodian committing any act prescribed in the preceding paragraph shall become part of the fund assets, except as otherwise provided for by any law or administrative regulation.”
II. Disgorgement Damage System in China's Legal Practice

The provisions on disgorgement damage in different legal subject matters are recognized and accepted by Chinese courts, and we can also find cases where Chinese courts have cited rules or jurisprudential basis of disgorgement damage to recover damage for the victim in some legal opinions. This shows that these provisions have been to some degree implemented in China’s legal practice and become an important tool for granting private relief and compensation in practice. In terms of its representations in the following legal subject matters, it can be categorized into:

A. Legal Practice of Disgorgement Damage from IPR Infringement

The IPR law has the most influential provisions on the disgorgement damage system in China as well as their application in the legal practice. The leading case on this is the so-called “the first case of compensation of China’s patent infringement” in 2007. Chint Group Corporation (hereinafter referred to as Chint) sued Schneider Electric Low Voltage (Tianjin) Co., Ltd. (hereinafter referred to as Schneider) and Ningbo Free Trade Zone Star Electrical Equipment Co., Ltd. Yueqing Branch (hereinafter referred to as Star’s branch company) for infringement of its utility model patent. In this case, Zhejiang Wenzhou Intermediate People’s Court expressively supported the plaintiff’s claim to calculate the indemnity for damage based on the standard of the operating profit gained by the defendant from the patent infringement and therefore ordered that Schneider compensates for the plaintiff’s loss of more than RMB 330 million Yuan. The court believes that “Schneider’s act of
manufacturing and selling the patented product for the purpose of production and operation without the consent of patentee Chint and the act of Star’s branch company of selling the patented product for the purpose of production and operation without the consent of patentee Chint have constituted infringement of patent right and should therefore bear corresponding civil liabilities. Since Schneider is not an infringer who only engages in patent infringement, it should pay indemnity according to its profit from operations. Schneider’s sales volume of the infringed patented product during the infringement term shall be first of all determined with the data that Schneider provides; the smaller figure between Schneider’s average operating profit margin from selling all its products and the data in the sheet of Schneider’s operating profit margin from selling the infringed patented product (the sheet is submitted by Chint) shall be the final operating profit margin for calculating the amount of indemnity. In this way, Schneider’s operating profit from selling the infringed patented product from August 2, 2004 to July 31, 2006 is calculated as RMB 355,939,206.25 Yuan. As Chint has claimed for an indemnity of RMB 334,869,872 Yuan, we determine that the smaller figure shall be the amount of indemnity that Schneider shall pay.”

In this case, the plaintiff filed an action against a joint venture of Schneider Electric, one of world’s top five hundred largest companies. This case attracted a lot attention from both business community and legal community at home and abroad. Furthermore the subject matter involved here is utility model, usually called as petty invention while the damages claimed is over RMB 330 million, the highest amount ever supported by court of first

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1 Zhejiang Wenzhou Intermediate People’s Court（2006）W.M.S.C.Z. No. 135 Judgment
instance in a Chinese intellectual-property case. It thus wins itself the name of "the No.1 case of patent infringement in China".\textsuperscript{2} On August 2, 2006, Chint Group Co, Ltd filed law suit in Wenzhou Intermediate People's Court against Schneider Wingoal (Tianjin) for the cause of patent infringement. In the beginning it just requested the defendant stop production of products accused for patent infringement and claimed loss compensation of RMB 500 thousand. Later in January, 2007, at the request from the plaintiff, the court chose a local accounting firm to conduct auditing on the sales and profits of circuit breakers from Schneider. According to auditing report, the sales amounted to RMB 880 million while the actual profit was not ascertained. Base on pertinent evidence, Chint Group concluded that the profit margin of Schneider Wingoal was over 30% and thus raised the damages to over RMB 330 million. There is no doubt that without the support of patent infringement disgorgement damage rules and system, the plaintiff would never win RMB 330 million, since the plaintiff could not prove that the loss amounted to such an figure. This is the very reason why the damages originally claimed was only RMB 500 thousand.

B. Law Practices of Disgorgement Damages in Tort Law

Legal practices of disgorgement damages for infringing right to personality began before the promulgation of Tort Liability Law. In the case of Wang Junxia versus Kunming Cigarette Factory in early 2001, the defendant used the portrait of the former Olympic Game champion in commercial advertisement without Wang's permission. During the trial, Liaoning People's Supreme Court did not reject the plaintiff’s claim even though the plaintiff

failed to prove the amount of pecuniary loss. Instead, on the ground that the defendant’s gains can be regarded as equivalency of loss for the plaintiff, the court ruled in Wang Junxia’s favor, awarding damages of RMB 800 thousand.

3 In the case of Mo Shaocong’ right to portrait in 2005, the Quanzhou Intermediate People’s Court in Fujian made similar conclusion, “the trial court did not commit error to consider the agreement on remuneration for portrait use in advertisement contract and the plaintiff’ social reputation, the infringer’s degree of fault and the possible economic gains for the appellant, in determining the amount of compensation.”

4 Though at that time in China Tort Liability Law had not been promulgated, these cases employed the method of tort disgorgement damages to calculate the loss of victims. The legal practices reflected in these cases provided support to the draft of Article 20 in Tort Liability Law in 2010, and provided guidance for practice.

5 Certainly, contrary judgments exit at the same time. Similar to details of the case of Wang Junxia and the case of Mo Shaocong, there are the case of the actor Hangxue, the case of the athlete Liu Xiang and the case of Zhang Bozhi. However, the method of disgorgement damages was not adopted. Even in the only case applying article 20 after the enforcement of the Tort Law---the case of Ren Dahua’s right to portrait, the court held that “the plaintiff fails to identify the actual loss. In addition, the court could not ascertain economic benefits for using Ren Dahua’s portrait. Therefore, the amount of compensation should be, on the basis of actual conditions, determined discretionally by the court. The court of first instance, considering the actual circumstances, ruled that Charoen Pokphand Group pay 20 damages for the plaintiff. Thus the original judgment is not improper and shall be sustained.” In other words, the court just discretionally determined the tort disgorgement damages according to infringer’s degree of fault, circumstances of infringing act, consequence and influence, without applying article 20, which is about the rule of infringer disgorgement damages. See Hainan Higher People’s Court (2013) Q.M.S.Z.Z. No. 59 Judgment.

3 Wang Junxia versus Kunming Cigarette Factory in Liaoning Supreme Court.
4 Fujian Quanzhou Intermediate People’s Court (2005) Q.M.Z.Z. No. 1178 Civil Judgment
5 Certainly, contrary judgments exit at the same time. Similar to details of the case of Wang Junxia and the case of Mo Shaocong, there are the case of the actor Hangxue, the case of the athlete Liu Xiang and the case of Zhang Bozhi. However, the method of disgorgement damages was not adopted. Even in the only case applying article 20 after the enforcement of the Tort Law---the case of Ren Dahua’s right to portrait, the court held that “the plaintiff fails to identify the actual loss. In addition, the court could not ascertain economic benefits for using Ren Dahua’s portrait. Therefore, the amount of compensation should be, on the basis of actual conditions, determined discretionally by the court. The court of first instance, considering the actual circumstances, ruled that Charoen Pokphand Group pay 20 damages for the plaintiff. Thus the original judgment is not improper and shall be sustained.” In other words, the court just discretionally determined the tort disgorgement damages according to infringer’s degree of fault, circumstances of infringing act, consequence and influence, without applying article 20, which is about the rule of infringer disgorgement damages. See Hainan Higher People’s Court (2013) Q.M.S.Z.Z. No. 59 Judgment.
C. The Legal Practice of Disgorgement Damage for Breach of Contract

Contract Law in China Article 113 provides general rules for default damages. It says that “where a party failed to perform or rendered non-conforming performance, thereby causing loss to the other party, the amount of damages payable shall be equivalent to the other party’s loss resulting from the breach, including any benefit that may be accrued from performance of the contract, provided that the amount shall not exceed the likely loss resulting from the breach which was foreseeable or should have been foreseeable by the breaching party at the time of conclusion of the contract”. In other words, damages just consist of the non-breaching party’s loss resulting from the breach, including actual loss and loss of contingent interests. Gains from the breach and received by the breaching party are not included. Therefore there are no rules or system of the default disgorgement damage in Contract Law of China. However, in Chinese judicial practices, there have been cases which explicitly recognize rules of default disgorgement damages.

In the most precedential case that clearly recognizes the use of calculating the gains of the breaching party as the standard for calculating damages, Loulan Store Co., Ltd, Shanghai sued Fengxian Property Co. Ltd., Shanghai over the dispute of a lease contract.6 Shanghai Fengxian District People’s Court clearly stated that “according to the reality of the case that Fengxian Property did not agree to continue to perform the lease contract, therefore the Court cannot support the claim of Loulan Store Co. Ltd, Shanghai on the continued performance of the lease contract. It is not against the law that Loulan Store Co. Ltd, Shanghai claimed to calculate the amount

of its loss and damage according to the amount of the gains that Fengxian Property obtained from leasing the house to persons not involved in the case when the contract with Loulan Store for the same property was still in force. Fengxian Property obtained a rental of RMB 710,200 yuan from leasing the house of No.1, Nanjing Road for two years and earned a profit of RMB 170,200 yuan after deducting the rental of RMB 540,000 yuan that Loulan Store would have paid during this period. Therefore the Court supported the claim of Loulan Store against Fengxian Property for an economic loss of RMB 170,200 yuan. " In a similar case, Zhuozhou Longma Aluminium Product Co., Ltd. sued Sichuan Huaxi General-purpose Machine company over the dispute of a technical contract. In this case, the Court held that "the defendant actually infringed the right of sales of the plaintiff and illegally took the interests that should have been received by the plaintiff. According to the contract, the price of the 13 extruding machines was RMB 800,000 yuan each, while the actual selling price of the defendant in 1994 was RMB 1,490,000 yuan. The difference between these two price should belong to the plaintiff. Since the defendant has sold the 13 machines itself, it should compensate the losses of the plaintiff. Considering the factors of the market price and charges against revenue, the defendant should compensate the plaintiff 50% of the total price difference, i.e. RMB 4,485,000 yuan."\(^7\)

**D. The Legal Practice of Corporation Disgorgement Damage**

The system of the Corporation Disgorgement Damage is also a specific legal practice of the disgorgement damage theory applied in the field of commercial law such as the company law and the securities law. For example,

Information Technology Co., Ltd. in Shanghai (hereafter as company A) sued a Luo and others for harming the interests of the company, Shanghai No. 1 Intermediate People’s Court decided that “the duty of non-compete is one of the duties of loyalty of the company directors and senior executives. The reason that the duty of loyalty is confirmed by law is because senior management controls the actual operation of a company to a large extent. They are properly authorized to manage the company. Therefore what they do decides whether the interests of the shareholders can be effectively protected. For this reason, when there is a conflict between their interests and the company’s, they should put the company’s interests first. In this case, Luo, as one of the shareholders and General Manager of company A, did not perform the duty of non-compete when he co-founded company B with others and gained profit from it. His acts should be subject to the non-compete restriction. According to Article 130 of Civil Procedure Law, and Article 148 Section 1, Article 149 Section 1 Item 5, Section 2 and Article 217 Section 1 of the Corporate Law, the Court decides that the interest of RMB 22,125 yuan that Luo gained from company B should be paid to company A within ten (10) days after this judgment comes into force. 

III. Practical Difficulties of Disgorgement Damage System in Chinese Law

A. Deficiency of a Universal Legal Basis

The rules of disgorgement damage in Chinese law exist in regulations for different legal subject matters with different inception time and imbalance in

their development. For example, the disgorgement damage system formed the earliest in corporate law and intellectual property law and now is in a relatively maturity stage; while the disgorgement damage system for breach of contract hasn’t been found in any statutory law. It can be said that there is not a coordinated structure for the disgorgement damage rules in each legal subject matter, and the most important reason for that is that there is not a universal and internal legal basis for them. There already exist three thoughts about this legal basis, but none of them is fully convincing, thus leaving a universal legal basis still absent.

The first thought considers the legal basis of disgorgement damage as a theory of unjust enrichment. The basic logic of unjust enrichment system is that the gain of the party results in the loss of the other party and the gain is not due to rightful cause permitted by law, then a legal obligation formed between the aggrieved party and the party with the gain and the former is entitled to the return of all the gain. It is generally acknowledged by the academia that the first case in which the disgorgement damage was dealt with the theory of unjust enrichment was found in the intellectual property law, including Article 18 in the 1870 URHG, Article 14 in the 1876 GEBRMG and the famous case of “Aristion” that conducted by the Reichsgericht in 1975. However, the problem of unjust enrichment theory is that it is based on legal interest distribution theory without requirement of the element of fault or illegality, while the disgorgement damage system is aimed at gains through illegal actions, which cannot be covered only by the unjust enrichment theory.

The second thought states that the legal basis of the disgorgement damage...
damage theory is the tort compensation theory.\textsuperscript{10} If the tortfeasor gains profit through his or her tortious acts, then the injured party can certainly claim compensation for damages. However, the problem of tort compensation theory lies in the fact that the aim of the law is to make up for the damages, so even if what the tortfeasor gained from its tortious acts exceeds much more than the injured party’s loss, the injured party can only claim compensation based on his or her actual damage value. The tortfeasor can still keep much gain after paying the injured party all the compensation damages. That is to say that it is lack of sufficient theoretical basis to require the tortfeasor return all his or her gains only on account of the tort compensation damage theory.

The last thought considers that the disgorgement damage system is the base of right of the request and a system of compensation for damages. German civil jurist Canaris once said that there is a transitional zone between unjust enrichment and the damage compensation liability, namely the independent disgorgement system and the disgorgement damage problems should be solved with a combination of the theory of the attribution and distribution of unjust enrichment and the core of the illegality theory of the compensation for damages.\textsuperscript{11} However the problem of this independent disgorgement damage theory is whether it is possible to cover with a universal theory all the provisions of compensation system that scatter in different legal branches that vary much in concepts and systems, such as intellectual property, torts, corporate and securities law and contract law; even if the answer is yes, it is still questionable whether there is a difference in the level of the content, the institutional composition and the legal effects.


B. Complementary Position of the Tort Disgorgement Damage System

In Chinese intellectual property law, the tort disgorgement damage system is just a complementary and alternative method for the compensation of infringement of intellectual property. Only when the right owner cannot prove his or her damage or the damage cannot be confirmed, the law allows the right owner to count his or her damage value on the basis of the gains of the infringer. In other words, taking the damage value of the right owner as the compensation standard has priority, while the standard of considering the gains of the infringer is just an alternative for exceptional occasions. Even if the damage value can be proved or confirmed, the right owner can only claim compensation for the actual damage value without the disgorgement damage. Besides, despite of the request of the right owner for a disgorgement, if the infringer can prove or confirm the actual damage value, he or she has the right to raise a plead to deny the disgorgement request.12

The provisions in Chinese copyright law, trademark law, patent law and anti-unfair competition law are in line with the above situation. Moreover, Article 20 in the tort liability law also states this order of priority of claim of compensation for damage and claim of disgorgement for damage. This shows the marginal and complementary nature of the disgorgement damage system in Chinese intellectual property law and tort law and makes it a non-mainstream theory and system in this field.

Furthermore, no matter in the infringement of intellectual property or personal right, the gains of the infringer is hard to be proved. In most cases, it is even harder than to prove the damage of the injured party. This is not only

due to the fact that the gains of the infringer is decided by many factors that are difficult for the injured party to prove, meanwhile, the account books that are necessary for the proof of the gains will not be provided by the infringer. Therefore, if the law says the disgorgement damage system should give priority to the system of compensation for damage, the standard of disgorgement becomes meaningless. Courts can conduct almost all the trials with a standard of legal compensation or discrentional compensation, of which the statement would be “considering the plaintiff couldn’t prove the actual damage value caused by the defendant or the gains of the defendant, and taking into consideration the popularity of the registered trademark, the business scale and scope of the infringer and the sales mode, quantity and price and the reasonable expense of the plaintiff to stop the infringement actions, the Court accordingly decides the amount of compensation is RMB xxx yuan.” That is why although laws about disgorgement of intellectual property have already been in China for years and thousands of precedents regarding to this aspect have emerged in legal practice, cases that were conducted with disgorgement damage theory were quite rare. It took the author much effort to finally find out from the database of “Bei Da Fa Bao” the case that Chint Group Corporation sued the Schneider Electric, which is the only one supported by the tort disgorgement of intellectual property.

C. Lack of Operability in the Corporation Disgorgement Damage

The corporation disgorgement damage is stated in the Chinese corporation law and securities law to protect the interests of corporations.

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Despite of that, those provisions are too rigid and lack of operability. As a result, in the legal practice, even under the condition where the corporation disgorgement damage can be applied, many people would choose an alternative method after considering the trade-off. Thus, the superiority of the corporation disgorgement damage cannot be reflected. Hence, cases that were conducted by the corporation disgorgement damage were rarely seen in Chinese legal practice. This system exists in name only, which compels us to rethink. The major defects of Chinese corporation disgorgement damage are as follows:

First, there is a loophole in defining the subject harming the interests of corporation. For example, under the condition in which the directors, supervisors and senior executives harm the interests of corporation due to a violation of the obligation of non-compete, whether the general managers and vice-general managers of the branch company can be regarded as senior executives so that the corporation disgorgement damage can be exercised on them. There is still no clear definition, which brings about the difficulty in legal practice. In the appeal of a case between Yunnan Zhongji Tubular Pile Corporation and Yan and others, the Court held that “Yunnan Zhongji appeals to claim the disgorgement of their illegal gains based on Yan’s violation of non-compete. This claim should be under the premise that the identities of these two appellees are the directors, supervisors or senior executives. However according to the evidence provided by Yunnan Zhongji, Yan A is just the general manager of the Shanghai branch and Yan B deny his identity as the vice general manager. The two appellees are not senior executives even if the evidence is true. Neither the law nor the charter of Yunnan Zhongji recognize the two appellees as senior executives. Therefore, the claim of
Yunnan Zhongji of disgorgement damage lacks in constitutive requirements and preconditions.”

Second, the organs that exercise the right of disgorgement are not clear. In China, only the securities law clearly states that the board of directors represents the company to perform the right of disgorgement. However, in corporation law, the right of shareholders, the board of directors, the board of supervisors and managers don’t include the right to perform disgorgement. In other words, none of the company organs have the right to represent the company to perform disgorgement.

Finally, it is hard to prove the gains by the senior executives. In a case in which MCC Quantai (Beijing) Engineering and Technology Corporation sued Cong Aiming and other senior executives for damaging the interests of the company, the Court held that the senior executives took the business opportunity of the company and should compensate for the expected profit. In this case, the expected profit should be calculated according to the profit amount of Jingtai Corporation, profit margin of other business of Quantai and other evidence. What should be made explicit is that in the corporation law, the disgorgement is among the consequence of the senior executives’ violation of duty of loyalty. But in this case, it is difficult to prove the profit of the senior executives and the expected profit required by Quantai apparently overlapped with it. For this reason, it is reasonable to calculate the expected profit with the possible profit of Jingtai.  

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D. Occasionality of Disgorgement Damage for Breach of Contract and the Inconsistency in Judgments

As is presented above, Shanghai Fengxian District People’s Court, in the case of Loulan Store Co., Ltd, Shanghai\(^\text{17}\), has expressly recognized the legal practice of disgorgement damage for breach of contract. But judging from the overall judicial practice in China, such cases are rare. In general, courts do not support the legal practice of disgorgement damage for breach of contract. The leading case is Shenyang Nongda Seed Co., Ltd. vs. Du Mingluan and others, a case concerning the dispute over the license contract of the implementation of new plant varieties, where the court pointed out that “this term is the compensation term for breach of contract that the two parties have agreed upon against the defendant for its act of assigning the plant varieties to any third party without authorization. Now the defendant has breached the contract by assigning the plant varieties to others without authorization, and should therefore bear responsibilities for breach of contract. In regard to plaintiff’s claim that the second defendant compensates the plaintiff for its economic loss of RMB 500,000 yuan due to the defendant’s breach of contract, this court believes that the plaintiff has not provided effective proof for such economic loss, therefore this court does not support plaintiff’s claim of calculating its damage on the legal basis of the disgorgement damage of the defendant.”\(^\text{18}\)

Furthermore, in those rare cases where courts seem to have supported

\(^{17}\) Shanghai Fengxian District People’s Court (2011) F.M.S.(M.)C.Z. No. 2190 Civil Judgment. 

disgorgement damage, courts, instead of carrying out the practice of disgorgement damage to the contract-abiding party, are in fact employing factors concerning disgorgement contract-breaching party for deciding whether or not the liquidated damage is appropriate. For example, in the case on appeal where Shanghai Mingtai Investment Development Co., Ltd. (hereinafter referred to as Mingtai Company) and others sued Ye Yuequn over the dispute of share ownership transfer, the court holds that: Huang Fan's act of transferring the same share ownership to several transferees constitutes dishonesty upon the conclusion of the share ownership transfer contracts. Where both the two contracts have legal force, Huang Fan can only chose one to perform and the other one is therefore breached. Huang knew that the breach of the share ownership contract in dispute would lead to the compensation of a liquidated damage of RMB 45 million yuan but chose to do so, this court therefore has sufficient reason to believe that Huang’s anticipated benefit by such breaching is bound to exceed the liquidated damage. After breaching the contract, Huang Fan has not taken effective remedial measures. In consequence, the continual performance of the contract was frustrated. Huang’s act has constituted a malicious breach of contract. Mingtai Company therefore lost the chance to manage Shanghai Tianhong Yihai Enterprise Development Co., Ltd., but got the possibility of gaining higher profitability. A liquidated damage of RMB 45 million yuan is higher than Mingtai Company’s actual loss and the share ownership transfer contract was then in performance, but taking all factors into consideration including Huang Fan’s maliciousness and anticipated interest, this court believes that RMB 45 million yuan is not that much high as liquidated damage. Therefore, the judgment of adjusting the liquidated damage to RMB 5 million
Yuan made by the court of first instance lacks acceptable ground and this court hereby rectifies the judgment. However, as Mingtai Company now claims only for a liquidated damage of RMB 15 million, this court therefore supports such claim.\(^{19}\)

Similarly, in the case where NGS Supermarket Group Co., Ltd. (hereinafter referred to as NGS Supermarket) sued Shanghai Yitana Travel Products Co., Ltd. (hereinafter referred to as Yitana Company) over the dispute of house-leasing contract, the court holds: defendant Yitana Company asked for lowering the agreed liquidated damage, and the judgment of the court of first instance can be supported only when the original liquidated damage agreed upon by the two parties is indeed excessive. NGS Supermarket has in the first instance provided relevant lease contract and supplementary agreement which indicate that Yitana Company, instead of fulfilling its obligation of making the house available, has actually rented the house to a third party, Shanghai Ruhai Supermarket Chain Co., Ltd. (hereinafter referred to as Ruhai Supermarket), and Yitana Company raised no objection against this fact. Both the lease term in above-mentioned lease contract and supplementary agreement by and between Yitana Company and Ruhai Supermarket and that in the house-leasing contract by and between Yitana Company and NGS Supermarket are 15 years. But Ruhai Supermarket undertook that the annual rent in the first five years is RMB 280,000 yuan and will increase year-on-year by 3% in the following 10 years, while NGS Supermarket had undertaken that the annual rent in the first three years is RMB 200,000 yuan and will increase by 3% in the following 12 years. Thus the rent that should be paid by Ruhai Supermarket in the first 3 years is RMB

240,000 yuan more than the rent of NGS Supermarket. In the following 12 years, the annual rent agreed upon by and between Ruhai Supermarket and Yitana Company is over RMB 60,000 yuan in average more than the annual rent originally agreed upon by and between NGS Supermarket and Yitana Company. Therefore, NGS Supermarket has sufficiently proved the fact that Yitana Company would benefit more by breaching the original contract. By contrast, Yitana Company has not provided corresponding proof to support its claim that it had notified NGS Supermarket to accept the house in dispute, nor has it provided proof for NGS Supermarket’s refusal of accepting the house. Taking all those factors into consideration, the judgment of lowering the liquidated damage agreed upon by and between the two parties in the original contract made by the court of first instance with judicial discretion shall be overruled.\(^\text{20}\)

In addition, the contract academia of China has neither carried out systematic researches nor identified mature solutions for such questions as whether or not the profit or gains should be considered in damages for breach of contract; if so, how to make it consistent with the theory of efficient breach; whether there is any unjust enrichment in the whole contract damage process; etc.

E. Lack of the Central Role of Parties Involved

There is a strong tendency of statism in China’s disgorgement damage system. The illegal gains of actors are in general taken over to the national treasury and seldom used to relieve the injured party. Chinese private law system pays little attention to the central role of parties involved. In details,

Article 131 of *Opinions of the Supreme People’s Court on Several Issues concerning the Implementation of the General Principles of the Civil Law of the People’s Republic of China* provides that “the returned illegal profits shall include the original object and the fruits arising therefrom. Other interests obtained through illegal profits shall be taken over after deducting the labor service overheads.” Article 209 of the *Securities Law* provides that “all the illegitimate incomes and fines lawfully confiscated and collecting from issuing and trading securities against the law shall be delivered to the national treasury.” The Supreme People’s Court’s *Reply on How to Deal with Debtor’s Overdue Unpaid Loan in Enterprise Loan Contract* has similar provisions in this regard as shown by “enterprise loan contracts against relevant financial rules are invalid. The interests agreed shall be taken over by the state.” The list of such provisions goes on, reflecting statism and the negligence on private subjects.

IV. Suggestion for Improvement

A. Unifying the Theoretical Basis for Disgorgement Damage System

The establishment of a disgorgement damage system in China that can properly operate and efficiently protect the rights of private subjects rests on a general legal basis for the system, which can integrate the various fragmented rules on disgorgement damage dispersed in IP law, torts, company law, securities law and contract law into an independent system of right of claim for disgorgement damage. The system shall have its own internal structure. After all, the legal basis of the disgorgement damage system differs from those of the unjust enrichment system, tort damage system and the default damage system, in particular, the differences in legal bases of the disgorgement
damage system and the unjust enrichment system shall be distinguished. Though very similar, “no one shall benefit from other’s damage” is the legal basis of the former and “no one should benefit from his/het/its own illegal acts” is the legal basis of the latter.

At the same time, we should pay close attention to the latest development of foreign laws. For instance, in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognized that disgorgement may be appropriate in some cases.21 Also in Germany a general instrument, “disgorgement damages” is lacking in the Civil Code of 1900. However, recently well-known scholars as Gerhard Wagner do support for an inclusion of disgorgement damages in the law of damages (for intentional infringements).22 The foreign experience is an effective resource for China to unify its disgorgement damage system and improve the relevant domestic laws and systems as well.

B. Distinguishing the Internal Structure within the Disgorgement System

A unified disgorgement damage system in China does not mean a monolithic whole. A whole without distinction of internal structure is not pertinent or effective in addressing specific problems. Therefore, from the perspective of different influence of public laws declining in strength, the disgorgement damage system can be divided into the following three internal layers:

The first layer is the company (investor) disgorgement system where the

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public laws have the strongest influence. The disgorgement system in the company law and the securities law are established for the protection of interests of investors and are exposed most to the influence of public laws. Where the directors, supervisors, senior managerial staff, shareholders, entrustees and others breach the fiduciary duties in the company law and the investment law, the profit or gains of the person shall be unconditionally deprived or disgorged, a system we may call compulsory disgorgement model.

At the second layer, there are the disgorgement damage system of intellectual property infringement and the disgorgement damages system of personal right infringement, both with heavy influence from public law. To protect injured party’ interests, the disgorgement damage system at this layer need go beyond the existing supplementary legislative model for intellectual property law and tort law, where only when a right owner could not prove his or her loss or the loss could not be determined, he or she then may calculate the damages amount according to infringer’s benefits. Instead, we shall employ an optional legislative model, where a right owner is allowed to calculate the amount either according to his or her loss or the infringer’s benefits. Such model must be more effective for relieving and protecting right-owners’ interests.

At the third layer, there is the breach disgorgement damage system, with the least influence from public law. Among legal subject matters of private law, contract law can most sufficiently present traits of private autonomy and discretion of private law. Therefore liability of breach damage in contract law is the most typical compensatory one. In general, the amount of compensation is based on the non-breaching party’s loss. Only in very rare exceptional cases, the counting method based on the delinquent party’ benefits is adopted,
if such loss could not be proved or determined, or if it would be unfair not to give relief to the non-breaching party. Certainly, the method of breach disgorgement damages is applied in contract law only if three terms is satisfied. Firstly, normal damages would not be adequate. Secondly, the breach is willful. Thirdly, such breach is for seeking benefits, which accords with intonation of opportunistic breach stipulated in Restatement (Third) of Restitution and Unjust Enrichment.

C. Strengthening the System of Proving Gains

The difficulty of proving gains is an important reason why China's disgorgement damages system is rarely employed and is difficult to operate effectively. It is necessary for us to improve the possibility of proving gains in two aspects.

Firstly, the burden of providing information on gains should be imposed on the infringer or the breaching party. The greatest obstacle for practicing disgorgement damages system is that the right-owner could not prove gains of the infringer. To overcome this difficulty, this paper suggests that the infringer shall assume the responsibility of providing information about his or her gains or the burden of proof.

Let’s revisit the above mentioned “Case No. 1 of patent infringement in China”. The judgment of trial court held that the industrial and commercial facts of SELV could be used to calculate the profit of SELV from the infringement, since SELV does not provide the cost book; the amount of damages is determined to be RMB 355,939,206.25 on account of the operating profit of SELV from August 2, 2004 until July 31, 2006; since the amount is higher than that claimed by Chint which is RMB 334,867, finally
RMB 334, 869, 872 yuan was awarded. The act of Wenzhou Intermediate People’s Court offers a positive protection for right-owners’ interests. What is more, in the newly amended Trademark Law, a new section is added to provide “in determining the amount of compensation, the People’s Court may, in the event the right owner has taken every effort to produce evidence but the account books and materials relating to the infringing activities are in the possession of the infringer, order the infringer to provide such account books and materials; if the infringer refuses or provides false account books or materials, the People’s Court may decide the amount of compensation according to the claim of the right owner and the evidence provided thereby.”

It can be regarded as a push for the proving-the-gain system. This rule can introduced to other fields, including other intellectual property infringement, personal right infringement, harming a corporation’s interest and breach of contract.

Secondly, we should allow assumed gains in specific situations. If the infringer’s actual gains were small or there were no gains, could the law then go beyond actual gains and allow assumed gains? Here, assumed gains refer to “assumed license fees”, i.e. fees which should be paid to the injured party if the infringer gets right to use after consultation with the victim. The answer to the above question should consider the value goal and the function orientation of disgorgement damages. If we still insist on the “actual gains” damages, the goal of protecting the injured party’s right would not be achieved. Since the usage of many personal rights with property traits have ready markets and property interests are easy to calculate, “assumed gains” can be calculated with substantial certainty.
In France, this method has been employed in some cases. In a case of right to portrait dispute, Cecilia Cheung versus Jiangsu Tayoi Cosmetics Co., Ltd, the court also applied the method of assumed gains and ordered damages of over RMB 300,000 to the injured party, Cecelia Cheung. The court’s comments are as follows. Zhuhai Tayoi concluded with Cheung a contract worth RMB 2.7 million, such contract covers advertisements, buyout of right to portrait, performance remuneration and remuneration for press conferences. Without any contract with Cheung about right to portrait, Jiangsu Tayoi, in order to make more profits, arbitrarily used and thus infringed Cheung’s right to portrait. In consequence, RMB 300,000 is awarded, with reference to the contract between Zhuhai Tayoi and Cecilia Cheung. It is an exact application of the assumed gains method.

In Patent Law and Trademark Law, there are provisions such as “if it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent (the exploitation fee of that trademark) under contractual license”. These expressions are also presentation of assumed gains method.

D. Shifting from National Confiscation System to the Party Centered System

Though the Chinese disgorgement damage system, to certain extent, punishes the wrong-doer and discourages law-breaking, its main aim is to

24 Hefei High-Tech Development Zone People’s Court in Anhui.(2003) Civil Judgment He Gao Xing Ming Yi Chu Zi. No. 137.
protect lawful rights and interests of private subjects, which closely relates to private law traits of the system. Presently, the national confiscation system, which generally exists in the current disgorgement damage system, indeed departs from private law traits of the system and does not adequately protect interests of private subjects in civil and commercial field. Consequently, we should limit acts such as confiscation which represents national public power, recognize that the system is part of private law, and put the parties concerned at the center of this system.

Take Article 209 of Securities Law for example. It provides that “all the illegitimate incomes and fines lawfully confiscated and collected from issuing and trading securities against the law shall be delivered to the national treasury.” It is reasonable and acceptable for fines to be delivered to the national treasury. The reasons are as follows. Firstly, the fine, with public law traits, increases wrong-doers’ cost of breaking the law and meanwhile warns other people. Secondly, it is not from investors, who thus have no right of recourse. However, it is not the same with illegal gains. Though the administrative order is made by China Securities Regulatory Commission, the gains are collected from investors. Therefore, the investor may reclaim these gains over anyone else. Illegal gains should not be turned over to the state? In today’s global securities market, the development trend is to compensate the investors’ loss with fines as well as restitutions of illegitimate gains.25 So article 209 of Securities law shall be revised to be “illegitimate incomes confiscated shall be used to compensate for investors’ loss”. The current

provision is not consistent with economic justice. It hurts the party’s interests. It does not correspond to values and thoughts of putting the parties in the center of the system.

V. Conclusion

Recognizing the disgorgement damages system has been a new trend in the law of damages. China by now has learned about the relevant advanced rules and systems from other countries. At least for basic legal expression, China has kept pace with this global trend of law development. What is exciting is that we can always find cases where Chinese courts have cited rules or jurisprudential basis of disgorgement damage to recover the damage of the injured parties in some of their opinions. This reflects that such provisions have been to some degree implemented in China’s legal practice and become an important instrument for private relief and compensation in practice. However, it is a pity that the legal practice of the system has lagged behind the expression of the law itself. We do not have a general legal basis for the system. Besides, existing rules in intellectual property, torts and securities law only assume a supplementary role. Without practical application, they are just printed words in the law. In which case, there are no practical values. To fully develop the functions of Chinese disgorgement system, we need to unify a general theoretical basis, establish an internal structure with rich layers, strengthen practice criteria for proving the gains, and return to the idea of putting the parties at the center of the system, as required in private law. Only in this way our legal system can be an efficient one when it comes to disgorgement of unlawful profits by private mechanisms.
1 Introduction

“Disgorgement” of profits as a remedy for civil wrong is discussed in three areas in Japan. They are the tort law, the fiduciary law and the consumer law. The discussion in the area of consumer law is not about the present law but of the future legislation\(^1\). Therefore I will not discuss this in my report. Another area of law excluded from my report is the law of unjust enrichment. It resembles the law of restitution and it has a possibility to allow disgorgement of profits from the wrongdoer. I personally think the law of unjust enrichment has a promising future. But at present the case law and the majority of the academics are unanimous in requiring not only unjust profit of the defendant but also damages of the plaintiff\(^2\) to allow the claims based on unjust enrichment. Therefore under the present situation of the law of unjust enrichment, the restitution of unjust enrichment cannot be a remedy of disgorgement of profits.

Thus this report will focus only on tort law and fiduciary law. As it will be explained later in detail, even in these areas, the remedies referred to are not disgorgement of profits in the strict sense. They are damages whose amount is determined by considering the profits of the wrongdoer. It would be more accurate to be called gain-based damages.

This report will mainly analyze case law in Japan. The academic writings are more positive in acknowledging disgorgement as a remedy against the wrongdoer. But many of these writings are influenced by foreign laws, such as German law or Anglo-American Law. It might be interesting to see

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\(^1\) See the working paper of the National Consumer Affairs Center, A Report: Study on disgorgement of profits made from illegal actions in consumer contracts, 2004.

\(^2\) There are a few scholars who deny damage of the plaintiff to be the requirement for unjust enrichment. Masanobu Kato, Quasi-contract and unjust enrichment, (1999).
what kind of foreign law and foreign ideas have influence on Japanese academics. But such an analysis
does not elucidate the real law in Japan. Therefore I will focus on the case law and see how the courts are
dealing with the problem of profits gained by wrongdoers.

2 Tort law

2.1 Infringement of patent right and other intellectual property rights

In a case of patent infringement the patent right holder is entitled to claim damages against the infringer
based on several calculation methods of the damage. One of the methods allows the patentee to claim
damages based on the profit earned by the infringer from the act of infringement. Section 102 Paragraph
(2) of the Patent Act 1959 provides that “the amount of profit earned by the infringer shall be presumed to
be the amount of damage sustained by the patentee”. Copyright Act, Utility Model Act, Design Act, Trade
Mark Act and Unfair Competition Prevention Act have similar provision of presumption of damages. Profit
by the infringer is presumed to be the damage suffered by these right holders. Before 1959 the old Patent
Act did not have any provisions on damages. The problem of damages was dealt with the general tort law
in the Civil Code. The problem of disgorgement of profits was known among the civil law academics³, but
the court cases on patent infringement were very few and they did not discuss the problem of profits made
by infringers. It was only when the new Patent Act 1959 was prepared in the Committee for the revision of
the old Patent Act that disgorgement of profits became a central issue. The Committee proposed to
establish a provision on a remedy of disgorgement of profits⁴. The Committee explained the necessity of
such a remedy from the special vulnerability of intellectual property rights from an unauthorized use of the
right by the infringer. It followed the models of American law and German law. But the Ministry of Justice
and the Cabinet Legislation Bureau strongly opposed to the proposal of the Committee for a provision of a
remedy of disgorgement of profits. They thought the idea of disgorgement of profits is incompatible with

³ Hatoyama, Special Part of Law of Obligation, p.777 (1925) discusses the problem of quasi negotorium gestio.
⁴ The proposal of the Committee explained the disgorgement of profits from the viewpoint of damages suffered by the patentee,
but it deliberately did not use the word “presumption of damages”. It was therefore understood by the Committee members that
the defendant was not allowed to provide counter-proof for the denial of the damages.
the traditional concept of damage in tort. Therefore the final draft of the Patent Act provided that the infringer’s profit shall be presumed to be the damage of the patentee. It was explained by the government that the purpose of this article was to alleviate the burden of proving damages which is often difficult in cases of infringement of intellectual property rights.

Courts applied this presumption only under strict requirements. Only when the patentee already used her invention in the manufacturing process and her products were sold in the market could the claimant turn to the presumption provision alleging that the profits of the defendant is the loss sustained by the claimant. If the claimant was not using the invention or did not sell any product in a particular market where the defendant’s product was sold the claimant could not use the presumption provision at all. In such a case the claimant can claim only the licensing fees against the defendant.

This attitude of the courts was criticized by many academics. Recently the courts changed its course relaxing the requirements for the presumption. Now the presumption provision can be applied without claimants proving that they used their inventions or they have a market for their product. But there still remains the possibility that when the defendant proves that claimant’s actual loss is less than the profit made by the defendant the amount of damages will be reduced to the actual loss sustained by the claimant.

A theoretically important problem is whether the presumption of damages is applicable in a mere negligent case. Up to now in almost all the cases which came before the court, the defendant had knowledge that his act is infringing the patent right of the others. So they were the cases of intentional tort. But suppose the defendant did not know of the infringement, would the mere negligence of the defendant justify the application of the presumption of damages based on defendant’s profits? The answer in the Japanese law is probably yes. The Patent Act does not distinguish negligence and intention. But we should try to explain the theoretical basis for applying the provision to negligence cases. One possible

5 The most important case is the recent decision of the Tokyo High Court of Intellectual Property Decision of February 1st, 2013 (Hanrei Jiho vol.2179,p.36). The case is now pending in the Supreme Court.

6 Patent Act Section 103 presumes that the defendant is negligent when infringement of patent right is proved. Negligence suffices for claiming damages. Thus claimants usually do not use time and energy to prove the defendants’ knowledge of infringement.
explanation is that intellectual property rights are special because of their vulnerability against unauthorized uses. Intellectual property rights are easily infringed by others’ act, whether intentional or not. Therefore it is necessary to protect the right holder by way of presuming the defendant’s profits as damages of the plaintiff even in cases of negligence. This explanation tries to justify gain-based damages from the nature of the infringed right. Another way to explain why negligent infringers of the patent right are liable for gain-based damages is that the provision in the Patent Act in Japan provides only presumption of damages based on the profits of the defendant. The defendants are allowed to prove against the presumption that the actual damage was less than the profit of the defendant. This is not disgorgement of profits in the strict sense. It is basically a remedy for damages. Thus it is natural to apply it to both intentional and negligent infringers.

2.2 Infringement of other property rights

Court cases of infringement of rights on real estate or other tangible properties by defendant’s unauthorized occupation or disposition are not many in number but often come before the court. In the cases of illegal occupation of premises (a land or a house), the usual damage the claimant suffers is the amount equal to the rent of these properties (in Japan the land and the house are separate properties). From the viewpoint whether the claimant can claim more than the actual damages, we can classify several different situations.

2.2.1 Situation where the claimant can claim more than the usual rent.

That an owner of the property can claim the amount of rent as damages in a case of unauthorized occupation of his premise is a well settled case law. But whether the claimant can claim more than the amount of rent is an issue not thoroughly discussed. Tokyo District Court 31.05.1984 was a case of sublease\textsuperscript{7}. The owner of the house A rented it to B and the tenant B subleased it to C without the permission of the owner. Under Japanese Civil Code the tenant cannot sublease the property without the permission of the owner. Without the permission the subtenant’s(C) occupation of the property is illegal.

\textsuperscript{7} Hanrei Jiho vol.1120, p.44.
and the owner (A) can terminate the lease contract with the tenant (B). In the case mentioned above the
owner A claimed damages against the tenant B for tort, because B was the person who caused the
unauthorized occupation of the property by C. The owner not having terminated the lease contract with B
was entitled to receive rent from B, but in addition the court awarded the owner as damages the difference
between the rent of the sublease (BC) and the rent of the original lease of A and B. The amount of the rent
of the sublease was 195,000 Yen per month and was higher than the rent of the original lease which was
90,000 Yen per month. Therefore the award of this difference (195,000 – 90,000) to the plaintiff means in
fact stripping off the profit from the defendant B who gained from the sublease

There are some cases of unauthorized occupation of premises where the claimants claimed not only the
damages equal to the amount of usual rent but also damages for mental suffering. The claimants argued
that the unauthorized occupation of the land by the defendant was deliberate and in bad faith, but the
court denied these claims reasoning that the claimant’s property damage caused by the infringement of
their property rights are in general fully satisfied by the award of the amount of rent. But the court added as
a general theory that damages for mental suffering would be awarded when there are special
circumstance which justify the compensation for mental suffering, though in this case such special
circumstance was denied.

2.2.2 The amount of rent is the minimum damage for unauthorized occupation of premises.

Whether the amount of damages equivalent to the rent can be reduced if the defendant proved that the
plaintiff did not actually suffer the amount was discussed in a case of a lower court. In this case the
building owned by the plaintiff was old and was to be demolished soon. The defendant argued that the
plaintiff suffered no damages equivalent to the rent because the plaintiff was going to demolish the building

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8 Actually not the whole difference was awarded to the plaintiff in this case. The cost of improvement made to the house by the
defendant tenant was subtracted from the amount of the difference of the rents.
9 Naha District Court, 2001 Nov. 30, Shomu Monthly Report vol.48, p.2648. The owner of a land leased to the Government of
Japan for a military base of US claimed damages against the government for not returning the land after expiration of the lease
period. The owner claimed not only property damage which is equivalent to the rent but also damages for mental suffering.
and had no plan to rent it to others. But the court awarded the amount of the rent as general damages.

2.3 Infringement of personality rights

There are no cases which clearly acknowledge the remedy of disgorgement of profits in this area. But there are some cases which refer to the compensation of mental damages added to property damages suffered by plaintiffs. On the other hand, in cases where mental damages alone are sought by the plaintiff the amount of mental damages are sometimes determined by considering the profits made by the act of infringement by the wrongdoer.

2.3.1 Mental damages added to property damages

Tokyo District Court 24.12.2008 is a case in which a famous entertainer in TV shows claimed damages for unauthorized use of his photo by the defendant, an orthopedic hospital, who used the photo for the advertisement of its business\(^{11}\). The plaintiff claimed damages under two headings. First, property damage for the infringement of his portrait right calculating the damages based on licensing fees. Second, damages for mental suffering claiming that the plaintiff suffered damages by an unauthorized use of his portrait. The court awarded the plaintiff both property damage and mental damage.

Even though property damage and mental damage are different type of damages which are theoretically possible to coexist, it cannot always be justified to receive both. The plaintiff in this case was a professional entertainer letting use his photos to others under the condition of licensing fees. Therefore all he cares is that he receives reasonable fees for his portrait. In general, it would be an over-compensation if he receives compensation for both property damage and mental damage. But if the unauthorized user of his portrait was deliberately doing so, the award for mental damages will be justified and operate as stripping the profits of the defendant. Damages for mental suffering will under certain condition function as a method to disgorge profits of the defendant.

\(^{11}\) Hanrei Times vol.298, p.204. In this case it was the advertisement company which was the defendant and was ordered compensation by the court. But to simplify the issue in this case I will handle both the orthopedic hospital and its advertising company as a single party.
Courts and academic writings do not give any theoretical explanation to the function of damages for mental suffering of this kind. There are two possible explanations. One is to explain the case as a case of an infringement of intellectual property right. The portrait of the plaintiff has an economic commercial value, but this right of publicity is difficult to protect from unauthorized uses. Therefore need special protection. Just as patent holder is entitled to claim damages based on the profits of the infringer, the publicity right infringement justifies the plaintiff to claim not only for the licensing fees but more to prevent unauthorized use of his right. But we face the same problem as in the case of patent infringement. That is whether such compensation should be allowed in a simple negligent tort case. Second way of explanation is that courts are trying to strip the profits from a wrongdoer in bad faith in intentional tort cases. The former explanation is limited to infringement of rights which has a similar nature as intellectual property rights. It depends on the nature of the right infringed. There is a room to expand the type of rights which justify disgorgement of wrongdoer’s profit. But the discussion has just begun. The latter explanation which limits the remedy of disgorgement to intentional torts is easy to understand and matches our common sense from the viewpoint of prevention. But why does it target only intentional torts. Disgorgement of profit can also prevent negligent torts. The doctrine needs theoretical elaboration.

2.3.2 Damages for mental suffering considering the gain of the defendant as a factor.

There are several cases where the plaintiffs claim only mental damages. In the case of Tokyo District Court 29.02.2000 the plaintiff, a famous professional soccer player claimed mental damages against a publisher which published a book on his private life in his youth citing his poem written at school. The publisher had made a profit of 37 million Yen by publishing the book. The plaintiff claimed 37 million Yen as property damages and 10 million Yen as mental damages. This was actually a claim for disgorgement of profits. But the court awarded only damages for mental suffering. The interesting part of this case in that the court in determining the amount of the award of 2 million Yen, considered the fact the defendant made

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13 Hanrei Jiho vol.1715, p.76.
a handsome profit. The average amount of damages for mental suffering in a case of privacy is said to be about 1 million Yen, but this court awarded 2 million Yen which is above the average. The profit of the defendant was one the factors to determine the amount of damages for mental suffering.

Another interesting case is the case of Tokyo District Court 25.06.2007\textsuperscript{14}, in which a famous figure in TV shows claimed damages against a publisher of a weekly magazine based on infringement of privacy. The court calculated the profit of the defendant gained by selling this issue and explained that the amount of damages to be awarded is a part of the profit made by the defendant.

This trend to consider the profits of the defendant in determining the amount of mental damages could be said to be a settled case law in Japan. But the cases are still limited in number and only relate to defamation and privacy infringement\textsuperscript{15}.

\textsuperscript{14} Hanrei Jiho vol.1988, p.39.

\textsuperscript{15} Legal Training and Research Institute, Computation of damages in the litigations for damages, Hanrei Times vol.1070, p.4 (2001). This article was written by a study group of judges proposing a model of calculation of damages for mental suffering. The profit made by defendant is one of the element to determine the amount of mental damages in defamation cases.
3 Infringement of fiduciary duty

3.1 Trust law

Trust Act in Japan provides liability of a trustee in case of breach of trustee’s duty, such as duty of loyalty or duty of care (Trust Act Section 40). In a case of breach of duty of loyalty which includes conflict of interest cases, profits made by the trustee are presumed to be the damages suffered by the beneficiaries. The Trust Act has a similar provision of presumption of damages based on trustee’s profit. There is no presumption of damages in a case of breach of duty of care. The Trust Act treats the breach of fiduciary duty to be special and justifies the provision of presumption of damages for the protection of beneficiaries. The idea that special protection of beneficiary is necessary in a case of breach of fiduciary duty is shared among the trust law specialists. But the reason why presumption of damages should be applied to breach of fiduciary cases but not to breach of duty of care cases is not clear. In my opinion breach of fiduciary duty occurs because the trustee has a wide discretionary power. A discretionary power of a trustee is necessary for an efficient management of the trust property. But at the same time there is a risk of causing damage to the trust property and beneficiaries, if the trustee uses his power to seek his own interest. The duty of loyalty is imposed on trustees to prevent such abuse of power by the trustee. For the purpose of preventing the breach of duty of loyalty disgorgement of profit by the trustee is necessary. This is the idea of Anglo-American trust law. The Japanese trust act basically followed these model, but here again as it was at the time of revision of Patent Act the Ministry of Justice opposed to acknowledge disgorgement of profits as a remedy for breach of fiduciary duty. The final provision of the new Trust Act of 2008 was the presumption of damages based on the profit of the trustee.

3.2 Director’s liability for competition with the company

Directors are prohibited to be engaged in a transaction which competes with the company or to put himself in a position of other types of conflict of interests with the company. The present Company Act provides that the director who is going to be engaged in such transactions which are within the scope of
the company’s business must acquire consent from the board of directors. Directors who was engaged in such a transaction without the board’s consent is violating the duty not to compete with the company and are liable for damages. The Company Act Section 423 provides that such directors must account for the profits they made which are presumed to be the damages of the company. This is only a presumption of damages just like the provisions in the Patent Act and Trust Act.

Compared to the provision of the presumption of damages in the Trust Act which covers all types of breach of fiduciary duty the provision of presumption of damages in the Company Act is applied only to the transactions competing with the company’s business by the directors. For the other types of conflict of interests, such as self-dealing or director acting as an agent of third party, the presumption does not apply. The coverage area of the provision of presumption of damages in the Company Act is conspicuously narrow. The reason for this is not clear. But it is probably explainable from the fact that the previous Company Act provided a company’s right to intervene in the director’s transaction competing with the company. This intervention right actually deprived the profit of the transaction from the director in breach of duty not to compete. This intervention right was abolished by the present Company Act because the right to intervene was not practical and the remedy of damages with the presumption of damages was thought to be more appropriate for the protection of the company.

3.2 Breach of fiduciary duty in other contractual relations

Some academics see agents or mandatories as an example of fiduciary. In the Civil Code an agent is prohibited to act in conflict with the interest of the principal. The power of attorney is restricted in these cases of conflict of interest. But the Civil Code itself does not recognize the concept of duty of loyalty or fiduciary duty. Nor are the majority of academics in favor of introducing the concept of fiduciary duty into the contract relation.

There still exists not a small impediment in acknowledging a remedy of disgorgement of profits in contract.
4 Conclusion

Japanese courts are flexible in protecting the affected party of a civil wrong. But they are not very active in introducing new remedies such as disgorgement of profits. They are also cautious to admit deterrence function as the main purpose of tort law. The academics are more in favor of disgorgement of profits as a remedy in tort. But they too characterize disgorgement only as one type of damages. This is the limit of Japanese Law because Japan is a country of statutory law. Development of law by court decision has a limit, it must be within the framework of the statutory provisions. Therefore solutions referred to in my report were mainly related to the problem of damages, to be more precise, calculation of damages. I have explained that there are three areas in which the related statutes provide that the infringer’s profits are presumed to be the damages of the claimant. I also pointed out that in some areas of law profits of the infringer is considered as a factor to determine the amount of damages. Especially the flexible use of mental damages in the Japanese law will in fact have the function of stripping the profits from the wrongdoer. This is characteristic of Japanese Law.

As for the problem to be solved at present the justification grounds for a disgorgement is important. What kind of interests justify a remedy of disgorgement of profits? Is it available only for intentional harms or is it also applicable to negligence? These are the basic and important questions we are facing.
Disgorgement of profits does not have a systematic approach in Brazilian law, but only some sparse solutions, as we shall see.

According to Brazilian law, disgorgement of profits is not a specific damage. Actually, as far as civil liability is concerned, only two categories of damage are considered: moral, understood as harm to dignity of the human being;¹ and patrimonial, subdivided in “dano emergente” (said “emerging damage”), the actual decrease of assets or the increase of liabilities, and “lucro cessante” (said “lost profits”), in which there is no increase of assets nor decrease of liabilities. A third kind of harm is not admitted.

Besides not being a third kind of damage, disgorgement of profits does not fit the concept of damage adopted by Brazilian Law. In Brazil it does not matter whether damage is the result either of a lawful or an unlawful action, but the fact that it harms any interest of the victim protected by law. Therefore, civil liability does not have a moralizing function towards the behavior of the agent. Its aim is to make the injured party whole, by means of restitution, that must be measured according to the damage suffered. In fact, civil liability is governed by the principle of integral reparation, foreseen in the Civil Code, Article 944, which determines that the victim be reimbursed by the totality of the loss suffered.²

While indemnification for patrimonial damages is aimed at restoration of the heritage of the injured to the status quo ante, indemnification for moral damages has the primary function of compensating for the damage suffered. The restoration function is inconsistent with the moral damages, since the damage to dignity of the human being is subject to no pecuniary assessment, so that the amount of money paid for non-pecuniary damages seeks merely to

¹ The principle of dignity of the human being, foreseen in Art. 1º, III, of Federal Constitution of 1988, was raised to the position of maximum value of the ordinance.
² “Art. 944. The compensation is measured by the extent of damage.”
serve as solace to the victim. Anyway, in both cases, the quantitative criterion of indemnification must converge to the damage. This is particularly important in the context of moral damage, case in which the compensation should only be based on the damage itself, its impacts and the personal circumstances of the victim.

However, Brazilian jurisprudence in extremely favorable to considering that the amount received for moral damages serves not only to compensate for the damage of the victim but also to punish the offender. According to this understanding, punitive damages would be embraced by moral damages, and would play not only the punitive function, but also prevention, deterrence and disgorgement of profits functions. Such functions are incorporated into moral damage using quantification criterion not related directly to the harm suffered, but to the fault degree of the offender, the economic data of the parties and the illicit profit obtained by the offender. The use of illicit profit as a parameter for the quantification of moral damages, therefore, grants a punitive function to moral damages, and serves, indirectly, to promote the disgorgement of profits.

This is especially common in cases of infringement of personality rights by mass media, protected both by Federal Constitution (personality rights are a direct emanation of the principle of dignity of the human being, considered one of the maximum values of Brazilian legal system and one of the fundaments of Brazilian Republic, according to Art. 1º, III of the Constitution) and the Civil Code (Arts. 11-21, which include the rights of image, honor, privacy, name and physical integrity). The big problem is that, in most cases, in violating personality rights, such as the improper use of the image of someone else, the offender obtains substantial profits, even after having paid indemnification for moral and material damages (these almost always in form of lost profits, represented by an imprecise appraisal of the market value of illegitimately used image).

Less frequent, but already present in some of "Superior Tribunal de Justiça" decisions (said "Superior Court of Justice", court responsible for the uniformization of the enforcement of the federal infrastructure constitutional law in Brazil), is the recognition of collective moral damage, in which compensation would play, beyond compensatory function, punitive function. Although this is not a non-controversial doctrinal orientation, it is stated that in cases of diffuse
and collective rights, the conviction for moral damages is justified in view of the presence of social interest in its preservation. Accordingly, the grant of punitive function ends up in allowing courts to use collective moral damage, as under individual moral damages, to enable disgorgement of profits. Such decisions are produced in the field of class actions.

In spite of being applied in many judicial decisions, punitive damage finds great resistance from a doctrinal point of view. It is understood that civil liability has only compensatory and restoration functions. In this sense, the principle of equivalence between damage and repair, foreseen in Article 944 of the Civil Code, as previously mentioned, requires that consideration be given only to the extension of the damage; taking into consideration any other odd element could represent a violation to that principle.

The only circumstance in which the analysis of the conduct of the defendant is admitted is set out in Article 944, single paragraph: "if there is excessive disproportion between the seriousness of the fault and the damage." In this case, the judge may reduce the compensation accordingly. The article considers the degree of guilt as a valid criterion exclusively for equitable reduction of damages, and not to increase the quantum of indemnification, which rules out this possibility.

The assignment of any other function requires express legal provision, which does not exist in Brazilian law. Actually, the Legislative has had the opportunity to rule a few times about it, and has not. When drawing up the Code of Consumer Protection, there was an article creating a civil penalty, whose sole function was to punish the offender; it had, however, the presidential veto.

3 The Consumer Defense Code defines diffuse, collective and homogeneous individual rights: "Art. 81. The defense of interests and right of consumers and victims may be taken before court individually or collectively.

A Single Paragraph. Collective defense Will occur when:

I – diffuse interests or rights, so understood, concerning this code, the transindividual ones, of indivisible nature, whose holders are undetermined people and connected by factual circumstances;

II – collective interests or rights, so understood, concerning this code, the transindividual ones, of indivisible nature, whose holder is a group, category or class of people connected among themselves or to the opponent party by means of a juridical-relation basis;

III – homogeneous individual interests or rights, so understood the ones from a common origin."

4 In this sense, examine the decision by STJ, 3ª T., Relator Ministro Sidnei Beneti, REsp 1291213/SC, judged on 08.30.2012.

5 Here is the content of the article vetoed: "Article 16. If proven that highly dangerous product or service caused the damage, or gross negligence, recklessness or malpractice supplier, shall be payable civil penalty of up to one million times the National Treasury Bonds - BNT, or equivalent
Once more, while editing the Brazilian Civil Code of 2002, an attempt was made to assign moral damages punitive function, and again it was rejected. It was the Draft Law No. 6.960 of 06.12.2002, which provided for the inclusion of a § 2° to the Art. 944 of the Civil Code, with the following contents: "The indemnification for moral damages should constitute compensation for the injured and adequate deterrence to the offender". The report which gave rise to the Substitutive Bill No. 6.960/2002 rejected the proposal.\(^6\)

Despite doctrinal disagreement about the possibility of civil liability to cover disgorgement damages, article 210 of the Industrial Property Law (Law 9.279/1996) allows that profits earned by the offender in cases of violation of industrial property rights be one of the criterion considered for compensation for lost profits by the injured party.\(^7\) Note that in this case, unlike the previous one, there is express legal provision authorizing the consideration of illicit profit for the quantification of damages, and that profit illicitly obtained serves as a criterion for the quantification of lost profits, kind of material damages, and not for the quantification of moral damages.

This peculiar way of calculating lost profits arises in the field of industrial property as a result of the inability of the civil liability to protect adequately the victim against harm. The amounts of indemnification set forth by Brazilian courts are inadequate compared to the stripped material goods, mainly because of the extreme difficulty of demonstrating the extent of lost profits.

For this reason, the national Legislative Power drew on a triple method of calculating lost profits, consisting of: i) the lost profits actually demonstrated by the holder of the right infringed, i.e., what he reasonably failed to earn, which

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\(^6\) These are the terms under which the proposal was rejected: "The doctrine defines moral damages in several ways. All definitions, however, coincide in referring to the damage of non-economical or non-patrimonial interests of the victim. Indemnification of moral damages is never associated to the penalty. It is exactly this character of penalty the Bill approaches; ‘adequate deterrence for the offender’. Besides, it is awarded to the judge a dangerous choice because it does not establish the frontier between the actual damage and the adequate deterrence to future illicit behavior. It also creates double criterion of indemnification evaluation. The criterion for calculating the value of indemnification for damage, either material or moral, must be the extension of it. By rejection."

\(^7\) "Art.210: Losses are determined by criteria more favorable to the injured party of the following: I - the benefits that the injured party would have received if the violation had not occurred, or II - the benefits gained by the author of the violation of law, or III - the remuneration that the infringer would have paid to the holder of the right violated by the granting of a license to allow him to legally exploit the well."
can be estimated on the basis of fairness, congruence and equivalence; ii) the profit earned by the agent in violating the right of someone else, regardless of the evidence the victim could adopt or not the same initiatives and measures as done by the violator; iii) the probable value that the parties could have agreed on in a contract allowing the use of the right in question (e.g., the price to pay for a license agreement for patent exploitation) (GUEDES, 2011).

It is noteworthy that courts often distinguish between the profits actually earned by the offender and the benefit obtained, which is calculated by the deduction of taxes and all costs of production, transportation and labor. In this sense, only the benefit should be reversed in favor of the injured party, as decided by the Superior Court of Justice in the trial of the "Recurso Especial" (said "Special Appeal") n. 710.376, on 12.15.2013.8

In the Brazilian system, unjust enrichment is the adequate remedy to discipline disgorgement of profit. Unjust enrichment is an autonomous source of obligations foreseen in Article 884 of the Civil Code, 9 and differs from civil liability not only for the diversity of situations that allow the application of one or another discipline, but especially because of the function of each of them. Liability aims at repairing the damage suffered by the victim as a result of an unlawful act (said subjective responsibility, based on guilt)10 or because of a risky activity (said objective responsibility, independent from proof of guilt of the agent causing the damaging event).11

The cases of unjust enrichment, in turn, lie within the scope of disapproval in face of the principles of the system, and its main function is to remove the enrichment related amount from the patrimony of the enriched, what means that the elimination of the victim damage, whenever it exists, is indirect and eventual. What causes the reaction of the system in this case is the advantage or undue increase in "A's" patrimony (enriched), and not the possible

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8 STJ, 4ª T., REsp 710.367/RS, Relator Ministro Luís Felipe Salomão, judged on 12.15.2009.
9 “Art. 884. The one who unfairly enrich at the expense of someone else will be obligated to restitution the amount unlawfully acquired, after an update of monetary values.”
10 Brazilian Civil Code, “Art. 927. The one who illicitly (arts. 186 e 187) cause damages to someone else, is obligated to making the injured party whole.”
Brazilian Civil Code, “Art. 186: The one who, by voluntary action or omission, negligence or imprudence violate rights and harm someone else, even if exclusively morally, behaves illicitly.”
11 Brazilian Civil Code, “Art. 927, only paragraph. To make the injured party whole will be compulsory, independently from guilt, in cases specified by law, or when the activity normally performed by the offender represents, by its nature, risk to the rights of someone else.”
loss or decline seen in "B's" patrimony (impoverished). Therefore, in matters of unjust enrichment, the important is not the patrimonial decrease of the victim, whose juridical situation was the means to enrich others, but just the patrimonial increase of the enriched.

There are some prerequisites for the configuration of unjust enrichment. It is required, firstly, the enrichment, i.e., the patrimony increase. The enrichment may result from asset transfer - that is, the act by which the enrichment of someone is due to the impoverishment of another, as in the case of overpayment, or when the owner receives the good with improvements made by the holder - , or interfering with or using the protected interest of someone else , yet without producing damages - using the house of someone else, using the image of someone without authorization. The latter, called “enriquecimento por intervenção” (said “enrichment by interfering”), or “lucro da intervenção” (said “interfering profits”), is functionally equivalent to disgorgement of profits.

“Interfering profits” is precisely the gain resulting from interfering with the rights or protected interests of another, without authorization. It may result in effective increase of the asset, decrease in liabilities or saving some expense. The newspaper that publishes a photo of a seminude actress without authorization increases its assets by increasing sales of that edition. On the other hand, the person who uses the vacation house of a friend while he is travelling abroad with the family saves expense that would incur if he had to lease a house for the holiday.

The second prerequisite for unjust enrichment configuration, and hence for “interfering profits”, is that enrichment occurs at the expense of another, which does not mean that it arises from impoverishment. Sometimes both occur and it is possible to identify a patrimonial offset from depleted to the enriched. However, in case of "enrichment by interfering", in which the right holder does not perform his right, the displacement does not take place: the owner who does not use the vacation house and does not even want to rent it or give it any other destination, does not lose pecuniary advantage because someone else uses it.

Therefore, it is not a question of patrimonial displacement, but the allocation of the legal content of interests, according to which whatever generated by these interests belong, in principle, to the right holder. The
person, who intrudes in unrelated legal interests and achieves material advantage, obtains it at the expense of the right holder, even if the right holder was not willing to perform the acts by means of which the advantage was obtained.

There must also be interdependence between enrichment and enrichment support: the enrichment of the newspaper took place because of an unauthorized publication of the photo of an actress, as well as the enrichment of the person occurred because of the use of a vacation house without the permission of its owner, once he saved rental expenses.

Article 885 of the Brazilian Civil Code\textsuperscript{12} requires that there is \textit{no cause justifying the enrichment}, i.e., there is no legal or conventional title which justifies the patrimonial increment. Thus, in the examples given, there is no legal title to justify the publishing of the photos on the newspaper, or the use of the house by the person who, upon receiving the keys of the house, became a mere holder,\textsuperscript{13} retaining possession on behalf of the owner and in compliance with his orders; therefore, he cannot use it without express permission of the owner, but only exercise acts of maintenance.

Finally, there is the requirement of subsidiarity of unjust enrichment:\textsuperscript{14} it is necessary that there is no claim available to the right holder that allows him to get an equal or more favorable result than the one that will be reached through the claim of unjust enrichment. Concerning “interfering profits”, in which the profits obtained by the intervenor outweigh eventual damages, the civil liability action cannot be regarded as ‘other means’ capable of impeding the exercise of unjust enrichment action. After all, through civil liability action, the right holder is able to obtain only compensation for damages, never the full transfer of profits made by the intervenor.

The amount illegitimately obtained by the agent through intervention in property or rights of someone else should be reversed in favor of the holder of

\textsuperscript{12} “Art. 885. The restitution is owed, not only when there had not been a cause justifying enrichment, but also when the existence of the cause has ceased.”

\textsuperscript{13} “Art. 1.198. Holder is the one who, in a relationship of dependence with someone else, maintains the possession on behalf of the other party and in compliance with his orders or instructions.”

\textsuperscript{14} Subsidiarity requisite is referred to in article 886 of Civil Code: “There will not be restitution by enrichment if law grant other means of compensating the loss suffered by the victim”.

Single paragraph. The one who has started behaving according to what is stated in this article, towards the good and the other person, characterizes as holder, until the contrary is proved.”
such property or rights. The theory of the allocation of the legal content of interests supports the transfer of profit from the intervenor to the right holder. This is, therefore, a consequence from the realization that equity allocations made through the granting of active legal positions have a content that includes the monopoly in exploiting the object of these referred positions.

In addition, keeping the profits in the intervenor patrimony is against the interests of the collectivity. After all, the collective interest advocates the preservation of key institutes for life in society as contract, property and personality rights, and condemns the practice of illegal acts, especially intentional ones. This concern about the community finds its basis on the principle of social solidarity, foreseen in the Federal Constitution in its Article 3, I.\textsuperscript{15} This principle, applied to private law, acts as a limitation to individual freedom, whenever the person violates legally protected interests.

One of the most difficult issues is to identify the amount to be transferred to the rights holder. Resuming the example of the actress whose photos are published without authorization, courts often order the media to pay the holder of image right the lost profit, which allows the offender to keep part of the illicit profit. Such decisions, ultimately, legitimize the expropriation of interests at market value or, in other words, force the conclusion of a contract. The response of the restitutionary remedy is the obligation of the intervenor to pay all the profits made.

As a rule, the initial premise for the calculation of the recoverable amount is patrimonial enrichment, calculated by the difference between the real investment and the hypothetical investment the intervenor could afford. In the example of the vacation house described above, patrimonial enrichment would be the difference between the rent paid by the intervenor – none – and the hypothetical rent he could afford.

After measuring the amount of patrimonial enrichment of the intervenor, the court must ascertain the degree of contribution of each participant in the generation of profits - right holder and intervenor - in the ultimate result, and proportionally share the profit obtained with the intervention. This is a matter of scouting causality between profits and right under the intervention. Only in this

\textsuperscript{15} The Federal Constitution disposes: “Art. 3º Consti tute as basic objective of the República Federativa do Brasil: I – construct a free, just and solidary society; [...]”. 
way it is possible to transfer to the right holder the profit obtained at his expense.

It is noteworthy that the amount to be returned to the right holder can never be lower than the actual enrichment of the intervenor, that is, the market price of the good that suffered interference. That is because the minimum amount will always be the contribution of the right holder to the enrichment of the intervenor.

The only exception to the general quantifying rule of the amount to be transferred to the right holder is when it is proven in the record that the intervenor acted in good faith, i.e., when it is possible to determine he acted based on the belief that he was acting on his own rights. In such cases, the object refundable shall be limited to the actual enrichment of the intervenor. This solution is based on analogy with the Articles 1.214 and 1.272 of the Brazilian Civil Code.  

As described above, it is clear there is no systematic treatment of disgorgement of profits in Brazilian law. Judiciary efforts to combat the persistence of profit illicitly obtained with the offender can be observed. Such efforts are usually implemented by the questionable award of punitive function to moral damages. Although the primary function of indemnification in Brazilian law is repairing the damage, industrial property law provides, as one of possible criteria for quantification of lost profits, illicit profits obtained by the infringer. Finally, in functional terms, the closest Brazilian law can get to disgorgement of profits is the unjust enrichment by “interfering profits”, the purpose of which is precisely the withdrawal from the patrimony intervenor of the illicit profit obtained.

16 “Art. 1.214. The possessor of good faith is entitled to the gains obtained while good faith lasts.”
“Art. 1.272. Good belonging to several owners, confused, mixed put together, without their consent, still belong to them, being possible to separate them without deterioration.”
Disgorgement of Profits - Chilean Report
Rodrigo Momberg*

1.- Introduction

The subject of disgorgement of profits has usually been neglected by Chilean legal doctrine. This can be explained because the general principle in Chilean private law, both in contract and in tort is that liability has a compensatory nature, i.e. damages are aimed at compensating the loss or injury suffered by the creditor or the victim. In other words, damages are the measure and limit of compensation. The award of damages cannot put the affected party in a better position than he was before the breach of contract or the tort.

In theory, this rule applies to any kind of damages, even those which are difficult to measure, such as future losses or moral prejudices (daño moral). Thus, damages have essentially a compensatory nature. The case law has persistently stated that ‘the compensatory nature of civil liability requires that the only measure of the damage is the loss suffered by the victim, without any consideration to any other criteria or element, particularly those with a subtle punitive aim.’ Therefore, in principle, the profits derived from the breach of contract or tort have no relevance for the amount and award of damages, and cannot be claimed as part of the compensation by the affected party.

Punitive damages are not an admitted category in Chilean law. However, Chilean legal doctrine has stated that in fact, the wrongdoer’s behaviour is a relevant element

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Career Development Fellow in Comparative Law, Institute of European and Comparative Law, University of Oxford; Supernumerary Fellow in Law, Brasenose College. Honorary Lecturer, Molengraaff Institute of Private Law, Utrecht University. rodrigo.momberguribe@law.ox.ac.uk.

1 See A. Alessandri, De la responsabilidad extracontractual en el Derecho Civil Chileno (Imprenta Universitaria1943); E. Barros, Tratado de Responsabilidad Extracontractual (Editorial Jurídica de Chile, 2006); R. Abeliuk, Las obligaciones (Quinta edición, Editorial Jurídica de Chile, 2008). In this paper, the expressions tort and non-contractual liability will be indistinctly used.

2 Corte de Apelaciones de Santiago, 26 July 2013, Rol 7562-2011.

for the amount of damages awarded by the courts, particularly in tort. Thus, in similar circumstances, it is claimed that the damages awarded by the courts for an intentional tort (*delito*) may be higher than the awarded for a mere negligent tort (*cuaсидelito*).\(^4\)

This report examines the availability of account of profits both in cases of breach of contract and in tort. The main focus will be placed on the latter, where the theory of unjustified enrichment and the action based on Articles 2316 and 1458 of the Civil Code may be considered, at least theoretically, as the two main sources for disgorgement of profits in Chilean private law.

2.- Disgorgement of Profits for Breach of Contract

The subject of disgorgement of profits, as one of the available categories of damages in contract law, has not been the subject of study by Chilean legal doctrine. Traditionally, the analysis is focused exclusively on the categories of damages recognised by the Civil Code: *daño emergente* (*damnun emergens*, i.e. economic loss) and *lucro cesante* (loss of profit).\(^5\) More recently, the discussion has turned to the availability of moral prejudices (*daño moral*) for the creditor in cases of breach of contract. In any case, it is not discussed in Chilean legal doctrine that the nature of damages for breach of contract is compensatory, neglecting any further analysis about the possibility to claim the profits made by the promisor as a consequence of the breach of contract. Perhaps because of this absence of doctrinal development, the case law is inexistent on the subject.

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\(^4\) Barros (n.1), 166-167, 304-310.

\(^5\) Article 1556 of the Civil Code: ‘La indemnización de perjuicios comprende el daño emergente y lucro cesante, ya provengan de no haberse cumplido la obligación, o de haberse cumplido imperfectamente, o de haberse retardado el cumplimiento. Exceptúanse los casos en que la ley la limita expresamente al daño emergente.’ The same distinction is found in Article 1149 of the French Civil Code. The economic loss normally includes the cost of substituted performance, wasted expenditure and the cost of repairing damaged property. See H. Collins, *The Law of Contract* (Cambridge University Press, 2003), 405.
3.- Disgorgement of Profits in Non-Contractual Liability

3.1.- Compensatory and Restitutionary Damages

As stated above, in Chilean private law, the award of damages is aimed to compensate the loss or injury of the victim.

However, it is also accepted in private law that a wrongdoer should not be allowed to profit from its wrong. The aim of this principle is not to compensate the victim for damage, either derived from tort or breach of contract, but to remove an incentive to wrongdoing or to prevent the immoral consequence of profiting through a wrong. Following these ideas, modern Chilean legal doctrine has stated that in cases of non-contractual liability, specially related with unauthorised use of property, besides compensatory damages, the aggrieved party may be also be entitled to claim the restitution of the gains that are the consequence of the wrong. This action would be a particular case of unjustified enrichment, with the special requirement of fault (culpa) or fraud (dolo) by the wrongdoer. The recoverable gains include both the expenses saved and the profits made by the wrong.

On the contrary, traditional legal doctrine does not recognise restitutionary damages as a recoverable category of damages for the party affected by a wrong. In this sense, it is stated that the recoverable damages are limited by the compensatory nature of non-contractual liability, and therefore the victim is entitled only to claim the damages equivalent to the loss suffered. Although some cases related with the unauthorised use of intellectual property have been cited as awarding restitutionary damages, the courts have avoided express references to those damages, instead awarding to the plaintiff a sum for the moral prejudices derived from the wrong.

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7 Barros (n.1), 929-932.
8 Corte Suprema, 02 November 2000, RDJ, t. XCVII, sec. 1, 212, cited by Barros (n.1), 931.
3.2.- Unjustified Enrichment

Although the restitution of unjustified enrichment is not expressly recognised in the Chilean Civil Code, legal doctrine and case law have stated that this institution is both a general principle of private law and also a source of obligations.\(^9\) The lack of a general rule on the subject is a common feature of the 19\(^{th}\) Century Civil Codes.\(^10\) Nevertheless, the Civil Code includes a number of rules based on or related with unjustified enrichment, such as those on *pago de lo no debido*, (Articles 2295 to 2303), which are related to payments made by mistake in the absence of any legal or contractual duty. It has to be clarified that the Chilean Civil Code expressly regulates contractual restitution, i.e., restitution derived from the termination (*resolución*) or avoidance (*nulidad*) of a contract. Therefore, the lack of rules on unjustified enrichment is exclusively related to cases of non-contractual relationships.\(^11\)

The traditional view in Chilean legal doctrine is that a person who has suffered a loss that increases the wealth of another, without any contractual or legal basis for that enrichment (absence of *causa*), is entitled to claim restitution from the enriched person, up to the amount of the loss or detriment he has borne (*actio in rem verso*).\(^12\) The measure of restitution is, therefore, the loss and not the increase of wealth of the enriched party. The basis for this assertion is that restitution cannot put the affected party in a better position than he was before the wrong. In other words, even when the profits of the unjustly enriched party were higher than the detriment suffered by the affected party, the latter has no claim in relation to those profits. Therefore, under this view, liability is always limited to the actual loss of the affected party.

However, modern doctrine has stated that the relevant element in cases of unjustified enrichment is not the loss suffered by the victim, but the economic

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\(^11\) The situation is similar in France and Spain, see Sirena (n. 10).

\(^12\) F. Fueyo, ‘El enriquecimiento sin causa a expensas de otro, con especial acento en su doctrina general y atípica’, in *Instituciones de Derecho civil moderno* (Editorial Jurídica de Chile, 1990).
advantages or profits gained by the enriched party (i.e. the enrichment). In this sense, it is claimed that the enriched party has no title to retain the profits derived from the unlawful use of another’s property or rights; and the existence of a counter-loss is irrelevant. Therefore, the measure of restitution should be the enrichment and not the detriment, i.e. the profits and not the losses.

With this view, even in cases where the victim suffers no loss, he would be entitled to claim the disgorgement of profits obtained by the enriched party. However, because one of the requirements of unjustified enrichment under Chilean private law is the absence of causa, the claims would be restricted to non-contractual relationships. Since a contract is considered as a valid causa, illegal or illicit profits obtained in the context of a contractual relationship could not be accountable. In these cases, as stated in section 2, only compensatory damages are available for the creditor.

The case law has followed the traditional doctrine, limiting restitution to the amount of loss suffered by the aggrieved party. Thus, in a claim based on the actio in rem verso, the Court of Appeals of La Serena, stated that in cases of unjustified enrichment, the enriched party is only liable up to the amount of the patrimonial detriment suffered by the affected party and not for the complete amount of his enrichment, even if it is higher than the losses of the claimant. The decision was later upheld by the Supreme Court.

3.3.- The Action based on Articles 2316 and 1458 of the Civil Code:

Only two provisions of the Civil Code can be directly related to the disgorgement of profits, allowing the victim of fraud (dolo) to claim from the benefitted party the profits that are the consequence of that fraud.

Thus, the second paragraph of Article 2316 states that ‘Everyone who makes a profit from the fraud of a third party, without being accomplice in the fraud, is liable up to

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13 Peñailillo (n. 9), 14-17.
the amount of the profit obtained’. In similar terms, the second paragraph of Article 1458 states, in relation to fraud as a defect of consent, that the party affected by fraud has an action against the author of it for the total amount of the damage, and against anyone benefitted by the same fraud for the amount of the benefit.

Until recently, these provisions were not subject to analysis by Chilean legal doctrine, with just minor references in treatises and textbooks. Nevertheless, the rules mentioned gained attention when they were used as legal ground before the courts in claims for the recovery of profits related to a major financial scandal.

The cases are based on the same facts: the Inverlink Holding, a financial group with companies dealing with mutual funds and stocks amongst others, bribed the chief money market dealer of CORFO (Corporación de Fomento de la Producción), the state economic-development agency, who handed over more than US$ 110 million in government-owned certificates of deposit, securities and other financial instruments. Inverlink used those instruments as collateral to obtain funds for short-term operations, selling them in the secondary market. In theory, after the profit was made, Inverlink would return the instruments and the theft would not be discovered. However, at some point the operation was unveiled, and Inverlink faced massive withdrawals from its investors and clients, financing these withdrawals with the money obtained with CORFO’s financial instruments. Shortly after that, Inverlink was declared in default.

CORFO not only started criminal and civil procedures against Inverlink and the executives involved in the fraud, but also civil claims against the companies and institutions which received payments from Inverlink with the money obtained with the

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15 Article 2316: ‘Es obligado a la indemnización el que hizo el daño, y sus herederos. El que recibe provecho del dolo ajeno, sin ser cómplice en él, sólo es obligado hasta concurrencia de lo que valga el provecho.’

16 Article 1458: ‘El dolo no vicia el consentimiento sino cuando es obra de una de las partes, y cuando además aparece claramente que sin él no hubieran contratado. En los demás casos el dolo da lugar solamente a la acción de perjuicios contra la persona o personas que lo han fraguado o que se han aprovechado de él; contra las primeras por el total valor de los perjuicios, y contra las segundas hasta concurrencia del provecho que han reportado del dolo.’
illicit transactions of CORFO’s instruments. More than twenty civil claims were filled by CORFO.\textsuperscript{17}

The legal basis of those actions were Articles 2316 and 1458 of the Civil Code. CORFO claimed that the clients of \textit{Inverlink} that received the payment of their investments before the holding’s default, made a profit derived from the illicit transactions of CORFO’s financial instruments. In other words, they benefitted from the fraud committed by a third party (\textit{Inverlink}). At present, a number of CORFO’s claims have been admitted both at first instance and by the Court of Appeals. Some of the cases have reached the Supreme Court via \textit{recurso de casación}, confirming in all cases the decisions of the lower courts.\textsuperscript{18}

3.3.1.- The Conditions for the Application of Articles 2316 and 1458

In the decisions mentioned, the Supreme Court has developed for the first time a doctrine of disgorgement or account of profits, based on Articles 2316 and 1458, establishing three conditions for the application of those rules:

a) The existence of intentional fraud (\textit{dolo}),

b) That a person (the beneficiary) makes a profit from the fraud committed by a third party, and

c) That the beneficiary was ignorant and not involved in the third party’s fraud.

\textit{a) The existence of intentional fraud (\textit{dolo})}

Intentional fraud (\textit{dolo}) is defined as the positive intention to produce damage to others (Article 44 of the Civil Code).\textsuperscript{19} The term \textit{positive} is used in the definition to reinforce the consciousness of the fraudulent behaviour. Therefore, it is usually stated that fraud involves a number of actions (\textit{maniobras}) in order to deceive and mislead the affected party. The rules of Articles 2316 and 1458 are a reflection of the

\textsuperscript{17} C. Pizarro, ‘La acción de restitución por provecho de dolo ajeno’ in \textit{Estudios de Derecho Civil IV} (LexisNexis, 2009).

\textsuperscript{18} The reported decisions are Corte Suprema, 30 January 2013, Rol 6.302-2010; Corte Suprema, 12 September 2013, Rol No 11.723-2011; Corte Suprema, 30 September 2013, Rol 4.871-2012.

\textsuperscript{19} Article 44, last paragraph: ‘El dolo consiste en la intención positiva de inferir injuria a la persona o propiedad de otro.’
general principle that it is unlawful to take any advantage from a fraudulent act: *fraus omnia corrumpit*.

b) That a person (the beneficiary) makes a profit from the fraud committed by a third party

The liability of the beneficiary must be directly linked with the profit derived from the fraud. Therefore, the claim is not related with the behaviour of the beneficiary but only with the profit made, which is at the same time the measure and the limit of their liability. As a consequence, the Court expressly stated that the action based on Article 2316 is an exception to the general rules on liability, because it is independent from the behaviour of the beneficiary, arising with no consideration of any negligence or fraud from that party.

The Court also stated that the term profit has to be broadly construed, including any advantage or benefit derived from the third party’s fraud, as well as any expenses saved by the beneficiary. In this sense, the Court also considered as a profit the performance by *Inverlink* of the contracts concluded with their investors and clients (the beneficiaries), since such a performance was possible only because of the fraud of *Inverlink* against the claimant (CORFO).

This broad concept of profits has been disputed by legal doctrine. It is argued that the profit has to be exclusively based on the third party’s fraud. The existence of a justification for the beneficiary’s profit, such as a bilateral contract concluded with the wrongdoer, interrupts the causal link between the profits and the fraud, preventing the application of the rule of Article 2316. In other words, the fraud has to be the only and direct cause or source of the profit.\(^{20}\)

c) That the beneficiary was ignorant and not involved in the third party’s fraud

The exceptional nature of the rule of Article 2316 is confirmed by the requirement that the beneficiary has to be completely unaware of the fraud. As said above, the

\(^{20}\) Pizarro (n. 17), 684-685.
behaviour of the beneficiary is not relevant and thus he could be held liable even if he is acting completely in good faith. Therefore, this can be considered as a case of strict liability, which is also exceptional in Chilean private law, where the general rule is the opposite, i.e. that liability is based on fault, both in contract and in tort.

3.3.2.- The Nature of the Action based on Article 2316

The Court stated that even when the action based on Article 2316 can be considered as non-contractual, its nature is not compensatory but restitutionary, since it is not related with the loss suffered by the affected party. The Court reinforced the idea that the liability of the beneficiary is exclusively based on the profit obtained as a consequence of the third party’s fraud. As mentioned above, the profit is the measure and limit of the beneficiary’s liability.

Therefore, the aim is not to compensate the loss (if any) of the victim but that the recipient gives up the profits that are the consequence of an illicit and intentional conduct, even when the fraud was committed by a third party. Thus, the disgorgement of profits of Articles 2316 and 2458 is directly linked with the intentional wrong itself and therefore, there is no necessity of loss for the affected party. Moreover, the enriched is a third party in relation with the wrong, and thus his negligence or intentional behaviour has no relevance.

Chilean legal doctrine has added that the nature of the rules of Articles 2316 and 1458 is different from unjust enrichment, because the profit is indirect, caused by the behaviour of a third party. The independence of the action based on Articles 2316 and 1458 implies that the victim still has the chance to claim compensatory damages from the author of the fraud.21

3.4.- Statutory Cases of Disgorgement of Profits

Two special cases of disgorgement of profits can be mentioned in Chilean private law:

21 Pizarro (n. 17), 682.
a) The liability of directors and managers of corporations (sociedades anónimas) in cases of infringement of their fiduciary or legal duties (Articles 42 and 50 of Ley 18.046 sobre Sociedades Anónimas). In these situations, the corporation is entitled to claim the benefits obtained by the directors or managers as a consequence of their illicit or fraudulent conduct.

b) Under the rules of competition law (Ley de Defensa de la Libre Competencia, DL 211), one of the parameters for the determination of fines in cases of anti-competitive behaviour are the economic benefits obtained by the businesses involved in the unlawful commercial practice.

4.- Conclusions

The disgorgement of profits has not been a subject of study in Chilean legal doctrine. Similarly, with the exception of the recent Inverlink cases, no relevant case law has been reported on the issue. Both in contract and in tort, the compensatory nature of civil liability has prevented the development of a theory on gain-based damages.

However, the existence of a restitutionary action has been stated by legal doctrine in some cases of non-contractual liability, in order to allow the recovery of profits derived from the illicit use of property. In the same way, the doctrine of unjustified enrichment may be used to claim the disgorgement of profits obtained by a person by the use of another’s property or rights, in the absence of a contractual or legal basis for that enrichment. Again, the prevalent view is that the enriched party is only liable up to the amount of the patrimonial detriment suffered by the affected party, and not for the complete amount of his own enrichment.

It seems that the only effective device for the disgorgement of profits in Chilean private law is the action derived from Articles 2316 and 1458 of the Civil Code. The latest developments in the case law have proved the efficacy of this action for the account of profits. However, the requirement of fraud as the source of the profits may entail a significant limitation for the practical use of these actions.
J. CONCLUSIONS

Ewoud Hondius, University of Utrecht¹ and André Janssen, University of Münster²

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² Mr. André Janssen, Privatdozent, PhD is a Senior Research Fellow and current deputy professor at the Centre for European Private Law (CEP) in Münster (Germany), and is a former researcher at the University of Turin (Italy) where his research on disgorgement damages was supported by a Marie Curie Intra European Fellowship within the 7th European Community Framework Programme.
Disgorgement of Profits

1. Introduction

“This Court never allows a man to make profit by a wrong [...]”

It is with this statement by Lord Hatherly in Jegon v Vivian that we began our questionnaire, in which we suggested that this particular statement was in line with modern day rhetoric. However, in light of the national reports we have found that it does not reflect reality. In many jurisdictions, it is a timeless statement. Maybe even more than in Lord Hatherly’s time there is a worldwide ideal that unlawful conduct (or more specific tort) should not pay and that, for this reason, the wrongdoer’s illegal profits must be disgorged.

Unfortunately, the legal reality looks very different from the rhetoric. Infringements of e.g. competition law, unfair commercial practices law, capital market law, intellectual property rights or personal rights by mass media or the breach of fiduciary or confidentiality duties are generally highly profitable for the wrongdoer. Thousands of millions of euros or dollars of unlawful profits remain with the wrongdoers every year. Thus, in practice tort or more general unlawful conduct often pays.

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3 “This Court never allows a man to make profit by a wrong, but by Lord Cairns’ Act the Court has the power of assessing damages, and therefore it is fairly argued here that this is a case in which damages ought to be reckoned [...]” Lord Hatherly in Jegon v Vivian (1870–1871), Law Reports Chancery Appeal Cases VI, 742 (761). With respect to this quoute see also the Greek national report.

4 See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) §3, ‘Wrongful Gain’: “A person is not permitted to profit by his own wrong.”

5 See e.g. Rookes v. Barnard [1964] AC 1129 (1227), per Lord Devlin: “Exemplary damages can properly be awarded whenever it is necessary to teach a wrongdoer that tort does not pay.” This decision has in fact limited exemplary damages in English law to just three cases. The limits of this decision were very well demonstrated in the later Court of Appeal case of Broome v. Cassels, per Lord Denning. Lord Denning suggested that the Rookes precedent, especially the limits it had set on exemplary damages, was given per incuriam. This decision, however, was later overturned by the House of Lords. See also Ulrich Schmolke, Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, GRUR Int. 2007, p. 3 (3): “tort must not pay”. Very clear in this respect also the report for Portugal: “The principles that one who engages in illegal behaviour should not benefit from this conduct is common to all areas of law.”

6 For instance, according to a study published in 2007 the yearly impact of cartels in Europe amounts up to 261.22 billion euros. This would in turn mean an impact of 2.3% of the EU GDP (see Centre for European Policy Studies/Erasmus University Rotterdam/Luiss Guido Carli, Making Antitrust Damages Actions more Effective in the EU: Welfare Impact and Potential Scenarios, Report for the European Commission, 2007, p. 96). Product piracy also causes immense damages. For German businesses alone the yearly damages has been estimated by the German Chamber of Commerce and Industry (DIHK) to be in the region of 50 billion euro (see http://www.handelsblatt.com/politik/deutschland/dihkmahnt-an-produktpiraten-verursachen-millionen-schaden/8126882.html).
From a private law perspective the reasons why unlawful conduct ultimately pays are at least threefold: The first and most obvious one is when the chance to detect the wrongdoer is very low. In these situations he is “speculating” that he will not be held liable for his unlawful behaviour. The second reason can be the rational apathy of the injured parties in cases of so-called “trifling damages” or “nominal damages”. These are cases in which the damage suffered by each individual is low (and thus also the incentive to claim damages is low) but as many persons suffered these losses, the profit of the wrongdoers is (sometimes immensely) high. Another possible reason is that the wrongdoers’ expected profits are higher than the legal sanctions (especially damages) for the infringement. In these cases the calculated breach of law remains profitable despite all sanctions (profitable breach of law or contract).

This general report now considers the question of how the law must be shaped in order for unlawful profits to be disgorged as efficiently as possible and thus to reduce the incentives for unlawful behaviour. According to the approach selected by the general reporters, it is the private law instruments, in particular disgorgement damages, which are the focal point of the research. Can their use contribute to an increase in efficiency and what national experiences are on hand? Which legal circumstances should be necessary for their application and what are the requirements?

This general report is structured thus: after the introduction there is the presentation of the national reports, followed by the question of who is faced with the task of disgorging damages. The subsequent section begins first with the notion of disgorgement damages and the problems with its identification and localisation, followed by the examination of the extent to which disgorgement damages are a central remedy in the national legal systems. The sixth section analyses disgorgement damages in particular branches of law, more specifically in breach of fiduciary duties and confidence, infringements of intellectual property law, infringements of personality

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rights by mass media, and unfair commercial practices and competition law. The penultimate section considers the possible functional equivalents. The report concludes with a summary of the results and proposals for future approaches.

2. National reports

This general report is based on 24 national reports: from Australia\(^8\), Austria\(^9\), Belgium\(^{10}\), Brazil\(^{11}\), Canada\(^{12}\), Chile\(^{13}\), China\(^{14}\), Croatia\(^{15}\), England & Wales\(^{16}\), France\(^{17}\), Germany\(^{18}\), Greece\(^{19}\), Ireland\(^{20}\), Israel\(^{21}\), Italy\(^{22}\), Japan\(^{23}\), Norway\(^{24}\), Portugal\(^{25}\), Romania\(^{26}\), Scotland\(^{27}\), Slovenia\(^{28}\), South Africa\(^{29}\), Spain\(^{30}\), and Turkey\(^{31}\). We had hoped to receive national reports from Colombia, Egypt, the Netherlands, Paraguay and the United States as well, but the number is quite satisfying.

3. Disgorging damages: Whose task is it?

The initial question for the idea of disgorgement of illegal profits is in which branch of

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\(^8\) Katy Barnett, BA/LLB (Hons), PhD (Melb), Senior Lecturer at Melbourne Law School.

\(^9\) Maximilian Brunner, University of Klagenfurt, Stefan Perner, Professor of Law, University of Klagenfurt.

\(^10\) Marc Kruithof, Professor of Law, University of Ghent.

\(^11\) Aline de Miranda Valverde Terra, Professor of Law, University of Rio de Janeiro.

\(^12\) Lionel Smith, Professor of Law, McGill University (Montreal), and Jeff Berryman, Professor of Law, University of Windsor (Ontario).

\(^13\) Rodrigo Momberg, PhD, Brasenose College, University of Oxford.

\(^14\) Xiang Gao, Professor of Law and Dean, College of Comparative Law, China University of Political Science and Law; Chengwei Liu, Professor of Law, College of Comparative Law, China University of Political Science and Law.

\(^15\) Ana Keglevic, Professor of Law, University of Zagreb.

\(^16\) Stephen Watterson, University of Cambridge.

\(^17\) Michel Sejean, Professor of Law, Université de Bretagne-Sud.

\(^18\) Tobias Helms, Professor of Law, Philipps-Universität Marburg.

\(^19\) Eleni Zervogianni, University of Thessaloniki.

\(^20\) Niamh Connolly, Professor of Law, Trinity College Dublin.

\(^21\) Talia Einhorn, Professor of Law, Ariel University Department of Economics and Business Management, Israel Visiting Senior Research Fellow, Tel-Aviv University Faculty of Management.

\(^22\) Paolo Pardolesi, Professor of Law, University of Bari.

\(^23\) Yoshihisa Nomi, Professor of Law, Gakushuin University Law School.

\(^24\) Erik Monsen, Professor of Law, University of Bergen.

\(^25\) Henrique Sousa Antunes, Professor of Law, University of Lisboa.

\(^26\) Flavius Baias, Adriaana Almăşan, Cristina Zam șa, University of București.

\(^27\) Martin Hogg, Professor of Law, University of Edinburgh.

\(^28\) Damjan Možina, University of Ljubljana.

\(^29\) Jacques du Plessis, Professor of Law, University of Stellenbosch, Daniel Visser, Professor of Law, University of Cape Town.

\(^30\) Carlos Gomez, Professor of Law, University Pompeu Fabra, Barcelona.

\(^31\) Başak Basoglu, Professor of Law, Bilgi University, Istanbul.
law it is or should be dealt with and what instruments they offer to ensure that infringements do not pay and that illegally gained profits are disgorged. In the majority of legal systems it seems to be accepted that combating unlawful profits is not just a task for one branch of law but that criminal, administrative and private law have to work closely together to achieve the best result possible.\footnote{In German legal language the term “wechselseitige Auffangrechtsordnungen” is used to describe this idea of combining branches of law to reach an overarching aim such as the prevention of illegally gained profits (Wolfgang Hoffmann-Riem, Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen – Systematisierung und Entwicklungsperspektiven, in: Hoffmann-Riem, Wolfgang/Schmidt-Aßmann, Eberhard (eds.), Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen, Baden-Baden: Nomos, 1996, 261-336; Eberhard Schmidt-Aßmann, Öffentliches Recht und Privatrecht: Ihre Funktion als wechselseitige Auffangordnungen, in: Hoffmann-Riem, Wolfgang/Schmidt-Aßmann (eds.), Öffentliches Recht und Privatrecht als wechselseitige Auffangordnungen, Baden-Baden: Nomos, 1996, 7-40).} For this reason criminal and administrative law often foresee a whole arsenal of more or less efficient particular instruments focusing on disgorgement of unlawful profits.\footnote{For more detail see the reports for Austria, Croatia, Germany, Ireland, Israel, Norway, Portugal, Slovenia, South Africa, Turkey.} They can e.g. either be confiscated, skimmed-off by authorities, or administrative or criminal fines can be calculated according to the illegal profits. These instruments can be general in nature, i.e. applicable to all forms of violations, or limited to specific areas of law (such as cartel law, unfair competition etc.). Where the functional distribution regarding disgorgement of profits is concerned it does appear that there has been a shift in view in several countries over the past decades: if one focuses almost solely or primarily on criminal and administrative law then in the course of the rise of the notion of private enforcement there is an increasing emphasis of the significance of private law.\footnote{See the reports for Austria and Portugal.} The actual significance in practice of the public law regulations on disgorgement of profits was dealt with differently in the national reports. Whilst most national reporters indicated the considerable practical relevance in their country this view was not present in all reports; in fact the relevance was questioned in some instances.\footnote{See, for instance, the reports for Germany and Austria, and, in contrast, the Slovenian report.} In many countries it can be observed that there is an increase in the – often greatly criticised – so-called “legal hybrids”, i.e. legal instruments that combine private law and public law elements in order to give rise to a disgorgement of profits. These often require a private party to seize the initiative, though the disgorged profits will be paid to the state.\footnote{See e.g. the section of the German report concerned with cartel law and unfair competition; see also the Chinese report. See also section 6 d for further information.}
4. The notion of disgorgement damages and the identification/localization of problems

Arguably the most discussed and most distinct private law instrument when it comes to the disgorgement of profits are the so-called disgorgement, restitutionary or gain-based damages. Furthermore, there are additional other terms for this legal instrument, which of course complicates its understanding. In strong contrast to the “regular” compensatory damages they are measured only according to the defendant’s gain based on the infringement of a right rather than the plaintiff’s losses and thus represent an anomaly in a number of legal systems. Thus, the plaintiff might gain damages that exceed his losses considerably; he receives what is sometimes called a “windfall profit”. The profit to be paid out is therefore calculated separately from the harm that has arisen and can, as such, be much greater; a link to the actual harm is therefore not made. This understanding shall form the basis of the term “disgorgement damages” used in this report. Accordingly, it also means that the term “disgorgement damages” is understood as being entirely independent of national perceptions and structure; it therefore might cover instances that the national legal systems indeed describe, though using other terms. Creating a useful and valuable general report can therefore only be achieved by using such an international, independent and uniform notion of disgorgement damages which extends across the national borders.

With regard to disgorgement damages national reporters have had to face several problems: as just indicated above, there is the question of different terminology – not only in English, but also in numerous other languages (see e.g. in French ‘faute lucrative’ and in German “Gewinnherausgabe” or “Gewinnabschöpfung”), which complicates a uniform understanding. An Israeli statute on disgorgement of profits

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37 In the common law, restitution has two meanings: a giving back and a giving up, as Peter Birks has observed.
39 See e.g. Thomas Dreier, *Kompensation und Prävention – Rechtsfolgen unerlaubter Handlungen im Bürgerlichen, Immaterialgüter- und Wettbewerbsrecht*, Tübingen: Mohr, 2002, p. 42 et seq.: Marc Kruithof, *De vordering tot voordeeloverdracht*, *Tijdschrift voor Privaatrecht* 2011, p. 13 (37 et seq.). This “windfall profit” only arises when the skimmed-off profit goes to the claimant. Although this is often the case there are systems and legal instruments which allow the profit to be paid to the state (see the Chinese and German reports).
derived from Publications Concerning Criminal Acts Law, 5765-2005, uses the term "disgorgement of profits" (hilut revahim). This or similar terminology is often found in common law and mixed jurisdictions; in civil law systems it is less known. Even worse: not every civil law jurisdiction recognises this topic as a specific issue as such. In contrast, the separate meaning of disgorgement of profits is much clearly indicated in the common law and mixed jurisdictions and is, in principle, recognised therein as a uniform legal topic.

A further problem regarding pinpointing and identifying disgorgement damages is that possible remedies for disgorging unlawful profits are, in contrast to administrative and criminal law, often less “obvious” in the private law sector. Sometimes they seem to be almost “hidden” under the banner of compensatory damages or other obfuscatory labels. Often they are widely spread all over the private law system, which complicates a common understanding of the problem. Additionally, disgorgement damages are covered in part by statute law, but also by case law and the legal requirements may differ considerably (e.g. scope of application, level of fault). The notion of disgorgement damages in purely civil law systems can be found in statute law and sometimes even in case law. In common law systems there is the further complication of the distinction between common law and equity, which therefore impacts on a uniform view. In common law countries there is also a divide between private law actions which historically arose in common law courts and private law actions which historically arose in equity in the courts of Chancery. Although the account of profit (disgorgement) arose in the common law, it was taken up by the courts of equity and became principally available for equitable wrongs.

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40 See the Israeli report.
41 See e.g. the reports for Canada, England and Wales, Ireland.
42 See e.g. the reports for Belgium, Brazil, Croatia, France, Germany, Greece, Italy, Japan, Norway, Spain, and Turkey.
43 Cf Simon Whittaker, in: Fabrizio Cafaggi (ed.), Contractual networks, inter-firm cooperation and economic growth, Cheltenham: Elgar, 2011, p. 179: “It is always difficult to discuss a topic from the point of view of a legal system where that legal system does not recognise the existence of the topic.”
44 See also e.g. the report for Brazil, Italy, Slovenia (“In private law, the term “disgorgement of profits is unknown.”), Spain (“Hence, there is not general principle of disgorging profits under Spanish private law [...].”)
45 This is very clearly noted in the Belgian report in which it is noted that disgorgement damages “tend to be camouflaged”.
46 See especially in this regard the Belgian report.
47 It arose with the writ of praecipae quod reddat in common law. See Mitchell McInnes, ‘Account of
traditionally, the remedy was not generally awarded for common law wrongs such as breaches of contract and torts. However, in some mixed jurisdictions, such as Israel and Scotland, there is no division between “common law” and “equitable” remedies in the English sense.\textsuperscript{48} In Australia, the historical division between equity and common law remains a significant barrier to the award of disgorgement damages in areas of private law which have their origins in the common law, such as contract and tort.\textsuperscript{49} The melding of common law causes of action with remedies which historically arose in equity is said to produce “fusion fallacy” by ignoring historical precedent.\textsuperscript{50} By contrast, the US is unconcerned about a fusion of common law and equity,\textsuperscript{51} and this is reflected in its much greater willingness to award disgorgement (and punitive) damages for a wide range of actions.

The identification of disgorgement damages is further complicated by the use of other specific legal instruments that (at least) also serve the function of disgorgement of profits, i.e. they contribute to ensuring that the wrongdoer does not retain his unlawful profits. In some respects it can thus be seen that functional equivalents do exist. For instance, damage multipliers as e.g. the American treble damages\textsuperscript{52} in competition law

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\textsuperscript{48} See more detailed the reports for Israel and Scotland.


\textsuperscript{50} RP Meagher, JD Heydon and MJ Leeming, \textit{Meagher, Gummow and Lehané’s Equity, Doctrines and Remedies}, 4th edn (Sydney, Butterworths Lexis Nexis, 2002) 61, 854. See also the Australian report.

\textsuperscript{51} See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) §4, ‘Restitution may be legal or equitable or both’.

or punitive or exemplary damages in common law\textsuperscript{53} systems have a function of disgorging profits along with other functions.\textsuperscript{54} The same is also true for the right of submission (Eintrittsrechte) that can be found in particular in the German law family or constructive trust in some common law countries.

5. The lack of disgorgement damages as a general remedy in the national legal systems

Despite the almost consistent efforts at a comprehensive (private law) disgorgement of unlawful profits and support of the statement “tort should not pay” it can nevertheless be observed that the legal reality tells a different story. Almost all national reports emphasised and regretted the inefficiency of their own national legal system with respect to this problem and came to the result that (at least in some areas) unlawful behaviour is worthwhile. Nonetheless, the analysis of the national reports shows that in most legal systems disgorgement damages are not considered as a general remedy for all kind of law infringements; thus often a general legal basis is lacking.

For example, in the US, traditionally it has been denied that disgorgement damages (aside from several specific laws in intellectual property law) should always be awarded – see for instance \textit{E. Allan Farnsworth}\.\textsuperscript{55} But more recently \textit{Melvin Eisenberg} has argued that such damages are already accepted in American law\textsuperscript{56} – see \textit{Snepp v US}.\textsuperscript{57} And in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognised that disgorgement may be appropriate in some cases.\textsuperscript{58} In other common law countries such as England and Wales, Australia, Ireland, Canada, and New Zealand, and mixed legal systems such as Canada and Scotland, disgorgement


\textsuperscript{54} See e.g. for the treble damages in US competition law Antitrust Modernization Commission, \textit{Report and Recommendations}, Washington D.C. 2007, p. 246 (treble damages also for “disgorgement of profits”).

\textsuperscript{55} E. Allan Farnsworth, Your loss or my gain?/The dilemma of the disgorgement principle in breach of contract, 94 \textit{Yale Law Journal} 1339-1393 (1985).


\textsuperscript{57} 444 \textit{US} 507 (1980, Alaska).

\textsuperscript{58} See Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) §39, ‘Profit From Opportunistic Breach’, §51, ‘Enrichment By Misconduct; Disgorgement; Accounting’ and §53, ‘Use Value; Proceeds; Consequential Gains’.
damages have traditionally been available mainly for equitable causes of action\(^{59}\) such as breach of fiduciary duty\(^{60}\) and breach of confidence where they are known as the “account of profits”.\(^{61}\)

However, this principle has increasingly wavered over the past decades. For example, the Irish High Court ruled in \textit{Hickey v Roches Stores}\(^ {62}\) that there could be disgorgement damages arising from both contractual and tortious wrongs, in cases where the defendant acted in bad faith (“male fide”) by calculating and intending to achieve a gain by his wrongdoing.\(^ {63}\) Finlay P accepted that, although the general aim of damages in contract and tort is compensation, contract damages need not always be strictly limited to compensation. He indicated that the circumstances giving rise to disgorgement could vary between different causes of action.\(^ {64}\) He set out a general rule that, “\textit{where a wrongdoer calculated and intended by his wrongdoing to achieve and has in that way acted mala fide then irrespective of whether the form of his wrongdoing constitutes a tort or a breach of contract the court should, in assessing damages, look not only at the loss suffered by the injured party by also to the profit or gain unjustly or wrongfully obtained by the wrongdoer.}” However, the outlines of these disgorgement damages in Irish law still remain unclear due to insufficient case law and are therefore still awaiting clarification.\(^ {65}\) Nonetheless, the decision could be the starting point for ensuring comprehensive disgorgement damages, i.e. in contract and in tort, in Ireland.

In addition, the 2001 landmark decision of the English House of Lords in \textit{Attorney-General v Blake}\(^ {66}\) calls into question several of the earlier principles of the common

\(^{59}\) However, there are some historic examples of equity affording the account of profits as a remedy for what could be characterised as common law wrongs – e.g. patent infringement, which could generate a claim for damages in common law courts, or a claim for an account of profits alongside an injunction in equity, even before the mid-19th century.

\(^{60}\) See \textit{Murad v Al-Saraj} [2005] EWCA Civ 959 (England and Wales); \textit{Warman v International Ltd v Dwyer} (1995) 182 CLR 541 (Australia).

\(^{61}\) \textit{Attorney-General v Guardian Newspapers (No. 2)} [1990] 1 AC 109 (HL).

\(^{62}\) \textit{Hickey v Roches Stores} (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196.

\(^{63}\) \textit{Hickey v Roches Stores} (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196; see also \textit{Maher v Collins} [1975] IR 232, 238. For more detail see the Irish report.

\(^{64}\) \textit{Hickey v Roches Stores} (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196, 208.

\(^{65}\) As indicated in the Irish report.

\(^{66}\) [2001] 1 AC 268.
law-jurisdictions. As noted above, until recently it was generally accepted for English law that damages for breach of contract were compensatory only and that any kind of gain-based damages could not be awarded for a "pure" breach of contract. However, in the decision referred to the House of Lords held that an account of profits could be awarded against a contract-breaker, albeit only in "exceptional circumstances". Lord Nicholls said that the remedy would not be awarded unless normal contractual remedies (compensatory damages and specific remedies) would be "inadequate". Although what might qualify as "exceptional circumstances" has not yet been precisely determined, it can nevertheless be maintained that the account of profits for a breach of contract is rather a seldom phenomenon. A further unresolved matter concerns how the decision in Attorney-General v Blake will impact on other common law jurisdictions and mixed legal systems. Moreover, one will be kept in suspense as to whether a similar remedy may be afforded for other wrongs for which there is no present authority for profit-stripping awards (mostly, a significant number of common law torts) when "exceptional circumstances" exist.

Israel seems to be the only legal system covered by this report, where disgorgement damages are almost fully available and also used in practice. The landmark Israeli Supreme Court decision in the case of Adras, which was the first to apply the disgorgement principle to a breach of a contract not involving fiduciary relations, has blurred the lines between contract law, property law and unjustified enrichment, and has profoundly affected Israeli private law ever since. The factual situation of Adras was as follows: In 1973, the defendant, a German company, contracted to sell to the plaintiff, an Israeli company, iron for a determined price. As a result of the October 1973 war between Israel and its neighbouring Arab countries delivery of some of the iron was delayed. The defendant notified the plaintiff that, because of the high

67 See the English report for further detail on this decision and on this question in general.
68 Esp Surrey County Council v Bredero Homes Ltd [1993] 1 WLR 1361 (CA).
69 As is described in the English report (with further references).
70 For further detail on this discussion see the national reports for Australia, Canada, Ireland and Scotland.
72 For more detail on this interesting question see the English report.
storage costs, it had to sell the remaining quantity to a third party. The plaintiff responded promptly with a demand that the iron be delivered to it. The defendant did not comply and, instead, sold the iron for a much higher price to a third party. In 1976 the plaintiff sued for recovery of the defendant's gains. By that time the market price of iron returned to its former level and therefore the plaintiffs could not recover losses under their contract. Instead, it claimed the profits made by the defendant under unjust enrichment.

In its first decision, the Israeli Supreme Court dismissed the claim on the basis of ULIS (Convention relating to a Uniform Law for the International Sale of Goods), the predecessor of the CISG. Since the plaintiff could not prove that it had suffered a loss due to the breach it could not succeed in its claim. Had the plaintiff avoided the contract immediately after the breach it could have sued for the difference between the contract price and the market price on the date of avoidance (article 84 ULIS). The claim in unjust enrichment was likewise dismissed, since the law of unjust enrichment was considered inapplicable between the parties to a contract. §6(a), Unjust Enrichment Law, 5739-1979, provides that “[t]he provisions of this Law shall apply where no other Law contains special provisions as to the matter in question and no agreement between the parties provides otherwise.”

The plaintiff was granted a further hearing, in which two questions had to be decided by an extended panel of five justices of the Israeli Supreme Court: Whether unjust enrichment law applies between the parties to a contract? If the answer to the first question is positive – what would be the consequences for the parties in this case? The majority decided that unjust enrichment law applied also between parties to a contract. Consequently, the seller was required to transfer its profits to the buyer.

What about civil law jurisdictions? In the majority of them there is no general rule on disgorgement damages. Also in Germany and Austria a general instrument “disgorgement damages” is lacking in their respective Civil Codes. However, recently

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75 See the Israeli report.
76 See e.g. the reports for Austria, Belgium, Brazil, Chile, Greece, Italy, Japan, Norway, Spain, Slovenia, and Turkey.
Gerhard Wagner has argued in his report to the 66th Deutscher Juristentag (German Jurists’ Forum) for an inclusion of disgorgement damages in the German law of damages (for intentional infringements). Likewise, the Catala reform proposal mentioned in the French report, comes with a similar proposal. And according to § 1316(5) of the draft Austrian damages legislation the “advantages are to be considered, which the party causing the harm gained through the behaviour giving rise to liability” when calculating the ideal amount of damages. However, this may not be a genuine disgorgement of profits in the sense used for this general report.

Some jurisdictions do prima facie have a promising general legal basis for disgorgement damages as, for instance, The Netherlands. Article 6:104 of the Dutch Civil Code of 1992 seems to provide a legislative basis for such damages: “If someone, who is liable towards another person on the basis of tort or a default of complying with an obligation, has gained a profit because of this tort or non-performance, then the court may, upon the request of the injured person, estimate that damage in line with the amount of this profit or a part of it.” However, in its decision in Waeyen-Scheers/Naus, the Dutch Supreme Court concluded that this provision is only a means of assessing damages and not as an independent and specific remedy for disgorgement damages. J.D.A. Linssen considers unjustified enrichment to be a better ground for disgorgement in the Netherlands.

Chinese law is of great interest with respect to a general rule on disgorgement damages as it is undergoing a number of changes due to its very dynamic development. Even though there is no comprehensive, general rule for all types of disgorgement damages, the Chinese law – alongside numerous specific rules on disgorgement damages – does contain a general rule on this matter for the area of tort law (Article 20 Tort Liability Law). It provides that “where any harm caused by a tort to a personal right or interest of another person gives rise to any loss to the property of the victim of the tort, the tortfeasor shall make compensation as per the loss sustained by the victim as the result of the tort. If the loss sustained by the victim is

78 Nederlandse Jurisprudentie 1995, nr. 421.
80 See the Chinese report for the numerous legislative references concerning disgorgement damages in Chinese law.
difficult to be ascertained and the tortfeasor obtains any benefit from the tort, the tortfeasor shall make compensation as per the benefit obtained. If the benefit obtained by the tortfeasor from the tort is difficult to be ascertained, the victim and the tortfeasor disagree to the amount of compensation after consultation, and an action is brought to a people’s court, the people’s court shall determine the amount of compensation based on the actual situation”. This Article serves as the basis for the infringement disgorgement damage system in Chinese tort law even though in this respect disgorgement damages arise only subsidiarily, i.e. only when a specific calculation of damages does not come into consideration. Furthermore, the actual effectiveness of disgorgement damages in Chinese law is clearly limited due to the payment of the illegal gains to the national treasury and the damages are thus seldom used to relieve the injured party. This approach has the further consequence of blurring the boundaries between public and private law and leads to the creation of legal hybrids. The payment of profits within the scope of disgorgement damages also appears problematic in Chinese law as these shall often only be utilised when the actual harm is difficult to calculate, i.e. they also have a compensatory function.

However, it can be seen that in comparison to most of the national legal systems those more recent, comparative law-based Principles in Europe are more open to the creation of general rules on disgorgement damages. For instance, in non-contractual aspects the injured party can, according to article VI.-6:101(4) Draft Common Frame of Reference (DCFR) and article 6:101(4) Principles of European Private Law: Non-contractual Liability Arising Out of Damage Caused to Another (PEL Liab. Dam.), recover any advantage obtained from the tortfeasor in connection with causing the damage, though only where this is reasonable. The disgorgement of profits should be rendered possible here because “the profits made from a civil wrong should not be retained by the wrongdoer” and “[p]otential wrongdoers are warned that there is not

81 For more detail see the Chinese report.
82 As stated in the Chinese report.
83 Article VI-6:101 (Aim and forms of reparation) DCFR and PEL Liab. Dam.) set forth:
(1) Reparation is to reinstate the person suffering the legally relevant damage in the position that person would have been in had the legally relevant damage not occurred.
(2-3) (...)
(4) As an alternative to reinstatement under paragraph (1), but only where this is reasonable, reparation may take the form of recovery from the person accountable for the causation of the legally relevant damage of any advantage obtained by the latter in connection with causing the damage.
profit to be made from a civil wrong." The comments to article 10:101 Principles of European Tort Law (PETL) also describe the possibility of prohibiting unjust enrichment (at least in the area of intellectual property) by including the payment of profits within the context of calculating the extent of compensation. However, a search in the European principles for a general disgorgement of profits for all forms of breaches of contract and statute law is of no avail.

6. Disgorgement damages in particular branches of law

The aforementioned statements have shown on the whole a general, overarching remedy of “disgorgement damages” applicable to all types of breaches of contract and of legislation is lacking, at least in the legal systems examined in this report. In turn, the consequence is that no general theory of disgorgement damages has emerged and that the topic is often neglected.

In spite of the general reluctance to acknowledge “disgorgement damages” as a general remedy there are, nonetheless, several branches of law in which they have been intensively discussed and often acknowledged. These particular areas of law will be discussed in more detail below. On the one hand, there is the area of breaches of fiduciary duties and/or confidence, on the other hand there is the award of disgorgement damages in cases of intellectual property rights infringements. Another very famous and important branch for the idea of disgorgement are the (intentional) infringements of personality rights by mass media for gain. This development will be described and examined in more detail below, but first we shall draw attention to the world of competition law – even though private enforcement is here (with the exception of the US) a relatively new phenomenon. Even in this area there is the discussion in some legal systems as to whether the plaintiff may disgorge unlawful profits (based on an infringement of competition law) as damages. The same is also applicable to the breach of unfair commercial practices law, as such this branch of law is also to be included.

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a. Breach of fiduciary duties and confidence

The question of the possibility of disgorgement of damages has received considerable attention in the areas of breach of fiduciary duties and of breach of confidence. The majority of the national legal systems share the view that such breaches may not be allowed to be worthwhile, yet conceptual differences exist between the legal instruments chosen to combat such circumstances. The situation concerning disgorgement of profits resulting from breaches of fiduciary duties and breaches of confidence is clearest in the common law jurisdictions (e.g., Australia, England & Wales, Ireland) and in several mixed jurisdictions (e.g. Canada). Here the equitable remedy of the account of profits, which seeks to strip profit from a wrongdoer, is clearly available for equitable causes for all kind of breaches of fiduciary duties or breaches of confidence. However, it remains unclear whether the victim of these forms of breaches has the free election between damages and the account of profits. Sometimes it has been that the victim has in this cases a free election between damages and an account of profits, subject only to the court's discretion to refuse the remedy on general equitable grounds. However, it seems that recently courts are taking a more discriminating approach to the availability of this remedy and refusing it where it is not regarded as the “appropriate” response to the breach. Alongside the account of profits, one can also note “constructive trusts” as a functional equivalent that allows for disgorgement of profits in the common law. Constructive trusts are an equitable proprietary remedy awarded for equitable causes of action such as breach of fiduciary duties or breach of confidence. The plaintiff acquires an equitable proprietary interest in the profits and can thus demand payment of the profit. In a constructive trust the court holds the defendant to be a trustee of the profit and to be holding it for the benefit of the plaintiff.

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86 When it comes to the acceptance of bribes from third parties as a breach of confidence see more detailed the general report of Bonell/Meyer, The effects of corruption in international commercial contracts. This particular question was generally omitted from this general report due to the aforementioned study.

87 See the reports from Australia, England and Wales, Ireland.

88 See, for instance, the Canadian report.

89 With regard to this question see, in particular, the report for England and Wales.

90 An argument advanced and rejected in both Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch) and Walsh v Shanahan [2013] EWCA Civ 411.

91 Vercoe v Rutland Fund Management Ltd [2010] EWHC 424 (Ch), esp [334]-[345], endorsed by the Court of Appeal in Walsh v Shanahan [2013] EWCA Civ 411, esp [55]-[73].

92 For further detail see the national reports from Australia, Canada, England and Wales, Ireland.

93 All trusts are situations in which a person holds property, but owes an obligation to another person.
In several international sets of rules, which specifically deal with this area of law, there are provisions that allow for disgorgement damages in these situations. For instance, in the event of a “breach of confidentiality” article II.-3:302(4) DCFR provides that the injured party can require the other party to pay over “any benefit obtained by the breach”. A similar wording can also be seen in article 2:302 PECL, which serves a basis for the aforementioned DCFR provision. The commentary to the PECL again clarifies that the payment of profit can be demanded by the injured party “even if that party has not suffered any loss”. In several legal systems it can be seen that disgorgement damages are in general not obtained for all breaches of fiduciary duties or breaches of confidence, but specific legislation does provide that such damages are foreseen for at least some of such violations. For example, this approach can be seen in the Chinese Company Law and Securities Law, which each contain a number of provisions that provide for disgorgement damages for particular breaches of fiduciary duties in the field of business law, e.g. article 61 Chinese Company Law governs the disgorgement of profits in violation of prohibition of business interests.

94 Article II.-3:302 DCFR:
(1) If confidential information is given by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it for that party’s own purposes whether or not a contract is subsequently concluded.
(2) In this Article, “confidential information” means information which, either from its nature or the circumstances in which it was obtained, the party receiving the information knows or could reasonably be expected to know is confidential to the other party.
(3) A party who reasonably anticipates a breach of the duty may obtain a court order prohibiting it.
(4) A party who is in breach of the duty is liable for any loss caused to the other party by the breach and may be ordered to pay over to the other party any benefit obtained by the breach.

95 Article 2:302 PECL (Breach of Confidentiality):
If confidential information is given by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it for its own purposes whether or not a contract is subsequently concluded. The remedy for breach of this duty may include compensation for loss suffered and restitution of the benefit received by the other party. For further detail on article 2:302 PECL see Ole Böger, System der vorteilsorientierten Haftung im Vertrag: Gewinnhaftung und verwandte Haftungsformen anhand von Treuhänder und Trustee, Tübingen 2009, 919 et seq.
97 For further detail see the Chinese national report.
98 Article 61 Chinese Company Law:
A director or the general manager may not engage in the same business as the company in which he serves as a director or the general manager either for his own account or for any other person’s
In contrast, the issue of disgorgement damages for breaches of fiduciary duties or breaches of confidence is either unknown, controversial or not even discussed in other national legal systems. The gap that emerges from such non-recognition of disgorgement damages can in general not be filled or it is at least very difficult to fill this gap with unjust enrichment law as the criteria for its application are generally not fulfilled. There is rather the reference to the possible application of benevolent intervention in another’s affairs and, above all, to the right to subrogation (so-called “Eintrittsrecht”), which plays a significant role in several legal systems (albeit often limited to the breach of particular fiduciary duties in business law).

The German Commercial Code, for instance, contains several rules giving the principle a right to subrogation in order to disgorge the agent’s profits due to breach of fiduciary duties (in relation to prohibition of competition, see section 61(1), 113(1) German Commercial Code). In these instances this right of submission represents a functional equivalent to disgorgement damages and is likewise supported by the notion that the wrongdoer should not gain financially from a breach of fiduciary duties.

b. Infringements of intellectual property law

With respect to property, intellectual property contains a number of special features that result in an increased need for protection. An intellectual property right is ubiquitous and can therefore be violated at any time and for an infinite number of times what makes an effective prior protection impossible. Moreover, in most of the legal systems the criminal law protection of intellectual property rights is traditionally weak, with breaches of such property rights often not being discovered and the infringing party remaining unidentified. There is therefore the dangerous combination of...
a high potential for profits that greatly exceed the actual loss that is suffered. In light of this situation it is not surprising that the improvement of the protection of intellectual property as well as the notion of disgorgement damages has been on the international political agenda for some time.

The starting point is the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), yet this only sets minimum standards. Article 41(1) TRIPS\textsuperscript{103} notes the objective of effective deterrence, whereas the legal effects of this general obligation are substantiated by article 45 TRIPS, namely that adequate damages are to paid to the injured party on account of the breach of its intellectual property rights.\textsuperscript{104} In contrast, article 45(2) TRIPS allows the member states to decide, inter alia, on the introduction of recovery of profits. This option is even possible when the infringer did not knowingly, or with reasonable grounds to know, engage in infringuing activity.

Similarly, the – albeit rejected – Anti-Counterfeiting Trade Agreement (ACTA) also stated the objective of deterrence (see article 6(1) ACTA),\textsuperscript{105} with substantiation in article 9 ACTA. According to article 9(1) ACTA, the starting point is (as with TRIPS) adequate compensation for the culpable breach. Furthermore, article 9 ACTA contains more detailed requirements regarding the damages and, in particular, on the calculation on their extent.\textsuperscript{106} For the payment of profits (at least in cases of

\begin{itemize}
\item Article 41(1) TRIPS: Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.
\item Article 45 TRIPS:
\begin{enumerate}
\item The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person’s intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.
\item The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney’s fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.
\end{enumerate}
\item Article 6(1) ACTA: Each Party shall ensure that enforcement procedures are available under its law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.
\item Article 9(1) ACTA: Each Party shall provide that, in civil judicial proceedings concerning the enforcement of intellectual property rights, its judicial authorities have the authority to order the infringer who, knowingly or with reasonable grounds to know, engaged in infringing activity to pay the right holder damages adequate to compensate for the injury the right holder has suffered as a result of the infringement. In determining the amount of damages for infringement of intellectual property rights,
copyright, or related rights, or trademark counterfeiting) article 9(2) ACTA provides that in civil proceedings the courts have the authority to order the infringer to pay the right holder the profits that are attributable to the infringement.

The focal point of the further considerations regarding disgorgement damages for breaches of intellectual property rights shall, for the purposes of this general report, be article 13(1) of the so-called Enforcement Directive 2004/48/EC, which (with regard to intellectual property) has had a lasting influence on the entire law of damages of the EU Member States and the discussion of disgorgements of profits. Article 13(1) provides that:

“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.”

The central question concerning this rule is, as in many national legal systems that provide for the inclusion of unfair profits (here: “When the judicial authorities set the damages they shall take into account [...] any unfair profits made by the infringer”), how this is to be understood. Are the unfair profits merely one of many factors that are to be considered in order to ultimately ensure compensation of the loss, which is
sometimes complicated due to problems with calculation? Can, for instance, the infringing party provide evidence that the actual damage is lower (or has possibly even not occurred) than his unlawful profits? Or does the reference to the unfair profits aim not just at compensation, but also and particularly at prevention i.e. can the profits to be paid out exceed (even greatly) the actual losses in order to prevent worthwhile infringements? In short, does it concern a purely compensatory method of calculation of damages in intellectual property law, or even a special remedy akin to disgorgement damages, or do these at least come very close?

For the Enforcement Directive (and thus for the corresponding national law) one will therefore have to assume that, in spite of the unclear wording of article 13(1)(a), the norm favours the creation of self-standing disgorgement damages (on equal footing alongside the alternative of correct calculation of loss or the payment of a licence fee) with focus on prevention. For EU law as a whole, as well as for the Directive in particular, there is the central notion of guiding behaviour through remedies with an actual deterring effect. It is a core aspect of European private law and business law. Article 3(2) of the Enforcement Directive clearly states that the remedies have to be effective, proportionate and, above all, dissuasive. However, this is only the case when the instrument of disgorgement damages renders it impossible for the infringing parties to retain (at least in part) their unlawful profits. Such an approach can thus contribute to the effective prevention of worthwhile breaches of intellectual property rights and can therefore encourage particular types of behaviour. A different interpretation would not withstand scrutiny by the Court of Justice of the European Union (CJEU).

The majority of the EU Member States, which were all obligated to transpose the Enforcement Directive into national law, have more or less transposed verbatim article 13(1) Enforcement Directive. Unfortunately, their national laws now feature the uncertainty regarding the interpretation of this provision vis-à-vis the question disgorgement damages, too. Whilst a far-reaching independence of disgorgement damages in intellectual property law appears to have pushed through (at the latest

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107 For further detail on this point see Janssen, Präventive Gewinnabschöpfung, unpublished, 334 et seq.
108 For more detail see the reports from Germany, Belgium, England and Wales, Greece, Scotland, Italy, Ireland, France and Austria. Other European countries, which do not belong to the EU, also feature similar laws (see for example the Turkish and Norwegian reports).
following the transposition of the Directive) in several legal systems (for instance in Germany), this is still controversial in other legal systems (see, for example, the situation in Belgium). However, in light of the described deterrent aspect of the Enforcement Directive and the ultimate decision competency by the CJEU in this matter it does not appear unlikely that article 13(1)(a) Enforcement Directive will in the future be understood consistently as self-standing disgorgement damages which focus at prevention and which must be separated from the existence and extent of the particular harm.

In addition, there is also the possibility of payment of profits as well as the compensation of the actual loss under US-American Trade Mark and Copyright law. For example, § 504 Copyright Act 1976 provides that:

“The copyright owner is entitled to recover [...] any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.[...]

By granting the entitlement to recover profits the legislator has not only focused on compensation but also on guiding behaviour. This is clearly shown by a House of Representatives’ report on the Copyright Act, which notes amongst other things that “[... ] profits are awarded to prevent the infringer from unfairly benefitting from a wrongful act.” The preventative purpose therefore stands on equal footing with the notion of compensation.

In other national legal systems there are often special legislative provisions concerning damages in intellectual property law (see e.g. Brazil, Canada, China), which feature a link to the infringer’s profits, even though it cannot always be clearly identified from national reports (and often from the legislative provisions, too) whether the object is

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109 For further detail see Janssen, Präventive Gewinnabschöpfung, unpublished, 353 et seq. With respect to Germany see also section 53(1)2 of the model intellectual property act.

110 See the Belgian report.

111 Report of the House of Representatives on the 1976 Act, HR Report No. 94-1476, 161. See also Klaus Ulrich Schmolke, Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, GRUR Int. 2007, p. 10, who assumes that the payment of the wrongdoer’s profits under US-American copyright law and trademark law also serves the objective of prevention.

112 See, for example, the reports from Brazil, Canada and China. In contrast, there is no reference to the wrongdoer’s profits in South African intellectual property law (with the exception of copyright law). For further detail see the South African report.
merely ultimately the compensatory view of the profits or instead genuinely independent disgorgement damages that are granted entirely separately from the harm that has occurred. Furthermore, in several countries there are further restrictive requirements that are not provided in EU law (or to be more precise, in the Enforcement Directive). In Chinese intellectual property law the reference to unfair profits can only be made when the actual loss is difficult to calculate.\textsuperscript{113} In Australian intellectual property law the decision \textit{Colbeam Palmer Ltd v Stock Affiliated Ltd}\textsuperscript{114} has resulted in the requirement that the plaintiff can only claim “\textit{accounts of profit for intellectual property infringements}” if “\textit{the defendant knowingly infringed the plaintiff’s intellectual property right}.” In this jurisdiction there is thus “\textit{the innocent infringement defence}”.\textsuperscript{115} In addition, in Japanese and Israeli intellectual property law the references to unfair profits are made within the scope of the assessment of damage. However, one appears to have the clear view that these are not genuine disgorgement damages, but in each case just viewing the profits from a compensatory perspective.\textsuperscript{116} The Japanese report explicitly notes that the infringer may present counter-evidence that the actual harm is lower than his profits.\textsuperscript{117}

In particular it can be observed in intellectual property law that several national legal systems also, in part, use damage multipliers. In addition to other functions these at least also serve the disgorgement of profits and therefore exhibit an overlap in function with the notion of disgorgement damages at the centre of this report.\textsuperscript{118} In other countries, such as Austria, Croatia, Greece and Norway, breaches of intellectual property rights generate double damages;\textsuperscript{119} whereas even triple damages are given in countries such as China or Slovenia.\textsuperscript{120} In several legal systems the use of damage multipliers is limited to particular fields of the intellectual property right, such as copyright law (see Croatia or Greece).\textsuperscript{121} It can be noted that the use of damage multipliers often places higher requirements on the level of fault than general tort and intellectual property law. In Austria, Croatia or Slovenia for instance damage multipliers

\textsuperscript{113} See the Chinese report.
\textsuperscript{114} \textit{Colbeam Palmer Ltd v Stock Affiliated Ltd} (1970) 122 CLR 25.
\textsuperscript{115} For further detail see this Australian report.
\textsuperscript{116} See the Israeli and Japanese reports.
\textsuperscript{117} See the Japanese report.
\textsuperscript{118} Also noted in the Croatian report.
\textsuperscript{119} For further detail see the reports from Austria, Croatia, Greece and Norway.
\textsuperscript{120} See the reports from China and Slovenia.
\textsuperscript{121} See the reports from Croatia and Greece.
require intentional or reckless infringements of intellectual property rights. With regard to the legal systems examined in this report it can be observed that unjust enrichment law and benevolent intervention in another’s affairs only play a subordinate role for the disgorgement of profits resulting from violations of intellectual property rights. On the whole, they therefore do not represent an adequate functional equivalent to disgorgement damages.

c. Infringements of personality rights

When compared to intellectual property law it can be seen that personality rights also feature a similar need for protection: an infinite number of breaches are often possible, effective prior protection does not exist and the protection from criminal law is often weak. There are indeed claims for injunctions, retractions and counterstatements which arise from breaches of personality rights, yet these are often not suited to taking into account the high level of protection that is needed and are often useless with respect to infringements that have already been committed. Furthermore, considerable profits can be made by infringing another’s personality rights. These profits do not necessarily have to correspond to the losses suffered, but can be much greater, especially as the harm cannot be estimated due to its intangible nature. The infringing party’s profits can therefore greatly exceed the harm. This familiar combination thus, in principle, makes every form of personality right infringement appear as a worthwhile alternative. This is especially true with regard to infringements of personality rights by the press (in particular with respect to celebrities) which aim at generating profits through sales. The societal and technical changes over the past decades have meant that the significance of this issue has greatly increased.

In light of this situation it is hardly surprising that the issue of disgorgement damages is of considerable importance in such instances. One has to refer to the leading case “Caroline of Monaco I”, decided in 1994 by the German Supreme Court and which represented a turning point, at least in Germany, in the area of the protection of

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122 See the reports from Austria, Croatia and Slovenia.
123 However, this does not apply to all legal systems. For instance, in Turkish intellectual property law the benevolent intervention in another’s affairs plays a particular role with respect to the question of disgorgement of profits even though special provisions in damages law create a link to the wrongdoer’s profits. For further detail see the Turkish report.
personality rights.\textsuperscript{124} It was apparent prior to this decision that the insufficient protection of personality rights had already been improved by the decisions “Paul Dahlke”,\textsuperscript{125} “Herrenreiter”,\textsuperscript{126} “Ginseng root”\textsuperscript{127} and Soraya,\textsuperscript{128} yet the amount of compensation continued to be very low. The notion of disgorging unlawful profits had not yet emerged; the press could therefore take the risk of breaching personality rights as the amount of compensation to be paid would be much lower than the potential profits that would be gained. However, the attractiveness of this approach was changed by the aforementioned decision in Caroline of Monaco I.

The decision was based on the following facts: The magazine “Die Bunte” published a fictitious interview with Princess Caroline of Monaco, who had expressly rejected previous requests for interviews. The interview was entitled “Caroline: The psycho-interview”. A later edition of the magazine published photographs of Princess Caroline and her partner at the time – the pictures were supposedly from the new family album, whereas the pictures had been in fact obtained by the paparazzi and were covert photographs taken from a long distance through telephoto lens. A sister publication “Glücksrevue” reported on the couple’s (alleged) forthcoming wedding and published, inter alia, a series of photographs of Princess Caroline wearing a veil and standing alongside her partner. The plaintiff primarily sought damages for the non-pecuniary loss caused by the breach of her personality rights.

The decision contrasted with previous decisions by the German Supreme Court because the judges emphasised the preventative function of the damages in a manner that was previously unknown:\textsuperscript{129} the notion of compensation stepped back to make way for the preventative approach.\textsuperscript{130} This approach is apparent from the core statements on the possibility of gaining an advantage – the German Supreme Court did not just bear in mind the preventative effect of the disposition, but also wanted to

\textsuperscript{124} German Supreme Court 15 November 1994, \textit{NJW} 1995, 861.

\textsuperscript{125} German Supreme Court 8 May 1956, \textit{BGHZ} 20, 345.

\textsuperscript{126} German Supreme Court 14 February 1958, \textit{BGHZ} 26, 349.

\textsuperscript{127} German Supreme Court 19 September 1961, \textit{BGHZ} 35, 363.

\textsuperscript{128} German Supreme Court 14 February 1973, \textit{BVerfGE} 34, 269.

\textsuperscript{129} German Supreme Court, decision from 15.11.1994, in: \textit{NJW} 1995, 861 (Caroline von Monaco I (Fictious Exklusive Interview)), p. 865.

\textsuperscript{130} For instance, \textit{Hein Kötz/Gerhard Wagner}, Deliktsrecht, 12th edition, Munich: Beck 2013, Nr. 424: “At the same time the Supreme Court openly stated (which one could only assume before), that the claim for monetary damages will not be granted for compensatory purposes, but above all has the function of deterring the wrongdoer from repeating his actions.”
make it expressly apparent that this point was considered in the award of damages. Accordingly, the damages for breaches of personality rights must constitute a “real counterweight” to the profits made by violating these rights – especially when it comes to the amount of damages to be paid. The profits obtained from the breach are thus a factor to be considered in deciding the extent of the damages for the non-pecuniary loss. Moreover, the extent must thus have a genuine restrictive effect on the marketing of personal matters. As a consequence of this decision it can be seen that there has been a clear rise in the amount of damages for non-pecuniary loss (up to and including 400,000 Euro/claim). The damages are therefore no longer merely symbolic.

Many of the national reports note that the breach of personality rights by the mass media requires that the profits be considered when calculating the amount of damages for non-pecuniary losses. By doing so it creates an effective means to overcome worthwhile infringements of personality rights. However, express statutory bases for disgorgement damages in this area are rare, although general rules are sometimes applicable e.g. article 20 of the Chinese Tort Liability Act. Apart from such rules the calculation of the damage through considering the profits is, as in Germany, mostly judge-made law even though it is sometimes supplemented by specific legislation. For instance, in the year 2000 the Portuguese Supreme Court decided that “the profit from sales achieved at the expenses of including material which offends the dignity of the persons concerned, as well as the economic capacity of the respondents” should affect the calculation of the indemnity claimed. A similar approach can also be seen in Japan. In Belgium, as in Germany, it is apparent that there is a judicial development towards high levels of compensation for non-pecuniary loss caused by breaches of personality rights by the press. In most decisions this is based on the notion that the profits are to be disgorged in full so that there is no incentive for further breaches of personality rights.

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131 German Supreme Court, decision from 15.11.1994, in: NJW 1995, 861 (Caroline von Monaco I (Fictitious Exklusive Interview)), p. 865. In Germany this decision is considered as the starting point for disgorgement damages for breaches of personality rights by the press even though the German Supreme Court shys away from labelling its approach as the disgorgement of profits.


133 See the Portuguese report for more detail on this decision and on this topic in general.

134 See the Japanese report.

135 See the Belgian report, which however notes that the consideration of the profits when calculating the non-pecuniary loss is the exception and not the rule.
When calculating the extent of the non-pecuniary harm, also judges in Greece do not only look at the victim, but also at the wrongdoer. Factors such as the degree of fault of the wrongdoer, his motives, the nature of his activity as profit or non-profit as well as his financial situation in general, are often taken into account. The profit that has been gained by the infringer due to the breach of personality rights could also play a role even though the courts have not yet (expressly) referred to the wrongdoer’s gain in this context. Here it is important for the Greek law that there are special laws for monetary satisfaction for non-pecuniary losses, which sometimes set very high minimum amounts of damages for such losses of certain types of violations, such as e.g. in cases of libel by the mass media. They may also at least have the function of disgorging profits that the press has gained by unfair means, even though (from a methodological perspective) the approach is unsatisfactory. A more desirable methodological approach appears to exist in Spain through the special rule in article 9.3 of the Spanish Freedom of Speech Act. This provision allows the plaintiff to receive the profits earned by the publisher of false or illegitimately obtained information. The (non-pecuniary) loss that has arisen due to the breach is calculated using the unjustly gained profits.

The possibility that unjust enrichment law serves as a functional equivalent to disgorgement damages appears as non-existent, or is merely slight, in the areas of personality law. Often, the requirements for the application of unjust enrichment law are not fulfilled with respect to profit-orientated breaches of personality rights by the press: for instance, in many legal systems the plaintiff must prove impoverishment, which will hardly be successful in such circumstances.

A further possible functional equivalent to disgorgement damages in the area of personality rights, namely benevolent intervention in another’s affairs, also receives

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137 See Art 4 para 10 of the only Art of Law 2328/1995 on infringements by Radio and TV. See also para 2 of the only Art of Law 1178/1981, as amended by para 1 of the only Art of Law 2243/1994 referring to minimum compensation of the non-pecuniary loss of the victim in case of libel by the press. See also the Greek report.
138 As also indicated in the Greek report.
139 Ley Orgánica 1/1982, de 5 de mayo, de protección civil del honor, la intimidad personal y familiar y la propia imagen.
140 For more detail see the Spanish report.
141 See, for example, the comments in the South African report.
little support in the national legal systems examined in this study.\textsuperscript{142} In many cases the rules are simply not applicable. For instance, it would be difficult to recognise the management of another’s affairs in the facts of the Caroline of Monaco I decision. However, benevolent intervention in another’s affairs in the area of personality law has gained some meaning in Turkey and, above all, in Switzerland.\textsuperscript{143} In 1985 the Swiss legislator introduced article 28a into the Swiss Civil Code in order to afford better protection to personality rights. Article 28a(3) provides that, with respect to breaches of personality rights, claims for the handing over of profits can also be made in accordance with the provisions governing agency without authority. The breach of a personality right suffices for the application of this provision. In addition, the further requirements for the application of the rules on agency without authority to the payment of profits need not be fulfilled as the principle is merely a reference to the legal consequences.\textsuperscript{144} Accordingly, it is therefore possible to understand why these Swiss rules are applied without considerable problems to cases involving breaches of personality rights. In the meantime, the payment of profits according to article 28a(3) of the Swiss Civil Code has since been applied without great difficulties to instances of “enforced commercialisation of personality rights” (“Zwangskommerzialisierung der Persönlichkeit”).\textsuperscript{145}

Clear overlaps in the function of disgorgement damages in breaches of personality rights by the press can be especially seen in exemplary damages in the common law. The leading case here is \textit{Rookes v Barnard}\textsuperscript{146} in which Lord Devlin remarked, with respect to the award of exemplary damages, that “[w]here a defendant with a cynical disregard for a [claimant’s] rights has calculated that the money to be made out of his wrongdoing will probably exceed the damages at risk, it is necessary for the law to show that it cannot be broken with impunity” – “to teach a wrongdoer that tort does not pay”.\textsuperscript{147} Despite the overlap in the functions of disgorgement damages and exemplary damages it nonetheless has to be noted that they are not identical and

\textsuperscript{142} See in particular the German and Greek reports.
\textsuperscript{143} See the Turkish report for more detail about the legal situation in Turkey.
\textsuperscript{145} See e.g. \textit{Swiss Supreme Court}, decision from 7.12.2006, in: JZ 2007, 1159 (1159 et seq.) (Disgorgement of profits for breach of personality rights).
\textsuperscript{147} [1964] AC 1129, 1226-1227 (per Lord Devlin).
their respective functions do not overlap entirely. For example, exemplary damages often pursue a punitive function and intend to punish the defendant for his outrageous, profit-motivated wrongdoing. In contrast, disgorgement damages do not have such an aim and thus do not extend beyond the profit that has been generated and are not applicable in instances in which no profit has been made.  

**d. Unfair commercial practices and competition law**

It can be observed from the majority of the national reports that disgorgement damages do not belong at present to the standard repertoire of either unfair commercial practices law or competition law. Consequently, they cannot be considered a part of the “general domain” of each of these branches of law. The national reporters mainly noted that there was no evidence in their legal system of disgorgement damages in either unfair commercial practices law or in competition law. However, this does not necessarily exclude the possibility of disgorgement damages in these areas of law.

For instance, section 20 of the Chinese Anti-Unfair Competition Law provides for the general possibility to claim disgorgement damages for breaches of the rules on fair competition. However, it has to be noted that the disgorged profits are regularly handed over to the national treasury and seldom used to relieve the injured party, which clearly reduces the effectiveness of disgorgement damages. There is still a highly contentious discussion in Austrian legal literature and jurisprudence as to whether disgorgement damages can be applied to the area of unfair competition as a whole. Nevertheless, the Austrian Supreme Court in two judgments indicated that

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148 See also the report from England and Wales.
149 As is especially clear from the Australian report.
150 Section 20 Chinese Anti-Unfair Competition Law provides that “where an operator, in contravention of the provisions of this Law, causes damage to another operator, i.e., the injured party, the infringer shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing the injured operator’s lawful rights and interests”.
151 For further detail and criticism of this approach see the Chinese report.
152 For further detail see the Austrian report.
153 Austrian Supreme Court 13.07.1953, 3 Ob 417/53, although the judgment is about an infringement governed by section 9 Act Against Unfair Competition the court could not argue with paragraph 4 (and the express claim to disgorge the violator’s profits therein contained) because the said paragraph was not enacted until 1999 (see Trade Mark Amendment Act BGBl I 111/1999; compare also the research
disgorgement damages were principally available for any kind of breaches of unfair commercial practices law. There is also the possibility in Japan to calculate the actual losses on the basis of the profits that have been gained from a breach of the Japanese Unfair Competition Act; though here it is unclear as to whether these are genuine disgorgement damages or simply a method of loss calculation.\(^{154}\) A different approach can be seen in Germany, where there is the predominant rejection of the general application of disgorgement damages to all breaches of unfair competition law. However, if the breaches of unfair competition law represent or at least come close to the breach of an absolute legal interest (e.g. with respect to slavish imitations or exploitation of another’s trade secrets), there is the possibility of an award of disgorgement damages modelled after the approach in intellectual property law.\(^{155}\) Furthermore, section 10(1) of the German Unfair Competition Act\(^ {156}\) provides a sui generis legal instrument for disgorgement of profits, whose form does not appear to exist in other legal systems.\(^ {157}\) It allows certain organisations and institutions to demand the disgorgement of illegal profits achieved by intentional breaches of competition law at the expense of a multitude of consumers. The legislator intends to combat trifling damages with this provision.\(^ {158}\) However, this provision has been of very little relevance especially because the disgorged profit has to be surrendered to the Federal budget, which means that the organisations and institutions entitled to

\(^{154}\) For more detail see the Japanese report.

\(^{155}\) For more detail and references to further court decisions see the German report. In Austria one generally appears (at least in these areas) not to doubt the application of disgorgement damages.

\(^{156}\) Section 10 Unfair Competition Act:

(1) Whoever, while acting with intent, uses an illegal commercial practice pursuant to Section 3 or Section 7, thereby making a profit to the detriment of numerous purchasers, can be sued for surrender of such profit to the Federal budget by those entitled, pursuant to Section 8 subsection (3), numbers 2 to 4, to assert a cessation and desistance claim.

(2) Such payments as were made by the debtor, because of the contravention, to third parties or the state shall be deducted from the profit. So far as the debtor made such payments only at a time subsequent to satisfaction of the claim pursuant to subsection (1), the competent agency of the Federation shall reimburse the debtor the profit thus paid in the sum of the recorded payments.

(3) Where there is more than one creditor claiming the profit, sections 428 to 430 of the Civil Code shall apply \textit{mutatis mutandis}.

(4) Creditors shall notify the competent agency of the Federal of the assertion of claims pursuant to subsection (1). Creditors can request reimbursement from the competent agency of the Federation for such expenses as were necessary for assertion of the claim, so far as they cannot obtain satisfaction from the debtor. The reimbursement claim shall be limited to the sum of the profit paid into the Federal budget.

(5) The competent agency within the meaning of subsections (2) and (4) shall be the Federal Office of Justice.

\(^{157}\) German law provides a corresponding provision for antitrust law, see section 34a Act against Restraints of Competition.

\(^{158}\) BT-Drucks. 15/1487, p. 23 and BT-Drucks. 15/3640, p. 36.
assert these claims have no incentive whatsoever to start a procedure. Consequently, section 10(1) Unfair Competition Act does not represent a functional equivalent to disgorgement damages (independent of the question whether one even wants to award these for breaches of duties under competition law) that is effective in practice and can therefore not serve, at least in its present version, as a model for other legal systems.

In comparison to unfair commercial practices law there are even fewer indications in competition law (understood as cartel law) for the possibility of an award of disgorgement damages. A possible starting point for general disgorgement damages under current law can at present only be seen in German law, more precisely in section 33(3) of the Act against Restraints of Competition, which was amended in 2005. According to this provision it is permitted to consider, inter alia, the proportion of the profit that the undertaking has derived from the infringement when assessing the size of the damage. Although this is modelled after rules in intellectual property law it still remains unclear whether this norm provides for disgorgement damages, i.e. the award of damages that extend beyond the actual losses, or whether it is merely a reduction of the evidentiary burden due to the peculiarities of cartel law. The norm has been of no practical relevance thus far.

At the European level, the European Commission’s Green Paper on damages actions for breach of the EC antitrust rules provoked a discussion whether a “definition of damages to be awarded with reference to the illegal gain made by the infringer (recovery of illegal gain)” would be desirable in cartel law. However, as far as can be ascertained it appears that this approach was not pursued by the EU.

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159 For more detail see the German report or Stefan Sieme, Der Gewinnabschöpfungsanspruch nach § 10 UWG und die Vorteilsabschöpfung gem. § 34, 34a GWB, Berlin: Duncker & Humblot, 2009, 291 p.
160 Section 33(3) Act against Restraints of Competition: Whoever intentionally or negligently commits an infringement pursuant to paragraph 1 shall be liable for the damages arising therefrom. If a good or service is purchased at an excessive price, a damage shall not be excluded on account of the resale of the good or service. The assessment of the size of the damage pursuant to section 287 of the Code of Civil Procedure [Zivilprozessordnung] may take into account, in particular, the proportion of the profit which the undertaking has derived from the infringement. From the occurrence of the damage, the undertaking shall pay interest on its obligations to pay money pursuant to sentence 1. Sections 288 and 289 sentence 1 of the Civil Code shall apply mutatis mutandis.
161 For more detail see Janssen, Präventive Gewinnabschöpfung, unpublished, pp. 519 et seq.
Possible functional equivalents to disgorgement damages can be seen in the form of damage multipliers in antitrust law. For instance, although there is no possibility to impose punitive damages in US-American cartel law, there is the possibility to award treble damages, i.e. damages multiplied by a factor of three (see section 4 Clayton Antitrust Acts). The Antitrust Modernization Commission states that the reasons for this tripling of damages are the deterrent effect, ensuring compensation of loss, and also “disgorgement of profits”. It can thus be seen that, at least in part, the treble damages also have the function of disgorging profits.

7. Functional equivalents to disgorgement damages

The above sections on individual branches of the law have shown that disgorgement damages are principally capable of and can thus assist in disgorging those profits that have been gained by breaching the law. However, the above also shows that “many roads lead to Rome”, i.e. disgorgement damages are not the only possibility for skimming-off profits under private law. Several of these alternative routes have already been named, such as payment of profit under unjust enrichment and restitution or benevolent intervention in another’s affairs. Although it is not possible to consider these options in extensive detail here, the national reports have shown that the limited scope of application of both instruments (as far as they are recognised and are of general significance in the respective national legal system) renders them unsuitable for the provision of a comprehensive and efficient disgorgement of profits for all breaches of contract and laws. The disgorgement of unlawful profits therefore appears to only be possible under particular circumstances.

Furthermore, there are additional functional equivalents to disgorgement damages.


164 “Beneath the cloak of restitution lies the dagger that compels the conscious wrongdoer to ‘disgorge’ his gains.” (Warren v. Century Bankcorp., Inc., 741 P.2d 846, 852 (Okla. 1987)).

165 See for instance the reports from Belgium, Chile, Croatia, Greece, Ireland and South Africa. Several national reports do however see a great relevance of unjust enrichment for the question of disgorgement of profits (see the reports from Brazil, Israel and Portugal).
Aside from their legal persuasiveness and admissibility of damage multipliers and exemplary or punitive damages, their use is at least underpinned by the function (amongst others) of disgorging profits. The same is also applicable to the aforementioned right to submission. Many national reporters also rightly referred to proprietary remedies that allow for the disgorgement of profits. Without going into detail on this aspect, the aforementioned does however refer to the possibility of using the common law instrument of a constructive trust to allow for disgorgement of profits in the event of a breach of a fiduciary duty or a breach of confidence. And, although they are not a remedy in the strict sense, class actions (which are becoming increasingly popular, at least in Europe) were mentioned by some national reporters as such actions also aim at disgorgement of profits (caused however by ‘trifling damages’ or ‘nominal damages’ and not by profitable breaches).

In part it was also possible to identify several new sui generis private law remedies that attempt to combat unlawful profits, for instance section 10 German Unfair Competition Act. In Canadian law it appears that the instrument of “waiver of torts”, which also allows for disgorgement of profits, is experiencing a renaissance. The Canadian Supreme Court has stated that a “waiver of tort occurs when the plaintiff gives up the right to sue in tort and elects instead to base its claim in restitution, thereby seeking to recoup the benefits that the defendant has derived from the tortious conduct”.

8. Conclusion

Despite the many efforts towards preventing and disgorging unfair profits, either through the (partial) use of disgorgement damages or through corresponding functional equivalents, the majority of the national reporters have criticised the inefficiency of their own legal system. In this context there was often criticism that no coherent theory, or at least a uniform understanding of disgorgement damages has emerged. This failure is due to many different reasons that can only be briefly

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166 For detail on the proprietary remedies see also the reports from Turkey, Norway, Belgium, Japan, South Africa and Israel.
167 See the reports from Greece, Ireland and Scotland.
168 Pro-Sys Consultants Ltd. v Microsoft Canada CIE 2013 SCC 57 at [93].
169 For example, the Italian report is very clear in this respect.
170 See also e.g. the report for Brazil, Italy, Slovenia, Spain.
referred to here, but which have in part already been noted as contributing factors: the variations in terminology (even within the same legal system) and the different possible legal categories; and the fact that disgorgement damages can be found in many different areas of law and are often based on case law as well as on statute law. However, one of the main reasons for the deficiency must be that the actual rationale underlying advantage-orientated liability often remains in the dark or is controversial. In particular, it often varies between mere compensation (ultimately the focus is on compensation and the profit is just considered as a means of calculating the loss for the purposes of easing the evidentiary burden) and prevention (as far as the entire profit is to be paid out independent of the loss suffered). The aforementioned situation regarding intellectual property can serve as an example, as can the situation concerning profitable breaches of personality rights. In addition, for some legal systems it was mentioned that disgorgement damages even serve punitive purposes.

If we once again review the aforementioned comments of disgorgement damages it is possible to summarise the main differences between the individual legal systems as follows: as has been seen, the scope of application within national law varies greatly. Whereas Israel foresees disgorgement damages for almost all legal and contractual breaches, which may also be possible in Ireland on account of the decision in *Hickey v Roaches Stores*,\(^\text{171}\) other countries (such as South Africa and Brazil) use disgorgement damages only with great reluctance and just in few areas.\(^\text{172}\) Furthermore, in several legal systems the idea of disgorgement damages is only used for wrongs that involve pecuniary losses; in contrast other legal systems (such as Germany and Switzerland) are more open and also allow the notion of disgorgement of profits to be used for wrongs that involve non-pecuniary losses.\(^\text{173}\)

The differences – not just between legal systems but also within a national legal system – are also apparent with regard to the requirements for the application of disgorgement damages. In particular, there is the core question of the extent of the wrongdoer’s fault. Whereas there are in this regard sometimes no specific

\(^{171}\) *Hickey v Roches Stores* (Unreported, Irish High Court, 14 July 1976), reported at [1993] 1 Restitution Law Review 196. See also the Irish report.  
\(^{172}\) For more detail see the Brazilian and South African reports.  
\(^{173}\) See, e.g. the German report.
requirements, some types of disgorgement damages actually require intent or at least gross negligence on the part of the wrongdoer. Differences can also be identified with regard to the question of the right to elect between (compensatory) damages and disgorgement damages. Although one mainly assumes that the injured party has a free right of election, English law affords the court (and not the injured party) the choice where the subject-matter is account of profits for breaches of contract and breaches of confidence.\textsuperscript{174} Chinese law also does not grant the injured party a freedom to elect the remedy, but only permits disgorgement damages to be given when the actual losses cannot be calculated or only with great difficulty; disgorgement damages therefore serve a subsidiary function in relation to the concrete calculation of damages.\textsuperscript{175} Furthermore, disgorgement damages in China also display a clear restriction by the fact that the profits are not paid to the injured party but rather to the national treasury.\textsuperscript{176} Such an approach not only blurs the boundaries between private and public law but instead also removes a large proportion of the preventative potential of disgorgement damages. In so doing there is a clear reduction in the motivation for the injured party to seek to enforce the claim.

How could disgorgement damages look in the future? In the national reports that looked at the perspectives for disgorgement of profits it was observed that many reporters favoured a stronger private law approach. The majority wants to achieve the payment of profits by creating or expanding disgorgement damages; however, several instead favoured the approach of strengthening unjust enrichment laws.\textsuperscript{177} Nonetheless, favouring disgorgement damages means that their purpose has to be unambiguous. In addition to compensation the primary and foremost function of disgorgement damages is prevention:\textsuperscript{178} it is their supporting pillar. Disgorgement damages should be particularly granted when no pecuniary or non-pecuniary loss has occurred (or cannot be proven) or when the unlawful profit exceeds these losses. They are to be strongly directed towards the prevention of profitable, i.e. worthwhile, breaches of law and contract (the wrongdoers’ expected profits must be higher than

\textsuperscript{174} For more detail see the report for England and Wales.
\textsuperscript{175} For more detail see the Chinese report.
\textsuperscript{176} For more detail see the Chinese report.
\textsuperscript{177} See, for example, the reports from Turkey, Greece, Italy, Croatia and China, as well as the reports from Spain and South Africa.
\textsuperscript{178} As is noted in many national reports (for instance in the Italian and Greek reports).
the legal sanctions for the infringement).\textsuperscript{179} In contrast, disgorgement damages are not applicable to the other cases mentioned at the beginning of this report in which unlawful profits may arise (e.g. for “trifling damages” due to the rational apathy of the claimants, and in cases with a low probability of discovery).\textsuperscript{180} In such instances it may be necessary to use class actions and damage multipliers in order to generate the corresponding preventative effect (which cannot be noted in detail here), however not disgorgement damages. It is also to be noted that disgorgement damages are indeed preventative, but do not pursue a punitive purpose, i.e. they cannot and ought not to be equated with punitive or exemplary damages. Disgorgement damages are strictly based around the wrongdoer’s profits and can therefore never exceed this profit. The extent of the unfair profit therefore represents the absolute limitation of the extent of the disgorgement damages. In comparison, punitive or exemplary damages can greatly exceed the wrongdoer’s profit; they can even be applied when the wrongdoer has made no profit whatsoever.

In turning to the optimal form of disgorgement damages which also exudes a genuine preventative effect, there are first a number of fundamental “design flaws” that have to be avoided (some of which have been noted above). The profit (or in other words the “windfall profit”) thus has to be made available to the injured party and not to the state treasury. The absence of a financial incentive, i.e. the unlawful profit, for the injured party causes disgorgements damages to lose the deterring effect.\textsuperscript{181} Furthermore, disgorgement damages are to be granted in the sense of a genuine and self-standing remedy independent from the loss that has occurred. This also means that the injured party, not the court, has to have a free choice of the remedy. Additionally, disgorgement damages are not to be subsidiary in the sense that they can only be given when there are difficulties in calculating the actual losses.

The effectiveness of disgorgement damages in practice is tied to the very important question of the required level of fault. Does the fault of the wrongdoer y actually have to be considered as necessary and, if yes, which level has to be reached? Should

\textsuperscript{179} This report cannot tackle the question of whether disgorgement damages are also justifiable when the wrongdoer has “merely” infringed the market’s code of conduct. For more detail on this question see Janssen, Präventive Gewinnabschöpfung, unpublished, pp. 524 et seq.

\textsuperscript{180} For more detail see section 1 of this report.

\textsuperscript{181} As is also the view in the Chinese report. The German experiences with section 10 of the Unfair Competition Act, which provides that the unlawful profits are to be paid to the state, show that such an approach almost has no practical effect.
disgorgement damages already be available for mere negligence or just from gross negligence or is it possible that they first require intention? The effects of the preventative function are clear, but it is necessary to find and maintain “the right amount”. If the requirements are too low then there is the threat of a cost-intensive over-prevention that is to be avoided just like an under-prevention, which threatens to arise if the fault requirement is too high and the disgorgement damages can thus de facto have no effect on guiding behaviour. Considering the numerous possible different cases there might not exist a “one size fits all” solution, therefore further research (in law and behavioural economics) remains to be undertaken.

According to numerous national reporters the greatest dangers for the actual preventative effectiveness of disgorgement damages are, on the one hand, the difficulties surrounding the provability of the total profit and, on the other hand, the problems in calculating the profit and ascertaining the proportion to be disgorged.\textsuperscript{182} Both sets of problems are decisive adjustable parts in the system of disgorgement damages; however it appears that they receive little attention in most national legal systems.\textsuperscript{183} One therefore always has to bear in mind that incorrect adjustments to these parts can result in ineffective disgorgement damages due to the absence of actual application and thus the intended preventative effect does not occur. In order to prevent this outcome it is first necessary that the injured party can claim disclosure and financial information from the wrongdoer, as is at least already provided for in the Enforcement Directive.\textsuperscript{184} Without such a claim the injured party has no possibility to gain the information that is necessary to enforce the claim for disgorgement damages and to determine their amount. If the data is of a sensitive nature and the accuracy of this data is doubted then the examination by an independent financial auditor may represent a sensible addition.

A further important preventative element in the system of disgorgement damages is the calculation of the entire profit and ascertaining the proportion to be disgorged. The importance of the answer for the actual preventative effect of disgorgement

\textsuperscript{182} See in particular the reports from China, Croatia, Australia und Israel.
\textsuperscript{183} See the reports from Croatia ("There are no legally binding rules on its calculation, nor here is a court practice on this issue.") and Israel ("Israeli law has not developed a systematic approach to the calculation of profits.").
\textsuperscript{184} See also the Chinese report. For more detail see Janssen, Präventive Gewinnabschöpfung, unpublished, pp. 369 et seq.
damages is shown by, for example, the development in German intellectual property law. Here, a breach of a party’s intellectual property rights can result in the possibility to either claim for the actual loss, or to demand payment of a reasonable licence fee or to demand payment of the profits resulting from the wrongdoer’s breach. However, despite these options almost 95% of cases prior to the year 2000 were resolved by payment of the licence fee;\(^\text{185}\) in contrast, claims for disgorgement damages were seldom. The reason for this tendency was the previous court practice of permitting numerous deductions when calculating the total profit and the proportion to be paid, which resulted in the amount of disgorgement damages almost always being lower that the actual loss and the reasonable licence fee. Accordingly, sufficient compensation was not possible by this means. There was thus no financial incentive for the injured party to make the complex claim for disgorgement damages and therefore no preventative effect on worthwhile breaches of intellectual property rights.

The situation was first fundamentally changed in 2001 by the so-called *Gemeinkostenanteil*-decision\(^\text{186}\) of the German Supreme Court – a case concerning intellectual property infringements. It is one of the few decisions that extensively dealt with the calculation of the total profit and the part of profit to be disgorged and (despite justified criticisms with regard to some aspects) can be viewed as exemplary, or at least as a basis for discussion for the further development of disgorgement damages in general. With respect to the calculation of the total profit, the German Supreme Court greatly limited the possibility to deduct the wrongdoer’s costs. Prior to this decision it was possible to deduct the overheads and direct costs from the profits, though now only the direct costs (i.e. the variable costs) and not the overheads (i.e. the fixed costs) can be deducted. As a consequence the exclusion of the deduction of the overheads prevents the effect that the injured party de facto financially supports the wrongdoer’s company.\(^\text{187}\) The German Supreme Court also made further restrictions with respect to the determination of the part of the profits to be disgorged: in contrast to its earlier jurisprudence the court will only consider circumstances that are created by the product itself and not, however, from the


\(^{186}\) German Supreme Court, decision from 2.11.2000, in: GRUR 2001, 329 (Overhead share decision).

wrongdoer’s sales management (such as his market position, advertising or pricing policy). The result was a clear increase in the proportion of the profits to be disgorged. The judges made it especially clear that this adjustment to disgorgement of profits is motivated by the notion of prevention. It was unambiguously stated that:

“The disgorgement of the wrongdoer’s profits also serves to sanction the harmful behaviour and as such also serves to prevent the breach of intellectual property rights requiring special protection”\textsuperscript{188}

This change in judicial approach represented a fundamental change to intellectual property practice in Germany. Within just a few years the disgorgement damages in this area of law experienced an overwhelming change from a “legal wallflower” to a “renowned star” of intellectual property law. In the meantime, up to 75% of all claims are for the disgorgement of profits and not for the payment of the reasonable licence fee.\textsuperscript{189} The new calculation method allows for amounts to be generated that are sometimes much higher than the actual loss or than the analogy of the reasonable licence fee. This example impressively demonstrates that the correct focus and adjustment of disgorgement damages can give rise to practicable disgorgement damages that are accepted by injured parties and can thus contribute to the objective of prevention. The Swiss experiences with their version of disgorgement of profits in instances of breaches of personality rights by the press also illustrate the enforcement in practice of the calculation of the profits to be disgorged.\textsuperscript{190} Ultimately, it is sufficient to calculate an approximate value from the unlawful profits that is effective from a preventative point of view. As such, the expression “don’t let the perfect be the enemy of the good” is apt both for the calculation of the profits and for determining the amount to be disgorged.

To conclude one could say that disgorgement damages are not the sole best solution or even saviour when it comes to preventing unlawful profits by utilising private law instruments. With correct application and adjustments they can be a valuable addition

\textsuperscript{188} German Supreme Court, decision from 2.11.2000, in: GRUR 2001, 329 (331) (Overhead share decision).
\textsuperscript{190} See Swiss Supreme Court, decision from 7.12.2006, in: JZ 2007, 1159 (Disgorgement of profits for breach of personality rights).
to the present private law and a building block on the path towards realising the claim that unlawful behaviour ought not be worthwhile. What this general report hopes to have demonstrated anyway, is that the discussion of disgorgement damages is very useful.

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