Chapter 1
Original Questionnaire: Disgorgement of Profits

Ewoud Hondius and André Janssen

Abstract This Chapter sets out the original questionnaire submitted to the national reporters.

Keywords Contract • Competition law • Damages • Disgorgement of profits • Enforcement directive • Fiduciary duties • Gain-based remedies • Intellectual property right • Personality rights • Unfair commercial practices • Unjust enrichment

> This Court never allows a man to make profit by a wrong, (. . .).[1]

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.[2] 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.[3]

In preparing this questionnaire we have profited from the various suggestions by the national reporters from Australia (Katy Barnett), Belgium (Marc Kruithof) and Israel (Talia Einhorn).

[1] *"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).

[2] 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.'

[3] 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.*"

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E. Hondius, A. Janssen (eds.), *Disgorgement of Profits*, Ius Comparatum - Global Studies in Comparative Law 8, DOI 10.1007/978-3-319-18759-4_1

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.[4] Thus, in practice tort or in general unlawful conduct often pays.[5]

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.[6] Thus it was not traditionally awarded for breaches of common law wrongs such as contract and tort.

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 case of Broome v. Cassels, per Lord Denning, MR, in the Court of Appeal. 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 HL. See also Ulrich Schmolke, Die Gewinnabschöpfung im U.S.-amerikanischen Immaterialgüterrecht, GRUR Int. 2007, 3: "*tort must not pay*".

[4]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, 96).

[5]See on that also Heinz-Dieter Assmann, Schadensersatz in mehrfacher Höhe des Schadens – Zur Erweiterung des Sanktionensystems für die Verletzung gewerblicher Schutzrechte und Urheberrechte, Betriebsberater 1985, 15; Hans Brandner, Die Herausgabe von Verletzervorteilen im Patentrecht und im Recht gegen unlauteren Wettbewerb, Gewerblicher Rechtsschutz und Urheberrecht 1980, 359 (363); Michael Lehmann, Präventive Schadensersatzansprüche bei Verletzungen des geistigen und gewerblichen Eigentums, Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil 2004, 763 (footnote 17).

[6]It arose with the writ of *praecipae quod reddat* in common law. See Mitchell McInnes, 'Account of Profits for Common Law Wrongs' in Simone Degeling and James Edelman (eds.), Equity in Commercial Law (Pyrmont: Lawbook Co, 2005), 405 et seq.; Gareth Jones, 'The Role of Equity in the English Law of Restitution' in E.J.H. Schrage (ed.), Unjust Enrichment: The Comparative History of the Law of Restitution (Berlin: Duncker & Humblot, 1995), 147, 168–69.

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.[7] For this reason criminal and administrative law often foresee a whole arsenal of more or less efficient particular instruments focussing on disgorgement of unlawful profits: They can e.g. either be confiscated,[8] skimmed-off by authorities,[9] or administrative or criminal fines can be calculated according to the illegal profits.[10]

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[11] or gain-based damages.[12] 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".[13]

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

[7] In German legal language the term "*wechselseitige Auffangordnung*" is used to describe this idea of combining branches of law to reach an overarchieving aim 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).

[8] See e.g. section 73 et sec. German Criminal Code or § 29a German Administrative Offences Act.

[9] See e.g. section 34 German Act against Restraints of Competition.

[10] See e.g. section 17(4) German Administrative Offences Act; section 81(5) German Act against Restraints of Competition.

[11] In the common law, restitution has two meanings: a giving back and a giving up, as Peter Birks has observed.

[12] See for the terminology and a possible differentiation between the mentioned terms James Edelman, Gain-based Damages – Contract, Tort, Equity and Intellectual Property (Oxford: Hart, 2002), 65 et seq.

[13] See e.g. Thomas Dreier, Kompensation und Prävention – Rechtsfolgen unerlaubter Handlungen im Bürgerlichen, Immaterialgüter- und Wettbewerbsrecht (Tubingen: Mohr Siebeck, 2002), 42 et seq.: Marc Kruithof, De vordering tot voordeeloverdracht, Tijdschrift voor Privaatrecht 2011, 13 (37 et seq.).

recognises this topic as a specific issue as such and this may also give difficulties to them.[14] They might also have the problem that damage multipliers as e.g. the American treble damages[15] in competition law or punitive or exemplary damages in Common Law[16] systems have a function of disgorging profits along with other functions such as; thus a functional overlap might occur.[17] 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.[18] 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.[19] By contrast, the US is unconcerned about a fusion of common law and equity,[20] and this is reflected in its much

[14]Compare Simon Whittaker, in: Fabrizio Cafaggi (ed.), Contractual networks, inter-firm cooperation and economic growth (Cheltenham: Elgar, 2011), 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.*"

[15]See section 4 of the Clayton Antitrust Act. For a further example of treble damages in America see section 1964 (c) Racketeer Influenced and Corrupt Organizations Act (RICO-Act). Generally Richard Craswell, Damage Multipliers in Market Relations, 25 Journal of Legal Studies, 463–492 (1996); Richard Craswell, Deterrence and Damages: The Multiplier Principle and Its Alternatives, 97 Michigan Law Review, 2185–2238 (1999).

[16]Helmut Koziol, Punitive Damages – A European Perspective, 68 Louisiana Law Review, 741–764 (2008); Helmut Koziol/ Vanessa Wilcox (eds.), Punitive Damages: Common Law and Civil Law Perspectives (Vienna: Springer, 2009); Polinsky, A. Mitchell/Shavell, Steven, Punitive Damages: An Economic Analysis, 111 Harvard Law Review, 869–962 (1998).

[17]See e.g. for the treble damages in US competition law Antitrust Modernization Commission, Report and Recommendations, Washington D.C. 2007, 246 (treble damages also for "*disgorgement of profits*").

[18]Disgorgement for common law causes of actions such as tort and breach of contract has generally been rejected: Hospitality Group Pty Ltd v Australian Rugby Union Ltd (2001) 110 FCR 157 (FCA) 196 (Hill and Finkelstein JJ); Town & Country Property Management Services Pty Ltd v Kaltoum [2002] NSWSC 166 [85] (Campbell J); Biscayne Partners Pty Ltd v Valance Corp Pty Ltd [2003] NSWSC 874 [232]–[235] (Einstein J); Short v Crawley [2005] NSWSC 928 [24] (White J); PW Young, 'Recent Cases – Account of profits for breach of contract' 74 Australian Law Journal, 817 (2000); RI Barrett, 'The "Most Wrong" Equity Cases 1990–2003: Attorney General v Blake' (presented at the Supreme Court Judges' Conference, 24 August 2003). The only positive judicial comment in favour of such a remedy is that of Deane J in Hospital Products Ltd v United States Surgical Corp (1984) 156 CLR 41, 124–25 (HCA). There are also academic accounts which are favourable: see e.g. James Edelman, Gain-based Damages – Contract, Tort, Equity and Intellectual Property, (Oxford: Hart, 2002) (Edelman J is now a judge of the Supreme Court of Western Australia); Sirko Harder, Measuring Damages in the Law of Obligations: The Search for Harmonised Principles (Oxford: Hart, 2010); Katy Barnett, Accounting for Profit for Breach of Contract: Theory and Practice (Oxford: Hart, 2012).

[19]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.

[20]See e.g. Restatement (Third) of Restitution and Unjust Enrichment (American Law Institution, 2011) § 4, 'Restitution May Be Legal Or Equitable Or Both'.

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*.[21] But more recently *Melvin Eisenberg* has argued that such damages are already accepted in American law[22] – see *Snepp v US*.[23] And in the 2011 US Restatement of Restitution and Unjust Enrichment, it is clearly recognised that disgorgement may be appropriate in some cases.[24] 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).[25] In common law countries such as England and Wales and Australia, and New Zealand, disgorgement damages have traditionally been available only for equitable causes of action such as breach of fiduciary duty[26] and breach of confidence where they are known as the "account of profits".[27] 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.[28] Some other countries however, do prima facie have a 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, but in the case of *Waeyen-Scheers/Naus*

[21] E. Allan Farnsworth, Your loss or my gain?/The dilemma of the disgorgement principle in breach of contract, 94 Yale Law Journal, 1339–1393 (1985).

[22] Melvin Eisenberg, The disgorgement interest in contract law, 105 Michigan Law Review, 559–602 (2006).

[23] 444 US 507 (1980, Alaska).

[24] 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'.

[25] Gerhard Wagner, Neue Perspektiven im Schadensrecht – Kommerzialisierung, Strafschadensersatz, Kollektivschaden (Munich: C.H. Beck, 2006), 96 et seq.

[26] See Murad v Al-Saraj [2005] EWCA Civ 959 (England and Wales); Warman v International Ltd v Dwyer (1995) 182 CLR 541 (Australia).

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

[28] See especially Attorney-General v Blake [2000] UKHL 45, [2001] 1 AC 268 (HL) and also Esso Petroleum Company Limited v Niad Limited [2001] EWHC Ch 458, [2001] All ER (D) 324 (Ch); Experience Hendrix LLC v PPX Enterprises Inc [2003] EWCA Civ 323, [2003] 1 All ER (Comm) 830 (CA). Disgorgement is also available in Canada for wrongs such as breach of contract: see Bank of America (Canada) v Mutual Trust Co (2002) 211 DLR (4th) 385 (SCC) [25] (Major J); Amartek Inc v Canadian Commercial Corp (2003) 229 DLR (4th) 419 (Ontario SC) 467 (O'Driscoll J) (on appeal held there was no collateral contract: (2005) 5 BLR (4th) 199 (Ontario CA); Montreal Trust Co v Williston Wildcatters Corp (2004) 243 DLR (4th) 317 (SKQB) 122 (Vancise JA).

the Dutch Supreme Court only considered this a way of assessing damages.[29] *J.D.A. Linssen* considers unjustified enrichment a better ground.[30]

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. [31] 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.[32] 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.[33]

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 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".[34] However, in some legal systems

[29] Nederlandse Jurisprudentie 1995, no. 421.

[30] J.G.A. Linssen, Voordeelsafgifte en ongerechtvaardigde verrijking (PhD Diss. Tilburg, The Hague: Boom, 2001), 848 p.

[31] 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 et seq. For England and Wales see e.g., 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 e.g., 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).

[32] See e.g. section 33(3)3 German Act Against Restraints of Competition.

[33] See e.g. the leading German case "Caroline von Monaco" (German Supreme Court, 19 December 1995, BGHZ 131, 332 et seq.).

[34] Regarding the general functions of tort law still very readable Glanville Williams, 'The Aims of the Law of Tort', 4 Current Legal Problems, 137–176 (1951). See Katy Barnett, Accounting for Profit for Breach of Contract: Theory and Practice (Oxford: Hart Publishing, 2012), Chapter 2 for

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.[35]

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 profits can be found in the law of unjust enrichment respectively restitution.[36] 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.[37]

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

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an account of the rationales of disgorgement (primarily – in her account – vindication, deterrence and punishment).

[35] Very critical for instance Heinrich Honsell, Der Strafgedanke im Zivilrecht – ein juristischer Atavismus, in: Lutz Aderhold/Barbara Grunewald/Dietgard Klingberg/Walter G. Paefgen (eds.), Festschrift für Harm Peter Westermann zum 70. Geburtstag (Cologne: Otto Schmidt, 2008), 315–336; Stephan Gregor, Das Bereicherungsverbot (Tubingen: Mohr Siebeck, 2012), 273 p.

[36] "*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)).

[37] See e.g. section 687(2) German Civil Code or article 423 of the Swiss "Obligationenrecht" (both on false agency without specific authorisation).

disgorge the agent's profits due to breach of fiduciary duties.[38] 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.[39] 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 against illegal profits.

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[38] See section 61(1), 113(1) German Commercial Code.

[39] See more detailed Stefan Sieme, Der Gewinnabschöpfungsanspruch nach § 10 UWG und die Vorteilsabschöpfung gem. §§ 34, 34a GWB (Berlin: Duncker & Humblot, 2009), 291 p.