

# Chapter 2

## Disgorgement of Profits in Australian Private Law

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**Abstract** This chapter discusses the availability of remedies effecting disgorgement of profit in Australian private law. It is noted that there are three main remedies which may effect disgorgement of profits: the account of profits, the constructive trust and restitutionary remedies. However, disgorgement of profit in Australian is generally only available for causes of action where equity allowed such a remedy prior to the English Judicature Acts of the nineteenth Century. In the exclusive jurisdiction, such remedies were available for breach of fiduciary duty, breach of trust, breach of confidence, and in the auxiliary jurisdiction, they were available for intellectual property breaches. The rationale of these awards is to deter breaches and to reverse unjust enrichment. Disgorgement of profit is not generally readily available for causes of action with a common law background including breach of contract and tort. Nor is it available for statutory breaches such as consumer law and competition law.

**Keywords** Account of profits • Disgorgement • Australia • Equity • Common law • Constructive trusts • Restitution

### 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 the courts of other common law countries such as England, the United States and Canada.

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Australian courts tend to adhere strictly to the historical divide between the common law and equity which is inherited from English law.<sup>1</sup> This is particularly the case in the Australian State of New South Wales, where the law continued to be administered by separate courts of common law and equity until the early 1970s.<sup>2</sup> In other States, legislation was passed in the late nineteenth century which mirrored the UK Judicature Acts 1873 and 1875, and allowed a single judge to apply both common law and equity.<sup>3</sup>

To ignore the historical divide between common law and equity is said by some Australian judges in a prominent Australian textbook, *Meagher, Gummow and Lehane's Equity: Doctrines and Remedies* to be an instance of 'fusion fallacy'.<sup>4</sup> '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 example by holding that the existence of a duty in tort may be tested by asking whether the parties concerned were in fiduciary relationships.<sup>5</sup>

Meagher, Gummow and Lehane describe 'fusion fallacy' as an 'evil' practice.<sup>6</sup> The effect of this view is 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.<sup>7</sup> Thus, for example, an account of profits cannot be awarded for breach of contract because this was (arguably) impossible before the Judicature Acts.<sup>8</sup> 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.<sup>9</sup>

The continued adherence to a strict separation of common law and equity in Australiacan be explained by the fact that most of the authors of *Meagher, Gummow*

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<sup>1</sup>The complex history is described in Meagher et al. (2002), 11–30.

<sup>2</sup>See Supreme Court Act 1970 (NSW), ss 57–63; Law Reform (Law and Equity) Act 1972 (NSW), s 5.

<sup>3</sup>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.

<sup>4</sup>Heydon et al. (2015).

<sup>5</sup>Ibid, 48–49.

<sup>6</sup>Ibid, 48.

<sup>7</sup>Tilbury (2003), 358–59.

<sup>8</sup>However, see Gleeson et al. (2005), 676–708, 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.

<sup>9</sup>See *Harris v Digital Pulse Pty Ltd* (2003) 56 NSWLR 298 (Spigelman CJ and Heydon JA, Mason P dissenting).

and *Lehane's Equity* have subsequently become judges in high level courts,<sup>10</sup> and two of the authors ultimately became Judges of the High Court of Australia,<sup>11</sup> although there were some on the High Court who felt otherwise.<sup>12</sup>

Nonetheless, a number of Australian academics have called for the principled extension of remedies effecting disgorgement of profits in private law.<sup>13</sup> One of those authors has also subsequently become a judge.<sup>14</sup>

## 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, 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.

## 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,<sup>15</sup> but to punish and deter,<sup>16</sup> to assuage

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<sup>10</sup>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).

<sup>11</sup>Degeling and Edelman. (2004), 197.

<sup>12</sup>See e.g., Kirby (2008), 444–69 (then a High Court Judge) and Mason (1997–1998), 3 (former Chief Justice of the High Court).

<sup>13</sup>See e.g., Edelman (2002); Harder (2010); Barnett (2012).

<sup>14</sup>Edelman J formerly of the Western Australian Supreme Court now on the Federal Court of Australia.

<sup>15</sup>Cf *Testel Australia Pty Ltd v KRG Electrics Pty Ltd* [2013] SASC 91, [106]. Blue J reads Emmett J's suggestion that gain-based relief should be allowed for tort in *Hospitality Group v Australian Rugby Union* (2001) 110 FCR 157 as allowing for exemplary damages.

<sup>16</sup>*Whitfield v De Lauret & Co Ltd* (1920) 29 CLR 71, 77 (Knox CJ), 81 (Isaacs J); *Rookes v Barnard* [1964] AC 1129, 1221 (Lord Devlin); *Uren v John Fairfax & Sons Pty Ltd* (1966) 117 CLR 118, 129–30 (Taylor J), 149 (Windeyer J).

any urge for wrongdoing on the part of the plaintiff and to discourage plaintiffs from seeking self-help likely to breach the peace.<sup>17</sup>

## *Account of Profits*

### **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,<sup>18</sup> breach of trust and breach of confidence,<sup>19</sup> and for intellectual property breaches. The availability of accounts of profits for intellectual property breaches originated in the auxiliary jurisdiction of equity,<sup>20</sup> but are now available pursuant to statute for many intellectual property rights.<sup>21</sup> However, these statutory accounts of profit retain characteristics which reflect their origins in the auxiliary jurisdiction of Equity.<sup>22</sup> The account of profits is also available in equity's auxiliary jurisdiction for passing off, a tort relating to intellectual property rights.<sup>23</sup>

Accounts of profit have been said to be unavailable for common law causes of action such as breach of contract and tort in Australia.<sup>24</sup> The only High Court of Australia authority on this issue, the dissenting judgment of Deane J in *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.<sup>25</sup> 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.<sup>26</sup>

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

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<sup>17</sup>Lamb v Cotogno (1987) 164 CLR 1, 9.

<sup>18</sup>Warman International Ltd v Dwyer (1995) 182 CLR 544.

<sup>19</sup>Attorney-General v Guardian Newspapers (No. 2) [1990] 1 AC 109.

<sup>20</sup>See Barnett and Harder (2014), 351.

<sup>21</sup>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).

<sup>22</sup>Hastie (1996), 13.

<sup>23</sup>My Kinda Town Ltd v Soll [1983] RPC 15.

<sup>24</sup>Hospitality Group v Australian Rugby Union (2001) 110 FCR 157, 197–99 (Hill and Finkelstein JJ).

<sup>25</sup>(1984) 156 CLR 41, 124–25.

<sup>26</sup>Testel Australia Pty Ltd v KRG Electrics Pty Ltd & Anor [2013] SASC 91, [101].

## 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.<sup>27</sup> 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.<sup>28</sup> 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.<sup>29</sup> Similarly, if a trustee makes a profit by misapplying trust money, it is likely that the plaintiff will be entitled to the entire profit.<sup>30</sup>

In assessing net profit, courts have traditionally made allowance for certain expenses incurred by the defendant in two ways.<sup>31</sup> First, they have sometimes allowed specific disbursements, such as expenditures of money and other capital, as well as skilled labour by the defendant.<sup>32</sup> Secondly, courts have credited the defendant with an allowance which is not specifically itemised, but more of an 'all things considered' allowance.<sup>33</sup>

The High Court of Australia has recognised the difficulties in calculating profit derived from wrongdoing, and noted that "mathematical exactitude" is generally impossible'.<sup>34</sup>

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<sup>27</sup>Patel v London Borough of Brent [2003] EWHC 3081, [29] (Morritt V-C); Regal (Hastings) Ltd v Gulliver and Others [1967] AC 134, 154 (Lord Wright); O'Sullivan v Management Agencies & Music Ltd [1985] QB 428, 458 (Dunn LJ).

<sup>28</sup>Hospital Products Pty Ltd v United States Surgical Corporation (1984) 156 CLR 41, 108–09 (Mason J) referring to *Vyse v Foster* (1872) LR 8 Ch App 309, 333 (James LJ).

<sup>29</sup>Hospital Products Pty Ltd v United States Surgical Corporation (1984) 156 CLR 41, 109–10 (Mason J).

<sup>30</sup>Scott v Scott (1963) 109 CLR 649; see also *Paul A Davies (Australia) Pty Ltd (in liq) v Davies* [1983] 1 NSWLR 440.

<sup>31</sup>Harding (2009), 346–47.

<sup>32</sup>*Brown v Litton* (1711) 1 P Wms 140, 24 ER 329; *Yates v Finn* (1880) 13 Ch D 839; *Chirnside v Fay* [2007] 1 NZLR 433, [2006] NZSC 68 [153] (Tipping J).

<sup>33</sup>*Brown v De Tastet* (1821) Jac 284; 37 ER 858; *Featherstonhaugh v Turner* (1858) 25 Beav 382; 53 ER 683; *Lord Provost of Edinburgh v Lord Advocate* (1879) 4 App Cas 823; *Phipps v Boardman* [1964] 1 WLR 993; O'Sullivan v Management Agencies & Music Ltd [1985] QB 428.

<sup>34</sup>*Dart Industries Inc v Décor Corporation Pty Ltd* (1993) 179 CLR 101, 111 (Mason CJ, Deane, Dawson and Toohey JJ). See also *Warman International Ltd v Dwyer* (1995) 182 CLR 544, 558; *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25, 37 (Windeyer J).

## Election

A plaintiff seeking an account of profits must generally elect between equitable compensation (a compensatory remedy) and an account of profits (which disgorges profit), and the election is binding.<sup>35</sup> 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.<sup>36</sup>

## Constructive Trusts

### 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 profits. It is awarded for equitable causes of action such as breach of fiduciary duty,<sup>37</sup> breach of trust or breach of confidence.<sup>38</sup> 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.<sup>39</sup>

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)*<sup>40</sup> 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.<sup>41</sup> However, in keeping with High Court authority suggesting constructive trusts should

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<sup>35</sup> *Warman International Ltd v Dwyer* (1995) 182 CLR 544, 559. See also *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25, 32 (Windeyer J). See Watterson (2004), 471–494, who argues that the requirement to elect is a relatively recent phenomenon.

<sup>36</sup> *Tang Man Sit (dec'd) v Capacious Investments* [1996] AC 514.

<sup>37</sup> *Keach 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.

<sup>38</sup> See e.g., *Lac Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14.

<sup>39</sup> Bant (2010), 286–311; Swadling (2011), 399–433; Bant and Bryan (2011), 171–198; Bant and Bryan (2012), 181–207; Bant and Bryan (2013), 211–228.

<sup>40</sup> [2012] FCAFC 6, (2012) 200 FCR 296, [569]–[584] (Finn, Stone and Perram JJ).

<sup>41</sup> [2012] FCAFC 6, (2012) 200 FCR 296, [576].

be awarded sparingly,<sup>42</sup> 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.<sup>43</sup> 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. After vacillation between the two extremes of an immediate constructive trust<sup>44</sup> or no trust at all,<sup>45</sup> the English Supreme Court has recently decided that an immediate constructive trust should be available over bribes.<sup>46</sup> 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 fiduciary obligation priority over the unsecured creditors.<sup>47</sup> 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.<sup>48</sup>

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.<sup>49</sup>

## 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 *pari passu* with the defendant's other unsecured creditors.

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<sup>42</sup>*Bathurst City Council v PWC Properties Pty Ltd* (1998) 195 CLR 566, [42]; *Giumelli v Giumelli* (1999) 196 CLR 101, [10], [49]–[50] (the Court); *John Alexander's Clubs Pty Ltd v White City Tennis Club Ltd* (2010) 241 CLR 1; [2010] HCA 19, [126]–[129].

<sup>43</sup>[2012] FCAFC 6, (2012) 200 FCR 296, [583].

<sup>44</sup>*Attorney-General for Hong Kong v Reid* [1994] 1 AC 324.

<sup>45</sup>*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.

<sup>46</sup>*Cedar Capital Partners LLC v FHR European Ventures LLP* [2014] UKSC 45.

<sup>47</sup>*Barnett* (2015).

<sup>48</sup>*Finch and Worthington* (2000), 19.

<sup>49</sup>See e.g., *Lake v Bayliss* [1974] 1 WLR 1073; *Bunny Industries Ltd v FSW Enterprises Pty Ltd* [1982] Qd R 712; *Luxe Holding Ltd v Midland Resources Holding Ltd* [2010] EWHC 1908.

## ***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 continue to debate whether these awards are compensatory, restitutionary or effect disgorgement, and whether they are based on the existence of property rights or property-like rights.<sup>50</sup>

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,<sup>51</sup> 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.<sup>52</sup> 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.<sup>53</sup>

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<sup>50</sup>See the extensive discussion of the various academic points of view in Barnett and Harder (2014), 360–63.

<sup>51</sup>See e.g., *LJP Investments v Howard Chia Investments* (1989) 24 NSWLR 499; *Hampton v BHP Billiton Minerals Pty Ltd* (No. 2) [2012] WASC 285; *Strand Electric & Engineering v Brisford Entertainment* [1952] 2 QB 246; *Gaba Formwork Contractors Pty Ltd v Turner Corp Ltd* (1991) 32 NSWLR 175; *Bunnings Group Limited v Chep Australia Limited* [2011] NSWCA 342.

<sup>52</sup>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).

<sup>53</sup>See e.g., *Wrotham Park Estates Co Ltd v Parkside Homes Ltd* [1974] 1 WLR 798; *Jaggard v Sawyer* [1995] 1 WLR 269; *Bracewell v Appleby* [1975] Ch 408.



## Differences Between Private Law Causes of Action

### *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.<sup>54</sup> 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 reasonably.<sup>55</sup> 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.<sup>56</sup> The principles which govern their award are the ones which are discussed previously under the heading Accounts of profit.

### *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.<sup>57</sup> Thus, its purpose is said to be different to that of account of profits for breach of fiduciary duty.<sup>58</sup>

In *Colbeam Palmer Ltd v Stock Affiliates Ltd*,<sup>59</sup> 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*

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<sup>54</sup>Edelman (2002), 83–86; Worthington (1999), 218–40; Conaglen (2010); Cooter and Freedman (1991), 1045–75.

<sup>55</sup>Warman International Ltd v Dwyer (1995) 182 CLR 544, 558.

<sup>56</sup>Warman International Ltd v Dwyer (1995) 182 CLR 544, 561. Cf Boardman v Phipps [1967] 2 AC 46, 104 (Lord Cohen), 112 (Lord Hodson); Guinness plc v Saunders [1990] 2 AC 663, 701 (Lord Goff).

<sup>57</sup>Dart Industries Inc v Décor Corporation Pty Ltd (1993) 179 CLR 101, 111.

<sup>58</sup>Warman International Ltd v Dwyer (1995) 182 CLR 544, 557.

<sup>59</sup>(1970) 122 CLR 25.

have been granted at the commencement of proceedings.<sup>60</sup> 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.<sup>61</sup>

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.<sup>62</sup>

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.<sup>63</sup> If there is a single act of use, damages will be calculated on the basis of a licence fee,<sup>64</sup> but if there are multiple uses, damages are assessed on a royalty basis.<sup>65</sup> 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.<sup>66</sup> 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.<sup>67</sup> Nonetheless, it has been argued that such damages have a restitutionary flavour.<sup>68</sup> Debate continues as to whether the nature of these damages is compensatory or restitutionary in nature, or perhaps a mixture of both.<sup>69</sup>

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.<sup>70</sup>

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<sup>60</sup>*Colbeam Palmer Ltd v Stock Affiliates Ltd* (1970) 122 CLR 25, 31.

<sup>61</sup>*Colbeam Palmer Ltd v Stock Affiliates Ltd* (1970) 122 CLR 25, 33.

<sup>62</sup>See for a detailed consideration of the differences: Barnett and Harder (2014), 352–53.

<sup>63</sup>Brennan (2011), 214.

<sup>64</sup>*Chabot v Davies* [1936] 3 All ER 211, 228.

<sup>65</sup>*Lewis Trusts v Bambers Stores* [1982] FSR 281.

<sup>66</sup>*General Tire and Rubber Co v Firestone Tyre and Rubber Co Ltd* [1976] RPC 197, 221, 225 (Lord Wilberforce).

<sup>67</sup>*Australasian Performing Rights Association v Grebo Trading Co Pty Ltd* (1978) 23 ACTR 30, 31 (Blackburn J).

<sup>68</sup>Brennan (2003), 190.

<sup>69</sup>Edelman (2002), 217–42; Brennan (2011), 214–27.

<sup>70</sup>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 Barnett and Harder (2014), 352–53, 364.

## *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 Rugby Union*.<sup>71</sup> 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.<sup>72</sup>

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.<sup>73</sup> 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.<sup>74</sup>

Reasonable fee awards have been made for a number of proprietary torts in Australia including trespass to land,<sup>75</sup> and for trespass to goods, conversion and detinue.<sup>76</sup> Historically, courts awarded reasonable fees for trespass to land in the ‘wayleave’ cases<sup>77</sup> and the ‘mesne profit’ cases.<sup>78</sup> 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

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<sup>71</sup>*Hospitality Group v Australian Rugby Union* (2001) 110 FCR 157, 197–99 (Hill and Finkelstein JJ). See also *Esperance Cattle Company Pty Ltd v Granite Hill Pty Ltd* [2014] WASC 279, [463]–[467], esp [464]. Cf USA: *Edwards v Lee’s Administrator* 96 So W 2d 1028 (1936).

<sup>72</sup>*ibid*, 198–99.

<sup>73</sup>*Oughton v Seppings* (1830) 1 B & Ad 241; 109 ER 776; *Lamine v Dorrell* (1706) 2 Ld Raym 1216; 92 ER 303.

<sup>74</sup>*Pavey & Matthews Pty Ltd v Paul* (1987) 162 CLR 221, 227 (Mason and Wilson JJ); 255–56 (Deane J). See *Roxborough v Rothmans of Pall Mall Australia Limited* (2001) 208 CLR 516, [2001] HCA 6, [90] (Gummow J).

<sup>75</sup>*LJP Investments v Howard Chia Investments* (1989) 24 NSWLR 499; *Hampton v BHP Billiton Minerals Pty Ltd* (No. 2) [2012] WASC 285.

<sup>76</sup>*Strand Electric & Engineering v Brisford Entertainment* [1952] 2 QB 246; *Gaba Formwork Contractors Pty Ltd v Turner Corp Ltd* (1991) 32 NSWLR 175; *Bunnings Group Limited v Chep Australia Limited* [2011] NSWCA 342.

<sup>77</sup>*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.

<sup>78</sup>*Elliott v Boynton* [1924] 1 Ch 236; *Wilson v Kelly* [1957] VR 147; *Swordheath Properties Ltd v Tabet* [1979] 1 WLR 285; *Ministry of Defence v Ashman* [1993] 2 EGLR 102; *Ministry of Defence v Thompson* [1993] 2 EGLR 107; *Lollis v Loulatzis* [2007] VSC 547.

fee is the standard measure.<sup>79</sup> Courts have also sometimes awarded reasonable fee damages in lieu of an injunction for a proprietary tort pursuant to Lord Cairns' Act.<sup>80</sup> As noted earlier, the categorisation of reasonable fee awards as effecting disgorgement or even as restitutionary is controversial, and often courts express the opinion that such awards are compensatory. There is no Australian case law on whether 'reasonable fee' damages should be available for non-proprietary torts.

## ***Contract***

Australian law does not allow accounts of profit, constructive trusts, or reasonable fee damages for breach of contract.<sup>81</sup> 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.<sup>82</sup>

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*<sup>83</sup> formed an essential plank of Lord Nicholls' reasoning in *Attorney-General v Blake*,<sup>84</sup> 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.<sup>85</sup>

In some common law countries, courts achieve disgorgement for breach of contract by characterising the contractual relationship as fiduciary (albeit often unconvincingly).<sup>86</sup> This is particularly the case for breaches of negative covenant.<sup>87</sup> However, Australian courts do not do this.

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<sup>79</sup>*Balanced Securities Ltd v Bianco* [2010] VSC 201, [16].

<sup>80</sup>*Bracewell v Appleby* [1975] Ch 408; *Jaggard v Sawyer* [1995] 1 WLR 269.

<sup>81</sup>*Hospitality Group Pty Ltd v Australian Rugby Union Ltd* (2001) 110 FCR 157, 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); *Hydrofibre Pty Ltd v Australian Prime Fibre Pty Ltd and Anor* [2013] QSC 163, [91]–[94]; *Testel Australia Pty Ltd v KRG Electrics Pty Ltd & Anor* [2013] SASC 91, [99]–[109].

<sup>82</sup>Edelman (2002); Harder (2010); Barnett (2012).

<sup>83</sup>[1974] 1 WLR 798.

<sup>84</sup>[2000] UKHL 45, [2001] 1 AC 268.

<sup>85</sup>Jolowicz (1975), 227.

<sup>86</sup>Barnett (2012), 121, 126–28.

<sup>87</sup>*Snepp v United States*, 444 US 507 (1980); *Reading v Attorney General* [1951] UKHL 1, [1951] AC 507; *Reid-Newfoundland Co. v Anglo-American Telegraph Co Ltd* [1912] AC 555.

## ***Statutory Schemes Other Than Intellectual Property Statutes***

The Australian Consumer Law regulates unfair contractual terms, and misleading or deceptive conduct.<sup>88</sup> There is no explicit provision in the Australian Consumer Law allowing for disgorgement and nor was there any provision under the *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 *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 ss 180–183 of the *Corporations Act 2001* (Cth),<sup>89</sup> which are civil penalty provisions.<sup>90</sup> The *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.<sup>91</sup>

## **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 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.<sup>92</sup> 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.

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<sup>88</sup> Australian Consumer Law, Schedule 2 to the Competition and Consumer Act 2010 (Cth).

<sup>89</sup> Corporations Act 2001 (Cth), ss 180–183.

<sup>90</sup> ‘Civil penalty provisions’ are defined by Corporations Act 2001 (Cth), s 1317E.

<sup>91</sup> Corporations Act 2001 (Cth), ss 1317H(2), 1317HA(2), 1317HB(2).

<sup>92</sup> *Attorney-General v Blake* [2000] UKHL 45, [2001] 1 AC 268.

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