

Easter Term [2024] UKSC 17 On appeal from: [2021] EWCA Civ 675

JUDGMENT

Lifestyle Equities CV and another (Respondents) v Ahmed and another (Appellants)

Lifestyle Equities CV and another (Appellants) v Ahmed and another (Respondents)

before

Lord Lloyd-Jones Lord Kitchin Lord Leggatt Lord Stephens Lord Richards

JUDGMENT GIVEN ON 15 May 2024

Heard on 20 and 21 February 2023

Appellants (Appeal 2021/0147) – Ahmed and anr Peter Knox KC Timothy Sampson Adam Riley (Instructed by Ronald Fletcher Baker LLP (West End))

Respondents (Appeal 2021/0147) / Appellants (Appeal 2021/0150) – Lifestyle Equities C.V. and anr Thomas St Quintin Rory Brown (Instructed by Brandsmiths (London))

> Respondents (Appeal 2021/0150) – Ahmed and anr Peter Knox KC Laurent Sykes KC Timothy Sampson (Instructed by Ronald Fletcher Baker LLP (West End)

LORD LEGGATT (with whom Lord Lloyd-Jones, Lord Kitchin, Lord Stephens and Lord Richards agree):

1. The main issues raised by this appeal and cross-appeal are these. When are directors of a company liable as accessories for causing the company to commit a tort of strict liability - in this case, trade mark infringement? In particular, is such liability also strict or does it depend on knowledge (or some other mental element)? And if directors are strictly liable, should they be ordered to account for profits made by either (i) the company or (ii) the directors themselves?

I. THE PROCEEDINGS

The claim

2. The claimants are two companies who can together be called "Lifestyle". Lifestyle brought these proceedings against some 16 defendants claiming remedies for infringement of registered trade marks and passing off. Those sued included two family-owned companies, Continental Shelf 128 Ltd and Hornby Street Ltd, which both traded under the name "Juice Corporation". The defendants also included Mr Kashif Ahmed and his sister, Ms Bushra Ahmed. Mr Ahmed was the sole director of Continental Shelf and they were both directors of Hornby Street at all relevant times. Lifestyle and the Ahmeds are the respective parties to these appeals.

3. Juice Corporation was a wholesale business which arranged for the manufacture of clothing, footwear and headgear and sold it to retailers, mainly in the UK. Mr Ahmed's role included managing the intellectual property rights of the companies. Ms Bushra Ahmed was head of sales for a "division" of Hornby Street called the "House of Brands".

4. Lifestyle complained that the Juice Corporation companies had been offering for sale various items of clothing and footwear with logos displaying the name "Santa Monica Polo Club" and pictures of polo players riding horses. Lifestyle claimed that the use of these signs infringed trade marks registered by Lifestyle which included the words "Beverly Hills Polo Club" and depicted a polo player on a horse. Breaches of both section 10(2) and 10(3) of the Trade Marks Act 1994 were alleged. The Ahmeds were sued on the basis that they had authorised or procured the companies to do the acts complained of or had engaged in a common design with each other or the companies to cause them so to act.

The judge's findings

5. The trial was split into two parts. Both hearings took place before the same judge, Mr Recorder Douglas Campbell QC sitting as a judge of the Chancery Division. The first trial dealt with the liability of certain defendants including Hornby Street but not Continental Shelf or the Ahmeds. Hornby Street was found liable under both section 10(2) and 10(3) of the Trade Marks Act 1994 for infringing Lifestyle's registered trade marks and also for passing off: [2017] EWHC 3313 (Ch); [2018] FSR 15. There was no appeal from that decision. Hornby Street later went into administration at the instigation of its bankers. The company has since been dissolved.

6. The second trial addressed the remaining issues. None of the defendants was legally represented at this trial but the Ahmeds appeared as litigants in person. The judge decided that: (i) Mr Ahmed was jointly and severally liable with the two Juice Corporation companies for the acts of infringement; and (ii) Ms Ahmed was jointly and severally liable with Hornby Street for acts of infringement in so far as its "House of Brands" division was concerned, which the judge found represented 10% of Hornby Street's business: [2020] EWHC 688 (Ch); [2020] FSR 29, para 104.

7. In reaching those conclusions, the judge did not think it necessary to decide whether, as Mr Ahmed maintained, Mr Ahmed had no improper motive, acted on advice and delegated the design of logos to a professional design team. In the judge's view, none of these matters gave rise to a defence in law. The same applied to defences raised by Ms Ahmed that she had no improper motive or intention to infringe. The judge made no finding that either Mr Ahmed or Ms Ahmed knew or ought to have known that there was a likelihood of confusion or infringement. On the judge's view of the law, those matters were not relevant to their liability.

8. Rather than claiming damages, Lifestyle elected to claim against the Ahmeds the remedy of an account of profits. The judge found that sales of infringing goods accounted for about 10% of Hornby Street's turnover on average during the relevant period and calculated that the profits made by Hornby Street from such sales amounted to \pounds 3,129,921. He rejected Lifestyle's claim that the Ahmeds were liable to account to Lifestyle for these profits but held that they were liable to account to Lifestyle for profits which they had personally made from the infringements. He apportioned 10% of their salaries during the relevant period to such profits. This gave rise to a liability of \pounds 144,192 on the part of Mr Ahmed and \pounds 57,007 on the part of Ms Ahmed. The judge also found that a loan of \pounds 635,789 made by Hornby Street to Mr Ahmed was a profit derived from the infringements for which Mr Ahmed was liable to account to Lifestyle.

The appeals to the Court of Appeal

9. Lifestyle appealed to the Court of Appeal against the decision that the Ahmeds were not liable to account for the profits made by Hornby Street from its infringements. The Ahmeds cross-appealed against the decision that they were jointly and severally liable for the infringing acts of Hornby Street and that they had made profits from those infringements for which they were liable to account to Lifestyle.

10. For reasons given by Birss LJ in a judgment with which Moylan and Nugee LJJ agreed, the Court of Appeal dismissed Lifestyle's appeal and rejected most of the Ahmeds' grounds of appeal: [2021] EWCA Civ 675; [2021] Bus LR 1020. On the Ahmeds' appeal, the Court of Appeal upheld the judge's conclusions that the Ahmeds were jointly and severally liable for the infringing acts of Hornby Street and that they should be ordered to account for profits which they had personally made from the infringements. The Court of Appeal also held that the judge was entitled to find that 10% of the Ahmeds' salaries during the relevant period represented such profits. But the Court of Appeal allowed Mr Ahmed's appeal in relation to the loan made to him by Hornby Street and also decided, having raised the point themselves, that income tax payable on the relevant portions of the Ahmeds' salaries should be deducted from the sums payable to Lifestyle.

The issues on these appeals

11. Against that decision both the Ahmeds and Lifestyle appeal to this court pursuing the arguments on which they lost in the Court of Appeal. The issues fall into two categories. First, there is the liability issue. The question here is whether the judge and the Court of Appeal were wrong in law to hold that the Ahmeds were jointly liable with Hornby Street in the absence of any finding that they knew or ought to have known that the company's use of the Santa Monica Polo Club signs infringed Lifestyle's trade marks. Second, there are issues relating to the remedy of an account of profits. If the Ahmeds were jointly liable with Hornby Street for its infringements, was it appropriate to award this remedy when there was no finding that the Ahmeds had acted unconscionably or in bad faith? If it was, should they, as Lifestyle contends, have been ordered to account to Lifestyle for profits which the company had made from its infringing trade? If not, but it was in principle correct to order the Ahmeds to account for profits which they had themselves made from the infringements, was the judge right to regard the loan made to Mr Ahmed and a proportion of the Ahmeds' salaries as such profits? And if it was in principle right to treat a proportion of the Ahmeds' salaries as profits, was the Court of Appeal entitled and correct to hold that in calculating those profits deductions should be made for income tax?

12. I will first consider the liability issue. Then I will consider the issues relating to the remedy of an account of profits.

II. THE LIABILITY ISSUE

Did the Ahmeds infringe Lifestyle's trade marks?

13. Although it is not how the claims against them have been put, in addressing the liability issue it is useful to begin by asking whether, on the facts found by the judge, the Ahmeds themselves infringed Lifestyle's trade marks. If they did, that would have been a straightforward basis on which to find them liable.

14. Section 9(1) of the Trade Marks Act 1994 states that the proprietor of a registered trade mark "has exclusive rights in the trade mark which are infringed by use of the trade mark in the United Kingdom without his consent. The acts amounting to infringement, if done without the consent of the proprietor, are specified in ... section 10."

15. The judge found at the first trial that acts attributable to Hornby Street, done without Lifestyle's consent, amounted to infringements of Lifestyle's trade marks under both section 10(2) and 10(3). Section 10(2) states:

"A person infringes a registered trade mark if he uses in the course of trade a sign where because —

(a) ...

(b) the sign is similar to the trade mark and is used in relation to goods or services identical with or similar to those for which the trade mark is registered,

there exists a likelihood of confusion on the part of the public ..."

Section 10(3) states:

"A person infringes a registered trade mark if he uses in the course of trade, in relation to goods or services, a sign which

(a) is identical with or similar to the trade mark,

(b) ...

where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark."

16. Section 10(4), at the relevant time, said that "a person uses a sign if, in particular, he -

(a) affixes it to goods or the packaging thereof;

(b) offers or exposes goods for sale, puts them on the market or stocks them for those purposes under the sign ...;

(c) imports or exports goods under the sign; or

(d) uses the sign on business papers or in advertising."

17. It is common ground that under both section 10(2) and 10(3) liability is strict. To establish an infringement, there is no need to prove knowledge or fault - only that the person concerned, without the consent of the proprietor of the trade mark, did an act of the kind specified in one of those subsections. Nor is it a defence that the person concerned acted in good faith and without any improper motive.

18. The judge's findings at the first trial conclusively established that the Santa Monica Polo Club signs used by Hornby Street fell within the scope of both section 10(2) and 10(3): that is to say, (i) the signs were similar to Lifestyle's Beverly Hills Polo Club trade marks and were used in relation to goods similar to those for which Lifestyle's trade marks were registered; (ii) because of this, there existed a likelihood of confusion on the part of the public (the test under section 10(2)); and (iii) in circumstances where Lifestyle's trade marks had a reputation in the United Kingdom,

the use of the signs, lacking due cause, took unfair advantage of, or was detrimental to, the distinctive character or the repute of the trade marks (the test under section 10(3)).

19. The question then is whether the Ahmeds were themselves persons who used what I will call "the offending signs" in the course of trade. If they did, it would follow that they, as well as Hornby Street, were persons who infringed Lifestyle's trade marks within the meaning of section 10(2) and (3). They would therefore be liable to Lifestyle under section 14(1) of the Trade Marks Act 1994, which renders an infringement of a registered trade mark actionable by the proprietor of the trade mark.

20. The judge made findings at the second trial that Mr Ahmed was the managing director of the Juice Corporation companies and the "ultimate decision-maker"; that he was the person who managed the intellectual property portfolio for the companies; that he instructed Hornby Street's design director to oversee designing a logo for the Santa Monica Polo Club brand; and that he selected the factory with which to place orders and agreed prices with the factory for the manufacture of Santa Monica Polo Club polo shirts: [2020] EWHC 688 (Ch); [2020] FSR 29, paras 41 and 42. The judge did not make any finding that Mr Ahmed personally did any acts which were uses of any of the offending signs.

21. As for Ms Ahmed, the judge found that, as head of sales for the "House of Brands" division of Hornby Street, her role was a very hands-on one managing the day to day running of this business, with the help of two members of staff: a salesperson and a warehouse assistant. She had a showroom which stocked Santa Monica Polo Club goods; it was her decision to display those goods; and she sold them to customers: [2020] EWHC 688 (Ch); [2020] FSR 29, para 45.

22. Did Ms Ahmed, in choosing what goods to display and in making sales to customers of goods bearing the offending signs, herself "use" the signs "in the course of trade"? Neither party has found any authority which has decided or even considered whether those words apply to an employee who in the course of their employment does such acts on behalf of their employer. But for the Ahmeds, Mr Peter Knox KC submitted that such a person is not within the scope of section 10. He argued that, even without any pronoun before the word "trade" which would put the matter beyond doubt, it is implicit in the statutory wording that the "trade" in question must be carried on by the person who uses the sign. Mr Knox further submitted that a person who executes sales of goods or does other acts in relation to goods in the course of their employer's trade does not "use" a sign under which the goods are sold within the meaning of section 10. Thus, he argued, it is only the employer who "uses [the sign] in the course of trade" and is therefore a person who, where the other requirements of any of subsections 10(1)-(3) are met, infringes the trade mark.

23. For Lifestyle, Mr Thomas St Quintin emphasised that Lifestyle has not alleged that the Ahmeds themselves infringed Lifestyle's trade marks. Its case is solely that the Ahmeds are jointly and severally liable with the company for its infringing acts. But he also submitted that an employee can personally infringe a trade mark by acts done in the course of her employment and that, on the facts found, Ms Ahmed herself "used" the offending signs "in the course of trade" by offering goods for sale to customers under those signs. She could therefore have been held liable on that basis.

24. Particularly given the strict nature of the liability and the fact that there is no need to prove any mental element or fault, it would be a strong thing to impose personal liability for trade mark infringement on, for example, shop assistants who in the course of their employment put on display goods to which an offending sign is fixed or complete sales of such goods to customers over the counter. To make such individuals personally liable as a result of acts of this kind would seem unjust and to cast the net of strict liability more widely than is necessary or reasonable to protect the rights of trade mark owners. It would therefore take unequivocal language to persuade me that section 10 is intended to have this effect. As it is, the more natural as well as more reasonable interpretation is, in my view, that contended for by Mr Knox, which construes the statutory language as referring to acts done by a person on their own account and not as an employee or agent of someone else.

I do not think that the words "in the course of trade" are in themselves 25. conclusive. The same phrase is used in European legislation, including Council Directive 89/104/EEC, which the Trade Marks Acts 1994 was intended to implement in the United Kingdom, and its successor, Directive 2008/95/EC, as well as Council Regulation (EC) 40/94 regulating EU trade marks. The Court of Justice has repeatedly held that in those instruments the phrase "in the course of trade" means "in the context of commercial activity with a view to economic advantage and not as a private matter": see eg Arsenal Football Club plc v Reed (Case C-206/01) [2003] Ch 454, para 40, and other cases cited by Arnold J in Och-Ziff Management Europe Ltd v Och Capital LLP [2010] EWHC 2599 (Ch); [2011] Bus LR 632, para 54. All the same, both the phrase itself and this explanation of it are more naturally understood as referring to persons who are trading on their own account and for their own economic advantage rather than to persons who are simply performing duties for their employer which involve, for example, stocking goods, putting them on display and executing sales on behalf of their employer in the course of their employer's business and for their employer's economic advantage. Some further support for this narrower interpretation is provided by the description in judgments of the Court of Justice of a person who "uses" a sign "in the course of trade" as an "economic operator": see L'Oréal SA v eBay International AG (Case C-324/09) EU:C:2011:474, [2012] Bus LR 1369, paras 54-55; A v B (Case C-772/18) EU:C:2020:341, [2020] Bus LR 1044, para 23. That is an apt description of someone conducting a commercial activity as a principal but not of someone working as an employee in another person's business.

26. In the present case the relevant trade in clothing and associated goods was being carried on by Hornby Street. Ms Ahmed was not herself trading. On occasions when she put goods bearing the offending Santa Monica Polo Club signs on display in the showroom and sold them to customers, she did so on behalf of Hornby Street, so that Hornby Street was using the signs in the course of trade and thereby infringing Lifestyle's trade marks. As I construe section 10 of the Trade Marks Act 1994, however, she did not thereby herself infringe Lifestyle's trade marks. It cannot make any difference in this regard that Ms Ahmed was a director of the company as well as an employee. That does not alter the conclusion that it was only the company, and not Ms Ahmed personally, which (partly because of her acts) was using the signs in the course of trade.

Joint liability for infringements

27. Absent authority one might suppose that, if a person has not infringed a registered trade mark in any of the ways specified in the Trade Marks Act 1994, then no action can brought against that person in respect of any infringement by the proprietor of the trade mark. That, however, is not the approach which English law has taken. Infringements of trade marks (and other intellectual property rights) are regarded as torts; and the principles by which, under the common law, a person may be held jointly liable with another person for a tort are applied to infringements of statutory intellectual property rights. In Unilever plc v Gillette (UK) Ltd [1989] RPC 583, 603, Mustill LJ described this as "a bold step, since it applies a common law doctrine to the interpretation of a statute." At the same time, as he also said, the principle is firmly established. I will say more later about the relationship between the statutory rights and the common law doctrine. But I will say now that any perceived doctrinal difficulty in my view disappears once it is recognised that the relevant common law principles are principles of accessory liability which do not alter the scope of the statute; they operate alongside it and, where applicable, impose liability on persons who have not committed any statutory wrong. The principles operate in just the same way as they do in relation to common law torts, where they impose liability on persons who have not themselves committed any tort.

28. Lifestyle relies on two principles by which a person may be held liable as an accessory for a tort committed by another person. In headline form they are: (1) authorising or procuring another person to commit a tort; and (2) participating in a common design to commit a tort. The judge found the Ahmeds liable on both bases, and the Court of Appeal affirmed that finding.

29. The Ahmeds do not dispute that, as a matter of causation, their conduct in giving instructions to manufacture, stock and offer for sale goods bearing the offending signs induced Hornby Street to infringe Lifestyle's trade marks (limited, in Ms Ahmed's case, to the infringements attributable to the "House of Brands" division). The dispute is

about what mental state is required to make the Ahmeds liable as accessories for these infringements. The judge and the Court of Appeal took the general position in law to be that, for a tort of strict liability like trade mark infringement, accessory liability does not depend on knowledge that the acts of the primary actor were or were likely to be infringements. It is enough that the defendant intended that the primary actor should do the things which have been held to be infringements (as is the case here): see the judgment of Birss LJ, paras 25, 28-30.

30. It will be necessary to examine whether this general proposition of law is correct. But in this court, as in the Court of Appeal, the arguments made by the Ahmeds focused mainly on their position as directors of Hornby Street. Almost all the cases which counsel for the Ahmeds cited as precedents concerned company directors. They advanced various arguments to the effect that directors, provided they act properly in performance of their duties to the company and without notice that the company is acting unlawfully, cannot be jointly liable with the company for infringements of intellectual property rights or other torts of strict liability committed by the company.

31. I will first address these arguments as a matter of principle and explain why the attempt to single out company directors (or a wider class of persons which includes directors) for special treatment in this way is, in my opinion, misguided and was rightly rejected by the Court of Appeal. I will next consider the cases cited by counsel for the Ahmeds and explain why, in my view, they do not justify a different conclusion. On the footing that the same rules apply to directors as to anyone else, I will then turn to what I regard as the critical question. Is it correct that, as Lifestyle contends, where the tort is one of strict liability, accessory liability is also strict?

The Ahmeds' case on the liability of directors

32. For the Ahmeds, Mr Knox KC submitted that, where directors (or directors and employees) act in good faith and with reasonable care in the discharge of their duties to the company, and without actual or constructive notice that their acts will cause an infringement of intellectual property rights, then they cannot be held jointly liable with the company for infringements. This is because their acts are treated in law as the company's acts. Mr Knox described this as "the fundamental point." He elaborated on it by submitting that the law would be incoherent if directors were liable to third parties for doing what the law (as codified in sections 170 to 177 of the Companies Act 2006) requires them to do - in particular, by acting in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole: see section 172(1). He also submitted that the general purpose of the Companies Acts is to enable individuals to trade through a company with limited personal liability; and that imposing liability on owners and the directors who manage the company contradicts this purpose because it treats them as separate from the company rather than as one and the same.

33. I reject these arguments. I do not accept that there is any general principle of English law - whether of company law, the law of agency or the law of tort - which exempts a director, acting in that capacity, from ordinary principles of tort liability. For this reason it matters whether the Ahmeds themselves infringed Lifestyle's trade marks. I have concluded that they did not. But if they had themselves infringed Lifestyle's trade marks, the fact that they did so in discharging their responsibilities as directors (or, for that matter, as employees or agents) of Hornby Street would not have shielded them from liability.

Rules of attribution

34. In the terminology coined by Lord Hoffmann in *Meridian Global Funds Management Asia Ltd v Securities Commission* [1995] 2 AC 500, the rules of law that determine which acts of individuals are attributed to a company are known as "rules of attribution". These rules comprise what Lord Hoffmann called the company's "primary" rules of attribution contained in its constitution and implied by company law, as well as "general" rules of attribution which apply equally to living persons: in particular, general principles of agency and vicarious liability. In some contexts, "special" rules of attribution apply: see pp 506-507.

35. These rules of attribution do not, however, operate in reverse to cause acts attributed to the company to be treated as if they were not acts of the individual who actually did those acts. It does not follow that, because an act done by a director or other individual is treated as the company's act for which the company can be held liable, the director is immunised from liability. As numerous commentators have pointed out, such reasoning is fallacious: see Peter Watts, "The Company's Alter Ego - An Impostor in Private Law" (2000) 116 LQR 525; Robert Flannigan, "The Personal Tort Liability of Directors" (2002) 81 Canadian Bar Review 247; Neil Campbell and John Armour, "Demystifying the Civil Liability of Corporate Agents" (2003) 62 CLJ 290; Stefan Lo, "Liability of Directors as Joint Tortfeasors" [2009] JBL 109; Stefan Lo, "Dis-Attribution Fallacy and Directors' Tort Liabilities" (2016) 30 Australian Journal of Corporate Law 215. In some of these articles the fallacy has been called the "dis-attribution fallacy" - meaning that it is fallacious to suppose that the attribution to B of an act done by A results in the dis-attribution of the act from A.

36. Employees who commit torts in the course of their employment for which their employer is vicariously liable are not thereby freed from personal liability. Indeed, the employer in such a case can claim an indemnity from the employee: *Lister v Romford Ice & Cold Storage Co* [1957] AC 555. Similarly, agents are in general personally liable for torts and other civil wrongs committed while acting on behalf of their principal, whether or not they were acting within the scope of their authority: see *Bowstead & Reynolds on Agency*, 23rd ed (2024), para 9-115 et seq, article 113 (and cases cited). It

is not obvious why directors should enjoy privileged treatment not accorded to other agents or employees of a company.

Company law arguments

37. The arguments for treating directors differently appeal to company law. I do not accept, however, that company law provides any support for shielding directors from personal liability in tort. An incorporated company is treated in law as a separate person. It therefore has rights and obligations which are distinct from those of the members who incorporated or hold shares in the company and from those of its directors and other officers. The fact that a company is regarded as a separate person does not, however, justify treating a director whose act is attributed to the company as free from personal liability for that act. Rather, the opposite is true. To suggest that directors cannot be personally liable for acts which are regarded in law as acts of the company fails to respect the separate personality of the company. It treats the company and the directors who manage it as - in the words used by counsel for the Ahmeds - "one and the same" rather than as separate persons. Recognising a company and its directors as separate persons entails that their liabilities are distinct from one another. This can be advantageous for the directors (and other agents of the company) as it means that the company may incur liabilities which are not also liabilities of the directors. But it also means that there is nothing inconsistent or incongruous in a situation where a company and a director are each legally liable to a claimant injured by a wrongful act.

38. A major benefit of incorporation under the Companies Acts is the ability to form a limited company. Unlike an unlimited company, a limited company can be used as a vehicle for trading with the assurance that its members will not lose more than they have agreed to invest in the company if its business fails. This feature of company law, however, has nothing to do with liabilities incurred by directors or managers of the company when acting as such. The protection of limited liability applies only to the members of the company. In the case of an unlimited company, the members have an unlimited liability on a winding up to make up any shortfall in its assets to ensure that its debts are paid. That is not so with a limited company. In the case of a company "limited by shares," the liability of each member is limited to the amount which the member has agreed to pay on their shares. Once that amount has been paid (so that the shares are "paid up"), the member is under no further liability to contribute to the assets of the company. If directors are also shareholders, they will have the benefit of this limitation on their liability as shareholders. In their capacity as directors they do not have it and do not need it, as they have no relevant liability to limit: being a director does not make a person liable to contribute to the assets of the company if it enters into insolvent liquidation.

39. I also reject the argument that relieving directors of liability for wrongful acts done in the performance of their duties as directors is necessary to avoid incoherence in

the law. I find it hard to see that a director's duties to the company could ever be said to oblige the director to act unlawfully or in a way that causes the company to commit a tort. The duty embodied in section 172(1) of the Companies Act 2006 to act in a way the director considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole cannot reasonably be interpreted as obliging the director to infringe or cause the company to infringe intellectual property rights (or commit any other legal wrong). A director who acts in such a way may be able to say, "I did not realise or have reason to believe that I was acting unlawfully," but not: "Discharging my duties as a director left me with no alternative but to act unlawfully." The fact that a person did not realise or have reason to believe that their act was unlawful may or may not, depending on the nature of the tort, prevent that person from incurring liability. But I cannot see why the fact that the person is under a duty to someone other than the victim to act in good faith and with reasonable care should exclude their liability to the victim. The same applies to other duties owed to the company by directors. There is no inherent conflict between the duties of a director and the duty of every individual not to violate the rights of others.

40. In short, there is no question of holding directors liable just because they are directors for acts attributed to the company: see *Rainham Chemical Works Ltd v Belvedere Fish Guano Co Ltd* [1921] 2 AC 465, 488. The question is whether the fact that they are directors should relieve them of liability for their own tortious acts. There is no reason why it should.

Assumption of responsibility

41. Some confusion on this issue has arisen from cases concerned with the liability of directors for negligent misstatement. In *Trevor Ivory Ltd v Anderson* [1992] 2 NZLR 517 Mr Ivory, the sole director and shareholder of a company, gave careless advice to some clients of the company. The question was whether Mr Ivory was personally liable for his negligent misstatements. The New Zealand Court of Appeal held that he was not. The rationale common to all three judgments was that Mr Ivory was not liable because he had assumed no personal responsibility to the claimants. In *Williams v Natural Life Health Foods Ltd* [1998] 1 WLR 830 the House of Lords likewise found that a company director was not personally liable for negligently prepared financial projections which induced the claimants to enter into a contract with the company. Again, the reason was that the director had not assumed personal responsibility for the statements made to the claimants.

42. In a case where the individual who makes the statement is (and is understood to be) representing someone else, the normal inference is that only the principal is assuming responsibility for the accuracy of the statement made on its behalf, and not the agent personally. Hence the agent will not be liable if the statement is false and is made negligently. This is not, however, because of any principle that a director who does an

act which would otherwise give rise to liability in tort can escape liability if the act is done on behalf of the company. Nor is it because of any principle that an agent who does an act which would otherwise give rise to liability in tort can escape liability if the act was done on behalf of the principal. There is no such principle. The reason is only that, in the case of this particular tort, an assumption of responsibility is necessary to give rise to liability and the agent has not assumed responsibility.

43. The tort of negligent misstatement is analogous in this way to the law of contract. Liability for negligent misstatement arises out of a relationship described by Lord Devlin in Hedley Byrne & Co Ltd v Heller & Partners Ltd [1964] AC 465, 529, as "equivalent to contract, that is, where there is an assumption of responsibility in circumstances in which, but for the absence of consideration, there would be a contract." An agent known to be acting as such who makes a contract is not liable on the contract unless, as a matter of objective interpretation, it has been agreed that the agent is to be liable (along with or instead of the principal): see Bowstead & Reynolds on Agency, 23rd ed (2024), para 9-001, article 97; Robert Stevens, "Why do agents 'drop out'?" [2005] LMCLQ 101. A similar principle applies when an agent makes a statement intended to be relied on by a third party. The underlying distinction is between liability which is voluntarily undertaken and depends on what has been agreed or communicated between the claimant and the defendant and liability which is simply imposed by law on the defendant in relation to conduct which has injured the claimant. In the latter case the capacity in which the defendant was acting is not normally a relevant consideration.

44. Any room for doubt on this point was removed by the decision of the House of Lords in Standard Chartered Bank v Pakistan National Shipping Corpn (Nos 2 and 4) [2002] UKHL 43; [2003] 1 AC 959. In that case a company director had deceitfully made false statements to a bank in order to obtain payment under a letter of credit in favour of the company. The Court of Appeal held that the director was not personally liable for deceit, reasoning that the relevant statements were expressly made on behalf of the company and the director had not led the bank to believe that he was assuming personal responsibility for the statements: [2000] 1 Lloyd's Rep 218, 235. They based this conclusion on the decision in Williams. An appeal by the bank to the House of Lords was allowed without the bank's counsel even being called on. Lord Hoffmann (with whose judgment the other law lords agreed) pointed out, at para 21, that the reason why assumption of responsibility was relevant in Williams was that negligent misrepresentation is analogous to contract and "just as an agent can contract on behalf of another without incurring personal liability, so an agent can assume responsibility on behalf of another ... without assuming personal responsibility." The decision in Williams "had nothing to do with company law" (para 23) and its reasoning did not apply to liability for fraud (para 22). The fact that the director's representation and knowledge would also be attributed to the company "cannot detract from the fact that they were his representation and his knowledge" and made him liable for deceit (para 20).

The principle in Said v Butt

45. In *Standard Chartered Bank*, unlike *Williams*, the director had personally committed a tort. The fact that he did so while acting as a director did not relieve him of liability. The decision in *Standard Chartered Bank* confirms that there is no rule of company or agency law which excepts directors from the general principles of tort law. I see no reason why the position should be different if the liability of the director is as an accessory rather than as a primary tortfeasor. The reasons for rejecting the notion that directors' liability in tort depends on special principles apply equally in both cases.

46. Counsel for the Ahmeds, however, have argued that there is a difference. Their argument relies on an analogy with cases of directors who procure the company to break a contract, knowing that this is what they are doing. The leading case is *Said v Butt* [1920] 3 KB 497. The claimant, Mr Said, knew that he would not be sold a ticket for the first night of a play (because of a dispute with the managers of the theatre company) but bought a ticket through a friend. On the orders of the theatre company's managing director, Sir Alfred Butt, Mr Said was refused admission to the theatre on that night. He sued Sir Alfred Butt personally for procuring the theatre company to break the contract made by the sale of the ticket. The claim failed because it was held that the company had not made a contract with Mr Said but only with his friend. McCardie J still considered what the position would have been if the company had made a contract with Mr Said, Having referred to the general principle that knowingly inducing a breach of contract is a tort, the judge said, at pp 505-506:

"But the servant who causes a breach of his master's contract with a third person seems to stand in a wholly different position. He is not a stranger. He is the alter ego of his master. His acts are in law the acts of his employer. In such a case it is the master himself, by his agent, breaking the contract he has made, and in my view an action against the agent ... must therefore fail, just as it would fail if brought against the master himself for wrongfully procuring a breach of his own contract."

McCardie J concluded, at p 506, that "if a servant acting bona fide within the scope of his authority procures or causes the breach of a contract between his employer and a third person, he does not thereby become liable to an action of tort at the suit of the [third person]."

47. Said v Butt has been followed on this point by courts in England and Wales and elsewhere in the common law world, including by the High Court of Australia in O'Brien v Dawson (1942) 66 CLR 18. The principle is not limited to directors but

applies to any agent or employee who is alleged to have procured their principal or employer to act in breach of contract. In *PT Sandipala Arthaputra v STMicroelectronics Asia Pacific Pte Ltd* [2018] SGCA 17; [2018] 1 SLR 818 the Singapore Court of Appeal, in a thoughtful judgment, gave close consideration to the principle in *Said v Butt.* They also raised the question whether the principle should apply not only where a director has procured a breach of contract by the company but also where the director has procured the company to commit a tort. They suggested two possible responses to this question. One would be to limit the principle to breach of contract. *Said v Butt* would be explained on the ground that, having contracted with a specific party, the other party is taken to have accepted that "remedies for any breach of contract would be restricted to the contracting parties and nothing more" (para 76). The second possible response would be to extend the principle to other torts (para 78). The court did not express a concluded view on this question, which was not directly material to the appeal, but said that "there are compelling arguments in support of both views" (para 79).

Does the principle in Said v Butt extend to procuring a tort?

48. Counsel for the Ahmeds submit that the second possible response identified by the Singapore Court of Appeal in the *Arthaputra* case is the correct one. That approach finds support in *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* [2000] FCA 980; (2000) 177 ALR 231, paras 125-134, a decision of the Federal Court of Australia, where Finkelstein J treated *Said v Butt* as authority for a general principle that a director of a company acting in that capacity cannot be held liable for procuring the company to infringe the rights of another. He applied this principle to hold that a director was not personally liable for procuring his company to infringe a patent.

49. In *Said v Butt* itself McCardie J made it clear that he did not regard his reasoning as extending to claims against a director or employee for procuring their principal to commit a tort. In his words, at p 506:

"Nothing that I have said today is, I hope, inconsistent with the rule that a director or a servant who actually takes part in or actually authorizes such torts as assault, trespass to property, nuisance, or the like may be liable in damages as a joint participant in one of such recognized heads of tortious wrong."

To see whether a principled distinction can be drawn, however, it is necessary to identify with clarity the reason why an agent or employee who procures their principal or employer to break a contract with a third person is not liable in damages to that person.

50. I have quoted at para 46 above the reason given for that rule in *Said v Butt*. The reasoning seems to be that, if an employee or agent acting within the scope of their authority causes their principal to break a contract, then their act (on ordinary agency principles) is to be attributed to the principal. Thus, if the agent could be held liable in tort for inducing a breach of the contract, so too could the principal. Yet this would result in the principal being liable not only for breaking the contract but for inducing himself to break the contract, which would be nonsensical. Therefore, the agent in this situation cannot be liable for inducing the breach.

51. This reasoning was approved in *DC Thomson & Co Ltd v Deakin* [1952] Ch 646, 680-681, by Evershed MR, who also adopted this statement of it in *Winfield's Law of Torts*, 5th ed (1950), p 603:

"If my servant acting bona fide within the scope of his authority, procures or causes me to break a contract which I have made with you, you cannot sue the servant for interference with the contract; for he is my alter ego here, and I cannot be sued for inducing myself to break a contract ..."

See now Winfield & Jolowicz on Tort, 20th ed (2020), para 19-015.

52. I consider this reasoning to be flawed. Certainly, it would make no sense to hold a party liable in tort for wrongfully procuring a breach of their own contract. But the reason for that is that the tort of inducing a breach of contract can only apply in a situation involving three parties. The tort is committed by a person (A) who knowingly procures the doing of an act by another person (B) which violates a right of the claimant (C) under a contract between B and C. The primary actor (B) cannot be liable on this principle. So a party to a contract who breaks the contract cannot be liable for procuring the breach. This objection does not arise, however, where the person who procures the breach is not the contracting party but another person. Contrary to what was said by McCardie J, an employee is not the "alter ego" of their employer. As discussed above, the fact that the employee's acts "are in law the acts of his employer" does not relieve the employee of liability if the act of the employee is tortious. That is the "disattribution fallacy" discussed above. Thus, in my view, McCardie J's argument does not provide a valid reason for his conclusion that an employee or agent cannot be liable in damages for inducing a breach of contract by their employer or principal.

53. The inadequacy of the reasoning has led some to doubt whether McCardie J's conclusion can be justified. In *Welsh Development Agency v Export Finance Co Ltd* [1992] BCC 270, 289, Dillon LJ expressed "grave reservations" about the reasoning in *Said v Butt* because he could see no relevant distinction which depended on whether the

liability of the principal resulting from the agent's wrongful acts lies in breach of contract rather than tort. He said:

"Since the agent or employee is normally personally liable for any tortious acts he does to third parties in the course of his agency or employment, I would not find any conceptual difficulty in holding that an employee or agent who, in the course of his employment or agency, wrongfully causes a breach of a contract between his employer or principal and a third party is liable in tort to the third party for his tortious act of wrongfully causing a breach of contract ..."

Dillon LJ nevertheless thought that *Said v Butt* had stood as authority for so long and been so widely accepted that the Court of Appeal should not depart from it. Staughton LJ also expressed scepticism, saying that "[t]he rule, if such it be, seems anomalous to me" (p 305). By contrast, the third member of the court, Ralph Gibson LJ, made no criticism of the rule in *Said v Butt*. He described its purpose as being to avoid the undesirable consequence of making an agent or employee personally liable in tort for "what could be seen in commercial reality as no more than a breach of contract on the part of the employer."

Tort's cooperation principle

54. I think that the rule stated in Said v Butt is sound and that there is a good reason to distinguish between an agent who procures a breach of contract by the principal and an agent who commits or procures the commission of such torts as those mentioned by McCardie J in the passage quoted at para 49 above. Essentially, it is the reason suggested by the Singapore Court of Appeal in Arthaputra for limiting the principle to breach of contract. I would explain it in this way. When parties make a contract, unless the contract is personal in nature, the general rule is that a party may employ agents to carry out its obligations. When the contracting party is a company, that is of course the only possible means of performance. If a company breaks a contract, that must be because one or more agents of the company have caused the breach. When an agent, acting as such, makes a contract, the normal understanding is that the agent assumes no liability towards the other contracting party. Only the principal does. Similarly, the normal understanding is that, if the agent causes the principal to break the contract, only the principal will incur liability to the other contracting party, and not the agent. This is, I think, a general norm or social understanding which the law should and does reflect.

55. It would be inconsistent with that understanding for the law of tort to make an agent who, acting within the scope of their authority, causes or procures a breach of contract by the principal liable to compensate the other contracting party for loss

resulting from the breach. By the same token, to allow the injured party to recover damages from the agent would give them a free ride. That is because the same norm or understanding that, unless otherwise specifically agreed, only the contracting parties themselves will be liable in the event of a breach of the contract entails that, if a party wants a right of recourse against an agent of the other party, they must bargain for it.

56. That ordinary understanding can be seen, for example, in the judgment of Waller J in *Ridgeway Maritime Inc v Beulah Wings Ltd (The "Leon")* [1991] 2 Lloyd's Rep 611, where the rule in *Said v Butt* was applied. In that case a company was found to have wrongly repudiated a contract to charter a ship. As well as suing the company for breach of contract, the shipowners sued its director, Dr Braithwaite, in tort for inducing the breach by writing a letter on behalf of his company which he knew would place the company in breach. The claim against him failed. In response to the contention that Dr Braithwaite was liable for procuring the breach, Waller J said, at p 625:

"That would seem to me to be providing the plaintiffs with a form of security that they simply never had in this case. They might have sought a guarantee from Dr Braithwaite personally, but they were content to make a contract with [the company], and it would seem to me that, however unfortunately Dr Braithwaite may have behaved ..., that cannot render him liable on the contract personally, when he would not otherwise have been."

It is possible to view this consequence as an instance of a wider principle which 57. Jane Stapleton in her recent book, Three Essavs on Torts (2021), ch 2, p 36, calls "tort's cooperation principle". She argues that it is a general principle of tort law that, where parties come together voluntarily to cooperate with each other on the basis of what parties in their position would reasonably understand to be a particular allocation of risk, the law will not impose obligations in tort which would circumvent that risk allocation. An example is the common case of a building contract under which a single main contractor contracts with the building owner to construct a building and enters into sub-contracts for the performance of the work and the supply of materials. If the work or materials are defective, it is not normally open to the building owner to sue a subcontractor or supplier in the tort of negligence. This is not because the building owner has made any contractual promise not to sue the sub-contractor or supplier. Ex hypothesi there is no privity of contract between them. It is because the participants have chosen to cooperate with each other on the basis of a risk allocation expressed in a particular contractual structure and the law of tort will not impose obligations which would circumvent this allocation of risk: see eg Simaan General Contracting Co v Pilkington Glass Ltd (No 2) [1988] QB 758; Norwich City Council v Harvey [1989] 1 WLR 828; Henderson v Merrett Syndicates Ltd [1995] 2 AC 145, 196 (Lord Goff of Chieveley).

58. The principle is not limited to cases where the risk allocation is embodied in one or more contracts. Jane Stapleton cites Lord Denning's observation in *Midland Silicones Ltd v Scruttons Ltd* [1962] AC 446, 488, that "it is an accepted principle of the law of tort that no man can complain of an injury if he has voluntarily consented to take the risk of it on himself. This consent need not be embodied in a contract. Nor does it need consideration to support it." Thus, the principle which explains the rule in *Said v Butt* can also be engaged where liability in tort arises out of a relationship "equivalent to contract" involving an assumption of responsibility.

59. In *Williams v Natural Life Health Foods Ltd*, discussed above, the claimants advanced an argument in the House of Lords that, even if the director did not himself owe a duty of care to the claimants, he had directed that the negligently prepared financial projections be supplied to the claimants. Accordingly, he was liable as a joint tortfeasor with the company, which had been found liable to the claimants for negligent misstatement. Lord Steyn held that, procedurally, it was not open to the claimants to make this argument. But he dealt with it anyway, saying at pp 838-839:

"The fallacy in the argument is clear. In the present case liability of the company is dependent on a special relationship with the [claimants] giving rise to an assumption of responsibility. [The director] was a stranger to that particular relationship. He cannot therefore be liable as a joint tortfeasor with the company. If he is to be held liable to the [claimants], it could only be on the basis of a special relationship between himself and the [claimants]. There was none. I would therefore reject this alternative argument."

60. This reasoning was obiter but was recently relied on by the Court of Appeal in *Barclay-Watt v Alpha Panareti Public Ltd* [2022] EWCA Civ 1169; [2022] 1 All ER 165, para 76, as persuasive authority for deciding that a director of a company which had given negligent advice to customers could not be held liable as an accessory for the tort committed by the company.

61. Lord Steyn's reasoning in the passage quoted above may fairly be described as compressed. The passage might be read as saying that the director could not be liable as a joint tortfeasor with the company because he did not owe a duty of care to the claimants jointly with the company. But such reasoning would be wrong. As I will discuss later, a defendant may be liable as a joint tortfeasor with another even though they did not jointly owe a duty of which they were both in breach, and indeed even if the defendant has not himself committed a tort at all. An example of such a case in the tort of negligence is *Yuille v B & B Fisheries (Leigh) Ltd* [1958] 2 Lloyd's Rep 596. There a director was held jointly liable with the company for personal injury suffered by

an employee serving on one of the company's ships on the basis that the director had caused the company to send ships to sea in an unseaworthy condition.

62. What again distinguishes *Williams* is that the duty in that case depended on an assumption of responsibility said to create a "special relationship". The claimants in *Williams*, in choosing to rely on information provided to them in negotiating a contract, were prima facie taking the commercial risks of doing so. It would have subverted this allocation of risk if a director of the other contracting party who had not assumed responsibility for the reliability of the information could be held liable in tort - whether as a primary tortfeasor or as an accessory - for loss caused by reliance on the information. This is how I would interpret Lord Steyn's reasoning (1) that the director was "a stranger" to the relationship between the company and the claimants and (2) that, if the director was to be held liable to the claimants, it could only be on the basis of a special relationship between the director and the claimants - of which there was none.

63. I do not wish to give the impression that the law in this area, as it currently stands, is completely coherent. It is unclear whether the decision of the House of Lords in *Henderson v Merrett* that a duty of care was owed by the managing agents of syndicates at Lloyd's to the members of the syndicates can be reconciled with the reasoning in *Williams*. But it is not necessary to confront these difficulties to decide this case, as the liability of the company here is not based on a contract or an assumption of responsibility. It is sufficient to conclude, as I do, that the rule in *Said v Butt* does not apply to civil wrongs which do not depend on any contract or voluntary arrangement between the parties and where liability arises even if they are complete strangers to one another. Infringement of a trade mark is a wrong of this kind.

Case law on liability of directors for company's torts

64. So far I have been considering the liability of directors for torts committed by the company in terms of legal principle. I have concluded that, in the context of a claim for infringement of intellectual property rights, there is no justification for regarding directors, or agents and employees, as subject to any special rules. The same principles should govern their liability, whether as primary infringers or as accessories, as apply to anyone else. I must, however, now examine whether further authorities relied on by the Ahmeds provide any reason to alter this view.

65. I can begin with *Rainham Chemical Works Ltd v Belvedere Fish Guano Co Ltd* [1921] 2 AC 465, where Lord Buckmaster said (obiter), at p 476, that if directors in control of a company "expressly direct that a wrongful thing be done, the individuals as well as the company are responsible for the consequences." In *Performing Right Society Ltd v Ciryl Theatrical Syndicate Ltd* [1924] 1 KB 1, 14-15, Atkin LJ cited this statement as authority for the proposition that a director may be held liable for tortious acts done

by employees of the company if the director procures or directs the commission of the acts. That proposition was in turn cited and applied by the Privy Council in *Wah Tat Bank Ltd v Chan Cheng Kum* [1975] AC 507.

66. Two points may be noted about this line of cases. First, they contain no suggestion that the principle invoked is peculiar to directors. I read them as applying a general principle of tort liability to individuals who, on the facts of those cases, could induce others to act as they did because of the authority they had as directors. But the source of their authority was not legally significant. The same principle would apply to anyone who procures the commission by another person of a tortious act. Second, in none of these cases did the court address the relevance or otherwise to the liability of the defendant of their knowledge or state of mind, which did not arise as an issue.

Mentmore

67. Next in time is a Canadian case which has had a wide influence on the approach taken in Commonwealth jurisdictions, including England and Wales, to the liability of directors for torts committed by companies. In *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195 two directors caused their company to infringe a patent, aware of the patent owner's allegations of infringement but, on the judge's findings, without an intention to infringe or having acted recklessly. The Federal Court of Appeal of Canada upheld the decision that they were not liable.

68. Le Dain J, who delivered the judgment of the court, approached the matter, at p 202, on the basis that:

"What is involved here is a very difficult question of policy. On the one hand, there is the principle that an incorporated company is separate and distinct in law from its shareholders, directors and officers, and it is in the interests of the commercial purposes served by the incorporated enterprise that they should as a general rule enjoy the benefit of the limited liability afforded by incorporation. On the other hand, there is the principle that everyone should answer for his tortious acts. The balancing of these two considerations in the field of patent infringement is particularly difficult."

69. Le Dain J described the kind of participation in the acts of the company that should give rise to personal liability, at p 203, as "an elusive question," but suggested that what is required is "that degree and kind of personal involvement by which the

director or officer makes the tortious act his own." While this is "obviously a question of fact to be decided on the circumstances of each case," he said, at pp 204-205:

"... in my opinion there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it but the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it."

Le Dain J added that the "precise formulation of the appropriate test is obviously a difficult one" and that: "Room must be left for a broad appreciation of the circumstances of each case to determine whether as a matter of policy they call for personal liability."

70. *Mentmore* has been followed in Canada, including by the Supreme Court of Canada in *Cinar Corpn v Robinson* 2013 SCC 73; [2013] 3 SCR 1168, para 60. Recent examples cited by counsel for the Ahmeds of Canadian cases applying the test stated in *Mentmore* are *NOV Downhole Eurasia Ltd v TLL Oilfield Consulting Ltd* 2017 FCA 32, and *Vachon Bakery Inc. v Racioppo* 2021 FC 308, paras 118-121.

71. *Mentmore* has also been influential in Australia. There is no consensus in Australia on the appropriate test to be applied to determine when a director is personally liable for a company's torts and the question has not been considered by the High Court. But the Australian courts have largely assumed that there are special tests for tort liability for directors and, following the decision of the Full Federal Court of Australia in *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55; (2010) 268 ALR 613, have favoured approaches derived from *Mentmore*: see Stefan Lo, "Dis-Attribution Fallacy and Directors' Tort Liabilities" (2016) 30 Australian Journal of Corporate Law 215.

72. Recent decisions of the Full Federal Court have sought to reconcile the *Mentmore* test for liability with a line of Australian authority derived from the judgment of Atkin LJ in *Performing Right Society* which asks whether the director has "directed or procured" the infringing acts of the company. In *JR Consulting & Drafting Pty Ltd v Cummings* [2016] FCAFC 20, para 350, the court stated:

"We suspect that there is ultimately not a great deal of difference between these lines of authority as the director must be shown to have directed or procured the tort and the conduct must, clearly enough, *go beyond* causing the company to take a commercial or business course of action or directing the company's decision-making where both steps are the good faith and reasonable expression of the discharge of the duties and obligations of the director, as a director. The additional component required is a 'close personal involvement' in the infringing conduct of the company and inevitably the quality or degree of that closeness will require careful examination on a case by case basis." (emphasis in original)

73. The court concluded, at para 351, that, ultimately, the question was whether, on the facts, the conduct of the director went "beyond the proper role of director" and demonstrated a sufficiently "close personal involvement" with the actions of the company to attract liability as joint tortfeasors. The Full Federal Court repeated this test and applied it again in *Hashtag Burgers Pty Ltd v In-N-Out Burgers, Inc* [2020] FCAFC 235, (2020) 385 ALR 514, paras 136-141.

English cases after *Mentmore*

74. In *White Horse Distillers Ltd v Gregson Associates Ltd* [1984] RPC 61, 91, Nourse J carefully considered the decision in *Mentmore* which he regarded as authority for the following principle:

"Before a director can be held personally liable for a tort committed by his company he must not only commit or direct the tortious act or conduct but he must do so deliberately or recklessly and so as to make it his own, as distinct from the act or conduct of the company."

Nourse J expressed the view, at p 92, that this test "correctly represents the law of England."

75. This initial unqualified approval, however, proved to be short-lived. In *C Evans* & *Sons Ltd v Spritebrand Ltd* [1985] 1 WLR 317, 328-329, a case to which I will return, the Court of Appeal did not accept that *Mentmore* is authority for such a general principle. At the same time Slade LJ (with whom the other members of the court agreed) did not reject the views expressed in *Mentmore* altogether. He specifically agreed with the Federal Court of Appeal of Canada that the nature and extent of participation in the tortious act which will render a director personally liable is an "elusive question" and "a question of fact to be decided on the circumstances of each case" (p 330). He also accepted, at p 331, that under English law:

"at least in some cases, broad considerations of policy may be material in deciding on which side of the line [the director's] participation fell. If there has been no 'knowing, deliberate, wilful quality' in his participation, the court may naturally be more reluctant to hold the director personally liable."

CBS Songs

76. In CBS Songs Ltd v Amstrad Consumer Electronics plc [1988] AC 1013 the claimants, as representative copyright owners, sued the manufacturer (Amstrad) and retail sellers of tape recorders which could be used to copy from prerecorded cassettes to blank tapes at high speed. The claimants alleged that, by selling the recorders and marketing them as suitable for home copying, the defendants had authorised and incited members of the public to infringe copyright. The House of Lords unanimously held that the claim could not succeed for reasons given by Lord Templeman. He accepted, at p 1058, that a defendant who procures a breach of copyright is liable jointly and severally with the infringer for loss caused by the infringement. But he held that:

"... in the present case Amstrad do not procure infringement by offering for sale a machine which may be used for lawful or unlawful copying and they do not procure infringement by advertising the attractions of their machine to any purchaser who may decide to copy unlawfully. Amstrad are not concerned to procure and cannot procure unlawful copying. The purchaser will not make unlawful copies because he has been induced or incited or persuaded to do so by Amstrad. The purchaser will make unlawful copies for his own use because he chooses to do so."

Lord Templeman differentiated between procuring the doing of an act and facilitating the doing of an act - with the latter not being sufficient for liability.

MCA Records

77. *CBS Songs* did not involve directors of a company. But it is authority at the highest level concerning the principles on which a person may be held liable for causing or contributing to the commission of a tort by another person. In *MCA Records Inc v Charly Records Ltd* [2001] EWCA Civ 1441; [2002] FSR 26 the Court of Appeal treated the principles identified in *CBS Songs* as determining when a director is liable with the company as a joint tortfeasor, subject to an exception which was intended to accommodate the reasoning in *Mentmore*. The law as stated in *MCA Records* has been applied in several later cases, including by the judge and Court of Appeal in this case.

78. In *MCA Records* the main issue before the judge and the only issue on appeal was whether an individual, Mr Young, was personally liable for acts of infringement of the claimant's copyright in sound recordings committed by a company of which Mr Young was found by the judge to be a "de facto or shadow director." The judge held that he was personally liable and Mr Young's appeal was dismissed by the Court of Appeal for reasons given by Chadwick LJ (with whom the other members of the court agreed).

79. In considering the correct test in law, Chadwick LJ reviewed the leading authorities, including *CBS Songs* and ending with *Mentmore*. He quoted the passage from the judgment of Le Dain J in *Mentmore* which I have quoted at para 68 above. He accepted that "a very difficult question of policy" is involved and that it is necessary, in the individual case, to achieve a balance between the principle that a company is a separate legal person and the principle that "everyone should be answerable for his tortious acts" (para 47). Despite this, he felt able to formulate "with some confidence" four propositions of law (paras 48-52). The first was that:

"a director will not be treated as liable with the company as a joint tortfeasor if he does no more than carry out his constitutional role in the governance of the company - that is to say, by voting at board meetings. That, I think, is what policy requires if a proper recognition is to be given to the identity of the company as a separate legal person."

The second proposition was that, by contrast:

"there is no reason why a person who happens to be a director or controlling shareholder of a company should not be liable with the company as a joint tortfeasor if ... in relation to the wrongful acts which are the subject of complaint, the liability of the individual ... arises from his participation or involvement in ways which go beyond the exercise of constitutional control ..."

Chadwick LJ's third and fourth propositions were to the effect that the question whether the individual is liable with the company as a joint tortfeasor - at least in the field of intellectual property - is to be determined by applying the principles identified in *CBS Songs* and, in particular, the principle stated by Lord Templeman (which I discuss further below) that the individual who "intends and procures and shares a common design that the infringement shall take place" (p 1058) may be liable as a joint tortfeasor.

80. In *MCA Records* the Court of Appeal went a long way towards assimilating the principles which determine when a director will be held jointly liable for a tort committed by the company with the general principles governing joint liability in tort. The exception afforded by Chadwick LJ's first proposition where a director "does no more than carry out his constitutional role in the governance of the company … by voting at board meetings" is a narrow one. The exception did not apply in *MCA Records* itself and no case has been cited on this appeal in which such an exception has been applied or would have applied.

81. Even so, in my view, the approach taken in MCA Records did not go far enough. Chadwick LJ did not give any reason for the distinction drawn between acts of directors done in the exercise of their constitutional role and other acts done on behalf of the company. The distinction appears to reflect that drawn by Lord Hoffmann in Meridian between primary rules of attribution and general rules of attribution (see para 34 above). It is unclear, however, why personal liability should depend on the source of the rule by which the act of a director is attributed to the company. Regardless of the type of rule by which such attribution occurs, there is no logical reason why attribution of the act to the company should result in its dis-attribution from the individual who does the act or should relieve that individual from the possibility of personal liability in tort. Nor can I discern any justification as a matter of policy for, as one commentator has put it, carving out a "safe harbour" from personal liability where directors act together as a board: see Stefan Lo, "Liability of Directors as Joint Tortfeasors" [2009] JBL 109, 138. If a director acting under a delegated authority from the board can be liable for causing an employee or the company to commit a tort, there is no warrant for treating differently directors who achieve the same result through a board resolution. In MCA Records, para 50, Chadwick LJ said that if a director is liable with the company as a joint tortfeasor as a result of acts which go beyond the exercise of constitutional control, "then there is no reason why the individual should escape liability because he could have procured those same acts through the exercise of constitutional control." I agree, but would add that there is equally no reason why the individual should escape liability if he does procure those same acts through the exercise of constitutional control.

82. Also, I do not agree with the view expressed in *Mentmore* and endorsed in *MCA Records* that the liability of directors for torts committed by the company involves "a very difficult question of policy", nor that there is any conflict or "balance to be struck" (*MCA Records*, para 48) between the principle of separate corporate personality (and associated benefit of limited liability) and the principle that everyone should be answerable for their tortious acts. I have explained (at paras 37-38 above) why, in my view, neither the principle of separate corporate personality nor the principle of limited liability justifies allowing directors to escape personal liability for their tortious acts. I also, with respect to those courts which have adopted such an approach, do not think it helpful or principled to apply an amorphous test based on the "degree and kind of personal involvement" of the director with the acts attributed to the company. It is unclear by what criteria the degree and kind of personal involvement are supposed to be judged or how such criteria are to be derived. I agree with the criticism that to say that

the involvement must be such that the director "makes the tortious act his own" is ultimately circular: see *Fish & Fish Ltd v Sea Shepherd UK* [2015] UKSC 10; [2015] AC 1229, para 59 (Lord Neuberger of Abbotsbury).

83. More importantly, such a test in my view approaches the matter the wrong way round. It assumes that a director is immune from liability in tort for acts done when acting in that capacity unless some feature of the director's conduct or state of mind takes the director outside the scope of this protection. But there is no foundation for any such presumption of immunity. The general rule is that individuals are answerable for their tortious acts. The onus is on someone who seeks to argue that directors should be excepted from this general rule to identify a principled basis for such an exception. I do not think there is one.

84. For my part, therefore, I would reject the notion that whether a director is liable for a tort committed by the company depends on matters of policy or on evaluating the facts of the particular case by reference to broad considerations of policy in some unspecified and "elusive" way. Liability should be decided by applying ordinary principles of the law of tort. The important question is what those principles are.

85. Despite my disagreement, however, with the analysis in *Mentmore* and other cases influenced by it, I share what I perceive to be their underlying sentiment: it is unjust to hold a director personally liable for acts done in the ordinary course of performing the director's role which cause the company to commit a tort, if the director has not acted wilfully or knowingly. But I do not think that the injustice flows from any special feature of the role of company director. The objection is much broader than that. It seems unjust that anyone whose act causes another person to commit a tort should be held jointly liable for the tort as an accessory if the individual was acting in good faith and without knowledge of facts which made the act of the other person tortious.

Strict liability

86. The alternative approach, for which Lifestyle argues, is that the knowledge or state of mind required for accessory liability should be that required to incur primary liability for committing the tort concerned. The principal authority cited in support of this approach is the judgment of Slade LJ in *C Evans & Sons Ltd v Spritebrand Ltd* [1985] 1 WLR 317. The claimant in that case sued a company and its director, alleging that the company had infringed the claimant's copyright in certain drawings of scaffolding components manufactured by the claimant. The director was joined as a defendant, not on the ground that he had himself infringed the claimant's copyright, but solely on the basis that he had directed or procured the company to do acts which amounted to infringements. The director applied to have the claim against him struck out. He relied on *Mentmore* and the judgment of Nourse J in *White Horse Distillers* (see

para 74 above). He argued that the claim could not possibly succeed as the claimant had not alleged that he knew that the acts of the company were tortious or that he acted recklessly.

87. All that was actually decided by the Court of Appeal was that the claim was not bound to fail and should therefore be allowed to proceed to trial. But Slade LJ suggested that a distinction could be drawn between a case where the claimant has to prove a particular state of mind or knowledge as a necessary element of the tort and a case where the tort is one of strict liability. He accepted that in the former case the state of mind or knowledge of the director would be relevant in determining whether the director was liable for procuring the commission of the tort. He said, at p 329, that:

> "the personal liability of the director in such circumstances cannot be more extensive than that of the individual who personally did the tortious act. If, however, the tort alleged is not one in respect of which it is incumbent on the plaintiff to prove a particular state of mind or knowledge (eg, infringement of copyright) different considerations may well apply."

88. Slade LJ developed the latter suggestion, at p 330, by postulating a hypothetical case of an employee who personally manufactures scaffolding components in breach of the claimant's copyright acting under the personal supervision and direction of the director of the company. He thought that, on these facts, "it would offend common sense" if the law of tort were to treat the director any more kindly than the employee who took his orders from the director. Slade LJ also postulated a case of an employee "who in all innocence has trespassed on another's land and thereby caused damage, on the specific orders of a director who was present on the spot when the trespass occurred, though he did not cross the boundary but was equally innocent." Since trespass is a tort of strict liability, the employee would be liable. Slade LJ posed the question:

"Why should the director himself escape scot free, even if he was unaware that his order would give rise to a trespass?"

89. Similar reasoning is to be found in obiter dicta of this court in *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2013] UKSC 31; [2013] 1 WLR 1556. In *Vestergaard* the Supreme Court held that an employee who was involved in the development of a new product using the claimant's trade secrets could not be liable as a party to a common design to misuse confidential information. This was because she did not share one of the features of the design which made it wrongful, namely, knowledge that the claimant's trade secrets were being misused. The sole judgment of the court was given by Lord Neuberger. Although not necessary to the decision, Lord Neuberger distinguished a hypothetical case of patent infringement which, as he pointed out at para 37, is a wrong of strict liability that requires no knowledge or intention on the part of the alleged infringer. He said:

"Accordingly, it is entirely logical that a person who, while wholly innocent of the existence, contents or effect of the patent, is none the less secondarily liable if she assists the primary infringer in her patent-infringing acts. It cannot possibly follow that the same approach is appropriate in a case for a person who assists the primary misuser of trade secrets, given that it is necessary to establish the latter's knowledge and/or state of mind ... before she can be liable for the misuse."

Counsel for Lifestyle relied on this statement as supporting the views expressed by Slade LJ in *Spritebrand*.

90. Despite my respect for the authors of these obiter dicta, I cannot agree that a rule that the mental element required for liability as an accessory must mirror that required for primary liability is "entirely logical." Let me start with the example given in *Spritebrand* of the employee who commits trespass as a result of obeying the instructions of a director when neither of them knows that the act of the employee will amount to a trespass. I do not regard it as unjust that the director, who has committed no trespass himself and was unaware that his order would have that result, should "escape scot free." What would be unjust is leaving the innocent employee who has obeyed the director's instructions to bear the loss. That injustice is not removed by inflicting liability on another innocent individual as well. That merely compounds the injustice.

91. One possible response would be to recognise a defence of justification for a person who commits a tort unwittingly as a result of acting on another's orders. Yet that response would undermine the strength of the protection for property rights and rights to bodily integrity provided by the tort of trespass. As I see it, the proper accommodation between the parties' interests lies in recognising that an innocent employee who commits a tort of strict liability as a result of obeying an order given on behalf of the employer is entitled to an indemnity from the employer. The right to such an indemnity is an implied term of the contract of employment. As stated by Lord Tucker in *Lister v Romford Ice and Cold Storage Co Ltd* [1957] AC 555 at 595:

"It has always been an implied term that the master will indemnify the servant from liability arising out of an unlawful enterprise upon which he has been required to embark without knowing that it was unlawful." See also *Chitty on Contracts*, 35th ed (2023), para 43-063; *Gregory v Ford* [1951] 1 All ER 121.

92. Applying the same standard of knowledge to both parties would be a logical approach if procuring or inducing someone to commit a tort, or participating in a common design to do so, were simply another way of committing a tort. The characterisation of the parties as joint tortfeasors may encourage such a view. But it is not correct. The procurer or participant is not liable because all the elements of the tort are established in relation to them. They are liable even though they do not satisfy all the elements of the tort. Their liability is secondary or accessory in the sense that it arises from an act which is connected in some relevant way with the commission of a tort by someone else. There is no logical requirement that any mental element necessary to make them liable should be the same as any mental element which is a constituent of the tort.

93. The distinction is particularly clear in the case of statutory torts such as patent, copyright or trade mark infringement because the elements of those torts are specified in legislation. I have explained why, on the facts found, the Ahmeds did not infringe Lifestyle's trade marks. The acts amounting to infringement, specified in section 10 of the Trade Marks Act 1994, are confined to various ways of using an offending sign. These do not include procuring or authorising another person to use such a sign. If a party who procures another to use an offending sign is liable in tort, therefore, it is not because that party is an infringer. Such persons are exhaustively defined in the Act and a person who procures or authorises another to use an offending sign falls outside the relevant provisions.

94. There are provisions in some statutes protecting intellectual property rights which create what may be called "indirect" forms of infringement. For example, under section 16(2) of the Copyright, Designs and Patents Act 1988 copyright in a work is infringed by "a person who without the licence of the copyright owner does, *or authorises another to do*, any of the acts restricted by the copyright" (emphasis added). The acts restricted by copyright are specified in section 16(1). Section 16(2) corresponds broadly to section 1(2) of the Copyright Act 1956, which was in force when *Spritebrand* was decided. Thus, in the hypothetical case postulated by Slade LJ of an employee who personally does acts restricted by copyright under the personal supervision and direction of a director of the company, the director would also infringe the copyright by authorising the employee to do those acts.

95. Where, as with the Trade Marks Act 1994, the statute does not make authorising a restricted act an infringement, a claim against a director who instructs an employee to do such an act must be based on the common law and not on the legislation. It cannot simply be assumed that because knowledge or its absence is irrelevant to whether an act

amounts to an infringement, it is also irrelevant to whether liability as an accessory will arise under the common law. There is no necessary connection between the two.

Accessory liability in equity

96. As further demonstration that the mental element required for secondary or accessory liability need not mirror that required to be a primary wrongdoer, accessory liability in equity provides a good example. Before the decision of the Privy Council in *Royal Brunei Airlines Sdn Bhd v Tan* [1995] 2 AC 378, the prevailing view was that a person who knowingly assisted in a breach of trust or fiduciary duty could not be liable unless the breach was itself dishonest or fraudulent. That view was rejected in *Royal Brunei Airlines*. Lord Nicholls of Birkenhead, who gave the judgment of the Judicial Committee, posited a case of a solicitor who persuades a trustee to apply trust property in a way the trustee honestly believes is permissible but which the solicitor knows full well is a clear breach of trust. The solicitor deliberately conceals this from the trustee and, as a result, the beneficiaries suffer a substantial loss. Lord Nicholls observed, at p 384, that it could not be right that in such a case the dishonest solicitor should escape liability because of the innocence of the trustee.

97. Lord Nicholls also considered, at p 387, the other extreme possibility of imposing accessory liability on a person who unknowingly induces a trustee to act in breach of trust. Lord Nicholls observed that obligations undertaken by a trustee are personal obligations and that "ordinary, everyday business would become impossible if third parties were to be held liable for unknowingly interfering in the due performance of such personal obligations."

98. The principle established by *Royal Brunei Airlines*, and confirmed by the House of Lords in *Twinsectra Ltd v Yardley* [2002] UKHL 12; [2002] 2 AC 164, is that a person who assists in a breach of trust or fiduciary duty is liable as an accessory only where the assistance is dishonest. This is so irrespective of whether the primary wrong involves knowledge or dishonesty. The mental element required for accessory liability therefore does not correspond to that required to commit the primary wrong.

Inducing a breach of contract

99. In *Royal Brunei Airlines*, at p 387, Lord Nicholls drew an analogy between deliberately intervening in a trust relationship and knowingly procuring a breach of contract, observing that the underlying rationale for imposing liability in these cases is the same. Procuring a breach of contract is another example of a situation where the primary wrong involves strict liability but liability for inducing the primary wrong depends on knowledge.

100. The leading case which established liability for inducing a breach of contract is *Lumley v Gye* (1853) 2 E & B 216; 118 ER 749. The claimant, Lumley, was a theatre manager who had engaged a famous opera singer of the day called Johanna Wagner to perform exclusively at his theatre for a certain time. Lumley sued a rival manager, Gye, alleging that, knowing of the contract with Lumley, Gye had "wrongfully and maliciously enticed and procured" Wagner to break her contract. The Court of Queen's Bench held that the facts alleged, if proved, disclosed a good claim in law. The precise nature and basis of the claim was for long controversial but was resolved by the House of Lords in *OBG Ltd v Allan* [2007] UKHL 21; [2008] AC 1. In that case the House of Lords held that the liability is a form of accessory liability, where the primary wrong is breach of contract. As Lord Nicholls explained, at para 172:

"The third party who breached his contract is liable for breach of contract. The person who persuaded him to break his contract is also liable, in his case in tort. Hence this tort is an example of civil liability which is secondary in the sense that it is secondary, or supplemental, to that of the third party who committed a breach of his contract. It is a form of accessory liability."

101. The House of Lords also confirmed that such accessory liability arises only when the defendant intended to procure a breach of the contract. It is enough for this purpose that the defendant knowingly caused a breach of contract, even if the breach was seen only as a way to achieve some further desired objective (eg procuring Johanna Wagner to sing at your theatre) and not as an end in itself: see paras 42-43 (Lord Hoffmann) and para 192 (Lord Nicholls). Deliberately turning a blind eye counts as knowledge for this purpose: see paras 40-41 and 192.

Procuring a tort

102. Liability for procuring a breach of contract does more than provide an analogy with liability for procuring another person to commit a tort. As Lord Hoffmann and Lord Nicholls (with whom the other law lords agreed on this issue) made clear in *OBG Ltd v Allan*, both forms of liability rest on the same underlying principle. This principle was stated in *Lumley v Gye* by Erle J, at p 232:

"It is clear that the procurement of the violation of a right is a cause of action in all instances where the violation is an actionable wrong ... he who procures the wrong is a joint wrongdoer, and may be sued, either alone or jointly with the agent, in the appropriate action for the wrong complained of."

Although in this statement Erle J did not use the word "malicious", it is clear from the context and from his judgment as a whole that - in common with all the members of the court - Erle J was concerned with cases where someone "maliciously" procures a wrong and that his statement of the law tacitly assumes that the defendant's act is "malicious". It is also apparent, as Lord Watson observed in *Allen v Flood* [1898] AC 1, 96, that the judges in *Lumley v Gye* regarded "malice" as "signifying in law, not that the defendant had been actuated by a bad motive, but that he had procured the commission of an act which he knew to be illegal." At the subsequent trial Lumley's claim in fact failed, as the jury found that Gye was not aware, when he engaged Wagner, that she had no right to terminate her contract with Lumley: see SM Waddams, "Johanna Wagner and the rival opera houses" (2001) 117 LQR 431, 455-456. Although as a matter of causation Gye had procured the commission of an act which was a breach of contract, he did not know that the act which he procured was a breach of contract. He therefore lacked the state of mind required for accessory liability.

103. In *Allen v Flood*, at p 96, Lord Watson - whose views were said by Lord Macnaghten in *Quinn v Leathem* [1901] AC 495, 509, to "represent the views of the majority [far better] than any other single judgment delivered in the case" - expressed the ratio of *Lumley v Gye* thus: "a person who procures the act of another ... will incur liability if he *knowingly* and for his own ends induces that other person to commit an actionable wrong" (emphasis added). Lord Watson also said, at p 106, that the principle of the decision was clearly explained by Erle J and described it as "an intelligible and a salutary principle." As Lord Watson expressed it, at p 107:

"He who *wilfully* induces another to do an unlawful act which, but for his persuasion, would or might never have been committed, is rightly held to be responsible for the wrong which he procured." (emphasis added)

104. In *Quinn v Leathem* [1901] AC 495 the House of Lords approved the decision in *Lumley v Gye*. Lord Macnaghten, at p 510, had "no hesitation in saying that I think the decision was right, not on the ground of malicious intention - that was not, I think, the gist of the action - but on the ground that a violation of legal right committed knowingly is a cause of action, and that it is a violation of legal right to interfere with contractual relations recognised by law if there be no sufficient justification for the interference." As discussed in *OBG Ltd v Allan*, paras 16 and 174-175, this formulation of the principle was overbroad, as it did not mention the essential element of procurement; but the insistence on knowledge was maintained.

105. There is a subsequent unbroken line of authority recognising that the principle for which *Lumley v Gye* is authority reaches beyond inducing a breach of contract. In *James v The Commonwealth* (1939) 62 CLR 339, 370, the great Australian judge, Sir Owen Dixon, delivering the judgment of the High Court, accepted (obiter) that "the

principle to which Lumley v Gye is now referred is no doubt wide enough to include within its protection civil rights which exist independently of contract." Dixon J summarised the reasoning of Erle J as being that "just as the procurement of a tort was itself a tort, so it was wrongful to procure the breach of a contractual duty, and that the liability involved a principle of which liability for procuring a breach of contract of hiring was only an example or illustration; a class of cases which he said 'rests upon the principle that the procurement of the violation of the right is a cause of action'." In Associated British Ports v Transport and General Workers' Union [1989] 1 WLR 939 the Court of Appeal (in a decision reversed by the House of Lords on other grounds) accepted that inducing a breach of statutory duty gives rise to liability in tort in the same way as inducing a breach of contract: see pp 951-952 (Neill LJ); pp 959-960 (Butler-Sloss LJ); and pp 963-964 (Stuart-Smith LJ). In Law Debenture Trust Corpn v Ural Caspian Oil Corpn Ltd [1995] Ch 152, 165, Sir Thomas Bingham MR noted that the principle for which Lumley v Gye is authority is not limited to inducing a breach of contract and is "wide enough to include even civil rights existing independently of contract."

106. In *CBS Songs* the claimant copyright owners based their submission that a person who incites the commission of a tort is a joint wrongdoer on the principle stated by Erle J in *Lumley v Gye*. The claimants also referred to *Belegging-en Exploitatiemaatschappij Lavender BV v Witten Industrial Diamonds Ltd* [1979] FSR 59, 66, where Buckley LJ said:

"The plaintiffs do not only assert infringement by the defendants. They also say that the defendants have procured, counselled and/or aided other persons to infringe. This may perhaps amount to an allegation of indirect infringement by the defendants themselves, but I am inclined to think that it is a claim in respect of a distinct, suggested tort of procuring infringement by others (based upon the principle enunciated by Erle J in *Lumley v Gye*, 2 E & B 216, 231) ..."

Addressing these submissions, Lord Templeman said, at p 1058:

"My Lords, I accept that a defendant who procures a breach of copyright is liable jointly and severally with the infringer for the damages suffered by the plaintiff as a result of the infringement. The defendant is a joint infringer; he intends and procures and shares a common design that infringement shall take place. A defendant may procure an infringement by inducement, incitement or persuasion."

In this passage Lord Templeman elides procuring an infringement with 107. participating in a common design. I will come back to the relationship between these two concepts. But at this stage I note that Lord Templeman evidently understood liability for procuring an infringement - based on the principle enunciated by Erle J in Lumley v Gye - as requiring an intention to bring about that consequence: hence his statement that the defendant "intends ... that infringement shall take place" (emphasis added). We have seen that what exactly counts as an intention for the purpose of the Lumley v Gye principle has been expressed in various ways: the words "maliciously", "knowingly" and "wilfully" have all been used. But the requirement was precisely and authoritatively analysed by Lord Hoffmann and Lord Nicholls in OBG Ltd v Allan (see paras 100-101 above). That analysis is just as applicable whether the actionable wrong which the defendant procured is a breach of contract or a tort. What is required is that the defendant acted in a way that was intended to cause another party (the primary wrongdoer) to do an act which the defendant knew was a wrongful act (turning a blind eye being sufficient for this purpose).

108. A further distinction needs to be drawn. In accordance with the principle that ignorance of the law is no excuse, liability cannot depend on whether the defendant knows that the act done by the primary wrongdoer is against the law. When courts refer to a requirement of knowledge that an act is wrongful, they must generally be taken to mean, not that knowledge of the law is required, but that the defendant must know the essential facts which make the act unlawful. The same applies to references to intention. Lord Templeman's reference to a defendant who "intends and procures ... that infringement shall take place" should be understood in this sense. Lord Templeman should not be taken to mean that the defendant must have a sufficient knowledge of copyright law to know that the act which he intends to bring about will be a breach of copyright.

Although in MCA Records Chadwick LJ adopted and relied on Lord 109. Templeman's statement of principle quoted at para 106 above, he did not discuss what precisely the defendant must intend in order to be liable for procuring an infringement. It does not appear that any argument was specifically directed to this point. Chadwick LJ assumed that it was sufficient to make Mr Young liable for procuring infringements of copyright that "it was Mr Young's purpose and intent, in doing what he did, that the Chess recordings should be copied and marketed through [the company]": para 36 (and see also para 61). That, in my opinion, was incorrect. Applying the principle of accessory liability stated by Erle J in Lumley v Gye, it was not enough that Mr Young knew and intended that the relevant recordings should be copied and issued to the public. It was also necessary to establish that Mr Young knew (or deliberately turned a blind eye to) all the essential facts which made copying and marketing the recordings a breach of copyright. Those facts included the fact that the company controlled by Mr Young did not either own the copyright or have a licence from the owner to copy and issue copies to the public of the relevant recordings.

110. It appears that, on the facts found by the trial judge, this requirement was indeed satisfied for most of the relevant period during which the infringements took place. The judge was, however, prepared to accept that, for the first two years of this period, Mr Young believed that the company which he controlled had the right to exploit the recordings. Thereafter, once a court in California had given a judgment making it clear that the company had no such right, Mr Young's conduct regarding the exploitation of the recordings "was about as flagrant as it could be": see Chadwick LJ's judgment at para 23, citing paras 198 and 199 of the first instance judgment. Had the point been taken in *MCA Records*, the proper conclusion on these findings was therefore that, for the initial two-year period, Mr Young lacked the necessary state of mind to be liable for procuring infringements of the claimant's copyright.

Common design

111. In Unilever plc v Gillette (UK) Ltd [1989] RPC 583, 603, Mustill LJ traced the development of joint liability in tort based on participation in a common design. Originally the cases concerned two or more persons who had committed tortious acts which led to the same damage. The question was whether these persons had committed individual wrongs for which they were individually liable, or whether they were jointly liable because they had acted together to cause the same wrong. This mattered because, as the law stood before the Law Reform (Married Women and Tortfeasors) Act 1935, if persons were joint tortfeasors, a judgment against one barred an action against another. The leading case in which the question arose was *The Koursk* [1924] P 140, where all three members of the Court of Appeal approved the statement in *Clerk and Lindsell on Torts*, 7th ed (1921), pp 59-60, that:

"Persons are said to be joint tortfeasors when their respective shares in the commission of the tort are done in furtherance of a common design. ... But mere similarity of design on the part of independent actors, causing independent damage, is not enough; there must be concerted action towards a common end."

112. In *The Koursk* this principle was applied to determine whether two parties who had each committed a tort were jointly, and not merely individually, liable. In *Brooke v Bool* [1928] 2 KB 578, however, a Divisional Court applied the principle to *extend* liability to someone who had not himself committed a tort. The defendant had enlisted the help of his lodger to investigate a gas leak in premises let to the claimant. The defendant inspected the lower part of a gas pipe which ran down the wall using a naked light. The lodger, who was a much younger man, then got on a counter to examine the upper part of the pipe, again using a naked light. An explosion ensued. The defendant was held jointly liable for damage to the claimant's property caused by the lodger's negligent act. One ground given for the decision was that the lodger's act was done "in

concert with the defendant and in pursuance of their common enterprise" (p 586). In *Unilever*, at p 603, Mustill LJ described this development of the law as a "bold step" but observed that no doubt had been cast on it in the following 60 years: see also Hazel Carty, "Joint Tortfeasance and Assistance Liability" (1999) 19 Legal Studies 489, 497.

113. In *CBS Songs* the copyright owners sought to rely on this principle. They advanced an argument that Amstrad was jointly liable on the basis of a common design for infringements of copyright committed by members of the public who used Amstrad tape recorders to copy sound recordings unlawfully. In rejecting this argument, Lord Templeman cited *The Koursk* and said, at p 1057:

"My Lords, joint infringers are two or more persons who act in concert with one another pursuant to a common design in the infringement. In the present case there was no common design."

There was no common design because Amstrad did not act in concert with the purchasers or users of its tape recorders, who decided independently what use they chose to make of the machine and whether to use it for lawful or unlawful purposes.

Fish & Fish

114. The doctrine of common design was considered by the Supreme Court in Fish & Fish Ltd v Sea Shepherd UK [2015] UKHL 10; [2015] AC 1229. The claimant in that case operated a fish farm off the shore of Malta. Its claim arose out of an operation orchestrated by one of the defendants, Mr Watson, as part of a campaign against the overfishing of bluefin tuna. The operation involved using a vessel to ram a metal cage belonging to the claimant, containing tuna in netting. Divers from the vessel then forced open the cage, cut the netting and released the fish. The claimant brought proceedings against Mr Watson and two corporate defendants in the English courts claiming damages for trespass to goods and conversion. One of the corporate defendants was a US corporation and the other was an associated English company. Whether the English courts had jurisdiction over the claims against the US corporation and Mr Watson (who lived in the United States) depended on whether the English company was jointly liable with them. A preliminary issue was tried to determine whether, on the assumption that the incident was tortious, the English company was liable for damage to the tuna fish cage and release of the fish on the ground that it joined with Mr Watson and the US corporation in a common design to carry out the tortious acts.

115. The judge (Hamblen J) found that, in conducting the operation, Mr Watson was not acting for the English company but only for the US corporation. The main assistance provided by the English company was in fundraising for the operation: it

allowed a mailshot soliciting funds to be sent out in its name and received and passed on to the US corporation donations totalling £1,730. On these facts the judge concluded that the contribution of the English company was of minimal importance and played no effective part in the commission of the tort. On this basis he dismissed the claim against the English company. The Court of Appeal reversed that decision. But the Supreme Court, by a majority of three to two, allowed the company's appeal on the ground that it had been open to the judge to find as he did.

116. The decision of the Supreme Court thus turned on a very narrow issue: whether, on the findings made by the judge, it was open to him to conclude that the contribution of the English company to the alleged tortious conduct of the US corporation was minimal (see eg para 82, per Lord Kerr of Tonaghmore; and para 91, per Lord Mance). As Lord Sumption observed, at para 29, this issue was "of little moment since it turns entirely on a question of fact peculiar to this case." But three members of the court - Lord Toulson, Lord Sumption (who was one of the dissenters) and Lord Neuberger - each made wider observations about joint liability in tort based on a common design.

117. They were all clear that the principle with which they were concerned was one of accessory liability. Indeed, Lord Toulson began his judgment by stating: "This appeal concerns accessory liability in tort" (para 1). Although each of these three Justices expressed the principle in slightly different terms, I do not discern any substantive difference between their formulations. In summary, to establish that a person (A) is liable as an accessory on this principle, three conditions must be satisfied: first, another person (B) must commit a tort; second, A must have done an act which assisted B to commit the tort; and, third, A's act must have been done pursuant to a common design between A and B to do the act which constitutes the tort: see Lord Toulson (para 21), Lord Sumption (para 37) and Lord Neuberger (para 55).

Acting in concert

118. Lord Sumption and Lord Neuberger each made further observations about what is involved in acting pursuant to a "common design". Lord Sumption summarised his conclusion, at para 44, in this way:

"What the authorities, taken as a whole, demonstrate is that the additional element which is required to establish liability, over and above mere knowledge that an otherwise lawful act will assist the tort, is a shared intention that it should do so. The required limitation on the scope of liability is achieved by the combination of active co-operation and commonality of intention. It is encapsulated in Scrutton LJ's distinction [in *The Koursk* [1924] P 140, 156] between concerted action to a common end and independent action to a similar end, and between either of these things and mere knowledge of the consequences of one's acts."

There is a large philosophical literature on what it means for two or more people to act together - a concept sometimes referred to as shared agency. One thing that is clear is that to act in concert in pursuance of a common end, the parties must have interrelated intentions which each understands the other to share. To achieve such active co-operation and commonality of intention, some form of communication between the parties is required. As Mustill LJ noted in *Unilever* at p 609, this does not call for any finding that the parties explicitly mapped out a plan. The communication need not even involve words. To illustrate how actions may be coordinated without any express agreement, the philosopher David Hume gave an example of two men who pull the oars of a boat together in time: see *A Treatise of Human Nature* (1740), ed LA Selby-Bigge, at p 490. The significance from a normative point of view of concerted action in pursuit of a shared aim is that it confers collective responsibility on the parties who combine to bring about the commission of the tort.

Two principles or one?

119. We have seen that in *CBS Songs* Lord Templeman seems to have regarded liability for procuring an infringement as an instance of joint liability based on sharing a common design. In the passage quoted at para 106 above Lord Templeman characterised a person who procures a breach of copyright as a "joint infringer" who "intends and procures *and shares a common design* that infringement shall take place" (emphasis added). Lord Templeman also described *Lumley v Gye* as a case where "both the opera singer and the defendant were joint wrongdoers participating in an unlawful common design" (p 1058).

120. This is an idiosyncratic interpretation of *Lumley v Gye* which does not find support either in the judgments in that case or in authorities which have considered the decision, including *OBG Ltd v Allan* and the other cases to which I have referred at paras 103-105 above. None of those cases employs the concept of a common design. Lord Templeman may have invoked the concept because he was not attracted by the alternative view suggested by Buckley LJ in the passage quoted from *Belegging* (see para 106 above) that procuring infringement by others is a distinct tort. Presenting a choice, however, between regarding procurement of an infringement as a distinct tort or as a form of participation in a common design is a false dichotomy. The better view is that procuring an infringement and participating in a common design are two separate principles of accessory liability on which a person may be held jointly liable with the infringer for damage caused by the infringing acts.

121. In *Unilever plc v Gillette (UK) Ltd* [1989] RPC 583, 608, Mustill LJ, after quoting what Lord Templeman had said in *CBS Songs*, observed that there might still be a question whether procuring and participation in a common design are distinct principles. Mustill LJ preferred the view that they are distinct, while noting that there is a considerable overlap between the two categories and that many cases will qualify under both heads. He did not find it necessary to explore the question, as in the *Unilever* case the claimant relied only on common design, and not on procurement.

122. In *Fish & Fish*, paras 19-20, Lord Toulson characterised joint liability based on participation in a common design as "a different category" from joint liability based on procuring the commission of a tort. Lord Sumption, however, suggested that both depend on a common intent and that "[i]nducing or procuring a tort necessarily involves common intent if the tort is then committed" (para 41). If by a "common intent" Lord Sumption meant a "shared intention" of the kind he went on to describe (see the passage quoted at para 118 above), then I cannot agree with this statement. A person may procure a tort, such as an infringement of intellectual property rights, by simply, for example, issuing instructions on which others subsequently act, without acting in concert to a common end. As well as being insufficient, procuring the commission of a tort is also unnecessary to found liability based on a common design. A lesser causal contribution will suffice. As was held in *Fish & Fish*, relatively minor assistance is sufficient provided it is more than minimal or trivial: see eg para 57 (Lord Neuberger).

Conditional intentions

123. There was a question raised in *Fish & Fish* about whether, to give rise to liability based on a common design, the shared intention to bring about an act which constitutes a tort must be unqualified or whether a conditional intention would suffice. The trial judge had found that the English company (whose acts and intentions were those of its sole employee) approved of the campaign against overfishing and knew that it might involve violent action against property, such as cutting fishing nets. But the judge found that this was not the purpose or object of the campaign. The campaign involved a preparedness to use violence, but violence would not necessarily be used.

124. Lord Toulson (at para 27), Lord Sumption (at paras 47-48) and Lord Neuberger (at paras 65-69) all addressed this point and made it clear that a common design can include such a conditional element. Lord Sumption said it was sufficient that the purpose of the English company in participating in the fundraising was to further the common design of the parties that the nets of any fishermen whom they considered to be poachers should be damaged and destroyed, given that "[d]eliberately to damage or destroy the property of other persons at sea without their consent is tortious": para 48. In response to the point that the intention to use violence was conditional on finding fishermen considered to be poachers and on the fisherman not releasing their catch voluntarily, Lord Sumption said:

"Conditional intent is nevertheless intent: *R v Saik* [2007] 1 AC 18, para 5, per Lord Nicholls of Birkenhead. If two parties co-operate in a common design to commit a tort in a certain eventuality, and that eventuality occurs and the tort is committed, it is irrelevant that they both appreciated and perhaps even hoped that it would not occur."

125. Lord Neuberger accepted that a belief that it was possible that the US corporation would act tortiously when carrying out its projected activities would be insufficient to render the English company liable (para 65). But he went on to say, at para 66, that:

"if the evidence established that the defendant appreciated that it was [the US corporation's] intention to commit tortious acts in carrying out their activities, or even that it was, in practical terms, inevitable that [the US corporation] would seek to commit tortious acts if they came across a ship intensively fishing for bluefin tuna, then the defendant could not escape liability. The fact that [the US corporation's] intention could be characterised as conditional ... would not assist the defendant."

Lord Neuberger thought it clear that the claimant had established that the English company "had sufficient knowledge that tortious acts were contemplated, indeed were intended" by the US corporation, and that this was part of a common design between them: paras 67-68.

What knowledge is required?

126. When in such passages as those which I have just quoted Lord Sumption and Lord Neuberger referred to a common design "to commit a tort" or knowledge of an intention "to commit tortious acts", how should these statements be interpreted? What precisely must the defendant know about the nature of the intended acts to be liable on the basis of a common design? In principle, there are three basic possibilities. One is that the assistant (A) must know that the act intended to be done by the primary actor (B) is unlawful under the law of tort. A second possibility is that it is sufficient that A knows the essential facts which make B's act tortious. The third possibility is that all that A need know is that B intends to do an act which is in fact a tort, and that knowledge of the essential facts which make B's act tortious is not required.

127. I have mentioned earlier that the first of these approaches is unsound because a person cannot be allowed to escape liability by relying on ignorance of the law. In *Fish* & *Fish* it was unnecessary to distinguish between the second and third possibilities. It

was clear that the English company knew the essential facts which made the acts intended to be done tortious: in particular, that those acts involved deliberately damaging or destroying the property of other persons without their consent. There was no need to consider whether such knowledge was necessary for liability and, unsurprisingly in these circumstances, the judgments of Lord Sumption and Lord Neuberger are ambiguous on this question.

128. In the judgment under appeal, however, the Court of Appeal took *Fish & Fish* to show that there is no requirement, for a tort of strict liability like trade mark infringement, that the accessory should know (or even have reason to believe) that the activity is or may be an infringement. For this point Birss LJ thought it enough to set out, at para 28 of the judgment, a statement of Lord Neuberger in *Fish & Fish*, para 60, that:

"... it is unnecessary for a claimant to show that the defendant appreciated that the act which he assisted pursuant to a common design constituted, or gave rise to, a tort or that he intended that the claimant be harmed."

Birss LJ also cited, at para 29, Lord Sumption's statement that a defendant will be liable as a joint tortfeasor if he has assisted another person, pursuant to a common design, "to do an act which is, *or turns out to be*, tortious": see *Fish & Fish*, para 37 (emphasis added).

129. I think that the Court of Appeal placed more weight on these obiter dicta than they can reasonably bear. As I have stated, the extent of the knowledge of the primary wrongdoer's acts needed for accessory liability was not in issue in *Fish & Fish*. The statements quoted by the Court of Appeal can be read simply as ruling out the first of the possibilities that I have distinguished above - by making it clear that it is unnecessary for the defendant to have an understanding of tort law - and not as seeking to discriminate between the second and third possible views. Lord Neuberger was also making the further point that it is not necessary to show an intention to injure the claimant. He returned to the same theme at para 66 of the judgment, where he said that the fact that the parties' acts were not targeted at a person identified in advance would not assist the defendant; "[n]or would the fact (if it were a fact) that the defendant did not appreciate that the acts in question would be tortious." Again, I do not read this as saying more than that it is irrelevant whether the defendant knew that the acts intended to be done would be unlawful under the law of tort.

130. I mentioned earlier the case of *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2013] UKSC 31; [2013] 1 WLR 1556, where the Supreme Court held that an employee could not be liable on the basis of a common design for the misuse of the claimant's

trade secrets because she did not know that the claimant's trade secrets were being misused. In *Vestergaard*, para 34, Lord Neuberger said that, to be liable:

"a defendant ... must share with the other party, or parties, to the design, each of the features of the design which make it wrongful. If, and only if, all those features are shared, the fact that some parties to the common design did only some of the relevant acts, while others did only some other relevant acts, will not stop them all from being jointly liable."

Lord Neuberger went on, at para 35, to give an analogy of a person who drives another to and from a bank thus enabling him to rob it, saying that the driver would be liable in tort for the robbery as a party to a common design "only if she knew that her passenger intended to rob, or had robbed, the bank."

131. I have discussed the further suggestion made in *Vestergaard*, in obiter dicta, that the position would be different in a case of patent infringement, where knowledge of the existence, contents or effect of the patent "is completely irrelevant to the question of infringement" (para 37). I have explained why I do not accept that there is any logical inference that the knowledge required for liability as an accessory should mirror that required for primary liability. I have also identified the relevant test as being that, to be liable as an accessory for procuring a tort, a person must know the essential facts which make the act done wrongful, even if the tort is one of strict liability. Only if all the features of the act done which make it, for example, an infringement of a patent or copyright or trade mark are known to a defendant whose conduct has procured the infringement, will the defendant be jointly liable with the actual infringer.

132. The same criterion must apply, in my view, where accessory liability is based on assistance given in pursuance of a common design. It would be irrational if it were otherwise. It is clear that, as the law now stands, assisting, even knowingly assisting, another person to commit a tort is insufficient to give rise to accessory liability. Hobhouse LJ made this point in *Credit Lyonnais Bank Nederland NV (now known as Generale Bank Nederland NV) v Export Credits Guarantee Department* [1998] 1 Lloyd's Rep 19, 46, in a statement of the law cited with approval by both Lord Sumption (para 42) and Lord Neuberger (para 58) in *Fish & Fish*. In the words of Hobhouse LJ:

"Mere assistance, even knowing assistance, does not suffice to make the 'secondary' party jointly liable as a joint tortfeasor with the primary party. What he does must go further. He must have conspired with the primary party or procured or induced his commission of the tort (my first category); or he must have joined in the common design pursuant to which the tort was committed (my third category)."

133. As Philip Sales noted in an article "The Tort of Conspiracy and Civil Secondary Liability" (1990) 49 CLJ 491, 507, which has stood the test of time, the dividing line between procuring or inducing a person to commit a wrong and assisting that person in its commission can be a vanishingly fine one. It would be an irrational line to draw if innocently procuring or inducing the commission of a tort were to give rise to liability when knowing assistance does not suffice. The distinction only makes any sense because the acts which procure or induce the commission of the tort must be done knowingly. As discussed earlier, what more precisely is required is knowledge of the essential facts which make the act of the primary wrongdoer an actionable wrong together with an intention to procure the doing of that act.

134. It would be similarly irrational when knowing assistance does not give rise to accessory liability that unwitting assistance should do so if it is given pursuant to a common design. It is hard to see why the existence of a shared intention should render a person (P) who gives more than trivial assistance liable if P is ignorant of facts which make the act which P intends to assist wrongful. And I find it impossible to see how this could be justified when, as the law stands, someone who, although not acting in concert to a common end, assists another to commit what he knows to be a tort is not liable as an accessory. The need for consistency in the law confirms that the same test of knowledge must apply whichever of the two overlapping bases of accessory liability in tort is relied on.

Conclusion on accessory liability

135. To summarise, there is a general principle of the common law that a person who knowingly procures another person to commit an actionable wrong will be jointly liable with that other person for the wrong committed. The liability of the procurer is an accessory liability. Where the primary wrong is a breach of contract, this accessory liability takes the form of a distinct tort. Where the primary wrong is a tort, however, there is no need to posit a separate tort of procuring another person to commit a tort. Where the general principle applies, the procurer is made jointly liable for the tort committed by the primary wrongdoer.

136. There is a further, distinct principle of accessory liability by which a person who assists another to commit a tort is made jointly liable for the tort committed by that person if the assistance is more than trivial and is given pursuant to a common design between the parties. On the facts of a particular case both principles may be engaged. But on the present state of the law assistance which falls short of procuring the primary

wrongdoer to commit the tort cannot lead to liability unless it is given pursuant to a common design.

137. Although procuring a tort and assisting another to commit a tort pursuant to a common design are distinct bases for imposing accessory liability, they must operate consistently with each other and such that the law of accessory liability in tort is coherent. Considerations of principle, authority and analogy with principles of accessory liability in other areas of private law all support the conclusion that knowledge of the essential features of the tort is necessary to justify imposing joint liability on someone who has not actually committed the tort. This is so even where, as in the case of infringement of intellectual property rights, the tort does not itself require such knowledge. As Paul Davies says in his excellent book on *Accessory Liability* (2015) p 211: "Strict liability might suffice for the primary tort but should not be sufficient for accessory liability."

Application to this case

138. In a simple case where, for example, a company offers for sale counterfeit goods, it may be obvious that a director who arranged for the manufacture and sale of the goods must have known the facts which made the company's acts infringements of the claimant's trade mark. But the present case is not of this kind. The Santa Monica Polo Club signs used by Hornby Street were different in various ways from Lifestyle's registered trade marks and there was room for argument and honest difference of opinion about the extent of the similarity and whether it gave rise to a likelihood of confusion or otherwise resulted in infringement.

139. At the first trial the judge made findings about the Ahmeds' knowledge, which fall well short of finding that they had the knowledge required for accessory liability. The period during which infringements took place ran from 2008 until January 2018 (although Lifestyle's claims based on use before August 2010 were time-barred). The judge made no finding that the Ahmeds were even aware of Lifestyle's trade marks before March 2014, when Lifestyle sent a letter of complaint about the use of the Santa Monica Polo Club signs. The judge found that most of the Santa Monica Polo Club signs were sufficiently similar to Lifestyle's trade marks to give rise to a likelihood of confusion, as required for infringement under section 10(2) of the Trade Marks Act 1994, although one of the signs was distinctive enough that it did not. But, although he specifically considered the point, he did not find that the Ahmeds knew, or should have appreciated, that there was a likelihood of confusion: see [2017] EWHC 3313 (Ch), heading (v) and para 145.

140. To establish infringement under section 10(3) several matters must be proved. They include the facts: (i) that the claimant's trade mark has a reputation in the United Kingdom; and (ii) that the use of the sign complained of (a) gives rise to a link between the sign and the claimant's trade mark in the mind of the average consumer, (b) gives rise to one of the three relevant types of injury specified in section 10(3), and (c) is without due cause (see eg *Comic Enterprises Ltd v Twentieth Century Fox Film Corpn* [2016] EWCA Civ 41; [2016] FSR 30, paras 107-123). The judge found infringement involving two relevant types of injury: taking unfair advantage of the distinctive character or the repute of the claimant's trade mark and causing detriment to its distinctive character.

141. Regarding the Ahmeds' knowledge of these matters, the judge noted that it was not put to Mr Ahmed in cross-examination, nor was it submitted on behalf of Lifestyle, that the Juice Corporation companies and their directors ever deliberately intended to take advantage of the distinctive character or the repute of Lifestyle's trade marks: para 135. The judge found that the Ahmeds must have known about the reputation of the claimant's trade mark from at least 2014 (the date of the letter of complaint): para 147. But although the judge raised the question whether the Ahmeds knew, or should have appreciated, that this reputation would be adversely affected by the use of the offending Santa Monica Polo Club signs, he made no finding to that effect: para 147. And although the judge found that the use of the offending signs was without due cause (paras 152-153), he made no finding that the Ahmeds realised (nor even that they should have realised) this.

142. After the first trial and before the second trial, Lifestyle applied for permission to amend their particulars of claim to allege, for the first time, that the Ahmeds knew or had reasonable grounds for knowing that the Juice Corporation companies were engaged in infringing activity. This application, however, was refused, and the only case put against the Ahmeds at the second trial was therefore one of strict liability.

143. It follows that the courts below were wrong to hold that the Ahmeds were jointly liable with Hornby Street for the infringements of Lifestyle's trade marks committed by Hornby Street. Although on the facts found the Ahmeds procured acts attributable to the company to be done which amounted to infringements, neither of them was found to have had the knowledge required to make them jointly liable for the infringements on either principle of accessory liability.

III. ACCOUNT OF PROFITS

144. This is a sufficient reason to allow the Ahmeds' appeal and dismiss the claims against them. But there are further, separate reasons why, in my opinion, they should not have been subject to orders for an account of profits. As the relevant issues have been fully argued and my ultimate conclusion on them differs from that of the Court of Appeal, I will address these issues. To recap, they are:

(i) Was it appropriate to order an account of profits when there was no finding that the Ahmeds had acted unconscionably or in bad faith?

(ii) If so, should the Ahmeds have been ordered to account for profits made by their company (as Lifestyle contends)?

(iii) If not but the judge was in principle correct to order the Ahmeds to account for profits which they had themselves made from the infringements, was he right to regard (a) the loan made by Hornby Street to Mr Ahmed and (b) a proportion of the Ahmeds' salaries as such profits?

(iv) If it was in principle right to treat a proportion of the Ahmeds' salaries as profits, was the Court of Appeal entitled and correct to hold that in calculating those profits deductions should be made for income tax?

Innocent infringement

145. An account of profits is a well-established remedy for infringement of intellectual property rights, and it is standard practice to allow a successful claimant to elect between the remedies of damages or an account of profits. As an account of profits is an equitable remedy, the court has a discretion whether to grant it. It is nevertheless to be expected that, as with other equitable remedies, the discretion will be exercised in accordance with clear principles. Whether or when the defendant's knowledge of the claimant's rights is relevant in deciding whether to order an account of profits, however, is not as clear as might be expected.

146. In the Court of Appeal, at para 61 of his judgment, Birss LJ agreed with the statement of Henry Carr J in *GlaxoSmithKline UK Ltd v Wyeth Holding LLC* [2017] EWHC 91 (Pat), para 23, that "a basic principle of accounts of profits is that there should be some unconscionable or improper conduct by the defendant." Yet Birss LJ went on to explain this apparently restrictive principle in a way that emptied it of content. He said that the remedy is not limited to cases of unconscionability, nor does the need for "improper conduct" impose any extra hurdle for a successful claimant as "the acts which render the defendant liable are themselves improper conduct." The view taken was therefore in effect the opposite of that stated by Henry Carr J: provided liability is established, there is *no* additional requirement that there should be some unconscionable or improper conduct by the defendant.

147. *Snell's Equity*, 34th ed (2020), para 20-042, observes that there is "unevenness" in relation to whether an innocent infringer of intellectual property rights may be made to account for profits. In proceedings for infringement of a patent, section 62(1) of the

Patents Act 1977 provides that neither an account of profits nor damages may be awarded against a defendant "who proves that at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed." The Copyright, Designs and Patents Act 1988, in sections 97(1), 191J(1) and 233(1), contains a similar defence in relation to damages "but without prejudice to any other remedy." This implies that an account of profits may be awarded even if it is shown that at the time of the infringement the defendant did not know, and had no reason to believe, that the rights to which the action relates existed.

148. In relation to trade marks, there are old cases holding that, where a trade mark is innocently infringed, the proprietor is not entitled either to an account of profits or damages: see *Edelsten v Edelsten* (1863) 1 De G J & S 185; 46 ER 72; *Moet v Couston* (1864) 33 Beav 578; 55 ER 493; *Slazenger & Sons v Spalding & Bros* [1910] 1 Ch 257. In *AG Spalding & Bros v AW Gamage Ltd* (1915) 32 RPC 273, however, the House of Lords made it clear that innocence is no defence to a claim for damages for passing off. And in *Henry Heath Ltd v Frederick Gorringe Ltd* (1924) 41 RPC 457 Eve J applied this decision to a claim for damages for trade mark infringement. It has since been settled law that there is a right to damages for infringement of a trade mark regardless of the defendant's state of mind and of whether the defendant was aware of the claimant's rights: see *Gillette UK Ltd v Edenwest Ltd* [1994] RPC 279, 290-291. But it is unclear whether this also applies to an account of profits.

149. A strong authority for the view that the remedy of an account of profits is only appropriate where there has been conscious infringement is *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25. Windeyer J, sitting as a single judge in the High Court of Australia, after considering the history of the remedy, said, at pp 34-35, that:

"... the account of profits retains the characteristics of its origin in the Court of Chancery. By it a defendant is made to account for, and is then stripped of, profits he has made which it would be unconscionable that he retain. These are profits made by him dishonestly, that is by his knowingly infringing the rights of the proprietor of the trade mark. This explains why the liability to account is still not necessarily coextensive with acts of infringement. The account is limited to the profits made by the defendant during the period when he knew of the plaintiff's rights. So it was in respect of common law trade marks. So it still is in respect of registered trademarks: *Edelsten v Edelsten* (1863) 1 De G J & S 185, 46 ER 72; *Slazenger & Sons v Spalding & Bros* [1910] 1 Ch 257; *Moet v Couston* (1864) 33 Beav 578, 55 ER 493. I think that it follows that it lies upon a plaintiff who seeks an account of profits to establish that profits were made by the defendant knowing that he was transgressing the plaintiff's rights."

150. *Snell's Equity*, 34th ed (2020), para 20-042, observes that this line of authority pre-dates the Trade Marks Act 1994 and cites *Microsoft Corp v Plato Technology Ltd* [1999] FSR 834 for the proposition that under the 1994 Act an innocent infringer may be made to account. But that case is of no real authority, as the defendant conceded in argument that the claimant was entitled to an account of profits despite the defendant's lack of knowledge of infringement and the judgment contains no reasoning on the point. Nor for that matter does *Snell's Equity* identify any feature of the 1994 Act which might be said to have altered the legal position.

151. In these circumstances to identify the correct principle it is necessary to examine the rationale for ordering an account of profits where intellectual property rights are infringed.

The rationale for an account of profits

152. One possible rationale is that articulated in the passage quoted above from *Colbeam Palmer*: a person should not be allowed to keep profits made dishonestly by knowingly infringing another's rights. On this view the remedy aims to deter deliberate or cynical infringement. If the only remedy available were damages, a person motivated by the prospect of gain might make a deliberate decision to exploit rights without the owner's consent reckoning that the profits made from the infringement will exceed any loss which the infringer might be required to compensate. The availability of an account of profits is designed to remove any such incentive for cynical wrongdoing. *McGregor on Damages*, 21st ed (2021), para 15-032, advances this justification for awarding the remedy, characterising such awards as "disgorgement damages" and citing *Colbeam Palmer* in support of this approach.

153. An objection to this line of argument is that it proves too much. If it were sound, it would apply to any form of conscious commission of a tort or other civil wrong. Yet the remedy of an account of profits is not generally available for torts (or breach of contract). For those who favour the deterrence argument, this is a reason to expand the remedy to any dishonestly committed tort: see Andrew Burrows, *Remedies for Torts, Breach of Contract, and Equitable Wrongs*, 4th ed (2019), p 342. That would, however, require a major change in the law.

154. If the deterrence argument were the only rationale for ordering an account of profits, it would not justify granting the remedy where the infringement is innocent. There is, however, another wider, and in my view more cogent, rationale which is not confined to conscious or deliberate infringement.

155. A central purpose of intellectual property rights is to encourage and reward creativity and innovation by enabling the owner of the right to enjoy the fruits of its exploitation. That purpose is promoted by allocating profits made from exploiting the right to the owner, including where the right is infringed by commercial use made without the owner's consent. For this purpose it does not matter whether the infringement is deliberate or innocent. The reason for redirecting the profits to the owner of the right is not to punish or deter wrongdoing. It is to achieve the goals which the right exists to further. As Robert Stevens puts it in a valuable discussion of this subject in *The Laws of Restitution* (2023) at p 306: "The remedy of an account of profits is here the continuation of the reason for the right." This explains why, in the words of Kitchin LJ in *Hollister Inc v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419; [2013] Bus LR 428, para 55, the infringer "is treated as if he has conducted the infringing business on behalf of the claimant."

156. Seen from this perspective, ordering an account of profits against an innocent infringer is in fact easier to justify than awarding compensatory damages. Whereas an award of damages may make the infringer worse off than if the infringement had not occurred, an account of profits does not have this effect. The effect is simply to put the infringer back in the same position financially as if no infringement had taken place. It is hard to see how an innocent infringer can legitimately object to such restitution. Thus there is no irrationality in the approach adopted in the Copyright, Designs and Patents Act 1988 of establishing a defence based on lack of knowledge to a claim for damages but not to a claim for an account of profits. But I find it hard to see how the converse approach could be justified. As, therefore, lack of knowledge is no defence to a claim for an account of profits.

157. Here the Ahmeds did not infringe Lifestyle's trade marks. They induced Hornby Street to do so. In view of my conclusion that liability as an accessory for infringements committed by another person requires knowledge of the claimant's rights, the possibility of ordering an innocent accessory to account for profits does not arise. I will consider the remaining issues on the hypothesis that the Ahmeds had personally infringed Lifestyle's trade marks.

Whose profits?

158. I agree with the Court of Appeal that it follows from the very nature of the remedy of an account of profits that the only profits for which a person should be ordered to account are profits which they have made, and not profits made by someone else. A person ordered to account for someone else's profits would not be giving up a gain but paying a penalty or a fine. The only place for relief of that kind in the law of tort is an award of punitive damages.

159. In *Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd* [2010] EWHC 628 (Ch), para 7, Briggs J explained the principle clearly, and in my view incontrovertibly, when he said:

"By contrast with joint liability as tortfeasors for damages, including damages calculated on a royalty basis, an account of profits operates against each defendant separately, requiring him or it to disgorge such profits as are shown to have been derived by that defendant from the relevant infringements. ... The measure of liability is the profit derived by the defendant from the infringement."

160. Lifestyle relies on a decision of the Irish High Court in *House of Spring Gardens Ltd v Point Blank Ltd (No 2)* [1983] FSR 489, where defendants found jointly and severally liable for copyright infringements were held jointly and severally liable to account for all the profits derived from the infringements. Costello J rejected a submission that, before the court could make an order for payment of profits, it would have to ascertain the person who actually received the profits and make the order only against that person. He said, at p 494:

"An order for an account of profits and their payment is an equitable remedy, given in lieu of an order for the payment of damages. Just as an order for the payment of damages can be a joint and several liability imposed on all wrongdoers who have contributed to a wrong so also can an order for the payment of profits be made against all persons who have been involved in the same tortious act of copyright infringement."

The judge's decision was affirmed by the Supreme Court of Ireland, though without reference to this point: [1985] FSR 327.

161. The analogy drawn between an order for the payment of damages and an order for an account of profits and their payment, however, is inapt. When two or more defendants have combined to cause loss to the claimant, there is no difficulty or inequity in holding that, as each has caused the claimant's loss, the claimant can recover compensation for that loss from any of them, leaving questions of relative responsibility and apportionment to be addressed in contribution proceedings. Profits received by a defendant, on the other hand, can only be given up by the defendant who received the profits. If a defendant is ordered to pay to the claimant a sum equivalent to a profit made by a co-defendant, it cannot be said that, by making the payment, the defendant is put back in the same position financially as if the infringement had not occurred. The defendant would be placed in a demonstrably worse financial position. A finding that the defendants were jointly responsible for the infringement does not justify requiring any of them to disgorge a sum which is not a gain derived from their joint wrong.

Comparison with disgorgement claims in equity

162. In the judgments of the courts below and in the argument on this appeal, reference was made to several cases concerned with claims for an account of profits against persons who have dishonestly assisted in a breach of fiduciary duty. Lifestyle cited *Canada Safeway Ltd v Thompson* [1951] 3 DLR 295, 323, where a judge in British Columbia held dishonest assistants jointly and severally liable to account for the profits made by the defaulting fiduciary. Although no authority or reasoning was given for this decision, it has been followed in Canada.

163. Steven Elliott and Charles Mitchell in their article "Remedies for Dishonest Assistance" (2004) 67 MLR 16, 40, after referring to this line of Canadian cases, questioned "whether it is desirable in principle to make a dishonest assistant liable to account for the fiduciary's profits, where he has received no benefit for himself." In *Ultraframe (UK) Ltd v Fielding* [2005] EWHC 1638 (Ch), paras 1595-1601, Lewison J answered that question in the negative. After considering *Canada Safeway* and an unreported English case, *Comax Secure Business Services Ltd v Wilson* (HH Judge Seymour QC, 21 June 2001), where a similar approach was taken, he said:

"I can see that it makes sense for a dishonest assistant to be jointly and severally liable for any *loss* which the beneficiary suffers as a result of a breach of trust. I can see also that it makes sense for a dishonest assistant to be liable to disgorge any profit which he *himself* has made as a result of assisting in the breach. However, I cannot take the next step to the conclusion that a dishonest assistant is also liable to pay to the beneficiary an amount equal to a profit which he did not make and which has produced no corresponding loss to the beneficiary." (para 1600, emphasis in original)

164. In *Novoship (UK) Ltd v Mikhaylyuk* [2012] EWHC 3586 (Comm), para 99, Christopher Clarke J agreed with Lewison J on this point, observing that "there is no equity to compel someone who has not made a profit from his breach, or dishonest assistance in that of another, to account for a profit which he has not made and which does not represent a loss which the principal has suffered." On appeal, the Court of Appeal took a similar view: see *Novoship (UK) Ltd v Mikhaylyuk* [2014] EWCA Civ 908; [2015] QB 499, paras 75-77 and 84. Recently, the Court of Appeal confirmed the proposition that a dishonest assistant may be ordered to account for his profits, but not

for the fiduciary's profit: see *Hotel Portfolio II UK Ltd v Ruhan* [2023] EWCA Civ 1120; [2024] Bus LR 160, paras 43-44, 60 and 67.

165. Far from assisting Lifestyle, therefore, the comparison with claims against dishonest assistants positively supports the conclusion that the only profits which a person liable as an accessory can be required to disgorge are profits shown to have been derived by the accessory from the wrongful acts and not profits realised by the primary wrongdoer.

166. Lifestyle has also sought to rely on the judgment of Lawrence Collins J in *CMS Dolphin Ltd v Simonet* [2002] BCC 600. In this case the relevant defendant (Mr Simonet) was a primary wrongdoer rather than an assistant. He was found to have acted in breach of his fiduciary duty as a director of the claimant by diverting business from the claimant to, first, a partnership, and then a company, which he set up. One of the issues was whether Mr Simonet, who had personally made no profits from the business unlawfully obtained, was liable to account for profits made by the partnership and company. The judge held that he was.

167. In the case of the partnership, that conclusion was based on the decision of the House of Lords in *Imperial Mercantile Credit Association (Liquidators of) v Coleman* (1873) LR 6 HL 189. In the case of the company, Lawrence Collins J noted that where a company is incorporated or used to perpetrate wrongdoing it may be permissible to "pierce the corporate veil". But he did not think it necessary to rely on that principle as he considered that two authorities (*Cook v Deeks* [1916] 1 AC 554 and *Canadian Aero Service Ltd v O'Malley* (1973) 40 DLR (3rd) 371) showed that directors are liable with a company formed by them to take unlawful advantage of a business opportunity, for the reason that "they have jointly participated in the breach of trust" (para 103). He sought to distinguish the decision of the House of Lords in *Regal (Hastings) Ltd v Gulliver* [1967] 2 AC 134 in which Mr Gulliver was held not to be accountable for profits made as a result of his breach of fiduciary duty as a director by two companies in which he had an interest because he had personally made no profit.

168. The reasoning in *CMS Dolphin* was subjected to sustained criticism in *Ultraframe (UK) Ltd v Fielding* [2005] EWHC 1638 (Ch), leading Lewison J to decline to follow it. I do not think it necessary to recite the detailed reasons given by Lewison J for that decision at paras 1565-1576 of his judgment, which are compelling. They include a demonstration that the two authorities relied on in *CMS Dolphin* do not support the proposition for which they were cited and that the reasons given for distinguishing *Regal (Hastings) Ltd v Gulliver* were insufficient. Lewison J also pointed out that "joint participation" in a breach of trust is not a cause of action in English law. I agree with his conclusion, at para 1576, that the mere fact that a fiduciary has a substantial interest in a company which knowingly receives trust property does not make the fiduciary personally accountable for the receipt.

169. Again, therefore, the analogy on which Lifestyle seeks to rely does not support its case. No good reason or persuasive authority has been identified for impugning the Court of Appeal's conclusion in this case that, if the Ahmeds had been personally liable for infringements of Lifestyle's trade marks, they could only have been liable to account for profits which they personally made from the infringements.

What, if any, profits did the Ahmeds make?

170. The next question is what profits, if any, the Ahmeds made from the infringements of Lifestyle's trade marks. In particular, was it open to the judge to find that a proportion of their salaries and a loan made to Mr Ahmed by Hornby Street constituted such profits?

171. Taking first the loan, I agree with the Court of Appeal that it was wrong in principle to treat the loan as a profit. A person does not make a profit just by borrowing a sum of money. If the loan is interest-free or at a rate of interest lower than a commercial rate, this difference might generate a profit for the borrower. But Lifestyle has not attempted such a calculation or put its case in this way. Equally, had it been shown that the loan was not really a loan at all but a disguised dividend, the position would be different. But there was no evidence or finding to that effect.

172. Lifestyle has argued that the loan became a profit when Hornby Street was dissolved. This is not an argument which Lifestyle could have made at the trial, as the company was then still in existence and in the hands of administrators. But in the Court of Appeal Lifestyle argued that, even if the judge were wrong to characterise the loan as a profit, his decision should be upheld because the subsequent dissolution of the company meant that what had been a loan had become a profit. Alternatively, Lifestyle argued that, even at the time of the trial, it was apparent that the administrators were not going to pursue Mr Ahmed for repayment of the loan. The Court of Appeal rightly regarded these matters as irrelevant. If, as a result of supervening events, a loan is forgiven or otherwise ceases to be repayable, that does not alter its character as a loan.

173. Where the Court of Appeal erred, in my view, was in upholding the judge's decision that part of the salaries paid to the Ahmeds could properly be treated as profits. Again, payments made ostensibly as remuneration may in reality be a way of extracting profits from a company. But there was no allegation, evidence or finding that the salaries paid to the Ahmeds were anything but ordinary remuneration for their services. Indeed, the judge expressly accepted in his judgment, at para 92(e), that the salary payments "were for work done, not dividends." Whereas an employer may of course profit from the labour of an employee in that the work done by the employee may earn more income for the employer than it costs to employ that person, an employee who receives in return for their services a sum no greater than the fair market value of those

services does not make a profit. It is not suggested that the Ahmeds were paid more for their services to Hornby Street than their services were worth.

174. The Court of Appeal reasoned that the position of an employee is in principle no different from that of a sole trader. Birss LJ, at para 82 of the judgment, gave the example of an individual sole trader in a market stall who sells infringing T-shirts. He said that the profits made on those sales would be potentially available in an account of profits and would include all the relevant receipts, net of appropriate costs which were relevant to the sale of the infringing goods. It is wrong, however, to equate a person who trades in goods and whose income consists of the proceeds of sale of the goods with a person who is paid for their labour. A sole trader whose income is earned by selling goods herself may make a greater profit than if she employs an assistant to sell the goods for her because she has no labour cost to deduct. But that is a consequence of how she chooses to conduct her business. It does not mean that if someone is employed by a trader to sell goods on her behalf and is paid a salary or wage in return for his labour, the employee's remuneration is a profit. The two situations are not alike.

175. I would comment in passing that, although the Ahmeds who were acting in person at the second trial did not take the point, the profit for which a trader who sells infringing goods is liable to account is not necessarily the difference between the proceeds of sale of such goods and the costs attributable to those sales. As pointed out by Windeyer J in *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd*, at p 37, the profit for which the infringer of a trade mark must account is not the profit made from selling the article itself but the profit made from selling it under the trade mark. In *My Kinda Town Ltd (trading as Chicago Pizza Pie Factory) v Soll* [1982] FSR 147, for example, the claim was for passing off by using a name confusingly similar to the name used by the claimant for a chain of restaurants. Slade J, after an extensive review of cases involving trade mark infringement as well as passing off, held that the profits for which the profits made by the defendant from its restaurant business. The principle was clearly explained by Lewison LJ in *OOO Abbott v Design & Display Ltd* [2016] EWCA Civ 98; [2016] FSR 27, para 36 (a patent case but where the same principle applies):

"In a case in which the infringement does not 'drive' the sale it seems to me that it is wrong in principle to attribute the whole of the profit to the infringement. In particular it does not follow from the fact that the customer wanted a slat wall that incorporated *an* insert that the customer wanted a slat wall that incorporated the *infringing* insert." (emphasis in original)

176. In estimating the profits for which Hornby Street was liable to account, the question should therefore have been asked whether it is likely that any, and if so what

proportion, of the sales of goods bearing the offending signs which were in fact made would have been made if the signs had not been used. The appropriate inference might have been that no sales would have been made but the question was not considered.

Tax

177. Having held that the judge was entitled to find that 10% of the Ahmeds' salaries represented profit attributable to the infringements, Birss LJ suggested, at para 85 of the Court of Appeal judgment, that a deduction should probably be made for the income tax paid by the Ahmeds on this part of their remuneration. Neither party had raised any point about income tax either before the judge or in the Court of Appeal. The parties were invited to make brief written submissions on the point when they were sent the court's judgment in draft. Having considered those submissions, the Court of Appeal decided that it was indeed right in calculating the sum due to Lifestyle from Mr Ahmed and Ms Ahmed respectively to deduct a sum equal to the income tax paid on the relevant portion of their salaries. The Court of Appeal accordingly substituted amounts net of tax for the sums ordered by the judge.

178. Lifestyle has argued that the Court of Appeal was wrong to raise this point of its own motion after the appeal hearing, as it was not a pure point of law but a defence which ought to have been pleaded and raised at the trial. Lifestyle has also argued that it was not given an adequate opportunity to deal with the point and that in any event the Court of Appeal got the law wrong.

179. These questions are relevant only if the initial premise is correct that the judge and the Court of Appeal were entitled to regard a proportion of the Ahmeds' salaries as representing profits attributable to the infringements. I have explained why I do not accept that premise. I do not think it fruitful to consider whether income tax should or should not be taken into account in calculating profits made by the Ahmeds when the sums on which income tax was paid were not such profits. In these circumstances it is also unnecessary to comment on the procedural objections raised by Lifestyle.

IV. DISPOSAL

180. For the reasons given in this judgment, I would dismiss Lifestyle's appeal and would allow the Ahmeds' appeal for two reasons, each of them a sufficient reason to set aside the orders made against the Ahmeds for an account of profits.

181. First, to justify the conclusion the Ahmeds were jointly liable with Hornby Street, the company of which they were directors, for its infringements of Lifestyle's trade marks, either because they procured the infringements or because they participated

in a common design, it would have been necessary to show that the Ahmeds had knowledge of (or turned a blind eye to) the facts which made the use of the "Santa Monica Polo Club" signs by Hornby Street infringements of Lifestyle's trade marks. But no such case was advanced and the judge made no such finding. Lifestyle's case on liability was therefore not made out.

182. Second, the only profits for which the Ahmeds could in any event be liable to account were profits which they themselves (rather than the company) had made as a result of the company's infringements of Lifestyle's trade marks; and the facts found by the judge did not justify the conclusion that the Ahmeds personally made any profits from those infringements. For this reason too, the orders for an account of profits were wrongly made.