

When the Infringer is a Contractual Licensee

- Dr Poorna Mysoor*

Copyright infringement in the UK is defined as the doing of a restricted act without the licence of the owner of the copyright.¹ It is also an infringement of copyright if a person does have the licence of the copyright owner, but violates its terms. At common law a licence can take the form of a bare licence or a contractual licence. While the breach of a bare copyright licence will lead to copyright infringement, the issues become more complex if the licence is granted as a contractual licence. This is because the parties to the contract acquire rights and obligations by virtue of the contract in addition to those that are granted to the copyright owner by the statute. When a contractual licensee violates a term of the contractual licence, it does not automatically become a copyright infringement. While there are terms the violation of which results in an action for copyright infringement, there are also those that result only in an action for breach of contract – a classic example of the latter being the term stipulating the payment of a licence fee. However, this general distinction between these causes of action has an honourable exception. There are circumstances where the violation of a term which may otherwise have resulted only in breach of contract results also in copyright infringement. This happens when the consequence of the breach of contract is so grave that it can be considered repudiation, giving the copyright owner the right to terminate the licence. If the licensee continues to use the relevant copyright work even after the termination, then the copyright owner can allege both breach of contract and copyright infringement. The general rules that draw the distinction between these causes of action do not receive sufficient attention, and the exception even less so.

One might argue that the distinction between breach of contract and copyright infringement should not matter as both attract liability. Indeed, one could cite the decision of the Court of Justice of the European Union's decision in Case C-666/18 *IT Development SAS v Free Mobile SAS* in support of this claim.² The CJEU held in essence that the Enforcement Directive (2004/48) is agnostic to the origin of the infringement – whether tort or contract, and therefore the remedies guaranteed therein should be available to the copyright owner. Although this is an important ruling, there are two points to note. Firstly, the factual matrix that gave rise to the reference did not make it necessary to consider the possibility that there could be terms the violation of which only results in the breach of contract. Secondly, although the Enforcement Directive gives broader guidelines on enforcement of intellectual property rights, it leaves it to the member states to provide for the appropriate 'measures, procedures and remedies.'

All member states make a general distinction between an action in tort and an action in breach of contract. Therefore, the laws of the member states will have to grapple especially with the issue of procedures and remedies to separately address actions of copyright infringement, actions of both copyright infringement and breach of contract and actions of only breach of contract. The CJEU decision gave a glimpse of how the French law might deal with this situation. This article discusses the response of the UK law under similar circumstances. Accordingly, under the UK law one may note that while an injunction is commonly sought as a remedy against copyright infringement, it is rarely granted for breach of contract. However, if there is repudiatory breach of a contractual term, it is possible that injunction may become a relevant remedy to pursue,

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¹ Copyright Designs and Patents Act, 1988, s 16.

² ECLI:EU:C:2019:1099.

in addition to pursuing damages for the repudiatory breach. Further, if damages are to be granted, the heads of damages would be different between tortious liability for copyright infringement and breach of contract. The assessment of damages could also be different with mitigation being important for breach of contract and remoteness playing a significant role in copyright infringement. This article explores this deceptively simple issue – the interaction between the tort of infringement and breach of contract.

This article begins by examining the CJEU's decision closely and the relevant French law that gave rise to the reference, as this provides the larger context within which the questions of copyright infringement and breach of contract arise. It extrapolates the UK law response under similar facts and circumstances. It demonstrates that although the law in the UK differs from French law in its response, a distinction must still be made between a claim for copyright infringement and breach of contract as far as the remedies are concerned. As a first step towards drawing this distinction, it explains the broad approaches adopted by common law in identifying obligations that arise from tort and from contract and in formulating remedies. It applies these broad approaches to the terms of a contractual licence to distinguish between terms whose violation results in copyright infringement and those that result in breach of contract. It takes the example of the term requiring the payment of licence fee as a prime example of terms, the violation of which result only in breach of contract. The article ends with a discussion on the circumstances under which the repudiatory breach of a contractual term not only results in an action for damages for the breach, but also in copyright infringement.

CJEU's decision in *IT Development*

Let us begin by looking closely at *IT Development*. In this case the licence agreement between the parties contained a provision prohibiting adaptation and modification of the software. The claimant brought an action before the Regional Court of Paris for copyright infringement alleging that the defendant had modified the software and had adapted it by creating new forms. The Regional Court held that the action arose from the breach of the contractual licence between the parties and not from tortious liability for copyright infringement, dismissing the action as inadmissible as a tortious claim.³ The claimant appealed before the Paris Court of Appeal and this court made a reference to the CJEU raising the following question: does a licensee exceeding the terms of a software licence agreement amount to an infringement of the rights in the software under the Software Directive for the purposes of the Enforcement Directive? The CJEU said that the Software Directive does not make the protection of the rights of the owner of copyright in software dependent on the existence of a contract and that it makes no reference to the origin of infringement, whether contractual or otherwise. The CJEU went on to hold that Enforcement Directive also refers to 'any infringement' under Article 2(1), which should include infringement resulting from the breach of a contractual clause. The remedies that a copyright owner can seek under Article 4 do not discriminate based on the origin of the infringement, whether contractual or otherwise.⁴ It confirmed that although the member states are free to adopt their own procedures, they must comply with Article 3 of the Enforcement Directive that these procedures must be fair and equitable and must not be unnecessarily complicated or expensive.

In effect, the finding of the CJEU was that the infringement of 'a clause in a licence agreement for a computer program concerning the intellectual property rights of the owner of the copyright of that program falls within the concept of infringement' under the Enforcement

³ Ibid [20].

⁴ Ibid [33]-[34], [36], [41].

Directive and therefore, the owner must be able to benefit from that directive.⁵ This ruling has been criticised as being too broad in defining what amounts to copyright infringement, because the breach of any clause in a licence agreement does not amount to copyright infringement. It just so happened that the case concerned the infringement of a clause which fell squarely within one of the rights protected in computer programs. However, there may be clauses in a licence agreement, the breach of which do not amount to an infringement, such as disclosure of information or duty to cooperate.⁶ The criticism does appear reasonable. However, the CJEU uses the phrase ‘concerning the intellectual property rights ...’ as quoted above. If these words inform the licence agreement, then the criticism levelled is justified. The breach of any clause in an agreement that concerns the intellectual property rights of the copyright owner will amount to copyright infringement, and that is too broad a definition of infringement to work with. On the other hand, if the words ‘concerning the intellectual property rights ...’ qualify the clause in the licence agreement, then it may be argued that the CJEU does not say that the breach of any clause in the agreement is an infringement; rather, it limits it to only a clause ‘concerning the intellectual property rights ...’. Although one needs to know how to recognise a term that concerns intellectual property rights within a licence agreement, this at least recognises that there may be terms that may not concern intellectual property rights.

Just as an infringement does not cease to become an infringement simply because it arose from the violation of a contractual licence, a breach of contract does not become an infringement simply because it arose from the violation of a contractual licence. Therefore, member states are bound to make a distinction between actions of breach of contract and actions of copyright infringement. It is just as well that the directive speaks of measures, procedures and remedies in general terms, and importantly, leaves it to the member states to lay down the specific rules. Therefore, as far as the national laws are concerned, it is all the more essential that these measures, procedures and remedies are specific and distinguishable between copyright infringement and breach of contract. The question then is – is it possible to delineate between clauses the violation of which result in copyright infringement and those that do not?

French Civil Code and relevant common law

IT Development highlights an important point about the procedure under the French law. The French Civil Code bars a person from holding another person liable for breach of contract and tortious liability for the same acts.⁷ The position, however, is different in the UK. Although there had been some doubt in the prior case law, the decision of the House of Lords in *Henderson v Merrett Syndicates Ltd* has made it possible for a tortious and a contractual claim to be brought together on the same facts.⁸ It was held that agents of members of Lloyd’s could be sued both for negligence and breach of contract in the management of underwriting business in order to gain advantage of the longer limitation period in tort law. This result was held possible because the tortious duty is imposed by the law and the contractual duty is attributable to the will of the parties.⁹ Therefore, a claimant can bring a concurrent claim in tort and contract arising from the same facts before the UK courts.

⁵ Ibid [42].

⁶ Peter Ling, ‘An Infringement of IP Rights that is also a Breach of Contract is still an Infringement of IP Rights’ IPKat, 14 January 2020.

⁷ *IT Development* (n 2) [23].

⁸ [1995] 2 AC 145.

⁹ Ibid 194.

Further, the French Civil Code states that the tortious liability is excluded in favour of the contractual liability where the parties have entered into a valid contract and one party suffers damage resulting from the non-performance or improper performance of a contractual obligation.¹⁰ Based on this rule, it would appear that the Regional Court may not have been incorrect in insisting that the action be brought as one for breach of contract since the tortious liability is excluded. In the UK since concurrent claims of tort and contract can be brought on the same facts, no such choice needs to be made as to the cause of action. Therefore, if a fact situation similar to *IT Development* had arisen in the UK, despite the existence of a contract if a tortious claim was brought, the courts in the UK would have entertained such a claim. But damages cannot be claimed twice over, and the claimant must choose from the two bases when seeking damages.

On the other hand, if the violation is of a term of the contract which does not concern the exclusive rights of the copyright owner, this may not amount to copyright infringement in the absence of a repudiatory breach. If an action for copyright infringement under these circumstances, it may not succeed since the cause of action of copyright infringement will not have been proved. However, if the claim is misdescribed as a concurrent action, to the extent that breach of contract is claimed, a court in the UK may not dismiss it, but proceed to examine the merits of the case. If the court finds only a breach of contract, then the remedies granted will be those available in case of a breach of contract, and not those for copyright infringement. Such remedy might only be nominal damages as is allowed in certain claims of breach of contract, and not any other heads of damages, much less, an injunction. Thus, in the UK even if the rules of procedure are more relaxed in allowing concurrent claims to be brought, it matters whether a claim is a tortious claim or a contractual claim as far as the remedy is concerned. For this reason, it is essential to distinguish between a term that is purely contractual and a term that is not.

Interaction between contract and tort under common law

There are a few ways in which one may determine whether a term is contractual or not, although none of these methods is complete or comprehensive in itself. One may examine the source and content of the obligation of the licensee. If it exists by virtue of the law and does not depend on the licensee's consent to be subject to that duty, then a breach of that obligation more likely leads to a tortious liability. It also helps to bear in mind the aims of contract and tort law, especially as they affect the remedies. In contract law, the aim is to enforce promises which means the innocent party must be put in the position they would have been had the contract been performed. The aim of tort law on the other hand, is prevention or compensation of harms, which means that the victim of tort is put in a position they would have been had the tort not been committed.¹¹ There are exceptions and limitations to these statements, but these are useful as broad guidelines.

The effort here is to analyse the infringement of a contractual copyright licence. Let us start with a licence – it is what makes an action lawful which otherwise would be unlawful.¹² The copyright statutes enumerate the actions that are restricted to the copyright owner alone, such as reproducing, distributing, communicating a copyright work. The law prohibits engaging in these actions if not for the licence. Exceeding the licence will, therefore, be a tortious act because the source and content of such action is prohibited by law. A copyright owner can grant such licence in exchange for payment or other consideration flowing from the licensee. Such obligations would not exist if not for the existence of the contract which the parties have come together to consent

¹⁰ *IT Development* (n 2) [23].

¹¹ Edwin Peel and James Goudkamp, *Winfield and Jolowicz Tort* (19th edn, Sweet & Maxwell 2014) paras [1-005]-[1-007].

¹² *Thomas v Sorrell* (1672) Vaugh 330, 351.

to. A violation of these terms will amount to a breach of contract and not a copyright infringement, because the source and content of such obligation is traced back to the contract. It would help to examine these rules with the help of examples, as the following paragraphs do.

Terms the violation of which results in copyright infringement

If a copyright owner uses the language of the copyright statute when granting a licence, such as ‘reproduce’, ‘distribute’, ‘communicate’ and so on, it is obvious that exceeding what is stated will amount to an infringement.¹³ Sometimes the licence might also state the actions that are prohibited, as it happened in *IT Development* where adaptation was prohibited. With the terms of this kind one must note that even if the licence did not prohibit them, these actions would have been prohibited by the copyright statute anyway. There is little doubt that these scenarios address exclusive rights of the copyright owner and therefore, a violation amounts to copyright infringement.

Sometimes the licence may not use the language of the exclusive right but may use more commercial terminology such as market, sell, exploit and so on. The actions may also be limited in a specific way – such as a novelist might only want paperback copies to be made and distributed and not hardback ones; a musician might only want distribution by way of CDs and not downloadable online. For example, in *IT Development*, the referring court names a few terms that are more commonly found in software licences, such as the copyright owner limiting the use of a software to a trial period, or limiting the number of authorised users or processors which may be used to execute the software instructions, or reserving the right to modify the source code of the software.¹⁴ Another example is *Deakin v Card Rax Limited*, where the artwork that the claimant, an artist, had designed for greeting cards could not be used for other stationery that the defendant traded in such as tags and wrapping paper.¹⁵ Non-compliance with these terms or exceeding the limits will also amount to copyright infringement.

In interpreting terms of this nature, a preliminary question might be what actions the terms such as ‘market’ or ‘exploit’ include. This would be a matter of contractual interpretation in the light of the whole contract and its surrounding circumstances.¹⁶ Once the meaning is determined, one of the ways in which to ascertain whether the term concerns the rights of the copyright owner is to ask the question: if the licence did not exist would the licensee be under an obligation not to engage in actions stated in the licence, with or without the limit stated? If the answer is yes, it would mean that the source and content of the obligation is law as opposed to contract. No person is allowed to market or sell copyright products without a licence; nor are they allowed to publish a hardback version of a literary work or to distribute a musical work on the internet if they do not have a licence. No person is permitted to reproduce a software whether during or after a trial period if there was no licence. Whether it is one user or one processor, no one is permitted to execute the software instructions without a licence. Whether it is on the greeting cards, tags or wrapping paper, no person’s copyright work can be used without a licence. This goes to show that the concerned activity as such is prohibited by law. Therefore, a violation of these terms amounts to copyright infringement, and not breach of contract.

A licence may further ringfence the actions by confining them to a particular time period and / or geographical location. For example, in *Robin Ray v Classic FM*, the database that the

¹³ Subject of course, to implied licence. For a detailed account, see generally Poorna Mysoor, *Implied licences in copyright law* (OUP 2021 forthcoming).

¹⁴ *IT Development* (n 2) [25].

¹⁵ [2011] EWPCC 3 [85], [138]-[140].

¹⁶ Edwin Peel, *Treitel Law of Contract* (14th edn, Sweet & Maxwell 2015) paras [6-006]-[6-007].

claimant had created could only be used by the defendant in the UK and not overseas.¹⁷ In *Deakin*, the licence granted by the claimant in relation to her artwork for greeting cards, tags and the like was held to be restricted to three years.¹⁸ These are not readily discernible from the enumerated exclusive rights in the copyright statutes. Again, the question to ask is – if no licence had been granted, would a person be prohibited from distributing or engaging in any restricted act in relation to copyright works at any time and in any location? Since the answer is yes, going beyond the limits prescribed by the licence in this way amounts to copyright infringement.

Terms the violation of which results in breach of contract

The above enumerates a non-exhaustive list of the terms, the violation of which amounts to copyright infringement. What are the terms, the violation of which amounts to breach of contract? In general, all those terms that refer to what the licensee must do in exchange for the licence are contractual. The first and foremost is the obligation to pay the licence fee. Others include control provisions such as guaranteed number of sales of copies of the licensed work, minimum revenue targets and audit provisions such as obligations to provide accounts and so on. In all these cases, the question to ask is again whether these obligations continue to bind the person in the position of the licensee if there was no licence. If the answer is no, then the term is a contractual term. No person would be under an obligation to pay the copyright owner if they did not agree to do so. No one is asked to meet revenue targets unless that person agrees to do so, and likewise with the sales targets and other audit provisions. These are obligations that the licensee voluntarily agrees to with the copyright owner. If not for this agreement, these obligations would not exist. The source and content of these obligations therefore arise from the licensee agreeing to them, rather than from a rule of law. As such, these are the terms, the violation of which will result in breach of contract, and not copyright infringement without more.

Understandably, being paid is an important concern of copyright owners in their effort to commercialise their works. For this reason, they might wish to use their copyright licence as a bargaining chip to have the licence fee paid. If a copyright owner has the bargaining power, nothing stops them from negotiating a contract whereby the copyright work would only be given access to upon the licensee paying the full amount agreed. This may be possible where the relationship with the copyright owner is a one-off engagement with no ongoing relationship, such as an engagement of an artist to create a painting or a sculpture. If no payment is received, no work is handed in. This way, the copyright owner can use the payment term to nip any possibility of infringement in the bud. However, the commercial realities, the nature of certain copyright works and the relative bargaining power may not allow the copyright owner to use the payment term this way. Quite often, the copyright owner will be faced with a situation where there is an ongoing relationship, and the copyright owner must part with the copyright work before being paid or being paid at different stages or periodically. Copyright owners may nevertheless wish to claim copyright infringement for non-payment of licence fee on the basis that the licence is only granted if the payment is made; if the payment is not made, the licence can be withdrawn or revoked as some scholars call it;¹⁹ and if the use of the copyright work continues once the licence is withdrawn, it amounts to infringement. Is this the correct way to analyse this obligation? Would an injunction be granted under these circumstances? Let us examine the case law on this point.

¹⁷ [1998] EWHC Patents 333 [48].

¹⁸ *Deakin* (n 15) [77]-[80], [130]-[137].

¹⁹ The expression ‘withdraw’ is used in preference for ‘revoke’, because revoke is more appropriately used in relation to bare licences where the licensor decide at will not continuing with the license and yet faces no legal consequences.

One of the most prominent cases is *Ng v Clyde*.²⁰ Although this is a decision of the of the Supreme Court of New South Wales, it has been relied on and quoted with approval in the UK.²¹ The claimants were a firm of architects who were engaged by Dow Development to prepare plans for a building, obtain development consent and supervise the building project. The contract provided for payments to be made by Dow at different stages. Dow went into financial difficulties partway through the project and the work on the project stopped when it was quarter of the way through. By this time development consent had been obtained and the construction had been well underway. Although a substantial amount had been paid in settlement of previous invoices, two of the claimant's invoices had remained unpaid when Dow went into liquidation. Dow's mortgagee, the defendant entered on the land and took over the project. The defendant used the claimant's plans without engaging the claimant's services to complete the project. The claimants brought an action seeking an injunction to restrain the defendant from using the plans, in addition to claiming payment of the unpaid invoices.²² It was common ground that the defendant had the benefit of an implied licence from the claimant to Dow due to the claimant's engagement for valuable consideration and such implied licence was assignable by Dow to a purchaser of the relevant land, i.e., the defendant.²³ However, there was no express term that the claimant could withdraw their licence if the agreed payments were not received. The question was whether the contract was such that the licence was given once and for all in return for an undertaking to pay or whether the grant of licence was subject to payments being made, so that the licence may be withdrawn if payment was not received?

It was held that where the contract grants an immediate licence in return for later payments, and when the licence is granted and acted upon, the contractual licence is irrevocable even if the fees owing to the copyright owner remain unpaid or partially paid. It is open for an architect to provide expressly that the licence may be withdrawn if payments are not made in full; however, the judge doubted whether such a term would be acceptable to a developer since temporary difficulties in making payments is common in building industry. The judge likened the contract of engagement at issue to a contract of sale in that the claimant was essentially selling their plans and a licence to build in accordance with them, in return for a promise of future payment. Just as an ordinary sale gives the vendor a right in the event of non-payment to sue for recovery of the purchase price, the claimants herein should have sued for non-payment of the fee. Since an ordinary sale does not give the vendor a right to deprive the purchaser of the enjoyment of the object sold, or to complain of the use by the purchaser of the article sold prior to payment for it, a copyright owner cannot deprive a licensee the enjoyment of the licence. Since the licence could not be withdrawn but continued to benefit the licensee, there was no infringement.

Ng v Clyde was relied upon to give a similar finding in *Burke v Filmways Australasian Distributors Pty Ltd*.²⁴ This was an application for interlocutory injunction where the claimant asserted that he was one of the script writers of a film that the defendants had produced and that he had not been paid for his work. He sought an interlocutory injunction against the screening of the film due to the non-payment of the amounts due.²⁵ Although the court found that the claimant had established a prima facie case that he was indeed the author of the script, based on *Ng v Clyde*

²⁰ [1976] 1 NSWLR 443.

²¹ *Deakin* (n 15) [126]-[127]. See also Gillian Davies, Nicholas Caddick and Gwilym Harbottle, *Copinger and Skone James on copyright* (17th edn, Sweet & Maxwell 2016) para [5-235].

²² *Ng* (n 20) 444-45.

²³ *Ibid* 446.

²⁴ Unreported, SC(NSW), Powell J, 3219/1979, 9 October 1979, BC7900225.

²⁵ *Ibid* 7-10.

the court observed that since the claimant was always aware that his work would be used in the film for its release, and since he had been engaged for valuable consideration to create the script for the film, it resulted in an implied licence in favour of the producers of the film to distribute it. The court further noted that the claimant had not at the time of entering the project negotiated with the producers that the film screening would not go on until he had been fully paid for his work. As such, the court held that the claimant had granted an immediate and irrevocable licence at the time of entering into the contract in exchange for a future payment.²⁶ The decision in both *Ng v Clyde* and *Burke* have been affirmed by the High Court of Australia.²⁷

Ng v Clyde was also affirmed in the UK in *Deakin*.²⁸ The claimant herein was an artist who was regularly engaged by two related defendant companies to provide artwork for greeting cards, wrapping paper, tags and the like. The contract of engagement was largely verbal, with the invoice only stating that the payment was due immediately, though many invoices were not dated. Among the various issues raised, of concern here is the non-payment of some of the invoices raised by the claimant against two of the defendants Card Rax and Bee's Knees.²⁹ The claimant regarded the non-payment of these invoices as a repudiatory breach and terminated her licence and sued for damages for the breach and copyright infringement.³⁰ It was argued for the defendants that as far as the breach of the licence agreement by non-payment was concerned, the claimant's termination of the licence was not justified and that the claimant should have only brought an action for recovery of unpaid sum and not copyright infringement.³¹ Upon a prolonged litigation the court agreed with the defendant that this should have only been a matter of unpaid debt and not of termination due to repudiatory breach, relying on *Ng v Clyde*.³²

An example of a case that addressed a term other than unpaid licence fee is *Gruzman Pty Ltd v Percy Marks Pty Ltd*.³³ Many of the facts in this case are similar to *Ng v Clyde* in that the claimant was an architect who was engaged by the defendants to draw plans, apply for development consent and supervise the construction. However, the difference lies in the fact that partway through the project differences developed between the parties due to cost overruns and the defendant terminated the services of the claimant, but continued to build according to the claimant's plans. Claimant brought an application for interlocutory injunction and delivery up of the plans on the basis that the termination of their services as architects of the project was a repudiatory breach, entitling them to withdraw their licence.³⁴ The court doubted whether the claimant could withdraw its licence based on *Ng v Clyde*. It went on to hold that the question as to whether there was a repudiatory breach needed consideration of the case on merits and could not be decided at the interlocutory stage. Since the claimant's justification for termination and withdrawal of their licence depended on being able to prove a repudiatory breach, granting the interlocutory injunction would be inappropriate.³⁵

As far as the remedy is concerned, it is important to note that in each of these cases injunction was sought in the ordinary course as a remedy for copyright infringement. In two of

²⁶ Ibid 12.

²⁷ *Concrete Pty Ltd v Parramatta Designs Pty Ltd* (2006) 231 ALR 663 [73], [75] (per Kirby and Crennan JJ).

²⁸ *Deakin* (n 15) [149], [203].

²⁹ Ibid [6]-[8], [69], [145]-[146]

³⁰ Ibid [118].

³¹ Ibid [20], [119].

³² Ibid [149], [203].

³³ (1989) 16 IPR 87.

³⁴ Ibid 88.

³⁵ Ibid 89-90.

these cases the court found that the facts only revealed breach of contract, and no injunction was granted. In *Ng v Clyde*, since Dow was already in winding up, the court left it for the claimant to prove their debt in the winding up proceedings as an unsecured creditor, after refusing injunction. In *Deakin*, in relation to the unpaid invoices, the court held that the amount outstanding plus interest must be paid. Injunction was refused not only because it was inappropriate as far as breach of contract was concerned, but also because the defendant companies had stopped trading and there was no real threat of further infringement of copyright. Damages were awarded for copyright infringement that had arisen in addition to the non-payment issue (such as the use of the artwork meant for greeting cards on wrapping paper in violation of the licence). In *Burke*, interlocutory injunction was denied, as stated above. It is likely that the case settled out of court. However, if it had reached trial and had been disposed of on merits, and if the claimant had been successful, he would have only received what was due to him under the contract plus interest. In *Guzman*, again the interlocutory injunction was refused. Even if it was a matter for final disposal, even if the claimant had been successful in showing that the termination of its services was a breach, it is unlikely to have granted an injunction, much less the delivery up of the plans. The damages awarded for the breach is likely to have represented the amount due had the claimant's full retainer had run its course.

This stands to reason from the perspective that in tort, the relief granted should bring claimant back to a place where tort had not been committed, and therefore an injunction to stop the defendant from infringing makes sense where it can be granted. If injunction could not be granted, damages that represent the loss suffered due to the infringement would be a sufficient remedy as a compensation for such loss. The relief granted for breach of contract on the other hand, should in general bring the claimant to a place where the contract had been performed, and therefore ordering the defendant to pay the unpaid sums ensures that defendant performs their part of the contract. An injunction or delivery up would not be an appropriate remedy because it only deprives the defendant the enjoyment of the benefit of the contract and does not make them perform the contract. And damages over and above the unpaid sum is also not appropriate because there is no other loss the claimant is likely to have suffered.

When the breach of a contractual term can result in copyright infringement

It is not the case that a breach of a contractual term will never result in copyright infringement. As is evident from the cases discussed above, the strategy is to regard the breach such as non-payment as a repudiatory breach. If this claim is successful, it allows the claimant copyright owner to be discharged from further performance of the contract, meaning they can terminate the licence going forward. If the claimant continues to engage in the licensed activity after the termination of the licence agreement, then it amounts to infringement. The claimant, therefore, will be able to legitimately bring actions for both breach of contract (repudiatory at that) and copyright infringement (resulting from it). A further litigation strategy in *Ng v Clyde* was that the person who owed the money, Dow, had gone into liquidation and so, suing Dow as an unsecured creditor was not going to be fruitful. Since the defendant had been continuing to use the claimant's plans, claiming termination of the licence prior to them using it would have helped the claimant claim the defendant's use to be copyright infringement. For this, the claimant had to argue that non-payment was a repudiatory breach, which the court rejected.

This raises the question as to when a breach may be regarded a repudiatory breach. There are two ways of approaching repudiation. The first method focuses on the nature of the term classifying it as a condition or a warranty; the second method focuses not on the nature of the

term, but on the nature and consequences of the breach by classifying the term into a third category, namely an innominate term.³⁶ Let us examine each.

The first method is to ascertain whether the term breached can be classified as a condition (as opposed to a warranty). A condition is a promise as to a fact or a future conduct which is an essential term of the contract.³⁷ A term may be regarded as a condition expressly in the contract or by implication.³⁸ Ordinarily, the language used in a contract to designate a term as a condition is to state that the term is of the essence. In our context, a copyright owner may negotiate an express term regarding the payment in such a way that the licence does not continue unless the payment is made – meaning the timing of the payment is of the essence in the contract. For example, in *Ng v Clyde*, if the architect had negotiated that the plans cannot be used for the next stage of the project unless the invoices raised until that point have been paid. Or in *Burke*, the claimant could have negotiated for a term that the film will not be distributed until his fees had been paid. In *Deakin*, the claimant could have negotiated that the defendants could not distribute copies of her work without maintaining payments up to date. In the context of *Guzman*, the retainer running its course through to the completion of the project would have to be of the essence for it to be a condition. However, in practice the copyright owner may lack the bargaining power to negotiate for an express term of this kind. It might also not make commercial sense for the prospective licensee to agree to such a term.

A question arises as to why in none of the cases above, the court held by implication that time had become of the essence in relation to the payment term. Even in sale of goods contracts, it is rare for a term for payment to be regarded as being of essence, presumably because it is thought rightly or wrongly that late payment is unlikely to cause serious prejudice to the seller; likewise a term for delivery, unless the goods are perishable. Commentators believe that the classification of the term as to payment is influenced more by commercial convenience applicable to particular context rather than on any general principle or presumption as to time being or not being of essence.³⁹ The contract in *Ng v Clyde* was of the type that the architect was meant to draw up the plans and apply for building consent, before the building work could commence. The involvement of government authorities in the approval process and the commercial need to not waste resources by allowing building work to be stopped for non-payment of bills, all point to time not having been intended by the parties to be of the essence in performance of the payment term. Similar reasons might explain why in *Guzman*, the retainer clause would unlikely have been regarded as a condition by implication. In *Burke*, the commercial convenience demands that the authors who contribute their copyright works towards the making of a film do not hold the release of the film to ransom by insisting that time was of the essence in relation to the payment term. In *Deakin*, the conduct of the copyright owner in missing out the date of the invoice in most cases when it was raised implied that time of its payment was not of the essence. Therefore, it was not possible in these cases the respective term to be regarded as being of essence by implication.

The second way in which a repudiatory breach can occur is if the term breached is regarded as an innominate term, such that the right of the innocent party to terminate depends on the nature

³⁶ Jack Beatson, Andrew Burrows and John Cartwright, *Anson's law of contract* (29th edn, OUP 2010) 140.

³⁷ Ibid pp 140-41. The authors warn that the promissory conditions the breach of which entitles an innocent party to terminate the further performance of the contract must be distinguished from non-promissory condition precedent and condition subsequent on which the formation of contract is contingent. Ibid pp141-43.

³⁸ Ibid p 520-21. A term can be classified as a condition either by statute (such as the Sale of Goods Act, 1978) or by a line of judicial decision, in addition to parties recognising it as a condition within their contract expressly or by implication.

³⁹ Treitel (n 16) paras [18-0103]-[18-104].

and consequences of the breach.⁴⁰ The courts have held that the nature and consequences of the breach must be such that they go to the root of the contract or affect the very substance of the contract to make it a repudiatory breach. In the words of Lord Diplock, the breach must deprive substantially the whole benefit of the contract to the innocent party.⁴¹ Thus, it would only be regarded a repudiatory breach if the nature and the consequences of breach has reached a degree of seriousness. The courts follow certain general indicia to ascertain the seriousness of a breach. These include (but not limited to) firstly a general rule that the higher the ratio of the failure to the performance rendered by the breaching party, the greater the likelihood of the court regarding the breach as significant. Secondly, if the loss suffered in consequence of the breach can be valued with relative certainty, the award of such sum will be regarded as adequate remedy, and therefore it may convey to a court that the breach is not serious enough.⁴²

Let us analyse these cases to see if the significance of the breach or its consequences were so grave that the contract could not be continued. As far as the specific facts of these cases were concerned, in *Ng v Clyde* the ratio of the amount paid versus the amount unpaid was low, since a substantial part of the payment had already been made. Likewise, in *Deakin*, a majority of the claimant's invoices had already been paid by the time the action was brought. In *Burke*, since it was a hearing for interlocutory injunction, at that stage the exact money owing to the claimant had not yet been proved, and therefore it could not be assessed any amount already paid. However, the fact that an order for payment of the unpaid sum would be an adequate remedy for the claimant appears to be an important factor in refusing to hold the breach as repudiatory. In general, the licence fee payable is definable in the contract. If the licence fee is not paid on time, clearly the loss suffered can be valued with certainty. Indeed, the whole retainer that an architect can expect is also quantifiable. The logic is that by instituting an action for recovery of that sum, the claimant will be able to get adequate remedy, and therefore, termination and the whole unravelling of further performance of the contract is not necessary.

It is important to note that termination only results in a discharge of further performance of the contract and does not disturb the rights acquired prior to termination.⁴³ In this sense, termination only operates prospectively.⁴⁴ Even if this is so, in cases like *Ng v Clyde* and *Guzman*, termination will be rarely if ever, be justified. The termination being prospective only means that the half-build building can stay since it was built before the termination. However, prospective termination does mean that the building cannot be completed according to the plans. New plans will have to be drawn which might result in structural problems, not to mention, the new planning approval that may have to be obtained, in addition to all the attendant losses of time and effort. Similarly, in *Burke* if the licence in the script is withdrawn when the film is about to be released, the film would never have been released, resulting in monumental wasted costs.

These cases drive home the point as to when a repudiatory breach does not occur. However, it is also important to ask the question as to when a repudiatory breach does occur in a contractual copyright licence. There is no authority directly on the point, although scholars argue that if a contractual licence provides for recurring payments, such as payment of royalties, persistently missing payments might result in repudiation of a contractual licence. This may entitle the copyright owner to withdraw from further continuing with the licence on the basis that the

⁴⁰ Anson's (n 36) p 521.

⁴¹ *Hong Kong Fir Shipping Co Ltd v Kawasaki Kisen Kisha Ltd* [1962] 2 QB 26, 66.

⁴² Treitel (n 16) paras [18-030], [18-033].

⁴³ Anson's (n 36) p 524.

⁴⁴ Treitel (n 16) para [18-016].

licence was granted only so long as the licensee adhered to the terms of the agreement.⁴⁵ The missed payments should be so persistent and of such magnitude that it takes away substantially the commercial benefit that the copyright owner had under the contract. The breach must be such that the copyright owner is no longer able to carry on the licence, and the consequence of the breach cannot be compensated merely by paying the missed payments. Something deeper must have been broken between the parties.

Conclusion

The above discussion demonstrates that the apparently simplistic issue of the violation of a contractual licence can take us deep into questions of contract law, which otherwise may not be strictly within the remit of copyright law. It is important to distinguish between terms of a contractual licence, the violation of which leads to copyright infringement and those terms, the violation of which only results in a breach of contract. It is also important to understand when the violation of a term which otherwise would have only led to a claim in breach of contract can become one of copyright infringement when the breach is repudiatory, but the licensee continues the use of the work despite termination of the licence in response to repudiation. The importance of this discussion stems not only from the differences in the remedial responses that each of these causes of action leads to, but also from the procedural differences in the actions brought. In particular, if the question is only of a contractual term such as unpaid licence fee, and there is unlikely to be any repudiation, then the action is only in recovery of debt, and nothing more. No injunction can be sought. Understanding this can help avoid bringing unnecessary claims before the courts and can help set the expectations of the litigants as to the appropriate remedy they can expect.

⁴⁵ Copinger (n 21) para [5-238].