

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 26 October 2011

Before :

THE HON MR JUSTICE ARNOLD

Between :

(1) TWENTIETH CENTURY FOX FILM CORPORATION	<u>Applicants</u>
(2) UNIVERSAL CITY STUDIOS PRODUCTIONS LLLP	
(3) WARNER BROS. ENTERTAINMENT INC	
(4) PARAMOUNT PICTURES CORPORATION	
(5) DISNEY ENTERPRISES, INC.	
(6) COLUMBIA PICTURES INDUSTRIES, INC.	
- and -	
BRITISH TELECOMMUNICATIONS PLC	<u>Respondent</u>

Richard Spearman QC and Adrian Speck (instructed by Wiggin LLP) for the Applicants
Antony White QC and Roger Wyand QC (instructed by BT Legal) for the Respondent
Jane Lambert (directly instructed) made written submissions on behalf of Desmond
McMahon

Hearing date: 14 October 2011

Second Judgment

MR JUSTICE ARNOLD :

Introduction

1. On 28 July 2011 I handed down judgment ([2011] EWHC 1981 (Ch), “the main judgment”) on the Applicants’ (“the Studios”) application for an order against the Respondent (“BT”) under section 97A of the Copyright, Designs and Patents Act 1988, which implements Article 8(3) of European Parliament and Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (“the Information Society Directive”), concluding that I would make an order substantially in the form sought by the Studios. By agreement between the parties, the matter was adjourned for further

argument on the precise form of order. Since then a surprising number of issues have emerged, and the parties have served no less than four further rounds of evidence.

2. In addition, by an application notice dated 6 October 2011 supported by a witness statement of the same date, Desmond McMahon, who claims to be a BT subscriber and who says he will be adversely affected by the proposed order, applied to be joined as an additional respondent to the proceedings. Subsequently Mr McMahon instructed counsel, who did not pursue that application, but instead sought permission to make submissions on his behalf. I granted permission for Mr McMahon's counsel to make the submissions contained in her skeleton argument. I have taken those submissions into account. I have placed limited weight upon them, however, for the following reasons. First, I consider Mr McMahon could and should have made his application prior to the hearing on 28-29 June 2011. Secondly, evidence served by the Applicants in response to his application suggests that Mr McMahon is a "Casual Editor" of Newzbin2 and that some of the evidence he relies upon was created for the purposes of his application, and in any event demonstrates that other aspects of his evidence are inaccurate.
3. In summary, Mr McMahon makes three main points. First, he says that it may be possible for Newzbin2 to be put to legitimate use in a similar way that Napster was. I accept that that might be possible in the future, but there is no evidence of that happening at present. Secondly, he says that there is already more non-infringing material on Newzbin2 than I held to be the case in the main judgment at [186]. I am not persuaded that that is so. Thirdly, he says that a form of order that is more targeted at infringers should be adopted, and he proposes a system of warning notices to subscribers inspired by the Digital Economy Act 2010 and Ofcom's draft Initial Obligations Code. I doubt that an order in that form would comply with the United Kingdom's obligations under Article 8(3). In any event, BT has not suggested that such an order should be made in preference to the order sought by the Studios and I have already decided to make an order substantially in the form sought by the Studios.
4. I have also received the following letters written on behalf of other ISPs: a letter dated 30 September 2011 from Andrew Heaney who is Executive Director, Strategy and Regulation of TalkTalk Telecom Group plc; a letter dated 5 October 2011 from Robyn Durie, Regulatory Director of Everything Everywhere Ltd (which says it operates "the Orange and T-Mobile mobile brands and the Orange fixed brand"); and an undated letter from Scott Dresser, General Counsel of Virgin Media Ltd. I have taken into account the points made in those letters, but I have given them limited weight for the following reasons. First, I consider that those ISPs could and should have intervened in the application, or filed submissions and/or evidence, prior to the hearing on 28-29 June 2011. Secondly, in so far as their letters repeat points made by BT, they are unnecessary. In so far as their letters make different points, then they will fall to be considered on any subsequent applications by the Studios against those ISPs. For example, TalkTalk says that it does not use Cleanfeed. That may well have consequences for the form of any order that the Studios seek against TalkTalk; but it does not affect the order to be made against BT.

The wording of the injunction

5. It is agreed that BT should have 14 days to implement the order from when it takes effect. Three points have emerged with regard to the wording of the injunction.

IP address blocking or re-routing

6. As set out in the main judgment at [12] and explained at [70]-[73], at the hearing on 28-29 June 2011 the Studios sought an order which effectively requires BT to implement the same measures with regard to Newzbin2 as it operates with regard to URLs reported to it by the IWF. This is a system called Cleanfeed. Although I said in the main judgment at [73] that this was a hybrid system of IP address blocking and DPI-based URL blocking, it now appears that that description was slightly inaccurate. It would be more accurate to describe Cleanfeed as a two-stage system of IP address re-routing and DPI-based URL blocking. At all events, the Studios now accept that the order should refer to IP address re-routing and not IP address blocking. It appears that IP address blocking could lead to “overblocking” of sites or pages that ought not to be blocked.

UK retail, mass market services

7. BT contends that the injunction should be confined to its UK retail, mass market services which incorporate Cleanfeed as an integral and non-optional function. The Studios resist this limitation. I am surprised that this point was not raised by BT earlier in the proceedings, as I consider it should have been. Nevertheless, I must now consider it on its merits.
8. Simon Milner, BT’s Director of Group Industry Policy, explains in his third witness statement the manner in which BT’s business is structured. It has an access services division (Openreach), an upstream division which provides products and services for use by communications providers (BT Wholesale) and two downstream divisions which provide products and services to end users (BT Retail and BT Global Services). BT Retail serves consumers and small and medium-sized enterprises. BT Global Services serves large businesses and public bodies. Cleanfeed is provided as an integral and non-optional part of the standard service offered by BT Retail. Cleanfeed is not imposed on BT’s other customers, but some of BT Global Services’ customers have it as an option. Counsel for BT explained that some customers, such as the police and banks, do not want Cleanfeed either because they do not want any filtering (the police) or because they have their own systems (banks).
9. I accept that it is not appropriate to grant an injunction against BT’s access services and upstream divisions. The position in respect of BT’s downstream divisions is more equivocal, but in my view the proportionate answer is that the injunction should apply to all BT’s services which incorporate Cleanfeed whether that is imposed on the customer or taken as an option.

Other IP addresses and URLs

10. Since the main judgment was delivered, the operators of Newzbin2 have made available client software which is designed to allow a user to access the Newzbin2 website independently from, for example, an installed web browser, and thereby circumvent any block imposed by BT pursuant to the order. For this and other reasons, it is common ground that the order should permit the Studios to notify additional IP addresses and/or URLs to BT in future in order for those to be subject to the same blocking measures as www.newzbin.com. The parties are divided as to how far this should extend, however. The Studios seek the following wording “any other

IP address or URL whose sole or predominant purpose is to enable or facilitate access to the Newzbin[2] website”. BT proposes the following wording “and any other website whose sole purpose is to provide access to the Newzbin[2] website”.

11. The main difference between the rival drafts is the inclusion of the words “or predominant” in the Studios’ version. Counsel for the Studios submitted that the order would be easily circumvented if these words were omitted, since the operators of Newbin2 could, for example, simply add a page with a weather forecast to a URL whose only other purpose was to enable access to Newzbin2. Counsel for BT submitted that the court had made a judicial determination of the appropriateness of blocking access to Newzbin2, and that it should not be open to the Studios to require the blocking of IP addresses or URLs which had some other purpose without a judicial determination.
12. In my judgment an injunction limited to “sole purpose” would be too easily circumvented to be effective. Furthermore, I do not consider that the Studios should be obliged to return to court for an order in respect of every single IP address or URL that the operators of Newzbin2 may use. In my view the wording proposed by the Studios strikes the appropriate balance. If there is a dispute between the parties as to whether the predominant purpose of an IP address or URL is to enable or facilitate access to Newzbin2, they will be able to apply to the court for a resolution of the dispute. In saying this, I do not mean that BT will be obliged to check IP addresses or URLs notified by the Studios. It will be the Studios’ responsibility accurately to identify IP addresses and URLs to be notified to BT.

Permission to apply if no application against other ISPs

13. BT requests that it be given permission to apply to set aside or vary the order “in the event that the [Studios] fail, within a reasonable time after the date of this order, to apply for and obtain an equivalent injunction against other UK ISPs”. The Studios resist this, even though, as the correspondence from the ISPs referred to in paragraph 4 above confirms, the Studios are in fact in the process of trying to persuade other ISPs to submit to injunctions voluntarily.
14. In my judgment there is no justification for such a provision in the order. While it is true that I have considered the present application on the basis that it is a test case and that the Studios intend to obtain equivalent orders against other ISPs (see the main judgment at [1]) and that I recognised that BT would be concerned if an order were made against it and not against its competitors (see the main judgment at [188]), I can see nothing in recital (59), Article 8(3) or section 97A which obliges rightholders to seek injunctions against all relevant intermediaries. As with any other legal remedy, the Studios are entitled to decide against whom to seek the remedy. If their decision gives rise to competition law issues, that will be a matter to be addressed elsewhere.
15. Furthermore, I consider that the order proposed by BT is fraught with uncertainty. What is a reasonable time? What precisely is an equivalent injunction? And, above all, does the provision bite if there is a single other UK ISP against whom no injunction is sought? If not, when does it bite?

Temporary shutdown

16. BT also requests the inclusion in the order of the following provision:

“In the event that [BT] forms the reasonable view that for operational reasons relating either to the stability of its system or the functioning of the Cleanfeed system in respect of the IWF watch list it needs to shut down either Cleanfeed itself or the addition to the Cleanfeed system of IP addresses pursuant to [this order] on a temporary basis, [BT] shall not be in breach of this order by such shutting down provided that it applies to the Court as soon as is reasonably practicable but at any rate within 72 hours of such shutting down with an explanation as to why such action was necessary and the duration thereof.”

The Studios resist this.

17. I am not persuaded by BT’s evidence that such a provision is necessary. For example, BT’s evidence does not say that it regularly, or even occasionally, has problems with Cleanfeed which require BT temporarily to shut it down. Nor am I persuaded that BT’s suggested approach of shut down first and explain to the court later is appropriate.
18. Instead, I will provide that BT will not be in breach of the order if it temporarily suspends the operation of either Cleanfeed or the addition of IP addresses or URLs with the written consent of the Studios or their agents. If such consent is not forthcoming, BT will have permission to apply to the court on notice. In cases of urgency, an application may be made on short (and informal) notice. For the avoidance of doubt, in cases of real urgency, BT will be entitled to apply to the court without seeking the Studios’ consent first.

The analogy with *Norwich Pharmacal*

19. It is convenient at this junction to consider a general point which underlies the next three issues between the parties. As I anticipated in the main judgment at [189], counsel for BT submitted that there was a close analogy between the court’s jurisdiction under Article 8(3) of the Information Society Directive/section 97A of the 1988 Act and its jurisdiction to grant *Norwich Pharmacal* orders, and that this analogy should guide the court’s approach to such questions as the costs of implementing the order and the costs of the application. Counsel for the Studios submitted that there were fundamental differences between Article 8(3) and the *Norwich Pharmacal* jurisdiction.
20. In *Norwich Pharmacal Co v Customs and Excise Commissioners* [1974] AC 133 the claimants were the owners and licensees of a patent for a chemical compound known as furazolidone. It appeared that the patent was being infringed by illicit importations of furazolidone manufactured abroad. In order to obtain the names and addresses of the importers the claimants brought actions against the Commissioners of Customs and Excise alleging infringement of the patent and seeking orders for the disclosure of the relevant information. On a summons for inspection of documents, the Commissioners claimed privilege against production of the relevant documents.

Graham J ordered discovery of the names and addresses of the importers. The Court of Appeal reversed that decision. The appellants appealed to the House of Lords. At the hearing of the appeal, the claimants abandoned the contention that they had a cause of action for infringement by the Commissioners themselves, and the appeal proceeded on the basis that the case was and always had been an action solely for discovery.

21. Their Lordships held that, as Lord Reid put it at 175B-C:

“... if through no fault of his own a person gets mixed up in the tortious acts of others so as to facilitate their wrong-doing he may incur no personal liability but he comes under a duty to assist the person who has been wronged by giving him full information and disclosing the identity of the wrongdoers. I do not think that it matters whether he became so mixed up by voluntary action on his part or because it was his duty to do what he did. It may be that if this causes him expense the person seeking the information ought to reimburse him. But justice requires that he should co-operate in righting the wrong if he unwittingly facilitated its perpetration.”

It followed that *prima facie* the Commissioners were under a duty to disclose the information sought. Furthermore, in the circumstances of the case there was nothing to preclude the making of an order for discovery. Accordingly, the House of Lords allowed the appeal.

22. So far as costs were concerned, counsel for the claimants submitted to the House of Lords at 154D-E:

“Where a person is not a party to proceedings and discovery is required against him, he is made a respondent to the bill of discovery and entitled to his costs: see *Beames on Costs*, 2nd ed. (1840), section IV, p. 17, and *Bray on Discovery* (1885), p. 618. The importance of this is to answer the query ‘why should a person be put to expense in answering proceedings of this kind?’ The answer is that he is not. It is akin to the position of witnesses who are called on subpoena who also obtain their costs.”

Similarly, he submitted at 172D-E:

“If the respondents in any case were to consider that it would be prejudicial to disclose names, they could always refuse and be brought before the court where their costs would have to be paid by the applicant.”

23. It was in the light of these submissions that Lord Reid said at 176C-D:

“If the respondents have any doubts in any future case about the propriety of making disclosures they are well entitled to require the matter to be submitted to the court at the expense of

the person seeking the disclosure. The court will then only order discovery if satisfied that there is no substantial chance of injustice being done.

.... The respondents were quite right in requiring the matter to be submitted to the court. So they are entitled to their costs down to the date of the judgment of Graham J.”

Similarly, Lord Cross of Chelsea said at 199G:

“The full costs of the respondent of the application and any expense incurred in providing the information would have to be borne by the applicant.”

24. The rationale for ordering the respondent to pay the costs of the application was explained further by Aldous LJ giving the judgment of the Court of Appeal in *Totalise plc v Motley Fool Ltd* [2001] EWCA Civ 1897, [2002] 1 WLR 1233:

“29. *Norwich Pharmacal* applications are not ordinary adversarial proceedings, where the general rule is that the unsuccessful party pays the costs of the successful party. They are akin to proceedings for pre-action disclosure where costs are governed by CPR r 48.3. That rule, we believe, reflects the just outcome and is consistent with the views of Lord Reid and Lord Cross in the *Norwich Pharmacal* case [1974] AC 133, 176, 199. In general, the costs incurred should be recovered from the wrongdoer rather than from an innocent party. That should be the result, even if such a party writes a letter to the applicant asking him to draw to the court's attention to matters which might influence a court to refuse the application. Of course such a letter would need to be drawn to the attention of the court. Each case will depend on its facts and in some cases it may be appropriate for the party from whom disclosure is sought to appear in court to assist. In such a case he should not be prejudiced by being ordered to pay costs.

30. The court when considering its order as to costs after a successful *Norwich Pharmacal* application should consider all the circumstances. In a normal case the applicant should be ordered to pay the costs of the party making the disclosure including the costs of making the disclosure. There may be cases where the circumstances require a different order, but we do not believe they include cases where: (a) the party required to make the disclosure had a genuine doubt that the person seeking the disclosure was entitled to it; (b) the party was under an appropriate legal obligation not to reveal the information, or where the legal position was not clear, or the party had a reasonable doubt as to the obligations; or (c) the party could be subject to proceedings if disclosure was voluntary; or (d) the party would or might suffer damage by

voluntarily giving the disclosure; or (e) the disclosure would or might infringe a legitimate interest of another.”

25. As Aldous LJ recognised elsewhere in his judgment, where the respondent’s involvement in the wrongdoing is not merely innocent, he may be ordered to pay the costs of an application seeking disclosure of the wrongdoer’s identity: see *British Steel Corp v Granada Television Ltd* [1981] AC 1096 and *Ashworth Hospital Authority v MGN Ltd* [2002] UKHL 29, [2002] 1 WLR 2033.
26. Counsel for BT stressed that it is common ground that BT is not itself an infringer of the Studios’ copyrights. He submitted that, just as the *Norwich Pharmacal* jurisdiction was based on the principle that a person who became mixed up in another person’s wrongdoing came under an equitable duty to assist those injured by the wrongdoer by disclosing the latter’s identity, so too Article 8(3) is based on a similar rationale, namely that intermediaries whose services are used by third parties to infringe copyrights or related rights come under a duty to assist the rightholders who are affected by such infringements to put an end to them.
27. Counsel for the Studios submitted that there are three main distinctions between an order under Article 8(3) and the *Norwich Pharmacal* jurisdiction. First and most importantly, Article 8(3) confers on rightholders a legal right to the substantive remedy of a final injunction, whereas applicants for *Norwich Pharmacal* orders have no such right where the respondent is innocent of wrongdoing. In addition, counsel for the Studios relied on the judgment of the Court of Justice of the European Union in Case C-324/09 *L’Oréal SA v eBay International AG* [2011] ECR I-0000 at [141]-[144] (quoted in the main judgment at [155]) holding that injunctions granted under Article 11 of European Parliament and Council Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights (“the Enforcement Directive”) (which is in the same terms as Article 8(3) of the Information Society Directive except that it also applies to other intellectual property rights) must be effective and dissuasive.
28. Secondly, a *Norwich Pharmacal* application is a preparatory step for the bringing of proceedings (or, following *Ashworth v MGN*, the taking of other steps such as disciplinary measures against an employee of the applicant) against the wrongdoer. Hence, the position of the respondent to a *Norwich Pharmacal* application has been treated as similar to that of a witness called on subpoena (or nowadays a witness summons) or the respondent to an application for pre-action disclosure. Thus the applicant must generally pay the respondent’s costs, but the costs can in principle be recovered from the wrongdoer. By contrast, an order under Article 8(3) is not preparatory to proceedings (or other steps) against the infringer, but may well (as in this case) follow such proceedings. Counsel for the Studios submitted that the rightholders would not be entitled to recover the costs from the wrongdoer. Although counsel for BT took issue with this, I find it difficult to see on what basis the rightholders could recover the costs from the wrongdoer.
29. Thirdly, the exposure of intermediaries to an injunction under Article 8(3) is part of the price which they pay for immunity from claims for damages under Articles 12(1), 13(1) and 14(1) of European Parliament and Council Directive 2000/31/EC of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (“the E-Commerce Directive”). Counsel for the

Studios submitted that, absent such immunity, it was at least arguable that ISPs such as BT would be liable for copyright infringement.

30. I accept these points of distinction between Article 8(3) and the *Norwich Pharmacal* jurisdiction, but on the other hand I nevertheless consider that there is some force in the point made by counsel for BT. Although Article 8(3) does confer a legal right to an injunction on rightholders, it remains the case that the intermediary has not committed any legal wrong. Furthermore, the Court of Justice also held in *L'Oréal v eBay* at [139] that measures under Article 11 of the Enforcement Directive (and hence Article 8(3) of the Information Society Directive) must be fair and proportionate.
31. Counsel for the Studios also relied upon jurisprudence from other Member States of the European Union, and in particular the recent decision of the Hof van Beroep (Court of Appeal) of Antwerp dated 26 September 2011 in Case 2010/AR/2541 *VZW Belgian Anti-Piracy Federation v NV Telenet*, but this is of limited assistance on these points because recital (59) of the Information Society Directive says that the “conditions and modalities” of such measures are a matter for national law.

Costs of implementing the order

32. Each side contends that the other should pay the costs of implementing the order. In my judgment the costs of implementing the order should be borne by BT. The Studios are enforcing their legal and proprietary rights as copyright owners and exclusive licensees, and more specifically their right to relief under Article 8(3). BT is a commercial enterprise which makes a profit from the provision of the services which the operators and users of Newzbin2 use to infringe the Studios' copyright. As such, the costs of implementing the order can be regarded as a cost of carrying on that business. It seems to me to be implicit in recital (59) of the Information Society Directive that the European legislature has chosen to impose that cost on the intermediary. Furthermore, that interpretation appears to be supported by the Court of Justice's statement in *L'Oréal v eBay* at [139] that such measures “must not be excessively costly”. The cost of implementing the order is a factor that can be taken into account when assessing the proportionality of the injunction, and in the present case I have done so: see the main judgment at [200]. Indeed, my conclusion there that the cost to BT “would be modest and proportionate” is supported by the evidence subsequently filed by BT, which estimates the initial cost of implementation at about £5,000 and £100 for each subsequent notification.
33. I do not rule out the possibility that in another case the applicant may be ordered to pay some or all of the costs of implementation, but for the reasons given above I do not consider that such an order is appropriate in this case.

Cross-undertaking or indemnity

34. BT requests the inclusion of a cross-undertaking in damages requiring the Studios to undertake to the Court to comply with any order the court may make if the court later finds that the order for an injunction has caused loss to BT and decides that BT should be compensated for that loss. In the alternative, BT seeks an indemnity against losses caused by the order, and in particular against claims by third parties. In support of this request, counsel for BT relied firstly upon the practice of the courts when granting interim injunctions, as explained by Jacob LJ in *SmithKline Beecham plc v Apotex*

Europe Ltd [2006] EWCA Civ 658, [2007] Ch 71, and in particular upon the practice of the courts when granting freezing injunctions. Secondly, he relied upon the analogy with the *Norwich Pharmacal* jurisdiction, and in particular upon *Bankers Trust Co v Shapira* [1980] 1 WLR 1274.

35. In my view there is no reason to require the Studios to give a cross-undertaking in damages. There is no analogy between an order under Article 8(3) and an interim injunction. An interim injunction is granted before the parties' legal rights and liabilities have been ascertained. The original and main purpose of the cross-undertaking in damages was and remains to attempt to protect the party enjoined if it subsequently transpires that no injunction should have been granted because the party applying for the injunction did not have the rights claimed or they were not infringed or for some other reason: see *Griffith v Blake* (1884) 27 ChD 474 and *F. Hoffmann-La Roche & Co Ag v Secretary of State for Trade and Industry* [1975] AC 295 at 360-361 (Lord Diplock). By contrast, final injunctions are not subject to cross-undertakings (except sometimes pending appeal). An order under Article 8(3) is a final injunction, and accordingly there is no warrant for a cross-undertaking.
36. It is true that the protection afforded by a cross-undertaking has been extended to third parties who might incur costs or other consequential losses as a result of complying with a freezing injunction. Nevertheless, the rationale remains the same, namely that generally the parties' legal rights and liabilities have not been ascertained. It may turn out that the injunction was wrongly granted, and the cross-undertaking attempts to protect third parties against that eventuality: see *SKB v Apotex* at [28]-[31] (Jacob LJ) and in *Financial Services Authority v Sinaloa Gold plc* [2011] EWCA Civ 1158 at [17]-[22] (Patten LJ). Furthermore, in that event the cross-undertaking provides a mechanism for third parties to claim against the party which obtained the injunction rather than the party enjoined.
37. It is also true that, as counsel for BT pointed out, freezing injunctions may be granted after judgment and in aid of execution. Even in these circumstances, however, a freezing injunction still has an interim quality about it, since it is granted pending the taking of other measures to enforce the judgment. Furthermore, such an injunction may be obtained without notice and it may be set aside e.g. for material non-disclosure. Again, therefore, it makes sense to protect third parties: see *Banco Nacional de Comercio Exterior SNC v Empresa de Telecomunicaciones de Cuba SA* [2007] EWCA Civ 662, [2008] 1 WLR 1936 at [38]-[43] (Tuckey LJ).
38. As for *Bankers Trust v Shapira*, in that case the first two defendants had presented to the claimant bank two cheques for \$500,000 each purportedly drawn on a bank in Saudia Arabia. On their instructions the claimant credited over \$600,000 to the first two defendants' accounts at the third defendant bank. It subsequently transpired that the cheques were forgeries. Having reimbursed the Saudi bank, the claimant commenced proceedings and obtained a Mareva injunction. The claimant then applied for an interlocutory order that thwe third defendant should disclose and permit the claimant to inspect and take copies of (i) all correspondence with the first two defendants, (ii) all cheques drawn on their accounts and (iii) all debit vouchers, transfer applications, etc. Mustill J refused the order, but the Court of Appeal granted it under the *Norwich Pharmacal* jurisdiction.

39. Counsel for BT relied upon the statement of Lord Denning MR (with whom Waller and Dunn LJ agreed) at 1282E-F:

“The plaintiff must of course give an undertaking in damages to the bank and must pay all and any expenses to which the bank is put in making the discovery; and the documents, once seen, must be used solely for the purpose of following and tracing the money, and not for any other purpose. With these safeguards, I think the new jurisdiction – already exercise in three unreported cases – should be affirmed by this court.”

40. Lord Denning did not explain why the claimant had to give an undertaking in damages, but I agree with counsel for the Studios that it must have been because the order was an interim one made at an early stage of the proceedings (indeed, without notice to the first two defendants), and one made in aid of a Mareva injunction as well as the underlying claims.
41. More generally, I do not consider that, to the limited extent that there is an analogy between the court’s jurisdiction under Article 8(3) and its *Norwich Pharmacal* jurisdiction, it justifies requiring the Studios to give a cross-undertaking in damages in favour of BT.
42. As for an indemnity, it is necessary to consider first whether BT is likely to suffer any loss as a result of complying with the order and then whether there is any basis for requiring the Studios to indemnify BT against such losses.
43. Apart from its direct costs of compliance, which I have already considered, there would appear to be two types of losses that BT might sustain.
44. The first category consists of consequential losses, such as damage sustained as a result of the performance of BT’s systems being degraded as a result of complying with order. There is no evidence that BT is likely to suffer any loss of that kind, however. It appears that BT is concerned that it may be attacked by hackers and the like for complying with the order, but there is little hard evidence that this is likely to occur. In any event, I see no reason why the Studios should indemnify BT against unlawful acts of third parties, particularly where BT is complying with a court order. As counsel for the Studios submitted, to grant such an indemnity in the circumstances of this case would be to encourage the very mischief sought to be remedied.
45. The second category consists of legal claims made against BT either by subscribers or by third parties. It appears from the evidence that BT’s main concern is that claims may be made against it as a result of “overblocking”. This concern was first raised at a time when BT understood that the Studios were seeking an order which required IP address blocking, but that is no longer the case. That only leaves the possibility that the Studios may inadvertently notify an “innocent” IP address or URL to BT in the future under the provisions described above, leading to claims being made against BT. Thus far the Studios have approached this application with considerable care. Nevertheless, I accept that mistakes can be made, and therefore this possibility cannot be discounted entirely.

46. My immediate reaction was that compliance with a court order would provide BT with a complete defence to any such claims. To my surprise, neither counsel was able to cite any authority either confirming or contradicting that reaction. It seems to me, however, that my initial view is supported by several strands of authority.
47. First, supervening illegality is a well-recognised head of frustration in the law of contract. This doctrine applies where a statutory power in existence at the time of making the contract is subsequently exercised in such a manner that performance of the contract is rendered illegal: see *Chitty on Contracts* (30th ed), vol. 1, §23-026. This would appear to include a power to grant an injunction such as that conferred by Article 8(3) and section 97A.
48. Secondly, in the freezing injunction cases, one of the reasons why a cross-undertaking is required to protect third parties such as banks is that without one they not only have no claim against the applicant for the freezing injunction, but also no claim against the respondent even if the order requires the third parties to act in contravention of their contracts with the respondent. As Lord Denning MR explained in *Z Ltd v A-Z Ltd* [1982] 1 QB 558 at 574:
- “You may ask: Suppose the defendant sued the bank for dishonouring a cheque, what would be the answer of the bank? In my opinion the *Mareva* injunction makes it unlawful for the bank to honour the cheque. ‘It is plain that a contract to do what it has become illegal to do cannot be legally enforceable. There cannot be default in not doing what the law forbids to be done’: see *Denny, Mott & Dickson Ltd. v. James B. Fraser & Co. Ltd.* [1944] A.C. 265, 272, *per* Lord Macmillan. Alternatively, it can be said that the customer has only authorised the bank to do what it is lawful for the bank to do - and not that which is unlawful - so that any prior mandate from the customer is automatically annulled when the bank receives notice of the *Mareva* injunction: see Restatement, Second, Agency (1958), section 33, Comment a p. 116 and *Bowstead on Agency*, 14th ed. (1976), art. 134 (1) (d), p. 420.”
49. Thirdly, it was held by the Court of Appeal in *SKB v Apotex* that, absent the incorporation in an order for an injunction of a cross-undertaking in damages in its favour, a third party affected by the grant of a “wrongful” injunction has no claim in restitution against the party which obtained the injunction for the loss which it has suffered. *A fortiori* if the injunction was rightly granted. I find it difficult to see why the position should be any different if the claim were made against the party enjoined. Indeed, I note that Jacob LJ at [59] regarded *Hillgate House Ltd v Expert Clothing Services and Sales Ltd* [1987] 1 EGLR 65 as authority for the proposition that “no action will lie in respect of the carrying out of a court order”.
50. I would add that it is important to distinguish between the consequences of compliance with the court’s order and the consequences of pre-existing infringements of underlying rights. This point may be illustrated by two examples. The first is where a seller agrees to sell a property to a second buyer having previously agreed to sell it to a first buyer, and the first buyer obtains an order for specific performance of his contract. The second buyer will have a claim against the seller. The second example is

where a seller sells machines to a buyer, and the owner of a patent obtains an injunction against the buyer preventing the use of the machines on the ground that the machines infringe the patent. Again, the buyer will have a claim against the seller: see *Microbeads AG v Vinhurst Road Markings Ltd* [1975] 1 WLR 218. In both examples, the basis for the claim is not the seller's or buyer's compliance with the court's order, but the seller's pre-existing breach of his contract.

51. For these reasons I do not consider that a BT subscriber could bring a claim against BT for breach of contract as a result of BT's compliance with the order. It appears unlikely that any subscriber would have a claim against BT for breach of contract anyway, for two reasons. First, BT's broadband service terms incorporate its Acceptable Use Policy. This states that "You must not infringe the rights of others, including ... copyright". Thus a subscriber could not claim against BT for being prevented from accessing Newzbin2 for the purpose of obtaining infringing content. Secondly, BT's terms contain a series of limitations and exclusions: paragraphs 7 and 8 in clause 1.1.1.24 provide that "we do not guarantee either the quality of the service or that the service will be available at all times" and "The quality of the ... service is dependant on other conditions or circumstances beyond our control", and paragraph 21 in clause 1.1.1.27 provides that "Unless we are negligent, our only responsibility is to pay you the rental credit as described in paragraph 19", which appears to apply only where there is a continuous total loss of service that persists for more than three days.
52. As for third parties who are not subscribers, my conclusion is the same. In any event, I find it very difficult to see the basis on which such a third party could have a claim in tort against BT. Counsel for BT suggested that a third party might have a claim for interference with contractual relations, but he did not explain how an order against BT could result in BT interfering with the contractual relations of a third party with a fourth party.

Costs of the application

53. Each side contends that the other should pay the costs of the application. In my judgment, the starting point is that, even though the Studios are enforcing their legal rights, including their right to an injunction under Article 8(3), the rather unusual nature of the remedy under Article 8(3) means that it was reasonable for BT to require the matter to be scrutinised by the court. BT was entitled to a court order for its own protection, and it was reasonable for BT to require the Studios to adduce sufficient evidence to establish both that the court had jurisdiction to make the order and that it was appropriate in the exercise of the court's discretion to do so. Accordingly, I consider that the costs of the application down to 16 December 2010 should be borne by the Studios.
54. Thereafter, however, BT did not consent to the order or even adopt a neutral stance on the application. On the contrary, BT's stance was one of all-out opposition. To that end, it served evidence in opposition, instructed two leading counsel and resisted the application on eight different grounds. Each of those grounds failed. In my view the costs of the application from 17 December 2010 to 28 July 2011 should be borne by BT.

55. As far the costs of the application since 28 July 2011, to some extent these have involved points of detail on the order which it would have been reasonable for BT to raise even if it had adopted a neutral stance on the principle of an order being made. Furthermore, each side has had some measure of success. Accordingly, I will order each side to bear its own costs since 28 July 2011.

Conclusion

56. For the reasons given above, the order which I shall make is as follows:

- “1. In respect of its customers to whose internet service the system known as Cleanfeed is applied whether optionally or otherwise, the Respondent shall within 14 days adopt the following technical means to block or attempt to block access by its customers to the website known as Newzbin2 currently accessible at www.newzbin.com, its domains and sub-domains and including payments.newzbin.com and any other IP address or URL whose sole or predominant purpose is to enable or facilitate access to the Newzbin2 website. The technical means to be adopted are:
 - (i) IP address re-routing in respect of each and every IP address from which the said website operates and which is notified in writing to the Respondent by the Applicants or their agents; and
 - (ii) DPI-based URL blocking utilising at least summary analysis in respect of each and every URL available at the said website and its domains and sub-domains and which is notified in writing to the Respondent by the Applicants or their agents.
2. For the avoidance of doubt paragraph 1 is complied with if the Respondent uses the system known as Cleanfeed and does not require the Respondent to adopt DPI-based URL blocking utilising detailed analysis.
3. The Respondent shall not be in breach of paragraph 1 if it temporarily suspends Cleanfeed or the addition of IP addresses or URLs thereto with the consent in writing of the Applicants or their agents.
4. The parties have permission to apply on notice in the event of any material change of circumstances including, for the avoidance of doubt but without limiting the generality of the foregoing, in respect of the costs, consequences for the parties and effectiveness of the aforesaid technical means from time to time.
5. The Applicants shall pay the Respondent’s costs of this application down to 16 December 2010. The Respondent shall

pay the Applicants' costs of this application from 17 December 2010 to 28 July 2011 inclusive. Such costs shall be assessed on the standard basis if not agreed and set off against each other. Each party shall bear its own costs since 28 July 2011."