Infinite case ends – with limited award of damages for infringing copies of Eminem's album

The Intellectual Property Enterprise Court has assessed damages for copyright infringement by making unauthorised vinyl copies of Eminem's first album, *Infinite*.[1]

On the facts, the IPEC rejected damages claims based on: (a) loss of opportunity to license a third party to coincide with the 20th anniversary of *Infinite*; and/or (b) losses arising from the licence that the claimant would have offered the defendant for releasing the album.

Instead, the IPEC assessed damages on the basis of a reasonable royalty for the defendant's actual sales of the record, assuming a negotiation between a willing licensor and willing licensee. That resulted in a putative fee of £2.50 per unit, plus interest.

Background

In the substantive trial regarding liability in 2019, the High Court found Let Them Eat Vinyl Distribution Limited (LTEV) liable for primary infringement of the copyright in Eminem's first album, *Infinite*, owned by FBT Productions, LLC.[2] Yet the distributor, Plastic Head Music Distribution Limited, was not found liable for secondary infringement, since it did not know (or have reason to believe) that the copies that it sold were infringing.

In the High Court ruling, HHJ Hacon found that LTEV had infringed FBT's copyright by manufacturing and selling vinyl copies of *Infinite*, as it did not have a valid licence from the actual copyright owner. LTEV made 2,891 copies, which it supplied to Plastic Head. Plastic Head also sold CDs, which it obtained from Boogie Up Productions, a US-based company. Plastic Head did not, however, know or have reason to believe that the vinyl and CD copies of *Infinite* were infringing. So the distributor was not liable for secondary infringement.

Assessment of damages

Sitting as a Deputy High Court Judge in the IPEC, Mr Ian Karet heard the trial of quantum. FBT elected to have an inquiry into damages, claiming damages under three heads of loss:

(a) the loss of an opportunity to license a third party to exploit *Infinite* (and various tracks contained on *Infinite*) and to be involved in the making of a full-length documentary about the 20th anniversary re-issue;

(b) the losses flowing from the licence that FBT would have offered LTEV for the exploitation of *Infinite*; or

(c) a reasonable royalty for the actual sales made by the defendant based on the notion of a willing licensor/licensee negotiation.

FBT claimed a total of £288,209 in damages. The court heard that LTEV sold 2,891 copies of *Infinite* at a dealer price of £7.75 per unit, making a profit of approximately £2.50 per unit, amounting to £7,227.50 in profits.

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[1] *FBT Productions, LLC v Let Them Eat Vinyl Distribution Ltd* [2021] EWHC 932 (IPEC) (20 April 2021).

[2] *FBT Productions, LLC v Let Them Eat Vinyl Distribution Ltd* [2019] EWHC 829 (IPEC) (2 April 2019).

Evidence

FBT's release plans

Joel Martin, the manager of FBT and the business affairs manager for the Bass Brothers (the producers of *Infinite*), appeared as witness for FBT. He explained that FBT began to plan for the 20th anniversary of *Infinite* in 2016. Mr Martin had engaged a consultant, Neil Levine, to produce a marketing plan for the 20th anniversary of *Infinite* in August 2016, and on 25 August 2016 Mr Levine produced a plan for the release of a 12-inch vinyl picture disc, associated merchandise, and download and streaming versions. In addition, FBT explained that it planned to release the title track as a single, followed by five or six further tracks from the album, by way of physical and digital release.

FBT submitted that it had discovered a vinyl copy of LTEV's version of *Infinite* in a record shop in Detroit on 4 August 2016, which "astounded" and "completely blindsided" FBT and called into question the planned 20th anniversary release. Subsequently, FBT said that it put on hold arrangements that it had made for a vinyl pressing. Mr Martin could not confirm when he decided not to proceed with the vinyl release, but maintained that it followed the discovery of LTEV's version of *Infinite*. Nonetheless, FBT entered into a licence agreement with AWAL Digital Limited, a subsidiary company of Kobalt Music Group, dated 4 August 2016. Under the AWAL agreement, AWAL was set to distribute the title track digitally.

Separately, Jeff Bass of FBT gave an interview to *Rolling Stone* magazine about the vinyl reissue and digital release which was published on 17 November 2016. FBT claimed the interview was probably given a month before it was published. Mr Levine, also appearing as witness for FBT, indicated that the digital release of the title track had already been scheduled for release when the decision was made not to proceed with the vinyl project, indicating that the decision not to release vinyl was taken in late October, or perhaps early November 2016.

On 17 November 2016, FBT digitally released a re-mastered version of the title track. A YouTube documentary was also released, which referred to the 20th anniversary and the digital release, but was not used to promote physical sales.

Expert evidence

Expert evidence was provided by Mr Jampol on behalf of FBT and Mr Velasco on behalf of LTEV.

Mr Jampol's evidence was that the vinyl release would have been priced at US $20.16 (signifying 2016, the year of re-release) for a single and $50 for the album. He noted that there was a picture cover on LTEV's record that may have deceived purchasers, since unauthorised vinyl copies were sometimes blank. He went on to comment that, in the market for vinyl products, authenticity is critical, and purchasers would be aware that unauthorised copies were available, but such copies would not be a proper substitute for a genuine release. Mr Jampol believed that an anniversary release would usually be priced at $24, as opposed to the $50. He also commented that FBT would have been able to retain 75% to 90% of the sales revenue under a hypothetical licence agreement with a distributor.

In Mr Velasco's view, $20.16 was a very high price for a 12-inch single, the UK market for which is very small, and the proposed album price of $50 was also very high. Further, he could not understand why a decision not to publish an album would lead to losses on a documentary, since a documentary containing new material would still command interest from fans. Finally, he suggested that the 90/10 revenue split agreed with AWAL for the digital issue was "implausible" for a physical release. He

suggested instead that a copyright owner would usually receive a royalty between 26% to 28% of the UK dealer price.

Ruling

Loss of an opportunity to license a third party to exploit *Infinite*

FBT's first and main head of loss was the loss of an opportunity to license a third party the right to exploit *Infinite* and to be involved in the making of a full-length documentary about the 20th anniversary re-issue. FBT argued that its loss was the loss of a chance to trade generally, rather than the loss of a particular benefit. This type of general loss was identified by Nugee J in *Wellesley Partners LLP v Withers LLP*.[3] The claimant's loss hinged on the opportunity to market and sell copies of the anniversary singles and album to the public via a third party.

Counsel for FBT submitted that loss of an opportunity raises a subjective rather than an objective question. So the claimant's evidence was critical.

Yet the judge found that FBT's actions were inconsistent with those of a party that had abandoned its plans for release and did not accept that the discovery of LTEV's vinyl caused FBT to do so. On the facts, FBT discovered LTEV's copy of the album on 4 August 2016 and continued with release plans for some time thereafter. Subsequently, Mr Martin asked Mr Levine to create a marketing plan which, in the judge's view, seemed to indicate that FBT intended to continue with the re-issue, as did the interview to *Rolling Stone*.

The judge also noted that there were several unlicensed versions of *Infinite* available on the market, not just the defendant's version. Mr Jampol's evidence was clear that, in the re-issue market, authenticity is critical. So a version of the vinyl that was clearly marked as coming from a third party (such as LTEV's version) would not affect FBT's plans for a "super cool and exclusive" release (on an objective basis). Further, the judge did not accept that FBT subjectively believed that LTEV's release would affect FBT's own version.

When considering the approach to damages for a lost opportunity, the judge applied the nine-part test set out by HHJ Hacon in *SDL Hair Ltd v Next Row Ltd*.[4] The aim of such damages is to compensate the claimant rather than to punish the defendant. Part five of the test makes clear that the tort must be, as a matter of common sense, a cause of the loss. In the judge's view, FBT failed to show that the tort was in fact a cause of any loss. He rejected the assertion that LTEV's acts of infringement caused the loss of an opportunity to make a full-length documentary. So the claim for damages for loss of opportunity failed, in relation to both the vinyl copies and the documentary.

Losses flowing from licence FBT would have offered LTEV for exploitation of *Infinite*

Mr Martin's evidence was that FBT would not have granted a licence to LTEV, because it was not a sufficiently reputable or substantial company, and so not an attractive potential licensee. The judge rejected FBT's second basis for damages, finding that there was no such loss of licence.

Royalty for actual sales made by LTEV based on willing licensor/licensee negotiation

[3] *Wellesley Partners LLP v Withers LLP* [2015] EWCA Civ 1146.

[4] *SDL Hair Ltd v Next Row Ltd* [2014] EWHC 2084 (IPEC).

The judge considered the approach to be taken in respect of a notional licence agreement, as set out by HHJ Hacon in *Henderson v All Around the World Recordings Ltd*[5], and summarised the principles from that case. The overriding principle is that damages are compensatory: the primary basis for assessment to consider is what sum would have been arrived at in negotiations between the parties, "had each been making reasonable use of their respective bargaining positions, bearing in mind the information available to the parties and the commercial context at the time the notional negotiation should have taken place". Where no negotiation has taken place, the court may look at the eventual outcome and consider whether it is a useful guide to what the parties would have thought at the time of their hypothetical bargain.

Applying the *Henderson* principles, FBT submitted that the notional licence must reflect the position between claimant and defendant and the number of works that LTEV produced, noting Mr Velasco's evidence that the dealer price is commonly 50% of the retail price. Consequently, the royalty figure should be calculated on half the retail price that FBT had intended to sell the album for (i.e. $25), as opposed to the price LTEV actually sold *Infinite* for, namely £7.75. Further, FBT argued that the agreement under which Boogie Up granted rights to LTEV was not a relevant comparable for the purposes of assessing the hypothetical bargain between FBT and LTEV. Nonetheless, the £1.50 fee per sale that LTEV agreed to pay to Boogie Up was relevant, as it amounted to a royalty rate of 37.5%, well over the 26%-28% suggested by Mr Velasco. FBT argued that the hypothetical royalty rate should be based on LTEV's sales of the records at a published to dealer price of $25 and paying a royalty of 75%-90% to FBT after deducting manufacturing costs of £2.99 and the MCPS contribution.

Conversely, LTEV submitted that the royalty should be applied to the dealer price, and that the licence from Boogie Up was comparable because, even though it did not confer valid rights, LTEV believed that it did. LTEV said that the 37.5% proposed by FBT was a convenient basis for the proportion of the £7,227.50 profits that LTEV made, equating to damages on a notional basis of £2,710.31.

The judge noted that the principles in *Henderson* require the court to consider the right infringed and the time over which that infringement took place. In this case, the judge held that the hypothetical negotiation would have been for a licence to make 2,891 copies of the work in the UK. The judge found the licence between Boogie Up and the defendant to be a useful comparable licence, even though Boogie Up did not have valid rights to grant. That licence was for vinyl production in the UK, and specified a sum to be paid per disc and gave the defendant a formula for determining the dealer price. It included a £1.50 per record fee, which the judge noted was within the range of royalty rates provided by Mr Velasco.

Separately, the judge considered that the digital licence granted in the AWAL agreement and the 90/10 split agreed were not helpful comparables, because the revenue split did not take into account the need to manufacture vinyl discs and to create profit at each stage in the chain. The judge preferred Mr Velasco's evidence on the likely rates and prices in the market, and so damages should be calculated for a licence to make 2,981 copies of *Infinite*. The notional licensor would know that the notional licensee had market experience with a number of re-issues of significant artists.

The judge commented that the licence would probably have been for a unit price per record, whereas, had it been a percentage of the dealer price, that would have been assumed to result in a similar royalty. Given the nature and reputation of the licensor (with valid rights) and the fact that this was a special anniversary disc that might attract higher pricing, the judge considered that "the notional licensee would

[5] *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC).

have been prepared to pay more than the £1.50 agreed with Boogie Up and would be able to set a higher price to dealer to maintain profits". For the judge, the licensor would have in mind "a likely retail price for the album of about US$24, which Mr Jampol said was a starting price for albums". Taking all that into account, the judge found that the hypothetical fee would be £2.50 per disc.

So the judge ruled that damages should be assessed on the basis of a fee for a notional licence to make 2,981 infringing vinyl copies of *Infinite* in the UK, at a hypothetical licence fee of £2.50 per disc. Accordingly, the total damages payable amounted to £7,452.50, plus appropriate interest.

Comment

While this case does not establish any new point of law, it provides a helpful illustration of the law that the court is likely to apply when deciding whether there has been a loss of opportunity to grant a licence to a third party, and what might be considered to be a reasonable royalty, based on the notion of a willing licensor/licensee negotiation. It also confirms several factors that may (or may not) be useful when establishing whether a contract is a relevant comparable for the purposes of assessing the hypothetical bargain between parties to a dispute in this context.

Finally, it serves as a reminder that the courts tend to be conservative in their approach to awarding damages. The sum awarded in this case was a tiny fraction of the £288,209 claimed by the claimant.

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