Can't stop the music: Record company could be obliged to continue digital distribution of music in royalty dispute

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Hebden v Domino Recording Company Ltd [2022] EWHC 74 (IPEC)

The recording artist Kieran Hebden (Four Tet) brought a claim against his former record company, Domino, with respect to royalties for streaming and downloads. Hebden claimed up to £70k and a royalty rate of 50% for digital exploitation. Domino offered to pay £70k plus costs, unilaterally withdrew all Four Tet music under its control from digital service providers, and said that it would only reinstate them when terms were agreed which would not include a 50% royalty rate. The Court allowed Hebden to amend his claim to plead that Domino owed a continuing obligation to exploit his records online, even though the release obligation under his 2001 contract appeared to have been fulfilled. If the Court finds at trial that such obligation exists, it could affect many other musicians and record companies with pre-digital contracts.

Background: Royalties in the UK music industry

Musicians are underpaid in the digital music economy. The UK Parliament Digital, Culture, Media and Sport Committee reported on the economics of music streaming on 15 July 2021,[1] noting at [42] that *"whilst commercial music creation is intensely competitive, … income from recorded music is meagre"*. One survey quoted in the report found that 82% of musicians made less than £200 from streaming in 2019.

One difficulty arises because digital download and streaming services are still very new in the context of the music industry. Apple's iTunes store was created in 2003, YouTube was launched in 2005, and Spotify was founded in 2006.

[1] https://committees.parliament.uk/publications/6739/documents/72525/default/

By contrast, record contracts are usually drafted to last for the life of copyright, which in the UK protects sound recordings for fifty years from the year of creation and protects compositions for seventy years after the composer's death.[2] The normal bargain in the music industry is that musicians permanently assign or license all their rights in the copyright in their work to record companies, who have the right to exploit those works in return for an up-front advance payment and ongoing royalty payments.

Until the turn of this century the only way to sell recorded music was on physical formats like CDs and vinyl. Each unit had to be manufactured and distributed, required the design and production of physical packaging, and together they were fragile, heavy to transport and bulky to store. Royalty rates were low to allow for these costs, and contracts provided for deductions for records lost in transit, broken during manufacture, or unsold on sale-or-return agreements with retailers. Usually there was a threshold below which advance payments were 'unrecouped', for which the musician would receive no further royalty payments at all.

There is a vast amount of commercially exploited music whose copyright is administered under such contracts that never imagined the digital economy with its instant, near perfect reproduction of high quality sound files, cheap and simple global distribution, and near infinite choice for consumers via hand-held computers which are accessible at all times. The question of how to apply the terms of pre-digital contracts to the streaming economy is a live one that could affect thousands of musicians and dozens of record companies in the UK alone. At the same time, the issue of fair remuneration of musicians has received legislative attention in the EU by the Digital Single Market Directive Title IV Chapter 3,[3] and in the UK by the proposed Copyright (Rights and Remuneration of Musicians, Etc.) Bill.[4]

The dispute: Kieran Hebden v Domino Recording Company Limited

This action was brought by the musician Kieran Hebden, who composes, performs and records electronic music under the name 'Four Tet'. In 2001 Hebden entered into an exclusive recording contract ("**the 2001 Agreement**") with Domino Recording Company ("**Domino**"). Domino released master recordings of several records made by Hebden ("**the Masters**"), with copyright in the Masters assigned to Domino. The exclusive recording provisions terminated in around 2005, though Domino's obligations relating to accounting and payment of royalties survived. Hebden continues to release records as Four Tet on his own Text Records label.

[2] Copyright, Designs and Patents Act 1988, ss.12(2) and 13A(2).
[3] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019L0790#d1e1588-92-1
[4] https://bills.parliament.uk/bills/2901

Hebden issued a claim against Domino in December 2020. He claimed that Domino had failed to account properly for royalties in respect of streaming and digital downloads on digital service providers ("**DSPs**"), and so had breached the 2001 Agreement. He argued that because at least some of the DSPs carrying his music are based outside the UK, royalties should be calculated at the contractual rate for royalties and fees *"received by [Domino] from our licensees outside the UK"* which was 50%, instead of the rate for *"records embodying Masters sold in the UK"* which was 18%. He sought a declaration from the Court as to the true construction of the 2001 Agreement and monetary relief capped at £70,000.

Domino resisted the claim in its entirety. However, in November 2021 Domino's solicitors made an open offer to pay the full £70,000 sought, plus Hebden's legal costs. It also instructed all DSPs to withdraw the Masters and undertook not to exploit them digitally until terms were agreed with Hebden in writing, which would not be at the 50% rate. It said that the claim should now be stayed or dismissed.

Hebden interpreted Domino's decision to withdraw the Masters from DSPs and no longer make them available digitally as a fundamental breach of the 2001 Agreement, and as impermissible restraint of his trade under the name 'Four Tet'. As a result, the copyright in the Masters had reverted, or should revert, to him.

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Hebden applied for permission to amend his Particulars of Claim to include Domino's recent conduct, and to include the two new claims for breach of implied terms of the 2001 Agreement and restraint of trade. Domino applied for strike out and/or summary judgment of the claim. The amendment application was heard in December 2021 by Ms Pat Treacy (sitting as a Judge of the Chancery Division) and judgment was handed down on 19 January 2022.

Domino's release obligations in the 2001 Agreement are set out in the judgment at [18]. Any obligations not expressly included could only be implied if they had been (i) fair and reasonable; (ii) necessary to make the contract work; and (iii) consistent with the express terms of the contract, at the time when the contract was made.

For the amendment application to succeed, Hebden had to show a "real prospect of success", meaning a "better than merely arguable" case. Complexity alone would not preclude a decision to refuse permission to amend if it was clear that a proposed amendment has no prospects of success.

Implied continuing obligation to exploit the Masters digitally

Hebden argued that Domino's release commitment in the 2001 Agreement amounted to a continuing obligation to exploit the Masters after release. Releasing the Masters digitally and then taking active steps to withdraw them was not consistent with the concept of a genuine commercial release. Domino should be required to use "reasonable endeavours" to continue to exploit the Masters by all then-industry-standard means, which in the present day includes via DSPs.

Domino argued that its obligation was satisfied by a commercial launch, and did not involve an obligation to continue to exploit the Masters subsequently. It referred to three authorities to establish that an assignment of copyright cannot not carry with it an implied obligation to exploit the works protected by copyright:

> *Nichols v Amalgamated Press*[5] was a Court of Appeal decision from 1908 in which the assignment by a composer to a music publisher of the copyright in songs involved no implied obligation on the publisher actually to publish the songs.
>
> *Schroeder Music Publishing v Macaulay*[6] was a House of Lords decision from 1974 which held that a publisher assignee of worldwide copyright in musical works would not be in breach of their obligations if they simply place the compositions *"in a drawer and leave them there"*.
>
> *John v James*[7] was a 1991 decision concerning publishing and recording agreements, in which an implied term to use reasonable diligence to exploit the works (which the defendants sought to rely upon) was held not to exist in the specific contract in issue.

Hebden argued that all three cases could be distinguished from the present situation. In *Nichols* there had been no contractual requirement for a 'genuine commercial release'. *Schroeder* had specifically envisaged that *"[p]ossibly there might be some general undertaking to use [the publisher's] best endeavours to promote the composer's work"*, but in that case and in *John v James* the point had not been fully considered. Hebden's situation was said to be very different because the implied obligation would offer him valuable commercial protection.

[5] (1908) Macg Cop Cas (1905-10) 2 166.
[6] [1974] 1 WLR 1308 (HL).
[7] [1991] FSR 397.

Schroeder had also expressly contemplated the possibility of implying an obligation on the publisher to act in good faith. Hebden contended that Domino's actions were potential bad faith because they amounted to an attempt to avoid the Court ruling on the proper construction of the 2001 Agreement.

Restraint of trade

Hebden argued that if he was wrong about the implied obligation, then the contract as interpreted by Domino was an agreement in restraint of his trade, because it would permit the 'sterilisation' of a substantial portion of his output under the name Four Tet.

Domino disagreed. During the term of the 2001 Agreement Hebden had not been restrained from creating and recording music under other names. Domino had been obliged to release the Masters, and had done so; if it chose to stop exploiting them now, that was not a restraint on Hebden's trade as a musician.

Domino also argued that this argument would not help Hebden even if it succeeded. The effect would not be that the 2001 Agreement was void, but that it would be unenforceable against Hebden. Hebden's obligations under the 2001 Agreement had already been performed and the term had expired; it made no practical difference if the 2001 Agreement was now unenforceable against him.

The Court's decision

The Court allowed Hebden to expand his claim to include the implied obligation to exploit. It could not say on a summary basis that *Nichols*, *Schroeder* and *John v James* precluded the possibility that a music recording contract might be construed to require continued exploitation of some sort. This might include a good faith obligation. The terms suggested by Hebden were not so clearly contrary to principle and authority that they could not be implied, not least when both *Schroeder* and *John v James* appear to say that similar terms might be applied in appropriate cases.

The Court would need a greater understanding of the record industry as it was in 2001 before it could say that there were no realistic prospects of establishing that the conditions for an implied term were satisfied. Digital distribution has been a part of the parties' relationship for some time, and it was arguable that an obligation on Domino to act in good faith may be necessary to make the agreement work effectively.

The restraint of trade argument, however, was not allowed. The legal and practical hurdles were too high, including the difficulty for Hebden of obtaining the relief he sought if that argument were successful.

Comment

Given that the decision turns on the specific clauses of the 2001 Agreement, and that it is a decision that the arguments have a "reasonable prospect of success" in this case, this decision will not apply directly to other artists or record companies in a similar position.

However, it is significant that an ongoing duty to exploit copyright could in theory be imposed well beyond the express terms of a record contract. Domino was obliged to release the Masters between 2001 and 2005, but this ongoing duty (if it exists) could potentially apply for decades.

This would mean that a record company cannot choose for its own commercial or administrative reasons to stop exploiting parts of its catalogue. Nevertheless, this would make commercial sense since the costs of distribution are a fraction of what they were in 2001, and an artist cannot exploit works themselves once the copyright has been assigned to the company. The duty on the company may not be onerous in practice, and the consequence for the artist if that duty does not exist would be that potentially lucrative records cannot bring in income.

A different question is whether either party benefits from a continuing commercial relationship when the royalty dispute has become this acrimonious. Hebden says the copyright in the Masters should now be his, which would essentially terminate Domino's royalty and exploitation obligations and thereby end the relationship. By defending its position Domino is exposed to reputational damage[8] at a time when underpayment of streaming royalties is a live political issue.

It says much about the importance of the issue that it came to court at all, as there will doubtless be pressure on both sides to settle. A finding by the English High Court on whether recording contracts could include digital exploitation obligations that were not expressly drafted would be very significant for the whole music industry, whichever way the result goes.

[8] See for example, Music Week, 16 December 2021: https://www.musicweek.com/labels/read/domino-recordings-v-four-tet-court-case-label-s-streaming-takedown-was-cynical-and-outrageous/084870; Resident Adviser, 17 December 2021: https://ra.co/news/76564; NME 20 December 2021: https://www.nme.com/news/music/four-tet-granted-permission-to-pursue-breach-of-contract-case-against-domino-3122527;

The immediate lesson is that royalty disputes in the digital era cannot be resolved simply by unilaterally withdrawing works from the market. Despite Domino's efforts to resolve the dispute without the court's intervention, the continuing duty to exploit copyright works digitally may be a genie that will not quickly get back into the bottle.

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