Kluwer Copyright Blog

Lose yourself… this opportunity comes once in a lifetime: Loss of opportunity damages refused in Let Them Eat Vinyl

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In a trial to assess the quantum of financial loss in the IPEC, FBT Productions LLC v Let Them Eat Vinyl Limited [2021] EWHC 932 (IPEC), Deputy High Court Judge Ian Karet found the claimant was not entitled to damages for loss of opportunity since that defendant's wrongdoing did not cause the loss. Damages for loss of reasonable royalty for the actual sales made were awarded, amounting to £7,452.50. This followed a finding of copyright infringement by HHJ Hacon in April 2019 – see judgment here.

This post reviews the judge's reasoning for rejecting the lost opportunity damages claim and calculating a reasonable royalty.

Background

The claimant (FBT Productions LLC, "FBT") and defendant (Let Them Eat Vinyl, "LTEV") are both record companies. This dispute concerned the copyright – owned by FBT – in Eminem's debut album "Infinite". In the liability trial, HHJ Hacon held that LTEV infringed this copyright by creating vinyl copies of Infinite.

FBT had intended to release a 20th anniversary edition of Infinite, which was first recorded and released in 1996. They claimed this included plans to release a series of vinyl singles from Infinite leading up to the release of the full album on vinyl, all in 2016.

LTEV specialises in re-releasing vinyl recordings by successful artists. In this instance, they had agreed a licence with Boogie Up Productions ("Boogie Up"), granting them the right to sell the vinyl copies of Infinite. Boogie Up were in fact invalid licensors: they did not own the relevant rights in Infinite.

FBT averred that they decided not to proceed with their vinyl release of Infinite after discovering LTEV's vinyl of Infinite in a record store in Detroit. This formed the basis of their loss of opportunity claim, on which the trial focussed.

The claim

FBT claimed damages totalling £288,209 on three bases:

1. Loss of **opportunity** to license a third party to exploit Infinite;
2. Loss of **licence fees** from a licence FBT would have offered LTEV; and/or
3. Loss of a **reasonably royalty** for the actual sales made by LTEV.

Loss of opportunity

The loss of an opportunity is recognised as a head of damage, but it is related to the loss of a chance to trade generally rather than the loss of a particular chance. FBT claimed they had intended to license a third party to make and sell the vinyl copies. They therefore claimed for the vinyl copies of Infinite and the preceding singles.

To recover for loss of opportunity, among other things a claimant must show the defendant's wrongful acts caused the loss suffered.

The judge found that the discovery of LTEV's vinyl copy of Infinite did not lead FBT to abandon its plans: instead FBT's subsequent actions had suggested an intention to proceed. This is because on the evidence, FBT became aware of LTEV's vinyl copy on 4 August 2016. However, FBT's manager gave instructions to develop a business plan later that month, and there was evidence that work on FBT's project continued up until at least the second half of October 2016.

Furthermore, FBT had claimed that their project was to be "super cool and exclusive", and this was affected by LTEV's version being available. However, the judge did not accept that FBT would have thought LTEV's vinyl copy would affect such a look: LTEV's expert gave evidence that authenticity of the vinyl is critical in the re-issue market and LTEV's versions were clearly marked as coming from a third party and not FBT.

Loss of licence fees

Secondly, FBT claimed losses flowing from a licence they would have offered LTEV to exploit the work.

This was quickly dismissed on the evidence. FBT had said it would not have offered LTEV a licence because it was not a sufficiently reputable or substantial company.

Loss of a reasonable royalty

FBT claimed a reasonable royalty for LTEV's actual sales, based on the notion of a willing licensee / licensor negotiation which is also known as the 'user principle'. Under this form of quantification, compensatory damages are assessed by the economic benefit the user obtained for their unauthorised use.

This basis was accepted by the judge; the judgment focussed on the royalty amount that would have been negotiated.

Each party's expert gave significantly different suggested royalty rates for the circumstances: FBT's expert claimed 75-90% was achievable whereas LTEV's expert asserted 26-28% as a general rule. However, the judge preferred the latter's evidence on the basis he "has experience in the UK market".

Often, when considering the royalty amount the court will consider any relevant licences insofar as they are considered comparable. FBT had argued that the actual licence between LTEV and Boogie Up being relied on by LTEV was not a relevant comparable agreement. The judge held that it was a useful comparable given it set a price to be paid per disc and somewhat reflected the rights infringed and the time over which that took place: it granted a licence for vinyl production of Infinite in the UK. In the agreement, LTEV had agreed to pay a £1.50 fee per disc to Boogie Up, which amounted to a royalty of 37.5%.

However, the judge held that a notional licensee would have been prepared to pay more that £1.50 to a notional licensor in the circumstances, given the nature and reputation of the licensor (who had valid rights, as opposed to Boogie Up who did not). Furthermore, being a special anniversary disc, a notional licensee would have been able to set a higher price to dealers. This would have allowed them to pay a higher fee while maintaining profits.

In light of these factors, the judge arrived at a hypothetical fee of £2.50 per disc, being equivalent to a royalty rate of just over 32%. This fee was multiplied by the number of discs sold by LTEV (2,981) to arrive at the total damages award

(£7,452.50).

Comment

Loss of opportunity claims are difficult to win. Given the total amount claimed was £288,209, the judge's rejection of the loss of opportunity claim was surely a heavy blow to FBT. This was a result of the evidence showing FBT undertook various acts which suggested they intended to continue to pursue the opportunity, meaning LTEV's wrongdoing did not cause their lost opportunity. One wonders how this fits with the principle of duty to mitigate losses: it appears FBT would have been better off simply giving up on the opportunity the moment they discovered LTEV's infringing disc, rather than mitigating their loss by continuing to try to commercialise the product.

Finally, the judge's calculation of a notional fee was guided by two experts, whose opinions differed significantly. Somewhat predictably, the judge arrived at a royalty rate between the two; however, it was much closer to LTEV's expert's opinion on the basis that he had experience in the relevant market.

The judgment is consistent with the UK approach to quantifying loss in copyright claims. The most straightforward measure to determine quantum is a notional royalty under the user principle and that is more often than not the basis for quantifying damages.

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