

In the High Court of Justice

Claim No. HC 05C02145

Chancery Division

Intellectual Property

Before Mr. N. Strauss Q.C. (sitting as a deputy judge)

B e t w e e n :

**Far Out Productions Inc
(A corporation incorporated under
the laws of California)**

Claimant

-and-

- (1) Unilever UK & CN Holdings Limited**
- (2) Unilever Bestfoods UK Limited**
- (3) BMP DDB Limited**
- (4) Water Music Productions Limited**

Defendants

A n d b e t w e e n :

Water Music Productions Limited

Part 20 Claimant

-and-

BMP DDB Limited

Part 20 Defendant

*Mr. Mark Platts-Mills Q.C. and Mr. Gwilym Harbottle, instructed by Macgrath LLP
appeared for the claimant.*

*Mr. Ian Mill Q.C. and Ms. Jane Mulcahy, instructed by Forbes Anderson Free, appeared for
the 1st to 3rd defendants.*

*Mr. Peter Prescott Q.C. and Mr. Stephen Bate, instructed by Swan Turton LLP, appeared for
the 4th defendant.*

Approved judgment

1. This is an application by the claimant to be relieved from the usual consequence in costs of discontinuing this action against the 4th defendant. This is set out in CPR 38.6, which provides:-

“... unless the court orders otherwise, a claimant who discontinues is liable for the costs which a defendant against whom the claimant discontinues incurred on or before the date on which notice of discontinuance was served on the defendant.”

2. It is clear from the decision of the Court of Appeal in Walker v. Walker [2005] E.W.C.A. 747, [2006] 1 W.L.R. 2154, that the burden is on the applicant to establish a valid reason for departing from the usual rule, which renders it just to make some other order: see per Chadwick L.J. at §24.

3. Further, it is not normally sufficient just to show that there were what the claimant in this case refers to as “pragmatic” reasons for discontinuance. Whilst there is no invariable rule, normally a claimant relying on such reasons must show a substantial change from the position which existed at the time the proceedings were commenced. If the same reasons existed at both points in time, it will not usually be just to depart from the usual rule. This is at least implicit in the decision in Walker: see for example per Chadwick L.J. at §42 and per Neuberger L.J. at §27.

4. In my view, the underlying rationale of the rule, or at least a substantial part of it, was succinctly expressed by Mr. Prescott Q.C., when he said that the effect of discontinuance is to deprive the party, against whom (at least in some cases including this one) serious allegations have been made, of the opportunity of vindicating himself. A defendant who establishes that the claim is without foundation, and so vindicates himself, is normally entitled to the costs of the action. Therefore, if the claimant chooses to bring proceedings, but then discontinues

them, it is only natural that he should pay the defendant's costs unless there are substantial reasons justifying a different result.

5. The present case provides a good illustration of the principle. The claimant, a very substantial corporation, has brought proceedings alleging that the 4th defendant deliberately infringed its copyright and deliberately concealed the infringement. The claimant's case by necessary implication alleged that the 4th defendant behaved disreputably and that its denial of the claim was dishonest. The claimant knew that the 4th defendant was a small family company with an excellent reputation, which would inevitably be subjected to great pressure by litigation involving detailed investigation into a routine piece of business conducted over 10 years earlier. Nevertheless, the claimant, for reasons which it has not explained, was responsible for considerable delays, which resulted in the proceedings, and the consequent pressure on the 4th defendant, extending over a period of more than 4 years before the claimant decided to discontinue them.

6. As to the merits of the claim, the allegations against the 4th defendant were always highly unlikely to succeed because there was no significant evidence to support them, and because it would have made no sense at all for the 4th defendant deliberately to have infringed the claimant's copyright. It would have gained little or nothing by doing so, and it would have risked a good reputation gained over more than 20 years, as well as future business with its main customer, the 3rd defendant. There may have been innocent infringement, but any claim based on this would have been statute-barred.

7. The 4th defendant's managing director, Mr. Lawlor, strongly denied liability when the matter was first raised with him, and made it clear when there were some abortive settlement

discussions shortly after the proceedings were commenced that he had no interest in compromising what he regarded as an unjustified claim. The claim was discontinued before the time for service of the 4th defendant's witness statements, but the statements which he has provided for the purposes of the present application present a clear, detailed, coherent and (albeit not subjected to cross-examination) convincing case, which it would have been a formidable task to overcome, especially in view of the inherent improbability of the claimant's case.

8. Despite all this, and the shadow over the 4th defendant's business and professional reputation which has existed over the last 4 years, the claimant now asserts in effect that its allegations of disreputable conduct are maintained, but that it is no longer worth pursuing them. The 4th defendant can do nothing – as Mr. Prescott says – to vindicate itself.

9. I however can. In the absence of a trial, I cannot decide the case. All parties in their submissions have recognised this, but have then gone on to try to persuade me to do so under one guise or another. The claimant in particular, in seeking, to my mind astonishingly, an order that the 4th defendant pay its costs, has in effect submitted that the 4th defendant would have had no defence to the charge of deliberate infringement if it had been pursued. In these circumstances, whilst I do not make any finding, I believe that I am entitled to say that I regard the claimant's case against the 4th defendant as wholly implausible, and I have little or no doubt that, if it had not been discontinued, it would have failed and that I think it probable that the claimant appreciated this when it discontinued. The reasons for this have been indicated above, and are further explained below.

10. The claimant is a Californian corporation which owns rights in a sound recording made by a band called "War" of a composition entitled "Low Rider". The 1st defendant manufactured and distributed Marmite until about 2000, and the 2nd defendant has done the same since then. The 3rd defendant is an advertising agency, and the 4th defendant is a music production company, which frequently carried out work for the 3rd defendant.

11. While the 1st to 3rd defendants, respectively companies in the Unilever Group and a major worldwide advertising agency, are companies of great substance, the 4th defendant is not. It is a small private company, however one which has been in existence for more than 20 years and which, it is common ground, has an excellent professional reputation and is entirely respectable. It has never previously been sued for any form of infringement of the rights of other parties in the music industry. Its net worth, according to its latest accounts as at August 2005, when these proceedings were commenced, was about £42,000. By the following year, this had risen to just over £100,000.

12. The nature of copyright in a sound recording is helpfully explained in the 4th defendant's skeleton argument:-

"This (a sound recording copyright) is a type of copyright of narrow scope (sometimes called a 'signal' or 'image' copyright ...). Thus it is only *the actual recorded soundwaves* that are protected, not any underlying creative content; for unlike a literary, dramatic, musical or artistic work, a sound recording does not have to be 'original' ... thus the proprietor of the record has merely the right to complain of the 'lifting' of the actual recorded sounds e.g. by electronic or similar means. He has no right to stop others from hiring a studio, musicians etc and imitating the performance as closely as they please ... of course, they would need to have a licence from the owners of the copyrights in the words and music, but that is another thing."

13. In or about 1993, the 3rd defendant wanted to 'pitch' for a contract to create advertising for Marmite, and had the idea of using part of the Low Rider composition, with

the words “My mate Marmite” as a lyric. The 3rd defendant commissioned the 4th defendant to produce an “Animatic” (as I understand it, a short cartoon with some music), incorporating part of the claimant’s sound recording. It is common ground that the claimant was not asked for permission. The claimant says that it ought to have been, and at least some of the 3rd defendant’s evidence is in agreement with this. It appears to be common ground between them that permission for use of this kind is routinely given informally, and without requiring payment, since the use involved is insubstantial and since it may lead, if the pitch is successful, to the generation of substantial royalties for the use of the music copyright. The 4th defendant’s case is that it was for the 3rd defendant to obtain any rights which were needed for the work which it was commissioned to do, and that its understanding was that by an industry custom permission in such cases was not required.

14. The 1st defendant then instructed the 3rd defendant to produce broadcasts of television commercials, featuring a recording of “Low Rider” with the “My Mate” lyric. Such television commercials were broadcast between 1994 and 2003, although some of them in and after 1996 had different lyrics with “I Hate Marmite” and others had no lyric.

15. What the 1st defendant authorised did not involve the obtaining of any permission from the claimant for the use of the sound recording. The music was to be re-recorded, and that was what the 4th defendant was commissioned to do. However, it is common ground that despite this all the broadcasts made use of substantial parts of the original sound recording, of which the claimant owned the copyright, without any license having been sought. Put shortly, the 3rd and 4th defendants each say that the other was at fault, but neither explains how it happened. Further, neither suggests that the other deliberately infringed the claimant’s copyright.

16. The claimant did not discover what had happened until some time in 2002, when it became clear that one broadcast had infringed its copyright. Investigations then established that its copyright had been infringed in the whole series of broadcasts of Marmite commercials, and it notified the 3rd defendant of its infringement claim in December 2003, supporting it in February 2004 by a musicologist's report, the findings of which were confirmed by a musicologist instructed by the 1st to 3rd defendants in April 2004. During this period, the 3rd defendant had informed the 4th defendant of the claim and there were some discussions between them of (so far as I have been shown them) an inconclusive nature.

17. On 13 May 2004, the 1st to 3rd defendants conceded innocent copyright infringement and suggested negotiations. They wrote as follows:-

"It..appears that there has been an infringement of the copyright in the sound recording of "Low Rider"..this is obviously a matter of great concern to our clients. DDB commissioned a third party production company named Water Music to produce an original recording to be used in the commercials for Marmite. It is apparent that Water Music have breached the terms of their engagement by DDB by incorporating non-original material. The infringement which has taken place was without any knowledge whatsoever on the part of our clients. They are entirely innocent and have believed in good faith throughout.

DDB will be pursuing Water Music in relation to the breach of the terms of their engagement..."

18. Thus, in May 2004, the 3rd defendant pointed the finger of suspicion at the 4th defendant, although, as I have said, without any suggestion that the 4th defendant had acted deliberately. Rather surprisingly, in view of their relationship and the discussions which they had had, the 3rd defendant did not send a copy of the letter to the 4th defendant.

19. There then ensued negotiations between the claimant and the 3rd defendant, which were abortive. The claimant's position was set out in a letter dated 3 March 2005, in which

they put forward a pre-action Part 36.10 CPR offer to settle for £4 million, representing 10% of increased sales of Marmite between 1995 and 2001 of £53.5 million, less £12.4 million advertising costs during this period.

20. In June 2005, Mr. Alexis Grower of the claimant's solicitors spoke to Mr. Lawlor. There is some difference in emphasis in their respective accounts of the conversation, but it is common ground that Mr. Grower informed Mr. Lawlor that there had been an infringement of copyright for which the 3rd defendant was blaming the 4th defendant, that he said something to the effect, at least, that given the 4th defendant's reputation he did not expect that the claim was justified, and that Mr. Lawlor replied forcefully that the material had been re-recorded and that the 4th defendant was not responsible for any infringement.

21. On 24th June 2005, Mr. Grower wrote to Mr. Lawlor in the following terms:-

"I am anxious to ascertain what, if any, involvement your company had in the production of the recordings that were used in all of the different advertisements that we used in the overall advertising campaigns for Marmite.

BMP DDP's solicitors tell me your company was engaged to re-record the music for these purposes.

I appreciate the fact that you need to consider your position in the light of the matters that are at issue between my clients, the advertising agency and the manufacturer of Marmite. I also understand that you claim not to have received correspondence on this subject from the solicitors or representatives of either the advertising agency or the food manufacturer prior to me contacting you.

If it is the case that you believe you need to take independent legal advice on matters before speaking with me again, please let me know and put me in touch with the solicitors you choose to instruct..."

The letter concluded by making it clear that draft proceedings had been prepared, and that these were being deferred for the time being.

22. Following a chaser, the Simkins Partnership wrote on 19 July 2005 to say that they had been instructed and to ask for the draft Particulars of Claim, which were supplied, but they did not communicate further with the claimant's solicitors before 10 August 2005, when proceedings were issued.

23. The claimant's position against the 3rd defendant at that time was that it had an unanswerable case of infringement of copyright in respect of all recordings on or after 10th August 1999, about 40% of the total, but no case for any earlier recordings unless section 32 of the Limitation Act could be invoked. On any objective view, this was highly unlikely, except possibly in relation to the Animatic. Otherwise, there was no direct evidence of deliberate infringement, and no sensible reason why the 3rd defendant, which had commissioned and paid for re-recordings for the broadcasts, should have deliberately used the original sound recording.

24. As regards the 4th defendant, the claimant could not succeed at all without establishing deliberate infringement, since its latest involvement had taken place in 1996. Again as regards the broadcasts there was no evidence of deliberate infringement, and no sensible reason why a company which, as the conversation with Mr. Grower indicates, was known to have a good reputation should deliberately infringe copyright rather than do a routine re-recording involving no particular difficulty. It is true that the 4th defendant had not responded to Mr. Grower's letters, but its position had been made clear orally, and it had been given relatively little time to investigate matters which had taken place nearly a decade previously.

25. In response to this, Mr. Platts-Mills Q.C. submitted that there could have been some production difficulty which led the 4th defendant to cut a corner, and referred to evidence that there had been some trouble in re-recording the part for the cowbell. No doubt this is theoretically possible, but in my judgment highly unlikely. The adequacy of the cowbell would hardly have been crucial in an advertisement, and there would have been no sensible reason for the 4th defendant to risk its reputation and business for so trivial a reason.

26. Mr. Platts-Mills also relied on a passage in the Amended Defence in which it is alleged that the use of the original sound recording should have been obvious to Mr. Goldstein, who was the producer. He submitted that, if the use of the original sound recording would have been obvious to the claimant, it would have been all the more obvious to the 4th defendant itself at the time. However, when one reads the whole of the paragraph of this passage in Mr. Lawlor's witness statement, it is clear that the assertion follows another allegation that the claimant's UK agents must have been policing the broadcasts. So there is nothing in this point.

27. Thirdly, as regards the Animatic, the admitted fact that the sound recording was used deliberately is relied on. But it does not follow that the infringement was deliberate or deliberately concealed by the 4th defendant. The 4th defendant's case, that it would not expect a major advertising agency to commission a piece of work without obtaining whatever licence was required, is on the face of it entirely credible.

28. In my view, therefore, if the claimant had properly evaluated its prospects of success on deliberate infringement against any of the defendants, it would have come to the conclusion that this was inherently improbable. Further, given the difficulties of

investigating a relatively small transaction between the 3rd and 4th defendants which had taken place so long ago, the fact that neither defendant was able to explain what had happened would have been seen by a court as unsurprising and of no great significance. Unless, improbably, a smoking gun was discovered, the court would almost inevitably conclude that some kind of repetitive mistake had occurred.

29. On the question of damages, the claimant's offer to the 1st to 3rd defendant's to settle for £4 million, which was maintained until September 2009, was plainly misconceived. The claimant was entitled to an account of the profit resulting from the infringement i.e. not all increased Marmite profits, but only the profit from any increase in sales resulting from the use of the original sound recording instead of a re-recording. See My Kinda Town Ltd. v. Soll [1983] R.P.C. 15. Making all due allowance for the possibility that a few devotees of cowbell music might have been converted to Marmite by the superior performance in the original sound recording, it is unlikely that an account of profits would have yielded anything much. The proper measure of damages, as the 1st to 3rd defendants pointed out, was the licence fee which would probably have been negotiated if a licence had been sought for the use of the part of the sound recording which was in fact used: see the recent decision of the Privy Council in Pell Frischmall Engineering Limited v. Bow Valley Iran Limited & others [2009] U.K.P.C. 45.

30. Nevertheless, the claimant maintained its position until shortly after a mediation which took place on 7 September 2009. The week after this, the claimant made a Part 36 offer to settle for £600,000 and the action was settled on 9 October 2009 for £400,000 plus a contribution of £65,000 towards the claimant's costs. Then the action was discontinued as against the 4th defendant.

31. The claimant asserts that it was necessary to bring proceedings, and to join the 4th defendant, because the 1st to 3rd defendants failed to make a reasonable offer. Had it done so, there would have been no proceedings, and had it done so shortly after the proceedings started, the action would then have been discontinued as against the 4th defendant. I reject this. I accept the submission by Mr. Mill Q.C. on behalf of the 1st to 3rd defendants that any sensible negotiations were precluded by the manifestly excessive claim made by the claimant and maintained until the eleventh hour. Whilst it is impossible to be certain, it is probable that, if the claimant had offered to settle for £600,000 at an early stage, a similar result would have been achieved then. The 1st to 3rd defendants were clearly anxious to settle. The claimant maintains that proceedings were necessary, and took so long to resolve, because of the 1st to 3rd defendants' unreasonable refusal to make a sensible offer to settle, but the fault lay with the claimant.

32. The claimant makes three alternative submissions. The first is that the 4th defendant should pay the claimant's costs, and be responsible for its own. I reject this out of hand. It is not easy to imagine circumstances in which a defendant against whom proceedings have been discontinued should nevertheless pay the costs. There may be circumstances in which such an order would be appropriate, but it is certainly not appropriate in this case.

33. The claimant's next submission is that (accepting that the Bullock order originally sought could not be made, because in the absence of a judgment it could not show that it had been "unsuccessful" against the 4th defendant), the right order to make was that the 4th defendant should pay the claimant's costs. The issue as to who should ultimately bear such costs should then be resolved separately as between the 3rd and 4th defendants, on the basis of

who was “at fault” in relation to the infringement, an issue which was left open to a later hearing, if necessary, by Lewison J.’s order for directions on 11th November 2009.

34. This is in my view equally unarguable. Whether or not the 4th defendant might recover against the 3rd defendant is irrelevant, in circumstances in which there is no proper basis in the first place for ordering the 4th defendant to pay the claimant’s costs of an action which it has decided to give up. Further, the claimant’s case against the 4th defendant could only succeed if its infringement was deliberate. If it was, there would be no reason why the 4th defendant should recover against the 3rd defendant. If it was not, there would be no reason why the 3rd defendant should ultimately pay the costs when it had never alleged deliberate infringement against the 4th defendant.

35. Finally, I must consider whether to make no order as to costs as between the claimant and the 4th defendant, as is sometimes appropriate where the original point of the action has for one reason or another disappeared. I have no hesitation in saying that this is not one of the cases in which this would be appropriate. It is true that there was, following the settlement with the 3rd defendant, no pragmatic reason to continue the claim against the 4th defendant. But there was no pragmatic reason in the first place. As at August 2005, it was extremely unlikely that the claimant had a valid and subsisting claim against the 4th defendant by August 2005. On any reasonable evaluation of the position at the time, this would have been obvious. Further, the 4th defendant’s financial position was such as to make it extremely unlikely that it would be able to meet any substantial claim, especially having regard to the costs which it would have to incur to defend the proceedings.

36. Mr. Platts-Mills submitted that it was sensible to join the 4th defendant, in the hope of establishing a deliberate breach for which the 3rd defendant might be liable on the footing that the 4th defendant was its agent. The difficulty with that submission is that there was little likelihood of establishing this, and no reason to suppose that joining the 4th defendant would make it any more likely that it would be established. Nor would it have made it more likely that deliberate infringement on the part of the 3rd defendant would be established by the 4th defendant's evidence, and anyhow joining a defendant so as to obtain evidence, when there is no probable case against it, does not attract favourable treatment on costs.

37. Further, it is submitted, once the 3rd defendant blamed the 4th defendant, it was inevitable that the 4th defendant would be joined: it would be very surprising if this had not happened, in the absence of any clear account as to what had happened. I suspect that this is probably near to the truth. The 4th defendant was probably joined more or less automatically, without any real thought as to whether this was justified or likely to be of any practical benefit. There are cases in which that might be a reasonable reaction, but not in this case, in circumstances in which the blame cast by the 3rd defendant did not extend to accusing the 4th defendant of deliberate infringement, which had to be proved and for which there was no other evidence.

38. For all these reasons, I do not think that this is a case in which it would be right to make anything other than the usual order, and I dismiss the claimant's application.

39. There remains for consideration Mr. Prescott's submission that I should order the claimant to pay the costs on an indemnity basis. The court has a broad discretion, in cases where the losing party's conduct of the action is abnormal: CPR 44.3. In this case it is, in that

(a) the claimant started proceedings which were very unlikely to succeed (b) there was anyhow no sensible reason to bring them, as the defendant would be unlikely to have had substantial assets even if they had succeeded (c) the proceedings, and therefore the duration of the burden of costs on the 4th defendant, were unduly protracted and (d) the claimant's grossly excessive demands, and unreasonable refusal to negotiate sensibly with the 3rd defendant, made an earlier settlement impossible. I consider that this is an appropriate case for indemnity costs.



16.12.09.