CT 84-90/05

IN THE MATTER OF A REFERENCE UNDER THE COPYRIGHT, DESIGNS AND PATENTS ACT 1988 (as amended)

Before: His Honour Judge Fysh QC, SC (Chairman)
Rear-Admiral James Carine and
Colonel Roderick Arnold

BETWEEN:

(1) THE BRITISH PHONOGRAPHIC INDUSTRY LIMITED
(2) MUSICNET (UK) LIMITED
(3) YAHOO! UK LIMITED
(4) AOL (UK) LIMITED
(5) REALNETWORKS LIMITED
(6) NAPSTER LLC
(7) SONY UNITED KINGDOM LIMITED
(8) iTUNES S.a.r.l
(9) O2 (UK) LIMITED
(10) T-MOBILE INTERNATIONAL (UK) LIMITED
(11) VODAFONE UK CONTENT SERVICES LIMITED
(12) ORANGE PERSONAL COMMUNICATIONS SERVICES LIMITED

Applicants and Interveners

and

(1) MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED
(2) PERFORMING RIGHT SOCIETY LIMITED
(3) BRITISH ACADEMY OF COMPOSERS AND SONGWRITERS

Respondents and Intervener

DECISION ON COSTS
16-17 July 2007

Representation:

The parties were represented as before except that neither *Mr Rabinowitz QC* nor *Mr Charles Aldous QC* appeared on the costs hearing.

Authorities cited in the Decision:

PPL Ltd v AEI Rediffusion Music Ltd [1999] RPC 599, [1999] 1 WLR 1507
Universities UK Ltd v CLA Ltd [2002] RPC 693 (CA)
Universities UK Ltd v CLA Ltd [3 April 2002 unreported]

DECISION ON COSTS

1. Our Interim Decision in these Applications was formally handed down on 16 July 2007. At the same time, we were shown a draft Order to which the New JOL, re-drafted in accordance with our decision, was attached. Subject to:

    - Some further minor typographical changes
    - An issue on the definition of short and long tracks and the minima for such tracks (which it is hoped will soon be resolved) ; and
    - The question of costs;

    the form of Order to be made on these Applications and the New JOL have been agreed between the parties. The New JOL runs in fact until 30 June 2009.

2. We have considered the proposed form of Order and the New JOL and have no comment thereon. When the issue of costs has been disposed of, the Order and the New JOL will then be annexed to a Final Decision. We envisage that the Final Decision itself will be formal in content.

Costs

3. At the July 2007 hearing, most of the time was devoted to arguing *inter partes* costs issues. In our Interim Decision we expressed our dismay at the magnitude of these costs, particularly those incurred on account of the experts' fees. Costs is therefore a serious issue in these Applications and it is perhaps not surprising that so much time has been taken in arguing the matter. It was common ground that in the broadest sense, there was no outright winner. Nevertheless it was the fact that each party considered itself to be the winner of *an* issue (or certain issues) in which it had an interest. This belief was then used to bolster Counsels' submissions as to how the *inter partes* decision on costs should be made. The hearing thus became a particulate post-mortem of many of the issues identified in our Interim Decision. It is therefore as well to record our approach to the question of costs at the outset in the light of

relevant statutory requirements and of the two authorities to which our attention was directed.

Legal Framework

4. Section 151(1) of the CDPA 1988 contains a general power to award costs:

> The Copyright Tribunal may order that the costs of a party to proceedings before it shall be paid by such other party as the Tribunal may direct; and the Tribunal may tax or settle the amount of the costs, or direct in what matter they are to be taxed.

5. Rule 48 of the Copyright Tribunal Rules 1989 provides:

> (1) The Tribunal may, at its discretion, at any stage of the proceedings make any order it thinks fit in relation to the payment of costs by one party to another in respect of the whole or part of the proceedings.
>
> (2) Any party against whom an order for costs is made shall, if the Tribunal so directs, pay to any other party a lump sum by way of costs, or such proportion of the costs as may be just, and in the last mentioned case the Tribunal may assess the sum to be paid or may direct that it be assessed by the Chairman, or taxed by a taxing officer of the Supreme Court**…**

6. Finally, the Copyright Tribunal's April 2004 Practice Direction gives further guidance:

> Power to Award Costs
>
> 16. Parties are reminded that under Rule 48(1) the Tribunal has power to award costs. The Tribunal will consider exercising this power against any party which it considers is guilty of undue length in its evidence or at the hearing. Further, though it is not the Tribunal's practice that in all cases costs will follow the event, the fact that a party's case may have been unreasonably maintained will weigh heavily with the Tribunal**.**

7. Two authorities were also cited to us.

8. In AEI Rediffusion v PPL [1999] 1 WLR 1507[1], the Court of Appeal considered how the Tribunal should exercise its power to award costs prior to the CPR, Part 44.3, that is, under RSC Order 62(3). The Copyright Tribunal had dealt with two references, one under s 135D, the other under s 135E. On the s. 135E application, AEI finally agreed to almost all of PPL's conditions, without a contested hearing. The Tribunal therefore awarded PPL its costs of the s. 135E application. As to the s. 135D application, the Tribunal decided that the appropriate costs order lay between the positions adopted by the parties. It held that as AEI had had to make a reference to achieve less onerous terms, it should be awarded its costs, subject to a one-third deduction because of the way it had conducted its case.

[1] Also reported [1999] RPC 599

9. On appeal, Neuberger J concluded that the Tribunal had erred in law in making this order in respect of the s.135D application, and set it aside. He decided that there should be no order as to costs, because, absent some special factor, neither party could be treated as a "winner" in a Copyright Tribunal dispute where the resulting decision lay between the parties' positions. The Court of Appeal agreed with Neuberger J. Mummery LJ set out the basic principles (at pp. 1517-8):

> *"... 2. The special nature and scope of the Tribunal's substantive power is reflected in the very width of the discretion on costs contained in section 151(1) of the Act of 1988 and in rule 48(1) of the Copyright Tribunal Rules 1989. It is significant that the legislation and the rules do not expressly state any general principle such as is set out in R.S.C., Ord. 62, r. 3(3). It was appreciated by the draftsman of the legislation and the Rules that it was not appropriate to fetter that discretion by reference to the outcome of the application; although it is, of course, legitimate for the Tribunal to give and follow the guidance contained in its practice direction.*
>
> *3. As the discretion on costs is not expressly subject to general principles (save as stated in the 1995 Practice Direction) or provisional statutory steer or fetter, it should be interpreted and applied as a wide discretion to be exercised judicially and reasonably by taking account of, and giving due weight to, all relevant factors in a principled and proportionate fashion. Relevant factors include an assessment of the respective positions taken by both parties on the application in the light of the outcome, both overall and on the different issues on which the Tribunal heard evidence and argument from each side: the terms of the initial proposals and the counter-proposals; the points taken by each side at the hearing; and the length of time and amount of money spent on the preparation and the presentation of the evidence and arguments on the issues"*

10. Our attention was also drawn to the unreported decision of this Tribunal on costs in the 'photocopying' reference, Universities UK Ltd v CLA Ltd[2] dated April 3 2002, a copy of which was made available to us. It was submitted that this decision (which was post-CPR) was more 'commercial' and 'issues-based' since a discrete issue was the subject of a specific costs award. In terms having resonance to the present adjudication, the Tribunal said:

> *"11. Both sides also point to aspects of the conduct of the other party to bolster their submission. Whilst we have expressed dismay at the over-elaboration in the preparation of this case, with the exception of one point, we are in no position to attribute more blame to one party than to any other. We did however form the clear impression that the reply evidence filed by CLA went very much further than was either necessary or helpful. None of the other points made seem to us to carry the matter much further."*

11. In the end, the Tribunal considered that there was no overall winner and that CLA should be ordered to pay 25% of the costs of the Applicant to be assessed if not agreed - notwithstanding that CLA had had actually secured an increase in the royalty. This was largely because of CLA's 'intransigent' attitude to the

[2] The main decision is however reported at [2003] RPC 36. Our attention was drawn to §§ 6-9, 19-22 and 96-97 of the Tribunal's decision.

retention of 'the Course Pack system' which formed a major part of the litigation. Needless to say, all the present parties seized upon the word 'intransigent' for emotive use (as required) at this costs hearing. We observe at the outset however, that the 'photocopying' reference involved only one applicant and was less complicated than the present one.

Some General Points

12. As part of the Settlement Agreement, the settling parties also agreed to settle all costs preceding its date – 28 September 2006. Thus the only *costs* now in issue arise in respect of events occurring after that date. In spite of this, Mr Carr QC (who appeared as before for the MNOs) invited the Tribunal to consider the *conduct* of the Alliance prior to that date as it had, so he suggested, some follow through to events thereafter. We decline to do so believing a new chapter in this matter was intentionally drawn by all the parties on 28 September 2006.

13. **BACS**. We have recorded or views concerning the role played by the Academy at the trial of these Applications: see Interim Decision § 21.We felt that the contribution of BACS to the Alliance's case was at most, marginal, making no authentic contribution of its own. Counsel for the Remaining MSP's strongly opposed Mr Cullen's submission that they should be ordered to make a contribution to BACS' post 28September 2006 costs[3]. We agree. Whatever may have been its justification for participation in this matter prior to 29 September 2006 (as to which we express no view), we do not consider that any of BACS' costs should be paid by any of the Applicants in any event. There is another side to the coin however: did BACS significantly add to the time taken to adjudicate the case on issues which failed? Alternatively, could it be said that BACS' role was in some way blameworthy? We think not, since although BACS made the running on at least one issue that failed (the attack on Mr Steinthal), the hearty endorsement given to such matters by the Alliance suggests that they would most likely have raised them themselves had not BACS done so.

14. We have also deprecated the unremitting devotion of the parties' lawyers to peremptory, precipitate and often lengthy correspondence: Interim Decision §284. At the costs hearing, the protagonists accused each other of disproportionate excess in this regard. However, considered in perspective, there is, we feel, blame to varying degree on all sides in this regard. We consider that there has been little or no recognition that (in the words of Mummery LJ[4]), these references have about them the quality of a 'compulsory arbitration':

> *"This is not like ordinary civil litigation: it is a compulsory arbitration on quantum by reference solely to the criterion of reasonableness."*

15. Finally, under this general head, there is the unusual difficulty of the so-called 'unchartered waters' which has faced the parties (and the Tribunal) to which

[3] Which were of the order of £260,000 according to Mr Cullen, no experts' fees being involved.
[4] See above in the AEI case, at § 40.

we alluded in our Interim Decision: see §§ 266-267. This factor in our view, adds force to Neuberger J's observation in AEI[5]:

> *" …the exercise before the Tribunal was really the determination of a royalty payment, which each party accepted was to be paid in principle. The only issue between them is the question of quantum. In those circumstances, subject to any special factors (such as one party effectively succeeding in whole or one party taking unreasonable points) where neither party wins, the correct order in principle is no order for costs."*

'Gross Revenue': iTunes, the MNOs and the Remaining MSPs' cases.

16. It will be recalled that the *sole* reason for the continued participation in these Applications of iTunes and the MNOs was their concerns over the definition of 'Gross Revenue' in the New JOL as epitomised in their respective 'Disputed Contentions' : Interim Decision §§ 14, 77 and 78. Everything else had been agreed in the Settlement Negotiations of 28 September 2006. The Remaining MSPs also disputed the definition of 'Gross Revenue' in the New JOL on the broader and, in Mr Steinthal's submission, the sounder premise of the need in the light of authority for proper 'nexus' between the music and the advertising.

17. In the light of our Interim Decision, and on behalf of the Alliance, Mr Howe was quick to point out:

    - That neither iTunes nor the MNOs had achieved their objectives;
    - That the Tribunal had readily rejected the MNOs' proposed definition (which involved the Licensed Service being offered free) as representing an unjustifiably extreme position;
    - That the Tribunal had rejected iTunes' proposed definition as being impractical and unworkable; and
    - That instead, the Tribunal has set in place a royalty regime that had not been endorsed by any party but which (so far as the Alliance was concerned) nevertheless for the first time recognised a real and substantial entitlement to royalty derived from advertising revenue on a Licensed Service.

18. In answer, Mr Carr retorted that theirs was not a position of 'intransigent' extremes. He invited us to take into account some 'without prejudice' correspondence (seen by us of course, for the first time) wherein the MNOs indicated that they were prepared to align their Disputed Contention with that of iTunes in the hope of opening a dialogue. However, since the Alliance had clearly also rejected iTunes' Disputed Contention (and rightly so, said Mr Howe, as matters had turned out), that development led nowhere.

19. As we see it, the key to resolving the question of costs on the issue of the definition of 'Gross Revenue' lies to a large extent in approbation of the concept of 'music actually offered' which (together with the logical acceptance of in-stream advertising) had always been the threshold component

[5] Supra, at 151 B-C

of the cases of the Remaining MSPs, the MNOs and iTunes. We have explained this concept in the Interim Decision: §§ 190-192. Our Decision on this part of the case is indeed based upon the notion of 'music actually offered' too: see § 236-237.

20. Nevertheless, in spite of the parties' submissions on 'music actually offered', the Alliance's position did not really shift. In particular they maintained the need for the presence of the omnibus clause (e) in their definition of Gross Revenue (which we rejected *in limine*[6]) and more importantly, with the late advent of their 'bouncy castle' (viz. the 'music site', so-called), they in our view, introduced an element of calculated uncertainty of which we disapproved: see Interim Decision §§ 245-246.

21. iTunes and the MNOs were adamant that though their Disputed Contentions did not in the end prevail, their proposals were constructive and our Decision was conditioned by the premise upon which they had been based. They also pointed to some miscellaneous lesser issues in which the Alliance failed, such as the relevance of 'Gaming the System'. They therefore submitted that the Alliance should pay approximately 80% of each of their costs.

22. Mr Steinthal said that his clients 'clearly' won the debate on the proper definition of Gross Revenue. Their position he said, had always been that for a stream of revenue to come into the revenue base, there should be a sufficiently close nexus to the use of the music repertoire – and that that was the essential basis of our decision. He submitted that this topic took up most time and was by far the most difficult aspect of the case to resolve. He therefore also submitted that an unspecified but substantial contribution should be made to his clients' costs by reason of this issue - though, as we shall see in the next section, he acknowledged that one had also to take other issues into account by way of set off in reaching an overall costs determination in relation to his clients.

23. We have taken all these matters into account in reaching our decision on this part of the case. Our conclusion is that the Alliance should pay each of the Applicants 20 % of their costs.

24. As to costs, there was some disclosure of figures but these are neither complete or up to date (see below). In round figures and taking into account experts' fees, the MNOs incurred £302,000, iTunes £232,000 and the Remaining MSPs £450,000.

25. With regard to the Remaining MSPs however, it should be borne in mind that they had come to no settlement whatever with the Alliance and, as we shall next show, had an additional and substantial case to argue.

[6] Interim Decision §180

The Remaining MSPs

26. The Remaining MSPs' also argued a multi-facetted challenge to a number of items in the New JOL, which may synoptically be identified in the Royalty Table: see our Interim Decision § 90.

27. In brief, they conceded that the New JOL rates should apply to certain services that did not directly concern them (such as permanent and limited downloads and special webcasting) but strenuously challenged the rates (and minima) for premium or interactive webcasting and above all, for pure webcasting. In particular they never appeared to abandon their hostility in principle to the need for minima. We need not repeat their extensive case in this Decision as it is amply set out in the first few chapters of the Interim Decision. Suffice it to say that they successfully argued for reduction in the headline rate for pure webcasting but were unable to persuade the Tribunal that the rates for premium and interactive webcasting required downward adjustment.

Minima

28. We should just mention the issue of minima which is the subject of a chapter in the Interim Decision §§136-146. We noted in the Interim Decision that Mr Steinthal's hostility to the notion of minima as such seemed to us to wane as the hearing proceeded, his interest in this regard being rather in the quantum than the principle. At the costs hearing we were shown some 'without prejudice' correspondence which shed more light on the Remaining MSPs' real attitude to minima. Weil, Gotshall & Manges' 'Calderbank' letter of 27 September 2006 for example, provides clear evidence of the Remaining MSPs' willingness not to deny the utility of minima on principle *and* to be flexible in regard to quantum as well.

Issues on which the Remaining MSPs failed

29. Nonetheless, there were a number of issues on which the Remaining MSPs undoubtedly failed. These included:

- Pre-eminently, the New JOL as the appropriate Comparator;
- The definition of general webcasting;
- Royalty rates for premium and interactive webcasting;
- Minima for webcasting; and
- Other items which did not take much Court time such as Advertising costs, Deduction for audio-visual materials, and New format discount.

These items are the subject of individual consideration in the Interim Decision.

30. The greatest complaint of the Alliance however was the alleged intransigence of the Remaining MSPs in stubbornly refusing to make any significant accommodation in respect of matters which had been agreed to in September 2006 by the overwhelming majority of the industry by commercial negotiation. It was suggested that a considerable time was wasted by the Remaining MSPs' 'unreasonable obstinacy'. In the circumstances, Mr Howe

submitted that the Alliance should have no less than 75% of their costs paid by the Remaining MSPs.

31. Mr Steinthal, while stressing the commercially significant improvement on what was on offer, nonetheless recognised the Remaining MSPs' vulnerability on this side of the case and suggested that each side should bear their own costs on this part of the case.

32. We agree that there was undoubtedly a palpable blend of wasted time and 'red herrings' in this part of the Remaining MSPs' case and that that should count against them. We awarded the Remaining MSPs' 20% of their costs on the Gross Revenue aspect of the Applications and consider a like percentage would reflect their indebtedness to the Alliance on this side of the case. Accordingly, as between the Alliance and the Remaining MSPs there will be no order as to costs.

Assessment

33. As a result of this decision, payments by the Alliance will in due course become due to iTunes and the MNOs. At the recent hearing (see above), there was discussion about the levels of past fees incurred by the parties but none of the figures disclosed included (inter alia) the additional costs of the costs hearing itself. As to these additional costs, when assessed, we wish them to fall within the same scheme as we have provided for in the trial costs. Some of the figures mentioned were estimates.

34. We did in fact receive a detailed costs schedule from iTunes – up to 26 January 2007. A summary bill of costs was also produced by Baker & Mackenzie in the witness statement of Michael Hart, the partner involved. We record that Mr Hart explained how Baker & Mackenzie had had to write off some £181,000 of fees because of a fee-capping arrangement which had been agreed with the MNOs when the firm first became involved in these Applications. He said this:

> *"Indeed, when agreeing a fee cap with the MNOs at the very outset of our involvement in this reference in July 2005, we worked on the basis that the guidance in the Universities UK v CLA[7] reference would be applied when estimating the fee cap and reminded the Respondents on numerous occasions of that guidance in open correspondence. Unfortunately the level of fees incurred suggest that the lessons of the Universities UK v CLA reference have not been learned despite our best efforts."*

Interim payments

35. Interim payments pending a final costs assessment are commonplace in commercial litigation and may be made by virtue of Rule 48(1) of the Rules. When iTunes and the MNOs have cast their bills of costs in more up to date

[7] In which he acted for Universities UK and the same partner in Denton Wilde Sapte who acted for the Alliance, had acted for CLA.

form they will so inform the Alliance. The Alliance will then pay 50% of the 20% due for payment by reason of this costs Decision, within 21 days.

The Copyright Tribunal	**Tribiwnlys Hawlfriant**
The UK Intellectual Property Office	**Swyddfa Eiddo Deallusol y DG**
Newport NP 10 8QQ	**Casnewydd NP10 8QQ**