

## THE VALIDITY OF THE SONGWRITER/MUSIC PUBLISHER AGREEMENT (or Will America Follow England's Lead?)

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Is the typical agreement entered into between the songwriter and the music publisher void for lack of consideration?

If consideration is defined as the return given by one for the act or promise of another, when a songwriter grants to the music publisher<sup>1</sup> his or her song, including the copyright therein, what does the publisher give to the creator in return?

Because of recent developments in this field in the United Kingdom, it may be appropriate for U.S. courts or Congress to now examine the propriety of allowing a publisher to own a copyright created by another for a term measured by the life of the creator plus 50 years,<sup>2</sup> without any consideration, save and except a vague and implied promise to exploit the work and a promise to pay monies to the creator, only if and when the work, in fact, generates income.<sup>3</sup>

### The Issues

1) Is consideration (of any kind) present in the usual writer/publisher agreement?

2) What is the *fairness* of such an arrangement?

3) Under what circumstances, if at all, will a court void such an agreement?

### Consideration

Because U.S. courts have long taken the position that it would be an unwarranted interference with freedom of contract if they were to relieve an adult party from a bad bargain, the same courts had decided long ago that any detriment, no matter how economically inadequate, will support a promise. Thus, the mere payment by the publisher to the writer of one dollar (\$1.00), if actually paid, could suffice as adequate consideration.

Upon reading various versions of the so-called "Standard Popular Songwriters

<sup>1</sup>The name "publisher" itself has become a misnomer because "publishing" can currently be defined as the distributing of music compositions through the medium of "phonograph" records and other collateral means, and the collection worldwide of funds so generated (rather than the manufacturing of printed pages or "sheet music") and the role of the publisher has become virtually that of an agent, soliciting record companies, artists and their representatives to perform the traditional publishing function. This function, as described herein, is not inconsistent with the definition of "publication" as set forth in the Copyright Act (17 U.S.C. 101): "The distribution of copies or phonorecords of a work to the public by sale or

other transfer of ownership, or by rental, lease or lending."

<sup>2</sup>The duration of the term is usually limited only by the operation of the termination of transfer provisions of the Copyright Act at 17 U.S.C. 203. But also compare *Mills Music, Inc. v. Snyder*, 105 S. Ct. 638 (1985) where the U.S. Supreme Court held that *after termination* of the songwriter's grant of copyright to a music publisher, the publisher may continue to share royalty income derived from the sale of previously licensed records.

<sup>3</sup>Colton, *Licensing of Music Publishers*, SONGWRITER, August, 1976.

Agreement" it is clear that in many of these agreements, the publisher even fails to promise to pay the one dollar (\$1.00), perhaps on the proposition (accepted in California and Tennessee, but not New York and Illinois) that any written promise is *rebuttably presumed* to be supported by consideration.<sup>4</sup> Publishers instead base the presence of consideration in the agreement upon (i) the publishers' implied promise to exploit<sup>5</sup> the song and (ii) the publishers' promise to pay monies to the songwriters only if and when each song generates income.

Two further questions are thereby raised:

(1) Is the publisher's implied promise sufficient to qualify as consideration?

(2) Is the publisher's promise to pay if and when the work generates income, in fact an illusory promise which will not support consideration?

#### Implied Promise

There is much American legal authority for the proposition that an implied promise, found by the inferences of the facts set forth in the agreement, is sufficient to qualify as consideration. A good example of that proposition is a case with facts closely analogous to the typical writer/publisher situation, the well known New York case of *Wood v. Lucy, Lady Duff Gordon*.<sup>6</sup> There, the plaintiff, Wood, had a business which was organized for the placement of fashion designs. He entered into a written agreement with defendant Lady Duff Gordon, a creator of fashions. He was to have the exclusive right to place or license her exclusive designs and endorsements on the designs of others, register copyrights to protect them, and, in return, he was to have one-half (1/2) of "all profits and revenues derived from any contracts he might make."<sup>7</sup>

Defendant, after signing a written agreement reciting these facts, subse-

quently placed her endorsements on fabrics, dresses and millinery without plaintiff's knowledge and withheld the profits from him. When the action was brought by plaintiff Wood, defendant Gordon claimed that the contract was worthless because in it plaintiff did not bind himself to do anything.

The court, however, disagreed, saying, although it was true that Wood did not promise in so many words that he would use reasonable efforts to place her endorsements and market her designs, nevertheless such a promise was to be implied. "A promise may be lacking, and yet the whole writing may be 'instinct with an obligation, imperfectly expressed . . . . If that is so there is a contract . . . .'"<sup>8</sup>

The implication is that plaintiff's business organization will be used for the purpose for which it is adapted . . . . Her sole compensation for the grant of an exclusive agency is to be one-half of all the profits resulting from the plaintiff's efforts. Unless he gave his efforts, she could never get anything. Without an implied promise, the transaction cannot have such business efficacy as both parties must have intended . . . .<sup>9</sup> His promise to pay the defendant one-half of the profits and revenues resulting from the exclusive agency and to render accounts monthly was a promise to use reasonable efforts to bring profits and revenues into existence.<sup>10</sup>

The principle of *Wood v. Lucy, Lady Duff Gordon* in finding by inferences drawn from the facts an implied promise so as to sustain a contract has been accepted by many other courts. Of course, the analogy between Wood and a music publisher on one hand and Lady Duff Gordon and a songwriter on the other hand cannot be avoided. Accordingly, it would seem

<sup>4</sup>J. CALAMARI & J. PERILLO, CONTRACTS 227 (2d ed. 1977). Also see California Civil Code 1614.

<sup>5</sup>Used in the music publishing industry to mean "to utilize, make available and get the value or usefulness out of," rather than "to make use illegitimately for one's own advantage or profit."

<sup>6</sup>222 N.Y. 88, 118 N.E. 214 (1917), rearg. denied 222 N.Y. 643, 118 N.E. 1082 (1918).

<sup>7</sup>*Id.* at 90

<sup>8</sup>*Id.* at 91

<sup>9</sup>*Id.*

<sup>10</sup>*Id.* at 92

that the implied promise to exploit the writer's song should qualify as sufficient consideration to sustain a contract.

#### **Illusory Promise**

Is a promise to pay which is conditioned upon some future event which is within the control of one of the parties an illusory promise which would invalidate an agreement?

Modern court decisions, through a process of interpretations has answered this question in the negative.<sup>11</sup>

Contracts containing such promises are called *aleatory*<sup>12</sup> contracts, *i.e.*, promises dependent on an uncertain event or contingency as to both profit and loss.

The publisher's promise to pay a portion of the income from the writer's song to the songwriter, if and when the work generates income, is a conditional promise by which the publisher has protected himself, with the writer's consent, against the possibility that the publisher will be unable to successfully exploit the work. In doing so, the publisher had impliedly promised to use his reasonable efforts to bring about the happening of the condition of his promise. There is no illusion to his promise although it is conditional.

It is well settled in law that a promise is not an insufficient consideration for a return promise, merely because it is conditional upon an uncertain and fortuitous event and it may never have to be performed.<sup>13</sup>

The analysis of these questions show that consideration is present in the usual publisher/songwriter agreement. Although that does not mean that these agreements are therefore necessarily fair, it should put to an end the query of whether these agreements are void because of lack of consideration.

The foregoing, however, does not put an end to the issue of the fairness of the publisher/songwriter agreement and the songwriter's remedy in terminating the

publisher/songwriter contract found to be so unfair as to be contrary to public policy.

#### **Public Policy**

The issue of fairness of a contract, as previously mentioned, is not normally to be investigated by an American court if lawful consideration can be shown to exist.

Although our courts have not generally delved into the issue of fairness of agreements between the music publisher and the songwriter, the courts of the United Kingdom have done so in the landmark case of *A. Schroeder Music Publishing Company Limited v. Macaulay*,<sup>14</sup> and its progeny. In so doing, the British courts have asserted a public policy of *fairness* to the creator which has not yet been articulated by any American court or legislative body.

#### **The Macaulay Case**

In *Macaulay*, the young songwriter sought to repudiate the writer/publisher agreement he had with the defendant music publisher and was successful in doing so in the trial court, in the Court of Appeal, and again in the House of Lords.

Macaulay had signed a contract with the defendant, a worldwide organization of music publishers, by which the composer agreed to assign to the publisher all of the copyrights in his existing work and in future works composed during the subsequent five (5) year period. For that, defendant publishers agreed to pay the plaintiff an advance equivalent of about \$100. Subsequent advances of the same amount were due each time the previous advance was recouped by defendant publishers from the royalties due plaintiff. As is quite common in these agreements, there was *no express obligation* by the defendants *to exploit* or even attempt to exploit any composition of the plaintiff.

Macaulay contended that the agreement was oppressive, and an *unreasonable restraint of trade* (because of his inability to deal with his compositions for a five (5)

<sup>11</sup>CORBIN ON CONTRACTS 663, *et seq.*, CALAMARI, *supra*, at 165.

<sup>12</sup>"Aleatory" is thus defined in the Oxford Dictionary: "Dependent on the throw of a die; hence, de-

pendent on uncertain contingencies." CORBIN, *supra*, at 684.

<sup>13</sup>*Id.*

<sup>14</sup>[1974] 3 All E.R. 616.

year period except with the defendant) and therefore void as being against public policy. At each level, the court agreed. The House of Lords, in affirming the judgment of the trial court which had declared the agreement to be void, made the following observations:

1. The court refused to countenance the implied promise argument of defendant, stating:

It was argued that there must be read into this agreement an obligation on the publisher to act in good faith. I take that to mean that he would be in breach of contract if by reason of some oblique or malicious motive he refrained from publishing work which he would otherwise have published. I very much doubt this but even if it were so it would make little difference. Such a case would seldom occur and then would be difficult to prove.<sup>15</sup>

2. If the publisher is not bound with a "positive undertaking"<sup>16</sup> to exploit a composer's works, it would be an "unreasonable restraint of trade" to tie the composer "for this period of years so that his work will be sterilized and he can earn nothing from his abilities as a composer if the publisher chooses not to publish."<sup>17</sup>

3. Had Macaulay had the right to recover his compositions after a reasonable time of inactivity by the publisher, the agreement would not be against public policy.

4. Because the contract was not negotiated between the parties, but instead the plaintiff was offered a "take it or leave it" agreement by a party with superior bargaining power, the agreement was oppressive and did not satisfy the test of fairness, i.e. whether the restrictions are both reasonably necessary for the protection of the legitimate interests of the publisher and commensurate with the benefits secured to the songwriter.

#### "Fleetwood Mac" Case

A week later, another English court, hearing a case involving Fleetwood Mac's original manager, who also had a pub-

lishing agreement with members of the group (*Clifford Davis Management Ltd. v. WEA Records, Ltd.*)<sup>18</sup> refused to grant the manager an injunction against distribution of Fleetwood Mac records in England that embodied compositions apparently subject to his prior publishing agreement. The Court, referring to "standard" clauses in the agreement, called them "amazing provisions" and "restrictive of trade" and cited the precedent of the *Macaulay* case as the authority for its refusal.

#### Recent Decisions

In two (2) notable recent English decisions, each involving well-known artist/songwriters (i) Gilbert O'Sullivan, and (ii) Elton John and Bernie Taupin, the English courts have confirmed and expanded the reasoning of the House of Lords in *Macaulay*.

#### Gilbert O'Sullivan Case

In *O'Sullivan v. Management Agency*,<sup>19</sup> citing *Macaulay*, the Court of Appeal, affirmed the lower court which had set aside the writer/publisher agreement between songwriter Gilbert O'Sullivan and his publishing company, MAM, on the following grounds:

1. In the event the publisher failed to publish any of the subject compositions during the exclusive five (5) year term thereof, the writer was not entitled to any compensation;

2. The writer had no independent counsel prior to executing the agreement; and

3. Undue influence "was to be presumed because of the special relationship between O'Sullivan and the defendants." The special relationship referred to by court included a personal management relationship and was based upon the findings at the lower court that O'Sullivan "had total confidence in Mills [defendant personal manager and principal in defendant music publishing company] and trusted him implicitly."<sup>20</sup>

#### Elton John Case

In late 1985, after the decision in the *O'Sullivan* case, another case on this point was decided in London. In *Elton John v.*

<sup>15</sup>*Id.*

<sup>16</sup>*Id.*

<sup>17</sup>*Id.*

<sup>18</sup>[1975] 1 All E.R. 237.

<sup>19</sup>[1985] 3 All E.R. 351.

<sup>20</sup>*Id.* at 355.

*Dick James Music*<sup>21</sup> at issue were writer/publisher agreements signed by Elton John and lyricist Bernie Taupin with Dick James Music when they were 20 years old and 17 years old, respectively. Armed with the *Macaulay* decision, plaintiffs sought to set aside the publisher and recording agreements entered into with various entities controlled by Dick James, on the grounds of undue influence and demanded return of all copyrights and master recordings.

The Court refused to set aside the agreements citing the long period of time between plaintiffs' questioning the validity of the agreements and their bringing of the action.

However, the Court did rule on behalf of John and Taupin on a most controversial provision present in many international publishing agreements: *i.e.* where the publisher enters into subpublishing agreements with local wholly-owned subsidiaries in various foreign territories, which subsidiaries, in some instances, are nothing more than a paper creation, having no offices, staff or physical presence except a file cabinet. Typically, under such an agreement, each such "sub-publisher" may retain as much as fifty (50%) percent of all revenue generated in its own territory, remitting only the remainder to the parent music publishing company. Accordingly, when it is time to account to the writers, the parent music publishing accounts only for the fraction "received" from its subsidiary in the foreign territory, which of course, is a considerably less revenue than would be received were these genuine sub-publishing agreements, negotiated at arms-length with an independent third party sub-publisher in each appreciable territory.<sup>22</sup>

Elton John and Bernie Taupin claimed that (i) Dick James Music Group ("DJM") had breached its *fiduciary duty* and (ii) DJM and other defendants had also

breached an *implied warranty* not to "unfairly artificially or unjustifiably reduce"<sup>23</sup> the receipts upon which royalties were payable. Although the Court found that the USA subsidiary was, in fact, a real operating entity which had a staff, justifying its retention of a thirty five (35%) percent subpublisher's fee, the Court did not allow the retention at a subpublisher's percentage by the other subsidiary subpublishers (operated solely for an administration fee by a local publisher in each territory). With respect to the other subsidiaries, the Court ruled that the proper measure of compensation to be retained by the subsidiaries was the amount actually paid to the local publisher/administrator in each territory, stating that ". . . in addition to being under a duty to exploit the assigned copyrights only in a way to honestly considered was for the joint benefit of the parties, DJM was under a duty not to make for itself any profit not brought into account in computing the writers' royalties."<sup>24</sup> In so doing, the Court exhibited a good understanding of the commercial realities of the music publishing industry.

Taupin and John had also asserted alleged undue influence as the basis on which the court should rescind the original publishing agreement. The Court refused to grant rescission, although in discussing its reasons for its refusal, it raised other important issues with respect to the writer/publisher agreement:

The Court found that based on the disparity in their (a) ages and (b) levels of business acumen and experience (plaintiffs were minors when the agreement was executed although same was approved by their parents) and based upon (i) plaintiffs' reliance on Dick James that the contractual terms would be fair to them and (ii) the fact that no negotiation had taken place, Mr. James indeed had *had a dominating influence over plaintiffs*.<sup>25</sup>

<sup>21</sup>[1982 J. No. 15026, High Court of Justice, Chancery Division].

<sup>22</sup>The realities of the market dictate that when the original publisher negotiates subpublishing agreements *at arms-length* with its foreign subpublishers, the actual retention by the applicable subpublisher may be as little as ten percent (10%) to fifteen percent (15%).

<sup>23</sup>*Id.* at 56.

<sup>24</sup>*Id.* at 62.

<sup>25</sup>The Court did go to pains to point out that notwithstanding they did not consciously seek to obtain an unfair advantage: "[o]ne can obtain an unfair advantage by the exercise of dominating influence without intending to act unfairly" *Id.* at 100.

However, the Court stated that although such an undue influence coupled with "a manifestly disadvantageous transaction resulting from the exercise of that influence"<sup>26</sup> would be a ground to rescind the agreement, it held that the subject transaction *had not so operated*, taking all circumstances (e.g. the great monetary success enjoyed by the plaintiffs thereunder) into account. It is not clear, however, that other courts will be so forgiving of publishers in similar cases that arise in the future. In any event, although the Court refused to declare the agreement void as was done in *Macaulay*, the Court did comment *negatively* about the agreement, pointing out as following "unfair" aspects:

There was no provision for an increased royalty rate in the later years of the agreement, notwithstanding the potential level of success the writers' compositions might enjoy; and

2. As in *Macaulay*, the copyrights were assigned for their full terms with no provision for a reversion based on the pub-

lisher's failure to exploit individual compositions (or for failure to exploit any compositions at all).

#### Conclusion

American law has its deep roots in English law, but has often been pointed out, these roots were planted in the 17th and 18th centuries and since then, the legal vines have grown in different directions. One might say that some of the American vines have failed to grow at all. American courts have, in the past, been more willing than their English counterparts to *imply* a promise to use reasonable or good faith efforts, and so whether American courts will adopt the logic of *Schroeder v. Macaulay* and its progeny, and create a revolution in the U.S. music publishing industry which is already underway in that industry in England, remains to be seen. In fairness, however, that logic at least warrants further self-examination by responsible members of the music publishing industry.

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<sup>26</sup>*Id.* at 93-94.

<sup>16</sup> 134 CONG. REC. H3084.

<sup>17</sup> WIPO is an arm of the United Nations and the permanent secretariat for the member states to the Berne Convention.

<sup>18</sup> S. REP. NO. 100-352, 100 CONG., 2D SESS. (1988) at 10. This same letter, dated June 12, 1987, was also submitted to the House. See H.R. REP. NO. 100-609, 100TH CONG., 2D SESS. (1988), n.84. But cf. the comments of Paris-based intellectual property lawyer, Henri Choukroun who took issue with Bogsch's interpretation: "Very few people would agree that the United States was in compliance with Article 6bis....It is most surprising that Dr. Bogsch, the guardian of Berne, allowed this to happen." Statement at Artists Rights Foundation's International Artists Rights Symposium, Apr. 27, 1994.

<sup>19</sup> H.R. REP. NO. 100-609 at 38.

<sup>20</sup> Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853, 100th Cong., 2d Sess.

<sup>21</sup> Visual Artists Rights Act of 1990, Pub. L. No. 101-650, 104 Stat. 5089, §601.

<sup>22</sup> Under the French Copyright Act, art. 14 and the Italian Copyright Law, art. 44, authors of preexisting works are deemed to be co-authors of motion pictures for economic and moral rights purposes. LIBRARY OF CONGRESS, COPYRIGHT OFFICE, TECHNOLOGICAL ALTERATIONS TO MOTION PICTURES AND OTHER AUDIOVISUAL WORKS at n.324,325 (Mar. 1989).

<sup>23</sup> These include directors Steven Spielberg and George Lucas, as well as actors Angelica Huston, Sally Field, and Tom Cruise.

<sup>24</sup> E.g., Don Henley, Danny Elfman.

<sup>25</sup> Elrick, *supra* note 9 at 10.

<sup>26</sup> Shostakovich v. Twentieth Century Fox Film Corp., 80 N.Y.S. 2d 575, 77 U.S.P.Q. 647 (1948).

<sup>27</sup> Le Chant du Monde v. Soc. Fox Europe, 1 Gax. Pal. 191 (1954), D.A. 16, 80 (Cour d'Appel Paris).

<sup>28</sup> King v. Allied Vision Ltd., 807 F. Supp. 300 (2nd Cir.

1992), *aff'd in part* [on "possessory" credit], and *rev'd in part* [on "based on" credit], 976 F. 2d 824 (2nd Cir. 1992).

<sup>29</sup> King, 807 F. Supp. at 304.

<sup>30</sup> Gilliam v. American Broadcasting Co., 538 F. 2d 14, 24 (2d Cir. 1976).

<sup>31</sup> Wagner, *France: High Court Bars Showing of Colorized Asphalt Jungle*, 5 WORLD INTELLECTUAL PROPERTY REPORT 171 (1991).

<sup>32</sup> Ste. "La Cinq" c. Angelica Huston et autres, Arrêt 861 P. Cass. civ., le ch., *hearing* May 28, 1991.

<sup>33</sup> "The Cour de Cassation has thus opened a Pandora's box susceptible of generating thousands of cases, an unrestrained blackmail between American producers and persons considered co-authors in films in French law....The Cour de Cassation now considers [that] French law is superior to foreign laws and that it can thus expropriate from foreigners in France rights acquired abroad." [Wagner, *supra* note 29 at 172].

<sup>34</sup> Turner Entertainment Co. c. Angelica Huston et autres, Court of Appeal of Versailles, Decision No. 68, ROLL NO. 615/92, Dec. 19, 1994.

<sup>35</sup> Sur La Propriété Littéraire Artistique, Loi du 11 mars 1957, No. 296 [France 1957].

<sup>36</sup> See H.R. REP. 5110, 103d Cong., 2d Sess. (1994) ("Uruguay Round Agreements Act"). At the announcement of the 1991 decision of the Court of Cassation (and prior to the GATT Agreement establishing the World Trade Organization mechanism), French copyright lawyer André Bertrand inquired, "Must the Ted Turner Company now go before the International Court of Justice at the Hague, or the European Court of Human Rights at Strasbourg, to obtain justice in its cause?" (quoted in Wagner, *supra* note 29 at 172).

<sup>37</sup> Referred to in §101(d)(15) of the Uruguay Round Agreements Act. See *supra* note 2.

<sup>38</sup> See *supra* note 1.

<sup>39</sup> Carter v. Hemsley-Spear, Inc., 852 F. Supp. 228, 861

F. Supp. 303 (S.D.N.Y., 1994).

<sup>40</sup> A "work of visual art" is defined to include paintings, drawings, prints, and sculptures, existing in a single copy or in limited edition. 17 U.S.C. §101. Works made for hire, works of applied art, and works not otherwise subject to copyright protection such as totally utilitarian objects, are excluded from this definition. Carter, 861 F. Supp. at 313. This is presumably because "[m]oral rights afford protection for the author's personal, noneconomic interests...." 861 F. Supp. at 313, citing Jane C. Ginsberg, *Copyright in the 101st Congress: Commentary on the Visual Artists Rights Act and the Architectural Works Copyright Protection Act of 1990*, 14 COLUM.-VLA J.L. & ARTS 477, 478, and corporations, as nonnatural persons, although capable under U.S. copyright law of being able to own economic rights, cannot, by definition, hold these moral rights.

<sup>41</sup> Carter, 861 F. Supp. at 312.

<sup>42</sup> 17 U.S.C. §106A(a)(3) provides that the author of a work of visual art shall have the right:

- (A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and
- (B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.

<sup>43</sup> Carter, 852 F. Supp. at 230.

<sup>44</sup> *Id.* at 232.

<sup>45</sup> Robert Hadl, statement at Artists Rights Foundation's International Artists Rights Symposium, Apr. 27, 1994. In addition to European collections from tape and hardware levies, other separate, and very significant collections, have their genesis in cable retransmission levies and rental rights.