IN THE COURT OF APPEAL OF NEW ZEALAND

CA600/2009
[2009] NZCA 457

BETWEEN	VIACOM GLOBAL (NETHERLANDS) B.V. Appellant
AND	SCENE 1 ENTERTAINMENT LIMITED (IN RECEIVERSHIP) First Respondent
AND	ANDREW JOHN MCKAY AND JOHN JOSEPH GREGTEN Second Respondents

Hearing: 1 October 2009

Court: Robertson, Chisholm and Priestley JJ

Counsel: K Glover and S McLaughlin for Appellant
M Bos and K Mullarkey for Respondents
B Upton for Toll Logistics (NZ) Limited

Judgment: 1 October 2009

Reasons: 22 October 2009

JUDGMENT OF THE COURT

A The application for stay dismissed.

B The appellant must pay the respondents costs as for an application for leave to appeal on a Band B basis and usual disbursements.

REASONS OF THE COURT

(Given by Priestley J)

[1] On 1 October 2009 this Court dismissed the appellant's application for a stay pending appeal, of both the High Court proceeding and execution of Andrews J's 18 September 2009 judgment.

[2] The appellant's notice of appeal was filed promptly. An urgent hearing date for the stay application was allocated.

[3] These are the reasons for our judgment.

Background

[4] The first respondent (Scene 1) was placed in receivership on 22 June 2009, the receivers being the second respondents.

[5] Some three weeks later, Venning J granted an interim injunction restraining the respondents from reproducing, distributing, or displaying any of its stock.

[6] The appellant has, throughout this proceeding, relied on a licence agreement between it and Scene 1 concluded in January 2008. The appellant is a subsidiary of Paramount Pictures Corporation Group. It distributes "home entertainment products" on a world-wide basis comprising in the main DVD recordings of films. In terms of the licence agreement Scene 1 was the appellant's exclusive New Zealand distributor for DVDs. This relationship lasted for approximately 17 months.

[7] During that period Scene 1 acquired DVDs under the licence agreement from the appellant. For some reason approximately 500,000 DVDs remain undistributed.

[8] Scene 1 being placed in receivership was a ground for terminating the licensing agreement. Scene 1 continued to sell and supply stock. However, the

volumes involved concerned both the appellant and Paramount. Their perception was that the second respondents were effectively dumping stock on the market. Information given to the appellant by its retailers revealed that a large retail chain, The Warehouse, was selling Paramount titles at prices under $10.00. This was considerably below the normal retail price for Paramount titles DVDs which were initially sold for around $34.99, and were then re-priced at lower figures as time went by.

[9] Various affidavits filed by Mr Sheikh Zubair Hassan in support of the appellant's applications opined that the sale of Paramount titles at an undervalue would irreparably damage the appellant's product and brand in the New Zealand market. A "fire sale" approach, and in particular the apparent arrangements between the second respondents and The Warehouse, were causing difficulties between the appellant and its various New Zealand retailers. Thus the injunction proceedings were launched to protect the appellant's economic interests and brand.

[10] Significantly the January 2008 licence agreement was not registered in New Zealand under the Personal Property Securities Act 1999. In February 2008 Scene 1 entered into an all obligations General Security Deed with the ASB Bank. That deed was promptly registered on 4 March 2008. Under its terms Scene 1 granted a charge to the bank over all its personal property as that expression is defined in s 16. It was ASB Bank which appointed the second respondents as Scene 1's receivers. Counsel informed us that Scene 1 owes approximately $6.8 million to ASB Bank. Proved creditors are owed in the region of $13.9 million.

[11] The DVDs, which lie at the heart of the parties' dispute, are being warehoused by Toll Logistics (NZ) Limited, which was an intervening party and represented by counsel, both before Andrews J and us.

[12] There is no dispute that the DVDs constituted secured property which the second respondents are entitled to realise in partial satisfaction of ASB Bank's secured loan. The argument advanced by the appellant in opposition to the second respondents' clear right to realise the secured property by sale on such terms as they thought fit, relied on copyright principles.

[13] The appellant's statement of claim pleaded that it was the exclusive licensee in New Zealand of all relevant copyright owned by Paramount and linked entities. As exclusive licensee the appellant was both authorised and required to enforce the Paramount copyright and was also obliged actively to protect and maximise the copyright owner's interests in New Zealand. The relevant cause of action, advanced for interim injunction purposes, was that despite the termination of the licence agreement in June 2009, the second respondents, as receivers, were obliged to perform and comply with the terms of that agreement so far as the appellant's copyright works were concerned.

[14] Clause 8 of the unregistered licence agreement in particular specified that all intellectual property rights, DVD, and other recordings, remain the appellant's sole and exclusive property.

[15] A second cause of action pleaded conversion of the same copyright work. It is unnecessary to detail the other pleaded causes of action.

The High Court Hearing

[16] The hearing before Andrews J focused on whether the interim injunction, which was made without notice but on a *Pickwick* basis, should remain in force. The respective priorities of ASB Bank and the appellant were obvious given the registration of the bank's security under the Personal Property Securities Act. The Judge thus had to focus on whether the DVD sales which the second respondents wanted to make, would be in breach of the appellant's copyright.

[17] The appellant's position, based on ss 29, 31, and 36 of the Copyright Act 1994, was that any sales of Paramount titles would infringe its copyright. The respondents' position was that all the secured stock had been legitimately imported into New Zealand; that sales would not constitute infringing copies as that expression is understood under s 12 of the Copyright Act; and that although the sales by Scene 1 might be in breach of the licence agreement, the receivers were entitled to sell the stock once ASB's priority interest had attached to it.

[18] Andrews J concluded that, on the first inquiry for interim injunctive relief, there was no serious question to be tried. She did not consider sale of the stock by the receivers would result in the DVDs being infringing copy. She also considered that ASB Bank's priority on registration resulted in its security being enforceable against the stock with priority against the appellant's retention of title.

[19] The Judge called for further submissions on whether the appellant's copyright in the recorded works, as distinct from its title to the stock (the recordings), would bring about a different result. The Judge's conclusion, reached after a consideration of s 9(1)(d), which has origins in a 1998 amendment to the Copyright Act, was that the distinction made no difference. The appellant's copyright and the works independent of the licence agreement did not lead to a different conclusion.

[20] The Judge turned her mind to the stay which the appellant sought in the High Court. Her Honour rightly regarded an oral application as premature since no appeal had been filed. Nonetheless, both counsel having made submissions on a stay, the Judge examined the issue and concluded that her "tentative view" was a stay was not appropriate. She noted the receiver's position (which was repeated in this Court) that the proceeds of sale would be held undisbursed pending an appeal.

[21] Thus, as a result, the Judge discharged the early interim injunction which had restrained the receivers from selling the stock.

Discussion

[22] Mr Glover, who was not counsel before Andrews J, submitted that the Judge had unnecessarily determined the substantive copyright issues of the proceeding in the context of an interim injunction hearing. In particular she had erred in finding there were no copyright infringements under ss 31 and 36 of the Copyright Act and in a further finding that the second respondents were not bound by the post-termination provisions of the licence agreement.

[23] Counsel addressed the various factors, itemised by Hammond J in *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd* (1999) 13 PRNZ 48 (HC) at [9] which are frequently relevant to the discretion to grant a stay. These were:

> 1. If no stay is granted will the applicants' right of appeal be rendered nugatory?
> 2. The *bona fides* of the applicants as to the prosecution of the appeal.
> 3. Will the successful party be injuriously affected by the stay?
> 4. The effect on third parties.
> 5. The novelty and importance of the question involved.
> 6. The public interest in the proceedings.
> 7. The overall balance of convenience.

[24] He submitted that were the appeal to succeed then the stable doors would be shut long after the horse had bolted. The right of appeal would be nugatory. In his submission if all the DVDs had been sold by the time the appeal is determined the damage the appellant feared would have been inflicted and little would have been achieved from appealing.

[25] Mr Glover accepted that the second respondents would be "inconvenienced" by a stay. However, this was not the same as being injuriously affected. When asked why the appellant's position was not sufficiently protected by the respondents' undertaking to hold the sale proceeds of the DVDs undisbursed until the outcome of the appeal was known, Mr Glover submitted that selling the stock at an undervalue would diminish the appellant's entitlement to royalties. It would further diminish the prestige of the Paramount brand in New Zealand. That result would also have an adverse effect on third parties, namely DVD retailers throughout the country, who stocked and sold the Paramount label.

[26] Counsel informed us that the appellant had recently appointed a replacement exclusive licensee for Paramount products.

[27] Counsel referred to evidence that selling DVDs at heavily discounted prices would cause “a huge problem” to the business of a specific retailer.

[28] Mr Glover submitted that the legal issues thrown up by the appeal, namely the meaning of s 31 of the Copyright Act and the inter-relationship between that section and s 35 of the Personal Property Securities Act were novel issues and that it was in the public interest for them to be determined.

[29] On the balance of convenience, the loss to the appellant, were it to succeed on appeal, submitted counsel, would be considerable when compared to any loss to the respondents should they be prevented from selling the DVDs. The damage to the appellant to its intellectual property and the damage to third party retailers would not be saved by the respondents’ undertaking. Thus the balance of convenience, said Mr Glover, favoured the appellant because, were there to be any loss to the respondents, they had protection under the conventional undertaking as to damages.

[30] It is unnecessary for us to detail the succinct submissions in opposition to the stay made by Mr Bos. We record that Mr Upton, for Toll, opposed the stay. The DVDs were occupying considerable warehouse space. The storage charges being paid by the receiver were considerably less than what Toll could achieve once the stock had been moved out of its warehouse.

Decision

[31] It is apparent from the conventional criteria listed in *Dymock* (see [23]) a careful balancing exercise is needed. As this Court said in *New Zealand Insulators Ltd v ABB and Ors* CA215/506 4 December 2006 at [21] (relying on *Minnesota Minining & Manufacturing Co v Johnson & Johnson Ltd* [1976] RPC 671 (CA)) when there is a genuinely arguable case, the Court should not embark on a premature determination of the appeal. And at [14] this Court observed that undertakings may be appropriate to maintain a sensible and just balance pending ultimate determination.

[32] The appellant's substantive proceedings are designed to inhibit or defeat what would otherwise be ASB Bank's unquestionable right for its receivers to sell Scene 1 stock, over which it has priority through its perfected security.

[33] Mr Glover is right to describe the appellant's cause of action as being novel. Without in anyway pre-empting the outcome of the appeal or submissions which may be advanced in the future, we merely observe that its novelty was such as to lead Andrews J to the conclusion that there was no serious issue to be tried.

[34] Assuming, however, that the sale of 500,000 DVDs through a popular outlet at "fire sale" prices may cause some damage to the appellant's copyright and to other New Zealand DVD retailers, those factors must be balanced against the interests of Scene 1's creditors and the desirability of a prompt realisation of the stock.

[35] Both the relevant terms of the licence agreement and counsel's submissions suggest that, as time passes by, the market value of a DVD diminishes. The DVD stock in question had, on the appellant's own evidence, been stock-piled for a period of time. The evidence also suggests that buyer demand for product of this type in the pre-Christmas 2009 period would be higher than at a later stage. The respondents have provided an undertaking. Thus sale proceeds will remain undisbursed until the appeal is determined.

[36] If a stay were granted, realisation for the benefit of creditors would be postponed and the value of the product, if not sold until 2010 after an appeal hearing, would, on the evidence, be lower than it is now, even in respect of recent DVD titles. Any competitive disadvantage which other retailers might be experiencing would be short term and limited to specific titles rather than across the whole range of retail stock.

[37] The obligations imposed on Scene 1's receivers to realise the secured stock in a timely fashion for the benefit of creditors tilted the balance of convenience in their favour.

[38] As Andrews J correctly observed, the alleged claims of the appellant were in essence claims which sounded in damages. From the standpoint of the receivers, she observed, the "next few months represent the best opportunity to obtain the best price reasonably obtainable for the stock". Delay in sales would result in lower realisation figures, and undoubtedly an increase in Toll's warehousing charges.

[39] Given the respondents' undertaking, the conventional weighing of factors necessary in a stay application brings the balance decisively against granting a stay.

Result

[40] It is for these reasons that the application was dismissed.

Costs

[41] The appellant must pay the respondents' costs on a band A basis and the usual disbursements.

Solicitors:
Crown Law Office, Wellington
Morrison Kent, Auckland, for Appellant
Hudson Gavin Martin, Auckland for Respondents
Simpson Grierson, Auckland, for Toll Logistics