IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY

CIV 2009-404-004305

UNDER	the Copyright Act 1994 and the Receiverships Act 1993
IN THE MATTER OF	Scene 1 Entertainment Ltd (In Receivership)
BETWEEN	VIACOM GLOBAL (NETHERLANDS) B.V. Plaintiff
AND	SCENE 1 ENTERTAINMENT LIMITED (IN RECEIVERSHIP) First Defendant
AND	ANDREW JOHN MCKAY AND JOHN JOSEPH CREGTEN Second Defendants

Hearing: 5 August, 10 September 2009

Appearances: C Elliott, N Farrands and S O'Loughlin (10 September only) for Plaintiffs
M Bos and K Mullarkey for Defendants
B Upton for Toll Logistics (NZ) Ltd (affected party) (5 August only)

Judgment: 18 August 2009

JUDGMENT OF ANDREWS J

This judgment is delivered by me on 18 September 2009 at 4:30pm
pursuant to r 11.5 of the High Court Rules.

....
Registrar / Deputy Registrar

Solicitors:
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Introduction

[1] On 16 July 2009, Venning J made interim injunction orders in favour of the plaintiff, Viacom Global (Netherlands) B.V ("Viacom"), against the first defendant, Scene 1 Entertainment Limited (In Receivership) ("Scene 1") and the second defendants, the Receivers of Scene 1 ("the Receivers"). The application for interim orders had been argued on a *Pickwick* basis, the plaintiff having filed a without notice application, affidavit in support, undertaking as to damages, and memorandum of counsel. It was contended in the memorandum of counsel that there was "real need for urgency". A statement of claim was not filed until 17 July 2009.

[2] In addition to the usual undertaking as to damages, Viacom was required to give a bond for NZD500,000. Although there is nothing on the court file to confirm that a bond has been given, I was advised at the hearing on 5 August 2009 that a bond had been lodged with solicitors, and documentation was in the process of being completed.

[3] Viacom had sought orders in the following terms:

> (a) That pending further order of this Court, an injunction restraining each defendant by itself or by its officers, servants, agents, marketers or distributors or otherwise howsoever from reproducing, distributing, displaying or making available any of the stock referred to in schedule A or schedule B (the "Stock") until the hearing of this matter or an earlier order of the Court.
>
> (b) That all or any Stock held by the defendants, shall be delivered up by the defendants, whether personally or by their agents or representatives, and given into the custody of independent officers of the Court pending the hearing of this proceeding or earlier order of the Court.

[4] His Honour made an order in terms of (a), above. He recorded at [4] of his Minute:

> Apart from identifying the issues raised by the plaintiff as discussed between counsel in correspondence, namely the claims based on the Licence Agreement, copyright and intellectual property claims it is not possible to come to any firm view as to the merits of the plaintiff's claim in the time available. I accept, however, that the matters identified in Mr Elliott's

> memorandum identify legal questions that will require resolution by the Court on their merits. The plaintiff is able to pay damages. The balance of convenience favours the grant of interim relief. I am prepared to grant the injunction sought, at least as to the restraint on the defendants dealing with the stock until the matter can be heard on its merits.

[5] The application was set down for hearing on 5 August 2009. Prior to the hearing, the plaintiff filed a statement of claim, and two further affidavits in support of the application. The defendants have filed a notice of opposition and supporting affidavit. Counsel for the plaintiff and defendants filed written submissions in advance of the hearing.

[6] The issue before me at the hearing on 5 August was, essentially, whether the interim injunction orders should be continued.

Background

[7] Viacom is a subsidiary of the Paramount Pictures Corporation Group ("Paramount"), which specialises in home entertainment products such as DVD recordings of films in standard and high definition formats ("the recordings"). Viacom is the licensor for substantially all of Paramount's business outside of the United States of America. As such, Viacom is responsible for sales, marketing, and distribution of DVDs of films for various production companies such as Paramount, DreamWorks, Nickelodeon, and MTV.

[8] On 14 January 2008, Viacom (as licensor) and Scene 1 (as licensee) entered into an exclusive Licence Agreement ("the Licence Agreement") to market Viacom's products in New Zealand. The products were grouped into various categories according to (among other things) how recently the recording had been released into the market. Some particular titles had their own categories. Scene 1 was to pay a licence fee comprising an upfront "minimum guarantee" for the various product title categories, and a "per unit royalty" for each recording sold. The minimum guarantee was to be credited against royalties payable.

[9] Under clause 3 of the General Terms and Conditions annexed to the Licence Agreement, Scene 1 was to use its best endeavours so as to derive the maximum

amount of net revenues and net proceeds from the distribution and marketing of the recordings. To that end, clause 3 included a number of representations, warranties, and undertakings by Scene 1 including, at 3(m), that it would not stockpile recordings and, if Viacom reasonably concluded that Scene 1 was engaged in stockpiling activities, Viacom at its sole discretion could refuse to supply further recordings.

[10] Clause 8 of the General Terms and Conditions is headed "Ownership of Intellectual Property Rights, DVD Recordings, High Definition Recordings and Other Materials". As relevant to this proceeding it provides:

> (a) Title to any and all intellectual property and other rights in all of the Product Titles, DVD Recordings, High Definition Recordings and related marketing materials and any other materials supplied by [Viacom] ... to [Scene 1] shall remain, for each and every purpose whatsoever, the sole and exclusive property of [Viacom].
>
> ...
>
> (c) The [recordings] … shall at all times remain the property of [Viacom] and [Scene 1] shall have no rights to the [recordings] other than as licensee, ... Nothing in this sub-clause (c) shall prevent [Scene 1] from engaging in rental or sale activities expressly covered by the Agreement.
>
> (d) [Viacom] shall have the right, at any time during the Term and thereafter, to access or to request that [Scene 1] return to [Viacom] all materials delivered pursuant to the Agreement ...
>
> (e) [Viacom] shall have the right, at any time during the Term and thereafter and at its sole discretion, to request the return to [Viacom] any or all [recordings] delivered pursuant to the Agreement.
>
> ...

[11] The Licence Agreement was not registered in New Zealand under the Personal Property Securities Act 1999 ("the PPSA").

[12] Scene 1 was required under the Licence Agreement to establish an irrevocable standby Letter of Credit for US$4,755,484. Scene 1 banked with the ASB Bank. ASB provided the Letter of Credit and other advances. ASB and Scene 1 entered into an "all obligations" General Security Deed on 27 February 2008. The

General Security Deed was registered under the PPSA on 4 March 2008. Under clause 3.1 of the General Security Deed, Scene 1 granted to the bank:

> (a) a security interest in all its right, title and interest (present and future, legal and equitable) in, to, under or derived from all [Scene 1's] present and after-acquired personal property; and
>
> (b) a charge over the Other Property.

[13] "Other Property" is defined in the General Security Deed as "all of [Scene 1's] real property and other ... assets that are not personal property". "Personal Property" is defined in s 16 of the PPSA to include "chattel paper, documents of title, goods, intangibles, investment securities, money, and negotiable instruments".

[14] Scene 1 used the Letter of Credit as its primary means of payment to Viacom. By 31 May 2009 Viacom had drawn down USD4,635,023 under the Letter of Credit.

[15] On 22 June 2009, ASB appointed Receivers of Scene 1, under the General Security Deed. The second defendants, Mr McKay and Mr Cregten, were appointed Receivers.

[16] Shortly after the receivership, Viacom drew down the balance remaining on the Letter of Credit (USD583,963, equivalent to NZD906,000). I was informed that as at the date of hearing, the balance owed to Viacom is USD500,000.

[17] On 24 June 2009, Viacom terminated the Licence Agreement on the grounds that Scene 1 had failed to replenish the Letter of Credit, failed to pay for recordings, and had been placed in receivership. Viacom made demand for payment of outstanding charges, and for Scene 1 to provide an inventory and return all recordings.

[18] Scene 1's stock of recordings ("the stock") is warehoused by Toll Logistics (NZ) Limited ("Toll"). Toll stores the stock, and also "picks, packs and despatches". Toll is owed money for storage and, while the injunction is in place preventing any sale of the stock, is losing income it would otherwise obtain from picking, packing, and despatching. I was advised at the hearing on 5 August 2009 that approximately

580,000 "units" (that is, recordings) are held by Toll. I record at this point that Mr Upton was given leave to appear at the hearing and make submissions on behalf of Toll. Toll did not seek to be made a party to the proceeding.

[19] Before it went into receivership, Scene 1 had entered into an agreement to sell about half of its stock to The Warehouse. Viacom believes that this sale was to be at reduced prices.

[20] The Receivers claim that ASB is entitled to sell all of the stock, pursuant to the security given under the General Security Deed. The Receivers wish to sell the stock, and would be happy to complete the agreement with The Warehouse. Viacom maintains that it has a prior right to the stock, pursuant to its ownership of copyright in the recordings.

Viacom's statement of claim

[21] The statement of claim filed by Viacom on 17 July 2009 sets out four causes of action. After referring to the Licence Agreement and the receivership of Scene 1, it is alleged at paragraph 9 that Viacom is the exclusive licensee or is otherwise beneficially entitled to the copyright, and/or to enforce the copyright, in the recordings. It is then alleged that the Receivers of Scene 1 are bound by and obliged to perform and comply with the terms of the Licence Agreement. In the event that the Receivers are not bound by the terms of the Licence Agreement, it is alleged they have no right, licence or authority to deal in any way in the stock, or the copyright works.

[22] The first cause of action is headed "Breach of Copyright" and alleges that the first and second defendants have engaged in the offer for sale or sale of stock to The Warehouse (35,000 units), and other sundry orders of 7,000 units. It is alleged that this is an infringement of Viacom's copyright. The relief claimed under the first cause of action is:

> An injunction against [Scene 1 and the Receivers], together with their respective officers, servants, agents, marketers or distributors or otherwise howsoever from possessing, distributing, displaying, offering for sale, selling or otherwise dealing in the Stock or the Copyright Works.

Damages or an account of profits, and additional damages resulting from "the flagrancy of the infringement and any commercial benefits accruing to the defendants by reason of infringement" are also sought.

[23] The second cause of action is headed "Conversion". In this cause of action it is alleged that upon termination of the Licence Agreement Scene 1 was obliged to cease holding itself out as a licensee of Viacom and, at Viacom's discretion, to return the stock in its possession to Viacom or destroy the stock and/or cease exploiting the copyright works. It is then alleged that since Scene 1 was put into receivership Scene 1 and the Receivers have sold, marketed or promoted the stock and/or exploited the copyright works, in breach of the Licence Agreement and Viacom's rights in or entitlement to the stock and copyright works. The prayer for relief is in the same terms as under the first cause of action.

[24] The third cause of action is headed "Equitable Remedies/Enforcement of Contract". Under this is it alleged that in selling the stock the Receivers are taking a benefit available to Scene 1 under the Licence Agreement and are, therefore, obliged to act in accordance with the Licence Agreement. Again, relief is sought in the same terms as under the first cause of action.

[25] The fourth cause of action is headed "Equitable Estoppel". Under this cause of action it is alleged that in selling, marketing or promoting the stock the Receivers have adopted the Licence Agreement and are therefore estopped from denying that they are bound by the Licence Agreement. Again, the prayer for relief is in the same terms as under the first cause of action.

Submissions for Viacom

[26] Mr Elliott's submissions on behalf of Viacom traversed the alleged breach of copyright, the equitable claims made by Viacom, and the relationship between the Copyright Act 1994 and the Receiverships Act 1993.

Breach of copyright

[27] Mr Elliott's submissions referred to a number of provisions of the Copyright Act. First, he referred to s 29, which provides:

> **29 Infringement of copyright**
>
> (1) Copyright in a work is infringed by a person who, other than pursuant to a copyright licence, does any restricted act.

As relevant to this proceeding, a "restricted act" is defined by ss 16 and 31 of the Copyright Act. Pursuant to s 16(1) the owner of copyright in a work has the exclusive right, in New Zealand, to issue copies of the work to the public. Section 31 provides that the issue of copies of a work to the public is a restricted act in relation to every description of copyright work.

[28] Section 9 of the Copyright Act sets out the meaning of "issue to the public": it means "the act of putting into circulation copies not previously put into circulation". Section 9(1)(d) provides that it does not include distribution of imported copies that are not infringing copies within the meaning of s 12, subsequent to their importation into New Zealand.

[29] Mr Elliott then referred to s 36 of the Copyright Act which provides, as relevant to this proceeding:

> **36. Possessing or dealing with infringing copy**
>
> Copyright in a work is infringed by a person who, in New Zealand, other than pursuant to a copyright licence –
>
> ...
>
> (b) In the course of a business or otherwise, sells or lets for hire; or
>
> (c) In the course of a business, offers or exposes for sale or hire; or
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> ...
>
> an object that is, and that the person knows or has reason to believe is, an infringing copy of the work.

[30] Finally, Mr Elliott referred to s 12 of the Copyright Act, which sets out the meaning of the term "infringing copy". Pursuant to s 12(2):

> An object is an infringing copy if its making constitutes an infringement of the copyright in the work in question.

[31] Further, s 12(3) provides:

> An object that a person imports, or proposes to import, into New Zealand is an infringing copy if –
>
> ...
>
> (b) The importer would have infringed the copyright in the work in question in New Zealand had the importer made the object in New Zealand, unless the object is one to which subsection 5(A) or subsection 6 applies.

[32] Section 12(5A) provides:

> An object that a person imports, or proposes to import, into New Zealand is not an infringing copy under subsection (3)(b) if –
>
> (a) it was made by or with the consent of the owner of the copyright, or other equivalent intellectual property right, in the work in question in the country in which the object was made; or
>
> ...

[33] Having referred to those sections in the Copyright Act, Mr Elliott submitted that, having disclaimed reliance on the Licence Agreement, the Receivers do not have a copyright licence, so any dealing with the stock would amount to a breach of copyright.

[34] Mr Elliott accepted that all of the stock was imported pursuant to the Licence Agreement, so was lawfully imported into New Zealand. He also accepted that the process of importation was completed once the stock was in Scene 1's hands.[1] However, Mr Elliott submitted that once the Licence Agreement was terminated, and before the stock is sold to retailers, it is still under the control of Viacom as the owner of the copyright (albeit, in fact, the exclusive agent of the owner of the copyright). He submitted that the stock is "under the control of Viacom" because it was not sold to Scene 1, rather it had been supplied to Scene 1 as licensee for the purposes of sale. The only sale contemplated is the sale to a retailer. He submitted

[1] See *R v Hancox* [1989] 3 NZLR 60 (CA) at 62.

that this is pursuant to the normal rights of a copyright owner to exploit the copyright.

[35] Mr Elliott summarised his submission as being that if the Receivers are not dealing with the stock according to a Licence Agreement, then they are in no different a position from any other person who has goods in his or her possession without a licence.

Equitable claims

[36] Mr Elliott submitted that for the purposes of this hearing Viacom was limiting its claim to seeking specific performance by Scene 1 and the Receivers of the obligations under the Licence Agreement. He submitted that Viacom's copyright interest created an "unusual or unique property right" that justifies such relief. He submitted that the Receivers do not have any better rights under the Licence Agreement than Scene 1 had prior to receivership. As the Licence Agreement had been terminated, the Receivers have no right to deal in the stock, or to act in a way which infringes the copyright in the copyright works. He submitted that receivership had not introduced any unique elements that would factor against the relief to which Viacom is entitled.

[37] Further, he submitted that requiring Scene 1 and the Receivers to perform the post-termination "negative covenants" in the Licence Agreement would not require the Receivers to pay away any funds so as to deprive ASB as the secured creditor of its priority.

Relationship between the Copyright Act and the PPSA

[38] Mr Elliott submitted that the copyright regime has been in existence for many years. He submitted that it creates proprietary rights which pre-date any subsequent security interest in any chattels that are covered by copyright. He submitted that copyright is a greater right in the temporal sense, in that it exists separately from the existence of the object that embodies the copyright.

[39] Further, Mr Elliott submitted that the PPSA must have taken copyright law into account. In this respect he referred to s 35 of the PPSA:

> Except as provided by this Act or any other Act or rule of law or equity, a security agreement is effective according to its terms.

Accordingly, Mr Elliott submitted, Scene 1 could not grant a security over the copyright, as the Licence Agreement did not give it any right to do so.

[40] Mr Elliott submitted that ASB's security interest is not an absolute right, and the copyright interest has to be taken into account. He submitted that the PPSA could not be read without taking the copyright interest into account. Thus, priority of a perfected security interest under the PPSA does not give the Receivers an unfettered right to ignore copyright.

Submissions for Receivers

[41] On behalf of the Receivers and Scene 1, Mr Bos submitted that Viacom cannot challenge ASB's priority over the stock. This is because ASB's interest under the General Security Deed has attached to the stock pursuant to s 40 of the PPSA. He submitted that the requirements of s 40 had been met in that value had been given by ASB as the secured party, the debtor (Scene 1) has rights in the stock, in that it comprises goods consigned to Scene 1 in respect of which Scene 1 had the right of sale, and the General Security Deed is enforceable pursuant to s 36 of the PPSA.

[42] Accordingly, Mr Bos submitted, the stock can be sold pursuant to ASB's security, and the only question is, then, whether the Receivers would be in breach of copyright. He acknowledged that there may be a breach of the Licence Agreement, but submitted that that is a contractual matter between Viacom and Scene 1, and does not affect the Receivers' right of sale.

[43] With respect to Mr Elliott's submission that the stock remains in Viacom's control until it is sold, even though the process of importation is completed, Mr Bos submitted that such retention of control could only be by way of a retention of title. In the absence of the Licence Agreement having been registered, Viacom does not

have an enforceable retention. Mr Bos submitted that unless Viacom could point to an obligation that ASB is bound by, or which ranks ahead of, ASB's security, the Receivers are not prevented from declining to have Scene 1 perform the Licence Agreement.

[44] As noted earlier, he acknowledged that that may mean that Scene 1 may be in breach of the Licence Agreement. However, a breach of the Licence Agreement by Scene 1 is irrelevant to the question whether the Receivers are entitled to sell the stock because, once ASB's interest attached to the stock, it has priority.

[45] Further, Mr Bos submitted that there is, in fact, no breach of copyright under s 36. He submitted that Viacom has to show that the stock is made up of "infringing copies" under s 12 of the Copyright Act. He submitted that Viacom's argument that although the stock had been legitimately imported, it could not legitimately be sold, was unsustainble as the Copyright Act makes no distinction between import and sale. He submitted that the Copyright Act does not provide that a copy can be infringing for some purposes but not others.

[46] Mr Bos submitted, therefore, that as Viacom could not show that the sale of stock would breach copyright, it could not rely on copyright as a basis for defeating ASB's priority over the stock.

[47] With respect to Viacom's arguments for equitable relief, Mr Bos submitted that as the sale of the stock is not in breach of the Copyright Act, Viacom's claim to copyright does not create any unique basis for relief. He noted, first, that ASB is not a party to the Licence Agreement, and not bound by it. Further, he submitted that the terms sought to be enforced by Viacom are contractual provisions establishing personal rights and obligations between Viacom and Scene 1. They do not create interests which are superior to ASB's security. Finally, he submitted that Mr Elliott's submission that an order for specific performance of the Licence Agreement would not deprive ASB of its priority was misconceived. He submitted that the deprivation to ASB was patent in that it would be unable to realise stock over which it had a perfected security.

Is there a serious question to be tried?

[48] In terms of the standard test for determining whether an interim injunction order should be made or continued, it is first necessary to consider whether Viacom has established that there is a serious question to be tried: that is, that any marketing or sale of stock by the Receivers would be in breach of copyright, justifying continuation of the interim order presently in place.

[49] That issue must be determined against the fact that Scene 1 has been placed in receivership pursuant to the General Security Deed in favour of ASB, a security that has been registered under the PPSA and has been perfected by attaching to the stock.

[50] The issue of whether there is a serious question to be tried may be considered by addressing two questions:

a) Would a sale of the stock be a breach of copyright? and

b) What is the effect of ASB's perfected security?

Breach of copyright

[51] Clearly, it could not be argued that marketing and sale of the recordings by Scene 1 prior to it going into receivership, and prior to termination of the Licence Agreement, would be a breach of copyright. The Licence Agreement expressly provided that Scene 1 was to market, sell, and rent the recordings.

[52] The Licence Agreement provides that following termination, Scene 1 no longer has the exclusive right to market and sell recordings, and is to cease to hold itself out as a licensee and, at Viacom's option, to return or destroy stock supplied under the agreement.

[53] As Mr Bos acknowledged, marketing and sale of the stock after receivership and termination of the Licence Agreement may amount to a breach of the agreement. However, I accept his submission that that is a contractual issue as between Viacom

and Scene 1, and is not determinative of whether marketing and sale of the stock will be a breach of copyright.

[54] As noted earlier, s 36 of the Copyright Act provides that "copyright is infringed by a person who, in New Zealand, other than in the course of business or otherwise, sells or lets for hire ... an object that is, and that person knows or has reason to believe is, an infringing copy". Thus, infringement (or breach) of copyright depends on the object sold being an "infringing copy". That, in turn, depends on the definition of "infringing copy", which is set out in s 12 of the Copyright Act.

[55] Subsections (2) and (3) of s 12 both provide that an object is an "infringing copy" if its making constitutes an infringement of copyright in the work in question. It was not (and could not be) argued that the stock in the present case constituted an infringement of copyright when it was made. Accordingly, it cannot be an "infringing copy" for the purposes of either subs (2) (when it was made) or subs (3), (when it was imported into New Zealand) and selling the stock cannot be an infringement or breach of copyright pursuant to s 36.

[56] Mr Elliott submitted that the stock could be "non-infringing" at the time it was imported by Scene 1, but then be "infringing copies" for the purposes of sale by the Receivers. In the light of the clear wording of s 12(2) and (3) that submission cannot be accepted. On the clear wording of the subsections, whether an object is an "infringing copy" depends on its "making". Mr Elliott did not cite any authority to the effect that s 12 should be construed in any other way. Further, s 12 does not provide that an object can be an "infringing copy" for some purposes but not for other purposes.

[57] Copyright is a statutory property right. Thus, copyright exists to the extent that it is defined in statute. Mr Elliott's argument that the stock became "infringing" under s 12(2) for sale cannot be accepted: there is no mention of sale in s 12(2). While it can be accepted that s 36 prevents the sale of infringing copies, Viacom must first pass the hurdle of proving that the stock is "infringing copies". They are

not infringing copies under s 12, so possessing or selling them does not consitute an infringement of copyright under s 36 of the Copyright Act.

What is the effect of ASB's perfected security?

[58] Mr Elliott submitted that Viacom has a proprietary interest in the copyright in the recordings, which it could enforce "against all-comers" including ASB. He submitted that Viacom "retained control" of the stock until such time as it was sold to New Zealand retailers. He submitted that this was because the recordings had not been sold to Scene 1, rather they had been supplied to Scene 1 as licensee, for the purpose of sale to retailers. As between Viacom and Scene 1, Viacom retained title to the recordings.

[59] That argument cannot succeed. On its terms, the Licence Agreement provided that recordings were to be provided to Scene 1 to market and sell (clause 6(a) of the Agreement) and Scene 1 was to use its best endeavours to derive the maximum revenues (clause 3(a) of the General Terms and Conditions). Clause 8(c) of the General Terms and Conditions provided that title to the recordings was to remain at all times with Viacom, but that did not prevent Scene 1 from selling or renting the recordings.

[60] In order for Viacom's retention of title over the stock to be enforceable "against all-comers" and have priority over any other interests, that provision was required, as a security interest, to be perfected by registration under the PPSA. It was not registered, so Viacom's retention of title of the stock remains unperfected.

[61] The stock was also property in the possession of Scene 1 which it could, and did, charge as security for its funding from ASB. As the General Security Deed was registered under the PPSA on 4 March 2008, ASB has a perfected security interest which has attached to the stock. Accordingly, ASB's security is enforceable against the stock, and has priority over Viacom's retention of title. The consequence is that the Receivers cannot be prevented from selling the stock.

[62] As noted above, a sale of the stock by the Receivers may be a breach of the Licence Agreement. However, that is a contractual matter between Viacom and Scene 1. ASB, whose security is being enforced, is not a party to the Licence Agreement, and is not bound by it.

[63] Accordingly, to the extent to which it restrains the Receivers from selling the stock, the interim injunction ordered by Venning J on 16 July 2009 must be discharged.

Copyright in the recorded works

[64] That may not, however, be the end of that matter. It is also necessary to consider Viacom's copyright in the recorded works, as distinct from title to the recordings – that is, the stock.

[65] Although ASB's perfected security gives it priority over (and enables the Receivers to sell) the stock, it does not impinge on Viacom's copyright in the recorded works. For the purposes of this hearing, ASB asserted no claim to copyright in the recorded works. Copyright remains with Viacom and Viacom's ownership of the copyright in the recorded works subsists.

[66] Mr Elliott submitted that if the Receivers sell the stock, there must be an accounting to Viacom in respect of Viacom's copyright in the recorded works. In essence, his submission was that ASB could not take the benefit of selling the stock without accepting the burden of Viacom's rights as owners of the subsisting copyright. In support of this submission he referred to the judgments of the English Court of Appeal in *George Barker (Transport) Limited v Eynon*[2] and the Supreme Court of Queensland in *Re Diesels & Components Pty Ltd*.[3] He also referred to the commentary in Blanchard and Gedye *Private Receivers of Companies in New Zealand* (2008) at 10.07 and 10.16-10.17.

[67] However, as Mr Bos submitted, the authorities cited concern situations where existing contracts have continued after receivership. That is not the case here.

2 [1974] 1 WLR 462.
3 [1985] 2 Qd 465.

Further, they concerned liens, which in New Zealand would be subject to the PPSA regime.

[68] I did not consider that I had heard sufficient submissions from counsel on the point whether, independently of the Licence Agreement, the subsisting copyright in the recorded works gives rise to a right on the part of Viacom to require ASB to account to Viacom when the stock is sold and, if so, what is required of ASB on such an accounting. The parties were provided with an interim judgment, comprising [1] to [67], above, and the result that followed from the findings made therein. A further hearing was allocated for submissions to be made on the issue raised.

Further submissions for Viacom

[69] In his further written submissions, Mr Elliott submitted that the issue identified at [68], above, is "inextricably connected" with other issues referred to earlier. Effectively, he submitted, there is only one copyright issue. He submitted that if the Receivers purport to deal with the copyright works, without a licence to do so, they will be in breach of copyright under the Copyright Act.

[70] He submitted that this required the application of the provisions of the Copyright Act to the question of copyright as an intangible right, quite separately from any rights over the stock in which that right is embodied. Accordingly, Mr Elliott's submissions comprised further argument as to the proper interpretation of the Copyright Act, in particular s 9(1)(d).

[71] As he had at the earlier hearing, Mr Elliott started by referring to s 31 of the Copyright Act:

> **31 Infringement by issue of copies to the public**
>
> The issue of copies of a work to the public is a restricted act in relation to every description of copyright work.

[72] He then again referred to s 9 of the Copyright Act, as to the meaning of "the issues of copies of a work to the public". As noted at [28] above, s 9(1) provides that it means:

> ... the act of putting into circulation copies not previously put into circulation; ...

but it does not include the acts referred to in s 9(1)(a) to (d).

[73] It will be recalled that pursuant to s 9(1)(d), the "issue of copies of a work to the public" does not include:

> Distribution of imported copies that are not infringing copies within the meaning of s 12 subsequent to their importation into New Zealand

[74] Section 9(1)(d) was inserted into the Copyright Act by the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 ("the 1998 Amendment"). In essence, Mr Elliott's argument was that s 9(1)(d) should be read as referring only to parallel imported goods. He supported this argument by addressing the interpretation of the Copyright Act. His submissions may be summarised in terms of the following propositions:

a) The scheme of the Copyright Act is to proscribe acts in respect of copyright works, so that no person other than the owner of the copyright can carry out those acts except pursuant to a licence from the owner of the copyright.

b) The Copyright Act must be interpreted so as to afford equal treatment to owners of copyright internationally, and international treaties, such as the Berne Convention for the Protection of Literary and Artistic Works[4] and the Agreement on Trade-Related Aspects of Intellectual Property.[5] Those treaties protect the right of a copyright owner to control exploitation of a work until the right is exhausted.

c) In New Zealand, that right is exhausted with the first sale of the copy of the work. This is the result of reading ss 16 and 9 of the Copyright Act.

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4 (1967) 828 UNTS 222.
5 (1994) 1869 UNTS 299.

d) Parliament’s intention, when amending s 9 in 1998, was to permit parallel importing. Mr Elliott submitted that there is no intention displayed in Parliamentary debates, or the explanatory note to the Bill on its introduction, to alter the fundamental rights enjoyed by copyright owners, or to reduce the protection they previously enjoyed.

e) Accordingly, whilst s 9(1)(d) can be given a “literal” reading, as the Receivers submit, it should be given a “purposive” interpretation. Mr Elliott submitted that s 9(1)(d) should be read as referring only to parallel imported goods, that is, copies that have already been issued to the public, albeit in an overseas market, before being imported into New Zealand.

[75] Mr Elliott submitted that as the stock in the present case had not been issued to the public or put into circulation anywhere else in the world, ss 9(1)(d) and 12(5A) of the Copyright Act were not effective to exclude them from being “infringing copies”, so that the Receivers would infringe copyright under s 36 of the Act if they sell the stock.

Further submissions for the Receivers

[76] Mr Bos’ primary submission was that Viacom’s further submissions should not be considered. This was based on the findings at [57] and [61], above, that the Receivers will not be in breach of copyright under s 36 of the Copyright Act by selling the stock, and Viacom’s submission that “there is only one copyright issue”. Mr Bos submitted that the issue has already been determined. However, he also made further submissions, in the event that the Court agreed to consider Viacom’s further submissions.

[77] Mr Bos’ further submissions may be summarised quite shortly, as being that s 9(1)(d) of the Copyright Act is clear as to its terms. There is no ambiguity.

[78] Mr Bos submitted that s 9(1)(d) on its face plainly applies to all imported copies which are not infringing copies (within the meaning of s 12) whether or not

those copies have previously been put into circulation. Mr Bos submitted that the wording of s 12(5A) supports this. Section 12(5A)(a) provides that an object that a person imports or proposes to import is not an infringing copy if:

> It was made by or with the consent of the owner of the copyright, or other equivalent intellectual property right, in the work in question in the country in which the object was made;

[79] Thus, Mr Bos submitted, s 12(5A) clearly provides that (for the purposes of s 9(1)(d)) the relevant issue is the making of the object, not whether it has previously been distributed. As s 12(5A) applies to the stock held by Scene 1, the stock is not "infringing copies" so, by virtue of s 9(1)(d), its distribution subsequent to importation is not "the issue of copies of a work to the public".

Discussion

[80] I accept Mr Bos' submission that the further submissions on behalf of Viacom do not lead to a different conclusion from that already reached. I do not accept that s 9(1)(d) of the Copyright Act should be interpreted in the limited manner put forward by Mr Elliott.

[81] First, I am not persuaded that the intention of the 1998 amendment was simply to allow parallel importing. The intention of the amendment can be gleaned from the first three paragraphs ("General Policy Statement") of the Explanatory Note to the Bill:

> This Bill removes the current prohibition on parallel importing of copyright goods, and increases the penalties associated with pirated goods and certain breaches of the Medicines Act 1981.
>
> Parallel importing occurs where a person imports goods that were lawfully made, into New Zealand, without obtaining the position of the holder of the copyright in those goods in New Zealand. It can be distinguished from the importing of goods which were not lawfully made (known as pirated goods). Importing of pirated goods occurs when goods that were made without the permission of the copyright holder in the country in which they were made are imported into New Zealand. Importing of such goods will continue to be prohibited.
>
> The Bill changes the Copyright Act 1994 to make New Zealand goods markets more competitive, and to ensure that New Zealanders are paying internationally competitive prices for goods. The penalty increases are to

> deter people from committing certain offences in relation to importing pirated goods.

[82] Thus, the intention of the 1998 Amendment was as much to prevent the importing of pirated goods, and to make the New Zealand market more competitive, as it was to allow parallel importing.

[83] Secondly, I accept that s 9(1)(d) should be interpreted according to its plain wording. The meaning of the words is clear. If imported copies are not "infringing copies within the meaning of s 12" then their distribution after importation into New Zealand will not constitute "the issue of copies of a work to the public", so as to be in breach of copyright under ss 29 and 31, nor will it constitute "possessing or dealing with infringing copies" so as to be in breach of copyright under s 36 of the Copyright Act.

[84] I note that Mr Elliott accepted that the interpretation I have adopted accords with the "literal" reading of s 9(1)(d). He sought a different interpretation. However, the literal interpretation is accepted (albeit criticised) by the learned authors of *Intellectual Property in New Zealand: Copyright and Design*:[6]

> In the author's opinion, the amendment to s 9 was unnecessary and misconceived. The act of issuing copies of a work to the public is an act of primary infringement, the subject of s 31. Once a copy of a work is put into circulation by being issued to the public, there can be no infringement of copyright of the nature proscribed by s 31. The categories of acts in paras (a)-(c) of s 9(1) are all acts described as being subsequent to the act of putting "those copies" into circulation. "Those copies" are the copies of a work which have been put into circulation, and it follows that the subsequent dealing with those copies, whether by reason of distribution, sale or importation, cannot be infringements of copyright under s 31. However, unlike in paras (a)-(c), there is no reference back to "those copies" in para (d): furthermore, the reference to "subsequent" in para (d) is a reference to the period subsequent to the importation into New Zealand of imported copies that are not infringing copies within the meaning of s 12 (that is, not pirated goods but genuine goods). ...
>
> The effect of the amendment is that when copies of a work (which are not infringing copies under s 12) are imported into New Zealand, the subsequent distribution of those copies is not within the act of putting into circulation copies which have not previously been put into circulation. ...

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6 Brown and Others (1996) at COP 9.6.

[85] It must be concluded that consideration of Viacom's copyright in the works, independently of the licence agreement, does not lead to any different conclusion from that expressed earlier.

[86] Accordingly, I am not satisfied that there is a serious question to be tried, on Viacom's claim that sale of the stock by the Receivers will constitute a breach of copyright. It is not, therefore, necessary to consider further the questions raised at [68] as to whether ASB is required to account to Viacom when the stock is sold and, if so, what is required of ASB on such accounting.

Stay pending appeal

[87] On behalf of Viacom, Mr Elliott advised the Court that it is intended that an appeal will be lodged against this judgment. He sought a stay pending determination of Viacom's appeal.

[88] As this Court's judgment is only now being issued as anything other than an interim judgment, Viacom's application was premature. No appeal has yet been filed. Notwithstanding that, both counsel made submissions on stay, and it is appropriate to consider those submissions, in order to assist the parties.

[89] It is first relevant to note that Mr Elliott maintained at the hearing on 10 September, a submission he made on 5 August: that is, that the Court should maintain the injunction orders made by Venning J on 16 July 2009 "pending trial". I do not accept that that would be the appropriate course.

[90] Mr Elliott accepted that the issues raised in the hearing were legal issues. In fact, he submitted that the trial could proceed on the basis of an agreed summary of facts. That being the case, a Judge presiding over a trial will be in the same position as I have been, of hearing submissions and reaching a conclusion on the issue of whether the Receivers will be in breach of copyright if they sell the stock. A trial will, therefore, only add to delay and the parties' costs.

[91] Mr Elliott submitted that the matter needed to be considered with more time available than had been possible to date. He submitted that Viacom had had only two days between receiving the submissions on behalf of the Receivers and the hearing on 5 August. However, it will be recalled that Mr Elliott had cited "real urgency" as the grounds for seeking interim orders, to be argued on a *Pickwick* basis. The proceeding was, therefore, allocated an urgent hearing. However, full written submissions were prepared for the hearing on 5 August, and full oral submissions were made. The same was the case for the 10 September hearing. I do not consider that the Court, or the parties, have suffered any disadvantage as a result of the urgency.

[92] I turn therefore to express my tentative view on the application for stay. My view is necessarily tentative, as no application for stay has been, or could be, made. It is well-established that the factors to be considered on an application for stay are:

a) If no stay is granted will the applicants' right of appeal be rendered nugatory?

b) The bona fides of the applicants as to the prosecution of the appeal.

c) Will the successful party be injuriously affected by the stay?

d) The effect on third parties.

e) The novelty and importance of the question involved.

f) The public interest in the proceedings.

g) The overall balance of convenience.[7]

[93] In the present case, it is relevant to note that Viacom has received minimum guarantee payments towards royalties, under the Licence Agreement, totalling USD 5,218,986. As at the hearing on 5 August 2009, I was informed that

[7] See *Dymocks Franchise Systems (NSW) Pty Limited v Bilgola Enterprises Limited* [1999] 3 NZLR 239 at [9].

USD 500,000 was owed to Viacom. Prior to the hearing on 10 September an affidavit was filed, sworn by the Accountant for Scene 1, in which it is said that, in fact, Scene 1 may have overpaid royalties due to Viacom by some USD 2,173,659. An affidavit has been sworn in response on behalf of Viacom, challenging the Accountant's calculations.

[94] Affidavit evidence has also been filed from the Marketing Manager of Scene 1, noting that the pre-Christmas sales period yields the biggest sales potential for any distributor, and the sale of DVDs is no different from normal consumer patterns. On the basis of that evidence it is submitted on behalf of the Receivers that the best opportunity for realising the value of the stock is to allow it to be sold, now, by the Receivers.

[95] For Viacom's part, affidavit evidence has been filed by the Executive Director of the New Zealand Federation Against Copyright Theft (as to the importance of this proceeding to his organisation) and by the General Manager of a retailer of Viacom's titles (expressing concern at the prospect of the market being "flooded with cheap Paramount titles" as the result of the sale of stock to The Warehouse).

[96] Concern at Viacom's titles being "dumped at artificially low prices not reflective of normal value" is also expressed in affidavit evidence sworn on behalf of Viacom. The impact of such sales is said to have a detrimental impact on the viability and longevity of the Paramount business in New Zealand, as a result of a "false perception of low prices" and the devaluing of "the Paramount brand". This concern was rejected as "vague and overstated" by Mr Bos on behalf of the Receivers.

[97] My tentative view is that a stay is not appropriate. This is for the following reasons:

a) Viacom's interest is, as Mr Elliott acknowledged, in selling the stock. However, as he submits, Viacom wants the price at which it is sold to include costs, royalties, overheads, and mark ups. Viacom's claim is, in essence, for damages.

b) The next few months represent the best opportunity for the Receivers to obtain the best price reasonably obtainable for the stock. Further delay in sales is likely to lead to a lower realisation, and an increase in any claim being made by Toll, in respect of warehousing.

c) The Receivers have offered (and Mr Bos repeated the offer in Court) to hold the proceeds of sale pending a determination of Viacom's appeal.

[98] Accordingly, it should be possible for the sale of stock to proceed, at the best available price, and for Viacom's claim to be protected, if the Receivers hold the proceeds of sale pending appeal.

Result

[99] To the extent that it restrains the Receivers from selling the stock, the injunction order made by Venning J on 16 July 2009 is discharged.

[100] Counsel did not address me on the issue of costs. In the normal course, costs would follow the event and would be on a 2B basis. If the parties are unable to agree on costs then memoranda are to be filed, that for the Receivers within 20 days of this judgment and that for Viacom within a further 20 days. Counsel are to note in their memoranda whether a hearing on costs is sought.

Andrews J