

Mr Video (Pty) Ltd and others v Nu Metro Filmed Entertainment (Pty) Ltd and others
[2010] 2 All SA 34 (SCA)

Division: SUPREME COURT OF APPEAL
Date: 29 September 2009
Case No: 472/08
Before: LTC HARMS DP, CH LEWIS, S SNYDERS JJA, NV HURT AND ZL TSHIQI AJJA
Sourced by: A Street
Summarised by: DPC Harris

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[1] *Civil procedure - Copyright infringement - Locus standi - Locus standi of parties to participate in proceedings to restrain infringement - Delivery of infringing items - Relief by way of order for delivery up of infringing articles - Section 24(1) of the Copyright Act gives the court a discretion to order that the infringer should deliver up all infringing copies, as defined in section 1 - Special order for costs marking court's disapproval of conduct of infringing parties.*

[2] *Intellectual property law - Copyright - Alleged infringement of - Alleged infringement by video distributor, in distributing copies of films in respect of which respondents were sole distributors - Where it was common cause that a party is appointed as the only local distributor of the films being distributed, distribution by another party amounts to copyright infringement.*

[3] *Intellectual property law - Copyright - Infringement - Delivery of infringing items - Copyright Act 98 of 1978 - Section 24(1) of the Copyright Act gives the court a discretion to order that the infringer should deliver up all infringing copies, as defined in section 1.*

Editor's Summary

The first respondent traded in films in the theatrical (cinema) sector of the film market in South Africa and also in the rental and retail sales sector of that market. The second, third, fourth and fifth respondents (referred to in the judgment as "the owners") were the owners of the copyright in the films with which their application in the court below dealt. The first appellant carried on business as a franchisor of businesses, conducted under the name "Mr Video", for the hiring of recorded films to members of the public for home viewing, and the remaining appellants were franchisees.

Upon discovering that the appellants were offering DVD recordings of the films which they had imported for hire in their businesses, the first appellant brought an application for interdictory relief.

The first issue in dispute was the first respondent's *locus standi* to participate in the application, it being contended that the first respondent had not proved that it held valid licences from the copyright proprietors which entitled it to proceed against the first appellant. The second issue was the owners' entitlement to an order for delivery up of infringing copies in terms of [section 24\(1\)](#) of the Copyright Act [98 of 1978](#). The High Court found against the appellants on both issues, leading to the present appeal.

Held - The appellants contended that the first respondent had failed to prove that it was the exclusive licensee of the owners. They also submitted that, on a

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proper interpretation of the licence agreements, first respondent's rights were not such as would entitle it to restrain the dealing by the first appellant in the imported DVDs. The court held that it was not necessary to decide whether the licence agreements were valid or what their scope was. At the lowest level, the first respondent and the owners had established that the first respondents appointed as the only local distributor of the films. The appellants acknowledged that their conduct infringed the copyright of the owners and was accordingly unlawful. In the premises, the first respondent was entitled, quite apart from any rights it may have as a licensee, to join in the proceedings to interdict. The challenge to its *locus standi*, accordingly, failed.

The next issues related to the order for delivery of infringing items. [Section 24\(1\)](#) of the Copyright Act gives the court a discretion to order that the infringer should deliver up all infringing copies. An infringing copy in relation to a cinematograph film is defined in [section 1](#) of the Act. The Court found the copies requested by the respondents to fall within that definition, and again dismissed the appeal.

Notes

For Civil procedure see:

- . *LAWSA Reissue* (Vol 3(1), paras 1-441)
- . Harms, *LTC Civil Procedure in the Superior Courts* Durban LexisNexis Butterworths 2005

For Intellectual property see:

- . *LAWSA First reissue* Vol 29

No cases referred to in judgment

Judgment

HURT AJA:

- [1] This is an appeal against certain orders granted by Fourie J in the Cape High Court. The appeal is with his leave. For the sake of clarity and because there are a number of parties involved, I intend to refer to them as follows:
- (a) to Nu Metro Filmed Entertainment (Pty) Ltd (the first respondent) as "Nu Metro";
 - (b) to the second, third, fourth and fifth respondents collectively as "the owners" (a reference to the fact that they are the owners of the copyright in the films with which their application in the court below dealt);
 - (c) where I refer individually to any of the owners, I will use an abbreviation of its name, ie "Fox", "Disney", "Warner" or "Videovision";
 - (d) to all 23 appellants collectively as "the Video Group";
 - (e) where I refer to the first appellant individually, I shall call it "the Franchisor".

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- [2] Nu Metro trades in films in the theatrical (cinema) sector of the film market in South Africa and also in the rental and retail sales sector of that market. The owners are well-known producers and distributors of films in the entertainment field, save that Videovision is not involved in the production of films, but, as a substantial part of its business, acquires by assignment the South African copyright in respect of various films which it distributes in this country. The Franchisor carries on business as a franchisor of businesses, conducted under the name "Mr Video", for the hiring of recorded films to members of the public for home viewing. The Video Group includes 22 of the Franchisor's franchisees. The application in the High Court related to various films in which the owners claimed to own the copyright. These will be referred to collectively as "the films".
- [3] Nu Metro discovered that the Video Group were offering DVD recordings of the films, which they had imported from America, for hire in their businesses. They, therefore, brought an application for relief by way of interdicts, delivery up of infringing articles and costs, based on the contention that the Video Group's conduct in offering these imported DVDs for hire constituted an infringement of the owners' copyright and an infringement of the exclusive licence rights which Nu Metro claimed to hold as a result of agreements concluded with the owners. The Video Group opposed the application, disputing the owners' claim to be the copyright owners and Nu Metro's claim to be an exclusive licensee. They admitted that they had imported numbers of DVD recordings of the films from the USA, but disputed the contention that their conduct amounted to copyright infringement. Shortly before the date on which the opposed application was set down for hearing, however, the Video Group conceded that the owners were, indeed, the owners of the copyright in the films and tendered to submit to the interdicts sought against them and to an order directing them to pay the owners' costs.
- [4] This tender disposed of some of the issues in the opposed application, and the issues with which Fourie J was required to deal were the following:
- (a) Nu Metro's *locus standi* to participate in the application, it being contended that Nu Metro had not proved that it held valid licences from the copyright proprietors which entitled it to proceed against The Video Group;
 - (b) the owners' entitlement to an order for delivery up in terms of [section 24\(1\)1](#) of the Copyright Act [98 of 1978](#) ("the Act");
 - (c) three separate issues as to costs.

Fourie J found against the Video Group on all of these issues. It is these adverse findings that the Video Group have sought to challenge on appeal.

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The *locus standi* issue

- [5] The Video Group contended, both in the court below and before us, that Nu Metro had failed to prove that it was the exclusive licensee of the owners. They also submitted that, on a proper interpretation of the licence agreements which Nu Metro had annexed to the replying affidavit, its rights were not such as would entitle it to restrain the dealing by the Video Group in the imported DVDs to which reference has been made. The argument presented in support of these contentions was complicated but, in my view, futile. I do not think that it is necessary to decide whether the licence agreements are valid or what their scope is. At the lowest level, Nu Metro and the owners have established that Nu Metro is appointed as the only local distributor of the films. The Video Group have acknowledged that their conduct infringes the copyright of the owners and is accordingly unlawful. In the premises, Nu Metro was entitled, quite apart from any rights it may have as a licensee, to join in the proceedings to interdict. The challenge to its *locus standi* must accordingly fail.

The order for delivery of infringing items

- [6] The evidence establishes that copyright proprietors in the film industry have, for the purpose of controlling the distribution of their films territorially, divided the world market into six "zones" of which zone 1 comprises the USA and Canada, zone 2 comprises Japan, Europe, South Africa, the Middle East and Greenland and the remaining four zones are situated in other territories in the world and need not be further defined for present purposes. The DVD recordings of films in each zone are electronically encoded. The playback equipment marketed in each zone is also encoded so as to preclude it from playing DVDs which are not encoded for that particular zone. Thus a DVD player sold in South Africa will have a code that enables it to play only DVDs encoded for zone 2. DVD recordings sold or hired out for home viewing in each zone have explicit warnings and reservations of rights on their packaging, advising the user of the copyright limitations to the proposed use and the penalties that may result from misuse.
- [7] According to Fox, Disney and Warner, the DVD recordings of the films produced for sale in the USA are all sold and supplied with these "copyright warnings", *inter alia*, drawing users' attention to the fact that the DVDs are sold for home viewing in the zone 1 territories only. It is common cause, however, that the Video Group, having purchased the American products, offered them for hire from the various outlets operated by the franchisees in the Video Group, and also supplied their customers with a pamphlet describing how local DVD players can be "decoded" to enable them to play zone 1 films.
- [8] The provisions of [section 24\(1\)](#) are quoted earlier in this judgment. The section gives the court a discretion to order that the infringer should deliver up all "infringing copies". An "infringing copy" in relation to a cinematograph film is defined in [section 1](#) of the Act as:
- ". . . a copy of the film or a still photograph made therefrom; . . . being in any such case an article the making of which constituted an infringement of the copyright in the . . . cinematograph film . . . or, in the case of an imported article, would have constituted an infringement of that copyright if the article had been made in the Republic."

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The Video Group contend that Fourie J erred in ordering The Video Group to deliver up the zone 1 DVDs in their possession or under their control. The argument is that the zone 1 encoded DVDs were acquired lawfully from the USA and that they are, accordingly, not "infringing copies" as defined. The submission is that, to establish that the zone 1 DVDs are infringing copies, "it would have been necessary for [Nu Metro and the owners] to allege and prove that the making of the article in South Africa by the person who as a fact made the article in the USA would have constituted an infringement of the copyright in South Africa". The Video Group contend that no allegation to that effect has been made in the papers. It is difficult to understand this contention. The very basis upon which the application is brought by the proprietors of the copyright in the films is that zone 1 DVDs are not available for lawful distribution in South Africa. There is no evidence to show that the person who manufactured the zone 1 DVDs in the USA had the right to do so in South Africa. In fact the probabilities are overwhelmingly against such a suggestion. Accordingly, if the DVDs had been made locally by that person, the inference must be that the making would have constituted an infringement. The attitude adopted by the owners in these proceedings is fully in keeping with that inference. There is, accordingly, no substance in this contention.

- [9] The further submission concerning the order for delivery up is that the court should have had regard to the fact that the zone 1 DVDs were the property of the Video Group and the court should have been reluctant to deprive them of their property rights. Fourie J rejected this submission. He held that the order was necessary in the circumstances to enable Nu Metro and the owners to monitor and enforce the interdicts. He pointed out that at least 22 respondents were involved and he surmised that the very opposition to the order for delivery indicated a probable intention to deal in the zone 1 DVDs. There is a further consideration which warrants an order under [section 24\(1\)](#) in this case. It is that the infringing DVDs were acquired for an unlawful purpose and there is no lawful use to which they could be put in this country: at any rate, no such use could be suggested by counsel for the Video Group. The history of the Video Group's conduct with regard to its use of the zone 1 DVDs also militates against any suggestion that Nu Metro and the owners would be properly protected if an order for delivery up was not made. As indicated, this was a matter involving the exercise of a discretion by the lower court. I consider that the learned Judge correctly exercised his discretion in favour of the grant of the order for delivery.

Costs

- [10] The three orders as to costs made in the court below and challenged on appeal are the following:
- (a) the order that the costs of the application should include the costs of various affidavits aimed at establishing infringing conduct on the part of a number of the Video Group in their respective franchise businesses;
 - (b) the order that the Video Group pay Nu Metro's costs in the application;
 - (c) the order that the costs of the owners be taxed and paid on the attorney and client scale.

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- [11] The Video Group's submission in relation to the costs of the affidavits is that they (the Video Group) had made no secret of the fact that the franchisees were dealing in zone 1 encoded DVDs which they had imported from the USA. Accordingly, so the submission runs, it was unnecessary for Nu Metro and the owners to produce evidence of individual acts of infringement by individual franchisees. The short answer to this submission is that, until the answering affidavit was delivered, Nu Metro and the owners had no way of knowing what the Video Group would put in issue. It is significant that the Video Group challenged Nu Metro and the owners'

evidence of the existence of the licensing agreements on the ground that the relevant contract documents were not put up with the founding papers. In those circumstances, it hardly lies in the Video Group's mouths to object to the delivery of affidavits proving individual acts of infringement. The decision to allow Nu Metro and the owners these costs was correct.

[12] The order for attorney and client costs was also fully justified. The deponent for the franchisor is a man with considerable experience in the home entertainment market. There had been a debate (I put in no higher for the purposes of this issue) amongst the Video Group as early as 2006, as to the legality of importing DVDs from the USA for use in the Video Group's businesses. The conclusion then was that such conduct was probably unlawful and the franchisor had circulated a warning to its franchisees that this was the case. However, it seems that the Video Group decided to continue with their conduct and bide their time until faced with an application for an interdict. The flagrant way in which the Video Group arranged to bypass the coding restrictions used by the copyright owners for the obvious purpose of controlling the exploitation of their rights, also has considerable significance in this context. After the application had been brought, and before the answering affidavit was filed, the franchisor was advised by its attorney that the Video Group had no defence to the application. Nevertheless, the Video Group delivered an answering affidavit opposing the relief sought. It was only at the eleventh hour, when the heads of argument were being prepared, that the Video Group capitulated in respect of the copyright owners. The decision by Fourie J to mark his disapproval of this conduct by a special costs award was fully justified.

[13] The award of costs in favour of Nu Metro was warranted on the basis that the opposition to Nu Metro's participation in the application was unsuccessful.

The appeal is dismissed with costs, such costs to include the costs of two counsel.

(Harms DP, Lewis, Snyders JJA and Tshiqi AJA concurred in the judgment of Hurt AJA.)

For the appellant:

AR Sholto-Douglas and RDE Gordon instructed by De Klerk and Van Gend

For the respondent:

P Ginsburg SC and G Marriott instructed by Nortons Inc

Footnotes

- 1 "(1) Subject to the provisions of this Act, infringements of copyright shall be actionable at the suit of the owner of the copyright, and in any action for such an infringement or such relief by way of damages, interdict, delivery of infringing copies or plates used or intended to be used for infringing copies or otherwise shall be available to the plaintiff as is available in any corresponding proceedings in respect of infringements of other proprietary rights."