Federal Court  Cour fédérale

CANADA

Docket: T-578-05

Citation: 2006 FC 840

REASONS FOR ORDER

PROTHONOTARY MORNEAU:

[1] The matter before the Court in this case is a motion by the plaintiff, the Canadian Private Copying Collective (the Collective), to obtain an order under Rule 223 et seq. of the *Federal Courts Rules* (the rules) to direct the defendants to serve a more accurate and complete affidavit of documents concerning the importation and sale by the defendants of blank audio recording media, as part of an action that the Collective instituted on March 31, 2005 under Part VIII entitled "Private Copying" of the *Copyright Act*, R.S.C. 1985, c. 42 (the Act).

[2] In their responding record to this motion, the defendants requested that this Court order, on its own initiative, either under the scheme of Part VIII of the Act or under Rule 107, that the question of whether the defendants are liable to pay, for their products, the levies imposed by the Act and the applicable approved tariff be addressed first and that the quantum of any levies payable be determined accordingly after that. There would therefore be a bifurcation between the questions of liability of the defendants' products and the quantum that may be payable.

[3] For the following reasons, the Court will not order the bifurcation desired by the defendants and will allow the Collective's motion that the defendants serve a more complete and accurate affidavit of documents.

[4] These reasons and the accompanying order will also include the special management of this file going forward as well as the confidentiality to be maintained with respect to the defendants' responding record since certain excerpts deal with the quantum of a settlement offer made in the past by the Collective.

Pertinent statutory and factual context

[5] Part VIII of the Act contains sections 79 to 88. These sections constitute what is apparently understood to be the private copying regime.

[6] The definition of "audio recording medium" in section 79 delineates the products that are subject to levy. This definition reads:

[7] The term “blank audio recording medium” is defined in this section as follows:

« support audio vierge » Tout support audio sur lequel aucun son n'a encore été fixé et tout autre support audio précisé par règlement.

[8] This latter definition was further clarified by the Copyright Board when, in December 2003, it approved and published the tariff of levies to be collected by the Collective (the Tariff) pursuant to section 83 of the Act. In this Tariff, “blank audio recording medium” is defined as follows:

[9] As for subsection 82(1) of the Act, in essence, it provides that anyone who manufactures or imports a blank audio recording medium for the purposes of trade is liable to pay a levy to the collecting body (in this case, the Collective) upon selling the said medium. Subsection 82(1) reads as follows:

[10] As for section 88, it establishes the civil remedies that the Collective may pursue to, among other things, recover the levies that it considers due. This section reads as follows:

[11] As to the facts of this case, they can be summarized as follows.

[12] Whereas, over the last number of years, further to on-site audits in 2001 and 2004 for example, the defendants had not paid, in full or in part, the levies owed on their importation and sale of blank audio recording media, the Collective instituted an action before this Court in March 2005.

[13] The Collective’s statement of claim seeks, among other things, the following principal remedies:

1. The Plaintiff claims:

a) A declaration that the defendants have failed to report and pay to the plaintiff the private copying levies certified by the Copyright Board of Canada in accordance with the provisions of Part VIII of the *Copyright Act*, on account of the manufacture or importation into Canada, and the sale or other disposition by the defendants, of blank audio recording media;

b) An Order directing the defendants to pay to the plaintiff the private copying levies owed pursuant to the private copying tariffs certified by the Copyright Board since December 18, 1999 (the "private copying tariffs");

c) An Order directing the defendants to pay to the plaintiff the unpaid interest owed on late payments of the private copying levies, calculated in accordance with the private copying tariffs;

d) An Order directing the defendants to pay to the plaintiff an amount equal to five (5) times the amount of the private copying levies due hereunder, the whole pursuant to section 88(2) of the *Copyright Act*;

e) An Order directing the defendants to provide to the plaintiff, within thirty (30) days of judgment herein, detailed statements of account prepared in accordance with subsection 82(1)(b) of the *Copyright Act* and the private copying tariffs;

(...)

[14] In response to this statement of claim, an amended statement of defence was filed in August 2005. From that statement of defence and the affidavits produced by the defendants in the context of these proceedings, it can be seen that the defendants acknowledge that a portion of their business is dedicated to the importation and sale of audio recording media (in the case at bar, CD-Rs and CD-RWs (hereafter collectively referred to as CDs)), but these media are allegedly—and therein essentially lies the problem—non-blank (i.e. duplicated) CDs. In addition, the vast majority of these CDs are reportedly designed for industrial use, not for retail. As a result, these CDs cannot be considered blank or as being used by consumers. Therefore, according to the defendants, their CDs would not be subject to the Act's private copying regime since they do not meet the Act's definition of "blank audio recording medium."

[15] The Collective does not deny that the defendants' non-blank CDs may ultimately be exempt from the private copying regime.

[16] However, to be able to satisfy itself as to whether the defendants' CDs should be exempted and to properly determine any liability and any corresponding quantum, the Collective submits that the defendants must, in the context of its action instituted now more than a year ago, provide an affidavit of documents containing a list of the financial and trade documents concerning the importation and sale of all of their CDs, an exercise that, to date, has not been effectively completed following the requirements of the rules and case law concerning the completeness required of a party's affidavit of documents.

Analysis

[17] The defendants' strong reluctance to accede to the Collective's motion and produce a more complete affidavit of documents is not based here on the factors traditionally encountered. Indeed, the defendants do not appear to dispute that the documents sought by the Collective are in their possession, power or control within the meaning of Rule 223.

[18] In addition, although the defendants allege that producing such documents would constitute an intrusion into their business affairs and the private nature of them, it does not appear to me that this alleged harm is sufficiently supported by the evidence, and in any event, it remains impertinent for our present purposes.

[19] The same also holds true for the argument strongly maintained by the defendants that the Collective's motion should be rejected because, in the past, and before this action was brought, the defendants reportedly gave the Collective, or the Collective reportedly obtained during its on-site audits, a host of documents that should allow the Collective to calculate what the defendants owe it pursuant to the Act.

[20] The defendants must fully understand that the interaction between the parties before the action was instituted and before the rules of this Court were accordingly engaged are impertinent to the defendants' obligation under Rules 222 et seq. to list all of their relevant documents.

[21] I am of the view that it must also be understood that if the bifurcation sought by the defendants is not ordered and, thus, the subjects of liability and quantum must be examined together in this case, there truly can be no doubt for anyone as to the very pertinence—as set out in subsection 222(2) of the Rules—of the documents sought by the plaintiff. It is therefore not essential to belabour and review in detail the case law of this Court establishing that it is of utmost importance for the parties to have complete affidavits of documents as soon as this step is reached in the process and, therefore, even before the examinations for discovery (see *Liebmann v. Canada (Minister of National Defence)* (1994), 87 F.T.R. 154, paragraph 15; *Havana House Cigar & Tobacco Merchants Ltd. v. Naeini* (1998), 80 C.P.R. (3d) 132, paragraph 23). As for subsection 222(2) of the Rules, it states:

[22] The defendants' real argument against the Collective's motion consists of maintaining now—over a year after the Collective has, by way of its action, appealed to the process of the rules of this Court—that either the scheme of the private copying regime of sections 79 et seq. of the Act or Rule 107 requires a bifurcation, meaning that the Court must first examine and determine whether the defendants' CDs are subject to the Act.

[23] We will first examine the defendants' argument based on the scheme of the regime of sections 79 et seq. of the Act and then turn to Rule 107.

I. **The Act's Private Copying Regime**

[24] If the Court properly understands this argument, it consists of saying that because the Act, more specifically paragraph 82(1)(b), states that a person must keep statements of account and provide them to the Collective and because subsection 88(3) of the Act allows the Collective to apply to this Court specifically regarding any obligation under Part VIII of the Act and, therefore, regarding any non-compliance with said paragraph 82(1)(b), the Act allegedly supports the bifurcation sought by the defendants.

[25] As noted above, these legislative provisions read as follows:

[26] I cannot follow the defendants in this direction.

[27] First, the above argument, advanced belatedly by the defendants at the document affidavit production stage, is much more than mere resistance to producing a more complete affidavit of documents. In my opinion, this bifurcation argument attacks the very appropriateness of the Collective's March 2005 action before this Court and the way in which it was formulated, that is, an action regarding liability (paragraph 1(a) of the statement of claim) and quantum (e.g. paragraphs 1(b) to (d) of the same claim). Yet, at no relevant time in the past did the defendants raise this attack.

[28] Second, the very text of subsection 88(3) indicates that it is permissive with respect to the Collective, given the use of the word "may", and this same text also provides that if the Collective appeals specifically to this subsection of the Act, doing so does not prevent it from seeking any other remedy available. I therefore do not see anything in the text of the Act that prevented the Collective from formulating its claim as it did.

[29] In this vein, it must also be borne in mind that the Collective's request for documents is based on the requirements of Rule 223 in the context of an action, not based on the wording or the possibility provided by subsection 88(3) of the Act.

[30] Third, it is erroneous to think that the Collective itself recognized, in its May 2003 submissions to the Copyright Board (the Board), that the Act requires the issues of liability and quantum to be dealt with separately.

[31] As shown in the following excerpts of the Board's January 19, 2004 decision on the "Private Copying Tariff Enforcement" file, to which the defendants refer to support their position, the Collective would have liked for the Board itself, at its level, to issue orders requiring importers to comply with the requirements of the Act, without the Collective having to apply to the Federal Court to achieve this. Essentially, the Collective felt that it would have been less expensive and more expeditious to thus keep the proceedings at the Board level. The relevant excerpts that support the Court's understanding of the Collective's position at the time are as follows:

[32] The Court therefore finds that the scheme of the Act's private copying regime does not support the bifurcation sought by the defendants.

[33] It must now be determined whether Rule 107 should lead the Court, on its own initiative, to order such a bifurcation in this case.

III. Rule 107

[34] This rule reads:

[35] The Court has already pointed out the delay in the defendants' claim regarding this rule.

[36] Aside from that, the defendants also chose to ask this Court to adjudicate under this rule by acting on its own initiative (which the Court can do, in principle), not on the basis of a motion that they submitted, which is the process that is followed in the vast majority of cases in which Rule 107 is being contemplated. I am making these comments here to highlight that, if the Court were to act on its own initiative, it could not reserve the defendants' future right to proceed by motion under Rule 107—as counsel for the defendants seemed to have requested at the hearing and to presumably avoid res judicata on the issue.

[37] Furthermore, it is accepted that the issuing of an order under this rule is discretionary (see *Depuy (Canada) Ltd. v. Joint Medical Products Corp.* (1996), 67 C.P.R. (3d) 145 citing at page 146 the words of Justice Urie of the Federal Court of Appeal in *Abramsky v. Canada* (1985), 60 N.R. 6, on page 8).

[38] Of course, even if they did not file a motion, the burden of convincing the Court under this rule nevertheless rests on the shoulders of the moving defendants.

[39] As demonstrated by the following excerpt from the Federal Court of Appeal decision in *Illva Saronno S.p.A. v. Privilegiata Fabbrica Maraschino "Excelsior"*, [1999] 1 F.C. 146, page 154, the test to be applied under Rule 107 is as follows:

(Je souligne.) [Emphasis added.]

[40] In this case, I am of the view that the defendants have not met their burden of establishing, on a balance of probabilities, that the possibility of saving time and money and of bringing about a just resolution to a lengthy dispute is such that it justifies overriding the general principle that has thus far prevailed, to the effect that all existing and emerging issues in a case—and here we are talking about the issues of liability and quantum—are to be examined together.

[41] I have come to this conclusion mainly on the ground, among others, that, apart from the fact that a bifurcation would further delay the disposition of the matter definitively (and therefore the collection and distribution of any benefit to the rights holders), the issues of liability and quantum here are closely related—unlike the issues of infringement and validity in matters of intellectual property—and it would therefore be difficult to completely disentangle these issues. In terms of the documents themselves sought by the Collective, these documents will likely be used to determine both whether the defendants' CDs are subject to the Act and whether a levy is therefore payable or not.

[42] For these reasons, the Court will not, on its own initiative, order the bifurcation sought by the defendants under Rule 107.

[43] The Court therefore intends to allow the Collective's motion that the defendants serve a more complete and accurate affidavit of documents essentially following the parameters set out by the Collective at Tab 4 of its motion record.

[44] The Collective has also requested—and this is not disputed—that this case continue as a specially managed proceeding. The order accompanying these reasons will provide for that.

[45] Furthermore, the order will state that the defendants' responding motion record filed on May 8, 2006 (document no. 26) shall be placed under confidential seal because that is the most practical solution to protect and keep out of evidence, at paragraph 15 of Joseph Lemme's affidavit dated February 13, 2006 and in exhibits JL-3 and JL-4, the quantum of a settlement offer made by the Collective in the past.

[46] Lastly, regarding the costs on this motion, although each party requested that they be awarded to them on a solicitor and client basis, the Court is satisfied with simply ordering that the costs on the Collective's motion be awarded to the Collective following Column III of the Tariff.

"Richard Morneau"

Prothonotary

Montréal, Quebec

June 30, 2006

FEDERAL COURT

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET:	T-578-05	
STYLE OF CAUSE:	**PLACE OF HEARING:**	Montréal, Quebec
DATE OF HEARING:	May 17, 2006	
REASONS FOR ORDER:	PROTHONOTARY MORNEAU	
DATED:	June 30, 2006	

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