

Review

Intellectual Property & Technology



HOW NOT TO ENFORCE INTELLECTUAL PROPERTY RIGHTS - LESSONS FROM MEDIA CAT LIMITED V ADAMS & ORS¹

Summary

Following a series of increasingly bizarre events in this controversial illicit file-sharing litigation, apparently resulting in the closure of a law firm and the insolvency of the claimant, His Honour Judge Birss QC, the new Patents County Court judge, has delivered judgment on the claimant's application to discontinue the proceedings. In his judgment, which severely criticised the claimant's conduct leading up to the proceedings as well as the way the proceedings themselves had been conducted, HHJ Birss QC held that Media CAT's service of notices of discontinuance on the 27 defendants involved was in breach of s 102 of the Copyright Designs and Patents Act 1988 ("the 1988 Act") as service had occurred without permission from the court to proceed with the case without joining the actual copyright owner to the proceedings. As a result, the notices were set aside as an abuse of process.

In those cases where a defence had been filed, the judge said that the notices were also abusive as they gave the actual copyright owner a collateral advantage in that they would then be free to pursue the actions without needing first to obtain permission from the court under CPR 38.7. Finally, the notices also had the effect of providing unwarranted collateral advantages to both Media CAT and the copyright owners, as they would have the effect of avoiding judicial scrutiny of the underlying claims.

Background

Media CAT (represented by law firm ACS:Law), which claimed to have the right to bring copyright infringement proceedings on behalf of the actual copyright owners pursuant to agreements it had concluded with them, asserted that the 27 defendants in those particular proceedings had infringed copyright in certain pornographic films by means of illicit file-sharing.

The proceedings had been brought as a result of ACS:Law sending out letters before action, alleging copyright infringement via file-sharing, to thousands of individuals. Those individuals had been identified only after Media CAT had applied to court for orders under the Norwich Pharmacal jurisdiction. Chief Master Winegarten had granted the orders and certain ISPs had been ordered to disclose the identity of the subscribers whose IP addresses Media CAT had obtained pursuant to a monitoring exercise it had undertaken.

The letters before sent by ACS:Law were aggressive and threatened court proceedings unless a settlement fee of £495 was paid. Legal proceedings were started against some of those who did not pay up.

Complaints made to the Solicitors Regulation Authority (SRA) about the conduct of ACS:Law in September 2009 amounted to more than 16% of all the complaints made to the SRA in that month. By July 2010, the SRA had received an astonishing 418 complaints from members of the public about ACS:Law. In August 2010, the SRA decided that ACS:Law had "a case to answer" in relation to its conduct of the copyright infringement claims and the Solicitors Disciplinary Tribunal (SDT) started a formal investigation into the firm.

¹ [2011] EWPCC 006 (8 February 2011).

In December 2010 Media CAT attempted to get judgment in default of service of a defence in eight of the 27 cases it had initially commenced, via a request for judgment under CPR 12.4, which is without notice to the defendant. Their request was rejected by HHJ Birss QC on 1 December 2010 (*Media CAT v A* [2010] EWPCC 17).

By Christmas 2010, in most cases, no defence had been filed, but no attempt had been made to convene a case management conference to obtain directions to bring the cases to trial. HHJ Birss QC therefore took the unusual step of making an order of the court's own motion to convene a case management conference in all of the 27 cases on the court's files at the time. The hearing was convened for 17 January 2011.

Just before the hearing, ACS:Law presented the court with 27 notices of discontinuance, stating that Media CAT wanted to discontinue and then re-issue all 27 claims. At the hearing on 17 January 2011, Media CAT stated that it wished to discontinue because, first, it was concerned that the claim forms may not all have been served properly and, secondly, it wanted to reconsider and reformulate its case. The judge questioned whether Media CAT needed the court's permission to discontinue. Media CAT and its advisers were not ready to deal with that issue on that occasion so the proceedings were adjourned for a week until 24 January.

The Issues

The questions that needed answering, as identified by the judge were:-

- (i) Firstly, whether s 102 of the 1988 Act, which stated that where an action for infringement concerned concurrent rights of action, the copyright owner or the exclusive licensee, as the case may be, may not, without the leave of the court, proceed with the action unless the other is either joined as a claimant or added as a defendant, meant that a claimant in a copyright case who was claiming some form of licence, but was not the copyright owner, needed permission to proceed to take any step in the action (including discontinuance) without joining the copyright owner.
- (ii) Secondly, the judge questioned how CPR 19.3 applied to the case. That rule provided that where a claimant claimed a remedy to which some other person was jointly entitled, all persons entitled to the remedy must be parties unless the court ordered otherwise. In other words, was it the case that the copyright owners had to be joined as parties?
- (iii) Thirdly, although CPR 38.2(1) provided that a claimant might discontinue at any time, CPR 38.2(c) provided that, where there were multiple claimants, either they all must consent in writing to such discontinuance or the court's permission was needed. What, the judge asked, happens when there is only one claimant but the rules mandate that there ought to be two?
- (iv) Finally, a particular concern of the judge was that Media CAT had stated that it wished to reissue the claims. He therefore needed to know the effect of CPR 38.7, which states that, where a defence has been filed, the claim cannot be re-issued after discontinuance without the court's permission.

The Decision

At the hearing on 24 January 2011, one of the defendants settled the claim by agreeing to discontinuance with no order as to costs. This left 26 claims proceeding. The defendants argued that a notice of discontinuance that would have the collateral advantage of avoiding the consequences of a breach of the CPR or of statute was an abuse of the court's process.

The authorities showed, HHJ Birss QC concluded, that discontinuing proceedings can, in certain circumstances, amount to an abuse of process. As Lord Scarman had held, in *Castanho v Brown and Root* [1981] AC 557, (a) the court has inherent power to prevent a party from obtaining, by the use of its process, a collateral advantage which it would be unjust for him to retain and (b) termination of process can, like any other step in the process, be so used to obtain such an unjust advantage.

Section 102 CDPA

The defendants submitted that Media CAT was in breach of s 102(1) CDPA by not joining in the actual copyright owner and so could not “proceed” with the case.

HHJ Birss QC held that “*proceed with the action*” in s 102 referred to proceeding with a step in the case and rejected Media CAT’s argument that serving a notice of discontinuance was the antithesis of “proceeding with the action”. HHJ Birss QC pointed out that s 102 had a further purpose, which was to protect defendants from being sued by more than one claimant in separate actions. That was why the 1988 Act provided that the action for infringement may not proceed without the copyright owner being joined in as a party, unless the court gave permission.

Furthermore, HHJ Birss QC stated that CPR 19.3 provided that, where a claimant claimed a remedy to which some other person was jointly entitled, all persons jointly entitled must be parties unless the court orders otherwise. This provision, HHJ Birss QC said, was “*clear and mandatory*”: the copyright owners therefore had to be parties. To take steps in the proceedings without doing this would be a breach of the rules.

Collateral Advantage – CPR 38.7

Media CAT accepted that under CPR 38.7, if the current cases were discontinued, although Media CAT would need permission to restart them, the copyright owners would not. However, Media CAT argued that that was an irrelevant advantage (and one therefore which was not abusive in the sense of *Castanho v Brown and Root*) because the advantage accrued to the copyright owner and not to Media CAT. HHJ Birss QC rejected that argument, saying that the copyright owners were not strangers to the case as they were parties to the agreements with Media CAT, which purported to give Media CAT the right to pursue infringement actions. Further, the copyright owners were involved as they received a proportion of the revenue created as a result of the terms of the agreement.

Therefore, HHJ Birss QC said, the notices of discontinuance would give the copyright owners a collateral advantage stemming from a breach of statute (s 102 of the 1988 Act) and from the circumvention of a mandatory rule (CPR 19.3). Further, the copyright owners would have avoided being a party to proceedings at the point the case was discontinued and therefore would avoid being subject to CPR 38.7. This was, HHJ Birss QC said, an abuse of process and the notices should be set aside.

Collateral Advantage – Judicial Scrutiny

The defendants argued that discontinuing so as to avoid judicial scrutiny of the underlying claims was also an abuse of process. Mr Andrew Crossley of ACS:Law denied that and claimed in his first witness statement that it had always been intended to litigate some of the cases and that his client was not trying to avoid judicial scrutiny.

However HHJ Birss QC found that there were a number of issues that the case itself raised which needed scrutiny. For example, the case asked whether identifying an IP address linked to a particular film and to a P2P network, at a particular point in time, established that any infringement of copyright had actually taken place at all. Further, by identifying the individual connected to the IP address that had allegedly been involved with infringement, did that mean that that person was the infringer? As the judge said, “*Proof that a person owns a photocopier does not prove they have committed acts of copyright infringement*”. Media CAT had tried to get around that by pleading that the defendants had alternatively infringed by “*allowing*” others to do so over that defendant’s unsecured internet connection. In other words, they argued that where somebody had accessed a defendant’s wi-fi network in order to commit acts of illicit file-sharing, that also amounted to an act of infringement by that defendant, whether the defendant was aware of the access or not. The judge noted that, in fact, the 1988 Act did not refer to “*allowing*” infringement, but referred to “*authorising*” infringement, which were two very different things.

HHJ Birss QC held that the quantum of damages claimed also deserved scrutiny, as if all that was proved was one single download, then all that would have been lost was the sale of one copy of a work, the cost of which would only amount to a small fraction of the £495 claimed in the letters before action.

There was also the issue of the standing of the claimant. Did the agreement with the copyright owners give Media CAT the right to litigate at all? Even if it did have the right to bring proceedings, s 102 of the 1988 Act required the copyright owner to be a party, subject to the court's permission to proceed without them.

In addition, HHJ Birss QC said, there was the simple point that a party faced with problems with their pleaded case, but intent on taking a case to trial, would simply take stock and apply to amend. Media CAT had given no good reason why it had not done that instead of trying to discontinue.

The judge also questioned the progress and conduct of the proceedings themselves. For example, he had had to act on his own motion and call in the cases for a hearing as nothing was happening. Further, the use of the request for judgment procedure in Media CAT v A had plainly been inappropriate. In the judge's words, *"Was it chosen because it is for cases which do not require a judicial decision?"*

Finally, the judge said, the position of ACS:Law and its letter writing campaign also called for scrutiny. In the judge's view, *"Media CAT and ACS:Law have a very real interest in avoiding public scrutiny of the cause of action because in parallel to the 26 court cases, a wholesale letter writing campaign is being conducted from which revenues are being generated"*. ACS:Law's financial gain from the process was, in fact, much more than Media CAT's, as the agreement stated that ACS:Law would receive 65% of all revenue. As the judge said, *"Whether it was intended to or not, I cannot imagine a system better designed to create disincentives to test the issues in court. Why take cases to court and test the assertions when one can just write more letters and collect payments from a proportion of the recipients?"* There was no real evidence of a desire to press the claims beyond applications for judgment in default, which called into question Mr Crossley's claim that it had always been intended to litigate some of the claims.

For all these reasons HHJ Birss QC held that the notices of discontinuance were indeed an abuse of the court's process: *"The advantage of discontinuing as opposed to applying to amend is unwarranted in that it avoids judicial scrutiny of the underlying basis for [a] wider campaign orchestrated by Media CAT and ACS:Law to generate revenue under the various agreements..."*

A Novel Order

HHJ Birss QC also considered whether, arising out of the evidence of the letters written for Media CAT by GCB, it might be appropriate to make a novel order requiring Media CAT to stop writing any further letters at least until they had returned to court with a properly pleaded Particulars of Claim. Such an order would, the judge said, *"be an extraordinary order to make but the circumstances appeared to me to be extraordinary circumstances"*. Mr Crossley had, in a second witness statement, said that his firm was no longer carrying out this type of work. He had also said that there were no pending claims or letters. In any event, however, in another twist to the case, two days after the hearing, Andrew Crossley had written to the judge to inform the court that Media CAT had ceased to trade as it had become insolvent. The letter also said that ACS:Law would be closing permanently and there would be no successor practice. There was no need, therefore, to make such a novel order.

The Norwich Pharmacal Orders

In relation to these, HHJ Birss QC stated *"I cannot imagine that the court making the Norwich Pharmacal orders in this case did so with a view to setting in train an exercise that was to be conducted in the manner that has subsequently emerged. In my judgment when a Norwich Pharmacal order is sought of the kind made in this case, it may well be worth considering how to manage the subsequent use of the identities disclosed."* He suggested that perhaps the court should consider requiring some form of supervision from an experienced neutral solicitor as is done when search and seizure (Anton Pillar) orders are made.

Comment

The judge clearly took a very dim view of what ACS:Law and its client, Media CAT, had been up to. He noted that there had been various letters and calls received by the court from very distressed defendants who did not know to what the aggressive letters referred to and who had no access to legal representation to assist them. These letters were also, the judge said, misrepresentative of the true position of both the law and of Media CAT, particularly as regards its right to take action in the first place. In fact, the letters of claim did not match the Particulars of Claim, which were less forceful in tone. The judge quoted one letter the court had received, which described Media CAT's actions as "*extortion via legal process*".

Although not certain, it would seem that Media CAT had possibly wanted to discontinue the cases when they began to attract public attention as it would impact on the far more lucrative letter writing campaign it had undertaken. It had, after all, received the identities of thousands of people as a result of the *Norwich Pharmacal* orders being granted, yet only 27 were being sued.

Having refused discontinuance, the cases rumble on, with the possibility that the copyright owners themselves might now step in. However, before doing this, they will have to assess the chances of the cases succeeding after the judge's comments on the underlying infringement claims. It was not the judge's task to make findings on the underlying claims, but, from the comments made, it would seem that he did not think much of them, quite aside from Media CAT's conduct. He acknowledged that infringement issues such as these have not been properly tested in the court, particularly the issue of people using other people's unsecured internet connections, and that significant technical evidence would be needed. Whilst it was true that P2P file-sharing software can be used to infringe copyright, as established in *Polydor Ltd v Brown [2005] EWHC 3191 (Ch)*, the judge said, that did not mean that these particular defendants had, whilst allegedly using file-sharing software, actually infringed.

Those who seek to enforce intellectual property rights by mass mailing infringers should take note of this case and ensure that they get their house in order before they write any letters before action to any third parties.

The robust and proactive approach taken by HHJ Birss QC was also a noteworthy feature of this case. Anyone thinking that the Patents County Court, under its new judge HHJ Colin Birss QC, is going to be a soft touch with a *laissez faire* approach is clearly wrong.

FURTHER INFORMATION

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