Federal Court of Appeal Provides Jolt to Voltage's Reverse Class Action

September 17, 2021

By Naomi Zener, Tamara Céline Winegust and Mitchel Fleming

The Federal Court of Appeal (FCA) has re-opened the door for copyright owners to seek remedies against a class of defendants for their direct infringing behaviour based on the identification of IP addresses from which the infringing activity occurred. In *Salna v. Voltage Pictures, LLC*, 2021 FCA 176 ("*Voltage*"), Justice Rennie, on behalf of the Court, set aside a 2019 decision of the Federal Court (FC) in *Voltage Pictures, LLC v Salna* 2019 FC 1412, which declined to certify a proposed "reverse class-action" for copyright infringement over a BitTorrent network. Of particular note, the FCA decision permits the rights holders to advance the novel claim that users of BitTorrent sites have "authorized infringement" through the use of that technology. Moreover, it leaves open the possibility of rights holders using the "notice-and-notice" regime to have ISPs send litigation updates to customers identified as defendants in the proceeding (the regime provides Internet Service Providers (ISPs) with a defence to copyright infringement claims alleged to have occurred on their services where the ISP has been notified of the infringement and passed that notice to the alleged infringer). While the Federal Court rejected the plan as overburdening ISPs and appropriating Parliament's intentions with the regime, the FCA found such conclusions "premature and speculative"[1] as it required an exercise in statutory interpretation that the Lower Court did not conduct.

From a copyright perspective, the Appeal decision confirms that "reverse class actions" remain a viable enforcement tool for copyright owners to address infringement by thousands of individual acts made by thousands of individual actors, but where the relief available against a single infringement/infringer may not justify investing the resources necessary for litigation. Interestingly, the Court's comments suggest reverse class-actions may also be beneficial for *defendants* who, if able to distribute fees related to mounting a defence among the class members, may be more inclined to obtain a decision on the merits.

In this way, the decision appears to recognize concerns raised by policymakers, rights holders, and users since the inception of the public internet in the late 1990s — how to best and most fairly permit copyright owners to seek compensation when their rights are violated while acknowledging that the proliferation of internet-connected digital devices can facilitate unchecked reproduction of copyright works by any user.

Background

The Plaintiffs (Voltage Pictures and other production companies) sought certification of a class of defendants whom, they alleged, violated the Plaintiffs' copyright in certain motion pictures that were being uploaded to and downloaded from the internet by thousands of users of BitTorrent websites. The Plaintiffs advanced claims for both direct infringement and secondary infringement, as well as that the defendant's actions "authorized infringement".

The Plaintiffs brought a motion to certify the defendant class with Mr. Salna as the representative defendant. The Federal Court denied certification. In the decision, discussed here, the Lower Court found the Plaintiffs failed to show any of the five criteria for certifying a class proceeding under Rule 334.16(1)[2] of the *Federal Courts Rules* were met. Of particular focus for the Court were gaps in the evidence left by the Plaintiffs' forensics analysis (i.e., how they identified the defendants through IP addresses), and whether the Plaintiffs plead any proper causes of action for direct or secondary infringement.

The Plaintiffs appealed, and the FCA overturned.

Federal Court of Appeal Decision

The Appeals Court found reversible errors in the Lower Court's rejection of each of the five certification criteria. The Appeals Court substituted its own conclusions on three of the criteria — sufficiency of the pleadings; identifiable class; whether there are "common questions of law or fact" as between the class members — and returned the matter to the trial division for reconsideration on the two remaining criteria — i.e., if a class proceeding is the preferable procedures; and the existence of an appropriate lead defendant.

On the first criterion — *whether the pleadings disclose a reasonable cause of action* — the FCA noted the correct approach to this criterion is to consider whether the pleadings disclosed a reasonable cause of action, assuming that the facts as plead are true. The Federal Court committed an error by delving into the merits of the Plaintiffs' arguments rather than simply reading the pleadings. The Plaintiffs provided sufficient evidence to support the claim for direct infringement, and that the proposed class members had sufficient control over their internet account and associated devices to have authorized the alleged primary infringements. Of note, with respect to the "authorizing infringement" claim, the FCA noted the Supreme Court's comments in *Society of Composers, Authors & Music Publishers of Canada v. Canadian Assn. of Internet Providers*, 2004 SCC 45, that suggested an internet intermediary may attract liability for authorizing infringement in some circumstances, meant this theory of infringement could be pursued as a cause of action and considered by a judge at trial. It was "a novel but arguable claim"[3]

On the second criterion — *whether there is an identifiable class of two or more persons* — the FCA noted the standard applied to this criterion is low, there need only be "some basis in fact", and found the Lower Court improperly applied a higher "balance of probabilities" standard. The Appellate Court applied the correct standard and found the Plaintiffs' evidence showed the proceeding would not "collapse for want of a 'class of two or more persons'"[4] thus, the criterion was met.

On the third criterion — *whether there are common questions of fact and law* — the FCA found the Lower Court incorrectly focused on whether the answers to the "questions in common" advanced by the Plaintiffs would be the same, rather than whether the questions themselves existed at all. The Appellate Court noted that the possibility of the misidentification of a defendant did not bar the finding of a "common question", nor did the multitude of individual factual assessments necessary when dealing with a class proceeding — misidentification would properly be dealt with as a defence at trial, while the impact of individual fact assessments could be managed by the flexibility inherent to the *Federal Court Rules*, such as the creation of subclasses, and court-supervised individual assessments.

For the last two criteria — *whether a class proceeding is the preferable procedure for the just and efficient resolution of the common questions of law or fact* and *whether there is a suitable representative respondent* — the Appellate Court found insufficient evidence on the record to determine whether class proceedings were the preferable procedure and if Mr. Salna was a suitable representative defendant. It thus sent these questions back to the Federal Court for redetermination. Of note, the Appellate Judges highlighted that it was wrong to presume (as the Federal Court did) that the proposed representative defendant had no incentive to defend the litigation because their "worst day in court" would be capped at $5000: "[Such] logic butts against the *raison d'être* of class proceedings, where it is "precisely when individual damage awards may be low that a class action becomes the preferable, and sometimes the only mechanism that truly ensures access to justice.".

Stay tuned for further developments in this case as it returns to the Federal Court.

[1] Salna v. Voltage Pictures, LLC 2021 FCA 176 at 131

[2] (a) the pleadings disclose a reasonable cause of action;

(b) there is an identifiable class of two or more persons;

(c) the claims of the class members raise common questions of law or fact, whether or not those common questions predominate over questions affecting only individual members;

(d) a class proceeding is the preferable procedure for the just and efficient resolution of the common questions of law or fact; and

(e) there is a representative plaintiff or applicant who

(i) would fairly and adequately represent the interests of the class,

(ii) has prepared a plan for the proceeding that sets out a workable method of advancing the proceeding on behalf of the class and of notifying class members as to how the proceeding is progressing,

(iii) does not have, on the common questions of law or fact, an interest that is in conflict with the interests of other class members, and

(iv) provides a summary of any agreements respecting fees and disbursements between the representative plaintiff or applicant and the solicitor of record.

[3] *Salna v. Voltage Pictures, LLC,* 2021 FCA 176 at 83.

[4] *Salna v. Voltage Pictures, LLC,* 2021 FCA 176 at 98.