

Entertainment and Communications Law

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Supreme Court Of Canada Releases Five Decisions Re: Copyright

On Thursday, July 12, 2012, the Supreme Court of Canada (the “**Court**”) released five (5) widely anticipated decisions regarding existing or proposed Copyright Board (“**Board**”) tariffs pursuant to the *Copyright Act* (the “**Act**”). The tariffs governed music downloading and streaming, the distribution of video games over the Internet, photocopying of textbooks, and film and tv soundtracks. The cases stem from appeals of various Board decisions made in 2007 and were heard by the Court back-to-back over two days in December. All cases involved distributors and users of copyrighted materials being pitted against collective societies such as the Society of Composers, Authors and Music Publishers of Canada (“**SOCAN**”), the Canadian Copyright Licensing Agency (“**Access Copyright**”), CMRRA-SODRAC Inc. and Re:Sound, which apply to the Board to collect copyright royalties on behalf of creators. Goodmans successfully represented a respondent and intervener in two of the cases. The Court’s decisions come shortly after the first major reform of Canadian copyright law in fifteen years. Amendments to the Act were recently passed under the *Copyright Modernization Act*, which received Royal Assent on June 29, 2012 and is on the cusp of being proclaimed into force by the federal cabinet. (Re: the *Copyright Modernization Act*, see our Goodmans Update: The *Copyright Modernization Act* Becomes Law at: <http://www.goodmans.ca/Section/Publications/Updates>).

Among other things, the Court held that:

1. The Board’s decision that the Internet delivery of a permanent copy of a video game containing musical works amounted to a “communication” under the Act, and thus the proper subject of a Board tariff, should be set aside. The Board’s decision violated the principle of “technological neutrality” because “...there is no practical difference between buying a durable copy of the work in a store, receiving a copy in the mail, or downloading an identical copy using the Internet”;
2. The Board’s decision to establish a tariff for the communication of musical works over the Internet via online music services properly applies to the streaming of music over the Internet, which comes within the creator’s exclusive right to “communicate to the public by telecommunication” under the Act. However, a tariff should not also cover the downloading of music over the Internet for the reasons described above;
3. The Board’s decision that previewing music by listening to brief excerpts of musical works on online services such as iTunes constitutes “fair dealing for the purpose of research” under Section 29 of the Act is reaffirmed and, accordingly, no royalties are required to be paid for such activity;
4. The Board should reconsider its finding that the photocopying by teachers of short extracts of textbooks to complement existing textbooks did not constitute “fair dealing” for the purpose of “research or private study” under Section 29 of the Act. The enumerated purposes in the Act for fair dealing, such as “research or private study”, should be given a “large and liberal interpretation”. The Board’s finding of unfairness was based on a misapplication of the factors identified by the Court in its prior leading decision of *CCH Canadian Ltd. v. Law Society of Upper Canada* (“**CCH**”), and should be remitted back to the Board for reconsideration; and
5. A pre-existing sound recording that is part of a soundtrack is not the proper subject of a tariff under Section 19 of the Act when the soundtrack accompanies a cinematographic work such as a

feature film or television production. The Board was correct in its determination that a “soundtrack” includes pre-existing sound recordings and that such recordings are excluded from the definition of “sound recording” when they accompany a cinematographic work.

Below is a brief description of each of the five (5) Court decisions. They will be studied carefully by entertainment lawyers and copyright law practitioners as together they provide great insight into the current thinking of the Court re: the proper application of the Act. In particular, the distinction drawn by the Court between downloading and streaming music over the Internet and the proper application of the “fair dealing” defence merit careful further study.

The Five Supreme Court of Canada Copyright Decisions

1. *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 34

Background: The Entertainment Software Association (the “ESA”) represents a coalition of video game publishers and distributors who enable customers to download copies of video games from the Internet. These copies are identical to copies purchased in stores or shipped to customers by mail. The video games contain copyrighted musical works. The royalties for the reproduction of those musical works are negotiated before the games are sold to the public. SOCAN, which administers the right to “communicate” musical works on behalf of copyright owners, applied to the Board for a tariff covering downloads of musical works over the Internet. The Board concluded that the download of a file containing a musical work is a “communication to the public by telecommunication” within the meaning of Section 3(1)(f) of the Act, entitling SOCAN’s members to compensation in accordance with an approved tariff. On judicial review, the Federal Court of Appeal upheld the Board’s decision.

Held: A majority of the Court held that the application of a communication tariff to downloads of musical works would be in violation of the principle of technological neutrality. Specifically, the Court found no practical difference between buying a durable copy of the work in a store, receiving a copy in the mail, or down-

loading an identical copy using the Internet. The Board’s conclusion that the Internet delivery of a permanent copy of a video game containing musical works amounted to a “communication to the public by telecommunication” was therefore incorrect. The term “communicate” in Section 3(1)(f) is not defined in the Act, but the legislative history of the Act demonstrates that the right to “communicate” is historically connected to the right to perform a work and not the right to reproduce permanent copies of the work. Internet downloading should be viewed like a “technological taxi”, where permanent copies of musical works are *delivered* to end users, rather than being *communicated* or *performed*. This helps preserve the traditional balance between promoting public interest in the dissemination of musical works and obtaining a just reward for the creators of those works in the digital environment.

2. *Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 35

Background: Rogers, Shaw, Bell and TELUS each provide online music services that offer downloads and on-demand streams of files containing musical works. A stream is a transmission of data that allows the user to listen to or view a work at the time of the transmission, resulting in a temporary copy of the file on the user’s hard drive. In 1995, SOCAN proposed tariffs for various uses of musical works over the Internet for the years 1996 to 2006 (“**Tariff 22.A**”). In its decision in respect of Tariff 22.A, the Board held that a stream of a copyrighted musical work comes within the creator’s right to “communicate to the public by telecommunication” provided by Section 3(1)(f) of the Act, and a claim for communication royalties was well-founded. The Board proceeded to establish a tariff for the communication of musical works over the Internet for the years 1996 to 2006. The Federal Court of Appeal dismissed an application for judicial review of the Board’s decision.

Held: The Court held that on-demand *streams* of musical works offered by online music services constitute a “communication to the public by telecommunication” and are therefore the proper subject of a com-

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munication tariff. Generally, a transmission of a single copy of a work to a single individual is not a “communication to the public by telecommunication” within the meaning of Section 3(1)(f) of the Act. However, the same is not true where there is a series of repeated transmissions of the same work to different recipients. In the case of streaming music offered by online music services, it is hardly possible to maintain that there is no intention that the same work undergo repeated transmissions. This is still the case even if each transmission is initiated at the request of an individual member of the public. This is because the wording of Section 3(1)(f) is technology-neutral; it says nothing to exclude “pull technologies” where copyrighted material is only made available upon an individual’s request.

The Court was also asked to consider whether *downloads* of musical works from online music services constitute a “communication to the public by telecommunication”. Given the Court’s holding in *ESA v. SOCAN* discussed immediately above, this question is rendered moot. In that case, the Court held that musical works are not “communicated” when they are downloaded from the Internet because there is no practical difference between buying a durable copy of the work in a store, receiving a copy in the mail, or downloading an identical copy using the Internet.

3. *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada*, 2012 SCC 36

Background: In its decision regarding SOCAN’s Tariff 22.A, the Board determined that SOCAN was not entitled to collect royalties for the downloading of musical previews, which consist of brief excerpts of musical works that can be listened to by consumers prior to purchasing the work. In the Board’s view, the use of previews was not an infringement of copyright since it was “fair dealing” for the purpose of “research” under Section 29 of the Act, and, accordingly, no royalties were required to be paid to SOCAN. On judicial review, the Federal Court of Appeal upheld the Board’s decision.

Held: The Court held that previews constitute “fair dealing” for the purpose of “research” under Section 29 of the Act. Accordingly, no royalties are required to be

paid to SOCAN for communications of such previews. Fair dealing allows users to engage in activities that might otherwise amount to copyright infringement. The test for fair dealing was articulated in *CCH* as involving two steps: the first step is to determine whether the dealing is for one of the allowable purposes enumerated in the Act (including “research or private study”), and the second step is to assess whether the dealing is “fair”. “Research” is given a “large and liberal interpretation to ensure that users’ rights are not unduly constrained”. Accordingly, “research” need not be for some creative purpose, but can include consumer research for the purpose of purchasing goods or services. In assessing whether the dealing is “fair”, the Court considers the purpose, character, and amount of the dealing; the existence of any alternatives to the dealing; the nature of the work; and the effect of the dealing on the work. The Court concluded that the dealing associated with music previews was “fair” because copies of the previews are temporary and therefore cannot be duplicated or further disseminated, the previews contain only a small portion of the entire musical work, and the previews are reasonably necessary to help consumers research what to purchase.

4. *Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright)*, 2012 SCC 37

Background: Access Copyright represents authors and publishers of printed literary and artistic works. It filed a proposed tariff with the Board with respect to the reproduction of its repertoire for use in elementary and secondary schools in all the provinces and territories other than Quebec. The Board concluded that copies made at the teachers’ initiative, with instructions to students that they read the material, were made for the allowable purpose of “research or private study” under Section 29 of the Act. However, the Board concluded such copies did not constitute “fair dealing” and were therefore subject to a royalty. On judicial review, the Federal Court of Appeal upheld the Board’s decision.

Held: A majority of the Court held that the Board misapplied the factors relating to the second step of the “fair dealing” test articulated by the Court in *CCH*.

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The Board's decision is to be reviewed on a reasonableness standard. Because the Board's finding of unfairness was based on a misapplication of the *CCH* factors, its outcome was unreasonable, and, accordingly, the Court remitted the matter back to the Board for reconsideration. In doing so, the Court clarified the law relating to fair dealing and the interaction between the two steps of the test articulated in *CCH*. When considering the first step of the test, the relevant perspective is that of the user and not the copier. However, this does not mean that the copier's purpose is irrelevant at the second step of the test. The copier's purpose will be relevant to the fairness analysis if the copier hides behind the shield of the user's allowable purpose in order to engage in a separate purpose - such as a commercial one - that can make the dealing unfair. In this case, there is no separate purpose on the part of the teachers, as they have no ulterior or commercial motive when providing copies to students. The teacher/copier shares a symbiotic purpose with the student/user, who is engaging in "research or private study". The Board erred in drawing an artificial distinction between copies made by the teacher at the request of a student and copies made by the teacher without a prior request from a student.

The Board's approach to the "amount of the dealing" factor under the second step of the *CCH* test was also flawed. This factor is not a quantitative assessment based on aggregate use, but rather an examination of the proportion between the excerpted copy and the entire work. With respect to the "alternatives to the dealing" factor, the Court stated that buying books for every student is not a realistic alternative to teachers copying short excerpts to supplement student textbooks. Finally, with respect to the "effect of the dealing on the work" factor, the Court found no evidence of a link between photocopying short excerpts and a decline in textbook sales.

5. *Re:Sound v. Motion Picture Theatre Associations of Canada*, 2012 SCC 38

Background: Re:Sound represents performers and makers of sound recordings. The Act provides that performers and makers of sound recordings are entitled to remuneration for the performance in public or the com-

munication to the public by telecommunication of their published sound recordings. Re:Sound filed two tariff proposals claiming royalties for the use of sound recordings embodied in movies shown by motion picture theatres and other establishments, and for the use of sound recordings in television programs broadcast by commercial over-the-air, pay, specialty and other television services. A number of telecommunications companies and associations objected to the proposed tariffs on the ground that the definition of "sound recording" excludes soundtracks of cinematographic works. The Board refused to certify the tariffs. On judicial review, the Federal Court of Appeal upheld the Board's decision.

Held: The Court held that a sound recording that is part of a soundtrack cannot be the subject of a tariff under Section 19 of the Act when the soundtrack accompanies a cinematographic work. Section 2 of the Act defines "sound recording" as "a recording, fixed in any material form, consisting of sounds, whether or not of a performance of a work, *but excludes any soundtrack of a cinematographic work where it accompanies the cinematographic work*". Therefore, a musical work that becomes part of the soundtrack to a cinematographic work is no longer a "sound recording" under the Act, and therefore is not subject to the right to remuneration and royalties under Section 19 of the Act.

The Court also examined the compatibility of the Act with the *International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations* (the "**Rome Convention**"). Although the *Rome Convention* states that producers of phonograms shall enjoy the right to authorize or prohibit the direct or indirect reproduction of their phonograms, Article 3 defines "phonogram" as "any exclusively aural fixation of sounds of a performance or of other sounds". A soundtrack that accompanies a cinematographic work is not for "exclusively aural fixations". Furthermore, if a pre-existing sound recording is extracted from a soundtrack accompanying a cinematographic work, it once again attracts the protection offered to sound recordings. The Board's interpreta-

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tion is therefore consonant with Canada's obligations under the *Rome Convention*.

If you would like further information regarding the Court's decisions or have any questions with respect to the foregoing, please do not hesitate to contact any member of our Entertainment or Communications Law Groups:

Michael Koch

mkoch@goodmans.ca 416.597.5156

Rob Malcolmson

rmalcolmson@goodmans.ca 416.597.6286

Monique McAlister

mmcalister@goodmans.ca 416.597.4255

Tara Parker

tparker@goodmans.ca 416.597.4181

Peter Ruby

pruby@goodmans.ca 416.597.4184

Jaclyn Seidman

jseidman@goodmans.ca 416.849.6911

Carolyn Stamegna

cstamegna@goodmans.ca 416.597.6250

David Zitzerman

dzitzerman@goodmans.ca 416.597.4172