

Broadcasting, Telecommuni- cations & New Media

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Only in Canada, You Say? Perhaps Not: Court Rules on Internet Copyright

Introduction

On Thursday, May 2, 2002, the Federal Court of Appeal partially upheld a Copyright Board decision regarding copyright liability on the Internet. In a ruling with broad implications, the Court reviewed the Board's decision on Tariff 22, a proposed tariff relating to the communication of musical works over the Internet, filed by the Society of Composers, Authors and Music Publishers of Canada (SOCAN).

In its 96-page ruling the Court held:

- With the exception of transmissions from a cache, the activities of Internet Service Providers (ISPs) in providing access to the Internet and hosting content on their servers do not make them liable for the communication of works over the Internet.
- The Board's jurisdiction to approve royalties is not limited to transmissions that originate from host servers located within Canada — rather, the Board must determine, on a case-by-case basis, whether there is a real and substantial connection between the relevant communication and Canada.

Subject to SOCAN now seeking leave to appeal to the Supreme Court of Canada, or ISPs challenging the exception made by the Court's majority for "caching", the Court's decision appears to settle the question of the liability of ISPs for the communication of works over the Internet. This will re-direct the spotlight under Tariff 22 to operators of Web sites, which are equally the target of SOCAN's proposed tariff. The Court's decision also leaves the Board with a practical challenge in applying its jurisdiction to host servers located beyond Canada's borders.

Background - the Board's Decision

On October 27, 1999, the Board issued a decision that concluded the first phase of a two-phase proceeding to consider Tariff 22. Tariff 22 targets the communication of musical works by means of computers or other devices connected to a telecommunications network where the transmission of those works can be accessed by a person independently of any other person.

Because objections to the proposed tariff raised important legal issues of a preliminary nature, the Board opted to conduct the hearing in two separate phases, the first of which was aimed at determining which activities on the Internet, if any, constitute a protected use targeted in the tariff. The second phase of the proceeding will address policy issues, including the structure of the tariff, and the amount of royalties payable.

In its decision concluding the first phase of the proceeding, the Board made a number of important determinations:

- The transmission of a musical work over the Internet constitutes a "communication to the public by telecommunication" under the *Copyright Act*.
- The work is communicated when it is actually transmitted; however, the person who posts a musical work on a site, or otherwise makes it available for transmission to the public, is responsible for the communication.
- Internet intermediaries, including ISPs which merely provide their customers with connectivity to the Internet, do not themselves communicate or authorize others to communicate works over the Internet.

- To occur in Canada, and hence to be subject to the tariff, a communication must originate from a server located in Canada on which content has been posted.

SOCAN applied for judicial review of certain key elements of the Board's decision.

The Court's Decision

SOCAN's application raised essentially two substantive questions:

- When material is transmitted on the Internet, is an intermediary such as an ISP that merely operates the server on which it is stored, and supplies the ultimate recipient with access to the Internet, liable for the transmission?
- When material requested by an Internet user in Canada is stored on a server outside Canada, does a transmission from that server avoid liability in Canada?

Liability of Intermediaries

One of the principal issues to be decided by the Court was whether the Board was correct in its conclusion that intermediaries such as ISPs were generally not liable for the communication of musical works over the Internet, because their activities only provide "the means of telecommunication necessary for another person to communicate the work" within the meaning of the *Copyright Act*. A collateral issue was whether the ISP could otherwise be held to be liable as "authorizing" the communication.

The Court upheld the Board's ruling that the core activities of operators of host servers and Internet access providers do not make them liable. In doing so, the Court rejected SOCAN's argument that only traditional "common carriers" are protected from liability for the content of the communications that they transmit. The Court held instead that legislation should be interpreted, where permitted by its language and underlying rationale, in a way that takes account of technological developments.

In agreeing with the Board that the services and facilities provided by intermediaries are "necessary" for the communication, the Court held that it is irrelevant that the content provider might have chosen other, possibly less convenient, means of communicating the music, than posting it on a host server, such as making it available on the hard drive of his or her own Internet-

accessible computer. Accordingly, the Court held that the operator of a host server is no less providing the means "necessary" to enable the content provider to communicate by telecommunication with end users than is the provider of Internet access.

In a departure from the Board's decision, however, the majority of the Court held that an Internet intermediary who *caches* material is not similarly providing the means necessary for the communication. In the majority's view, "the fact that the cache enhances the speed of transmission and reduces the cost to the Internet access provider does not render the cache a practical necessity for communication." In the Court's view, therefore, the operator of a cache is liable for the communication of the music. The distinction created by the Court between caching and other activities of ISPs is not without its difficulties. It appears to be based on the Court's characterization of caching as involving the selection of the material to be cached, thereby taking this activity outside the exception from liability created for those exercising a merely passive function.

The Court also upheld the Board's ruling that operators of host servers and Internet access providers do not effectively control the content of what is transmitted:

"...while perhaps theoretically possible, it is not practicable for Internet access providers to "read" and, in effect, to block requests from end users for copyright material, nor to screen out copyright material from being transmitted over their routers to the end user, without slowing to an unacceptable extent the transmission of data."

Finally, although it did not agree with the Board's analysis of this issue, the Court did agree with the Board's conclusion that Internet intermediaries were not authorizing the communication of musical works by those posting this material. The Court held that those providing access services cannot be said to be authorizing content providers, particularly since these two parties often have no contractual relationship.

With respect to host server operators, in a finding that may have wider relevance for ISPs' liability, the Court allowed that an implicit authorization to communicate infringing material might be inferred based on the facts of a particular case — for example, where a host server operator fails to remove material after being advised of its presence and having a reasonable oppor-

tunity to take it down. The Court ultimately concluded, however, that Tariff 22 did not target behaviour on this limited factual basis.

Location of the Server

SOCAN is only entitled to a royalty in respect of copyright infringements that occur in Canada. The Board stated that an Internet communication occurs in Canada if it originates from a server in Canada.

The Court overturned the Board's ruling, stating that the location of the communication should not be determined solely by that of the host server, especially since the communication is only ever effected at the request of the end user.

The Court recognized that the Board's decision might not only have the effect of denying a royalty to owners of other intellectual property rights that are not recognized in certain other jurisdictions, such as the rights of performers and of sound recording makers, but might also create a double royalty risk where a communication originating in Canada might be seen to have occurred in a second jurisdiction. The Court ultimately acknowledged that the resolution of some of the trans-border problems associated with Internet communications will require supranational solutions.

In the meantime, the Court tried its hand at fashioning a test for locating the communication and adopted the "real and substantial connection" test used in other legal contexts. This test requires an examination of all connecting factors for the purpose of identifying communications that occur in Canada and can therefore attract liability to pay a royalty to SOCAN. The following connecting factors were assumed to be the most important:

- the location of the content provider;
- the location of the end user; and
- the location of the intermediaries, in particular the host server.

The Court cited the location of the end user as being "particularly important", given the policy of protecting copyright in the Canadian market.

Conclusion

It is too early to tell whether SOCAN will try to have one more kick at the "ISP can" or ISPs will challenge the ruling regarding caching, and apply for leave to appeal

the Court's decision to the Supreme Court of Canada. While the chance of a successful appeal may be uncertain, the relative difficulty of enforcing a tariff against other parties in the Internet chain may dictate a further appeal by SOCAN. The difficulties for ISPs presented by the Court's finding regarding caching equally may lead to an appeal.

Once the legal issues have been finally resolved, Tariff 22 will proceed to a hearing on the second phase before the Copyright Board, to determine who will pay a royalty for the communication of music over the Internet, and how that royalty will be calculated.

If the Court's ruling remains unchallenged or is upheld, then it can be expected that Web sites, including Canada's largest portals, will become a major focus for the determination of an appropriate royalty. The structuring of a tariff will prove particularly complex given the still-developing state of Internet business models, and the fact that many of the largest Web sites are not, or are only minimally, involved in the posting of music. Finally, the Court has handed the Board a monumental challenge in requiring that it consider all relevant connecting factors in order to determine whether a communication from a host server located outside of the country creates a liability in Canada.

For further information and legal advice regarding this decision, please contact Michael Koch or Robert Malcolmson. For further information or advice on copyright, competition and other regulatory issues affecting the broadcasting, telecommunications and new media industries, please contact any member of our Broadcasting, Telecommunications and New Media Group:

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