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Blakes Bulletin

Intellectual Property

The Internet as a Technological Taxi

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The Supreme Court of Canada (SCC), in recent years, has seemingly developed a newfound interest in matters of copyright which, for decades prior to the digital revolution, had been perceived as a relatively sleepy law to many. Over the past decade, however, that has changed. The SCC released a number of key decisions, some foundational in nature, that help us better understand the functioning of copyright law, which has become increasingly important in the digital age.

The SCC recently released five decisions on a single day. A previous *Blakes Bulletin on Intellectual Property* discussed two of the decisions; this bulletin addresses the other three. Two of them – *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada* and *Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada* – consider what qualifies as the communication of a work to the public by telecommunication under the *Copyright Act* (the Act). Such communication entitles the holder of copyright in the work to a royalty payment approved by the Copyright Board of Canada (the Board).

The SCC held that downloading music is not a communication to the public under the Act, as this transmission is simply a more technologically advanced way of providing a copy of a musical work to the public as compared with selling the copy in a physical store. As a result, although royalties must still be paid to copy a song, additional royalties are not required when this copy is downloaded from the Internet. Streaming music, however, was deemed not to be a private transaction between an online music provider and a member of the public and is thus subject to royalty payments.

In the third decision, *Re:Sound v. Motion Picture Theatre Associations of Canada*, the SCC held that the performers and makers of sound recordings are not entitled to equitable remuneration when their sound recordings are featured in movie or television soundtracks.

ENTERTAINMENT SOFTWARE ASSOCIATION V. SOCAN

The *Entertainment Software Association* case considers whether music that is embedded in a video game and downloaded over the Internet constitutes a communication of that music to the public within the meaning of paragraph 3(1)(f) of the Act and consequently requires the payment of royalties to copyright holders.

Underlying Decisions

The Society of Composers, Authors and Music Publishers of Canada (SOCAN), the collective rights society that represents composers, authors and music publishers in Canada, had applied to the Board for a tariff to be imposed on musical works featured on video games that are downloaded by a user. Although the music incorporated into video games is already subject to royalties negotiated with copyright holders before games are even published, the Board agreed with SOCAN that an additional tariff should be imposed where an online download takes place. The Board concluded that the act of downloading, although a one-to-one transaction, is a "communication to the public" within the meaning of paragraph 3(1)(f) and thus requires a royalty payment. The Board's decision was upheld by the Federal Court of Appeal (the FCA).

Supreme Court of Canada

A five-to-four majority of the SCC set aside the FCA's decision to uphold the tariff imposed on music embedded in video games. The principle of technological neutrality, which maintains that the Act should apply equally to traditional and more technologically advanced media, was key to the SCC's conclusion.

Ultimately, the SCC held that certain games should not attract additional royalty payments merely because they are downloaded over the Internet as opposed to being purchased in a traditional store. The SCC reasoned that this would result in the double compensation of rights holders, and impose an additional cost on the use of Internet-based technologies. The SCC noted that, since there is no practical difference between downloading

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and purchasing a physical copy of a game, "the Internet should be seen as a technological taxi that delivers a durable copy of the same work to the end user". The SCC further held that such an approach achieves the proper balance between promoting the public interest and the dissemination of works, on the one hand, and rewarding the creators of these works, on the other. This reasoning would apply not only to video game downloads but also to any files similarly transmitted over the Internet.

The SCC also examined the phrase "to *communicate* the work to the public by *telecommunication*" (emphasis added) in paragraph 3(1)(f). The SCC noted that, although the term "communication" is not defined in the Act, it is traditionally tied to the performance aspect of a work. The term "telecommunication", on the other hand, relates to the reproduction of a work. After reviewing the legislative history of paragraph 3(1)(f), the majority of the SCC concluded that the communication and performance aspect is the focus of paragraph 3(1)(f) and that it should not be read to capture acts of reproduction. The SCC then reasoned that the act of downloading leads to the eventual reproduction of works rather than the performance of these works. As such, downloads should not be qualified as "communications to the public" pursuant to paragraph 3(1)(f), and the music or other copyrighted material they contain should therefore not be subject to royalty payments.

Four dissenting judges disagreed with this interpretation of paragraph 3(1)(f) and held that copyright holders should be entitled to compensation for both the communication and the reproduction of downloaded works. Although they found that technological neutrality is desirable, they were unwilling to confine the communication right to a performance right. As such, although downloads lead to reproduction rather than performance of works, royalty payments are still owed. Adopting a similar analogy as the one used by the majority, the dissenting judges remarked that "In many respects, the Internet may well be described as a technological taxi; but taxis need not give free rides."

ROGERS COMMUNICATIONS V. SOCAN

Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada also deals with the interpretation of paragraph 3(1)(f) of the Act, but in the context of online music service providers, such as Apple's iTunes. More specifically, the case considers whether a song downloaded or streamed by an individual through an online music service qualifies as a communication of that song to the public by telecommunication under the Act and requires the payment of royalties.

Underlying Decisions

The Board certified a tariff covering music accessed using the Internet. Rogers and others sought review of this decision by the FCA and argued that music downloads are *private* "point-to-point" transactions between the individual and the online music service as opposed to *public* communications. In response, SOCAN argued that repeated transmissions of the same musical works could transform these discrete transactions into communications to the public.

The FCA held that music downloads are communications to the public based on two factors:

- the intention of the communicator; and
- the reception of the communication by at least one member of the public.

Intention of Communicator

The FCA reasoned that as long as a communication is intended to be received by members of the public, even in the context of private transactions, there is a communication to the public within the meaning of the Act. To illustrate its point, the FCA drew an analogy: although a traditional vendor may sell a product to someone through the course of an individual sale, this vendor is still understood as selling goods to the public at large as they intend to do so. Since online music providers intend to serve the public, music downloads are similarly considered communications to the public.

Reception of Communication by Member of the Public

Although it found in favour of SOCAN, the FCA disagreed with SOCAN's view that a music download is a communication to the public because it is repeatedly transmitted. The FCA held that the number of persons who receive the communication is irrelevant in this determination as long as there is at least one recipient. The FCA again drew on the sales analogy to illustrate its point: a traditional vendor still "sells to the public" even if only one individual actually purchases his goods. As such, it does not matter how many times a music file is downloaded – each download, starting with the first, is a communication to the public.

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Supreme Court of Canada

In its unanimous decision, the SCC began by distinguishing between music downloads and music streams. In the first case, a permanent copy is provided to the user while, in the second, only a temporary copy is made available.

With respect to downloads, the SCC found itself bound by its decision in the *Entertainment Software Association* case discussed above. Musical works are not communicated to the public within the meaning of paragraph 3(1)(f) when they are downloaded, since the act of downloading is merely a more technologically advanced way of providing copies of works to end users.

Nonetheless, the SCC found that streaming a musical work, although a "point-to-point" communication, qualifies as a communication to the public pursuant to the Act. The SCC held that the true character of the communication activity must be examined when determining if a "point-to-point" communication engages the exclusive right to communicate to the public. In the case of an online music provider offering streams, the SCC concluded that the communication activity at issue results in copyrighted works being indiscriminately made available to anyone with Internet access. As such, individuals who request streamed music are not members of a small group or segment of the population, but constitute instead "the public".

The importance of the performance aspect rather than the reproduction aspect of paragraph 3(1)(f) of the Act is also implicit in the SCC's decision. Indeed, in *Entertainment Software Association,* the SCC had noted that "Unlike a download, the experience of a stream is much more akin to a broadcast or performance". As such, streams are appropriately qualified as communications to the public pursuant to paragraph 3(1)(f).

The SCC noted that excluding music streams from being qualified as communications to the public merely because they are initiated at an individual's request would have the perverse effect of excluding all interactive communications from such qualification. Although communications to the public were historically linked to broadcasting or "push" models, a technologically neutral approach to copyright law requires that "pull" models also qualify as communications to the public when the public at large is requesting works.

RE:SOUND V. MOTION PICTURE THEATRE ASSOCIATIONS OF CANADA

Re:Sound v. Motion Picture Theatre Associations deals with a different issue: whether a sound recording which is used as part of a movie soundtrack or television program is subject to equitable remuneration.

Underlying Decisions

This issue arose when Re:Sound, a collective rights society, applied for two tariffs: Tariff 7, which sets royalties for the use of sound recordings used by movie theatres, and Tariff 9, which sets royalties for sound recordings used in television programs. These tariffs were based on section 19 of the Act, which states that, "[w]here a sound recording has been published, the performer and maker are entitled [...] to be paid equitable remuneration for its performance in public or its communication to the public by telecommunication". The Board refused to certify the tariffs based on the definition of "sound recording" under section 2 the Act, which excludes "any *soundtrack* of a cinematographic work where it accompanies the cinematographic work" (emphasis added).

Re:Sound had argued that the carve-out in the definition of "sound recording" excludes the soundtrack *as a whole* from the definition of sound recording, but not its *individual components*. As such, makers and performers of separate sound recordings included in a soundtrack should be able to claim equitable remuneration. The Board did not agree with this argument and concluded that "neither the soundtrack nor any of its constituent parts are a 'sound recording' when they are communicated or performed with [a] program or movie".

Re:Sound further argued that a decision not to allow equitable remuneration would have unfair consequences for the rights of performers and makers of sound recordings. It explained that a sound recording incorporated in a soundtrack could potentially be disseminated over the Internet or extracted from a DVD and republished without any recourse available to the rights holder.

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On appeal, the FCA found this argument to be ill-founded, as the Act provides that unauthorized reproductions of published sound recordings already attract copyright protection. For example, pursuant to subsection 17(1) of the Act, a performer must authorize the embodiment of a performance in a cinematic work. Any unauthorized embodiment is thus in contravention of the Act. Furthermore, a sound recording which is extracted from a soundtrack contained in a cinematographic work also attracts the protection offered to performers and makers of stand-alone sound recordings under the Act.

Supreme Court of Canada

The SCC agreed with the conclusion of both the Board and the FCA that soundtracks include pre-existing sound recordings and therefore do not require equitable remuneration under section 19. According to the SCC, this conclusion is supported by general rules of statutory interpretation, the scheme of the Act and the Parliament of Canada's intention. For instance, the SCC noted that, had Parliament intended on excluding individual sound recordings from the meaning of "soundtrack", more explicit wording to this effect would have been used. Indeed, Parliament could have excluded "the aggregate of sounds in a soundtrack" from equitable remuneration but instead chose to exclude the entire soundtrack, including its individual components. The SCC further held that its conclusion also meets Canada's international legal obligations under the *Rome Convention,* which similarly excludes soundtracks from the definition of sound recording (or "phonogram").

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