

Compulsory Licensing and Administrative Procedures in Canada

The Honorable William J. Vancise*

INTRODUCTION

I have been asked to participate at this Symposium as past Chair of the Copyright Board of Canada (“the Board”). For over a decade, I presided over the Board’s proceedings to set tariffs on the use of copyrighted material. Although I am not an expert in intellectual property, I was fortunate to hear and decide cases including the transmission of music on the Internet, interpretation of the blank media levy, making available right, and fair dealing disputes surrounding licensing for educational institutions. The Board decides more copyright issues than any other court or tribunal in Canada. I propose to deal with the Canadian experience administering copyright with several compulsory or statutory licensing schemes. There are at least three kinds of “compulsory” licensing regimes in Canada: (1) the private copying levy on blank recording media; (2) the process of issuing licenses for “unlocatable copyright owners”; and (3) the mandatory filing of tariffs for the public performance or communication of music.¹

I. PRIVATE COPYING LEVIES

The private copying regime is the quintessential compulsory licensing scheme for both compensating authors and composers, performers, and record producers for the copying of their music, and providing third party compensation to the consumers of the audio recording media on which copies are made. This regime was introduced in Canada in the late 1990s and was initially successful in providing a tariff on the purchase of cassettes, recordable CDs, and minidisks, and then distributing the royalties to the collective societies representing rights holders in the proportion determined by the Board. This system functioned well until 2003–2004. Technology, however, overtook the regime when the Canadian Private Copying Collective (“CPCC”), the collective responsible for administering compulsory licensing, requested a tariff for blank DVDs and—more importantly—for the

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1. Copyright Act, R.S.C. 1985, c. C-42 §§ 67–69, 77, 79–87 (Can.).

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removable or nonremovable memory used in MP3 players. In 2003, the Board first decided that the removable or nonremovable memory used in an MP3 player fell within the definition of an “audio recording medium” in the Canadian Copyright Act (“the Act”) and then established a tariff.²

In response, objectors applied for judicial review to set aside the tariff. Although the objectors raised a number of issues, the most important one for our purposes was whether the removable or nonremovable memory should be identified as an “audio recording medium” when permanently embedded in an MP3 player. The Federal Court of Appeal reversed the Board’s initial finding, holding that Parliament did not intend private copying to include a recorder or similar device.³ In the court’s opinion, the decision to include MP3 players in the private copying scheme lay with Parliament, and not with the Court. As a result, the court set aside the tariff and the Supreme Court of Canada denied appeal.

The issue of the tariff was not, however, dead. CPCC renewed its request for a tariff, this time on the digital audio recorder itself, rather than on the removable or nonremovable memory device. The Board again found that a digital audio recorder (as distinct from the memory device itself) was an “audio recording medium” pursuant to the definition in the Act.⁴ Once again, the Federal Court of Appeal—in what I later described as “eight turgid paragraphs” with no analysis—overturned the decision of the Board.⁵ CPCC did not apply for leave to appeal because, as I am reliably informed, the Canadian Government at the time warned that the collective might face new legislation further restricting the private copying right if it persisted. Indeed, this veiled threat came to fruition some months later when the Government issued a regulation explicitly exempting memory cards from the regime.⁶ Since then, the royalties for cassettes and CDs has consistently declined. Cassettes have been rendered obsolete, and the tariff for CDs is now CAD \$.29 per CD.⁷ The private copying regime is nearing its starvation-induced death.

Opinions differ over whether Canada’s compulsory license and levy scheme for private copying was a misguided policy or a model solution. Rights holders had mixed feelings. Those accustomed to collective licensing liked the revenue stream and the principle recognizing that even *private* copying had compensable value. Other rights holders, including record labels, gladly accepted royalties, but would have preferred a system giving them more control, like microtransactions facilitated

2. COPYRIGHT BD. OF CAN., *COPYING FOR PRIVATE USE: PRIVATE COPYING 2003–2004* (2003) 46–47, <https://perma.cc/HFQ5-LNW8>.

3. *CPCC v. Can. Storage Media Alliance*, [2005] 2 F.C.R. 654, paras. 159–60 (Can.).

4. COPYRIGHT BD. OF CAN., *COPYING FOR PRIVATE USE: PRIVATE COPYING 2008–2009* (2007) 18, <https://perma.cc/9P2C-RRRU>.

5. *Apple Can. v. CPCC*, [2008] F.C.R. 9, paras. 3–4; Vancise, Speech at the Law Society of Upper Canada 15th Biennial National Conference (Apr. 23, 2010) (transcript available at <https://perma.cc/PR73-MTFR>); see also Vancise, Speech at the Seminar Jointly Sponsored by the Intellectual Property Institute of Canada and McGill University (Aug. 10, 2010) (transcript available at <https://perma.cc/YP2T-4QQW>).

6. *MicroSD Cards Exclusion Regulations (Copyright Act)*, SOR/2012-226 (Can.).

7. See COPYRIGHT BD. OF CAN., *COPYING FOR PRIVATE USE: TARIFF OF LEVIES TO BE COLLECTED BY CPCC IN 2018 AND 2019 ON THE SALE OF BLANK AUDIO RECORDING MEDIA* para. 1 (2017), <https://perma.cc/53EM-A2RU>.

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by digital rights management tools. Canadian consumers and media retailers generally opposed the program on one of two grounds. Either they used media like blank CDs for copying photos or data, but not music, thereby objecting to the cross subsidization. Or, if they did privately copy music, they realized that this activity of “format shifting” was and still is treated as fair use in the United States.

Just over a decade ago, numerous academics proposed ideas to license peer to peer file sharing based on a statutory exemption and corresponding levy to be paid, probably, by Internet intermediaries.⁸ These proposals, however, did not find their way into legislation mainly because technology and new business models changed consumer behavior so quickly. Legal options for, at first, downloading, and later, streaming music gained widespread acceptance. Online music stores and streaming services are now the norm in the industry. Technological protection measures control access and copying. The price of temporary or permanent private copying in the process is built into licensing and subscription fees.

II. LICENSES ISSUED FOR UNLOCATABLE OWNERS

I have also been asked to describe the orphan works regime provided for by statute in Canada. Section 77 of the Act provides for a license for orphan works that are called “unlocatables.”⁹ The section is remedial in nature and meant to foster circulation of works and other subject matters protected by copyright while also protecting the economic and moral interests of the copyright holder. The Act sets out a number of clear conditions that must be met before the Board, the administrative tribunal charged with administering the regime, can decide to exercise its discretion to issue a license: (1) the work must be published and protected by copyright; (2) the intended work must be one contemplated by section 3 of the Act; (3) the Board must be satisfied that the owner of the copyrighted work cannot be located and that the applicant has made reasonable efforts to locate the owner. If all these conditions are satisfied, the Board may issue a license. If it does, the Board can set out the terms of the nonexclusive license, including the amount that the copyright owner may claim after expiry of the license. The Board has always viewed its role as that of stepping into the shoes of the owner. This is not always easy. Finally, the Board must always take into account general public policy and should not issue a license for any purpose that is contrary to modern Canadian society.

The decision to issue a license usually turns on whether the work in question falls within section 3 of the Act. In *Breakthrough Films and Television*, the Board articulated the principles that are used in determining whether to grant a license.¹⁰ There, the issue was whether the work for which a license was requested was a

8. See, e.g., WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW, AND THE FUTURE OF ENTERTAINMENT 217–21 (Stan. U. Press 2004); Neil Weinstock Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARV. J.L. & TECH. 1, 4 (2003).

9. Copyright Act, R.S.C. 1985, c. C-42 § 77 (Can.).

10. COPYRIGHT BD. OF CAN., *BREAKTHROUGH FILMS & TELEVISION*, 5–7 (2006), <https://perma.cc/3XGL-TG5D>.

substantial part of the work, either quantitatively or qualitatively. The work consisted of 325 words found on five different pages in a book of 354 pages. Less than one percent of the whole work was arguably not quantitatively sufficient to be a substantial part of the work. The second part of the inquiry, however, was whether the work was *qualitatively* a substantial part of the work. The majority of the Board found this second prong of the inquiry satisfied and granted the license.¹¹ Since 1990, the Board has granted 297 licenses. Only twelve applications have been denied with reasons. Many applications are denied without formal reason, for example, if copyright was not required or the Board's staff succeeded in locating the copyright holder.

Critics have faulted this regime as bureaucratic and time consuming, with no demonstrable economic benefit. Jeremy de Beer, Law Professor at the University of Ottawa, and Mario Bouchard, General Counsel of the Board, argue that the regime *can* work, but that it is resource intensive and time consuming to administer.¹² They conclude that the regime provides little payoff, and the bureaucracy stymies effective and efficient use of historical works like old photos, out of print books, and speeches. As I will argue below, the system can only work if the agency charged with administering it is given adequate resources. The Board's administrative responsibilities regarding the unlocatables regime has been mostly overlooked in recent criticisms of its procedures.

III. TARIFFS FOR PERFORMANCES OF MUSICAL WORKS

A third type of mandatory filing of tariffs is found in part VII of the Act and applies basically to the Society of Composers, Authors and Music Publishers of Canada ("SOCAN") and Re:Sound (societies that collect royalties for the performance and communication of musical works, performers' performances, or sound recordings).¹³ These collectives are required by the Act to file a proposed tariff each year. This tariff filing system is "compulsory" in that, unless a tariff was proposed, no action for infringement can be started without the consent of the Minister of Innovation, Science and Economic Development ("ISED"). Collective societies that administer rights *other than* performing rights in music—such as Access Copyright (which represents authors of literary works) and the Canadian Musical Reproduction Rights Agency ("CMRRA," which represents reproduction rights in music)—have the option to file tariffs, negotiate private agreements, or commence lawsuits (if so authorized by their members). For those societies, tariff filing is not mandatory.¹⁴

11. See *Edufile v. Automobile Prot. Ass'n.*, [2000] 4 F.C. 195, para. 23 (Can.).

12. Jeremy de Beer & Mario Bouchard, *Canada's Orphan Works Regime: Unlocatable Owners and the Copyright Board*, 10 OXFORD U. COMMW. L.J. 215, 238 (2010) ("Administrative efficiency and the allocation of Board resources are among the most important issues.").

13. Copyright Act §§ 67–69.

14. *Id.* at § 70.1.

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Some of the most important decisions of the Board originated from the application for tariffs by SOCAN pursuant to part VII of the Act.¹⁵ Among other things, SOCAN obtained tariffs for the use of musical works on the Internet communicated by telecommunication in the context of commercial radio broadcasting; the downloading and streaming of music from the Internet; and ring tones, previews of musical works, and satellite radio. Access Copyright also filed tariffs under part VII and claimed royalties for literary works involving educational institutions and governments that directly raised the issue of fair dealing.¹⁶

A number of the issues decided by the Board under part VII have resulted in appellate rulings by the Supreme Court of Canada. Indeed, the five decisions rendered by the Supreme Court in July 2012, now known collectively as the “Pentalogy,” evidence the importance of the mandatory filing of tariffs.¹⁷ The Pentalogy fundamentally changed copyright law in Canada. Now is probably not the time for me to express my profound disagreement with the majority decision in *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada*, namely that a download is not a communication to the public by telecommunication.¹⁸ Surprisingly, the majority found that streaming was a communication by telecommunication to the public, notwithstanding that the technology is precisely the same as that for downloading. I agree with the dissenting opinion written by Justice Rothstein and do not agree with the majority’s reasoning, which, as I have said, had a fundamental impact on copyright in Canada. For example, because SOCAN does not represent the reproduction right, it was required to payback approximately CAD \$13,000,000 in royalties. Some of the Supreme Court’s other decisions, such as *Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright)*, were equally disruptive.¹⁹ All of those matters originated with tariffs filed at the Board.

IV. THE ART OF TARIFF SETTING

Tariff setting is an art that requires the Board to make determinations about the amount of compensation to be paid to right holders. The actual amount of the royalty is of course the fundamental reason for the decision. The next step is the creation of practically workable tariff terms and conditions. I remember the first time I was exposed to the tariff setting mechanism, which occurs after deciding the

15. See Copyright Bd. of Can., *Decisions: Public Performance of Music*, <https://perma.cc/XG8K-EKQ3> (last visited Feb. 4, 2018).

16. See, e.g., *Alberta v. Access Copyright*, [2012] 2 S.C.R. 345 (Can.)

17. See generally, *THE COPYRIGHT PENTALOGY: HOW THE SUPREME COURT OF CANADA SHOOK THE FOUNDATIONS OF CANADIAN COPYRIGHT LAW*, (Michael Geist ed., U. Ottawa Press) (2013) (describing the rulings and potential implications of the Supreme Court of Canada’s five copyright decisions handed down on July 12, 2012).

18. *Entm’t Software Ass’n. v. Soc’y of Composers, Authors and Music Publishers of Can.*, [2012] 2 S.C.R. 231, para. 28 (Can.).

19. *Alberta v. Access Copyright*, [2012] 2 S.C.R. 345, paras. 37–38 (Can.) (granting Alberta’s appeal request for Board to reapply fair dealing factors to determine whether photocopies of “short excerpts of complementary texts” with Access Copyright owned texts represented “unfair dealing”).

issues in the case, but before advising the parties of the result. The Board would consult with the parties prior to the actual release of the decision and prior to announcing the result in order to ensure its workability. To me, this was a completely foreign process, but it worked.

In a recently released decision dealing with “online music services,” the Board staff negotiated with the various parties for many months to establish a workable tariff.²⁰ This was a particularly complex case with a number of parties involved, but any delays in setting tariffs cause frustration and lead to allegations of inefficiency and dysfunction. The time needed to issue a decision is occasionally much longer than desired, contributing to criticism of the Board and calls for reform by bloggers, academics, gadflies, and entities dissatisfied with recent decisions. In particular, entities responded negatively to the recent Re:Sound decision dealing with Internet music streaming services, and two other decisions dealing with the Access Copyright tariffs for the reproduction of literary works by governments and elementary and secondary schools. The resulting clamor was not driven by principle, but rather by that old adage of whose ox is being gored.

I was most disturbed by Music Canada’s response to the Re:Sound decision, which attacked the Board’s credibility in the media and with Members of Parliament. The President of Music Canada even wrote a letter to my successor imploring him to change the way the Copyright Board operated so as to “facilitate the prosperity of Canadian cultural businesses rather than impede it.”²¹ This is particularly rich coming from Music Canada, an organization that is a shill for US labels. The same comments can be made about Access Copyright, which is extremely unhappy with some of the Board’s recent decisions lowering royalties payable to it under the tariffs. Access Copyright went so far as to claim that recent decisions of the Board highlight the systemic dysfunction in the Canadian copyright landscape and need for legislative reform. The problem does not lie in copyright law, but rather in Access Copyright’s business model. Indeed, one of our earlier critics recently came to the Board’s defense and pointed out that the reason for lowering the tariff was not systemic dysfunction of the Board, but rather a decision of the Supreme Court of Canada regarding fair dealing.²² Various politicians, pressured and lobbied by various interest groups including Music Canada, have also criticized the Board for the length of time it takes for decisions to be rendered. I recently dealt with some of these criticisms in a speech I gave to the Association Littéraire et Artistique Internationale (ALAI).²³

20. Online Music, Copyright Bd. of Can., para. 20 (2017), <http://perma.cc/PN25-RSY7>.

21. See Siobhan Ozege, *8 Days of Tariff 8: Canadians Deserve a Copyright Board that Makes Decisions Fairly and in a Timely Fashion*, MUSIC CAN. (June 24, 2015), <https://perma.cc/ADU7-HVUT>.

22. See Michael Geist, *Why the Copyright Board Decision Affirms Canadian Education’s Approach to Fair Dealing*, MICHAEL GEIST (May 26, 2015), <https://perma.cc/XT8C-ZFXR>.

23. Vancise, *Speech Delivered to the ALAI Symposium: The Copyright Board of Canada: Which Way Ahead?* (May 25, 2016) (transcript available at <https://perma.cc/GYF2-4ZLV>).

V. CONCLUSIONS ABOUT PROCEDURAL REFORM

In response to the amount of noise and uninformed complaints created by these various bloggers and lobbyists, the Government proposed an inquiry into the Board's operation. On August 9, 2017, ISED and Canada Heritage announced a consultation requesting comments on thirteen options for increasing efficiency and decreasing delays in tariff setting.²⁴ Many of the suggestions originating from ISED are impractical and unworkable. To date, stakeholders and interested parties have provided some sixty submissions. There is no indication of when or how ISED and Canada Heritage will respond to the submissions. In addition to the foregoing, section 92 of the Act mandates review of the statute every five years by a Parliamentary Committee, the next of which is set to start in November 2018. There has been no indication of the form or timetable of the review.

In any discussion about recent criticism of the Board, one has to take into account historical changes in the institution's mandate. Let me be clear, there are things that can be done to improve the operation of the Board, but one has to be realistic in calling for change. The legislative framework of the Board's mandate has changed dramatically over the years. Phase I and II reviews of the Act resulted in amendments in 1989 and 1997 that significantly expanded the Board's mandate and responsibilities. Those changes provided collective societies the option of negotiating license agreements with users or filing tariffs. As a result, the Board has dealt with reproduction of musical works; reproduction of literary works; reproduction of sound recordings and performers performances; and media monitoring. As part of the second phase, the Board also dealt with new neighbouring rights, the private copying regime, and educational rights. Phase III culminated with the Copyright Modernization Act, which came into force in November 2012. These amendments added new rights and exceptions resulting in a further expansion of the Board's mandate and workload. Among the new rights and exceptions introduced were the new distribution and making available rights; the addition of education, parody, and satire as allowable for viewing purposes; and the exceptions dealing with non-commercial user generated content, reproduction for private purposes, copying for the purpose of time shifting, backup copies, ephemeral copies made by broadcasting undertakings and certain activities of educational institutions. All of this added responsibility was added without requisite funding to enable the Board to deal with the added workload. Indeed, when my successor, Mr. Justice Blair, was appointed, the then Minister

24. COPYRIGHT BD. OF CAN., A CONSULTATION ON OPTIONS FOR REFORM TO THE COPYRIGHT BOARD OF CANADA (2017), <https://perma.cc/TT7G-UX5Q>. The discussion paper builds on two recent government-commissioned studies; see de Beer, *Canada's Copyright Tariff-Setting Process: An Empirical Review*, 63 J. COPYRIGHT SOC'Y U.S.A. 471, 472-73 (2016) ("This Article provides valuable, empirical analysis that can inform proposals for reform or adoption of aspects of Canada's tariff setting process."); PAUL DALY, CAN. HERITAGE AND INNOVATION, SCI. AND ECON. DEV. CAN., BEST PRACTICES IN ADMINISTRATIVE DECISION-MAKING: VIEWING THE COPYRIGHT BOARD OF CANADA IN A COMPARATIVE LIGHT (2016), <https://perma.cc/755U-LGEY> (setting forth recommendations regarding procedural reforms "that have the potential to reduce the time the Copyright Board takes to render tariff-setting decisions.").

congratulated him on his appointment and urged him to consider “within its existing resources matters that could help further streamline its processes as well as reduce the time to issue decisions.” As I said, all this occurred with no added resources to deal with all the increased rights.

With new business models have come new challenges associated with copyright administration in Canada. Most of these challenges arise as a result of the aggressive attacks on the Board’s decisions. Almost without exception, each decision is met with an application for judicial review. This has been sparked in no small measure by the uncertainty in the standard of judicial review as a result of the Supreme Court’s departure from traditional deferential models and actions as fact finders in *Alberta v Access Copyright*.²⁵ The Supreme Court’s actions have eroded traditional models of deference. We are back to a system in which the Chancellor’s foot is the order of the day.

As demonstrated by the Canadian experience, compulsory licensing and copyright administration schemes have worked, but only when certain conditions are present, which include adequately funding the Board to hire additional legal and economic support staff. First, as the private copying saga demonstrates, there must be a consistent and committed approach to the regime and not one beset by political agenda and a refusal to amend the Act to accommodate technological changes. The private copying levy worked as designed until there were changes in technology, government, and ideology. The Conservative government preferred market based solutions rather than compulsory licenses and levies. Politicians considered these levies taxes and were committed to not raising them. Second, as shown by online music licensing, establishing a mandatory tariff filing regime requires the government to commit to administrative resources. A statutory licensing scheme cannot function without providing the agency charged with administering it adequate resources to enable it to carry out its function in an expeditious and efficient manner. While the challenge by Music Canada began against the rates set by the Board, its lobbying effort morphed into an allegation that the Board was dysfunctional. The real problems are parties like Music Canada, who manipulate the copyright system, and governments that do not provide the Board with the resources it requires to do its job. The provision of adequate funding would go a long way towards resolving the problem. Bureaucratic intervention is not only unhelpful, but also will not improve the operation of the Board.

25. *Alberta v. Access Copyright*, [2012] 2 S.C.R. at para. 40 (Rothstein, J., dissenting) (“The application of these factors to the facts of each case by the Copyright Board should be treated with deference on judicial review. A principled deferential review requires that courts be cautious not to inadvertently slip into a more intrusive, correctness review.”).