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Spectre: Canadian Copyright and the Mandatory Tariff— Part I

Ariel Katz

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Canadian copyright collectives and the Copyright Board have in recent years advanced the theory that when the Board certifies collectives' tariffs (or fixes the royalties in individual cases), those tariffs become mandatory on users. Users have no choice whether to deal with the collective; they must pay the specified royalties as long as they make a single unauthorized use of a work from the collective's repertoire. Many users, for some strange reason, have also subscribed to this view, despite its extraordinary consequences.

This article, first in a series of two, shows that this spectre of a "mandatory tariff" lacks any basis in law. Established case law debunks it, standard principles of statutory interpretation contradict it and the legislative history discredits it. An approved tariff creates a compulsory licence that interested users can avail themselves of, if they wish to obtain a licence, but it does not force users to become licensees. Copyright collectives can recover unpaid royalties only from users who offered to pay them and later default on their payment.

Les sociétés de gestion des droits d'auteur canadiennes et la Commission du droit d'auteur ont préconisé, ces dernières années, la théorie voulant que lorsque la Commission autorise les tarifs des sociétés de gestion des droits d'auteur (ou établit les redevances dans des cas individuels), ces tarifs deviennent obligatoires pour les utilisateurs. Les utilisateurs n'ont d'autre choix que de traiter avec la société de gestion des droits d'auteur; ils doivent payer les

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redevances prévues dès qu'ils utilisent une œuvre non autorisée du répertoire de la société de gestion des droits d'auteur. Plusieurs utilisateurs, pour une raison étrange, ont également souscrit à ce point de vue, en dépit de ses conséquences extraordinaires.

Dans ce premier article d'une série de deux, l'auteur démontre que cette perspective d'un « tarif obligatoire » n'a aucun fondement en droit. La jurisprudence bien établie le démystifie, les principes standards d'interprétation des lois le contredisent et l'historique législatif le discrédite. Un tarif approuvé crée une licence obligatoire dont les utilisateurs intéressés peuvent se prévaloir, s'ils veulent obtenir une licence, mais il n'oblige pas les utilisateurs à être titulaires d'une licence. Les sociétés de gestion des droits d'auteur peuvent seulement récupérer les redevances impayées des utilisateurs qui ont offert de les payer et qui ont plus tard fait défaut d'effectuer leur paiement.

1. INTRODUCTION

A spectre is haunting Canada's copyright world, the spectre of the "mandatory tariff."[1] Namely, that once the Copyright Board approves a tariff, the specified royalty rates and terms could be imposed not only on users who wish to obtain a licence under the tariff, but also on those who do not.

If the spectre is real, users may no longer be able to exercise certain rights under the *Copyright Act* and be forced instead to deal with, be monitored by, and pay ever-increasing layers of royalty tariffs to copyright collectives. This article seeks to dispel this spectre and clarify that only users who have agreed to become licensees and pay those royalties can be forced to pay them. If a person uses works in a manner that requires a licence, but fails to obtain one, she may be liable for infringement of any copyright in those works, but infringers cannot be compelled to pay royalties for licences they choose not to obtain.

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The Copyright Board of Canada has become an important institutional player in the Canadian copyright landscape. It estimates that

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1 This is, of course, a reference to Karl Marx and Friedrich Engels, *Communist Manifesto*, English Edition (1888) at 1, online: Internet Archive <http://archive.org/details/CommunistManifesto>.

the value of the various tariffs it certifies exceeds $400 million.[2] The Board sets royalties and other fees that are paid or payable in relation to a wide range of original works and other subject matter, such as performers' performances, sound recordings, and broadcasting signals. These royalties or fees, and their related terms and conditions, are typically set out in tariffs that collective management organizations (CMOs)[3] propose and the Board ultimately approves. Tariffs typically apply to a class of uses and a class of prospective users (*e.g.*, public performance and commercial radio stations). Prospective users may file objections, and the Board may approve a tariff either as proposed, or with modifications. The Board may also decline to approve a proposed tariff, for example, in the absence of proper and reliable evidence that would allow it to establish fair and reasonable royalties.[4] The Board may also fix royalties in individual cases, between a CMO and a particular user, in proceedings pursuant to section 70.2 of the *Copyright Act*.[5]

Surprisingly, given the sums at stake and costs associated with complying with the tariffs and participating in the Board proceedings, contemporary practitioners and academics have paid little attention to key questions surrounding the precise legal effect of such Board-approved schemes — are they binding, on whom, upon what, and what are the consequences of non-compliance. This article answers these questions. It focuses on collective administration schemes pertaining to copyrights under sections 3, 15, 18, and 21 of the *Copyright Act*. I show that the scheme is and has always been voluntary. While the Board's approval is indeed binding on copyright owners, in that an approved tariff takes away their freedom to decide whether to grant a

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2 Copyright Board of Canada, *Annual Report 2013-2014* (2014) at 6, online: <http://www.cb-cda.gc.ca/about-apropos/annual-annuel/2013-2014-e.pdf>.

3 In this article I use the term Collective Management Organizations. The *Copyright Act*, R.S.C. 1985, c. C-42, s. 2 refers to them as "collective societies." Other terms in the literature and case law include "collecting societies" and "copyright collectives," as well as references to specific types of CMOs such as Performing Rights Organizations (PROs) for public performance and broadcasting licences, and Reprographic Reproduction Organizations (RROs) for photocopying.

4 *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada*, 2010 FCA 139 at para. 24, 84 C.P.R. (4th) 157.

5 These proceedings are often referred to as "statutory arbitration," but the term "arbitration" is a misnomer, see *infra* Part 2(b)(ii).

licence and on what terms and creates a statutory licensing scheme to the benefit of users, it is binding on owners only because they have elected to administer their copyrights collectively — they are not required to. For users, such Board-approved schemes are entirely voluntary. Only users who have chosen to obtain a licence under the terms and conditions that the Board approved can be forced to pay the specified royalties. When a user does not avail himself of such a statutory licence, the standard rules of copyright law apply. Depending on how a user who fails to obtain a licence acts, that user might be liable for copyright infringement, but cannot be compelled to pay royalties for and comply with the terms of a licence he had not taken out.

The analysis in this article is limited to collective administration of *copyrights*, as opposed to collective administration schemes for "equitable remuneration" under section 19, retransmission under section 31(2)(d), the blank media levy under section 82, or the now obsolete "educational rights" under section 29.7(2).[6] The effect of tariffs under some of those schemes might be different (in the case of the blanket media levy, it likely is).

The first part of this article describes the recent context in which this issue has taken on new significance and presents two competing theories about the effect of Copyright Board tariffs: the mandatory tariff theory and the voluntary licence theory. In the second part, I survey the relevant case law, which overwhelmingly refutes the mandatory tariff theory. In the third part, I discuss and reject the possibility that changes in the language of the relevant provisions of the *Copyright Act*, introduced as part of the reforms of 1988 and 1997, altered their meaning.

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6 *Copyright Act*, *supra* note 3, s. 29.7(2) exempts copies of radio and television programs made and kept by educational institutions if royalties, filed and approved pursuant to sections 71-73, are paid. The Educational Rights Collective of Canada (ERCC) was established in 1998 to administer those royalties, but after concluding that the costs of running the CMO exceed the royalties that it will ever be able to collect, ERCC began a dissolution process, and no tariff exists as of January 1, 2014. See *Use of Broadcast Programs by Educational Institutions (Application to Vary: Eliminating the years 2014 to 2016 of the tariff)*, [2013] CBD No 11 (QL) (Copyright Board).

2. TWO COMPETING THEORIES

There are two competing views on the legal effect on users of Board-approved tariffs and other licensing schemes. Under one view, which I call the "mandatory tariff theory," once the Board approves a tariff, or sets the terms of licences in individual cases pursuant to section 70.2, users are required to pay those fees and comply with the licence terms if they make even a single infringing use of a single work from the CMO's repertoire. If users fail to remit the payments, the CMO can bring proceedings to recover them. Payment of the royalties and compliance with the related terms of an approved licence is mandated by law and can be imposed on users even if they never obtained a licence from the CMO.

Under what I call the "voluntary licence theory," the Board's approval binds CMOs and their members but, for users, the licensing schemes the Board approves are voluntary. Approved tariffs only bind users who choose to obtain a licence from the CMO under the terms the Board has approved. Users who choose to obtain such licences become licensees even if the CMO refuses to issue a licence. As licensees, such users cannot, by definition, be sued for copyright infringement, but if they default on paying the approved fees, the CMO can sue them to recover payments. By the same token, users who elect not to obtain a licence from the CMO are not licensees, and by definition, cannot be compelled to pay the approved licence fees, though they may be liable for copyright infringement, depending on how they use the works in question.

While the language of some of the relevant statutory provisions might, at first blush, be interpreted as supporting the "mandatory tariff theory," when all relevant provisions of the *Copyright Act* are "read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament"[7] it becomes apparent that the "voluntary licence theory" prevails. My analysis shows that the "mandatory tariff" view relies on the least plausible interpretation of the *Copyright Act*.

I refer to the "spectre" of the mandatory tariff because this theory has never been articulated clearly. In publicly available references to this theory, its proponents tend to be terse and conclusory. It appears

7 *Rizzo & Rizzo Shoes Ltd., Re*, [1998] 1 S.C.R. 27 at para. 21, 154 D.L.R. (4th) 193.

to rest solely on literal reading of section 68.2(1) in the case of tariffs,[8] or of section 70.4 in the case of section 70.2 proceedings.[9] Its proponents employ terms and phrases such as "impose," "uses targeted by a tariff," "compensable uses," "protected uses," "uses that trigger payment," "subject to a tariff," or "obligation to pay," which do not appear in the Act, but are treated as if they were statutory or doctrinal terms with an established meaning.

Section 68.2(1) read as follows:

> 68.2 (1) Without prejudice to any other remedies available to it, a collective society may, for the period specified in its approved tariff, collect the royalties specified in the tariff and, in default of their payment, recover them in a court of competent jurisdiction.

This provision does not identify from whom the CMO may collect and upon what conditions. Read literally, and isolated from other components of the statutory scheme, section 68.2(1) could appear to grant CMOs a freestanding right to "collect the royalties specified in the tariff" without regard to whether the putative payee is a licensee, infringer, or something else. In fact, a literal construction of section 68.2(1) could support an even more far-reaching theory: that compliance with an approved tariff is mandatory on any user who falls under the definition of the type of users to which the tariff applies, regardless of whether that person makes any use of any work from the CMO's repertoire. For example, if a tariff applies to reproduction of literary works by educational institutions, section 68.2(1) could be read as entitling the CMO to collect the approved royalties from every person who meets the definition of "educational institution," by virtue of being an "educational institution," in the same way that any person who manufactures or imports a blank audio recording medium

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8 *Copyright Act*, *supra* note 3, s. 68.1(1) applies to PROs, under the section 67 regime, while section 70.15(2) incorporates section 68.2(1) by reference and applies it to the "general regime" "with such modifications as the circumstances require."

9 *Ibid.* s. 70.4 reads: "Where any royalties are fixed for a period pursuant to subsection 70.2(2), the person concerned may, during the period, subject to the related terms and conditions fixed by the Board and to the terms and conditions set out in the scheme and on paying or offering to pay the royalties, do the act with respect to which the royalties and their related terms and conditions are fixed and *the collective society may, without prejudice to any other remedies available to it, collect the royalties or, in default of their payment, recover them in a court of competent jurisdiction*" [emphasis added].

is liable to pay a levy to the collecting body, pursuant to section 82(1)(a), and the collecting body is entitled to collect it or sue for its recovery.[10] Proponents might feel that such an interpretation pushes the envelope, but the words of section 68.2(1) alone are not inconsistent with it, which proves the point that the words of section 68.2(1) do not make the "mandatory tariff" theory self-evident.

The main proponents of the "mandatory tariff" theory, CMOs and the Copyright Board, have failed to acknowledge (negligently, or strategically) that the proper construction of the theory's foundational provisions — sections 68.2(1), 70.15(2) (which incorporates s 68.2(1) "with such modifications as the circumstances require"), and 70.4 — is at least ambiguous, and neither has seen fit to articulate a cogent legal argument underpinning the theory. Still, they have advanced some arguments, which I describe in the sections below.[11]

One may wonder why this question has not been resolved already. CMOs have existed and been regulated in Canada for more than 80 years. One could expect that the legal effect of their approved tariffs would be well understood by now. The answer appears to be the following: for the first six decades of its existence, Canada's system of collective administration of copyright was limited to the public performance of musical works, rights administered by Performing Rights Organizations (PROs) such as SOCAN and its predecessors.[12] Some characteristics of the public performance of music might have

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10 *Ibid.* s. 88(1).

11 My understanding of the meaning of s. 68.2(1) has also evolved. I began thinking about it when Access Copyright filed a proposed tariff for higher education in March 2010 and then, in October that year, asked the Board to issue an interim tariff. The consensus among all involved was that Access Copyright applied to the Board in order to impose a tariff on universities and colleges. That was one of the reasons I filed an objection. My involvement led me to do more research on this point and my views have evolved accordingly. In November 2013, I asked the Board to make a reference to the Federal Court of Appeal to determine this question, but the Board denied my request. See Access Copyright — Post-Secondary Educational Institutions Tariff (2011-2013), Ruling of the Board (9 December 2013), online: <http://www.cb-cda.gc.ca/avis-notice/active/2013/access2-09122013.pdf>.

12 SOCAN was formed in 1990 as a result of the merger of two former Canadian performing rights societies: the Composers, Authors and Publishers Association of Canada (CAPAC) (previously called the Canadian Performing Rights Society (CPRS)) and the Performing Rights Organization of Canada (PROCAN). SOCAN, "History" (accessed 17 February 2015), online: <http://www.socan.ca/about/history>.

made the question of whether users could be forced to comply with tariffs, even if they had chosen not to obtain licences under the tariffs, an interesting theoretical question, but of little practical import. Most forms of public performance, such as broadcasting, theatrical performance, and background music in shopping malls, would likely infringe copyright without a licence.[13] Therefore, to act legally, those wishing to publicly perform copyrighted works would be interested in obtaining licences and might obtain them from PROs for two main reasons: (1) because those users "want unplanned, rapid, and indemnified access to any and all of the repertory of [the PRO's] compositions,"[14] and PROs offer the most cost-effective *practical* way for obtaining such licences;[15] or (2) because the PRO's members have assigned their copyright or granted exclusive licences to the PRO, thereby turning it into the only legal source for such licences.[16] Either way, users would have to deal with the PRO, and the absence of alternatives to the PROs (for either economic or legal reasons) made their tariffs effectively mandatory even if *de jure* they were not.

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13 It is possible to conceive of situations when the performance might be considered fair dealing but, typically, most performances of the kind described above would not.

14 *Broadcast Music, Inc v. Columbia Broadcasting System, Inc*, 441 U.S. 1 at 20 (1979).

15 See my previous discussion and critique of this rationale: Ariel Katz, "The Potential Demise Of Another Natural Monopoly: Rethinking The Collective Administration Of Performing Rights" (2005) 1:3 Journal of Competition Law and Economics 541 [Katz, "The Potential Demise I"]; Ariel Katz, "Copyright Collectives: Good Solution But for Which Problem?" in Harry First, Rochelle C. Dreyfuss & Diane L. Zimmerman, eds., *Working Within the Boundaries of Intellectual Property: Innovation Policy For The Knowledge Society* (Oxford: Oxford University Press, 2010) at 395 [Katz, "Copyright Collectives"]; Ariel Katz, "Commentary: Is Collective Administration of Copyrights Justified by the Economic Literature?" in Marcel Boyer, Michael Trebilcock & David Vaver, eds., *Competition Policy and Intellectual Property* (Toronto: Irwin Law, 2009) at 449 [Katz, "Collective Administration"].

16 While in both cases the CMO may be the only source for obtaining licences, from a policy perspective, including the perspectives of copyright and competition law, whether CMOs are an answer to market failure, or collusive arrangements that cause market failure, ought to make a big difference. I discuss those issues in my previous work, *supra*.

What might have been true for PROs for many years may no longer be true as technologies and markets transform,[17] and it may not necessarily be true in the case of other CMOs. Conventional wisdom holds that SOCAN's repertoire (of local and international works, through its cross-licensing agreements with foreign PROs) includes almost any work that users may wish to publicly perform. It is also usually assumed that SOCAN holds the copyrights in this vast repertoire by assignment.[18] If so,[19] SOCAN is the only source of licences for almost every work that users would be interested in. However, CMOs such as Access Copyright or CMRRA typically administer their members' rights on a non-exclusive basis. As long as there is no explicit or tacit agreement between the CMO and its members that prohibits or discourages the members from granting licences outside the CMO, users who wish to obtain licences might only choose to deal with such a CMO if it presents the most cost-effective way to obtain licences. If not, users may obtain licences elsewhere: they might negotiate with the right-holders directly, or through other intermediaries.

Moreover, the changing legal environment in Canada, resulting from the recent line of cases from the Supreme Court, and from legislative changes in the *Copyright Modernization Act* of 2012, have convinced many users that opportunities to deal with works in ways that do not require licences are greater than previously believed.[20] In ad-

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17 Ariel Katz, "The Potential Demise Of Another Natural Monopoly: New Technologies And The Administration Of Performing Rights" (2006) 2:2 Journal of Competition Law and Economics 245 [Katz, The Potential Demise II"].

18 *Ibid.* at 264.

19 For reasons justifying some skepticism about this conventional wisdom see *Performing Rights Society Ltd v. London Theatre of Varieties Ltd.*, [1924] A.C. 1 (H.L.); *Performing Rights Organization of Canada Ltd. v. Lion d'Or (1981) Ltée* (1987), 16 F.T.R. 104, 17 C.P.R. (3d) 542.

20 For example, the Supreme Court's holdings in *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13, [2004] 1 S.C.R. 339 [*CCH v. LSUC*], *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada*, 2012 SCC 36, [2012] 2 S.C.R. 326, and *Alberta (Education) v. Access Copyright*, 2012 SCC 37, [2012] 2 S.C.R. 345 clarified that the scope of dealings that might be considered fair is significant. Likewise, the explicit enumeration of "education, parody, and satire" in the *Copyright Act*, *supra* note 3, s. 29, and the addition of several new specific exceptions (in the court's language: "users' rights") ought to have increased users' confidence in their ability to comply with the Act without obtaining licences from CMOs. In addition,

dition, new business models, especially for online delivery or licensing, now provide users with additional, and often more cost-effective, opportunities to obtain licences when needed, and increasingly offer more competitive alternatives to dealing with CMOs.[21]

These developments would tend to push users away from relying on blanket licences issued by CMOs, and would prompt CMOs to assert that dealing with them is mandatory. Moreover, even though the case law would not support the view that tariffs are mandatory, some changes in the statutory language might have given the "mandatory tariff" theory a colour of credibility that it otherwise would not deserve. As a result of this combination of developments, the question of the "mandatory tariff" has become an important one with immediate practical consequences.

Two recent cases demonstrate those consequences and what is at stake. One involves the action brought by Access Copyright against York University in April 2013, and may still take several years to resolve; the other involves a dispute between SODRAC and CBC,[22] which has now made its way to the Supreme Court.[23]

(a) Access Copyright and Educational Institutions

(i) Access Copyright's Position

Access Copyright has advanced the "mandatory tariff" theory in a recent media release, in submissions to the Copyright Board for proposed tariffs for different educational institutions, and in court submissions in proceedings it brought against York University in September 2013.

In April 2013, Access Copyright published a one-page media release describing how it was responding to decisions by numerous

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the court's holding in *Entertainment Software Association v. Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 34, [2012] 2 S.C.R. 231 [*ESA v. SOCAN*] and its aversion towards over-layered tariffs and fees (or "double dipping"), has, or at least ought to have, eliminated the number and type of licences that users need to acquire in order to comply with the Act.

21 See generally Katz, "Copyright Collectives," *supra* note 15; Katz, "The Potential Demise II," *supra* note 17.

22 *Canadian Broadcasting Corporation v. SODRAC 2003 Inc.*, 2014 FCA 84, 118 C.P.R. (4th) 79 [*CBC v. SODRAC*].

23 *Ibid.*; Leave to appeal to SCC granted 2014 CanLII 51422 [*CBC v. SODRAC Leave Decision*].

post-secondary educational institutions to cease operating under its licence agreements or tariffs, and a similar decision by the Council of Ministers of Education, Canada (CMEC) with respect to elementary and secondary (K-12) institutions.[24] Disagreeing with the institutions' understanding of their obligations under the *Copyright Act*, Access Copyright announced it was taking action on three fronts. It launched a lawsuit against York University, and filed two proposed tariffs with the Copyright Board — one applying to K-12 institutions, and the other to higher education institutions. It described the new proposed tariffs as "an effective *enforcement mechanism* against [educational institutions] for their stated intention to stop paying the royalties set by the Copyright Board [emphasis added]."[25] Access Copyright believes that tariffs establish an "enforcement mechanism" against users who intend to comply with their obligations under the Act without a licence from Access Copyright. In a subsequent application for an *interim* K-12 tariff, Access Copyright reaffirmed this view, asserting that, under an approved tariff, educational institutions "would be obligated to continue making royalty payments for their non-exempted copying of works within Access Copyright's repertoire."[26]

In its statement of claim against York University, Access Copyright stated that any act of unauthorized reproduction triggers "the payment of royalties under the *Approved Tariff*, the default in payment of which entitles [Access Copyright] to recover them from the defendant under s. 68.2(1) of the *Copyright Act*."[27] In a subsequent submission, Access Copyright was even more explicit, asserting that an approved tariff, whether interim or final, is mandatory "unless one

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24 Access Copyright, Media Release, "Canada's Writers and Publishers Take a Stand against Damaging Interpretations of Fair Dealing by the Education Sector" (13 April 2013), online: <http://www.accesscopyright.ca/media/35670/2013-04-08_ac_statement.pdf>.

25 *Ibid.* at para. 4.

26 Access Copyright, "Application for an Interim Approved Tariff in Respect to the Access Copyright Educational Institutions Tariff (2013–2015)" (8 April 2013) at 5, online: <http://www.scribd.com/doc/134779087/2013-04-08-Interim-Tariff-Application-K-12-1>.

27 Access Copyright v. York University, "Access Copyright: Statement of Claim," Court File T-578-13 (8 April 2013) (F.C.) at para. 19, online: <http://www.scribd.com/doc/134926954/AC-v-York-Statment-of-Claim-T-578-13-Doc1> ["Access Copyright Statement of Claim v. York University"].

or more of the following conditions applies: the institution, and persons acting under its authority, do not copy any works in the plaintiff's repertoire; the institution, or persons acting its authority [*sic*], has secured permission for these copying activities through other means; or the acts are exempted under the *Copyright Act*."[28]

Similarly, in its Statement of Case filed with the Board during the pending Post-Secondary Tariff proceedings, Access Copyright alleged that:

> [T]he Objectors will not be able to meet their burden to establish that the [fair dealing] Policy and copying being carried out under the Policy are fair. Therefore, any such copying constitutes compensable copying which (for any Educational Institution that is not operating under a licence entered into with Access Copyright) is subject to the tariff to be certified by the Board.[29]

(ii) The Copyright Board's Position

On several occasions the Copyright Board has also indicated its support for the theory. In August 2011, during the pending Post-Secondary Tariff proceedings, the Board issued a ruling ordering the Association of Universities and Colleges of Canada (AUCC) to obtain information from institutions that chose not to avail themselves of the interim tariff (the "opt-out institutions").[30] The Board's ruling "reminded" those institutions that:

> [A]n institution's decision not to avail itself of the interim tariff in no way guarantees that it will bear no liability under the final tariff, that its liability will not be retroactive or that it will not be compelled, pursuant to the final tariff, to provide information about its copying habits during the period between January 1, 2011 and the date on which the final tariff is certified, *unless it is certain that neither the institution nor its agents make any protected use of the*

28 Access Copyright v. York University, "Access Copyright: Reply and Defence to Counterclaim," Court File T-578-13 (4 October 2013) (F.C.), at para. 11, online: <http://www.scribd.com/doc/174602529/AC-Reply-and-Defence-to-Cc-Oct-4-2013>.

29 Access Copyright, Statement of Case, Post-Secondary Educational Institutions Tariff (2011–2013) (13 September 2013) at para. 3, online: <https://www.scribd.com/doc/ 256398199/Access-Copyright-Statement-of-Case-Post-Secondary-Educational-Institutions-Tariff-2011–2013>.

30 Copyright Board of Canada, Ruling of the Board (18 August 2011), online: <http://www.cb-cda.gc.ca/avis-notice/index-e.html#access2-18082011>.

> *relevant repertoire during the relevant period or periods to be set out in the final tariff* [emphasis added].[31]

Several weeks later, in a notice from September 2011, the Board reiterated this view:

> Opt-out institutions do not know whether they may now be making protected uses *requiring their compliance* with a final tariff that does not yet exist. They can sever their relationship with Access if, and only if, they make no unauthorized, protected use of the repertoire of Access; that relationship is governed by facts and law, not intentions [emphasis added].[32]

The Board never invited the parties to make submissions on the effect of an approved tariff before expressing its opinion on this legal question. Apparently, it believes that the "mandatory tariff" theory is trite law.

AUCC applied for judicial review of the August 2011 ruling, asking the Federal Court of Appeal to set aside the Board's order that it obtain information from opt-out institutions, as well as to strike the above "reminder" from its decision. The Copyright Board filed an Intervener Memorandum with the court where it described its view of how the "general regime" under sections 70.1 to 70.4 operates, and offered an unqualified endorsement of the mandatory tariff theory:

> [O]nly institutions that license all their protected uses of the Access [Copyright's] repertoire outside of the tariff will not need to comply with the final tariff. Any institution that performs a single unlicensed, protected use of the Access repertoire anytime between January 1, 2011 and the date when the final tariff is certified will need to comply with the final tariff.[33]

In paragraph 26, citing section 68.2(1), the Board posited that all users may be required to pay the approved tariff, because "[o]nce a tariff is in place, a collective 'may [. . .] collect [from users] the royalties specified in the tariff and, in default of their payment, recover them in a court of competent jurisdiction', whether or not the users

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31 *Ibid.* at para. 8.

32 Copyright Board of Canada, Ruling of the Board (13 September 2011) at para. 2, online: <http://www.cb-cda.gc.ca/avis-notice/index-e.html#access2-13092011>.

33 Copyright Board of Canada, Memorandum of Fact and Law of the Intervener the Copyright Board of Canada (1 March 2012) at para. 23, online: <http://www.scribd.com/doc/181776114/Board-Submission-to-FCA-in-AUCC-JR-Bouchard>.

agree or consent."[34] In paragraph 28 it added, "[a]ny person who makes or may make protected uses targeted in the final tariff-to-be is a prospective user. Intent or consent are irrelevant. A person cannot 'elect' not to be subject to a tariff unless the tariff so allows."[35]

The Board did not cite any references to support these propositions. In paragraph 7, the Board stated:

> Generally speaking, court decisions deal with past events involving known persons. Board tariffs are inherently prospective, even when retroactive, and apply to all targeted users, whether they know it or not.

The Board cited sections 67.1(5) and 68.2(1) as references supporting these propositions, and described them this way: "Act, ss. 67.1(5), 70.14 [prospective users]; ss. 70.15(2), 68.2(1) [enforcement against all]."[36] Thus, according to the Board, an approved tariff obligates any person who performs an act that the tariff would authorize to comply with the terms of the tariff. This is enforceable against any such user, regardless of whether that user elected to avail herself of the approved tariff, because the user's intent or consent are irrelevant.

In a short decision, the Federal Court of Appeal dismissed the application, deciding that there were no special circumstances that would justify its intervention at that stage of the proceedings before the Board, and without addressing any of those substantive issues.[37]

For users such as universities, the implications of the "mandatory tariff" could be staggering. The theory would entail that, despite all efforts to comply with its copyright obligations without dealing with a monopolistic CMO (*e.g.*, by obtaining licences directly from publishers or other market-based intermediaries, relying on "open access" licensing models, and implementing internal fair dealing policies), a single unauthorized reproduction of one work from CMO's repertoire could nonetheless trigger retroactive and prospective liability of millions dollars. This liability would compound the millions of

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34 *Ibid.* at para. 26.

35 *Ibid.* at para. 28.

36 *Ibid.* at para. 7.

37 The court held that there were no special circumstances that would justify the intervention of the court at this stage of the proceedings before the Board, and concluded that the Board should be permitted to complete its work before the court is called upon to consider administrative law remedies: *Assn. of Universities & Colleges of Canada v. Canadian Copyright Licensing Agency (Access Copyright)*, 2012 FCA 22.

dollars that the university already pays for acquisitions, subscriptions and access to licensed digital databases, and might exceed (and even compound) any monetary award that the university, even if held liable for infringement, could be reasonable expected to pay.[38]

(b) CBC v. SODRAC

A recent dispute between CBC and SODRAC involves, among other issues, the question of whether the Board can, in proceedings under section 70.2 of the Act, impose an obligation to pay royalties on a user, and whether it could impose on CBC a licence that it was not interested in. The Board believed it could,[39] and the Federal Court of Appeal ("FCA"), in large part, agreed.[40] The Supreme Court has granted leave to appeal.[41]

(i) The Copyright Board's View

In its decision,[42] the Board offered the following view on how the statutory scheme works:

> [59] First, copyright owners generally are free to structure their dealings with users as they wish. [. . .] This general principle is subject to exceptions, some of which we will address later. Users who do not wish to deal with owners must avoid making protected uses of the owners' copyrights.
>
> [60] Second, owners who ask a collective to administer their rights are no longer free to structure their copyright dealings as they wish. When the Board is asked to decide how a collective will deal with users, the collective no longer can refuse to licence uses in that market. Owners can regain full control over their dealings only if the relevant rights cease being administered collectively.

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38 See generally, Bita Amani, "Access Copyright and the Proposed Model Copyright Licence Agreement: A Shakespearean Tragedy" (2012) 24:3 I.P.J. 221.

39 *Society for Reproduction Rights of Authors, Composers and Publishers in Canada v. Canadian Broadcasting Corp.*, 2012 CarswellNat 4255 (WL Can) (Copyright Bd.) [*SODRAC v. CBC*].

40 *CBC v. SODRAC*, *supra* note 22. The FCA's decision dealt primarily with other issues, particularly whether royalties were payable with respect to ephemeral copies of works made by the broadcasters in the normal course of their production or broadcasting activities. Ephemeral copies are copies or reproductions that exist only to facilitate a technological operation by which audiovisual work is created or broadcast: *ibid.* at para. 1.

41 *CBC v. SODRAC Leave Decision*, *supra* note 23.

42 *SODRAC v. CBC*, *supra* note 39.

> [61] Third, once the Board sets the terms and conditions of a licence, concerned users can insist that the collective deal with them accordingly. Users remain free to clear rights through other channels, to the extent this is possible. As a result, the prices the Board sets will tend to act as a cap on royalties.
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> [62] Fourth, the Board cannot impose liability where the Act does not or remove liability where it exists. Consequently, the Board cannot decide who should pay, only what should be paid for which uses, and only to the extent that the envisaged use requires a licence.
>
> [63] Fifth, an important distinction exists between a tariff proceeding and an arbitration conducted pursuant to section 70.2 of the Act. In the first, the Board imposes obligations on absent users as a matter of course: a tariff is a prospective norm of general application. By contrast, an arbitration concerns only the parties involved. The licences we issue here bind only CBC and Astral, not any other broadcaster. [. . .][43]

These paragraphs contain some undeniable truths alongside some questionable propositions. According to the Board, "[u]sers who do not wish to deal with owners must avoid making protected uses of the owners' copyrights." This statement appears innocuous, but is fundamentally flawed. By avoiding the statutory terms "infringing" acts or "infringement," and by using its own phrase "avoid making protected uses," the Board obfuscated the fact that forcing users to deal with copyright owners is *not* one of the legal consequences of infringing a copyright. (Although a person who infringes copyright may have to "deal" with the owner in the colloquial sense.)

The term "infringing" and the concept of "infringement" are statutorily defined. Under section 2, "[i]nfringing" means, "in relation to a work in which copyright subsists, any copy, including any colourable imitation, made or dealt with in contravention of this Act."[44] Section 27(1) defines "[i]nfringement" as doing "without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do").[45]

The Act also sets out the consequences of infringement. When a person infringes another person's copyright, "the owner of the copyright is . . . entitled to all remedies by way of injunction, damages, accounts, delivery up and otherwise that are or may be conferred by

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43 *Ibid.*

44 *Copyright Act*, *supra* note 3, s. 2.

45 *Ibid.* s. 27(1).

law for the infringement of a right."[46] In listing the consequences of infringement and to what it entitles the owner, once proven, Parliament did not include forcing the user to "deal" with the copyright owner and enter into licensing relationship with it. Nor could the Act list a forced licence as a consequence of infringement, because this would constitute a contradiction in terms: an infringer is not a licensee, the one is opposite of the other and Parliament is presumed not to contradict itself.[47]

The Board added two remarkable claims. In paragraph 62, it stated that it "cannot impose liability where the Act does not or remove liability where it exists," and in the following paragraph it explained the difference between a tariff proceeding and section 70.2 proceedings. "In the first," the Board explained, "obligations on absent users as a matter of course: a tariff is a prospective norm of general application. By contrast, an arbitration concerns only the parties involved. The licences we issue here bind only CBC and Astral, not any other broadcaster."[48]

The Board's choice of the phrase "impose liability" to describe its powers is curious. If it suggests that the Board cannot grant new rights or ignore existing ones then it is correct: copyright in Canada is purely a "creature of statute" and granting those rights falls within the exclusive province of Parliament, and cannot be delegated.[49] But even saying that Parliament can "impose liability" would be inaccurate because, even in the realm of private law, legislation generally only defines the conditions of liability and its scope (by granting rights, creating obligations, defining the acts that might infringe those rights, and the remedies that might be available) but, strictly speaking, it does not "impose it." Even in the realm of public law, when Parliament may be said to impose taxes or penalties for offences, those are not self-imposing. If the Board suggests that it *enforces* the rights that Parliament has granted, then this statement is curious, too, because normally only courts can determine whether a person is indeed liable, and only then may *impose* on that person a concrete obli-

46 *Ibid.* s. 34(1).

47 Ruth Sullivan, *Statutory Interpretation* (Toronto: Irwin Law, 2007) at 167.

48 The term "arbitration" is a misnomer, *infra* Part 2(b)(ii).

49 *Reference re Broadcasting Regulatory Policy CRTC 2010-167 and Broadcasting Order CRTC 2010-168*, 2012 SCC 68 at para. 80, [2012] 3 S.C.R. 489.

gation to pay damages, refrain from some acts or do others, *etc.* The Copyright Board's jurisdiction does not include any such powers. Its business is neither legislative, nor adjudicative; the Board does not create rights or obligations, nor does it "impose liability" for their infringement. Rather, "the core of the Board's mandate is 'the working out of the details of an appropriate royalty tariff.'"[50] Even in the limited cases where the Board's procedural decisions can be enforced, they have first to be made an order of a court.[51]

I would not quibble over such semantics if the Board's misuse of legal concepts had not caused the Board to misconstrue the Act, mischaracterize its mandate, and assert, in paragraph 63, that in tariff proceedings it "imposes obligations on absent users as a matter of course [because] a tariff is a prospective norm of general application." Thus, despite disclaiming to possess legislative powers (in paragraph 62), the Board believes that it actually has power to create new binding norms that can be imposed on non-consenting users, either generally, in the case of tariffs, or on specific users, in the case of section 70.2 proceedings.

(ii) Hints of "Mandatory Tariff" Theory at the Federal Court of Appeal

On judicial review, the FCA described CBC's argument regarding the effect of the Board's decision as follows:

> CBC's argument is that the power to "fix the royalties and their related terms and conditions" does not include the power to decide if the parties will enter into a licensing agreement at all. If the parties do not agree that they wish to enter into a licence agreement, there is no agreement with respect to which the Board may fix the royalties and the terms and conditions. Thus, if "CBC does not want a blanket synchronization licence, the Board has no jurisdiction to impose it" . . . the Board could impose a blanket licence with its consent but not without it.[52]

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50 *Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 35 at para. 12, [2012] 2 S.C.R. 283 [*Rogers v. SOCAN*], citing *Society of Composers, Authors & Music Publishers of Canada v. Canadian Assn. of Internet Providers*, 2004 SCC 45 at para. 49, [2004] 2 S.C.R. 427 [*SOCAN v. CAIP*].

51 *Copyright Act*, *supra* note 3, s. 66.7.

52 *CBC v. SODRAC*, *supra* note 22 at paras. 62-66.

SODRAC, on the other hand, advanced a variant of the "mandatory tariff" view. It pointed out, in the FCA's words,

> that CBC has the right to refrain from using music in the SODRAC repertoire, in which case the question of the form of licence simply does not arise. However, where CBC chooses to use the SODRAC repertoire in its productions, it requires a licence. If it is not able to agree on the terms of that licence with SODRAC, then the latter is entitled to apply pursuant to section 70.2 of the Act to have the Board set the royalties and the terms and conditions which apply to them, including the basis upon which those royalties are calculated.[53]

The FCA rejected CBC's argument, concluding that, if CBC's argument were true, "then the Board's remedial jurisdiction under section 70.2 is dependent upon the consent of one of the parties to the statutory arbitration. On its face, such a proposition is at odds with the objective of section 70.2, which is to resolve disputes that the parties have been unable to resolve themselves."[54]

The FCA's terse reasons are not convincing. First, while the FCA follows the Copyright Board in describing section 70.2 proceedings as "statutory arbitration" proceedings, the term "arbitration" is a misnomer and not the language Parliament has chosen. Arbitration normally binds parties who participate in it. However, as I explain below, when the Board fixes the royalties in accordance with section 70.2, the user is only given the option to obtain a licence under those terms by paying or offering to pay the royalties, but she is not required to do so. Referring to section 70.2 proceedings as "arbitration" already assumes the effect of the proceedings.[55]

Second, the Board's jurisdiction pursuant to section 70.2 is limited to fixing the royalties and their related terms and conditions when the parties are unable to reach an agreement about them. While this may be characterized as a "dispute" in the broad sense of the word, describing it as a "legal dispute" (one party alleging that another party breached its rights, while the other party denies it) is inaccurate. The parties' inability to reach an agreement may result in part from disagreement about their respective rights and obligations under

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53 *Ibid.* at para. 63.

54 *Ibid.* at para. 67.

55 Note that section 60 of the Act mentions arbitration as a mechanism to resolve the specific types of disputes mentioned therein. This strengthens the conclusion that section 70.2 proceedings are not arbitration.

the law, but it is not a "legal dispute" in the sense that this phrase is used when one speaks about adjudication of legal disputes and jurisdiction to remedy them. In this sense, the FCA's reference to the Board's "remedial jurisdiction" and the resolution of a dispute is another misnomer.

The Board's jurisdiction pursuant to section 70.2 is limited to disagreements between a CMO and a user on the royalties to be paid, or on their related terms and conditions. This kind of dispute arises when a user wishes to obtain a licence from the CMO, but may find the requested royalties or their related terms and conditions too burdensome, or legally unjustified. Parliament clearly empowered the Board to remedy this problem, but jurisdiction to compel a user to comply with the terms of a licence where the user does not wish to obtain one is an entirely different matter. Considering first principles helps explain the difference.

Ordinarily, a copyright owner has no duty to licence her work, and the user has no right to obtain a licence.[56] Without more, a user who wants a licence when the owner refuses, or a user who considers the requested fees too high or related terms too onerous cannot legally compel the owner to grant a licence, or grant it under more favourable terms.[57] These situations may involve *business or ethical* disputes between the parties, but there is no *legal* dispute, no *lis*. The user's only remedy is a market remedy, to find another work and copyright owner to deal with.[58] From a policy perspective, the outcome may be acceptable, on the assumption that competition between copyright owners, while imperfect, might provide some market discipline on their demands.[59]

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56 *Canada (Director of Investigation & Research) v. Warner Music Canada Ltd.* (1997), 78 C.P.R. (3d) 321 at para. 20, 1997 CanLII 3725 (Competition Trib.).

57 Competition Bureau, *Intellectual Property Enforcement Guidelines* (17 September 2014), s. 4.2.1, online: <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03808.html>.

58 But see the *Competition Act*, R.S.C. 1985, c. C-34, s. 32 (allowing the Federal Court under certain circumstances to compel a copyright owner to grant a licence and to determine the terms of such licence. This remedy, however, is available only on application by the Attorney General of Canada, not by individuals).

59 Ariel Katz and Paul-Erik Veel, "Beyond Refusal to Deal: A Cross-Atlantic View of Copyright, Competition and Innovation Policies" (2013) 79:3 Antitrust L.J. 139.

This assumption does not hold when copyright owners administer rights collectively and thus do not compete with each other. Without any (or with significantly limited) market discipline, users who wish to obtain a licence from an unregulated CMO are forced to choose between three unattractive alternatives: paying whatever the CMO asks; refraining from using work from the CMO's repertoire (which could mean exclusion from all or most relevant works); or using the work without a licence and risk being liable for infringement. Preventing such an outcome, and protecting users from the mercies of CMOs, has been the *raison d'être* for regulatory oversight of CMOs.[60] In less dramatic terms: regulatory oversight preserves the advantages offered by collective administration, while ensuring that copyright owners do not abuse the CMOs' enhanced market power.[61] Parliament established a legal mechanism that allows interested users to obtain licences under reasonable terms and get protection from infringement actions even if the CMO refuses to grant a licence under those terms. Parliament conferred on the Board limited jurisdiction to determine the terms of such licences, but it has not empowered the Board to resolve *legal* disputes between parties, in the sense of power to enforce any obligation on a party.

When a user is not interested in obtaining a licence from a CMO (either because she believes her activities do not require a licence, or she wishes to obtain licences from another source), there is no legal dispute, or a *lis*, between the parties. The CMO may disagree with the user's belief that no licence from the CMO is necessary, but this disagreement is not about price and related terms and does not constitute a *lis* that the Board has jurisdiction to resolve. The CMO or its members may turn this dispute into lis if they bring *infringement* proceedings against the user. Jurisdiction over this type of dispute vests exclusively with the courts. The FCA erred by mischaracterizing the nature of the proceedings pursuant to section 70.2. It assumed that they pertain to the resolution of a legal dispute, but this assumption presupposes a pre-existing obligation to pay royalties to a CMO. Thus, the FCA erred by assuming what it sought to prove.

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60 *Vigneux v. Canadian Performing Right Society Ltd.*, [1943] S.C.R. 348 at 356, [1943] 3 D.L.R. 369.

61 See generally Katz, "Copyright Collectives," *supra* note 15; Katz, "Collective Administration," *supra* note 15; and Katz, "The Potential Demise I," *supra* note 15. See also *ibid.* at 352.

As I show in more detail below, the view that section 70.2 allows CMOs to impose themselves on users turns the statutory scheme and its rationale on its head. It distorts a scheme designed to restrain CMOs' market power and transforms it into one that augments it.

The ability of *either* the CMO or user to initiate the section 70.2 proceedings may have led the FCA to conclude that not only the process but also its outcome may be imposed on users. This may seem inconsistent with the view that the process depends on the parties' consent, but the inconsistency disappears with deeper reflection. First, if the parties share a mutual interest in entering into a licence agreement with each other, yet they disagree on its price and other terms, it makes perfect sense to permit either of them to initiate the proceedings that will help them to resolve the deadlock.

Second, and more importantly, the FCA relied on section 70.2, which determines who has standing to initiate those proceedings, and ignored section 70.4, which specifies their effect. Section 70.4 provides:

> Where any royalties are fixed for a period pursuant to subsection 70.2(2), the person concerned *may*, during the period, subject to the related terms and conditions fixed by the Board and to the terms and conditions set out in the scheme and *on paying or offering to pay the royalties, do the act with respect to which the royalties and their related terms and conditions are fixed* and the collective society may, without prejudice to any other remedies available to it, collect the royalties or, in default of their payment, recover them in a court of competent jurisdiction [emphasis added].

Section 70.4 confirms the voluntary nature of the process. If Parliament intended to allow for the imposition of a duty on non-consenting users to pay those royalties and comply with the related terms, it would have used suitable language. For example, "where any royalties are fixed for a period pursuant to subsection 70.2(2), the person concerned *shall pay* the royalties and *comply* with their related terms and conditions, and the collective society may collect the royalties or, in default of their payment, recover them in a court of competent jurisdiction."

But Parliament created an entirely different scheme. The power of copyright owners who choose to administer their copyrights collectively is restricted. Once the Board fixes the terms of the licence, the CMO (and its members) are disabled from fully exercising their market power because they can no longer withhold a licence from users. Any user, *on paying or offering to pay the royalties*, becomes authorized under the Act to *do the act with respect to which the roy-*

alties and their related terms and conditions are fixed, irrespective of whether the CMO actually issues a licence. Since a user who pays the fixed royalties, or merely *offers to pay them*, becomes legally permitted (or statutorily licensed) to do those acts that otherwise would require the copyright owners' permission, such a user, by definition, cannot be liable for infringement.[62] Correlatively, the CMO may collect the royalties, or, in default of their payment, recover them in a court of competent jurisdiction. But this power is available *only* against a user who has offered to pay the royalties that the Board had fixed. The user may be bound to pay the royalties not because the Board fixed them, but because he offered to pay them, availed himself of the licence, then defaulted on the payment.

As a corollary, a user who *does not* pay or offer to pay the fixed royalties is *not* authorized to do what the CMO's licensing scheme authorizes. Such a user is not a statutory licensee, the statutory remedy is inapplicable against him, and the copyright owners' entitlement to bring infringement proceedings and seek all remedies they are entitled to remains intact.

Importantly, the CMO's statutory entitlement to collect royalties and sue for their recovery does not arise from operating a collective licensing scheme (section 70.1), neither does it emerge upon initiating the section 70.2 proceedings, nor even upon their completion. Rather, the CMO's entitlement only crystalizes with the user's offer to pay those royalties (section 70.4). Contrary to the Board's suggestion that the user's intent or consent are irrelevant,[63] the duty to pay depends on them entirely. It is only the CMO's intent or consent to grant a licence that becomes irrelevant after the Board fixes its terms, not the user's intent or consent to obtain one and abide by its terms.

It is difficult to tell why the FCA chose to draw its far-reaching conclusion about the effect of the Board's decision from the words of section 70.2, dealing with standing to initiate the process, and not from section 70.4, which specifically deals with its *effect* of that process. Perhaps the issue was not argued or not stressed enough, or perhaps some statements that it perceived as concessions that a licence

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62 *Copyright Act*, *supra* note 3, s. 27(1) will not apply because, under the circumstances, not only does the owner of the copyright have the right to do the act, the user has the right to do it, too.

63 *Supra* text accompanying note 35.

could be imposed on CBC distracted it.[64] Be that as it may, section 70.4 provides the answer and it is different than the FCA's.

Notably, however, the FCA did find merit in some of CBC's objections to the imposition of a blanket licence. CBC objected to the blanket licence because it covered all the works in SODRAC's repertoire, whereas in many cases producers of TV shows secure *through-to-the-viewer* licences — licences that authorize "all copies of a musical work made by the producer or others in the course of delivering the audiovisual work to the ultimate consumer in the intended market, be it television, cinema, DVD, Internet or other."[65] The court agreed that if CBC broadcasts programs (and makes ephemeral copies) that incorporate works licensed under a through-to-the-viewer licence, but it would also be required to pay SODRAC licence fees under a blanket licence, then SODRAC's members would be paid twice. Once by the producer who secured the through-to-the-viewer licence, as well as by their share from royalties paid to SODRAC. The FCA agreed that CBC should not pay an additional fee when it uses works licensed through-to-the-viewer, but concluded that the solution lies in an appropriate "discount formula . . . designed to give the Broadcasters credit when they broadcast a program in which the producer has in fact obtained a through to the viewer licence . . .."[66] It faulted the Board for adopting a flawed discount formula, and ordered that the formula be amended,[67] but it accepted SODRAC's view that the Board's determinations of licence terms can be imposed on users. The FCA's holding may offer a softer version of the "mandatory tariff" view, but, as I explain in Part 5, in accepting the mandatory theory without meaningful discussion, the FCA has committed serious legal errors.

3. THE CASE LAW

This Part expands on the foregoing analysis and shows that the "mandatory tariff" theory contradicts how Canadian courts, from the Federal or the Exchequer Court, to the Supreme Court and the Privy Council, have understood the role of the Board and the effect of its decisions in a series of judgments given over more than 40 years.

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64 *CBC v. SODRAC*, *supra* note 22 at paras. 64-65.

65 *Ibid.* at para. 14.

66 *Ibid.* at para. 70.

67 *Ibid.* at para. 95.

These judgments, all of which are reported, some frequently cited in other contexts, have all but disappeared from the arguments that proponents of the "mandatory tariff" theory have put forth.

(a) Background

Before 1988, the *Copyright Act* dealt only with collective administration of performing rights. Those provisions evolved into the current section 67 regime. Conventional wisdom held that attempting to establish new types of CMOs could run afoul of the *Competition Act*.[68] The reforms of 1988 envisaged new types of CMO, but Parliament chose not to replicate the stringent regime applicable to PROs (which must have their tariffs approved by the Board). Instead, Parliament allowed CMOs to enter licence agreements with users without requiring them to submit their licensing schemes for the Board's prior approval. Thus, the 1988 reform comprised two components. First, it provided a limited immunity from the price-fixing provisions of the *Competition Act*.[69] Second, Parliament established a mechanism (currently sections 70.2–70.4), allowing the Board to fix royalties in cases of disagreement between CMOs and users on the royalties and their related terms and conditions.

In 1997, Parliament expanded the subject matter of the Act to cover neighbouring rights (in performers' performances, sound recordings, and broadcasting signals), and included the equitable remuneration rights under section 19 and the remuneration right under section 81 (and the corresponding blank media levy). CMOs administering the section 19 equitable remuneration right received the same treatment as PROs under the section 67 regime, while CMOs administering other neighbouring rights would be regulated under the general regime. Importantly, in addition to the what is now

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68 *From Gutenberg to Telidon: A Guide to Canada's Copyright Revision Proposals* (Ottawa: Consumer and Corporate Affairs Canada & Department of Communications, 1984) at 62-3 [*From Gutenberg to Telidon*].

69 The immunity applies to agreements between CMOs and users, if copies of those agreements are filed with the Copyright Board. The amendments empowered the Director of Investigation and Research (now the Commissioner of Competition) to examine those agreements and request the Board to examine and modify them if, in the Director's view, the terms of those agreements are contrary to the public interest. See *Copyright Act*, *supra* note 3, ss. 70.5-70.6.

section 70.2 mechanism under the general regime, Parliament also gave CMOs an option to file tariffs with the Board for approval.

Disputes between CMOs and users have long contributed to the development of Canadian copyright law. Until recently, when CMOs and users disagreed on whether a particular act required the copyright owner's consent, they would resolve the question directly in an action for copyright infringement. Many landmark decisions reached the Supreme Court that way.[70]

The practice of seeking to resolve substantive questions of copyright law before the Copyright Board, with almost automatic judicial review before the Federal Court of Appeal, and frequent appeals to the Supreme Court, is of a recent vintage.[71] This shift did not result from any direct change in the law favouring one form of adjudication over another.[72] Through the history of Canadian copyright law, when

70 To name a few, *Vigneux v. Canadian Performing Right Society*, *supra* note 60; *Composers, Authors & Publishers Assn. of Canada Ltd. v. Western Fair Assn.*, [1951] S.C.R. 596, [1952] 2 D.L.R. 229; *Muzak Corp. v. Composers, Authors, & Publishers Assn. of Canada Ltd.*, [1953] 2 S.C.R. 182, 19 C.P.R. 1; *Composers, Authors & Publishers Assn. of Canada Ltd. v. Kiwanis Club of West Toronto*, [1953] 2 S.C.R. 111, 1953 CanLII 82; *Composers, Authors & Publishers Assn. (Canada) v. Siegel Distributing Co.*, [1959] S.C.R. 488, 1959 CanLII 78; *Composers Authors & Publishers Assn. of Canada Ltd. v. International Good Music Inc.*, [1963] S.C.R. 136, 37 D.L.R. (2d) 1; *Composers, Authors & Publishers Assn. of Canada Ltd. v. CTV Television Network*, [1968] S.C.R. 676, 68 D.L.R. (2d) 98 [*CAPAC v. CTV*]; *Bishop v. Stevens*, [1990] 2 S.C.R. 467, 72 D.L.R. (4th) 97; *CCH v. LSUC*, *supra* note 20 (*CCH* was a test case brought by three publishers but funded by Access Copyright, who hoped to win the case and that their victory would convince the Canadian corporate sector to purchase licences from Access Copyright).

71 *SOCAN v. CAIP*, *supra* note 50 seems to be the first such case.

72 The shift might be an unintended consequence of some other reforms, such as the addition of statutory damages in 1997, and the potentially draconian statutory damages pursuant to *Copyright Act*, *supra* note 3, s. 38.1(4) in particular. Section 38.1(4) permits PROs (but not other CMOs) to elect to recover an award of statutory damages ranging between three to ten times the amount of royalties that would have been payable under an approved tariff. As a result, since 1997, judicial review offers users a potentially safer way of resolving substantive questions of law: losing to a PRO in judicial review may result in obtaining a licence under the tariff, and paying the specified royalties, where losing an infringement action can result in a damages award requiring the user to pay at least three times the same amount. CMOs may also prefer the Board-judicial review-appeal route over standard litigation because the Board's lax evidentiary standards allow them to advance their case in a way that no court

users declined to take out licences, CMOs (or their members) would sue them for copyright infringement, not for recovering unpaid tariff royalties. This confirms, albeit indirectly, that the remedy of recovering unpaid royalties applies only against users who elected to obtain a licence under the tariff but then defaulted on their payments, and not against users who do not wish to obtain a licence from the CMO.

In addition to this circumstantial evidence for the voluntary licence theory, courts have repeatedly confirmed this view in their judgments. Those judgments have relied on the rationale of the statutory scheme and on the predecessors of section 68.2(1), which, under different section numbers, read as follows:

> (1) The statements of fees, charges or royalties so certified as approved by the Copyright Appeal Board shall be the fees, charges or royalties which the society, association or company concerned may respectively lawfully sue for or collect in respect of the issue or grant by it of licences for the performance of all or any of its works in Canada during the ensuing calendar year in respect of which the statements were filed as aforesaid.
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> (2) No such society, association or company shall have any right of action or any right to enforce any civil or summary remedy for infringement of the performing right in any dramatico-musical or musical work claimed by any such society, association or company against any person who has tendered or paid to such society, association or company the fees, charges or royalties which have been approved as aforesaid.

(b) The Cases

(i) Vigneux v. CPRS

One of the first cases articulating a comprehensive understanding of the statutory scheme for the oversight of CMOs and the purpose behind it was *Vigneux v. Canadian Performing Right Society* from 1943.[73] The case concerned liability for public performance of musical works: of the owners of a restaurant who used coin-operated jukeboxes, and of the company that rented them out. The Act contained a provision (similar to the present section 69(2)) exempting owners of radio receiving sets and gramophones "in any place other than a thea-

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would allow and those findings of fact would be non-reviewable. Until recently, CMOs might have hoped that courts would also defer to the Board's decisions on questions of law, but this can no longer be the case after *Rogers v. SOCAN*, *supra* note 50.

73 *Vigneux v. Canadian Performing Right Society*, *supra* note 60.

tre that is ordinarily and regularly used for entertainments to which an admission charge is made" from paying any royalties for public performance. The provision also instructed the Board to provide for the collection of royalties in advance from radio broadcasting stations or gramophone manufacturers "in so far as possible." The Board approved a tariff for public performance but had not provided for the collection of royalties from the gramophone manufacturers.

The majority of the Supreme Court held that the defendants infringed the public performance right because the exemption applied only when the Board actually provided for the collection of royalties from gramophone manufacturers. Duff C.J.C. and Davis J. dissented, holding that the exemption would protect owners of gramophones irrespective of whether the Board provided for the collection of royalties from the manufactures, but it would not protect the particular defendants (the restaurant owner and provider of the juke-boxes) because they were not really the owners of gramophones within the meaning of the exception. Rather they were "virtually partners in a distinct class of business, in a venture of publicly performing musical works purely for profit, for a fee in the form of a coin or coins deposited in the gramophone."[74] On appeal, the Privy Council preferred the opinion of the dissenters with respect to whether the exemption depended on collection of royalties from the manufacturers, but went further and held that the exemption applied to the restaurant owner. Furthermore, it held that while the provider of the juke-boxes was the owner of those gramophones, he did not need to rely on the exemption, because he did not perform any music at all, and could not possibly be liable for infringing the public performance right, or for authorizing it.[75]

The Privy Council was in full agreement with how Duff C.J.C. described the statutory scheme and the rationale behind it. The Chief Justice emphasized Parliament's intention to protect users from the "unrestrained mercies" of CMOs[76] by constraining their monopolis-

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74 *Ibid.* at 358.

75 *Vigneux and Others v. Canadian Performing Right Society Ltd. (Canada)*, [1945] U.K.P.C. 1 at 7.

76 *Vigneux v. Canadian Performing Right Society*, *supra* note 60 at 356.

tic power and preventing its abuse. His words are worth quoting at length:

> Seven years after the Act of 1921 came into force the legislature realized that in respect of performing rights a radical change in the statute was necessary. Societies, associations and companies had become active in the business of acquiring such rights, and the respondents in this case admittedly have more or less successfully endeavoured to get control of the public performing rights in the vast majority of popular musical and dramatico-musical compositions which are commonly performed in public. The legislature evidently became aware of the necessity of regulating the exercise of the power acquired by such societies [. . .] Under this plan the dealer in performing rights has his sole right to perform any particular musical composition in public qualified by a statutory licence vested in everybody who pays or tenders to the dealer a fee, charge or royalty which has been fixed by the Copyright Appeal Board and notified in the Canada Gazette. That seems like a revolutionary change, but it is evident that the legislature realized in 1931 that this business in which the dealers were engaged is a business affected with a public interest; and it was felt to be unfair and unjust that these dealers should possess the power so to control such performing rights as to enable them to exact from people purchasing gramophone records and sheets of music and radio receiving sets such tolls as it might please them to exact.[77]

There are a few key takeaways from this excerpt. Parliament was concerned with first, "regulating the exercise of power" by CMOs, *i.e.*, the opposite of enhancing their power, and, second, participation in a collective "qualified" copyright owners' rights, *i.e.*, the opposite of expanding them. Copyright holders' discretion was replaced with "a statutory license vested in everybody who pays or tenders to the dealer [the CMO] fee, charge or royalty which has been fixed by the Copyright Appeal Board" (*i.e.*, a statutory licence available to anyone who pays or offers to pay, not a compulsory payment imposed on anyone who uses a work). Third, the Chief Justice recognized that collective administration of copyright is "affected with a public interest and may, therefore, conformably to a universally accepted canon, be properly subjected to public regulation."[78] He then referred to the oft-quoted observation of Lord Justice Lindley in *Hanfstaengl v. Empire Palace*[79] that "care must be taken not to allow [the monopo-

77 *Ibid.* at 352.
78 *Ibid.*
79 *Hanfstaengl v. Empire Palace* (1894), 3 Ch. 109 at 128.

lies under patent and copyright laws] to be made instruments of oppression and extortion."[80] The warning in *Hanfstaengl* recognized the potential for abuse that inheres even in a copyright in a single work. Obviously, the potential for abuse that inheres in a CMO, a monopoly of monopolies, is even greater.

The words of Duff C.J.C. echo the words of Judge Parker, who wrote the 1935 Royal Commission Report, whose recommendations formed the basis for statutory amendments in 1936. Those amendments improved the regulatory framework that Parliament had set in place in 1931, and served as the basis for the current system.[81] In describing the mischief of the situation at the time, Parker wrote:

> Most of the present users of music cannot carry on their business and cater to the public without music and it is estimated that between eighty and ninety per cent of the popular and semi-classical music — such as the music user requires — is under the control of Canadian Performing Right Society, and unless the user obtains a licence to perform the repertoire of Canadian Performing Right Society, he has no other supply available and the public are denied the pleasure of hearing music. Competition no longer exists. A monopoly, or super-monopoly, has arisen. No one quarrels with the author, composer and publisher pooling their rights and placing them in a central bureau for the purpose of collecting a fair fee for the same and of preventing infringement thereof. It is an inevitable monopoly existing for the convenience of the owner and the user; but it should not be exercised arbitrarily and without restraint.[82]

(ii) Maple Leaf Broadcasting v. CAPAC

Ten years later, in *CAPAC v. Maple Leaf Broadcasting*, CAPAC brought an action for infringement against Maple Leaf Broadcasting. The defendant admitted to using CAPAC's works without permission. It argued, however, that CAPAC was barred from suing it without the consent of the Minister because the relevant approved tariff, which provided for royalties calculated on the basis of a certain percentage of the broadcaster's gross revenue in the previous year, was not a "statement of fees, charges or royalties" within the meaning of

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80 *Vigneux v. Canadian Performing Right Society*, *supra* note 60 at 353-54.

81 Katz, "The Potential Demise II," *supra* note 17 at 265-66 (describing the history of those amendments).

82 J. Parker, *Report of the Royal Commission Appointed to Investigate the Activities of the Canadian Performing Rights Society, Limited, and Similar Societies* (Ottawa: J.O. Patenaude, 1935) at 19 [Parker Report].

the phrase as used in the Act. In the Exchequer Court, Cameron J. rejected this argument, holding that Parliament "was concerned primarily with the establishment of such [royalties] . . . as would constitute a suitable compensation"[83] and could not have intended to limit them to royalties "at a specific amount in dollars and cents."[84]

The appellant's case centered on the fact that the tariff for 1952, which was proposed in November 1951 but not approved until March 1952, required paying royalties calculated on the basis of the broadcaster's revenue in 1951. The appellant could not know at the outset of 1952 what its revenue in the previous year was, so it could not pay the specified royalties and gain protection from a charge of copyright infringement. It also could not know whether the tariff would be approved as proposed or at a lower rate until part way through the time period covered by the tariff, which would affect its decision whether to obtain a licence at all. Writing for the majority, Cartwright J. recognized the inconvenience that this might cause to the user but, in finding that inconvenience insufficient to invalidate the tariff, described the operation of the statutory scheme in words that leave no doubt that a tariff cannot be imposed on users.

First, he recognized "there might be cases in which such [a broadcaster] would decide against taking a license at the [higher] fee stipulated in the statement filed but would be willing to take a license at the [lower] fee finally certified by the Board."[85] That is, a user can *choose* whether to take a licence, and cannot be compelled to take a licence if it finds its price unattractive. Cartwright J. also acknowledged the inconvenience a CMO might suffer when, for a certain period each year, it would not know what it would be allowed to charge for a licence, and that the user might suffer when it would not know what it may be called upon to pay. However, in his view, not knowing the exact royalty would not deny the user the protection from infringement action because the protection is afforded to any user who has paid or tendered the royalties. He held that the word "tendered" should be construed as "offered to undertake to pay" and that the owner of a broadcasting station in the position suggested above

83 *CAPAC v. Maple Leaf Broadcasting Co.* (1953), 18 C.P.R. 1 at para. 31, 13 Fox Pat. C. 101 (Ex. Ct.).

84 *Ibid.*

85 *CAPAC v. Maple Leaf Broadcasting Co.*, [1954] S.C.R. 624 at 630, 21 C.P.R. 45 [*Maple Leaf v. CAPAC*].

could avail himself of the protection afforded by section 10B (9) by offering to undertake to pay the fees approved by the Board so soon as the same were approved, while a person using the works without having made such offer would appear to be liable to an action for infringement.[86]

To further mitigate the inconvenience, Cartwright J. recognized "an implied duty of the Board to proceed with all possible expedition and [by holding] that the statements if certified later than January 1 relate back upon certification to the commencement of the year."[87] Nevertheless, he immediately clarified that the power to certify tariff retroactively does not mean

> that a person who before certification performs the works of the respondent without its consent and without offering to undertake to pay the fees certified by the Board as soon as the same are certified necessarily becomes liable to pay those fees if it does not then take a license from the respondent; that question does not arise in this action in which the respondent seeks damages and does not allege any implied contract with the appellant.[88]

In other words, a tariff, whether approved prospectively or retroactively, affords protection to users who have paid the specified royalties or offered to pay them. Users who use the works without paying or offering to pay may be liable for infringement, but cannot be liable to pay the specified royalties. If a user who did not request a licence could become liable for paying the royalties, the CMO must prove the parties entered an implied contract to pay the royalties in return for a licence.

Dissenting in part — mainly disagreeing that the Board could include in an approved tariff terms providing for examination of users' business records — Locke J. made comments echoing Cartwright J.'s support for the voluntary licence theory. He noted that the provision affording users protection from infringement actions clearly indicated Parliament's intention "that the licences to be granted, *if they were indeed requested*, should amount to a simple permission to utilize the copyrighted works or any of them during the ensuing calendar year in Canada[, not that] the copyright holder might impose further terms such as the one in question [emphasis added]."[89] In his view, a user

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86 *Ibid.*

87 *Ibid.* at 631.

88 *Ibid.*

89 *Ibid.* at 642.

requesting a licence could not be required to comply with terms not contemplated in the statute.[90] While a royalty based on a percentage from the user's gross income might justify a mechanism that would allow the CMO to ascertain users' revenue, the benefit to the CMO of its novel proposed form of royalty calculation could not justify any loss to the user without an explicit statutory mandate.[91] While Locke J. disagreed with the majority on this point, the court was unanimous in its understanding of Parliament's intent in enacting the statutory scheme. All justices agreed that an approved tariff could not result in any new obligation on users who were not interested in obtaining a licence from the CMO; the purpose of the scheme was to allow users who wish to obtain licences to get them without negotiating with CMOs.

(iii) CAPAC v. Sandholm Holdings

The question in *CAPAC v. Sandholm Holdings* was whether the plaintiff CMO could bring in the Exchequer Court an action to recover unpaid licence fees for a licence it had issued to the defendant and, if so, whether it was entitled to any other remedy, such as damages for copyright infringement.[92] There was no dispute that the plaintiff would be entitled to recover unpaid licence fees from a licensee. The question was whether the claim arose out of a contract between the CMO and the user, in which case only a provincial court could hear the case, or whether it was based on a statutory remedy under the *Copyright Act*, in which case the Exchequer Court had concurrent jurisdiction.[93]

In February 1952, CAPAC issued a licence (No. G3349) to the defendant cabaret operator, "for the year 1951-52 and thereafter from year to year until the license was terminated."[94] The defendant was late in paying licence fees for the second half of 1952. On November 5, 1952, CAPAC sent the defendant a letter purporting to cancel its licence, effective November 15, 1952. On November 10, 1952, the defendant sent CAPAC a cheque for the applicable licence fees. Ac-

90 *Ibid.*

91 *Ibid.* at 643.

92 *Composers, Authors & Publishers Assn. (Canada) v. Sandholm Holdings Ltd.*, [1955] Ex. C.R. 244 at para. 1, 24 C.P.R. 58 [*CAPAC v. Sandholm*].

93 *Ibid.* at para. 12.

94 *Ibid.* at para. 2.

cording to Thorson J., "the purpose of the notice was accomplished and the threatened cancellation, even if permissible, never went into effect."[95]

On November 13, 1952, presumably believing the first licence had been cancelled, "the plaintiff wrote the defendant enclosing its licence No. 1375 for 1952 and thereafter from year to year until terminated."[96] In 1953, the defendant continued to perform CAPAC's copyrighted works, but did not pay the certified licence fees. In April 1953, CAPAC purported to suspend the defendant's (new) licence No. 1375.

In its statement of claim, CAPAC alleged that Sandholm's performances subsequent to the "suspension" of its licence constituted infringement. CAPAC sought damages and an injunction against Sandholm until "all fees payable by the defendant" had been paid.[97] The court defined the issues as (1) whether CAPAC was entitled to recover unpaid licence fees from the defendant "in this court" and (2) "if so, whether it is entitled to any other remedy."

First, Thorson J. held that the matter was within the Exchequer Court's jurisdiction, and the plaintiff entitled to recover the unpaid licence fees, because

> [t]he plaintiff issued a license to the defendant to perform musical works in which it owned the performing rights, a segment of copyright, and Parliament has given it a statutory remedy against its licensee. The action is thus not an action to enforce a contractual right but to enforce a statutory remedy.[98]

In reaching that conclusion, Thorson J. described the statutory scheme, its history, and the intent behind it, in words similar to those used in *Vigneux*.[99]

Second, Thorson J. held that CAPAC could not recover damages because the defendant was still operating under the initial licence. "[L]icense No. G.3349 was never cancelled" because the defendant's November 10 payment had the effect that "the issue of license No. 1375 was unnecessary and had no effect, with the result that the pur-

95 *Ibid.* at para. 23.
96 *Ibid.* at para. 6.
97 *Ibid.* at para. 8.
98 *Ibid.* at para. 16.
99 *Ibid.* at para. 19.

ported suspension of it was a nullity."[100] Having determined that licence No. G.3349 was still in effect, Thorson J. stated, "The defendant cannot be the plaintiff's licensee to perform its copyright musical works and at the same time infringe its copyright in them."[101] He added that in any event CAPAC could not have cancelled or suspended the licence because, consistent with the Supreme Court view in *Vigneux* and *Maple Leaf*, a user's ability to be protected from charges of infringement lies at the heart of the statutory scheme. This protection is available to any user who offers to pay the approved royalties, and does not depend on the actual grant of a licence by the CMO. If the protection from charges of infringement does not depend on the CMO's will, it follows that the CMO could not cancel or revoke the licence and its only remedy was to sue for the recovery of the unpaid royalties.[102]

Thorson J. emphasized that "a defendant cannot be the plaintiff's licensee to perform its copyright musical works and at the same time infringe its copyright in them." He characterized the distinction as elementary,[103] but it is still noteworthy, not only because it is consistent with the holding of the Supreme Court in *Maple Leaf*,[104] but because proponents of the "mandatory tariff" theory inexplicably ignore this point of law. As noted above, in its statement of claim against York University, Access Copyright stated that any act of unauthorized reproduction triggers an obligation to pay royalties *under the approved tariff*, and entitles it to recover them in default of their payment, pursuant to section 68.2(1).[105] Access Copyright's theory of the case ignores the elementary principle that an *unauthorized* reproduction may trigger liability for infringement but cannot trigger an obligation to pay licence fees; only a licensee can be required to pay licence fees. If York's reproductions are unauthorized, as Access Copyright alleges, York is not a licensee. It does not owe any licence fees, and cannot default on their payment. York might be an infringer, but Access Copyright did not bring an infringement action,

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100 *Ibid.* at para. 23.

101 *Ibid.* at para. 22.

102 *Ibid.* at para. 24.

103 *Ibid.* at para. 22.

104 *Maple Leaf v. CAPAC*, *supra* note 85 at 630.

105 "Access Copyright Statement of Claim v. York University," *supra* note 27 at para. 19.

nor could it, because as a non-exclusive licensee, it has no standing to sue for infringement.

(iv) CAPAC v. Baton Broadcasting

In the 1964 case *CAPAC v. Baton Broadcasting*, the Exchequer Court dealt with a dispute between CAPAC and Baton Broadcasting, the operator of a CFTO-TV station.[106] Baton began broadcasting on January 1, 1961, but the Board approved CAPAC's relevant tariff only on January 20, 1961. Since there was no tariff pursuant to which Baton could pay royalties, the parties agreed that Baton would pay royalties pursuant to a written contract entered into early in January 1961.[107] The dispute occurred when the parties disagreed about which portion of the broadcaster's revenue counted for calculating the licence fees, and CAPAC claimed that the broadcaster had left a balance of $12,255.93 owing to it.[108]

In its statement of claim, CAPAC sought recovery of fees alleged to be due under the contract. In the alternative, CAPAC claimed "that the defendant, if not liable for the fees provided by the contract, is liable for fees for the right to perform the plaintiff's said musical works in 1961 in the amount [. . .] as defined in a tariff of fees approved by the Copyright Appeal Board."[109] Baton denied that it owed any balance under the contract. It further argued that the Act precluded CAPAC from suing on the basis of a private contract, and even if it could sue under the contract, it could not bring such action in the Exchequer Court.[110]

Thurlow J. concluded that CAPAC failed to prove that additional fees were payable under the contract. "Even if the Court has jurisdiction to entertain [the contract claim], the claim must therefore

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106 *Composers, Authors & Publishers Assn. of Canada Ltd. v. Baton Broadcasting Ltd.* (1964), 26 Fox Pat. C. 180 at para. 2, 45 C.P.R. 242 (Ex. Ct.), aff'd *Composers, Authors & Publishers Assn. of Canada Ltd. v. Baton Broadcasting Ltd.* (1965), 30 Fox Pat. C. 8 at 248, 45 C.P.R. 242.

107 *Ibid.* The agreement and the tariff differed mainly in the duration of the licence (a year under the contract, month-by-month under the tariff) and the royalty (1.35 per cent of the gross annual revenue vs. 1.5 per cent of the gross monthly revenue).

108 *Ibid.* at para. 4.

109 *Ibid.* at para. 1.

110 *Ibid.* at para. 8.

fail."[111] Thurlow J. also considered the alternative claim of suing under the tariff, but found it unnecessary to rule conclusively on the issue because *even if* CAPAC had a right to fees under the tariff, the amount would not have exceeded the amount Baton already paid under contract. In any event, to sue under the tariff, it was incumbent on CAPAC to prove that it had actually issued a licence under the tariff,[112] but "[t]he only evidence of the grant of a licence is that of the contract."[113]

This holding is inconsistent with the "mandatory tariff" theory. Under that theory, it would have been sufficient for CAPAC to prove that Baton made at least a single public performance of a single work from CAPAC's repertoire, a fact that was not disputed. This case provides additional evidence that the "mandatory tariff" theory would be a novel one, not supported by the case law.

(v) CAPAC v. CTV

CAPAC filed, and the Board approved, a tariff for "Television Broadcasting" which set the fee payable for a general licence by an operator of a commercial television *station* at 1.5 per cent of the operator's gross revenue.[114] CTV was operating a private television network. It acquired, or produced, television programs recorded on videotape. It contracted with advertisers for payment in consideration of the addition of commercials. It also contracted with private affiliated television stations for having the programs broadcast at a proper time in consideration of stipulated payments. In some cases, CTV supplied programs to the affiliated stations by shipping a copy of the videotape but most often used facilities provided by Bell: cable over short distances, and transmission, mostly by microwave, over long distances.[115]

The affiliated stations were duly authorized by CAPAC and the royalties were fully paid,[116] but in addition, CAPAC was trying to

111 *Ibid.* at para. 7.

112 *Ibid.* at para. 9.

113 *Ibid.* at para. 12.

114 *CAPAC v. CTV*, *supra* note 70 at 678.

115 *Ibid.* at 678-79.

116 *Composers, Authors & Publishers Assn. of Canada Ltd. v. CTV Television Network*, [1966] Ex. C.R. 872 at para. 4, 48 C.P.R. 246 [*CAPAC v. CTV Ex. Ct.*].

obtain a 1.5 per cent fee on the network's revenue. "With that end in view, it has filed in November 1962 [another] tariff providing . . . in addition to the general licence [to the stations], for a general licence to CTV 'for all network television broadcast'. The fee for such licence is 1 1/2 per cent of the gross amount paid to CTV for the use of the network less the amount in turn paid by CTV to its affiliated stations."[117]

CTV objected to the tariff and, even though it was approved, CTV refused to take a licence.[118] CAPAC sued CTV for copyright infringement, but the Exchequer Court held, and the Supreme Court agreed, that CTV's transmissions to its affiliated stations did not constitute communication to the public, so CTV did not infringe any copyright. The Supreme Court also held that CTV could not be liable for "authorizing" the broadcasting by the affiliated stations, because "being authorized by licence from CAPAC to make use of the subject matter of the copyright, it could not be an infringement for CTV to authorize them to do it."[119]

Again, this case confirms the voluntary licence theory. CAPAC filed a tariff approving the royalties payable by CTV. CTV objected to the tariff, but the Board still approved it. CTV refused to take a licence. CAPAC did not sue to recover the unpaid royalties under the approved tariff; it brought an action for copyright infringement. Indeed, all participants agreed that the court's task was to determine, first, whether there had been at least one act of infringement of the plaintiff's rights by the defendant, and then, "if such adjudication should be in favour of the plaintiff, there is to be a reference to determine the further acts of infringement, if any, that had been committed by the defendant as alleged by the statement of claim, and the damages or profits to which the plaintiff is entitled by virtue of all such acts of infringement."[120] CAPAC did not claim that it would be sufficient for it to prove a single act of infringement to trigger an obligation on CTV to pay 1.5 per cent of its gross revenue as per the tariff (as the "mandatory tariff" theory holds), or that the royalties under the tariff represent the amount of damages or profit that it is entitled to. CAPAC sued for infringement, because CTV refused to take a

117 *CAPAC v. CTV*, *supra* note 70 at 679.

118 *Ibid.*

119 *Ibid.* at 680.

120 *CAPAC v. CTV Ex. Ct.*, *supra* note 116 at 248.

licence. Hence, it had to prove infringement first, and then it would be up to the court to determine the appropriate remedy.

(vi) PROCAN v. Lion D'Or

In *PROCAN v. Lion D'Or*,[121] decided in 1987, PROCAN sued the defendant owner and operator of a cabaret for copyright infringement. Despite numerous efforts to persuade the defendant to request a licence from PROCAN, the defendant adamantly refused to obtain a licence, and it was common ground that he never applied for or obtained one.[122] While the court accepted that the defendant had played three songs named in the statement of claim, the action failed because PROCAN could not prove proper chain of title that would allow it to sue for copyright infringement.[123]

Strayer J. explained the difference between an action for copyright infringement and an action to enforce a licence under (then) section 50 of the *Copyright Act*. Consistent with the earlier case law, he noted that the *Copyright Act* "provides a special regime for performing rights societies which, it appears to me, involves in effect a compulsory licence in favour of those who wish to perform songs protected by a performing right society and who do not otherwise have an assignment or licence from the owner of the copyright."[124] After describing the ability, under then section 50(9), of a CMO to "enforce its rights to these 'fees, charges or royalties' as approved by the Copyright Appeal Board . . .," he noted that this power

> deals only with the enforcement of licences: the subsection refers to the amounts which the society may . . . sue for or collect *in respect of the issue or grant by it of licences* . . . (emphasis added) I take this to mean that if a person performing these works refuses to take out a licence then subs. 50(9) has no application. [. . .] If the society wishes to recover for use of the performing rights, it must then bring an action for infringement of copyright. Even if it does so, the defendant can avoid further liability by tendering the amount of "fees, charges or royalties" that the society could have collected had a li-

121 *Performing Rights Organization of Canada v. Lion d'Or (1981)*, *supra* note 19.

122 *Ibid.* at para. 6.

123 *Ibid.* at para. 8.

124 *Ibid.* at para. 9.

> cence been issued. This is made clear by subs. 50(10) which provides:
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> > (10) No such society, association or company shall have any right of action or any right to enforce any civil or summary remedy for infringement of the performing right in any dramatico-musical or musical work claimed by any such society, association or company against any person who has tendered or paid to such society, association or company the fees, charges or royalties that have been approved as aforesaid.
>
> The result is that a defendant who is willing to tender the amount of these fees has in effect obtained a compulsory licence and the plaintiff is precluded from collecting any further amount.
>
> In the present case, however, the defendants have not tendered any such amount pursuant to section 50(10) and have made it amply clear that they have no intention of doing so. This then must be viewed as a simple action for copyright infringement. . . .[125]

4. HAVE THE REFORMS OF 1988 AND 1997 CREATED A FUNDAMENTAL CHANGE?

The case law prior to 1988 confirms the voluntary licence theory. However, those cases relied on statutory language that Parliament altered in 1988, and again in 1997.[126] The question, then, is whether the changes in the statutory language render the prior case law irrelevant. My analysis concludes that they do not. For convenience, the

125 *Ibid.* at paras. 9-10.

126 Parliament further amended section 68.2(2) in 2012, but these changes are non-consequential for the current discussion.

table below contains the relevant provisions, as they existed pursuant to the statutory revision of 1985, and as amended in 1988, and 1997.

Pre 1988 (1985)	70(1) The statements of fees, charges or royalties certified as approved by the Copyright Appeal Board shall be the fees, charges or royalties that the society, association or company concerned may lawfully sue for or collect in respect of the issue or grant by it of licences for the performance of all or any of its works in Canada during the ensuing calendar year in respect of which the statements were filed. (2) No society, association or company shall have any right of action or any right to enforce any civil or summary remedy for infringement of the performing right in any dramatico-musical or musical work claimed by the society, association or company against any person who has tendered or paid to the society, association or company the fees, charges or royalties that have been approved by the Copyright Appeal Board.
1988	67.2 (1) ... (2) Without prejudice to any other remedies available to it, a society, association or corporation may, for the period specified in its approved statement, collect the royalties specified in the statement or, in default of their payment, recover them in a court of competent jurisdiction. (3) No action shall be brought for the infringement of the right to perform a work referred to in subsection 67(1) against a person who has paid or offered to pay the royalties specified in an approved statement.

1997	68.2(1) Without prejudice to any other remedies available to it, a collective society may, for the period specified in its approved tariff, collect the royalties specified in the tariff and, in default of their payment, recover them in a court of competent jurisdiction. (2) No proceedings may be brought for (a) the infringement of the right to perform in public or the right to communicate to the public by telecommunication, referred to in section 3, or (b) the recovery of royalties referred to in section 19 against a person who has paid or offered to pay the royalties specified in an approved tariff.

Proponents of the "mandatory tariff" theory might point out that the pre-1988 language referred to the collection of royalties in respect of the issue or grant of licences by a CMO, and observe that the reference to "issue or grant of licences" has all but disappeared since 1988. Consequently, they might argue, the 1988 amendments were intended to transform the statutory regime and make an approved tariff enforceable not only against *licensees* under the tariff (as the earlier case law emphasized) but also against any user who declines to request a licence.

This could have been a plausible argument, and if section 68.2(1) were the only relevant provision, a persuasive one. However, when section 68.2(1) is read in conjunction with all the relevant provisions, it becomes clear that Parliament did not alter any fundamental feature of the statutory scheme. The analysis below shows that Parliament neither changed the nature of tariffs, nor intended to do so. With respect to collective administration of *copyrights*, tariffs have always been, and remain, approved *licensing* schemes. The tariffs that CMOs propose, and the Board approves, have always been tariffs that set out the royalties which the CMO proposes to collect in respect of the grant of licences. *Plus ça change, plus c'est la même chose.*

(a) Ordinary Meaning and Contextual Interpretation

The concepts of "licence" and "authorization," and the nature of the rights that CMOs administer, lie at the heart of the voluntary licence theory, which the case law prior to 1988 confirms. To decide whether the amendments reflect a radical change, courts would have to read the words of the Act "in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament."[127] The following textual and schematic analysis of the current Act shows that the reforms of 1998 or 1997 did not introduce any change that could be construed as undermining the currency of the courts' interpretation of the statutory scheme and its effects.

(i) Licences and Licensing Schemes

Section 2 of the Act defines "collective society" as

> *a society, association or corporation that carries on the business of collective administration of copyright* or of the remuneration right conferred by section 19 or 81 for the benefit of those who, by assignment, grant of licence, appointment of it as their agent or otherwise, authorize it to act on their behalf in relation to that collective administration, and
>
> > (a) *operates a licensing scheme*, applicable in relation to a repertoire of works, performer's performances, sound recordings or communication signals of more than one author, performer, sound recording maker or broadcaster, pursuant to which the society, association or corporation sets out classes of *uses that it agrees to authorize* under this Act, and the royalties and terms and conditions on which it *agrees to authorize* those classes of uses, or
> >
> > (b) carries on the business of collecting and distributing royalties or levies payable pursuant to this Act; [emphasis added][128]

This definition covers several types of CMOs, not all of which are relevant to this article. My focus is CMOs that collectively administer *copyrights* conferred by section 3 (copyright in works), section 15 (copyright in performer's performance), section 18 (copyright in sound recordings), and section 21 (copyright in communication signals). While the *copyrights* granted under sections 3, 15, 18, and 21 are different in subject matter and scope, all of them are called

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[127] *Rizzo & Rizzo Shoes Ltd., Re*, *supra* note 7 at para. 21.

[128] *Copyright Act*, *supra* note 3, s. 2.

"copyrights," all of them are "sole rights," and all are infringed by any person who does, "without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do."[129]

Those *copyrights* are distinct from the *remuneration rights* conferred by sections 19 or 81, and do not share the same features. Section 19 *entitles* some performers and makers of sound recordings to be paid *equitable remuneration* under certain conditions. Section 81 provides that eligible authors, performers, makers of sound recordings "have a right to receive remuneration from manufacturers and importers of blank audio recording media" under some conditions, pursuant to a levy those manufacturers and importers are liable to pay under section 83. Not only are the rights and their scope different, the Act is also careful to use distinct terminology. In the case of "copyrights" an "owner" has a "sole right." In contrast, under section 19, the right holder is only "entitled" to an "equitable remuneration." Section 81 uses the phrase "have a right to receive remuneration."

Copyrights and remuneration rights also diverge in the structure of the rights and the jural relations that they create with non-holders. In copyright, the owner's sole right correlates with every non-owner's duty to refrain from doing, without consent, an act exclusively reserved to the owner. The non-owner's duty is not to a duty to pay. The absence of the owner's consent, not the user's failure to pay, constitutes the crucial fact of infringement. The copyright, however, may give rise to a non-owner's duty to pay, but only under two, and diametrically opposite, conditions. A duty to pay may arise as an incident of the copyright, when the owner and the user enter into a licence agreement, under which the owner agrees to authorize the user to do an act, and the non-owner agrees to pay in exchange. Conversely, a duty to pay may be a consequence of infringement: when the non-owner violates her duty to refrain, and the court orders her to "pay such damages to the owner of the copyright as the owner has suffered due to the infringement and, in addition to those damages, such part of the profits that the infringer has made from the infringement."[130] In the former case, the non-owner's duty to pay stems from her voluntary assumption of an obligation to pay in exchange for the grant of a licence by the owner. In the latter, after a finding of in-

129 *Ibid.* s. 27(1).

130 *Ibid.* s. 35(1).

fringement, the court quantifies and imposes on the non-owner a duty to pay to remedy her unlawful interference with the owner's exclusive right.

Payment may be an incident of the copyright, but is not essential under either circumstance: a copyright owner may give her consent without demanding any payment in return, and a user who has offered a handsome payment may still infringe the copyright if the owner declined to accept and has not consented to the user doing that act. At the remedy stage, a court may hold the non-owner liable, but decline to grant a monetary award (beyond the minimum statutory damages, if applicable), without proof of the owner's damage or the user's profit, just as it may order paying damages but deny an injunction.[131] For the present discussion, the crucial point is that a copyright owner's sole right correlates with a duty of non-interference, not with a duty to pay.

In contrast, in the case of sections 19 and 81, the right holders are only "entitled," or "have a right," to be paid or receive "remuneration" (the amount of which is determined by the Board) from designated persons who are "liable to pay" the remuneration.[132] Unlike *copyrights*, the remuneration entitlements correlate with a duty to pay, not a duty to refrain.

Thus, the Act distinguishes between two paradigms: on one hand, a copyright paradigm, whose essential elements are an exclusive right, a correlative duty to refrain, consent (or authorization), or lack thereof; on the other, a remuneration paradigm, whose essential elements are entitlement to be paid and a correlative liability to pay.

The definition of "collective society" in section 2 of the Act applies to both paradigms, but distinguishes between them. Subsection (a) of the definition applies to the copyright paradigm. It refers to a "collective society" that "operates a *licensing scheme*, applicable in relation to a repertoire of works, [or other subject matter] pursuant to which the [collective society] sets out classes of *uses that it agrees to authorize* under this Act, and the royalties and terms and conditions on which it agrees to authorize those classes of uses." Subsection (b)

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131 *CCH v. LSUC*, *supra* note 20 at para. 85 ("Under s. 34(1) of the *Copyright Act*, the copyright owner is entitled to all remedies, including an injunction, for the infringement of copyright in his or her work. An injunction is, in principle, an equitable remedy and, thus, it is within the Court's discretion to decide whether or not to grant an injunction.").

132 *Copyright Act*, *supra* note 3, ss. 19(2) and 82, respectively.

applies to the remuneration paradigm, and refers to a "collective society" that "carries on the business of *collecting and distributing royalties or levies* payable pursuant to this Act."[133]

The distinction between the paradigms continues throughout Part VII of the Act, dealing with collective administration, and Part VIII, dealing with private copying and the blank media levy. Part VII comprises two main regimes: sections 67-69 dealing with performing rights and communication rights in musical works, dramatico-musical works, performer's performances of such works, or sound recordings embodying such works ("section 67 regime"), and sections 70.1-70.6, known as the "general regime" and which applies only to CMOs that administer copyrights and operate "licensing schemes."[134] The section 67 regime applies both to CMOs that administer copyright by granting licences (PROs) and to CMOs that collect "equitable remuneration."

The main difference between the two regimes lies in the more stringent treatment of CMOs subject to the section 67 regime. Those CMOs *must* file their proposed tariff with the Board, or they (or their members) cannot bring an action for infringement of copyright or the recovery or royalties without the written consent of the Minister.[135]

In the general regime, however, Parliament adopted a more lenient approach and offered more flexibility for CMOs and their users. Under the general regime, CMOs may file proposed tariffs with the Board, but they do not have to. Section 70.12 provides that CMOs "may, for the purpose of setting out by *licence* the royalties and terms and conditions relating to classes of uses," either "(a) file a proposed tariff with the Board; or (b) enter into agreements with users [emphasis added]."[136] Even when the CMO has filed a proposed tariff and the Board has approved it, the CMO and a user can still enter into a licence agreement, which takes precedence over the tariff.[137] When a user and CMO are unable to reach agreement, they can invoke the section 70.2 mechanism.

These different options — tariff, negotiated licence agreement or an individually fixed licence — share important features. First, all

133 *Ibid.* s. 2.

134 *Ibid.* s. 70.1.

135 *Ibid.* s. 67.1(4).

136 *Copyright Act*, *supra* note 3, s. 70.12.

137 *Ibid.* s. 70.19.

three options result in a statutory licence to use the works within the CMO's repertoire, which the user can rely on even if the CMO declines to issue a licence. Second, they bar any proceedings for the infringement of copyright against a user who has paid or offered to pay the royalties.[138]

The second feature may seem trivial and merely a corollary of the first (if a user is licensed it cannot be liable for infringement because the essence of infringement is use without consent). Nevertheless, understanding the effect of a tariff depends crucially on recognizing that, as far as copyrights are concerned, the various collective schemes that the Board may oversee are all *licensing* schemes. The "mandatory tariff" theory overlooks this fundamental point. Therefore, the effect of an approved tariff depends on the concept of a licence, on the scope of the rights that the licence authorizes, and the nature of the correlative duties of the users.

The voluntary licence theory takes the words of the Act and the structure of its provisions seriously, and recognizes that a when a section 67 CMO, which "carries on the business of *granting licences*," files with the Board, pursuant to section 67.1(1), "a proposed tariff . . . of all royalties to be collected by [it]," the tariff, which the Board ultimately certifies as approved, sets out the royalties that the CMO may collect for the grant of a *licence*.

Likewise, when a section 70.1 CMO — a CMO that "operates a licensing scheme" — elects, pursuant to section 70.12, to file a proposed tariff with the Board "for the purpose of setting out *by licence* the royalties and terms and conditions relating to classes of uses," the tariff that the Board would certify as approved, begins and remains a "*licensing* scheme." The only difference between the proposed tariff and the approved tariff is that one is a proposed licensing scheme, and the other is a licensing scheme that the Board has certified as approved. Similarly, when the Board fixes royalties and their related terms and conditions pursuant to section 70.2, it fixes them "with respect of a licence."[139]

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138 Strictly speaking, the Act's explicit protection to the user who has paid or offered to pay applies only in the case of tariffs, or arbitrated licences, but no explicit statutory protection is required in the case of negotiated licences, because by definition, when the owner has given his consent, and granted a licence, the user cannot be liable for infringement.

139 *Copyright Act*, *supra* note 3, s. 70.2(2).

Therefore, when the Copyright Board certifies a tariff as approved per sections 68(3) or 70.15, (or fixes royalties for a particular licence pursuant to section 70.2), it certifies *licensing* schemes (or a particular *licence*) that *authorize* uses that fall within the scope of the CMO's (or its members') section 3, 15, 18, or 21 copyrights. Since the Board does not possess legislative powers, it cannot confer on copyright owners *more* or *broader* rights than those that Parliament granted them.

Careful examination of the statutory scheme reveals that what the Supreme Court held more than six decades ago in *Vigneux* has not changed. When the Board determines the terms of licensing schemes, it does not create new constraints on users. The Board's approval qualifies the rights of owners: it takes away their power to withhold a licence or unilaterally set its terms, resulting in "a statutory licence vested in everybody who pays or tenders . . . a fee, charge or royalty which has been fixed by the . . . Board."[140] The Board's approval does not qualify the rights of users, and cannot impose on them duties they did not previously have or voluntarily assume.

(ii) The Meaning of "Licence"

In setting out the statutory scheme for the collective administration of *copyrights*, Parliament has consistently referred to licences and licensing schemes. The term "licence" has an established meaning in copyright law, which originates from common law. Presumably, this meaning circumscribes the effect of approved licensing schemes. A licence is "permission . . . to commit some act that would otherwise be unlawful."[141] In copyright, a "licence [is] an authorization to do any act that is a right described in s. 3."[142] A licence merely conveys "a right to use the property which is subject to the grantor's copyright in certain ways."[143] Likewise, the meaning of "infringement" is also well understood, and defined in the Act as doing "without the consent of the owner of the copyright, anything that

[140] *Vigneux v. Canadian Performing Right Society*, *supra* note 60 at 353; *Copyright Act*, *supra* note 3, s. 70.17.

[141] Bryan A. Garner, ed., *Black's Law Dictionary*, 9th ed. (St Paul, MN: West, 2009) at 1002.

[142] *Euro Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37 at para. 40, [2007] 3 S.C.R. 20. For convenience, I will only refer to rights under section 3, even though the analysis also applies to copyrights under sections 15, 18, and 21.

[143] *Leuthold v. Canadian Broadcasting Corp.*, 2014 FCA 173 at para. 27.

by this Act only the owner of the copyright has the right to do."[144] A licensee is a person who does an act mentioned in section 3, 15, 18, or 21 *with the consent* of the copyright owner and therefore cannot be liable for infringement. An infringer is a person who does an act mentioned in those sections *without the consent* of the copyright owner and therefore may be liable for infringement. A person cannot be both a licensee and an infringer at the same time. This is elementary.[145]

Since a licence is "nothing but a permission which would carry with it immunity from proceedings to those who act upon the permission,"[146] a licence *simpliciter* cannot impose any obligation on the licensee. A licence permits the non-owner to do something that otherwise he would have an obligation to refrain from doing. Without more, a licence only confers a privilege; it cannot create liability.

A licence may be granted as part of a licence *agreement* between a copyright owner (or a person whom she has authorized) and a user. The *agreement* may establish obligations on the licensee (*e.g.*, to pay a licence fee, or perform a certain act), or the grant of a licence may be conditional upon compliance with certain terms. But other than the user's statutory obligations, a duty to comply with any term specified in a licence can only bind those who have voluntarily assumed it. A licensor cannot create new obligations on users or impose obligations unilaterally.

Many licences arise from contracts but, contrary to a common misconception, a licence is not a contract.[147] Indeed, the grant of a licence can be wholly unilateral, and confer upon anyone to which the licence pertains a privilege to do acts that otherwise would be exclusive to the copyright owner.[148] For example, I may unilaterally announce that I authorize any person to reproduce my new book for any non-commercial purpose. Any person who reproduces the book for a non-commercial purpose does so with my consent, and will not be liable for infringement. As long as my grant of a licence only con-

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144 *Copyright Act*, *supra* note 3, s. 27(1).

145 *CAPAC v. Sandholm*, *supra* note 92.

146 *British Actors Film Co. Ltd. v. Glover*, [1918] 1 K.B. 299 at 306.

147 Christopher M. Newman, "A License Is Not a 'Contract Not to Sue'" (2012) 98:1 Iowa L. Rev. 1101.

148 *Ibid.* at 1119, 1124.

fers a right to do something, no contract is necessary to give effect to it; it may be granted unilaterally.

Now, I may be less generous and announce that I authorize any person who pays me $1 to make a single copy of my new book for any *non-commercial* purpose, or $10 for any commercial purpose. If you, the reader, pay me $1 and make a reproduction for a non-commercial purpose, I will not be able successfully to sue you for copyright infringement, because you acted with my consent.

If you contact me and say you would like to copy my book today, but won't be able to pay me until next week, I may permit you to make the copy today, in exchange for your promise to pay me next week. If you copy today but fail to pay me next week, I may sue you to recover the royalties that you had undertaken to pay me, but not for infringing my copyright because when you reproduced my work you had my consent.

If you pay me $1 and reproduce the book for a *commercial* purpose, then you may be liable for infringing my copyright, because my consent to commercial reproduction was conditional on the payment of $10, not $1. Your unauthorized reproduction does not entitle me to collect $10 in licence fees from you, and it does not make you liable to pay me $10. Your unauthorized use allows me to sue you for the infringement of my copyright, and if prevail, the court may order you to pay damages, or account for your profit, but the court, not me, will determine the quantum.

The upshot of this discussion is that the Act requires non-owners to refrain from reproducing the work without consent. The rights-holder's copyright under section 3 entitles her to sue infringers who breach that duty, but does not entitle her to unilaterally, by offering a licence in return for a licence fee, impose on others an obligation to remit payments.

(iii) Compulsory Licence: Compelling the Licensor, Not the Licensee

The previous section demonstrated that the only binding copyright obligations on non-owners are either those defined by Parliament, or those voluntarily assumed by non-owners. Does any of that change when the Board approves a tariff or fixes the royalties in an individual case? Before I answer this question, let me introduce additional relevant terms, beginning with "compulsory licence."

A compulsory licence allows certain persons who pay a specified fee to do an act that falls within the ambit of a copyright owner's exclusive right without the owner's consent. It is a licence, in that it authorizes the user to do something that she would otherwise not have the right to do; it is compulsory because the licence is available to the user irrespective of the owner's consent.[149] In some cases, a statute may explicitly provide for the grant of a compulsory licence and set out all the parameters of the licence. In others, a statute may provide a framework for issuing compulsory licences, but the ultimate decision whether to issue the licence, and on what terms, would require judicial, administrative or private arbitration proceedings. Still, in other cases, a compulsory licence may be the practical outcome of a remedy crafted by a court.[150] A compulsory licence created by statute may sometimes be referred to as a "statutory licence," although there is no universally accepted distinction between the two (except, perhaps, that when a compulsory licence results solely from a court's decision, it cannot be viewed as "statutory").

The compulsory aspect of any compulsory licence, whether statutory or not, applies only vis-à-vis the licensor, not against the licensee. It burdens the licensor and benefits the licensee. It limits the scope of the licensor's rights and expands the privileges of the licensee. As far as the user is concerned, a compulsory licence, like any licence, cannot impose a duty to pay royalties. Unless the user elects to obtain a licence, and assumes an obligation to pay the specified royalties, he does not owe anything. If a compulsory licence were compulsory on the licensee, it would not be a licence, but a totally

149 Limitations and exceptions to copyright (*e.g.*, fair dealing) may be regarded as compulsory licences with fees of $0. Economically, this may be correct, but legally it is not. Fair dealing is a users' right and falls outside the ambit of the owner's right; the user does not need permission, voluntary or compulsory, to exercise it.

150 For example, if a court finds a defendant liable for infringement but denies the plaintiff's request for an injunction and orders the defendant only to pay damages, see *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006). See also *CCH v. LSUC*, *supra* note 20 at para. 85 (noting that an injunction is, in principle, an equitable remedy and, thus, it is within the court's discretion to decide whether or not to grant one). In the U.S., the oversight of the two main PROs (ASCAP and BMI) is based on judicial consent decrees that followed antitrust actions that the U.S. brought against those PROs. Under those consent decrees, the PROs cannot refuse to grant a licence to any user who is willing to pay a reasonable fee, and the court may determine what a reasonable fee is if the parties fail to reach an agreement, see Katz, "The Potential Demise I," *supra* note 15.

different legal creature: either a tax, levy or other type of impost, or a fine or penalty imposed on a person who commits an offence.

For example, the Ontario Legislature designated Highway 407 as a private toll highway.[151] Under the *Highway 407 Act*, the registered owner of any vehicle operating on the highway, or the registered owner of any transponder, has to pay a toll to the private operator, the "owner" under that Act.[152] The owner is a private corporation who collects those tolls and is empowered to enforce their payment. The duty to pay the tolls and power to enforce their payment do not arise from a contract between the corporation and any owner of a vehicle or transponder, nor do the tolls constitute damages for trespass, or a fine for any infraction. Rather, the duty to pay a toll stems from section 13(1) of the *Highway 407 Act*.[153] This toll is paid to a private corporation, but the duty to pay it and the power to collect it are entirely statutory. Otherwise, the corporation could only collect money from motorists through contract law (which would require establishing in every case that a valid contract existed between the corporation and driver), or by suing those who enter the highway without permission for trespass. The corporation can only resort to the easier method of collection because the Act specifically grants it such powers.

Similarly, when Parliament wanted to impose a mandatory fee on manufacturers or importers of blank audio recording media, it used the term "levy" and provided that any such manufacturer or importer is liable to pay the levy to the collecting body on selling or otherwise disposing of those blank audio recording media in Canada. Correlatively, in section 88, it granted the collective body a "right of recovery" entitling it to collect the levies due to it and to sue to recover them in default of their payment.

The provisions dealing with collective administration of *copyrights* (under sections 3, 15, 18, or 21) do not establish liability to pay akin to the Highway 407 toll or the blank media levy. Those provisions deal with collective administration of those copyrights, by CMOs who operate *licensing schemes* and grant *licences*. By definition, a CMO "carries on the business of collective administration of copyright . . . for the benefit of those who, by assignment, grant of licence, appointment of it as their agent or otherwise, authorize it to

151 *Highway 407 Act, 1988*, S.O. 1998, c. 28.

152 *Ibid.* s. 13(1).

153 *Ibid.*

act on their behalf in relation to that collective administration."[154] Presumably, *nemo dat quod non habet*, and when a copyright owner authorizes a CMO to act on her behalf she cannot authorize the CMO to do anything that she could not legally do on her own. Since her own copyright does not entitle her to impose on others a duty to pay she cannot confer such power on the CMO, and the CMO cannot possess greater *legal* powers than its individual members could give it. It would be legal magic if by authorizing a CMO to act on their behalf, copyright owners could, through the CMO, possess *greater* legal powers than those which Parliament gave them. And it would be an absurd result if a statutory scheme designed to constrain the additional *market* power that may result from collective administration was interpreted to enhance this market power by giving those copyright owners and their CMOs greater *legal* powers.

When Parliament described the operation of CMOs who administer *copyrights* in terms of the grant of *licences* and operation of *licensing schemes*, it presumably intended to retain the meaning of the term "licence," a term with a venerable meaning under common law, and a specific meaning under copyright law. Moreover, when it amended the Act but retained this terminology, it must be presumed to have intended to retain the meaning that courts had given it. Indeed, if Parliament intends to change such established principles, it has to express its intentions with "irresistible clearness."[155]

Whatever may be said about the meaning of sections 68.2(1) or 70.4, they do not convey irresistibly clear Parliamentary intent to modify the nature and scope of copyright, to modify the meaning of the term "licence," or to modify the power of the courts to determine whether infringement of copyright has occurred and exercise discretion to define the appropriate remedy. Clearly, when Parliament intended to confer upon a copyright owner or a CMO a right to collect, and corresponding duties on users to pay — as it did with the section 19 "equitable remuneration" right, and the "blank media levy" under section 82 — it knew how to do it.

In sum, the approval of a tariff under section 68(10) or 70.15, or the fixing of royalties under section 70.2, does not change the nature of copyright or the essential features of the underlying licensing

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154 *Copyright Act*, *supra* note 3, s. 2.

155 *Goodyear Tire & Rubber Co. of Canada Ltd. v. T. Eaton Co.*, [1956] S.C.R. 610 at 614, 4 D.L.R. (2d) 1. See also Sullivan, *Statutory Interpretation*, *supra* note 47 at 314.

schemes. Each certified tariff and every approved individual licence begins with a licensing scheme and, accordingly, they can only create obligations on licensees who consent to be bound by them. The only restriction effected by an approved tariff or licence is on the rights of owners, not users.

This conclusion arises from the terms that Parliament has chosen (copyright, licence, authorize, *etc.*) and their established legal meaning. The explicit words Parliament chose to define the effects of the Board's decision further support this conclusion. When the entire scheme is viewed through the lens of first principles of law and copyright law described above, and the prior case law, a simple coherent scheme comes into sight. One would be hard-pressed to notice any material differences between the post-1988 scheme and the one that preceded it. The scheme creates a compulsory (statutory) licence that becomes available to any person who wishes to obtain a licence from the CMO. A user can avail himself of the licence by paying the royalties the Board has approved, or merely offering to pay them and, from that moment, neither the CMO nor its members can bring infringement proceedings against the user. If such a user defaults on paying the royalties he offered to pay, the CMO can sue for recovery of the payments without prejudice to any other remedy that may be available to it (for example, for breach of contract if the user and the CMO have actually entered into a valid contract). A user who does not wish to obtain a licence from the CMO does not avail himself of the licence. Such a user is not a licensee and cannot be liable to pay licence fees, but he is also not protected from infringement proceedings.

Section 70.4 contains all those elements in one single provision. I reproduce it below, annotated, and broken down to its constituent elements:

> **Where any royalties are fixed for a period pursuant to subsection 70.2(2)** [when a user and CMO could not agree on the terms of a licence and the Board fixed those terms];
>
> **The person concerned may, during the period, subject to the related terms and conditions fixed by the Board and to the terms and conditions set out in the scheme and on paying or offering to pay the royalties** [the user *may* elect to pay the royalties the Board has fixed, or merely offer to pay them, and if he complies with their related terms and conditions, then];
>
> **Do the act with respect to which the royalties and their related terms and conditions are fixed** [the user becomes statutorily licensed to do the acts which the licence covers for the period of the

licence. The CMO and its members are disabled from withdrawing their consent to authorize those acts, or from revoking the licence. Moreover, since the user is authorized to do those acts statutorily, he can do them without entering into a licence agreement with the CMO, even if the CMO refuses to issue a licence];

and the collective society may, without prejudice to any other remedies available to it, collect the royalties or, in default of their payment, recover them in a court of competent jurisdiction [the CMO can collect royalties from the statutorily-licensed user who offered to pay them, and if he defaults on their payment, the CMO may recover them. The CMO's entitlement to collect the royalties is a statutory remedy for non-compliance with a statutory licence. It does not arise from contract, and therefore the CMO can bring an action not only in a Provincial court but also in the Federal Court. This does not prejudice any other remedy that might be available to the CMO (for example, under a contract that covers additional issues, if the parties entered into one, or any other common law right that may arise from their relationships, and that the court may have jurisdiction to hear). By definition, however, the CMO cannot sue for copyright infringement with respect to acts covered by the licence, though it might be entitled to infringement remedies for acts that exceed the licence (provided the CMO has standing to bring such actions)].

Section 70.4 dispels any suggestion that liability to pay the royalties can be imposed on a user who is not interested in obtaining a licence from the CMO. The CMO may bring an action to recover unpaid royalties only against a user who offered to pay those royalties but defaults on their payment. A user who never paid or offered to pay those royalties is not authorized to do the acts under the statutory licence. If that person does anything that requires the copyright owner's consent without obtaining it then the normal rules of copyright liability apply.

If Parliament intended that section 70.2 proceedings would result in a compulsory duty to pay, it would have said so. Parliament could have easily used language such as "where any royalties are fixed for a period pursuant to subsection 70.2(2), the person concerned *shall pay* the royalties fixed by the Board and comply with their related terms and conditions, and the collective society may, without prejudice to any other remedies available to it, collect the royalties or, in default of their payment, recover them in a court of competent jurisdiction."[156] The schemes for tariffs contain exactly the same components. The only difference is that, unlike section 70.4, which includes all the components in a single provision, the components are divided among different provisions.

Under the general regime, a CMO who operates a licensing scheme can "by setting out by licence the royalties and terms relating to classes of uses, either file a proposed tariff with the Board, or enter into agreements with users."[157] It can only enter into agreements with users who wish to obtain a licence and, if a valid agreement was entered into, the CMO will be entitled to remedies for its breach. The common law continues to operate and no statutory provision is required.

Alternatively, the CMO may file a proposed tariff.[158] The Board's approval, with or without modifications leads to two outcomes. One, under section 70.17 is that "no proceedings may be brought for the infringement of a right referred to in section 3, 15, 18 or 21 against a person who has paid or offered to pay the royalties specified in an approved tariff." In other words, the Board's approval creates an irrevocable statutory licence, available to any user that has paid or offered to pay the specified royalties. Two, under section 70.15(2), which incorporates section 68.2(1) "with such modifications as the circumstances require," the CMO may "[w]ithout prejudice to any other remedies available to it [. . .], for the period specified in its approved tariff, collect the royalties specified in the tariff and, in default of their payment, recover them in a court of competent jurisdiction." In other words, the CMO may collect the royalties from any user who offered to pay them, and sue for their recovery if the user defaults on their payment.

These provisions produce the same effect as section 70.4: the Board's approval creates an irrevocable statutory licence, available to any person who has paid or offered to pay the specified royalties. That person is protected from infringement proceedings, but is required to pay the royalties he has undertaken to pay. Correspondingly, the CMO may collect those royalties, and sue to recover them in default of their payment. The same three elements also exist in the

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156 Compare *Copyright Act*, *supra* note 3, s. 88 providing civil remedies against a manufacturer or importer of blank media who fails to pay the levy.

157 *Ibid.* s. 70.12.

158 *Ibid.* ss. 70.1, 70.13(1).

section 67 regime (with respect to a CMO that grants licences, as opposed to a CMO that collects "equitable remuneration"): (a) a proposed tariff setting out the proposed royalties and related terms and conditions for the grant of licences (sections 67, 67.1); (b) a statutory licence available to any user who has paid or offered to pay the royalties specified in an approved tariff (section 68.2(2)); and (c) a corresponding power, granted to the CMO, to collect the royalties and in default of their payment sue to recover them (section 68.2(1)).

One may notice that in the case of tariffs, the provisions that empower CMOs to collect royalties precede the provisions that disable them (or its members) from bringing infringement proceedings against a user who has paid or offered to pay the specified royalties, whereas the order in section 70.4 is reversed. Does this indicate that, in the case of tariffs, an obligation to pay the specified royalties can be imposed on any user? This could hardly be the case. When the courts that interpreted the predecessors of section 68.2(1) distinguished between a licensee and an infringer, and held that CMOs can only collect from the former, they interpreted provisions where the power to collect preceded the protection from charges of infringement. As I noted in previous sections, when Parliament has chosen legal terms with an established meaning, it must, in the absence of clear indication to the contrary, have not intended to alter their meaning. By referring to copyright, licences and licensing schemes, Parliament must be presumed not to have radically transformed the meaning of these concepts.

In this Part, I showed how Parliament could not have intended to create a "mandatory tariff," at least not with respect to copyrights. My conclusion is based on intrinsic evidence, namely the words chosen by Parliament, the structure of the Act's provisions and how they relate to each other, general interpretive legal principles and the case law prior to the 1988 and 1997 amendments. In the next Part, I complete the analysis and show how extrinsic evidence from legislative history also supports the conclusion that Parliament did not intend to introduce any radical change in the system.

(b) The Object of the Act, and the Intention of Parliament

In interpreting Acts of Parliament, courts should be guided not only by the words of an Act, but also by its object and the intention of Parliament. The mischief rule, traced to *Heydon's Case* of 1584, has instructed courts to discern: what was the common law prior to the enactment of the statute; what was the mischief and defect for which the common law did not provide; the remedy that Parliament proscribed for that mischief; and to adopt a construction that suppresses the mischief, and advances the remedy.[159]

The mischief animating the statutory scheme for oversight of CMOs was described in the Parker Report[160] and judgments of the Supreme Court and lower courts:[161] the elimination of competition between copyright owners, and abuse of market power by the "super monopoly"[162] of CMOs. Recognizing, however, that CMOs may offer beneficial services to their members and users, Parliament elected to regulate them to preserve the advantages that collective administration might offer, while ensuring that copyright owners do not abuse the CMOs' enhanced market power.[163]

No one can dispute that the reforms of 1988 and 1997 sought to allow collective administration of copyrights to expand beyond the domain of music performing rights, but there is no evidence Parliament changed its mind about the mischief and intended to turn the regulatory scheme, including its rationale and the remedy it proscribed, on its head. The legislative history reveals that Parliament sought to encourage new CMOs on the assumption that technological changes have expanded the scope of activities that would require copyright owners' permission, but high transaction costs would make it impracticable for owners to negotiate individually with users.[164] Its goal was to facilitate negotiated transactions, not replace them with compulsory payments. All the while, Parliament remained mindful of the potential for abuse of market power, and clearly it was not desirous of augmenting it. In enacting those reforms, Parliament sought to extend the then existing scheme to other areas; it did not intend to transform it into a radically different creature.

In her speech before the House of Commons on June 15, 1987, Minister of Communications Hon. Flora MacDonald stated: the "sys-

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159 Sullivan, *Statutory Interpretation*, *supra* note 47 at 201.

160 Parker, *Parker Report*, *supra* note 82 at 19.

161 See Part 3 of this paper, *supra*.

162 Parker, *Parker Report*, *supra* note 82 at 19.

163 *Vigneux v. Canadian Performing Right Society*, *supra* note 60 at 352. See also *ESA v. SOCAN*, *supra* note 20 at para. 11 ("Parliament's purpose in creating the collective societies in the first place [has been] to efficiently manage and administer different copyrights under the Act.").

164 *From Gutenberg to Telidon*, *supra* note 68 at 61.

tem [of collective administration] has been in operation for about 50 years for musical performances and is working well. Under our present Bill, the practice which now pertains to those who provide musical performances would be expanded to other areas to be covered by copyright and would result in collectives of authors, visual artists and so forth."[165] She continued on June 26: "[b]ecause of the obvious benefits for both users and owners, the Government feels that the collective exercise of copyright should be explicitly encouraged in our *Copyright Act*." MacDonald immediately added:

> The collective exercise of rights does entail, as we know, possible abuses. Whenever a combination of individuals together controls access to, and use of, a particular goods or service, there is the potential for anti-competitive behaviour. In other words, if the only practical access to a particular right is through one collective, this collective can achieve such a dominant bargaining position that the interests of potential customers are not sufficiently safeguarded.[166]

She explained how the amendment would extend the jurisdiction of the Board to include all collectives of copyright owners; how the Board would continue to set and regulate royalty rates; and how, in response to a request from either party, the Board would also be able to make binding decisions in particular cases.[167] She concluded that:

> We believe that users will prefer the simplicity of the collective administration of one particular right to the more difficult approach of dealing with greater numbers of individuals and groups. They will rely on the Copyright Board to ensure reasonable rates and copyright owners will also welcome the board's regulation because it will preserve their right to band together [and] they will be shielded from the competition act under an exemption encompassing activities subject to federal or provincial regulation.[168]

If the Government that proposed those amendments, and Parliament that passed them, intended to institute a regime that would force users to deal with CMOs even when they prefer not to, to take a system that for more than 50 years was understood as designed to protect users from potential abuses and anti-competitive behaviour of CMOs,

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165 *House of Commons Debates*, 33rd Parl., 2nd Sess., Vol. VI (15 June 1987) at 7109 (Hon. Flora MacDonald).

166 *Ibid.* (26 June 1987), at 7667.

167 *Ibid.* at 7668. See also *From Gutenberg to Telidon*, *supra* note 68 at 62 ("To protect the public from possible excesses by copyright societies, they would be subject to the control of the revised Copyright Appeal Board.").

168 *Ibid.*

and turn it into an "instrument[] of oppression and extortion,"[169] they hid their intentions very well.[170]

5. CONCLUSION

This article describes the spectre of the mandatory tariff, promoted by copyright collectives and endorsed by the Copyright Board. I have shown that the "mandatory tariff" theory is based on dubious legal foundations. Established case law debunks it, standard principles of statutory interpretation contradict it, and the legislative history discredits it. As far as copyrights (*i.e.*, the exclusive rights under sections 3, 15, 18, and 21) are concerned, approved tariffs are mandatory on the owners of the relevant copyrights, not on users.

An approved tariff constitutes a statutory licence that allows any user to lawfully use the works in a CMO's repertoire by paying or offering to pay the specified royalties. Any user who pays or offers to pay the specified royalties becomes statutorily licensed. Only this kind of user can be compelled to pay the specified royalties. A user not interested in obtaining a licence from the CMO is not a licensee, and therefore does not have to pay any royalties or comply with the terms of a licence he has not taken out.

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169 *Vigneux v. Canadian Performing Right Society*, *supra* note 60 at 354.

170 The post-1988 amendments may have introduced the following changes, however. The pre-1988 provision was structured as a *limitation* on recovery for PROs. The language indicated that an approved statement of fees "shall be *the* fees, charges or royalties" that a collective may sue for or collect — *i.e.*, but not any other fees, charges or royalties. This might have been interpreted as precluding a PRO and a user from entering into an agreement providing for lower fees, because the royalties under the agreement might not be recoverable. Recall that the question was left open in *Composers, Authors & Publishers Assn. of Canada Ltd. v. Baton Broadcasting Ltd.*, *supra* note 106. In contrast, the new language contains the phrase "without prejudice to any other remedies available to it" which may allow PROs and users to enter into enforceable contracts. The new language might also allow CMOs to compel their licensees to comply with a tariff's terms and conditions, not only to collect unpaid royalties. Recall that in *Maple Leaf v. CAPAC*, *supra* note 85, Locke J. took the view that a user requesting a licence could not be required to comply with terms not contemplated in the statute. I could not find evidence that the new language was chosen to effect those changes. Other than a brief comment on the addition of the "without prejudice to any other remedies" language, which the committee chair described as a "technical amendment," I could not find any discussion of this particular amendment.

The analysis in this article, first in a series of two, has focused on statutory interpretation, the relevant case law, and the legislative history. I hope it has sufficiently convinced most readers that the spectre is more imaginary than real. Those who remain skeptical, might wish to wait for the next article in the series, where I will complete the analysis by discussing several practical, conceptual, legal and constitutional challenges that the "mandatory tariff" theory, if held to be correct, would have to confront but which the voluntary licence theory easily avoids.