SOCAN Decision: Online music distributors must only pay a single royalty fee

December 1, 2022

Author

Gabrielle Mathieu

Senior Associate

In *Society of Composers, Authors and Music Publishers of Canada* v. *Entertainment Software Association*[1] (the "**SOCAN Decision**"), the Supreme Court of Canada ruled on the obligation to pay a royalty for making a work available to the public on a server, where it can later be streamed or downloaded. At the same time, it clarified the applicable standard of review for appeals where administrative bodies and courts share concurrent first instance jurisdiction and revisited the purpose of the *Copyright Act*[2] and its interpretation in light of the *WIPO Copyright Treaty*[3].

The Supreme Court also took the opportunity to reiterate the importance of the principle of technological neutrality in the application and interpretation of the *Copyright Act*. This reminder can also be applied to other artistic mediums and is very timely in a context where the digital visual arts market is experiencing a significant boom with the production and sale of non-fungible tokens ("**NFTs**").

In 2012, Canadian legislators amended the *Copyright Act* by adopting the *Copyright Modernization Act*[4]. These amendments incorporate Canada's obligations under the Treaty into Canadian law by harmonizing the legal framework of Canada's copyright laws with international rules on new and emerging technologies. The CMA introduced three sections related to "making [a work] available," including section 2.4(1.1) of the CMA. This section applies to original works and clarifies section 3(1)(f), which gives authors the exclusive right to "communicate a work to the public by telecommunication":

2.4(1.1) *Copyright Act*. "For the purposes of this Act, communication of a work or other subject-matter to the public by telecommunication includes making it available to the public by telecommunication in a way that allows a member of the public to have access to it from a place and at a time individually chosen by that member of the public."

Before the CMA came into force, the Supreme Court also found that downloading a musical work from the Internet was not a communication by telecommunication within the meaning of

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

section 3(1)(f) of the CMA , while streaming was covered by this section.

Following the coming into force of the CMA, the Copyright Board of Canada (the "**Board**") received submissions regarding the application of section 2.4(1.1) of the *Copyright Act*. The Society of Composers, Authors and Music Publishers of Canada ("**SOCAN**") argued, among other things, that section 2.42.4(1.1) of the *Copyright Act* required users to pay royalties when a work was published on the Internet, making no distinction between downloading, streaming and cases where works are published but never transmitted.

The consequence of SOCAN's position was that a royalty had to be paid each time a work was made available to the public, whether it was downloaded or streamed. For each download, a reproduction royalty also had to be paid, while for each stream, an additional performance royalty had to be paid.

Judicial history

The Board's Decision[7]

The Board accepted SOCAN's interpretation that making a work available to the public is a "communication". According to this interpretation, two royalties are due when a work is published online. Firstly, when the work is made available to the public online, and secondly, when it is streamed or downloaded. The Board's Decision was largely based on its interpretation of Section 8 of the Treaty, according to which the act of making a work available requires separate protection by Member States and constitutes a separately compensable activity.

Federal Court of Appeal's Decision[8]

Entertainment Software Association, Apple Inc. and their Canadian subsidiaries (the "**Broadcasters**") appealed the Board's Decision before the Federal Court of Appeal ("**FCA**"). Relying on the reasonableness standard, the FCA overturned the Board's Decision, affirming that a royalty is due only when the work is made available to the public on a server, not when a work is later streamed. The FCA also highlighted the uncertainty surrounding the applicable review standard in appeals following *Vavilov*[9] in cases where administrative bodies and courts share concurrent first instance jurisdiction.

SOCAN Decision

The Supreme Court dismissed SOCAN's appeal seeking the reinstatement of the Board's Decision.

Appellate standards of review

The Supreme Court recognized that there are rare and exceptional circumstances that create a sixth category of issues to which the standard of correctness applies, namely concurrent first instance jurisdiction between courts and administrative bodies.

Does section 2.4(1.1) of the *Copyright Act* entitle the holder of a copyright to the payment of a second royalty for each download or stream after the publication of a work on a server, making it publicly accessible?

The copyright interests provided by section 3(1) of the *Copyright Act*

The Supreme Court began its analysis by considering the three copyright interests protected by the *Copyright Act*, or in other words, namely the rights provided for in section 3(1):

to produce or reproduce a work in any material form whatsoever;
to perform the work in public;
to publish an unpublished work.

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

These three copyright interestsare distinct and a single activity can only engaged one of them. For example, the performance of a work is considered impermanent, allowing the author to retain greater control over their work than reproduction. Thus, “when an activity allows a user to experience a work for a limited period of time, the author’s performance right is engaged. A reproduction, by contrast, gives a user a durable copy of a work”.[10] The Supreme Court also emphasized that an activity not involving one of the three copyright interests under section 3(1) of the *Copyright Act* or the author’s moral rights is not protected by the *Copyright Act.* Accordingly, no royalties should be paid in connection with such an activity.

The Court reiterated its previous view that downloading a work and streaming a work are distinct protected activities, more precisely downloading is considered reproduction, while streaming is considered performance. It also pointed out that downloading is not a communication under section 3(1)(f) of the *Copyright Act*, and that making a work available on a server is not a compensable activity distinct from the three copyright interests.[11]

Purpose of the *Copyright Act* and the principle of technological neutrality

The Supreme Court criticized the Board’s Decision, opining that it violates the principle of technological neutrality, in particular by requiring users to pay additional fees to access online works.

The purpose of the CMA was to “ensure that [the *Copyright Act*] remains technologically neutral”[12] and thereby show, at the same time, Canada’s adherence to the principle of technological neutrality. The principle of technological neutrality is further explained by the Supreme Court:

[63] The principle of technological neutrality holds that, absent parliamentary intent to the contrary, the *Copyright Act* should not be interpreted in a way that either favours or discriminates against any form of technology: *CBC*, at para. 66. Distributing functionally equivalent works through old or new technology should engage the same copyright interests: *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada*, 2012 SCC 36, [2012] 2 S.C.R. 326, at para. 43; *CBC*, at para. 72. For example, purchasing an album online should engage the same copyright interests, and attract the same quantum of royalties, as purchasing an album in a bricks-and-mortar store since these methods of purchasing the copyrighted works are functionally equivalent. What matters is *what* the user receives, not *how* the user receives it: *ESA*, at paras. 5-6 and 9; *Rogers*, at para. 29. In its summary to the CMA, which precedes the preamble, Parliament signalled its support for technological neutrality, by stating that the amendments were intended to “ensure that [the Copyright Act] remains technologically neutral”.

According to the Supreme Court, the principle of technological neutrality must be observed in the light of the purpose of the *Copyright Act*, which does not exist solely for the protection of authors’ rights. Rather, the *Act* seeks to strike a balance between the rights of users and the rights of authors by facilitating the dissemination of artistic and intellectual works aiming to enrich society and inspire other creators. As a result, “[w]hat matters is *what* the user receives, not *how* the user receives it.”[13] Thus, whether the reproduction or dissemination of the work takes place online or offline, the same copyright applies and leads to the same royalties.

What is the correct interpretation of section 2.4(1.1) of the *Copyright Act*?

Section 8 of the Treaty

The Supreme Court reiterated that international treaties are relevant at the context stage of the statutory interpretation exercise and they can be considered without textual ambiguity in the statute.[14] Moreover, wherethe text permits, it must be interpreted so as to comply with Canada’s treaty obligations, in accordance with the presumption of conformity, which states that a treaty

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

cannot override clear legislative intent.

The Court concluded that section 2.4(1.1) of the *Copyright Act* was intended to implement Canada's obligations under Section 8 of the Treaty, and that the Treaty must therefore be taken into account in interpreting section 2.4(1.1) of the *Act.*

Although Section 8 of the Treaty gives authors the right to control making works available to the public, it does not create a new and protected "making available" right that would be separately compensable. In such cases, there are no "distinct communications" or in other words, "distinct performances".[16]

Section 8 of the Treaty creates only two obligations:

> "protect on demand transmissions; and
> give authors the right to control when and how their work is made available for downloading or streaming."[17]

Canada has the freedom to choose how these two objectives are implemented in the *Copyright Act*, either through the right of distribution, the right of communication to the public, the combination of these rights, or a new right.[18]

The Supreme Court concluded that the *Copyright Act* gives effect to the obligations arising from Section 8 of the Treaty through a combination of the performance, reproduction, and authorization rights provided for in section 3(1) of the *Copyright Act,* and by respecting the principle of technological neutrality.[19]

Which interpretation of section 2.4(1.1) of the *Copyright Act* should be followed?

The purpose of section 2.4(1.1) of the *Copyright Act* is to clarify the communication right in section 3(1)(f) of the *Copyright Act* by emphasizing its application to on-demand streaming. A single on-demand stream to a member of the public thus constitutes a "communication to the public" within the meaning of section 3(1)(f) of the *Copyright Act*.[20]

Section 2.4(1.1) of the *Copyright Act* states that a work is performed as soon as it is made available for on-demand streaming.[21] Therefore, streaming is only a continuation of the performance of the work, which starts when the work is made available. Only one royalty should be collected in connection with this right:

[100] This interpretation does not require treating the act of making the work available as a separate performance from the work's subsequent transmission as a stream. The work is performed as soon as it is made available for on-demand streaming. At this point, a royalty is payable. If a user later experiences this performance by streaming the work, they are experiencing an already ongoing performance, not starting a new one. No separate royalty is payable at that point. The "act of 'communication to the public' in the form of 'making available' is completed by merely making a work available for on?demand transmission. If then the work is actually transmitted in that way, it does not mean that two acts are carried out: 'making available' and 'communication to the public'. The entire act thus carried out will be regarded as communication to the public": Ficsor, at p. 508. In other words, the making available of a stream and a stream by a user are both protected as a single performance — a single communication to the public.

In summary, the Supreme Court stated and clarified the following in the SOCAN Decision:

> Section 3(1)(f) of the *Copyright Act* does not cover download of a work.
> Making a work available on a server and streaming the work both involve the same copyright interest to the performance of the work.
> As a result, only one royalty must be paid when a work is uploaded to a server and streamed.
> This interpretation of section 2.4(1.1) of the *Copyright Act* is consistent with Canada's international obligations for

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

copyright protection.
In cases of concurrent first instance jurisdiction between courts and administrative bodies, the standard of correctness should be applied.

As artificial intelligence works of art increase in amount and as a new market for digital visual art emerges, driven by the public's attraction for the NFT exchanges, the principle of technological neutrality is becoming crucial for understanding the copyrights attached to these new digital objects and their related transactions. Fortunately, the issues surrounding digital music and its sharing and streaming have paved the way for rethinking copyright in a digital context.

It should also be noted that in decentralized and unregulated digital NFT markets, intellectual property rights currently provide the only framework that is really respected by some market platforms and may call for some degree of intervention on the part of the market platforms' owners.

---

1. 2022 SCC 30.
2. R.S.C. (1985), c. C-42 (hereinafter the "*Copyright Act*").
3. Can. T.S. 2014 No. 20, (hereinafter the "Treaty").
4. S.C. 2012, c. 20 (hereinafter the "**CMA**").
5. *Entertainment Software Association* v. *Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 34.
6. *Rogers Communications Inc.* v. *Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 35.
7. *Copyright Board of Canada*, 2017 CanLII 152886 (hereinafter the "**Board's Decision**").
8. *Federal Court of Appeal*, 2020 FCA 100 (hereinafter the "**FCA's Decision**").
9. *Canada (Minister of Citizenship and Immigration)* v. *Vavilov*, 2019 SCC 65.
10. SOCAN Decision, par. 56.
11. *Ibid*, para. 59.
12. CMA, Preamble.
13. SOCAN Decision, para. 70, emphasis added by the SCC.
14. *Ibid*, paras. 44-45.
15. *Ibid*, paras. 46-48.
16. *Ibid*, paras. 74-75.
17. *Ibid*, para. 88.
18. *Ibid*, para. 90.
19. *Ibid*, paras. 101 and 108.
20. *Ibid*, paras. 91-94.
21. *Ibid*, paras. 95 and 99-100.

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.