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The Federal Court of Appeal Takes No Prisoners

On October 15, 2020, both parties were granted leave to appeal to the Supreme Court of Canada. We will continue to follow the developments of the appeal.

In *York v Access Copyright*, the Federal Court of Appeal has awarded York University (“York”) and other educational institutions a major victory over how they choose to manage copyright licensing. Collective societies now face diminished bargaining power, which will likely have a financial impact on their licensing and tariff arrangements with their institutional clients.

In a lengthy decision, Justice Pelletier declared collective society tariffs not to be mandatory in copyright law, the first time the Court has examined this issue in great depth. This decision is consistent with the 2015 Supreme Court of Canada decision in *CBC v SODRAC 2003* (“SODRAC”) that found that copyright users have the power to decide whether or not to become licensees, under sections 70.2 to 70.4 of the *Copyright Act* (now repealed).

Yet, York’s victory is tempered by the Court’s decision on fair dealing. The Federal Court of Appeal upheld the lower court’s finding that the university’s guidelines do not meet the defence of fair dealing. York is now left vulnerable to copyright owners, including major academic publishers, who could bring actions against York for copyright infringement.

Background

Access Copyright is a collective society that administers the right to make copies of (reproduce) published literary works through the royalties paid by educational institutions, such as York. After their consensual licence agreement had expired, York began to pay Access Copyright an Interim Tariff issued by the Copyright Board of Canada (“the Board”). York understood the Interim Tariff to be a voluntary arrangement and one option among other alternatives in complying with copyright obligations. As of September 1, 2011, York opted out of the Tariff and decided to defend itself against copyright infringement by relying on its own Fair Dealing Guidelines. The Guidelines specified that short excerpts could be copied for educational and research purposes.

When York opted out of the tariff, Access Copyright brought a

proceeding to enforce the Interim Tariff under subsection 68.2(1) of the *Copyright Act*. As a collective society and not the copyright owner, Access Copyright did not have standing to sue York for copyright infringement. Therefore, the central question before the Federal Court became whether the Interim Tariff was mandatory or legally binding on York.

The Federal Court ultimately found the Board tariffs to be mandatory – a decision that was largely driven by the desire to alleviate the difficulties faced by individual copyright owners in enforcing their rights against infringers. Justice Phelan viewed the 1997 amendments to the *Copyright Act* as giving collective societies the right to file tariffs for approval by the Board as an alternative to licence agreements with users. The Court also distinguished *SODRAC*, which protected users' freedom to become licensees or to decline, on the basis that sections 70.2 to 70.4 of the *Copyright Act* (now repealed) that were the subject of that decision did not deal with tariff-setting provisions set out in sections 70.1 to 70.191.

York brought a counterclaim against Access Copyright seeking declaration that any reproductions that complied with its Guidelines constituted fair dealing under s 29 of the *Copyright Act*.

On the issue of fair dealing, the Federal Court reviewed extensive evidence on the quantity and quality of copying that took place at York pursuant to their Guidelines and found that four of the six factors tended to show unfairness of the Guidelines, including the character of the dealing, the amount of the dealing, the nature of the works, and the effect of the dealing on the copyright owners. The other two, the purpose of the dealing and the alternatives to the dealing, tended to show fairness.

Appeal Decision

The Federal Court of Appeal overturned the lower court's finding that Access Copyright's tariff was mandatory but upheld its declaration that York's Guidelines *did not constitute* fair dealing.

In determining that the tariff was not mandatory, Justice Pelletier undertook an extensive historical review of the Board's role in regulating the relationship between the user and the rights owner. This review included examining the statutory scheme, specifically the legislative response from the 1930s to 1985, as well as 1988, 1997, and 2012 amendments to the *Copyright Act*. Justice Pelletier made the following important findings:

- the Board has no power to make or establish tariffs, and can only approve or alter a proposed tariff;
- the tariff remains the society's fees and not the Board's;
- a licensing transaction between a copyright owner and licensee is consensual;
- an individual copyright owner *or a collective society*, cannot impose terms on someone who has not agreed to become a licensee;
- a user cannot be both a licensee and infringer because the act of infringing means that the user is unauthorized and not liable to pay licence fees; and
- aside from setting prices, the *Copyright Act* does not give a collective society any remedies beyond those provided in licence agreements or in the explicit provisions of the *Copyright Act*.

Most notably, Justice Pelletier clarified the role of the tariff-setting process. The tariff-setting process as set out in the statutory scheme exists to limit the market power of collective societies. With a tariff, a collective society gives public notice to users of the terms on which they are willing to grant a licence. Nonetheless, a tariff is only enforceable against a user if there is a licence agreement in place, which requires the user's consent.

Justice Pelletier concluded by emphasizing that “acts of infringement do not turn infringers into licensees so as to make them liable for the payment of royalties.”

On the issue of fair dealing, the Court upheld the finding of the Court below and found that reproductions under the Guidelines did not constitute fair dealing. York's argument that the fairness of copying must be evaluated from the student's perspective, rather than the University's perspective, did not persuade the Court. Ultimately, the Court found that while there may have been one or more “palpable” errors in the fair dealing analysis of the Court below, those errors were not “overriding,” and the conclusion of the Court below should stand.

Implications

This decision is a critical victory for York and other educational institutions in their freedom to manage copyright obligations. It makes it clear that users are not required to accept tariffs set by the Board. Users may now choose to obtain content licences from publishers, enter into transactional licences, or rely on the defence of fair dealing. As for collective societies, the Court has left open the question of how non-binding tariffs can provide

them any economic benefit, aside from serving as public notice to copyright users to encourage them to enter into licence agreements.

On the issue of fair dealing, York remains in the same precarious position following the lower court's ruling. The finding that its Guidelines are "unfair", will arguably undermine York's ability to assert fair dealing in subsequent infringement attacks from copyright owners. Publishers whose works were copied may be able to leverage the decision to obtain summary judgment or to proceed by way of summary trial in an infringement action seeking damages against York.

For educational institutions seeking to tailor their Guidelines to meet the defence of fair dealing, the Court does not provide much guidance. The assessment of fair dealing remains factual and specific to each educational institution. Each will need to continue to monitor their own procedures to determine whether they meet the defence. Nonetheless, the Court's comments on York's guidelines may provide guidance on how evidence should be tailored when asserting fair dealing as a defence to infringement, including:

- tailoring an institutional claim of fair dealing from the institution's perspective;
- should the student's perspective be pursued (as it was by York), leading evidence from users, such as students, as to how copying permitted by the Guidelines is "fair" from the student's perspective; and
- demonstrating safeguards for ensuring compliance with the Guidelines.

This decision is unlikely to be the last word from either Access Copyright or York. More is to come on the role of collective societies and the issue of fair dealing, and both sides are likely to seek leave to appeal this decision to the Supreme Court of Canada.