

CANADA

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE (IIPA) 2013 SPECIAL 301 REPORT ON COPYRIGHT PROTECTION AND ENFORCEMENT

Special 301 Recommendation: IIPA recommends that Canada be placed on the Special 301 Watch List in 2013.¹

Executive Summary: In 2012, sixteen years after signing the WIPO Internet treaties, Canada took an important step forward toward bringing its copyright laws into line with globally accepted norms for the 21st century. The Copyright Modernization Act (Bill C-11), enacted in June 2012 after several previous unsuccessful attempts at copyright reform, is a significant achievement, and reflects Canada's intent to change the country's reputation as a haven for technologically sophisticated international piracy operations. But much more remains to be done if this intent is to be achieved in practice, and if Canada is to make its market more hospitable to legitimate online offerings of copyright material. To some extent, this turns on how the new copyright law is implemented and enforced, and how and when Canada finally accedes to the WIPO treaties. But there is other important unfinished business, notably the need to transform the copyright enforcement environment through better legal tools (including at the border), revamped law enforcement priorities, greater resources for investigations and prosecutions, and imposition of deterrent sentences on violators. The new Act also falls well short of providing adequate legal incentives for the inter-industry cooperation that will be needed to reduce the exceptionally high levels at which Canadians patronize illicit online sources for creative works. Beyond these long-standing concerns that have not been addressed, the Copyright Modernization Act also added new ones, in the form of a host of potentially problematic new or expanded exceptions to copyright protection. The collective impact of these new provisions on Canada's compliance with its international obligations, and on copyright industries, particularly in the book publishing sector, must be closely monitored.

IIPA associations debated how best to reflect in Canada's Special 301 ranking both the forward steps taken in 2012, and the serious challenges that the new law either did not resolve or even worsened. Ultimately, they agreed to recommend that Canada be moved to the Watch List for 2013, but also to urge that the U.S. Government remain extensively engaged with Canada to make progress on the long list of further changes needed to achieve a healthy marketplace for copyright works in our neighbor and largest trading partner.

PRIORITY RECOMMENDED ACTIONS FOR CANADA IN 2013

Legislative and Regulatory Reform

- Bring into force provisions of the Copyright Modernization Act enabling accession to the WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT).
- Make legislative, regulatory or administrative changes necessary to empower customs officials to make *ex officio* seizures of counterfeit and pirate product at the border without a court order.
- Make the legal and policy changes to enforcement called for by parliamentary committees.
- Review new and expanded exceptions to copyright protection, taking into account jurisprudential developments, to ensure full compliance with international obligations, and avoid the risk of unintended consequences due to overly broad construction.
- Adopt strong legal incentives for Internet Service Providers (ISPs) to cooperate with copyright owners in combating online piracy, in accordance with international best practices.

¹For more details on Canada's Special 301 history, see IIPA's "History" appendix to this filing at <http://www.iipa.com/pdf/2013SPEC301HISTORICALCHART.pdf>, as well as the previous years' reports, at <http://www.iipa.com/countryreports.html>. For a summary of IIPA's 2013 global issues, see our cover letter at <http://www.iipa.com/pdf/2013SPEC301COVERLETTER.pdf>.



Enforcement

- Direct the Royal Canadian Mounted Police (RCMP), Canadian Border Services Agency (CBSA), and Crown prosecutors to give high priority to intellectual property rights enforcement, including against retail piracy and imports of pirated products, and to seek deterrent penalties against those convicted of these crimes.
- Increase resources devoted to anti-piracy enforcement both at the border and within Canada (including online).
- Vigorously enforce new provisions of the Copyright Modernization Act aimed at suppressing the trafficking in illicit devices or services to circumvent technological protection measures.

COPYRIGHT PIRACY AND ENFORCEMENT

The Piracy Situation in Canada – Online

Canada has gained a regrettable but well-deserved reputation as a safe haven for Internet pirates. No other developed country is farther behind the curve in combating copyright infringement on digital networks. No Canadian enforcement authority currently has adequate resources, training and legal tools to tackle the problem effectively. As discussed below, provisions of the recently enacted Copyright Modernization Act are intended to provide a new means for effective civil enforcement against the most flagrant online services dedicated to copyright theft. But it is too soon to know whether this intent will be achieved; and even if it is, other online enforcement problems remain inadequately addressed.

Canada is home to some of the world's most popular Internet sites dedicated to piracy. Because Canada has for years been viewed as a country in which laws to address digital piracy are ineffective or non-existent, many sites dedicated to piracy have claimed that their services are legal there. Although the locus of pirate sites tends to shift across borders to avoid enforcement efforts, Canada has consistently been home to the operators or hosts of some of the world's top pirate BitTorrent sites. While the specific rankings and traffic figures fluctuate over time, there is no doubt that Canada has become a magnet for sites whose well-understood *raison d'être* is to facilitate and enable massive unauthorized downloading of pirated versions of feature films, TV shows, recorded music, entertainment software, and other copyright materials. IIPA hopes that this phenomenon will abate as the result of enactment of the new copyright law. In an encouraging initial development, one site notorious for trafficking in devices intended to circumvent technological protections for videogames (modchip.ca) apparently ceased operations in 2012.² But the overall impact remains to be seen.

During 2012, as many as three of the top four sites listed on one widely accessed compendium of the world's most popular illicit BitTorrent sites depended upon Canadian connections, such as receiving service from a Canadian Internet service provider (ISP).³ These included isohunt.com, torrentz.eu, and kat.ph, all three of which were once again listed by USTR as “notorious markets ... reportedly engaged in substantial piracy” in its December 2012 Out-of-Cycle Review.⁴ Of particular note is Isohunt.com, which comes in fourth on the torrentfreak “most popular” list. This site continues to operate with impunity from Canada, and recently celebrated its tenth anniversary. In 2009, a U.S. court issued a permanent injunction against IsoHunt after finding that over 90% of the downloads made using IsoHunt's services related to infringing content and that the defendants were liable for inducing infringement.⁵ Yet its Canadian operator continues to openly run the site and has commenced an action in Canada

²Modchip.ca was one of the world's leading Internet sites dedicated to the sale of circumvention devices for all current consoles. It marketed aggressively to U.S. customers and priced products in U.S. dollars.

³<http://torrentfreak.com/top-10-most-popular-torrent-sites-of-2013-130106/>

⁴See <http://www.ustr.gov/sites/default/files/121312%20Notorious%20Markets%20List.pdf>.

⁵*Columbia Pictures Industries, Inc. v. Fung*, CV 06-5578 SVW (JCx), 2009 U.S. Dist. LEXIS 122661, at *39-53 (C.D. Cal. Dec. 21, 2009). The U.S. court concluded with respect to IsoHunt and related sites that “evidence of intent to induce infringement is overwhelming and beyond dispute;” that the sites “engaged in direct solicitation of infringing activity” and that their “business model depends on massive infringing use.”

seeking a declaration that its operations do not violate Canadian law.⁶ The scope of these mega-sites is staggering. IsoHunt claims to offer 64.65 million peers and 11 million active torrents. These sites directly impact the U.S. market; for instance, in December 2012, IsoHunt attracted almost 1.2 million unique visitors from the United States.

The major BitTorrent sites offer a mix of pirate product, including music and games as well as films and TV shows. For instance, 1channel.ch, whose operators are suspected to be located in Canada, is the second largest linking site in the world, with links to films, TV shows and music. But online piracy sites specializing in particular categories of works have also found a secure niche in Canada. Despite the shutdown of one of the major sites purveying circumvention devices (as noted above), many Canadian sites (such as R4cardsmontreal.com and gamersection.ca) continue to offer such devices; and computer software that effects a “soft modification” of the security technology of game consoles, and thereby facilitates the play of pirated games, remains available on sites hosted in Canada. Solarmovie.eu, which is hosted in Canada, continues to rise in popularity as a source for links to first-run motion picture and television streaming content. With an Alexa.com traffic rank of 2,000, Compete.com estimates that this site receives approximately 1.5 million visitors each month. Each title is offered with dozens of links to content from multiple sources that are graded by users for quality. Smaller pirate sites also use Canada as a base for disrupting other global markets for audio-visual product; for instance, a number of French language torrent and peer-to-peer services like itoma.info are operated from or hosted in Québec.

In this environment, it is not surprising that Canadians have consistently demonstrated a formidable propensity to patronize illegal online sources of copyright material, thus stunting the availability and growth of legal alternatives. To further document this well-established phenomenon, a report released in September 2012 found that, on a per-capita basis, Canadians download more unauthorized music than residents of any other country, and two-and-one-half times as much as Americans.⁷

A 2010 joint study conducted by IPSOS and Oxford Economics for the Motion Picture Association documents the harm inflicted by movie piracy (including online) on the Canadian economy. The report estimates more than C\$1.8 billion and 12,600 full-time equivalent jobs were lost across the entire Canadian economy in 2009-10 as a result of movie piracy. It also estimated direct consumer spending losses to the movie industry, i.e., cinema owners, distributors, producers and retailers, at C\$895 million (US\$898 million); tax losses to government at C\$294 million (US\$295 million); and a loss of GDP of C\$965 million (US\$968 million) across the Canadian economy.⁸

These harms persist despite the growing availability of copyrighted material online from legitimate, licensed sources. Entertainment studios are working with new technologies and a multitude of partners, including retailers, cable providers, social networking sites, gaming consoles and websites devoted to online distribution, to bring movies and TV shows to consumers in a myriad of ways, and to cater to every manner of consumer viewing, rental viewing and ad-supported viewing.⁹ Today, Canadian consumers have far more choice than ever before in accessing motion pictures and television programs online. But many of them are still choosing the “free” illicit services; and since these Canadian-based pirate sources are equally accessible in countries around the world, the repercussions of the fact that they seem to find safe harbor in Canada – at least until now – are felt in markets around the globe.

⁶Another leading BitTorrent indexing site with Canadian connections is fenopy.se.

⁷http://www.huffingtonpost.ca/2012/09/20/music-piracy-canada-top-countries_n_1899752.html.

⁸Canadian Motion Picture Distributors Association/Canadian Association of Film Distributors and Exporters News Release “Ipsos/Oxford Economic Study Reveals \$1.8 billion in Losses Across the Canadian Economy due to Movie Piracy”, February 17, 2011, http://www.mpa-canada/CMPDA-CAFDE_news-release_ottawa-ON_February-17-2011_EN.pdf.

⁹Many Canadian television networks stream television shows, classic programming and specialty content from their respective websites. The major Canadian Satellite and Cable companies all offer online, on demand streaming and movie rental services which are available exclusively to cable and satellite subscribers. Subscription streaming services like Netflix let users watch an unlimited number of movies and TV shows for a monthly price. In the download-to-own or online rental markets, services like iTunes, Cineplex, Best Buy — Cinemanow, and the major gaming consoles (Microsoft Xbox, Nintendo Wii and Sony Playstation 3) all offer thousands of new release movies and television shows. The Digital Entertainment Content Ecosystem (DECE) consortium of more than 60 studios, retail store and technology firms has also introduced “Ultraviolet,” a digital storage locker for consumer content.

Online piracy of audio-visual material in Canada damages independent producers as well as the major studios. Internet piracy prevents the establishment of legitimate online distribution platforms and services for consumers, which independents can use to finance future productions. The Independent Film and Television Alliance (IFTA) reports that online piracy in Canada remains a significant export constraint for independent producers and distributors, the majority of which are small- to medium-sized businesses. It has also begun to impact financing and distribution of independent content. Authorized distributors find it almost impossible to compete with the Internet pirates, and so are increasingly unable to commit to distribution agreements. The drastically lower license fees that distributors can offer in this environment are inadequate to assist in financing of independent productions. Minimum guarantees for license fees for all licensed uses of content – including DVD, television, and online rights – are being undermined by piracy. In a marketplace dominated by illegal content, often offered free to the consumer, legitimate Canadian distributors that pay taxes and employ workers find it increasingly difficult to develop viable legal offerings, and are being pushed out.

Internet music piracy remains prevalent in Canada and continues to inflict serious harm on the legitimate market for online delivery of music. For example, according to IFPI Recording Industry in Numbers, as of mid-2012 the digital share of total music sales in Canada was 52%, compared with 67% in the U.S. Per capita digital sales in Canada are only two-thirds of those in the United States. Fewer digital music providers have introduced new digital service models in Canada than in the U.S., Europe and Japan, where there is a proliferation of new digital consumer choices.

The Piracy Situation in Canada – Offline

Serious piracy problems persist in Canada's offline marketplace as well. Negative trends are observed across the board. The RCMP, reviewing statistics from 2005 through 2011, reported "a noticeable yearly increase in the number of reported occurrence involving counterfeit and pirated products," with copyrighted works presenting the second largest category of seizures in 2011.¹⁰ A look at the specific problems faced by some of the copyright sectors illuminates this trend.

The Entertainment Software Association (ESA) reports that instances of infringing activity continue at the retail level, with retail specialty stores in Toronto and Vancouver reportedly selling pirate entertainment software products. Circumvention devices remain widespread in Canada, as legislation outlawing their manufacture or sale only came into force last November. These devices, such as mod chips and game copiers, enable the playback of pirated games by bypassing the technological protection measures (TPMs) in game consoles. Most vendors of pirated games also offer circumvention services or devices for sale, while some vendors offer only sales of circumvention technologies and services. Vendors import circumvention devices from overseas manufacturers by the thousands, and then export them to buyers in the United States and other countries where such devices are illegal. Because these pirates recognize no borders, Canada has functioned up to now as a safe haven from which they can redistribute circumvention devices around the world. This unacceptable situation developed as a result of the long-standing failure of Canadian law to explicitly prohibit trafficking in circumvention devices and services. Now that this gap in the legal regime has been filled, vigorous enforcement of the new law will be necessary to clean up the marketplace and make real progress against videogame piracy in Canada.

In 2012, ESA investigations identified a number of instances of retail piracy in Québec, British Columbia, and Ontario involving sales of pirated software to local consumers, many of these tied to websites and/or online classifieds, such as Kijiji and Craigslist, and social networking sites. Some retail outlets are located in malls, including the notorious Pacific Mall. Popular pirated materials sold by these operations included burned optical discs and, increasingly, hard drives and other memory devices containing hundreds of illegal copies of videogames for numerous gaming platforms including the Wii, PlayStation 2, Xbox 360, DS, PSP; modified consoles with hard drives

¹⁰RCMP, "2011 Intellectual Property (IP) Crime Statistics," at <http://www.rcmp-grc.gc.ca/fep-pelf/ipr-dpi/report-rapport-eng.htm>.

loaded with up to hundreds of pirated copies of games; and circumvention or modification devices (including installation services).

While sale of counterfeit DVD's was formerly prevalent in shopping malls in the Greater Toronto Area (GTA), flea markets in the Peel Region, neighboring the GTA, have become the predominant place in Canada where the local sale of counterfeit DVD's is significant, according to the Motion Picture Association of America (MPAA). This illicit trade is conducted on a massive scale and in a well-organized fashion throughout the region.

BSA | The Software Alliance (BSA) reports that unlicensed use of software by business end users – especially small and medium-sized enterprises – remains a significant concern. However, active enforcement efforts are having a positive impact on the end-user piracy problem, though it remains serious, particularly in the province of Québec.¹¹

The Canadian Enforcement Response

These realities point to serious deficiencies in enforcement against piracy. Historically, much of the problem has been attributable to Canada's inability to advance copyright law reform. The enactment of Bill C-11 in 2012 should help to address the problem. For example, now that Canada's copyright law is modernized to include clear criminal prohibitions against trade in circumvention devices, Canadian law enforcement at least has the legal authority to enforce against local mod chip distributors, retailers, and exporters. How vigorously the law is enforced will determine whether Canada succeeds in attacking the problem at its source, or whether the burden of combating this activity remains unfairly shifted to law enforcement in the countries to whose markets these devices are being exported. Effective enforcement of these new legal provisions will of course entail a learning curve. IIPA therefore recommends that the Canadian government allocate adequate resources to train and educate enforcement personnel (including customs authorities, the RCMP, and prosecutors) about the underlying technologies that will be implicated in enforcement of the new prohibitions.

Similarly, enactment in Bill C-11 of the prohibitions on online services "designed primarily to enable copyright infringement" may provide an effective mechanism for enforcement against some of the most egregious online piracy sites that have found safe haven in Canada until now. However, it is too soon to tell whether this potential will be realized. Furthermore, as detailed below, it is questionable whether Canadian law overall provides legal incentives sufficiently powerful to motivate the inter-industry cooperation that is essential to effectively combat pervasive copyright infringement online. It remains to be seen whether Bill C-11's "notice and notice" provisions, which have not yet come into force, will be enacted within a framework that moves Canada even farther away from its goal of legislation that gives copyright owners the tools they need to combat online content theft.

Entirely apart from the issues addressed in the copyright modernization legislation, Canadian government inaction has effectively handcuffed its law enforcement agencies at the border, a key anti-piracy battlefield. Canadian customs officers in the CBSA lack statutory authority to seize even obviously counterfeit products as they enter Canada. Unless a court order has been previously obtained,¹² only the RCMP can carry out an *ex officio* seizure, and

¹¹BSA | The Software Alliance's 2012 Global Software Piracy Study, conducted with two leading independent research firms, IDC and Ipsos Public Affairs, measured the rate and commercial value of unlicensed PC software installed in 2011 in more than 100 markets. In 2011, the software piracy rate in Canada was 27%, representing a commercial value of unlicensed software of US\$1.14 billion. These statistics follow the methodology compiled in the Ninth Annual BSA and IDC Global Software Piracy Study (May 2012), <http://portal.bsa.org/globalpiracy2011/index.html>. The BSA study covers piracy of all software run on PCs, including desktops, laptops, and ultra-portables, including netbooks. It includes operating systems, systems software such as databases and security packages, business applications, and consumer applications such as games, personal finance, and reference software. It also takes into account free software, open source software, and software as a service if it is paid for. It does not cover software that runs on servers or mainframes and routine device drivers, free downloadable utilities such as screen savers, and software loaded onto tablets or smartphones. The methodology used to calculate this and other piracy numbers are described in IIPA's 2013 Special 301 submission at <http://www.iipa.com/pdf/2013spec301methodology.pdf>.

¹²Court orders, however, can only be obtained upon the filing of an application by the right holder, supported by affidavit evidence, including information regarding the identity of the importer, exporter or vendor; country of origin or export; quantity and value of the infringing goods; estimated date of arrival in Canada; mode of importation; identity of the ship, train or truck used to transport the infringing goods; and (if available) the serial number of the container in which these goods may (...continued)

coordination between the two agencies is generally not effective. As a result, virtually no seizures at the border have occurred, and Canada's borders are effectively wide open to imports of pirate CDs, DVDs or videogames and other infringing materials. CBSA must be given independent authority to act against any suspected pirate or counterfeit imports. Although the Canadian Government has acknowledged this deficiency and has been studying the issue for years, it has failed to introduce the necessary legislative changes.¹³

In any event, not all enforcement problems in Canada can be traced to deficiencies in the law. Even when pirate activity is clearly illegal, Canada's response too often falls short. Both CBSA and RCMP lack dedicated resources – including manpower and data and intelligence management – to address Canada's growing piracy problems. Nor is there progress to report on interagency cooperation. The existing arrangement under which CBSA can refer cases to the RCMP through designated RCMP liaison officers is unwieldy and impractical.¹⁴

The increased and largely effective law enforcement engagement against sales of pirate DVDs in the GTA malls, beginning in 2009, was a bright spot in Canada's enforcement response to one form of copyright piracy. Raids, seizures and arrests by police were critical to the substantial reduction in the number of illicit vendors operating in the GTA malls. Now that this problem has migrated to flea markets in the Peel Region, however, persuading police agencies there (as well as in the GTA) to treat this organized and widespread manufacturing and distribution of illegal goods as criminal conduct is a challenge. In general, police agencies have responded well to anti-piracy training programs offered by industry, but too often lack the resources and the mandate to properly investigate IP crimes or to prepare the cases for prosecution. On the whole, the Canadian law enforcement commitment to act against copyright piracy, especially on the retail level, remains under-resourced, and too few agencies consider it a strategic or organizational priority.¹⁵

ESA reports that in most of the country, police action generally depends on one or two interested law enforcement officials, motivated by an ESA training event they attended or a working relationship with one of ESA's outside investigators. Unfortunately, while this dynamic led to an increased number of law enforcement actions in 2011, there was a dramatic fall-off in actions in 2012, requiring ESA to rely more on cease-and-desist letters for enforcement against sellers of pirated games. With this drop in law enforcement engagement, further progress against game piracy stalled, and sales of illegal copies of games, both in brick-and-mortar and online environments, remained at unacceptable levels. Re-engagement of RCMP in pursuing new instances of game piracy would help recapture the progress made in 2011.

The continued prevalence of pirate product in Canada's retail market also reflects the Canadian Government's failure to provide RCMP with adequate enforcement resources, and shows that its record of cooperation with right holders to attack piracy, while improving, remains spotty. Although the RCMP has now listed intellectual property crimes among its top-stated priorities, its actions in the past have not always reflected adherence to this commitment. This inconsistency between stated and operational priorities continued in 2012, with RCMP conducting only a handful of criminal copyright investigations. RCMP's Enforcement Policy, which reflects a reluctance to target "retail" piracy, does not account for the reality that as technology constantly advances, "retailers" now use ordinary computer equipment to become mass manufacturers, producing literally hundreds of thousands of pirated DVDs, CDs, software and video games. Moreover, there is a demonstrated link between those who sell, manufacture and distribute counterfeit products and organized criminal operations. When government authorities

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be found. In many instances, a right holder will not have access to this information and the necessity of obtaining the court order is itself unduly burdensome and not designed to prevent pirated and counterfeit imports from entering the country.

¹³Two parliamentary committees that studied this topic in 2007 called explicitly for such amendments to be enacted. See reports from the Standing Committee on Public Safety and National Security, <http://cmte.parl.gc.ca/Content/HOC/committee/391/secu/reports/rp2985081/ securp10/ securp10-e.pdf>, and from the Standing Committee on Industry, Science and Technology, see <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10476&Lang=1&SourceId=213200>.

¹⁴The reports of both parliamentary committees called for the government to devote increased resources to, and to require better coordination and information sharing between, CBSA and RCMP.

¹⁵The Industry, Science and Technology Committee report called for a higher priority for enforcement at the retail level, while the Public Safety and National Security Committee report proposed that knowing possession of counterfeit or pirate goods for purposes of sale be criminalized.

refuse to pursue criminal investigations or initiate prosecutions against retail pirates, copyright owners are left with only civil remedies to pursue, and pirates are not deterred.

The same problems extend to prosecutors and courts in Canada. Few resources are dedicated to prosecutions of piracy cases; prosecutors generally lack specialized training in prosecuting such offenses, and too often fail to advocate fervently for imposition of deterrent penalties. The result is that those few pirates who are criminally prosecuted generally escape any meaningful punishment.¹⁶ This is true even for some recidivists involved with large commercial operations, for which a financial penalty is merely the cost of doing business. For example, almost all criminal cases on which ESA provided support to law enforcement in 2012 resulted in modest penalties such as fines, community service or probation.

Even the RCMP acknowledges that the penalties for engaging in copyright piracy in Canada – usually insignificant fines – are simply insufficient to deter people from engaging in this highly profitable and relatively risk-free crime. As the RCMP told a parliamentary committee in 2007, “[t]he current criminal penalties imposed by courts pose little deterrence. It is not unusual to charge the same groups multiple times for IPR crimes, as they see the fines simply as the cost of doing business.”¹⁷ The weak penalties obtained also discourage prosecutors from bringing cases, and encourage recidivism. The 2010 regulations authorizing the confiscation of proceeds of copyright infringement as a remedy in criminal cases could help to interrupt this vicious cycle, but only if prosecutors invoke them and courts implement them vigorously. Incredibly, neither has occurred, and this remedy, which offers material deterrence, has not been imposed.

The U.S. Government should press the Canadian Government to initiate and adequately fund a coordinated federal law enforcement effort against copyright piracy, including a program to crack down on the importation of pirate goods at all major Canadian points of entry. Raids and seizures against retail targets, as well as against the manufacturers of pirate products, must be stepped up. Since the availability of pirated products will not be reduced without criminal prosecutions against infringers and the imposition of deterrent sentences, particularly jail time, Crown counsel should be encouraged to take on more copyright infringement cases, and should be provided with the training and other support needed to fully prosecute them. Canadian courts should be looked to for more consistent deterrent sentences, including jail time for piracy cases. Canadian authorities should be encouraged to accord a high priority – in practice, not just in rhetoric – to the serious piracy problems within their country, and to devote adequate resources to the investigation and prosecution of these cases.¹⁸

COPYRIGHT LEGAL REFORM AND RELATED ISSUES

On June 29, 2012, Canada marked an important step forward in its years-long effort to modernize its copyright law when it enacted Bill C-11, the Copyright Modernization Act. Most of the bill came into force in November 2012, though with some significant exceptions that have not yet become law. A major stated goal of the copyright reform process in Canada was to enable the country to accede to the WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT); enactment of C-11 advances Canada considerably along the path toward that goal, although we note that Canada has yet to ratify these critical treaties, and we look forward to such ratification in the very near future.

¹⁶While calling for increased statutory penalties for piracy, and for new remedies such as forfeiture of the proceeds of piracy, the Industry, Science and Technology Committee of the House of Commons also opined that “the justice system should be imposing stiffer penalties for such offences within the limits of current legislation,” and recommended that the government “immediately encourage prosecutors” to do so.

¹⁷See Public Safety and National Security Committee report, at 12. RCMP has been saying this consistently in policy assessments going back at least 12 years. See RCMP, “An Assessment of Commercial Scale Criminal Copyright Piracy and Trade-mark Counterfeiting in Canada”, 2000 (“minimal sentences and low fines offer little incentive for law enforcement to pursue this issue more vigorously, and every incentive for criminals to continue pirating copyrighted goods”); see also, RCMP, “A strategic intelligence assessment of Intellectual Property Crime in Canada”, 2004; RCMP, “Intellectual Property Crime in Canada – Hazardous and Costly,” 2005.

¹⁸Numerous recommendations of the parliamentary committees echo these concerns.

The modernized Canadian copyright law features a number of critical legal tools needed to protect copyright in the digital networked environment and to promote the healthy growth of electronic commerce in creative works. These include comprehensive civil and criminal remedies against trafficking in devices or services aimed at circumventing TPMs that copyright owners use to control access to, or the exercise of exclusive rights in, their works.¹⁹ In addition, new section 27(2.3) creates a new form of secondary liability for infringement, for providing a service via the Internet which the provider “knows or should have known is designed primarily to enable acts of copyright infringement.” This provision is potentially an effective tool against some of the sites flagrantly dedicated to copyright theft that have found safe haven in Canada in recent years. Canada deserves commendation for taking these significant steps.

However, in some important areas, Bill C-11 fell short of bringing Canadian law into step with current global standards. It is too soon to tell whether the new statutory tools will actually be used in a way that enables Canada to overcome its reputation as a haven where technologically sophisticated international piracy organizations can operate online with virtual impunity. Furthermore, the legislation left unaddressed the major well-known shortfalls in Canada’s overall enforcement regime against piracy and counterfeiting, shortfalls that have been repeatedly stressed by USTR in prior Special 301 reports.

The following lists some of the major remaining copyright reform topics. The list must not be regarded as exhaustive, however.²⁰ The list begins with topics on which the recent legislation changed Canadian law but may have fallen short of achieving its full objectives. It then identifies, among the 20 or more new or expanded exceptions to copyright protection featured in Bill C-11, some of those of particular concern, including with respect to compliance with the well-established “three-step test” for acceptable limitations on exclusive rights (see TRIPS Art. 13; WCT Art. 10; WPPT Art. 16). Finally, it addresses ongoing concerns about Canada’s copyright regime that were not directly affected by enactment of Bill C-11.

A. COPYRIGHT MODERNIZATION ACT ISSUES

(1) **WIPO Treaty Accession and National Treatment.** Full Canadian compliance with the WPPT, and the country’s formal accession to that treaty, are extremely important to the recording industry. Legitimate services for delivering sound recordings online and to mobile devices continue to struggle to obtain a firm foothold in a Canadian marketplace characterized by unsurpassed levels of illegal music downloading and file sharing (see above). WPPT provides the needed minimum standards and the legal points of attachment to set the music industry on the path to a robust legitimate online market in Canada. In this context, it is essential that Canada move immediately to accede to the WPPT.

(2) **Enforcement against online piracy.** As noted, new section 27(2.3), the “enablement” provision, was enacted to help Canadian right holders to combat more effectively the virtual impunity with which online sites and services that enable copyright infringement on a massive scale have been able to operate in Canada. IIPA appreciates that the intent of these new provisions was to ensure that significant Canada-connected sites will be liable for deterrent remedies, including statutory damages, and could be shut down under Canadian law and their copyright theft businesses terminated. It is far too soon to know, however, whether this important positive potential will be realized. Certainly many of these sites continue to operate freely today.

¹⁹IIPA remains concerned about section 41.21 of the new law, which authorizes additional exceptions to the TPMs prohibitions to be recognized by regulation. Such an authorization is prudent to allow the law to adapt to unforeseeable technological and market changes, but the provisions as enacted may cross the line from commendable flexibility to debilitating unpredictability. IIPA urges the Canadian Government to exercise caution in utilizing this regulatory exception authority, in order to avoid some of the potential pitfalls IIPA has outlined in previous submissions on this topic.

²⁰For a more detailed listing of concerns about Bill C-11, see IIPA’s 2012 Special 301 submission, see <http://www.iipa.com/rbc/2012/2012SPEC301CANADA.PDF>, (but note that some defects identified there were addressed before C-11 was enacted), and its September 2012 submission regarding Canadian participation in the TPP negotiations, http://www.iipa.com/pdf/2012_Sep04_IIPA_Request_to_Appear_and_Testimony_on_Canada_TPP.PDF.

At the same time, other important aspects of Canada's online copyright liability regime continue to fall well short of evolving international best practices. Even after modernization, Canadian law does not provide meaningful incentives for network service providers to cooperate with copyright owners to deal with copyright infringements that take place in the digital network environment. Instead, it provides service providers a series of liability safe harbors that, if read too broadly by the courts, could immunize service providers without providing needed incentives for them to address infringing material under their knowledge and control. For example:

- **Hosting:** Under the new Canadian law, the fact that a party "provides digital memory" for use by others "for the purpose of allowing the telecommunication of a work through the Internet or another digital network" is not thereby liable for infringing activity that it hosts, unless it knows that a court has already adjudged the user's conduct to be infringing, or unless it is part of a service found to have been provided "primarily for the purpose of enabling" infringement. This provision does little to encourage needed cooperation between network service providers and copyright owners. Most other developed countries have put in place a procedure for "notice and takedown" to deal more efficiently with the problem of pirate material being hosted by ISPs. A 2004 decision of Canada's Supreme Court observed that enacting such a procedure would be an "effective remedy" for the problem.²¹ But Canada's "modernized" copyright statute does not prescribe such a regime.
- **Linking:** Services meeting the broad definition of "information location tool" in new section 41.27 (but that are not provided primarily for enabling infringement) are provided immunity from liability (other than from narrow injunctions) under specified conditions, so long as they pass along notices of infringement received from right holders. This provides inadequate incentives for more effective action against linking to infringing material.
- **Repeat infringers:** While the new law codifies a version of the current voluntary "notice and notice" system, in which ISPs pass along notices from right holders to ISP subscribers whose accounts have been detected as engaging in unauthorized file sharing of copyrighted works (or other infringing behavior), any value of this "notice and notice" regime is undermined by the lack of any requirement that service providers keep track of notices, so that repeat infringers are not repeatedly sent the same notice which they have ignored previously. To treat the first-time violator identically with the serial offender jeopardizes any deterrent effect the notices could otherwise achieve.²²

In sum, despite the commendable "enablement" provision, the Copyright Modernization Act risks failing to address effectively the pervasive online piracy that has become an unwelcome feature of the Canadian marketplace. This result seems inconsistent with the stated intentions of the legislation's drafters, and can hardly be said to comply with the mandate of the WIPO Internet Treaties that national law "permit effective action against any act of infringement of rights covered by this Treaty."²³

(3) **Statutory damages.** Although Canada's law already provides for availability of pre-established damages for copyright infringement, the recent amendments could reduce the effectiveness of the statutory damages option in achieving its goals of full compensation and deterrence in the online environment, where it is compellingly needed to deter large scale infringers. Other than in cases involving services provided primarily to facilitate massive copyright infringement, the new law limits statutory damages to a range of C\$100 - C\$5,000 (US\$100 – US\$5,010) for all infringements carried out by any defendant for "non-commercial purposes," a phrase the law does not define. Even this meager award is available only to the first copyright owner to seek a statutory damage award against a

²¹*Society of Composers, Authors and Music Publishers of Canada v. Canadian Ass'n. of Internet Providers*, [2004] 2 S.C.R. 427, 2004 SCC 45, available at <http://scc.lexum.umontreal.ca/en/2004/2004scc45/2004scc45.html>.

²²In any event, as noted above, "notice and notice" also falls short when not coupled with an effective "notice and takedown" system in line with current global norms.

²³See WCT, Art. 14.2; WPPT, Art. 23.2.

given defendant. All other right holders would be barred from seeking statutory damages; and indeed, statutory damages would be entirely eliminated for all other infringements carried out by that defendant prior to the date that the first copyright owner's lawsuit was filed. These sharp limitations, which can be invoked by institutional as well as individual defendants, especially harm authorized Canadian licensees seeking to defend licensed rights, and thus may prospectively diminish opportunities for all right holders in both established distribution channels and the developing online marketplace.

B. NEW OR EXPANDED EXCEPTIONS AND LIMITATIONS

Much of Bill C-11 consists of nearly a score of new or expanded exceptions to copyright protection. Many of these raise significant questions, including with regard to Canadian compliance with its obligations under Berne, TRIPS, and the WCT/WPPT to confine exceptions to those that meet the "3-step test." IIPA urges USG to monitor closely the implementation of all these exceptions, with particular attention to the following²⁴:

(1) **Fair dealing** (section 29). The Copyright Modernization Act adds "education" to the list of uses (such as research and private study) that qualify for the fair dealing exception. Because "education" is not defined, this could be a dramatic change, with unpredictable impacts extending far beyond teaching in bona fide educational institutions, and weakening protections for a wide range of works. The concerns are amplified by trends in Canadian jurisprudence under the pre-Act fair dealing statute, as exemplified by some of the decisions in the so-called copyright pentology issued by Canada's Supreme Court in July 2012.²⁵ These decisions underscored, among other things, that Canadian courts are to treat fair dealing, not as an exception, but as a "user's right," which is to receive a "large and liberal interpretation";²⁶ that the purposes of the putative user, not those of a commercial or non-commercial intermediary that actually makes the copy and supplies it to the user, are of primary relevance in fair dealing analysis; and that factors such as the availability of a license to make the use, and even the overall impact of widespread unlicensed use on the actual or potential markets for the work, carry much less weight in Canadian law than they do in U.S. fair use jurisprudence.

While this combination of statutory expansion and broader judicial interpretation of fair dealing affects all sectors dependent upon copyright protection in Canada, it may add up to a "perfect storm" for the publishing industry, and especially for publishers seeking to serve the educational market. The ease with which expanded fair dealing and other new or expanded exceptions could potentially be combined to supplant the need for sales or licensing of books, journals, periodicals and other published materials, across a wide swath of the Canadian market, has roiled the sector with uncertainty. Book and journal publishers are particularly concerned about the impact on well-established collective licensing mechanisms for administering permissions to copy works for educational use. Concerns about the fate of the Access Copyright collectively managed licenses for educational institutions provide evidence that these concerns are immediate, not speculative. Although the Access Copyright case in the Supreme Court's pentology directly affected only a marginal aspect of this license — reprographic copying of a few pages per student per year of short excerpts of already purchased supplemental texts by K-12 teachers for use in class instruction — public schools across Canada have concluded that fair dealing now eliminates the need for them to obtain any license from Access Copyright, including for uses such as copying of primary textbooks or of newspaper

²⁴IIPA reiterates that the following list is not exhaustive. Furthermore, the interplay among different exceptions as they are implemented must also be monitored. For instance, many are conditioned on the user's access to a non-infringing copy of a work. But that copy need not be one purchased from the copyright holder or its licensee. It may include a copy made pursuant to another exception. Thus, the potential of a single commercially acquired copy being copied and distributed multiple times, by multiple parties, under the shelter of multiple distinct statutory exceptions, must be taken into account in evaluating the impact of these exceptions on the "normal exploitation" of a work in the commercial marketplace.

²⁵ Of the five copyright decisions announced on July 12, 2012, the main rulings addressing the issues discussed in this submission were *Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright)*, 2012 SCC 37, available at <http://scc.lexum.org/decisia-scc-csc/scc-csc/scc-csc/en/item/9997/index.do?r=AAAAAQALQmVsbCBDYW5hZGEAAAAAAB>, and *Society of Composers, Authors and Music Publishers of Canada v. Bell Canada*, 2012 SCC 36, available at <http://scc.lexum.org/decisia-scc-csc/scc-csc/scc-csc/en/item/9996/index.do?r=AAAAAQALQmVsbCBDYW5hZGEAAAAAAB>.

²⁶For instance, the Supreme Court ruled that that listening to a sample of a popular recording to decide where or not to buy it qualifies as "research," and that classroom discussion of a work qualifies as "private study." This helps explain the trepidation about how broadly Canadian courts will define "education."

articles, course packs, digital copying (including digital storage and distribution through learning management systems), and copying for uses outside the classroom.²⁷ Similar advice is being provided to post-secondary institutions.²⁸ Clearly the impact of this amendment, in the current jurisprudential environment, raises serious questions about compliance with the 3-step test.

(2) **Non-commercial user-generated content** (new section 29.21). This unprecedented provision allows any published work to be used to create a new work, and the new work to be freely used or disseminated, including through an intermediary, so long as the use or authorization for dissemination (though not necessarily the dissemination itself) is “solely for non-commercial purposes” and does not have a “substantial adverse effect” on the market for the underlying work. The provision could substantially undermine the exclusive adaptation right that Canada is obligated under TRIPS and Berne to provide, and provide an unjustifiable safe harbor for commercial disseminators. IIPA notes with concern that the exception applies even when the use of the underlying work violates a contract, exposes a trade secret, or requires circumvention of a TPM.

(3) **Educational exceptions for “publicly available material” online.** New section 30.04 would immunize nearly anything done “for educational or training purposes” by an educational institution or its agent with respect to “a work or other subject matter that is available through the Internet,” so long as the Internet site or the work is not protected by a TPM; but the exception would not apply if the user knows or should have known that the work was made available online without consent of the copyright owner. The provision seems to allow infringement of a work obtained offline so long as the same work is available somewhere online without a TPM. This should be re-examined, taking into consideration both the scope of Canada’s expanded fair dealing exceptions (see above), and applicable international standards.

(4) **Temporary copies for technological processes.** New section 30.71 immunizes copying that “forms an essential part of a technological process,” lasts no longer than the duration of the “process,” and has the sole purpose of facilitating a non-infringing use. None of the key terms is defined and the word “temporary” appears only in the title of the section. When considered in combination with the wide range of uses that would henceforth be considered “non-infringing,” this could prove to be a very broad exception.

C. ISSUES NOT ADDRESSED in COPYRIGHT MODERNIZATION

(1) **Term of protection.** Although a growing international consensus is well advanced in support of longer terms of copyright protection, Canada’s law remains unchanged on this score. The disparity of term of protection between the U.S. and its largest trading partner will make trade tensions almost inevitable in the future, with respect to a growing body of works that remain protected in one country but not in the other.

(2) **Ex officio authority for border enforcement.** As repeatedly stressed by USTR in its Special 301 reports on Canada, until Canada empowers its Customs officers to act *ex officio* against suspected pirate or counterfeit imports or in-transit materials, its borders remain effectively wide open to such abuses, thus unnecessarily increasing the stress on U.S. border controls. This gap, long acknowledged by Canadian authorities, must be filled as soon as possible.

(3) **Shortfalls in criminal remedies.** Canada’s trademarks law does not include any criminal penalties for a range of counterfeiting violations; nor does its criminal code prohibit manufacture, sale or distribution of fake labels of authenticity, a common feature of organized schemes to traffic illicitly in unauthorized software applications. These omissions adversely impact enforcement efforts, which often rely on these ancillary offenses to attack criminal piracy rings. Numerous legislative reports have documented the need to upgrade these features of Canadian law.

²⁷ See <http://archive.constantcontact.com/fs157/1102732265591/archive/1111899765550.html>.

²⁸ See “Kwantlen Polytechnic University backtracks on Access Copyright agreement,” <http://cupwire.ca/articles/54128> (Jan. 21, 2013).

(4) **Other legal reforms needed to enforcement regime.** The two parliamentary committees that issued reports in 2007 on the problems of counterfeiting and piracy called for a range of additional reforms, including:²⁹

- providing the RCMP and the Department of Justice with adequate resources for enforcement against piracy;
- establishing a copyright enforcement policy that effectively targets piracy and counterfeiting; and
- increasing damages and penalties in appropriate circumstances.

Adopting all these Parliamentary recommendations would repair long-standing defects in Canadian law, and help to provide the legal framework necessary for effectively addressing piracy.

²⁹See reports from the Standing Committee on Public Safety and National Security, <http://cmte.parl.gc.ca/Content/HOC/committee/391/secu/reports/rp2985081/securp10/securp10-e.pdf>, and from the Standing Committee on Industry, Science and Technology, see <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10476&Lang=1&SourceId=213200>.