Canadian Copyright Reform: P2P Sharing, Making Available and the Three-Step Test

Gregory R. Hagen* and Nyall Engfield**

IN BILL C-60, THE CANADIAN GOVERNMENT INTRODUCED a three-pronged strategy designed, in part, to render illegal the sharing of musical works via P2P file-sharing systems. The strategy involved prohibiting some dealings with private copies, introduction of a new making available right as part of the exclusive right of communication to the public, and introducing legal protection for technological measures and rights management information. The implementation of these provisions as well as the ratification of the Internet Treaties from which they are derived could prevent the extension of the existing levy system for audio recording media to P2P file sharing because the necessary exemptions would conflict with the normal exploitation of musical works. Yet, because the extension of copyright to P2P file sharing may interfere with fundamental rights of privacy and expression and increase enforcement costs, a levy system might ultimately better fulfill the goals of copyright than creating new rights. In such a case, the ratification of the Internet Treaties could prevent the attainment of the important goals of the *Copyright Act*.

LE PARLEMENT DU CANADA PRÉCONISE DANS SON PROJET DE LOI C-60 une stratégie en trois volets dans le but, entre autres, de rendre illégal le partage d'œuvres musicales par un réseau poste à poste. La stratégie comporte une interdiction de certaines démarches à partir de copies privées, la création d'un nouveau droit de mise à disposition qui fait partie du droit exclusif de communication publique et l'introduction de protections juridiques à l'égard des mesures technologiques et des droits de gestion de l'information. La mise en œuvre de ces dispositions et la ratification des traités Internet dont elles sont dérivées pourraient prévenir l'extension du système actuel de prélèvement de droits pour l'enregistrement audio lors du partage de fichiers de poste à poste au motif que les exemptions nécessaires entreraient en conflit avec l'exploitation normale des œuvres musicales. Toutefois, l'extension du droit d'auteur au partage de fichiers de poste à poste pouvant porter atteinte au droit à la vie privée et à la liberté d'expression et pouvant augmenter les coûts de mise en œuvre, un système de prélèvement de droits pourrait en bout de ligne mieux répondre aux objectifs de la protection du droit d'auteur que la création de nouveaux droits. Dans les circonstances, la ratification des traités Internet pourrait nuire à la réalisation des buts importants de la *Loi sur le droit d'auteur*.

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1. INTRODUCTION

AS A RESULT OF EXTENSIVE LOBBYING by the music recording industry in Canada,[1] international pressure,[2] and as part of its copyright reform process, on June 20, 2005, the Government of Canada introduced Bill C-60, *An Act to Amend the Copyright Act*.[3] As part of the exclusive right to communicate to the public by telecommunication, the Act creates a new, so-called "making available right," designed to enable making digital files available by the internet a normal means of exploitation by copyright owners.[4] In addition, the Bill prohibits certain dealing with private copies made under the private copying exemption, such as knowingly distributing private copies or communicating private copies to the public by telecommunication.[5] Finally, the Bill introduces legal protection of technological measures and of rights management information by prohibiting

1. Lobbying for Bill C-60 has taken the form of personal meetings, exaggerating losses, and biased processes. For personal lobbying of Government, see "Musicians Take Their Act to Parliament Hill," *CBC News* (25 November 2004), <http://www.cbc.ca/story/arts/national/2004/11/24/Arts/musiconthehill041124.html>. There is a vivid discussion of some of the lobbying efforts in Michael Geist, "Our Own Creative Land," Lecture presented to the Hart House Lecture at University of Toronto (30 March 2006), <http://individual.utoronto.ca/dtsang/hhlecture/index2.html>.

2. Office of the US Special Trade Representative (USTR), *2005 Special 301 Report*, <http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_Special_301/asset_upload_file662_7650.pdf> said the following: "We urge Canada to ratify and implement the WIPO Internet Treaties as soon as possible, and to reform its copyright law so that it provides adequate and effective protection of copyrighted works in the digital environment. The Canadian court decision finding that making files available for copying on a peer-to-peer file sharing service cannot give rise to liability for infringement under existing Canadian copyright law [*BMG Canada Inc. v. John Doe*, 2004 FC 488, <http://decisions.fct-cf.gc.ca/en/2004/2004fc488/2004fc488.html>, [2004] F.C.R. 241 [*BMG (FC)*] underscores the need for Canada to join nearly all other developed countries in implementing the WIPO Internet Treaties."

3. Bill C-60, *An Act to Amend the Copyright Act*, 1st Sess., 38th Parl., 2005, <http://www.parl.gc.ca/38/1/parlbus/chambus/house/bills/government/C-60/C-60_1/C-60_cover-E.html> [Bill C-60].

4. *Ibid.* at s. 2.

5. Bill C-60, *supra* note 3 at s. 15.

the circumvention of such measures and the alteration or removal of rights management information.[6]

The Bill is designed to allow Canada to ratify the *WIPO Copyright Treaty* ("WCT") and *WIPO Performances & Phonograms Treaty* ("WPPT"), signed in December 1997 (collectively, the "Internet Treaties").[7] More specifically, the provisions cited above are a direct response to the Federal Court decision in *BMG Canada Inc. v. John Doe*,[8] which suggested that peer-to-peer ("P2P") music file sharing is legal in Canada.[9] Indeed, a central purpose of the Bill is to ensure that unauthorized P2P music file sharing is prohibited in Canada by expanding copyright protection, by shrinking copyright exemptions, and by offering certainty and clarity so as to enable intermediaries and others to take advantage of the opportunities offered by the internet.[10] The limitation on private copying contained in the Bill is intended to prohibit the downloading portion of unauthorized P2P file sharing, while the making available right is designed to prohibit unauthorized uploading of musical works to a shared network space.

Both the Internet Treaties and Bill C-60 seek to expand copyright to cover exploitation of works and other subject matter by digital means.[11] However, this copyright-based approach to dealing with the unauthorized reproduction of sound recordings is a departure from Canadian copyright policy embodied in the *Copyright Act*. According to the Act, losses suffered by copyright owners from the unauthorized private copying of sound recordings, such as from "burning" compact discs, are compensated by equitable remuneration derived from funds raised from the application of levies to the manufacture and importation of blank

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6. *Ibid.* at s. 27. While the minority Liberal Government that introduced Bill C-60 was defeated in a non-confidence motion on 27 November 2005 and a new Conservative Government elected on 23 January 2006, it is nevertheless useful to examine the provisions contained in the Bill since the new Conservative Government will be under pressure to pass similar measures. In fact, Canadian Heritage Minister Bev Oda has announced the Government's intention to amend existing copyright legislation and to ratify the Internet Treaties. At the same time, Minister Oda indicated a willingness to deal with contentious elements of Bill C-60. See the transcript of an interview for the Hill Times, available at Excess Copyright, <http://excesscopyright.blogspot.com/2006/04/minister-oda-transcript.html>.

7. *WIPO Copyright Treaty*, 20 December 1996, <http://www.wipo.int/treaties/en/ip/wct/trtdocs_wo033.html>, 36 I.L.M. 65 at Art. 8 [WCT]; *WIPO Performances and Phonograms Treaty*, 20 December 1996, <http://www.wipo.int/treaties/en/ip/wppt/>, 36 I.L.M. 76, Art. 16(2) [WPPT]. *The WIPO Copyright Treaty* (WCT) and the *WIPO Performances and Phonograms Treaty* (WPPT) were adopted in December 1996. Both treaties have entered into force, the WCT on 6 March 2002 and the WPPT on 20 May 2002. As of 16 December 2005, there are fifty-six contracting parties to the WCT and fifty-five to the WPPT, including Canada, although more than half have not ratified either treaty. See WIPO Administered Treaties, WIPO, <http://www.wipo.int/treaties/en/>.

8. *BMG (FC)*, *supra* note 2. This decision was affirmed in *BMG Canada Inc. v. John Doe*, 2005 FCA 193, <http://decisions.fca-caf.gc.ca/en/2005/2005fca193/2005fca193.html>, [2005] 4 F.C.R. 81 [*BMG (FCA)*], but the Court of Appeal substituted a decision that no finding was made with respect to copyright infringement.

9. Liza Frulla, former Minister of Canadian Heritage, was heard to vow at the Canadian Juno awards that the Government would be "…addressing the peer-to-peer issue," by enacting legislation to "...give the tools to companies and authors to sue." See "Frulla Promotes Tougher Copyright Laws" *CBC News* (4 April 2005), <http://www.cbc.ca/story/arts/national/2005/04/04/Arts/frullawinnipeg050404.html>.

10. Former Minister Emerson expressed his belief that "[…] this bill will provide creators, *intermediaries*, and users of copyright material with the certainty and clarity that will allow them to take full advantage of the opportunities of the Internet." Canadian Heritage, Government Press Release, "Government of Canada Introduces Bill to Amend the Copyright Act" (20 June 2005), <http://www.pch.gc.ca/newsroom/index_e.cfm?fuseaction=displayDocument&DocIDCd=5N0134> (emphasis added).

11. For a history of this approach and its culmination in the Internet Treaties, see Mihaly Ficsor, *The Law of Copyright and the Internet: The 1996 WIPO Treaties, Their Interpretation and Implementation* (New York: Oxford University Press, 2002) [Ficsor, *Copyright Law and Internet*].

audio recording media, while exempting such private copying from copyright infringement.[12]

While both copyright and the private copying levy aim to encourage the dissemination of works of the arts and intellect while providing a just reward for the creator,[13] there exists an unresolved debate as to which approach[14] better attains these objectives in the digital environment. There is reason to believe that expanding copyrights to unambiguously cover P2P file sharing will sometimes bring these rights into conflict with fundamental rights of privacy and expression as well as increase enforcement costs.[15] The ratification of the Internet Treaties would provide entrenchment of the provisions of Bill C-60 to an additional degree. Thus, should a levy system end up fulfilling the goals of copyright law better than the expansion of copyrights, implementation of the provisions of Bill C-60 will turn out not only to have been premature[16] but, ironically, to prevent the goals of copyright itself from being furthered by means of levies. [17]

The reason that it may be impossible to implement a levy system for P2P file sharing if the Internet Treaties are ratified, in brief, is as follows. Currently, P2P file sharing cannot be considered a normal means of exploitation of musical works because of the inability of rights holders to control the private copying and making available of them.[18] If Bill C-60 does as is intended, the introduction of technological measures and additional rights will enable copyright holders to

12. *Copyright Act*, R.S.C. 1985, c. C-42, <http://laws.justice.gc.ca/en/C-42/230711.html> at Part VIII [*Copyright Act*].

13. *Théberge v. Galerie d'Art du Petit Champlain inc.*, 2002 SCC 34, <http://scc.lexum.umontreal.ca/en/2002/2002scc34/2002scc34.html>, [2002] 2 S.C.R. 336 at para. 30 [*Théberge*].

14. The following studies provide catalogues of various possible approaches: Gartner G2 & The Berkman Center for Internet & Society at Harvard Law School, "Five Scenarios for Digital Media in a Post-Napster World," <http://cyber.law.harvard.edu/home/uploads/286/2003-07.pdf>; Catherine Allison, "The Challenges and Opportunities of Online Music: Technology Measures, Business Models, Stakeholder Impact and Emerging Trends," Paper prepared for Canadian Heritage (31 March 2004), <http://www.pch.gc.ca/progs/ac-ca/progs/pda-cpb/pubs/index_e.cfm>; William W. Fisher III, *Promises to Keep: Technology, Law, and the Future of Entertainment* (Stanford: Stanford University Press, 2004) [Fisher, *Promises to Keep*]; Peter K. Yu, "P2P and the Future of Private Copying," (2005) 76:3 University of Colorado Law Review 653, <http://ssrn.com/abstract=578568> at pp. 665–670.

15. There remain issues such as the authority of the Federal Government to enact levies and the fairness of cross-subsidization. See, for example, P. Bernt Hugenholtz, Lucie Guibault & Sjoerd van Geffen, "The Future of Levies in Digital Environment," Final Report prepared for the Institute for Information Law (March 2003), <http://www.ivir.nl/publications/other/DRM&levies-report.pdf> [Hugenholtz, Guibault & van Geffen, "Future of Levies"]; and Jeremy F. deBeer, "The Role of Levies in Canada's Digital Music Market," (2005) 4:3 Canadian Journal of Law & Technology 153 at pp.153–168, <http://ssrn.com/abstract=877191>.

16. The premature nature of enacting Bill C-60 is a symptom of the fact that the copyright reform agenda seeks to deal with inter-related issues over different time periods. For example, while the Government of Canada has decided to implement the making available right and to limit dealings with private copies in the short term, it intends to study the inter-related issue of private copying in the medium term. See Canada, *Supporting Culture and Innovation: Report on the Provisions and Operation of the Copyright Act* (Ottawa: Industry Canada, 2002), <http://strategis.ic.gc.ca/epic/site/crp-prda.nsf/en/rp00863e.html>.

17. As Deborah Tussey has commented, since P2P file sharing is part of a complex, adaptive system, "[w]e should be wary that the urge to regulate quickly, promoted forcefully by those invested in the past, and driven by the desire for short-term profit, may outpace the system's own dynamics which would produce better real-world solutions if given time." See Deborah Tussey, "Music at the Edge of Chaos: A Complex Systems Perspective on File Sharing," (2005) 37:1 Loyola University Chicago Law Journal 147 at pp. 183–184, <http://ssrn.com/abstract=850244> [Tussey, "Music at the Edge of Chaos"].

18. See Part 2, below. Furthermore, it shall be argued that currently certain forms of P2P sharing are, under some circumstances, permissible under the *Copyright Act*.

control[19] the use of their works sufficiently to allow P2P file sharing to become a normal means of exploiting them.[20] Since, under the Internet Treaties, no limitation to a copyright may conflict with a normal exploitation of a work, performance, or phonogram, ratification of the Internet Treaties could prevent an exemption from covering all P2P file-sharing devices, media, and usage.[21] This result will occur even though, absent the provisions of Bill C-60 being enacted, a levy does apply (or at the very least, could be applied under minor amendments to the *Copyright Act*) to P2P file sharing in some circumstances without violating either domestic or international law.[22]

Part 2 of this paper sets out the rationale for the existing private copying regime and briefly argues that, not only does the rationale for private copying extend to P2P file sharing, *in some circumstances* certain forms of P2P file sharing are lawful under existing copyright law. Part 3 describes how the provisions contained in Bill C-60 are designed to prevent unauthorized P2P file sharing and to enable the ratification of the Internet Treaties. Part 4 shows how P2P systems will result in increased potential conflicts with user privacy and free expression, as well as increased costs to the recording industry, consumers, society, and users, making it increasingly likely that the expansion of copyrights cannot fulfill the goals as successfully as could a levy system. Also, the implication is drawn that, should the provisions of Bill C-60 be implemented, creating a levy system for P2P sharing would likely involve an incompatibility with permissible constraints on exemptions and limitations to copyright contained in the Internet Treaties.

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2. THE COPYRIGHT ACT'S APPROACH TO UNAUTHORIZED SHARING

2.1. The Private Copying Levy

IN CANADA AND MOST EUROPEAN COUNTRIES, making unauthorized copies of sound recordings onto blank audio recording media does not constitute a copyright infringement.[23] Instead, artists and other copyright owners are remunerated from funds raised from a levy imposed on the manufacture or importation of blank audio recording media.[24] In Canada, Parliament created the private copying exemption in response to the lobbying efforts of the Canadian

19. Former Director General of the Copyright Policy Branch, Ministry of Canadian Heritage, Bruce Stockfish, appearing before the Canadian Heritage Committee on 11 June 2002, emphasized the Ministries' position that "[t]he nature of copyright is such that there is exclusivity; there is *control* over works." Quoted in Laura Murray, "Copyright Talk: The Patterns and Pitfalls in Canadian Policy Discourse" in Michael Geist, ed., *In the Public Interest: The Future of Canadian Copyright Law* (Toronto: Irwin Law, 2005) [Geist, *In the Public Interest*] 15–40, <http://irwinlaw.com/PublicInterest/One_01_Murray.pdf> at p. 32 (emphasis added).

20. This will be explained in some detail in Part 3, below.

21. It will be foreclosed short of denouncing the treaties themselves. This will be discussed in Part 4, below.

22. This assumption will be discussed and defended in Part 2, below.

23. For a description of private copying levy provisions of European Union countries, see Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15 at p. 33.

24. See *Copyright Act*, *supra* note 12 and Copyright Board of Canada, *Tariff of Levies to Be Collected by CPCC in 2003 and 2004 on the Sale, in Canada, of Blank Audio Recording Media* (13 December 2003), Private Copying 2003-2004, <http://www.cb-cda.gc.ca/tariffs/certified/c13122003-b.pdf>.

recording industry to exempt certain acts of private copying from copyright infringement in return for a system of levies on blank audio recording media to compensate copyright owners for their losses due to "home sharing" of analogue tapes during the 1980s and 1990s.[25] Some commentators maintain that imposing levies on digital devices, digital recording media, or P2P usage is also the most promising solution to the P2P file-sharing problem in the digital environment.[26]

The President of the Canadian Independent Record Production Association ("CIRPA") stated the rationale for the levy system.

> Home taping was the first instance where it was impossible for the rights holder to contract directly with the user. There is no effective way of ascertaining the use of copyright material by any individual and, even though home taping is illegal, there is no effective way of policing users and thus obtaining a just payment for creators. The current law has become ineffective and, therefore, falls into disrepute. The only practical solution to this problem is to impose a levy at the manufacturer/importer level on blank tapes.[27]

While the levy was introduced in order to provide compensation for the losses of copyright owners due to what would be, without the exemption, an infringement of their rights in analogue recordings, the Federal Court of Appeal pointed out in *Canadian Storage Media Alliance* that "the levy was created for the purpose of supporting the creators and the cultural industries by striking a balance between the rights of creators and those of users."[28] This reference to balancing the *rights* of owners and users suggests that the levy could be seen not merely as a second-best corrective device to compensate copyright owners (because of their inability to control the use of their subject matter), but instead as a primary means of providing a reward for creators in the context of the balanced goals of the *Copyright Act*.

If levies can be used to reward artists instead of relying upon recording companies to distribute a portion of licensing royalties, it is tempting to argue that the application of levies to P2P file sharing would benefit artists by eliminating the costs of recording companies. Indeed, the historic control of recording companies over the reproduction, distribution, and promotion of musical works embodied in sound recordings has often worked against the attainment of a just reward for creators and the recognition of the primary role

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25. *Proceedings of the Standing Senate Committee on Transport & Communications*, 1st Sess., 35th Parl., 2005, No. 17 (21 April 1997), <http://www.parl.gc.ca/english/senate/com-e/tran-e/17eva-e.htm> [*Senate Proceedings on Communications*].

26. See Neil Netanel, "Impose a Noncommercial Use Levy to Allow Free Peer-to Peer File Sharing," (2003) 17:1 Harvard Journal of Law & Technology 1, <http://jolt.law.harvard.edu/articles/pdf/v17/17HarvJLTech001.pdf> [Netanel, "Noncommercial Use Levy"]; Fisher, *Promises to Keep*, *supra* note 14. See also Standing Committee on Canadian Heritage, *Status Report on Copyright Reform* (24 March 2004), <http://www.canadianheritage.gc.ca/progs/ac-ca/progs/pda-cpb/reform/status_e.cfm>.

27. *Senate Proceedings on Communications*, *supra* note 25.

28. *Canadian Private Copying Collective v. Canadian Storage Media Alliance*, 2004 FCA 424, <http://decisions.fca-caf.gc.ca/en/2004/2004fca424/2004fca424.html>, [2005] 2 F.C. 654 at para. 51 [*Canadian Private Copying Collective*]. In this case, the Federal Court of Appeal ruled that levies should not be extended to personal audio devices like iPods because these devices are not audio recording media.

accorded to artists—not recording companies—in developing and enhancing Canada's artistic and cultural life.[29] Recording contracts between artists and recording companies are generally one-sided in favour of the recording company.[30] Recording companies also receive the majority of recording royalties from CD sales.[31] In some cases recording companies simply take advantage of artists,[32] all while artist incomes are generally lower than average.[33]

In spite of the persuasiveness of the above argument, the purpose of this paper is not to resolve the debate as to whether levies or licensing are the best means of remunerating creators. Rather, it has a more limited purpose. That purpose is to show that Bill C-60 is flawed because the enactment of its provisions and the ratification of the Internet Treaties could prevent the application of a levy to P2P file-sharing media, equipment, or usage, even if a levy system turns out to better meet the goals of copyright law. In other words, this paper tries to present a case against Bill C-60 without prejudging the merits of licences, levies, or recording companies.

The next subsection argues that P2P downloading is, in some circumstances, permissible under Canadian copyright law.

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29. The priority of artists is recognized in the *Status of the Artist Act*, R.S.C. 1992, c. C-33, <http://laws.justice.gc.ca/en/S-19.6/260599.html>. This criticism holds, at least, with respect to the world's dominant recording companies. See Donald S. Passman, *All You Need to Know About the Music Industry* (New York: Simon & Schuster, 1997) [Passman, *Music Industry*]; The OECD Working Party on the Information Economy, "Digital Broadband Content: Music," DSTI/ICCP/IE(2004)12/FINAL (13 December 2005), <http://www.oecd.org/dataoecd/13/2/34995041.pdf> [OECD Report].

30. See, for example, Passman, *Music Industry, ibid.* at pp. 99–100; David A. Basskin, "Controlled Competition Clauses and the Systemic Inequality of Bargaining Power," <http://www.cmrra.ca/dabpaper.nsf/b9a4603f68836026052562a60056ddb9/a252fe89f075870685256817007 3fc10/$FILE/CC%20Paper.PDF#search='popular%20music%20industry%20oligopol>. For an interesting example, see Steve Albini, "The Problem with Music," <http://www.negativland.com/albini.html>.

31. See OECD Report, *supra* note 29 at table 5, which shows artist royalty rates estimated at between 5.1–10% of total royalties, whereas recording company royalties (independently of any association which they may have to distribution and retailing) are estimated at between 28.8%–39% of total royalties. See also the table of royalties found in Fisher, *Promises to Keep, supra* note 14, where CD cost is allocated as 7% to artist royalties, 31% to the recording company and 30% to the retailer. Contrast this distribution with the current distribution of funds raised from the Canadian blank media levy where 15.1% went to eligible record companies and the remainder to performers and songwriters. See Canadian Private Copying Collective, "Allocation of Funds," <http://cpcc.ca/english/infoCopyHolders.htm>.

32. See, for example, Fredric Dannen, *Hit Men: Power Brokers and Fast Money Inside the Music Business* (New York: Vintage, 1991).

33. According to the most recent Statistics Canada census data, artists' average income rose to CAN$27,200 in 2000, up 23% from 1995. However it remained below the average income of all workers in Canada (CAN$31,800), despite the higher than average level of education of artists, and with the exception of those few who sell a large number of CDs. See Treasury Board, *Canadian Artists and Producers Professional Relations Tribunal*, <http://www.tbs-sct.gc.ca/est-pre/20042005/CAPPRT-TCRPAP/CAPPRT-TCRPAPr4501_e.asp>. Thus, it is not surprising that in 2004, when asked by Pew Research, what impact free downloading on the internet has had on them as musicians, 37% said free downloading has not really made a difference, 35% said it has helped and 8% said it has both helped and hurt. See OECD Report, *supra* note 29 at p. 82. Almost all artists (93%) surveyed believe that it is impossible for the majority of self-employed artists in Canada today to earn a living unless they supplement their art with non-artistic work. See the subsection entitled "Relevance" under the section entitled "Findings" in Canadian Heritage, "Evaluation of the Provisions and Operations of the Status of the Artist Act," <http://www.pch.gc.ca/progs/em-cr/eval/2002/2002_25/tdm_e.cfm>.

2.2. Downloading: The Private Copying Exemption

In *BMG*, von Finckenstein J dismissed the claim that downloading could be copyright infringement on the basis that the private copying exemption applied.[34] Section 80(1) of the *Copyright Act* provides as follows:

> 80. (1) Subject to subsection (2), the act of reproducing all or any substantial part of
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> (a) a musical work embodied in a sound recording,
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> (b) a performer's performance of a musical work embodied in a sound recording, or
>
> (c) a sound recording in which a musical work, or a performer's performance of a musical work, is embodied
>
> onto an audio recording medium for the private use of the person who makes the copy does not constitute an infringement of the copyright in the musical work, the performer's performance or the sound recording.[35]

In the earlier decision of *Private Copying III*, the Copyright Board considered the application of the private copying regime to downloading digitized works from the internet.[36] The Board noted that the exemption applies only if it is made for the private use of the person making it.[37] The Board also noted that the source—whether an infringing copy, a pre-owned copy, a borrowed CD, or the internet—is irrelevant.[38] In *BMG*, the Court cited section 80 of the *Copyright Act* and the decision of the Copyright Board and concluded that "downloading a song for personal use does not amount to infringement."[39]

On appeal, the Federal Court of Appeal in *BMG* held that it was premature to reach any conclusions regarding whether P2P file sharing constitutes copyright infringement short of a full trial.[40] In fact, it stipulated that should the lawsuit continue to trial, "no findings to date on the issue of infringement have been made."[41] Nevertheless, a strong case can be made that P2P file sharing is permitted by Canadian copyright law in some circumstances.

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34. *BMG (FC)*, *supra* note 2 at para. 25. It is worth pointing out that the concepts of downloading and uploading are not entirely apt and are used here primarily as a convenient way of categorizing the infringement issues. Strictly speaking, the concepts assume a form of client-server architecture within which "downloading" refers to copying a file onto a client from a server, while "uploading" refers to copying the file onto a server from a client. Within a pure P2P architecture, each client is also a server, so that downloading onto a client is also, simultaneously, uploading onto a server, and *vice-versa*. Hence, *except for an initial uploader* who injects works into the system from a source outside the system, such as a compact disc, every event of uploading is also a download.

35. *Copyright Act*, *supra* note 12 (emphasis added). There are limitations to private copying contained in s. 80(2) which will be discussed later.

36. See Copyright Board of Canada, *Tariff of Levies to be Collected by CPCC in 2003 and 2004 on the Sale of Blank Audio Recording Media, in Canada, in Respect of the Reproduction for Private Use of Musical Works Embodied in Sound Recordings, of Performer's Performances of such Works and of Sound Recordings in which such Works and Performances and Embodied* (12 December 2003), Private Copying 2003-2004, <http://www.cb-cda.gc.ca/decisions/c12122003-b.pdf> at p. 20 [Copyright Board of Canada, *Private Copying III*].

37. *Ibid.* at p. 20.

38. *Ibid.* at p. 20.

39. *BMG (FC)*, *supra* note 2 at para. 25.

40. *BMG (FCA)*, *supra* note 8.

41. *Ibid.* at para. 54.

The first issue that needs to be addressed is whether the copying of a musical work onto a shared directory for the use of a person can ever be considered a *private use* for that person in virtue of the fact that the copy is *made available* to all those who have access to that shared directory.[42] In this context, it is tempting to analyze "private" as meaning the opposite of "public" as understood in the phrases "communication to the public" and "performance in public" as found in section 3 of the *Copyright Act*.[43] The phrase "to the public" has been interpreted more broadly than "in public" so that a communication intended to be received by individual members of the public in private settings is a communication *to the public* since it is done "openly, without concealment and to the knowledge of all."[44] Hence, on this line of reasoning, reproduction onto a shared directory is for public use, not private use.

This implication should be resisted, however. The expression "the act of reproducing all or a substantial part…*for the private use of the person*" contained in section 80 differs significantly in type from the notion of "to the public" or "in public" since it implies that the nature of the use as private or public is determined by the purpose of the act of reproduction rather than whether it is done openly, without concealment and to the knowledge of all.

More generally, since this purposive component imports a mental element into the test of infringement, the question of whether downloading a copyrighted work is for private use cannot be answered simply by reference to the factual context external to the mind of the downloader but must consider the subjective, purposive, mental state of the downloader. This inevitably makes it much more difficult to say that, as a general proposition, P2P file sharing is an infringement merely because the technology itself makes copyrighted material publicly available.

It follows that, if the reason for copying is for private use, then, assuming all other preconditions are fulfilled, it is covered under section 80 of the *Copyright Act*, irrespective of whether the community of P2P users as a whole constitutes a public.[45] The fact that Parliament did not foresee that a technology

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42. Indeed, in *A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir 2002), <http://www.ca9.uscourts.gov/ca9/newopinions.nsf/69A4AA15F8D6CBD6882569F1005E7D93/$file/0016401.pdf> [*Napster*], the Court held that an otherwise fair use of music became unfair when it became available to millions of users.

43. While there is no definition of "public" in the *Copyright Act*, NAFTA Art. 1721 provides a definition for "public." See *North American Free Trade Agreement*, 17 December 1993, <http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx?DetailID=78>, Can. T.S. 1994 no. 2, 32 I.L.M. 289. Art. 1721 provides:

> public includes, with respect to rights of communication and performance of works provided for under Articles 11, 11bis(1) and 14(1)(ii) of the Berne Convention, with respect to dramatic, dramatico-musical, musical and cinematographic works, at least, any aggregation of individuals intended to be the object of, and capable of perceiving, communications or performances of works, regardless of whether they can do so at the same or different times or in the same or different places, provided that such an aggregation is larger than a family and its immediate circle of acquaintances or is not a group comprising a limited number of individuals having similarly close ties that has not been formed for the principal purpose of receiving such performances and communications of works

44. Copyright Board of Canada, *Public Performance of Musical Works 1996, 1997, 1998 Re (1999), Statement of Royalties to be Collected for the Performance or the Communication by Telecommunication in Canada, of Musical or Dramatico-Musical Works (Tariff 22—Transmission of Musical Works to Subscribers via a Telecommunications Service not Covered under Tariff nos. 16 or 17)* (27 October 1999), <http://www.cb-cda.gc.ca/decisions/m27101999-b.pdf>, 1 C.P.R. (4th) 417 at p. 29 [*SOCAN (Copyright Bd)* cited to C.P.R.], citing *Canadian Cable Television Association v. Canada (Copyright Board)*, [1993] 2 F.C. 138 (CA), <http://reports.fja.gc.ca/en/1993/1993fca0403.html/1993fca0403.html.html>.

45. If one were to follow the NAFTA definition, provided in note 43 above, Friend-to-Friend (F2F) P2P networks, which share only amongst friends and family, escape the problem of private use without needing to consider the purpose of the downloading. Waste is the prime example of F2F P2P network, <http://waste.sourceforge.net/>.

that makes a copy of a work for the private use of a person who copied it could automatically and simultaneously enable many others to copy it as well is simply an intriguing aspect of some P2P technology rather than an argument against such copying being for private use.

Second, the Federal Court of Appeal implied that the Court below did not consider whether a computer was an audio recording medium.[46] An audio recording medium is defined in section 79 as a "recording medium, regardless of its material form, onto which a sound recording may be reproduced and that is of a kind ordinarily used by individual consumers for that purpose, excluding any prescribed kind of recording medium."[47] One might argue in support of the notion that file sharing is an infringement that a computer hard drive is more like hardware than the audio recording media that was contemplated by legislators because it is embedded into computer hardware.

Canadian Storage Media Alliance advanced a similar argument. It argued that digital audio recorders with permanently embedded memory (such as iPods) are not an audio recording medium.[48] In that case, the Federal Court of Appeal held that "[a] digital audio recorder is not a medium… [and] …there is no authority for certifying a levy on such devices or the memory embedded therein."[49] The Appeal Court's main reasoning was that, while Parliament had been made aware of proposals in other countries to extend the levy to the *hardware* which recorded and played these blank audio tapes, it nevertheless chose to limit the levy to blank *media*.[50]

Setting aside the issue of whether the pre-iPod distinction between hardware and media is valid, the same argument clearly does not apply to hard drives in personal computers as they are not permanently embedded. More fundamentally, however, the Standing Committee on Communications and Culture, in its 1985 report, the *Charter of Rights for Creators*, took a technology-neutral approach to the subject matter of the levy, explicitly including computer memory. It said that "…future recording devices might not use blank tape, thereby making a tape royalty obsolete. The work could be stored in a computer memory with no independent material support at all. The Sub-Committee does not wish to endorse solutions which would be rooted in any one particular technology."[51]

Another objection is that a computer hard drive is not used enough as an audio recording medium to be considered an ordinary use. The response to this claim is that whether computer hard drives are ordinarily used for such a purpose depends upon both the purpose for which the medium was created as

46. *BMG (FCA)*, *supra* note 8 at para. 50.

47. *Copyright Act*, *supra* note 12 at s. 79.

48. *Canadian Private Copying Collective*, *supra* note 28.

49. *Ibid.* at paras. 160, 164.

50. House of Commons, *Standing Committee on Canadian Heritage, Meeting No. 24*, 35th Parl., 2d Sess. (9 October 1996), <http://www.parl.gc.ca/35/Archives/committees352/heri/evidence/24_96-10-09/heri-24-cover-e.html> at 2150, Application Record, Vol. III, Tab 5-B-13, at 651–662, cited in *Canadian Storage Media Alliance; Canadian Private Copying Collective*, *supra* note 28 at para. 168.

51. House of Commons, Standing Committee on Communications and Culture, *A Charter of Rights for Creators—Report of the Subcommittee on the Revision of Copyright* (1985), <http://strategis.ic.gc.ca/epic/internet/incrp-prda.nsf/en/rp00870e.html> at p. 75–76. It also explicitly said at p. 76 that "…the royalty should be based upon both the material support used to store the work and on the machine used to make the reproduction."

well as its actual use, an empirical issue rather than one which can be answered *a priori* as a matter of law.[52] In light of this, it would be hypocritical for recording companies to simultaneously argue *both* that downloading onto computer hard drives is a widespread act of "piracy," and that a computer hard drive is not ordinarily used for that purpose.

A related objection is that, since one *can't* use a computer hard drive for a specific purpose—because the essence of a modern computer is that it is programmable (for many purposes)—it would be unfair to impose a private copying levy on computer hard drives.[53] This objection does not show that the use of computer hard drives as an audio recording medium is not an ordinary use under section 80 of the *Copyright Act*. Instead, it raises the legitimate moral question of the fairness of imposing a levy on hard drives when there may be significant uses of the hard drive for purposes other than storing audio recordings and some people may not use hard drives for the purpose of making audio recordings at all.

Third, one could argue that the limitations contained in section 80(2) apply. As the Federal Court of Appeal noted in BMG, the Court below did not appear to fully consider the limitations to the private copying exemption contained in that section.[54] According to section 80(2), the exemption provided in section 80(1) does not apply if the act described in section 80(1) is done for the purpose of doing any of the following in relation to any of the things referred to in sections 80(1)(a)–(c).

> (a) selling or renting out, or by way of trade exposing or offering for sale or rental;
> (b) distributing, whether or not for the purpose of trade;
> (c) communicating to the public by telecommunication; or
> (d) performing, or causing to be performed, in public.[55]

Given that the act referred to in sections 80(1) and 80(2) is the same act, the exemption does not apply when the act of downloading to a shared file for private use is also done for the purpose of either (a), (b), (c), or (d) above. In the case of P2P file sharing, for example, it might be argued that copying into a shared file might be for private use, but it is *also* done for one of these additional purposes. What is more, recent cases have suggested that a communication can

52. "In the Board's view, therefore, there are a number of factors that will determine whether a given kind of medium is ordinarily used by individual consumers for copying sound recordings. Among these are the apparent purpose of the medium, as evident from its invention, design and promotion, and its actual use, as indicated by surveys, testimony or other evidence. The Board might also take account of its current or potential rate of adoption in the market." Copyright Board of Canada, *Private Copying III*, *supra* note 36 at p. 35.

53. This objection is adapted from Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15, at pp. 38–49, whose point turns on a requirement that digital equipment and media be "primarily used" for private copying.

54. *BMG (FCA), supra* note 8 at para. 49.

55. *Copyright Act, supra* note 12 at s. 80(2).

occur without the need to prove that any person actually viewed or heard the work being transmitted, so that a digital download is a communication.[56]

In response, it is difficult to accept that a communication or performance could take place without the cognition of the meaning embodied in the communication or performance by the receiver or audience. In this respect, a file download bears greater similarity to a distribution of a work than the communication or performance of it.[57] More to the point, though, even if an additional purpose can be attributed to the reproduction, it may be better conceived, in some circumstances, as a purpose of the software that is itself derived from the purpose of its designers rather than from the purpose of the user of the software. In other words, it is possible that a person could download solely for the purpose of private enjoyment, without having the additional purpose of communicating to the public, distributing, or performing in public. On such an account, apart from the person who initially uploaded a musical work into the system from a source outside of the system, the P2P file-sharing software fortuitously allows a user with no interest in sharing to be part of a system that is designed for the purpose of sharing the music that has been downloaded purely for private use.

The next subsection argues that P2P uploading is, in some circumstances, permissible under Canadian copyright law.

2.3. Uploading: Authorization, Distribution, Possession and Making Available

The writings of some academics, such as those of Michael Geist and Daniel Gervais, suggest that the primary difficulty with P2P file sharing is found in the uploading portion of P2P file sharing.[58] This is indeed the case for an initial uploader who "injects" works into the system by copying a file from a source outside of the system. In many such cases, the private copying exemption will not apply because of the limitations contained in section 80(2). In many other cases, however, uploading into one's shared file results merely from the act of downloading a file from the shared space of another on a P2P network. Even if that event, described as an act of private copying, is not an infringement, it could be argued that the same underlying event described as an authorization of a copyright, distribution, possession, or making available, may be an infringement.

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56. "At the end of the transmission, the end user has a musical work in his or her possession that was not there before. The work has necessarily been communicated, irrespective of its point of origin." *Society of Composers, Authors and Music Publishers of Canada v. Canadian Association of Internet Providers*, 2004 SCC 45, <http://scc.lexum.umontreal.ca/en/2004/2004scc45/2004scc45.html>, [2004] 2 S.C.R. 427 [SOCAN (SCC)], at para. 45.

57. Daniel J. Gervais, "Canadian Copyright Law Post-*CCH*," (2004) 18:2 Intellectual Property Journal 131 [Gervais, "Post-*CCH*"].

58. See, for example, Michael Geist, "The State of File Sharing and Canadian Copyright Law," *Toronto Star* (6 June 2005), <http://www.michaelgeist.ca/resc/html_bkup/june62005.html>, where he notes that the complicating factor in Canadian law regarding P2P file sharing is the private copying regime. He states further that "[f]irst, the right applies solely to copying, not to those who 'upload' music on peer-to-peer networks. This objection is certainly valid as neither the Canadian courts nor the Canadian Copyright Board have ever indicated that private copying could be used as a defense against the act of uploading." In Gervais, "Post-CCH," *supra* note 57, the author comments at pp. 149–150 that the task of file sharers "is not limited to the making of a copyright for 'private use'….They have to take at least one additional step to identify the file as available to other P2P users. That, in my opinion, is a *prima facie* infringement. One could argue that [this] uploading is covered by either s. 29 or s. 80, but I remain unconvinced." Central to Gervais' analysis, *ibid.* at pp. 149–154, is that, where sharing involves a simultaneous intent to copy for private use and to distribute, then the private copying exemption does not apply to uploading.

2.3.1. Authorization

Even if the reproduction is covered under the private copying exemption, the question is whether uploading to a shared space authorizes others on the network to reproduce the musical work. Of course, the problem results because section 3(1) of the *Copyright Act* provides that "… 'copyright' in relation to a work, means the sole right to produce or reproduce the work in any material form whatever…to communicate the work to the public by telecommunication …and to *authorize* any such acts."[59]

The Federal Court in *BMG* relied upon the Supreme Court of Canada's judgment in *CCH Canadian Ltd. v. Law Society of Upper Canada* to provide a *prima facie* answer to this issue.[60] In *CCH*, the issue was whether the Law Society of Upper Canada, by permitting the use of a photocopier by patrons in its library, infringed the copyright of legal publishers.[61] The Supreme Court gave an analysis of the meaning of "authorization" in the context of the reproduction of judgments in law reports and held that placing a photocopier in a library does not authorize reproductions. As the Supreme Court noted in *CCH*, "authorize" means to "sanction, approve and countenance."[62] It held that a person does not authorize infringement by authorizing the mere use of equipment.[63] To the contrary, authorization should be presumed to extend only so far as it is lawful.[64]

In *BMG*, von Finckenstein J noted the decision of the Supreme Court in *CCH* and held that "…the preconditions to copying and infringement are set up but the element of authorization is missing."[65] He analogized sharing files via P2P to a photocopier in a library:[66]

> I cannot see a real difference between a library that places a photocopy machine in a room full of copyrighted material and a computer user that places a personal copy on a shared directory linked to a P2P service.

On this reasoning, since authorization is presumed to extend only to lawful acts, even if uploading amounts to an authorization, it is presumed to extend only to the making of a lawful reproduction, such as a private copy of an audio recording

59. *Copyright Act, supra* note 12, s. 3(1) (emphasis added).

60. *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13, <http://scc.lexum.umontreal.ca/en/2004/2004scc13/2004scc13.html>, [2004] 1 S.C.R. 339 [*CCH*].

61. *Ibid.*

62. *Ibid.* at para. 38.

63. *Ibid.* at para. 38.

64. *Ibid.* at para. 38. This should be contrasted with *University of New South Wales v. Moorhouse*, [1976] R.P.C. 151, (1975) 133 C.L.R. 1 (HCA), <http://www.austlii.edu.au/au/cases/cth/high_ct/133clr1.html>, which was discredited by the Supreme Court of Canada in *CCH*, *supra* note 60, but was later relied upon by the Australian Federal Court of Appeal in *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.*, 2005 FCA 1242, <http://www.austlii.edu.au//cgi-bin/disp.pl/au/cases/cth/federal_ct/2005/1242.rtf> [*Universal Music Australia*].

65. *BMG (FC), supra* note 2 at para. 27.

66. *BMG (FCA), supra* note 8 at para. 27.

covered under section 80, which is not an infringement.[67] This presumption against authorization of infringement might be rebutted where the uploader possesses the "degree of control" necessary to prevent an infringing reproduction from being made and a reasonable person would conclude that uploading itself sanctions infringing downloads.[68] If, as has been maintained, downloading can often fall under the private copying exemption, then a reasonable person would not conclude that infringement is being sanctioned merely by uploading. Furthermore, in some P2P technology, where the making available is not controlled by the downloader at all (and perhaps even where there is a default setting to share), clearly, the presumption is not rebutted.

2.3.2. Distribution

A second potential type of infringement is by distribution. Section 27(2)(b) of the *Copyright Act* prohibits the distribution of copies of works to such an extent as *to affect prejudicially the plaintiffs* that the person knows or should have known infringes copyright.[69] As making private, unauthorized copies is, of course, exempted under the private copying provision where, amongst other preconditions, it is not made for the purpose of distribution, the issue is whether the making of the private copy is also in fact a distribution under section 27(2)(b). In the Federal Court, von Finckenstein J found that, before the mere act of placing a copy of a work on a directory accessible by P2P users could be considered to be a distribution, there must be a *positive* act by the owner of the shared directory, such as sending out the copies or advertising that recordings are available for copying.[70] A positive act was not found to have occurred.[71]

The Federal Court of Appeal, however, questioned whether the *Copyright Act* requires a *positive* act in order for a distribution to occur but did not provide an answer.[72] Arguably, a plain reading requires a positive act. Nevertheless, even if a positive act were not required, a "distribution by omission" would not prejudicially affect a copyright owner's interest if the owner

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67. This result is in stark contrast with an earlier decision of the Copyright Board which held that, with respect to a musical work, "its communication is authorized as soon as the work is made available," *SOCAN (Copyright Bd), supra* note 44 at p. 44. It also contrasts with the result in *Universal Music Australia, supra* note 64, in which the defendant Sharman, distributor of the file sharing program KaZaA, was found to have infringed copyright by authorizing the reproduction of files based upon a broad definition of "authorization." Sharman authorized infringement because it "was in a position, through keyword filtering or gold file flood filtering, to prevent or restrict users' access to identified copyright works; in that sense, Sharman could control users' copyright infringing activities. Sharman did not do so; with the result that the relevant applicant's copyright in each of the Defined Recordings was infringed." *Universal Music Australia, supra* note 64 at para. 414. For additional discussion of "authorization" in the context of P2P software distributors, including when rebuttal of the presumption is possible, see Part 4, below.

68. *CCH, supra* note 60 at para. 38, approving the analysis of *Muzak Corp. v. Composers, Authors and Publishers Association of Canada, Ltd.*, [1953] 2 S.C.R. 182 and *De Tervagne v. Beloeil (Town)* (*TD*), [1993] 3 F.C. 227, <http://reports.fja.gc.ca/en/1993/1993fca0354.html/1993fca0354.html.html>.

69. *Copyright Act, supra* note 12 at s. 27(2)(b).

70. *BMG (FCA), supra* note 8 at para. 28.

71. In Gervais, "Post-*CCH*," *supra* note 57 at p. 150, the author suggests that users of file sharing programs must identify the file as available to other P2P users, whether intentionally or by agreeing in a licence agreement that there is a default setting on the software to share works that have been downloaded, and that this implies that there is a positive act of distribution. However, the fact that a user is aware of a default setting would, at worst, only make the uploading an inadvertent distribution or communication, not a positive (*i.e.* intentional) act of distribution.

72. *BMG (FCA), supra* note 8 at para. 52.

received fair remuneration for the distribution from levy funds, such as a levy imposed on computer hard drives.

2.3.3. Possession

Section 27(2)(d) of the *Copyright Act* provides that the possession of copies for the purpose of doing certain defined acts—such as distribution that affects prejudicially the copyright owner—where the alleged infringers knew or ought to have known that the work infringes copyright, is infringement.[73] On this issue, the Federal Court in *BMG* found that the defendant lacked the requisite knowledge.[74] Indeed, as in the case of distribution, there can be no such knowledge where the downloaded copy falls under the private copying exemption. Even if there were the requisite knowledge, it would not be possible to establish the required prejudice to the copyright owner when the rights holder is fairly remunerated for such losses under the levy provisions of the *Copyright Act*.

2.3.4. Making Available

In *BMG*, von Finckenstein J held that the making available right is not part of the communication right under section 3(1)(f) of the *Copyright Act*, as the Internet Treaties (which contain such a right) have not yet been ratified in Canada.[75] The Federal Court of Appeal did not comment on this reasoning on appeal, leaving the matter unresolved. In *SOCAN*, LeBel J, in minority, suggested that the communication right in section 3(1)(f) of the Copyright Act includes making available, but the majority of the Supreme Court declined to either accept or reject the suggestion.[76] Furthermore, "[w]hether the 'right of making available' is a reaffirmation or an enlargement [of, e.g., the right to communicate to the public by telecommunication], its actual scope remains to be ascertained."[77]

In spite of a lack of a definitive court judgment on the status of the making available right and its scope, it is apparent that making available a work on demand does *not* necessarily constitute a communication for the straightforward reason that a work made available by one might not be taken up by another and, therefore, *not* communicated. Nevertheless, as is suggested by *BMG*, had the making available right been part of the right of communication, P2P sharing would likely be an infringement of that right.[78] This idea sets the stage for introducing the making available right in Bill C-60.

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73. The same applies to imports into Canada under s. 27(2)(e) of the *Copyright Act*.

74. *BMG (FC), supra* note 2 at para. 29.

75. *BMG (FC), ibid.* at para. 28. This argument was also made in *SOCAN* by the Copyright Board of Canada, *SOCAN (Copyright Bd), supra* note 44 at pp. 34–36.

76. The majority of the Supreme Court of Canada rejected LeBel J's argument in *SOCAN (SCC), supra* note 56, at para. 47 as irrelevant since the issue in *SOCAN* was whether internet service providers communicate works to the public by providing the means necessary for communication, while the making available right pertains to copyright owners, not internet service providers.

77. Jane C. Ginsburg, "The (New?) Right of Making Available to the Public" in David Vaver & Lionel Bently, eds., *Intellectual Property in the New Millennium, Essays in Honour of William R. Cornish* (Cambridge : Cambridge University Press, 2004) 234–47, <http://ssrn.com/abstract=602623> at p. 3 [Ginsburg, "The (New?) Right of Making Available"].

78. *BMG (FCA), supra* note 8. Interestingly, in *Napster, supra* note 42, the Court found that listing a file on the Napster system "made [it available] to millions of other individuals," finding that it violated the copyright owner's exclusive right to distribution.

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3. BILL C-60 PROHIBITS UNAUTHORIZED SHARING

3.1. Expanding Copyrights

GOLDSTEIN ARTICULATES WELL the expansionary approach to dealing with musical works and their communication embodied in Bill C-60 when he says:[79]

> The digital future is the next, and perhaps ultimate, phase in copyright's long trajectory…. The main challenge will be to keep this trajectory clear of the buffets of protectionism and true to copyright's historic logic that the best prescription for connecting authors to their audiences is to extend rights into every corner where consumers derive value from literary and artistic works.

On this traditional rights-expanding approach, both the kinds of copyrights and the scope of protected subject matter are expanded through legislative amendment or judicial interpretation in order to deal with the development of new technologies that exploit copyright's subject matter.[80] The need for the expansion of rights arises because the exclusive rights in copyright are defined in terms of particular uses of certain kinds of subject matter, such as the reproduction of musical works, the communication of musical works to the public by telecommunications, and so on, rather than broader, general uses that cause economic harm.[81]

The expansion of copyright as a response to internet communications began at the international level.[82] The drafters of the Internet Treaties sought to address exploitations by means of new information technologies, in part, by introducing a new "umbrella right"[83] of the "making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them."[84] Once in effect in national legislation, this new right ensures that only a copyright owner or authorized person can make available works and other subject matter on the internet, including via P2P systems.

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79. Paul Goldstein, *Copyright's Highway: From Gutenberg to the Celestial Jukebox 216*, rev. ed. (Stanford: Stanford University Press, 2003) at p. 216, cited in Tussey, "Music at the Edge of Chaos," *supra* note 17 at p. 152.

80. See Daniel J. Gervais, "The Price of Social Norms: Towards a Licensing Regime for File-Sharing," (2005) 12:1 Journal of Intellectual Property Law 39, <http://ssrn.com/abstract=525083> [Gervais, "Price of Social Norms"] and Lawrence Lessig, *Free Culture* (New York: Penguin Press, 2005), <http://www.free-culture.cc/> [Lessig, *Free Culture*] for historical overview in the context of P2P file sharing.

81. See Daniel J. Gervais, "Towards A New Core International Copyright Norm: The Reverse Three-Step Test," (2005) 9:1 Marquette Intellectual Property Law Review 1, <http://ssrn.com/abstract=499924> [Gervais, "Reverse Three-Step Test"].

82. See generally Fiscor, *Copyright Law and Internet, supra* note 11 at paras. 1.45–1.47.

83. *Ibid.*

84. WCT, *supra* note 7.

3.2. Prohibiting P2P File Sharing

On June 20, 2005, the Canadian government accepted "copyright's historic logic" and introduced Bill C-60, *An Act to Amend the Copyright Act*.[85] The general purpose of the Bill is to implement the Internet Treaties but also, more specifically, to target P2P file sharing.[86] While the Bill covers a number of topics other than P2P file sharing, in order to combat P2P file sharing, the Canadian Government has proposed a three-pronged approach. First, it creates a making available right as part of the existing communication right. Second, the Bill prohibits certain dealing with private copies made under the private copying exemption, such as knowingly distributing private copies or communicating private copies to the public by telecommunication. Third, the Bill introduces legal protection of technological measures and of rights management information by prohibiting the circumvention of such measures and the alteration or removal of rights management information.

In order to implement the first prong of the strategy, Bill C-60 replaces the current section 2.4(1)(a) of the *Copyright Act* concerning communications to the public by telecommunication with the following section (a):

> [2.4 (1) For the purposes of communication to the public by telecommunication,…]
>
> (a) a person who makes a work or other subject-matter available to the public in a way that allows members of the public to access it through tele-communication from a place and at a time individually chosen by them communicates it to the public by telecommunication;[87]

The Bill thereby incorporates by definition the concept of making available of works and other subject matter as part of the communication right under section 3(1)(f) of the *Copyright Act*.[88] This addition effectively prohibits the unauthorized making available by uploading to a shared network space, as it becomes an instance of an unauthorized communication to the public by telecommunications. The Bill also provides similar making available rights respecting performers' performances and sound recordings.[89]

Since the Internet Treaties were not designed explicitly to apply to P2P file sharing but rather to so-called "on demand" services (which allow members of the public access through telecommunication from a place and at a time individually chosen by them), it is difficult to determine the effect of the creation

85. Bill C-60, *supra* note 3.

86. Government of Canada, Canadian Heritage, "Frequently Asked Questions," <http://www.pch.gc.ca/progs/ac-ca/progs/pda-cpb/reform/faq_e.cfm> [Canadian Heritage, "FAQ"].

87. Bill C-60, *supra* note 3 at s. 2.

88. *Copyright Act, supra* note 12.

89. Bill C-60, *supra* note 3 at s. 8(1).

of a making available right on various P2P sharing technologies.[90] Since it is not necessarily the case that all P2P sharing technologies make available works on demand,[91] the second prong of the strategy can be interpreted as an explicit attempt to ensure that private copies cannot be uploaded regardless of whether it is a violation of the making available right by making it a form of secondary infringement. The Heritage Ministry Frequently Asked Questions web page introduces this new prohibition as follows:[92]

> It will also be made clear that private copies of sound recordings cannot be uploaded or further distributed. Individuals may therefore be subject to legal action for their unauthorized file-sharing activities, but it will be up to rights holders to exercise their new rights.

Section 15 of Bill C-60 implements this idea by adding section 2.1 to section 27 (secondary infringement) of the *Copyright Act*:[93]

> 2.1 It is an infringement of copyright in a work, a performer's performance or a sound recording for a person knowingly to do any of the following acts with respect to a reproduction of the work, performance or sound recording that the person knows or ought to know was made as a copy for private use under subsection 80(1):
>
> (a) to sell it or rent it out or, by way of trade, expose or offer it for sale or rental;
> (b) to distribute it, whether or not for the purpose of trade;
> (c) to communicate it by telecommunication to the public or to one or more persons in particular; or
> (d) to perform it, or cause it to be performed, in public.

This provision also appears to be designed to deal with the problem that secondary infringement cannot be shown in the case of uploading because infringement presumes that the possessed or distributed copy is an infringing copy, which is not the case with private copies that are covered under the private copying regime. Further, it eliminates the need for prejudice to the copyright owner required for secondary infringement by distribution or possession. Nevertheless, this provision retains the problem of finding infringement where

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90. For a discussion of some of these problems in the Canadian context see David Fewer, "Making Available: Existential Inquiries" in Geist, *In the Public Interest*, *supra* note 19, 267–284, <http://www.irwinlaw.com/PublicInterest/Two_06_Fewer.pdf>. Ginsburg discusses examples relating to downloading of music, "The (New?) Right of Making Available," *supra* note 77. From the point of view of the purpose of the legislation, the main question is whether uploading a musical work to a shared folder in a P2P network amounts to making available, as defined by the new s. 2.4(1)(a). The ambiguities of the treaty language, well known by expositors of the Internet Treaties, were, apparently purposely, carried forward into the domestic legislation in order to ensure consistency with the Internet Treaties. The cost of consistency is the lack of certainty in domestic legislation.

91. Arguably, some P2P technology does not fall under this category since the musical works which are available on a network such as KaZaA vary according to whether a particular computer and its files are connected to the KaZaA network at that time.

92. Canadian Heritage, "FAQ," *supra* note 86.

93. Bill C-60, *supra* note 3 at s. 15.

the acts under section 27(2.1) are automatically done by the software and hence, are not positive acts of the downloader.

As the third, crucial, prong of the strategy, the Bill introduces the legal protection of technological measures and of rights management information by prohibiting the circumvention of such measures and the alteration or removal of rights management information. According to section 1(2) of the Bill:[94]

> "technological measure" means any technology, device or component that, in the ordinary course of its operation, restricts the doing—in respect of a material form of a work, a performer's performance fixed in a sound recording or a sound recording—of any act that is mentioned in section 3, 15 or 18 or that could constitute an infringement of any applicable moral rights;

The point of forbidding the circumvention of technological measures and the alteration and removal of rights management information is to enable copyright holders to effectively exercise physical control over the use of their works using technology, which cannot be done merely by creating a new making available right in legislation. In the Government's words:

> The bill will provide creators and other rights holders with additional tools to seek legal recourse against individuals engaged in peer-to-peer file-sharing or unauthorized posting of copyright material. Specifically, rights holders will have the right to control the making available of their copyright material on the Internet.[95]

In order to implement this idea, section 27 of Bill C-60 creates a number of new provisions concerning technological measures and rights management information. The central provision is a new section 34.02 of the *Copyright Act*, which reads as follows:

> 34.02 (1) An owner of copyright in a work, a performer's performance fixed in a sound recording or a sound recording and a holder of moral rights in respect of a work or such a performer's performance are, subject to this Act, entitled to all remedies by way of injunction, damages, accounts, delivery up and otherwise that are or may be conferred by law for the infringement of a right against a person who, without the consent of the copyright owner or moral rights holder, circumvents, removes or in any way renders ineffective a technological measure protecting any material form of the work, the performer's performance or the sound recording for the purpose of an act

94. As defined in Bill C-60, *supra* note 3. In order for technological measures to operate, rights management information is used to identify the work and its licensing provisions. Under s. 1(2), "rights management information" means information that (a) is attached to or embodied in a material form of a work, a performer's performance fixed in a sound recording or a sound recording, or appears in connection with its communication to the public by telecommunication, and (b) identifies or permits the identification of the work or its author, the performance or its performer, the sound recording or its maker or any of them, or concerns the terms or conditions of its use.

95. Canadian Heritage, "FAQ," *supra* note 86 (emphasis added).

> that is an infringement of the copyright in it or the moral rights in respect of it or *for the purpose of making a copy referred to in subsection 80*(1).[96]

Interestingly, Bill C-60 attempts to dodge the serious criticism of the US *Digital Millennium Copyright Act* in that it prevents the circumvention of measures that prevent fair use and other non-infringing uses.[97] The Canadian Bill does this by permitting circumvention for *non-infringing* uses only:

> The protections for TMs contained in this bill will apply consistently with the application of copyright. That is, the circumvention of a TM applied to copyrighted material will only be illegal if it is carried out with the objective of infringing copyright.[98]

This principle of consistency with copyright law is overstated, however, on the crucial issue of private copying. As noted in the final sentence of section 34.02(1), there is one important exception to the permissibility of circumvention for non-infringing uses:

> Legitimate access, as authorized by the Copyright Act, will not be altered…. *Circumvention for the purposes of making private copies of sound recordings will not be permitted, however.*[99]

Thus, the Bill explicitly retains the prohibition against circumvention of technological measures used to prevent reproduction of private copies of sound recordings, *even if the making of private copies is not an infringement*. Consequently, in the end, Bill C-60 does not escape the general criticism of the *Digital Millennium Copyright Act*, because it prevents circumvention of technological measures for private copying. Given the presence of an effective technological measure against private copying, Bill C-60 eliminates the users' right to privately copy.

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96. Bill C-60, *supra* note 3 at s. 27 (emphasis added). Sections 34.02(2) and (3) contain additional provisions that broaden the legal protection provided in s. 34.02(1), and s. 34.01 deals with the knowing removal of rights management information. See also Michael Geist, "Anti-circumvention Legislation and Competition Policy, Defining a Canadian Way?" in Geist, *In the Public Interest, supra* note 19, 211–250, <http://www.irwinlaw.com/PublicInterest/Two_04_Geist.pdf>.

97. Fred von Lohmann says point blank that "[c]ountries that have not yet embarked down this path should refrain from doing so." See Fred von Lohmann, "Measuring the Digital Millennium Copyright Act Against the Darknet: Implications for the Regulation of Technological Protection Measures," (2004) 24:3 Loyola of Los Angeles Entertainment Law Review 635, <http://www.eff.org/IP/DMCA/DMCA_against_the_darknet.pdf> at p. 649. For additional criticisms of technological protection measures from a Canadian perspective, see Ian R. Kerr & Jane Bailey, "The Implications of Digital Rights Management for Privacy and Freedom of Expression," (2004) 2:2 Journal of Information, Communication & Ethics in Society 87, <http://ssrn.com/abstract=705041> [Kerr & Bailey, "Implications"]. Indeed, some European States have taken the view that digital rights management cannot by itself ensure an appropriate balance between the interests of all stakeholders involved, including access to private copying and justice and equity between all stakeholders. See Jörg Reinbothe, "Private Copying, Levies and DRMs against the Background of the EU Copyright Framework," DRM Levies Conference (8 September 2003), <http://www.aepo.org/usr/docs%20drms/speech%20Reinbothe-private%20copying-levies%20and%20DRM.pdf>.

98. Canadian Heritage, "FAQ," *supra* note 86.

99. *Ibid.*

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4. POTENTIAL PROBLEMS WITH EXPANDING COPYRIGHT

4.1. Implications of Copyright Expansion for Users' Rights

THE POTENTIAL CONFLICTS between users' rights and owners' rights is a central reason why levies may be preferable to expanding copyright to apply in a digital environment. The complaint that expanding copyright may upset the existing copyright balance between owners' rights and users' rights is commonplace.[100] This balancing philosophy was described by Binnie J of the Supreme Court of Canada as follows: "[t]he *Copyright Act* is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator...."[101]

A limitation of the balancing metaphor is that it does not assist in determining the correct balance. In the present case, P2P technologies are being designed to exercise constitutional rights of freedom of expression and privacy.[102] So, the issue becomes not just one of balance under the *Copyright Act*, but one of whether limitations to those constitutionally protected rights (a) conflict with *Charter* rights and if so (b) are justifiable under section 1 of the *Charter*. This has the potential of providing additional criteria to assist in determining the correct balance of owners' and users' rights in copyright. It has the potential, in fact, of requiring much broader user rights than currently exist in copyright law.

Indeed, the private copying exemption itself originated as a response to a decision of the German Supreme Court in 1964, which ruled that even though home copying does infringe the right of reproduction, rights owners cannot prohibit private copying, because the enforcement of a right to prohibit such copying would necessarily violate the right to the inviolability of the home.[103] This decision reflects the fact that, historically, copyright was not intended to apply to

100. See, for example, "CIPPIC/PIAC Response to the May 2004 Standing Committee on Canadian Heritage Interim Report on Copyright Reform" (21 June 2004), <http://www.cippic.ca/en/news/documents/Response_to_Bulte_Report_FINAL.pdf>; and Teresa Scassa, "Interests in the Balance" in Geist, *In the Public Interest, supra* note 19, 41–65, <http://www.irwinlaw.com/PublicInterest/One_02_Scassa.pdf> at p. 65, saying that "[p]ast exercises in legislative drafting have left us with legislation that offers, at least in traditional media, robust protection to owners, and fairly narrowly constrained exceptions for free uses of copyright protected works."

101. *Théberge*, *supra* note 13 at para. 30. Unfortunately, the interests to be balanced are not very clearly delineated.

102. Ian Clarke *et al.*, "Protecting Free Expression Online with Freenet," (2002) 6:1 IEEE Internet Computing 40, <http://citeseer.ist.psu.edu/cache/papers/cs/23126/http:zSzzSzwww.doc.ic.ac.ukzSz~twh1zSzlongitudezSzperszSzieee-revised.pdf/clarke02protecting.pdf> [Clarke et al., "Protecting Free Expression"].

103. *BGH*, 25 May 1964, GRUR 1965/2 at p. 104 (Personalausweise), cited in Kamiel J. Koelman, "The Levitation of Copyright: An Economic View of Digital Home Copying, Levies and DRM," (2005) 16:4 Entertainment Law Review 75, draft version, <http://cli.vu/pubdirectory/221/manuscript.pdf>.

the consumption or reception of information by individuals in their private sphere.[104]

The potential conflict between users' rights and owners' rights is most readily apparent when one considers so-called "third generation" P2P systems.[105] Freenet, for instance, allows for untraceable routing and confidential storage of information.[106] As the founders of Freenet state, Freenet "is a distributed information storage system designed to address information privacy and survivability concerns."[107] Privacy in Freenet is maintained using a variation of Chaum's "mix-net" scheme for anonymous communication.[108] On this scheme, rather than sending messages directly from sender to recipient, messages travel through intermediate nodes, and each node-to-node communication is individually encrypted, until the message finally reaches its recipient.[109] In addition, files in the data store are not managed by the user and are encrypted to ensure that the user can plausibly deny knowledge that any particular file is located in that user's hard drive.[110]

The potential conflict of copyright with the exercise of rights of privacy and expression using Freenet is not inadvertent. Rather, it is designed into the P2P system. As Ian Clarke, the lead designer of Freenet, put it in respect of free speech:[111]

> The core problem with copyright is that enforcement of it requires monitoring of communications, and you cannot be guaranteed free speech if someone is monitoring everything you say…. You cannot guarantee freedom of speech and enforce copyright law. It is for this reason that Freenet, a system designed to protect Freedom of Speech, must prevent enforcement of copyright.

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104. Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15. See also Daniel J. Gervais, "Use of Copyright Content on the Internet: Considerations on Excludability and Collective Licensing" in Geist, *In the Public Interest*, *supra* note 19, 517–549, <http://www.irwinlaw.com/PublicInterest/Three_04_Gervais.pdf> [Gervais, "Use of Copyright Content"]. Ginsburg writes, "Copyright owners have traditionally avoided targeting end users of copyrighted works. This is in part because pursuing the ultimate consumer is costly and unpopular. But the primary reason has been because end users did not copy works of authorship—or if they did copy, the reproduction was insignificant and rarely the subject of widespread further dissemination" in Jane Ginsburg, "Putting Cars On The 'Information Superhighway': Authors, Exploiters, and Copyright in Cyberspace," (1995) 95:6 Columbia Law Review 1466 at p. 1488, cited in Tim Wu, "When Code Isn't Law," (2003) 89:4 Virginia Law Review at 134, <http://ssrn.com/abstract=413201>.

105. For a list of anonymous P2P systems, see <http://www.anonymous-p2p.org/news.html>.

106. Clarke *et al.*, "Protecting Free Expression," *supra* note 102. Freenet is more properly considered a file storage system rather than a sharing system. Users contribute to the network by providing bandwidth and a portion of their hard drive (called the "data store") for storing files. Unlike peer-to-peer file sharing networks, Freenet does not let the user control what is stored in the data store. Instead, files are kept or deleted depending on how popular they are, with the least popular being discarded to make way for newer or more popular content.

107. Clarke *et al.*, "Protecting Free Expression," *supra* note 102.

108. See David Chaum, "Untraceable Electronic Mail, Return Addresses, and Digital Pseudonyms" (February 1981), <http://world.std.com/~franl/crypto/chaum-acm-1981.html>, cited in Clarke et al., "Protecting Free Expression," *supra* note 102.

109. Clarke *et al.*, "Protecting Free Expression," *supra* note 102.

110. Ian Clarke *et al.*, "Freenet: A Distributed Anonymous Information Storage and Retrieval System," <http://freenet.sourceforge.net/papers/freenet.pdf>. Freenet is a non-discretionary file storage system and contrasts with discretionary models, such as KaZaA, where the individual nodes decide what is stored at that node. See George Danezis & Ross Anderson, "The Economics of Censorship Resistance," <http://homes.esat.kuleuven.be/~gdanezis//redblue.pdf>.

111. Ian Clarke, "The Philosophy Behind Freenet," <http://freenet.sourceforge.net/index.php?page=philosophy>.

The potential conflicts with privacy and free expression do not only result from the deliberate design of P2P systems. They also result from the design of the technological protection measures that control the use of copyright's subject matter. Such measures have been extensively critiqued as interfering with fair dealing, free expression, and privacy.[112] At root, the enforcement of copyright threatens extensive intrusion into the private life of users as well as interference with their rights to expression.

The conflict between privacy and copyright has manifested itself in several recent high-profile cases. In the US, the Recording Industry Association of America ("RIAA") attempted to use the subpoena provisions of the *Digital Millennium Copyright Act* ("DMCA") to compel ISPs to disclose the names of P2P file-sharing users whom the RIAA had reason to believe were infringing copyright.[113] In the US case, the Court of Appeal found that the DMCA provision was not broad enough to apply to P2P file sharing, nor was it drafted broadly enough to subpoena an ISP acting as a conduit for P2P file sharing.[114]

In Canada, the Canadian Recording Industry Association ("CRIA") sought disclosure of subscriber names of certain persons running file-sharing programs, such as KaZaA and iMesh, from ISPs on the basis of both civil rules of procedure and under the common law bill of discovery.[115] In contrast to the US decision, in *BMG*, Canada's Federal Court of Appeal held that in cases where plaintiffs show that they have a *bona fide* claim that unknown persons are infringing their copyright, they have a right to have the identity revealed for the purpose of bringing action.[116]

The Federal Court of Appeal based its reasoning on the notion that copyright trumps privacy. It said:[117]

> Modern technology such as the Internet has provided extraordinary benefits for society, which include faster and more efficient means of communication to wider audiences. This technology must not be allowed to obliterate those personal property rights which society has deemed important. Although privacy concerns must also be considered, it seems to me that they must yield to public concerns for the protection of intellectual property rights in situations where infringement threatens to erode those rights.

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112. See Kerr & Bailey, "Implications," *supra* note 97 and Greg Hagen, "Circumventing Privacy: When Technological Measures Become Spyware," blog posting to blog*on*nymity (6 December 2005 at 11:59 pm), <http://www.anonequity.org/weblog/archives/2005/12/circumventing_p_1.php>.

113. See *Limitations on liability relating to material online*, 17 U.S.C. s. 512(h)(1), <http://www.access.gpo.gov/uscode/title17/chapter1_.html> (copyright owner may "request the clerk of any United States district court to issue a subpoena to [an ISP] for identification of an alleged infringer").

114. *Recording Industry Association of America, Inc. v. Verizon Internet Services*, 257 F. Supp. 2d 244 (D DC 2003), <http://pacer.cadc.uscourts.gov/docs/common/opinions/200312/03-7015a.pdf>.

115. For a discussion, see *BMG (FCA), supra* note 8.

116. *BMG (FCA), supra* note 8 at para. 43. The Court noted that:

> If there is a lengthy delay between the time the request for the identities is made by the plaintiffs and the time the plaintiffs collect their information, there is a risk that the information as to identity may be inaccurate. Apparently this is because an IP address may not be associated with the same individual for long periods of time. Therefore it is possible that the privacy rights of innocent persons would be infringed and legal proceedings against such persons would be without justification. Thus the greatest care should be taken to avoid delay between the investigation and the request for information. Failure to take such care might well justify a court in refusing to make a disclosure order.

117. *BMG (FCA), supra* note 8 at para. 4.

Yet the approach of the Federal Court of Appeal suffers from the defect that it effectively ignores the fact that both privacy and freedom of expression are *Charter* rights, while copyrights are not.[118] Section 8 *Charter* rights provide against unreasonable search and seizure, which have been interpreted to include privacy rights.[119] Section 2(b) of the *Charter* provides that everyone has freedom of thought, belief, opinion and expression, including freedom of the press and *other media of communication*. The protection under section 2(b) has been interpreted broadly and protects listeners as well as speakers.[120] Potentially, therefore, the *Charter* alters the copyright balance between owners and users when the users' rights are constitutionally protected.

It could be argued that the Federal Court does not ignore *Charter* rights when copyright conflicts with rights of expression and privacy because, first of all, *Charter* rights do not cover actions which infringe copyright and second, as some previous jurisprudence suggests, a *prima facie* infringement of *Charter* rights by copyright may be justified under section 1 of the *Charter*. In *Michelin*, where union members expressed themselves by creating and distributing a picture of Bibendum crushing a worker underfoot, the Federal Court held that free expression did not cover expression depriving someone of its copyrighted work and, furthermore, any interference with free expression imposed by copyright law was justified under section 1.[121]

Setting aside criticism of the Federal Court's excessively narrow conception of free expression for another occasion, the approach in *Michelin* also faces the difficulty that in order to be justified under section 1 of the *Charter*, the infringed rights must be minimally impaired by the provisions contained in the *Copyright Act*.[122] Minimal impairment requires that "the law must be carefully tailored so that rights are impaired no more than necessary"[123] and while a law will not be struck down merely because there is a conceivable alternative that is significantly less intrusive than the law in question, "if the government fails to explain why a significantly less intrusive and equally effective measure was not chosen, the law may fail."[124]

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118. In defence, many defenders of copyright are now arguing that copyright is itself a human right. This claim cannot be evaluated in this paper. It suffices to point out, however, that the human rights documents, such as the *Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights* do not require copyright as a means to protect the material interests of creators. See Committee on Economic, Social and Cultural Rights, Thirty-fifth session Geneva (7–25 November 2005), General Comment No. 17 (2005), "The right of everyone to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he or she is the author" (art. 15, para. 1(c), of the Covenant), <http://www.unhchr.ch/tbs/doc.nsf/(Symbol)/E.C.12.GC.17.En?OpenDocument>.

119. See *Hunter v. Southam*, [1984] 2 S.C.R. 145, <http://scc.lexum.umontreal.ca/en/1984/1984rcs2-145/1984rcs2-145.html>, where Dickson J held at para. 22 that s. 8 of the Charter guarantees a "broad and general right" to privacy.

120. *Edmonton Journal v. Alberta (Attorney General)*, [1989] 2 S.C.R. 1326, <http://scc.lexum.umontreal.ca/en/1989/1989rcs2-1326/1989rcs2-1326.html> at para. 33.

121. *Compagnie Générale des Établissements Michelin-Michelin & Cie v. National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)* (TD), [1997] 2 F.C. 306, <http://reports.fja.gc.ca/eng/1996/1997fc19917.html/1997fc19917.html.html> [*Michelin*]. *Michelin* also held that there was no conflict in the first place as the right to free expression does not apply when it deprives someone of their property.

122. *R. v. Oakes*, [1986] 1 S.C.R. 103, 1986, <http://scc.lexum.umontreal.ca/en/1986/1986rcs1-103/1986rcs1-103.html>.

123. *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1995] 3 S.C.R. 199, <http://scc.lexum.umontreal.ca/en/1995/1995rcs3-199/1995rcs3-199.html> at para. 160.

In *Michelin*, it was claimed that "[c]opyright also minimally impairs the defendants' right of free expression…" because the "well-tailored structure of the *Copyright Act* with its list of exceptions" created by Parliament should be given deference.[125] Given the doctrine of minimal impairment, however, it would be wrong for courts to simply defer to Parliament on the scope of copyright. If a levy system were a lesser intrusion into privacy and free expression rights than copyright, then copyright would not be a justifiable limitation on the rights and freedoms guaranteed in the *Charter* without a reasonable explanation as to why a levy system was not implemented. As the designs of current P2P systems increasingly come into conflict with the privacy and expression interests of users, it will be increasingly difficult to give such an explanation.[126]

4.2. The Costs of Expanding Copyright

A second reason that a levy system might better meet the goals of copyright rather than expanding copyright legislation is that the design of P2P communications technology increases the costs to recording companies, users, consumers, and society of enforcing copyright. Traditionally, copyright enforcement relied upon the use of copyright law to directly regulate intermediaries (such as publishers and recording companies).[127] Intermediaries were able to regulate users and listeners directly because users and listeners had little ability to exploit copyright on a scale that harmed copyright owners. P2P eliminates traditional intermediaries,[128] forcing recording companies to use copyright law to prevent unauthorized file sharing by launching a multiplicity of law suits against individuals[129] and companies,[130] increasing the cost to recording companies, consumers, users, and society.[131]

In order to reduce enforcement costs, the recording industry has argued that file-sharing companies should be liable for the copyright infringement of their customers, either vicariously or as contributing to the direct infringement. For example, where there is control of a sharing network, it is arguable in the US that there is contributory infringement when the file-sharing company could have prevented infringement on its network, but chose not to do so.[132] While neither

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124. *Ibid.* at para. 160.

125. *Michelin, supra* note 121 at para. 111.

126. For a similar conclusion in the UK context, see Robert Denay, "Copyright v. Free Expression: The Case of Peer-to-Peer File Sharing of Music in the United Kingdom," (2005) 10 International Journal of Communications Law & Policy, <http://www.ijclp.org/10_2005/pdf/ijclp_02_10_2005.pdf>.

127. See Gervais, "Use of Copyright Content," *supra* note 104.

128. Graham Henderson, President of the Canadian Recording Industry has said that there is "nothing wrong with disintermediation," but, at the same time, he oddly denounces it as a "sort of anarcho-syndicalist's paradise": Graham Henderson, "Band of Brothers" (keynote address presented at the Canadian Music Week, March 2005), The Canadian Recording Industry Association <http://www.cria.ca/news/030305_n.php>.

129. The total number of lawsuits filed against individuals totals approximately 17,000 as of early 2006. See Jim Welte, "RIAA files 750 P2P lawsuits" (1 February 2006), <http://www.mp3.com/stories/3103.html>.

130. Several companies distributing P2P software have been sued. These include companies that distributed software named KaZaA, WinMX, Gnutella, eDonkey, Direct Connect, BitTorrent, Bearshare, Warez, Soulseek Grokster, Weblisten, Kuro, Soribada, Allofmp3 and EZpeer. See IFPI, "Digital Music Report," <http://www.ifpi.org/content/library/digital-music-report-2006.pdf> [IFPI, "Digital Music Report"].

131. See also Netanel, "Noncommercial Use Levy," *supra* note 26 at p. 5: "When applied to P2P file sharing, proprietary copyright imposes inordinate enforcement and consumer welfare costs."

132. *Napster, supra* note 42. Control in the form of "ability to supervise" is also required for a finding of vicarious infringement. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. (2005),

a Canadian doctrine of contributory nor vicarious infringement has been developed, it could be argued that, in Canada, a file-sharing company has authorized infringement "if it is shown that a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement…."[133]

Yet, contributory infringement and authorization will be difficult to prove since second- and third-generation P2P systems do not have any centralized control, making it difficult to argue that the file-sharing companies could have prevented infringement without stopping distribution of their software altogether. While Napster's (first generation) centralized file-searching protocol required peers to search an index of the file names for the corresponding file locations kept on a central server prior to downloading,[134] second-generation or higher P2P technology, such as Fastrack,[135] used by KaZaA and Grokster, distributes the index of music files over several relatively more powerful computers linked by a broadband connection called "supernodes," which together hold the entire index of files.[136] When searching, these supernodes are contacted by a peer that requests information about where a musical work can be located, and they reply with the file locations.[137] The peer can then proceed to connect with another peer that holds the file and download it.[138]

In response to this problem of a lack of control in third-generation P2P systems, one could argue that, if the purpose of a file-sharing company were to permit copyright infringement, then control should not be necessary so long as the software is designed with the *purpose* of facilitating or authorizing infringement. Under Canadian law, for instance, one could maintain that distributing such software is an authorization to infringe as it "sanctions, approves and countenances"[139] infringing uses of the software. However, this approach ignores the software's dual purpose nature: it can be used for both infringing and non-infringing purposes. It thus creates the well-known problem of how to show that the distributor of technology contributes to infringement or authorizes infringement of others even though there are substantial non-infringing uses of the technology.

In *Society of Composers, Authors and Music Publishers of Canada v. Canadian Association of Internet Providers*, the Supreme Court of Canada considered whether an internet service provider authorizes infringement by

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<http://www.supremecourtus.gov/opinions/04pdf/04-480.pdf> [*Grokster*].

133. *CCH, supra* note 60 at para. 38.

134. See the discussion of the architecture of Napster in *Napster, supra* note 42.

135. For a discussion of the operation of Fastrack and its clients KaZaA and Grokster, see *Universal Music Australia, supra* note 64, and *Grokster, supra* note 132, respectively.

136. Nevertheless, the non-existence of a central server was a subject of some debate in *Universal Music Australia* where the Court concluded that there was no KaZaA central server. See *Universal Music Australia, supra* note 64 at s. III; "The KaZaA System," <http://www.worldlii.org/cgi-worldlii/disp.pl/au/cases/cth/federal%5fct/2005/1242.html?query=%7e+KaZaA>.

137. *Ibid.*

138. *Grokster, supra* note 132. While it is difficult to find a statement by KaZaA founders Niklas Zennström and Janus Friis that KaZaA was designed for "survivability," the P2P design does in fact accomplish this feature where Napster did not. According to Zennström, "[i]t was more a technical proof of concept that it was possible to transfer files between two end users rather than going through servers." "How Skype and KaZaA Changed the Net" *BBC News* (17 June 2005), <http://news.bbc.co.uk/2/hi/programmes/click_online/4102692.stm>.

hosting infringing material.[140] The Supreme Court held that "[t]he knowledge that someone *might* be using neutral technology to violate copyright (as with the photocopier in the *CCH* case) is not necessarily sufficient to constitute authorization, which requires a demonstration that the defendant did '(g)ive approval to; sanction, permit; favour, encourage'…the infringing conduct." [141] The Court, however, left the door open to a potential finding of infringement where the ISP has notice of infringing content being posted, and has sufficient control over the infringer that it could, but does not, take down the infringing content.[142]

Until recently in the US, it was thought that the door was closed to a finding of infringement where there were significant non-infringing uses of technology. The classic example of this occurred in *Sony Corp. v. Universal City Studios, Inc.*, where the manufacturer and the retailer of a video cassette recorder were sued for contributory infringement where there was evidence that such machines could be, and were, used to infringe the plaintiffs' copyrighted television shows.[143] In that case, the Supreme Court of the United States held that Sony was not liable for contributory infringement where the defendants made and sold equipment capable of both infringing and substantial non-infringing uses, such as recording a television show for viewing at another time ("time shifting").[144]

Sony was widely interpreted, therefore, as providing a form of safe-harbour for the development and use of any technologies with substantial non-infringing uses. For example: [145]

> The safe harbor rule in *Sony* for technologies with substantial non-infringing uses means that in order for a developer to avoid secondary liability, the technology at issue must already have, or there exists a reasonable possibility that it will have, non-infringing uses, and as in patent law, such uses should be deemed insubstantial if they are farfetched, illusory, impractical, or merely experimental.

Based upon this understanding, in *Grokster*, the Ninth Circuit had read *Sony*'s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it.[146] This differs from the less strict rule in *SOCAN*, which held that infringement could be found in certain cases notwithstanding dual use of the technology.[147]

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139. Applying the test for authorization from *CCH*, *supra* note 60 at para. 38.
140. *SOCAN (SCC), supra* note 56.
141. *Ibid.* at para. 127.
142. *Ibid.* Even this door could be closed in cases where P2P technology is designed in such a way that users do not know whether works are being made available from their computer hard drive, as in Freenet and other non-discretionary systems.
143. *Sony Corp. v. Universal City Studios, Inc.*, 464 US 417 (1984), <http://supreme.justia.com/us/464/417/case.html> at pp. 449–450.
144. *Ibid.*
145. Brief of Amici Curiae, Sixty Intellectual Property and Technology Law Professors and the United States Public Policy Committee of the Association for Computing Machinery in Support of the Respondents, <http://www.eff.org/IP/P2P/MGM_v_Grokster/20050301_tech_law_profs_usacm.pdf>at p. 2.
146. *Grokster, supra* note 132 at p. 16.

On appeal of *Grokster*, however, the US Supreme Court overturned the Ninth Circuit decision and corrected the lower Court's view of *Sony*.[146] It held that "… one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."[149] In Canada, the courts have not yet considered whether this "inducement" test rebuts the presumption that authorization is presumed not to extend beyond lawful acts.

An inducement test for infringement will make copyright litigation much more costly due to the need for more in-depth discovery by plaintiffs in order to discover the intent of the defendants.[150] Indeed, where such a test is applicable, file-sharing companies will likely endeavour to create and distribute software without, or at least without giving evidence of, inducing customers to infringe copyright.[151] Notwithstanding the finding of infringement against Grokster on an inducement standard, Sam Yagan, President and developer of edonkey, another popular P2P file-sharing program, has predicted that "[g]lobal decentralization of the Internet has reached the point where it will be virtually impossible to stop the proliferation of P2P file-sharing technology or prevent its continuing evolution to higher levels of efficiency."[152] In his view, Grokster users will migrate to more secure P2P and "these users will be harder than ever to locate and it will be harder than ever to prove what files these individuals are sharing—making infringement litigation virtually impossible."[153] Others concur.[154] If this view is correct, enforcing copyright against third-generation sharing networks will not only be costly, but ineffective—notwithstanding a test for infringement that is favourable to copyright owners.

Empirical research tends to support these predictions. From a technological point of view, "[t]here seem to be no technical impediments to darknet-based peer-to-peer file sharing technologies growing in convenience,

147. *SOCAN (SCC), supra* note 56.

148. *Grokster, supra* note 132.

149. *Grokster, supra* note 132 at p. 19.

150. Christine Pope, "Unfinished Business: Are Today's P2P Networks Liable for Copyright Infringement?" 2005 Duke Law & Technology Review 22, <http://www.law.duke.edu/journals/dltr/articles/PDF/2005DLTR0022.pdf> at para. 31.

151. For example, KaZaA now posts a notice that Australian residents cannot download from KaZaA and also provides information on how to use KaZaA without infringing copyright. See <http://www.kazaa.com/us/index.htm>.

152. Testimony of Sam Yagan, President, MetaMachine, Inc. (developer of eDonkey and Overnet) (28 September 2005), <http://judiciary.senate.gov/testimony.cfm?id=1624&wit_id=4689> [Yagan, Testimony].

153. *Ibid.*

154. Nikki Hemming, President, KaZaA, believes that "P2P is unstoppable." Jim Goldman, "KaZaA CEO Speaks Out" (5 August 2003), G4, <http://www.g4tv.com/techtvvault/features/44860/KaZaA_CEO_Speaks_Out.html>. A more neutral observer, law professor Mark Lemley also predicts that "[w]hile [Grokster] provides a new legal tool they can use against some p2p companies, it will not eliminate copyright infringement in the digital environment." Mark Lemley, "Protecting Copyright and Innovation in a Post-Grokster World: Testimony Before the Senate Committee on the Judiciary September 28, 2005," <http://judiciary.senate.gov/testimony.cfm?id=1624&wit_id=4687>. See also Tom Zeller Jr., "The Imps of File Sharing May Lose in Court, But They Are Winning in the Marketplace" *New York Times* (4 July 2005), <http://www.nytimes.com/2005/07/04/technology/04link.html?ex=1278129600&en=2bc8d49dbcab58a2&ei=5090&partner=rssuserland&emc=rss>.

aggregate bandwidth and efficiency."[155] P2P represented sixty percent of all internet traffic in 2004.[156] A survey conducted between March and May of 2003 found that twenty-nine percent of internet users have downloaded music files to their computer.[157] In Canada, as of May 2004, 5.7 million Canadians had downloaded digital music files from P2P networks.[158] Instead of slowing P2P sharing, law suits and technological countermeasures have tended to shift users from one file-sharing program to another, often later generation, program.[159] While there may have been a recent lessening of the use of second generation file-sharing networks due to successful lawsuits against P2P software distributors and users,[160] it is unlikely that litigation will have such an effect on distributors of later-generation software and its users.

As a result, many observers have criticized recording companies' use of copyright enforcement to *prevent* P2P file sharing.[161] Lessig, for example, suggests that "[r]ather than seeking to destroy the Internet or the P2P technologies that are currently harming content providers on the Internet, we should find a relatively simple way to compensate those who are harmed."[162] Many have advocated that recording companies voluntarily license their rights to P2P file-sharing companies.[163] In Canada, Daniel Gervais has described in some

155. Peter Biddle *et al.*, "The Darknet and the Future of Content Distribution," Applied Crypto Group, <http://crypto.stanford.edu/DRM2002/darknet5.doc> [Biddle *et al.*, "Darknet"]. According to Biddle *et al.*, a darknet is the distribution network that emerges from the injection of objects according to assumption 1 and the distribution of those objects according to assumptions 2 and 3 as follows: (1) Any widely distributed object will be available to a fraction of users in a form that permits copying; (2) Users will copy objects if it is possible and interesting to do so; (3) Users are connected by high-bandwidth channels.

156. See Andrew Parker, "P2P in 2005," presentation, at slide 7 [Parker, "P2P in 2005"].

157. OECD report, *supra* note 29 at p. 76.

158. Chris Ferneyhough, "MP3 Downloading By Canadians on the Decrease," *Canadian Interactive Reid Report* (11 May 2004). As reported by CIPPIC, "File-sharing," an April 2004 poll funded by the Canadian Record Industry Association (CRIA), found that the number of people who say they use the popular file-sharing software KaZaA grew from eight percent in the fall of 2001 to twenty-six percent in the spring of 2004, <http://www.cippic.ca/en/faqs-resources/file-sharing/>.

159. "File-sharing 'not cut by courts'," *BBC News* (20 January 2006), <http://news.bbc.co.uk/2/hi/entertainment/4627368.stm>; Parker, "P2P in 2005," *supra* note 156. See also Electronic Frontier Foundation, "RIAA v. The People: Two Years Later," <http://www.eff.org/IP/P2P/RIAAatTWO_FINAL.pdf> [EFF, "RIAA v. The People"]. There appears to have been an eleven percent drop in file sharing usage in the US after the *Grokster* decision; however, it is too soon to see how this affects overall worldwide file sharing. See John Borland, "Number of music file-swappers falls," *CNET News.com* (14 December 2005), <http://news.com.com/2100-1027_3-5995350.html> [Borland, "Number of music file-swappers falls"].

160. According to IFPI, "35% of illegal file-sharers have cut back or stopped the activity, while only 14% have increased it." See IFPI, "Digital Music Report 2006," *supra* note 130 at p. 21.

161. For example, Lessig, *Free Culture, supra* note 80; Robert P. Merges, "Compulsory Licensing vs. the 'Three Golden Oldies' Property Rights, Contracts, and Markets," Cato Institute, Cato Policy Analysis No. 508 (15 January 2004), <http://www.cato.org/pubs/pas/pa-508es.html>; Gervais, "Price of Social Norms," *supra* note 80.

162. Lessig, *Free Culture, supra* note 80 at p. 301. The situation is put more boldly by Barlow who compares it to the American Revolution and says: "No law can be successfully imposed on a huge population that does not morally support it and possesses easy means for its invisible evasion." John Perry Barlow, "The Next Economy of Ideas," *Wired Magazine* (October 2000), <http://www.wired.com/wired/archive/8.10/download.html>.

163. See, for example, Electronic Frontier Foundation, "A Better Way Forward: Voluntary Collective Licensing of Music File Sharing," <http://www.eff.org/share/collective_lic_wp.php> and EFF, "RIAA v. The People," *supra* note 159. "P2P also has the potential to serve as a more robust and efficient distribution channel than its predecessors for a greater diversity of content offered in a larger variety of ways. But to do so will require leading entertainment companies, P2P software distributors, and technology solutions providers to collaborate rather than litigate or retreat from participating in fear of litigation," Yagan, Testimony, *supra* note 152.

detail the workings of an extended (opt-out) voluntary licensing system that could further a voluntary licensing approach to P2P file sharing.[164] Assuming that a large number of existing P2P users would pay the required licence fee, this would not only greatly reduce copyright enforcement costs, but also increase revenues. In fact, Gervais estimates that, had the recording industry licensed content to Napster, it would have received revenues in the neighbourhood of US 2.4 billion.[165]

While recording companies are increasingly voluntarily licensing downloading[166] and even P2P file sharing,[167] the voluntary licensing approach may not effectively address the problem of how to enforce the payment of licensing revenues, since the difficulties of *preventing* P2P file sharing[168] may apply equally to the enforcement of payment of licensing fees.

Further, enforcing payment for file sharing could, ironically, tend to result in an increased use of P2P.[169] For some users, compliance with copyright norms may signal a good reputation for cooperative behaviour much as is the case with the voluntary payment of taxes. For others, compliance is motivated by an avoidance of sanctions.[170] By suing users, the value of the signal as an indicator of cooperative behaviour diminishes.[171] Hence, suing users could result in an increased use in P2P sharing by some users because the rationale for compliance has diminished.

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164. Gervais has promoted the idea of adapting the extended licensing systems practised in Scandinavian countries to Canada. See Daniel J. Gervais, "Application of an Extended Collective Licensing Regime in Canada: Principles and Issues Related to Implementation" (June 2003), <http://www.pch.gc.ca/progs/ac-ca/progs/pda-cpb/pubs/regime/index_e.cfm>. See also Silke von Lewinski, "Certain Legal Problems Related to the Making Available of Literary and Artistic Works and other Protected Subject Matter Through Digital Networks," *Copyright Bulletin* (January–March 1995), <http://portal.unesco.org/culture/admin/ev.php?URL_ID=26128&URL_DO=DO_TOPIC&URL_SECTION=201&reload=1113225914>; and Karnell, "Extended Collective License Systems, Provisions, Agreements and Clauses—A Nordic Copyright Invention with an International Future?" (Essays in honor of George Koumantos presented in Athens, 2004) at 391 ff.

165. 40,000,000 x US$5 x 12 = US$2.4 billion.

166. According to the International Federation of the Phonographic Industry, approximately 180 million songs were sold online in the first half of 2005, up from 57 million in the same period last year. Apple Computer's iTunes recently passed 1 billion downloads. Warner Music recently announced that it would adopt a new business model based upon digital downloads. Subscribers will be charged £26 a month for a high speed broadband internet connection, a price that is competitive with traditional ISP, with the added benefit of being able to share as much music as they want with other subscribers at no additional cost. See Owen Gibson, "Music file sharing to be offered legally," *Guardian Unlimited* (22 August 2005), <http://www.guardian.co.uk/arts/netmusic/story/0,13368,1553962,00.html>. See also Declan McCullagh, "Warner Music readies CD-free 'e-label'," *CNET News.com* (22 August 2005), <http://news.com.com/2100-1027_3-5841355.html>.

167. iMesh is the first legal P2P service to have launched commercially in a beta phase in October 2005. See IFPI, "Digital Music Report," *supra* note 130 at p. 14. Sony BMG has decided to license music to Mashbox. See John Borland, "How label-backed P2P was born," *CNET News.com* (22 August 2005), <http://news.com.com/How+label-backed+P2P+was+born/2100-1027_3-5840310.html>.

168. This extends the observation of Daniel Gervais that "[w]hen technology empowers a social norm, to remain effective, the legal code must remain within the range of socially acceptable norms" to question whether copyright itself can remain effective. See Gervais, "Price of Social Norms," *supra* note 80 at p. 54.

169. Gervais has raised this point with respect to preventing sharing, but the same point could be made with respect to collecting licensing revenue, "Use of Copyright Content," *supra* note 104.

170. According to IFPI, "[h]alf of illegal file-sharers who cut back on illegal file-sharing did so because of concern over the legal consequences": IFPI, "Digital Music Report," *supra* note 130 at p. 21.

171. Gervais, "Price of Social Norms," *supra* note 80, adapting Eric Posner's analysis of tax compliance.

4.3. Future Conflicts with the Three-Step Test

The preceding discussion has suggested that, whatever shortcomings a levy system may have, it may turn out that a levy covering P2P file sharing will better attain the goals of the *Copyright Act* than expanding copyright. If so, can a levy be used to compensate copyright owners for unauthorized P2P file sharing once the provisions of Bill C-60 are in effect and the Internet Treaties ratified?

While it has been argued that, in some circumstances, P2P file sharing is permitted by the private copying exemption, the problem with Bill C-60 is that its implementation (and the subsequent ratification of the Internet Treaties) will make it more difficult both to maintain the existing private copying levy as well as to extend it to all P2P file sharing, short of denouncing the Internet Treaties.[172] This will result notwithstanding the fact that Bill C-60 presumes that the private copying provision will continue to exist.

This point can be elaborated. On the one hand, a key goal of Bill C-60 is to provide rights holders the means to *control* the reproduction and making available of their works and subject matter. As the Heritage Canada's Frequently Asked Questions webpage notes:[173]

> Specifically, rights holders will have the *right to control* the making available of their copyrighted material on the Internet.

On the standard view, in the words of Ficsor:

> While in the case of "traditional" off-line and off-air "home taping" the exercise of [the reproduction right] was impossible, on the interactive digital network—on the basis of technological measures and rights management information—it is very possible.[174]

Hence, a key idea of Bill C-60 is to implement anti-circumvention provisions that will assist copyright owners to control the making available of their works.

On the other hand, Article 10(1) of the WCT provides that contracting parties may introduce limitations or exceptions in their copyright legislation provided they meet a so-called "three-step test":[175]

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172. Arts. 23 and 31 of WCT, *supra* note 7, provide that the respective Treaty may be denounced by any Contracting Party by notification addressed to the Director General of WIPO. Any denunciation shall take effect one year from the date on which the Director General of WIPO received the notification. See Laurence Helfer, "Exiting Treaties," (2005) 91:7 Virginia Law Review 101, <http://law.fordham.edu/calfiles/flscal5326.pdf>. While Canada could do so, denouncement after ratification would have negative consequences on Canada's reputation internationally.

173. Canadian Heritage, "FAQ," *supra* note 86 (emphasis added).

174. Ficsor, *Copyright Law and Internet*, *supra* note 11 at p. 539. This view is reflected in the European Copyright Directive as well.

175. WCT, *supra* note 7, Art. 10(1). Since Art. 1(4) of WCT incorporates Berne Arts. 1–21, Art. 10(2) WCT, provides a seemingly redundant provision: "Contracting Parties shall, when applying the Berne Convention, confine any limitations of or exceptions to rights provided for therein to certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author."

> Contracting Parties may, in their national legislation, provide for limitations of or exceptions to the rights granted to authors of literary and artistic[176] works under this Treaty in *certain special cases* that *do not conflict with a normal exploitation* of the work and *do not unreasonably prejudice the legitimate interests* of the author.

Article 16(2) of the WPPT provides the same provision in relation to performers and makers of sound recordings:[177]

> Contracting Parties shall confine any limitations of or exceptions to rightsprovided for in this Treaty to *certain special cases* which *do not conflict with a normal exploitation* of the performance or phonogram and *do not unreasonably prejudice the legitimate interests* of the performer or of the producer of the phonogram.

In summary, the three steps are:

1) limitations and exceptions shall be confined to certain special cases;
2) limitations and exceptions shall not conflict with a normal exploitation of the work (WCT), performances, or phonograms (WPPT); and
3) limitations and exceptions shall not unreasonably prejudice the legitimate interests of the author (WCT), performer, or producer (WPPT).

This three-step test contained in the Internet Treaties originated from a more limited test contained in Article 9 of the Berne Convention (which applies only to the reproduction right), which in turn was incorporated in an expanded manner under Article 13 of TRIPS (so as to apply to all copyrights under the TRIPS Agreement).[178] In its form in the Internet Treaties, the test applies to all rights under the Internet Treaties. Keeping within the international copyright framework, implementation of the test under the Internet Treaties precludes enacting a limitation to the making available right contained in Bill C-60 as well as maintaining a limitation to the right of reproduction where there is a conflict with the normal exploitation of the work, phonogram, or performance.

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176. Under the Berne Convention, "artistic work" is interpreted widely to include musical works. Art. 2(1) provides that "[t]he expression "literary and artistic works" shall include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as … musical compositions with or without words…." The footnote in the test is added for clarification. Berne Convention for the Protection of Literary and Artistic Works, 9 September 1886, as last revised in Paris 24 July 1971, and amended 28 September 1979, 828 U.N.T.S. 221, <http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html>.

177. WPPT, *supra* note 7 (emphasis added).

178. For an elaborate exposition of the history and interpretation of the three-step test, see Martin Senftleben, *Copyright, Limitations and the Three-Step Test: An Analysis of the Three-Step Test in International and EC Copyright Law* (The Hague: Kluwer, 2004) [Senftleben, *Copyright, Limitations and the Three-Step Test*]. While some might argue that the constraints under Art. 13 of TRIPS also applies to future copyrights, such as the making available right, this does not detract from the point that enactment of the provisions of Bill C-60 will likely prevent a levy being applied to P2P hardware, media, or usage.

In fact, it has been alleged that private copying *is* in conflict with normal exploitation of works in the digital environment:[179]

> [Private copying on the internet, including private copying through Napster] so obviously conflicts with the basic forms of normal exploitation of works that it should not be allowed under Article 9 of the Berne Convention (and equally not under the TRIP[s] Agreement and the WCT which incorporates this provision by reference).

If this reasoning is correct, it also applies in respect of the making available of works.

As pointed out, the private copying exemption and levy on blank audio recording media was considered acceptable by recording companies and the Government of Canada because copyright owners were unable to exploit their rights in the context of analogue "home taping." Ficsor himself points out this rationale:[180]

> The maintenance—or the introduction—of such remuneration schemes may only be justified where the owners of rights are unable—or for some reasons do not wish—to exercise their exclusive right to authorize reproduction.

This argument is best understood as an application of the second step of the three-step test. In other words, there can be no conflict with the normal exploitation of a work if it cannot be exploited *at all* by the owner. Hence, the issue is whether the private copying exemption can be appropriately extended into the digital environment and whether a new exemption on making available is appropriate, where "appropriate" means that it passes the three-step test.[181] Only if such exemptions are legally possible can P2P file sharing be covered by a levy.

The existing *Copyright Act* lacks the anti-circumvention measures necessary for copyright owners to control the use of their works as well as the right to make available. Absent such a provision in law, it would be acceptable to extend the private copying levy into the digital environment. In fact, the basic assumption of the Internet Treaties and Bill C-60 is that the additional provisions *are* needed in order to enable rights holders to exploit their works in a digital environment. If this were not true, there would be no need to introduce such measures into national legislation as called for by the Internet Treaties.

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179. Ficsor, *Copyright Law and Internet, supra* note 11 at p. 539. See also the quotations of a number of statements made at the WIPO worldwide symposia to the same effect cited in s. C10.33. Much the same point is made in Senftleben, *Copyright, Limitations and the Three-Step Test*, at p. 206, *supra* note 178, that "…the broad privileges serving strictly personal use which are known from the analogue world are likely to conflict with a normal exploitation of copyrighted material in the digital environment."

180. Ficsor, *Copyright Law and Internet, supra* note 11 at p. 539.

181. WCT, *supra* note 7 at Art. 10. The Agreed Statement concerning Art. 10 attached to the WCT (and the corresponding agreed statement of the WPPT) draws a distinction between *existing limitations* which can be carried forward and appropriately extended into the digital environment—so long as they have been considered acceptable under the Berne Convention—and *new limitations* and *exceptions*, which must be *appropriate* in the digital environment.

Is a levy on P2P acceptable if the provisions of Bill C-60 are implemented? CRIA has already claimed that many traditional exceptions will be *inappropriate* for the making available right on the basis that it fails the three-step test. In its submission to the Government of Canada relating to copyright reform it noted:[182]

> Exceptions to the making available right, as any exceptions to existing rights, need to be carefully assessed when applied in the context of digital and on line forms of exploitation. In all cases, the three step test established in the Berne Convention and the TRIPS Agreement, and later confirmed in the 96 WIPO Treaties, requires [nations] to take account of the economic effects of any exception and the possible prejudice that their application in a digital environment might bring. Many traditional exceptions are *inappropriate* for the making-available right. For example, a library exception should not allow a library to "make available" a sound recording to all 200 million internet users.

If Bill C-60 achieves its goal, it will assist copyright owners and their licensed P2P[183] services to gain *some* control to exploit their works, even if unauthorized P2P sharing is still significant. Hence, it is likely that CRIA would argue, were Bill C-60 to be implemented, that any general exemption to making available as well as the private copying exemption would fail step two of the three-step test: it would conflict with the normal exploitation of the work.

This reasoning is supported by a recent discussion of the three-step test (contained in Article 13 of TRIPS) by the WTO dispute resolution panel which provides an interpretation of the three-step test. According to the Panel, the *exploitation* of musical works is the activity by which copyright owners employ the exclusive rights conferred on them to extract economic value from their rights to those works.[184] Clearly, then, without the existence of the making available right, there could be no exploitation of making available.

Further, on this view, *normal* exploitation includes not only the means which currently do generate, or historically have generated, revenue; it also includes those forms of exploitation which, with a certain degree of likelihood and plausibility, *could* acquire considerable economic or practical importance.[185] The Canadian recording industry already considers that its primary means of

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182. Submission of the CRIA in Respect of Consultation Paper on Digital Copyright Issues to the Canadian Government (14 September 2001), <http://strategis.ic.gc.ca/epic/internet/incrp-prda.nsf/en/rp00249e.html> (emphasis added). The point is repeated by International Federation of the Phonographic Industry (IFPI): IFPI, "The WIPO Treaties: 'Making Available' Right'" (March 2003), <http://www.ifpi.org/content/library/wipo-treaties-making-available-right.pdf>.

183. Owen Gibson, "Music file sharing to be offered legally," *Guardian Unlimited* (22 August 2005), <http://www.guardian.co.uk/arts/netmusic/story/0,13368,1553962,00.html>. See also Borland, "Number of music file-swappers fails," *supra* note 159.

184. *Panel Report United-States-Section 110(5) of the US Copyright Act* (1999), WT/DS160/R, <http://www.wto.org/english/news_e/news00_e/1234da.pdf> [*Panel Report Section 110(5)*].

185. *Ibid.* at para. 6.181. This sense of normal was taken from the Swedish/BIRPI Study Group (which was set up to prepare for the Revision Conference at Stockholm in 1967), which said, at the same time that, "[o]n the other hand, it should not be forgotten that *domestic laws already contained a series of exceptions in favour of various public and cultural interests* and that it would be vain to suppose that countries would be ready at this stage to abolish these exceptions to any appreciable extent."

exploiting music over the internet will be by making it available on demand. CRIA notes:[186]

> The right of making available is fundamental for the dissemination of music over digital networks and therefore for promoting the development of electronic commerce and of new business models by the recording industry.

Hence, the making available of works, recordings, and performances could turn out to be a normal means of exploitation.

Finally, in order to determine whether the limitation fails the second step of the three-step test, there must be a conflict. According to the WIPO panel, a conflict exists when an exception or limitation to an exclusive right in domestic legislation "enter[s] into economic competition with the ways that right holders normally extract economic value from that right to the work (i.e., the copyright) and thereby deprive them of significant or tangible commercial gains."[187] This applies to all copyrights including the right of substantial reproduction and making available on demand. Thus, so long as an exemption on P2P file sharing deprives the rights holder of significant commercial gains, there will be a conflict with the three-step test.

The notion of "deprivation" needs to be clarified since one could argue that, if a levy were implemented to compensate copyright owners for losses, then there is no deprivation to them, which is necessary for a conflict to exist. As Senftleben notes, however, on the standard view, a conflict with the normal exploitation of a work cannot be saved by remuneration from a levy:[188]

> The second step delineates the basic rule of criterion 1 [special case] more precisely: a conflict with a normal exploitation is not permissible…. At this stage, no additional instruments for the reconciliation of the interests of authors and users, like the payment of equitable remuneration, are necessary. Limitations which fail to meet this condition cannot be countenanced at all.

Ficsor agrees. He says:[189]

> And since we are faced with serious conflicts with normal exploitation and not only with "simple prejudice" to the owners of rights, it is not sufficient to handle the problem through the recognition of a mere right to remuneration, with all the inadequacies of such remuneration systems and with all the doubts about their compatibility with international norms concerning the right of reproduction and national treatment.

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186. Industry Canada, *Submission of the Canadian Recording Industry Association in Respect of Consultation Paper on Digital Copyright Issues*, <http://strategis.ic.gc.ca/epic/internet/incrp-prda.nsf/en/rp00249e.html>.

187. *Panel Report Section 110(5)*, *supra* note 184 at para. 6.183.

188. Senftleben, *Copyright, Limitations and the Three-Step Test*, *supra* note 178. This is also the view of the Main Committee I of the Stockholm Diplomatic Conference (1967), cited in the *Panel Report Section 110(5)*, para. 6.73, *supra* note 184.

189. Ficsor, *Copyright Law and Internet*, *supra* note 11.

On this standard "all-or-nothing" interpretation of the three-step test, then, once a limitation such as the private copying exemption deprives copyright owners of significant *licensing* revenue, then the limitation is in conflict with the normal exploitation of the work and is invalid. The effect is that copyright owners may be able to exploit their works to some degree, such as the sale of one billion works on iTunes,[190] while still suffering losses from unauthorized sharing that cannot be made up for by levies under the three-step test.

This suggests that a better way of dealing with losses to copyright owners would be to permit levies *to the extent* that they make up for the losses. On this account, both technological measures and a private copying exemption would co-exist, and the tariff for levies would be lowered in accordance with the effectiveness of the technological measures. Indeed, a similar approach to the conflict introduced by technological measures is contained in Article 5(2)(b) of the *European Copyright Directive*, wherein Member States may provide for exceptions or limitations to the reproduction right provided for in Article 5(2)(b) in the following cases:[191]

> 5(2)(b) in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures referred to in Article 6 to the work or subject-matter concerned;

This clause has been interpreted as a form of "phase-out" of levies so that, upon finding that, for a given media type or platform, the use of technological measures is, or will soon become, economically viable, the corresponding levy will be phased out.[192] Hugenholtz *et a*l. cite the DVD as a format for which levies should be "phased out": [193]

> As the "degree of use" of TPMs increases, the amount of "fair compensation" would decrease. Thus, for example, the tremendous market success of the copy-protected DVD format, that has all but superseded the "unprotected" VHS format, would imply a substantial decrease or abolition of levies for the private copying of audiovisual works.

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190. Canadian Press, "US teen showered with gifts for downloading billionth song from iTunes" (24 February 2006), <http://www.canada.com/topics/technology/news/gizmos/story.html?id=b1496344-1966-4df4-a4c3-213a49cfad65&k=83046>.

191. *Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society*, <http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&numdoc=32001L0029&model=guichett&lg=en>, Art. 5(2)(b) [*EU Copyright Directive*].

192. Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15 at p. 44. Five factors are provided: (i) upfront costs to producers and intermediaries; (ii) incremental costs or savings for consumers; (iii) consumer-friendliness and acceptance, as reflected e.g. in market share; (iv) incorporation of privacy-enhancing technologies in digital rights management (DRM) systems; and (v) accessibility of DRM protected content by disabled users and users with special needs.

193. Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15 at p. 42.

The difficulty with the European approach is that it appears to be inconsistent with the Ficsor-Senftleben all-or-nothing interpretation of the three-step test since losses resulting from the conflicting limitation, reproduction for private use, is compensated by a levy under Article 5(2)(b).

Of course, their claim that such losses cannot be compensated by levies could be challenged. In fact, the French Court of Appeals recently held that making a private copy of a DVD did not conflict with its normal exploitation by copyright owners because their commercial interests were already sufficiently safeguarded by the fact that consumers are required to pay levies for blank media precisely in order to compensate rights holders for private copies made of their works.[194] This could be buttressed by the WTO reasoning, from which it could be argued that there is no conflict because, by providing remuneration from a levy, copyright holders are not "deprive[d] of significant or tangible commercial gains" as required, since copyright owners are remunerated from the levy.[195]

An additional objection to the elimination of the private copying exemption concerns the potential elevation of exceptions and limitations to user benefits or rights, especially if such rights are contained in a constitution or are considered to be human rights. In France, the private copying exception has not been elevated to a right, but it has been interpreted to be a benefit to users, preventing owners from using technological measures to prevent private copying.[196] The Tribunal de Grande Instance Paris recently confirmed the "phase-out" feature of technological measure when it said that "the application of anti-copying protection devices by phonogram producers causes the statutory limitations of the authors' exclusive rights to authorise or prohibit reproductions to fade."[197] At the same time, it required users of technological measures to ensure that users of works be able to engage in private copying.[198]

Yet, the Canadian situation is significantly different from that in Europe. Despite the fact that the Supreme Court of Canada has elevated user interests

194. See *Stéphane P. v. UFC Que Choisir / Universal Pictures Video France*, Paris, 22 April 2005, available at Juriscom, <http://www.juriscom.net/documents/caparis20050422.pdf>. For commentary, see Natali Helberger, "Not so silly after all—new hope for private copying," *INDICARE* (25 August 2005), <http://www.indicare.org/tiki-read_article.php?articleId=132>. See also Landgericht Stuttgart, Case 17 O 519/00 (CD-Brenner), (19 June 2001) at s. 46 ff (private copying exemption in articles 53–54 of German Copyright Act deemed to pass three-step test), cited in Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15. "It is a matter of some speculation…whether a generally worded private copying exemption will pass this test." Hugenholtz, Guibault & van Geffen, "Future of Levies," *supra* note 15 at p. 33.

195. See *Panel Report Section 110(5), supra* note 184 at para. 6.183.

196. Natali Helberger, "*Christophe R. vs Warner Music*: French court bans private-copying hostile DRM" <http://www.indicare.org/tiki-read_article.php?articleId=180> [Helberger, "Christophe"].

197. "…la mesure de protection adoptée par le producteur du phonogramme fait disparaître la limite fixée par le législateur au droit exclusif des auteurs d'autoriser ou d'interdire la reproduction de leurs œuvres." *Christophe R., UFC Que Choisir / Warner Music France, Fnac*, Tribunal de grande instance de Paris 5ème chambre, 1ère section, Judgment of January 10, 2006, available at Legalisnet, <http://www.legalis.net/breves-article.php3?id_article=1567>, translated by Helberger, "Christophe," *ibid*. The basis of this interpretation is provided for in Art. 6(4) of the *EU Copyright Directive, supra* note 191, which holds that, subject to some exceptions, Member States are required to take appropriate measures to ensure that right holders make available to the beneficiaries the means of benefiting from an exception or limitation where the beneficiary has legal access to the protected work or subject matter concerned.

198. Helberger, "Christophe," *supra* note 196. Art. 8 of the draft French law implementing the *EU Copyright Directive, supra* note 191, does not apply to subject matter that is made available over the internet.

to rights in *CCH*,[199] and that, historically, copyright was not concerned with the private acts of end-users, there has been little judicial or academic development in Canada of the argument that constitutionally protected privacy rights imply a strong right to private copying that could prevent technological measures from being applied to such copying. This state of affairs is reflected in Bill C-60, which does not contemplate limiting the application of technological measures by rights owners in order to continue to permit private copying. On the contrary, it is specifically intended in section 34.02(1) that there be no circumvention of technological measures that permit private copying. Thus, although the view of the French Court of Appeal suggests that there may be a basis for prioritizing the right to private copying over the right to implement technological measures in the context of the co-existence of levies and private copying exemption, no clear general legal argument has yet been made to support such a proposition in Canada.

In the end, while Bill C-60 would provide copyright owners with sufficient control to make available their works and to exercise their other rights, it will not provide sufficient control to eliminate all P2P file sharing.[200] Even the Copyright Policy Branch admits that, in those countries that have implemented the Internet Treaties, P2P file sharing has not been eliminated: "Even so, file sharing has remained a challenge in other countries that have implemented the WIPO Treaties obligations in this respect."[201]

Consequently, the possibility is left open that, given the continued existence of P2P file sharing in the future, and the competing rights of owners and users, a levy system applied to P2P file sharing could better meet the goals of copyright than Bill C-60. It has been argued in this paper that, not only does the existing rationale for private copying support its application to P2P file sharing, currently it is possible to apply levies to P2P file sharing in many circumstances.[202] If the Internet Treaties are ratified, however, it may be more

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199. *CCH, supra* note 60 at para. 48, where the Court introduces into Canadian copyright law the notion of user rights as follows: "Before reviewing the scope of the fair dealing exception under the *Copyright Act*, it is important to clarify some general considerations about exceptions to copyright infringement. Procedurally, a defendant is required to prove that his or her dealing with a work has been fair; however, the fair dealing exception is perhaps more properly understood as an integral part of the *Copyright Act* than simply a defence. Any act falling within the fair dealing exception will not be an infringement of copyright. The fair dealing exception, like other exceptions in the *Copyright Act*, is a user's right. In order to maintain the proper balance between the rights of a copyright owner and users' interests, it must not be interpreted restrictively. As Professor Vaver has explained in *Copyright Law* (Toronto: Irwin Law, 2000) at p. 171: "User rights are not just loopholes. Both owner rights and user rights should therefore be given the fair and balanced reading that befits remedial legislation."

200. In brief, the reasons that this observation will apply to Canada are as follows. First of all, Bill C-60 permits circumvention of technological measures for non-infringing purposes. Hence, when a copy is made for a non-infringing purpose, it will be difficult to prevent that copy from being made available for further copying, whether infringing or not. Second, some technological measures preventing reproduction may be prohibited because they violate the right of privacy. Finally, a technological measure will likely be circumvented by at least one person, who will make the subject matter available on a P2P network. On this last point, see Biddle *et al.*, "Darknet," *supra* note 155.

201. Canadian Heritage, "FAQ," *supra* note 86.

202. It may be true that, in the interim, our current private copying levy cannot be *extended* to, say, cinematographic works, because, as a signatory, Canada is obliged to refrain from acts that would defeat the object and purpose of a treaty. See *Vienna Convention on the Law of Treaties*, 23 May 1969, <http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_1_1969.pdf>, 1155 U.N.T.S. 331, Art. 18. That is, expanding the private copying provision to apply to cinematographic works may conflict with the implication of the Internet Treaties that the scope of application of private copying will be contracted to the extent that technological measures are effective.

difficult to use a levy system to compensate creators for P2P file sharing. While the issue of the proper interpretation of the three-step test and its application to P2P file sharing cannot be settled here, at the very least, if the possibility is to be left open that levies *could* be applied to make up for inevitable losses of copyright owners from P2P file sharing, then there is a need to have a greater understanding of the effects of Bill C-60's provisions on the ability to apply levies to P2P file sharing prior to passing such provisions into law.

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5. CONCLUSION

IN BILL C-60, the Canadian Government introduced a three-pronged strategy designed, in part, to render illegal the sharing of musical works via P2P systems. The strategy involved prohibiting certain dealings with private copies, introduction of a new making available right as part of the exclusive right of communication to the public, and introducing legal protection of technical protection measures and rights management information. The implementation of these provisions and ratification of the Internet Treaties from which they are derived could prevent the extension of the existing levy system for audio recording media to P2P file sharing because the necessary exemptions would conflict with the normal exploitation of musical works. Yet, because the extension of copyright to P2P file sharing may interfere with fundamental rights of privacy and expression and increase enforcement costs, a levy system might ultimately better fulfill the goals of copyright. In such a case, the ratification of the Internet Treaties could prevent the attainment of the important goals of the *Copyright Act*.