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## Copyright Misuse: Protecting Copyright in Canada from Overreach and Abuse

Martin Twigg\*

### Introduction

Faced with a rapidly evolving technological landscape—one in which near-perfect copies of digital content can be created and disseminated with minimal cost and unprecedented ease—copyright owners have sought to exercise greater control over expressive works. In many cases, they have undertaken this task by harnessing the very same technological forces that threaten to disrupt their traditional business models:<sup>1</sup> monitoring online activity and responding to potentially infringing uses with thousands of cease-and-desist letters; licensing rather than selling digital works; or locking down content with technological access and control measures. These attempts at enhanced protection merit concern because their effectiveness is, for the most part, not limited by the scope of rights granted to copyright owners under the *Copyright Act*.<sup>2</sup> Unrestrained by copyright's statutory limits (including the restriction against copyrighting works in the public domain) and internal safety-valves (such as fair dealing), content holders are now able to routinely overreach the boundaries of copyright law and abuse their limited statutory grant of rights in copyrighted works. This behaviour, which I refer to generally as “overreach and abuse,” can be classified into two broad categories.<sup>3</sup>

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<sup>1</sup> See Sara Wei-Ming Chan, “Canadian Copyright Reform: ‘User Rights’ in the Digital Era” (2009) 67 UT Fac L Rev 235 (“[t]his phenomenon has allowed unprecedented access to copyrighted materials, hence engendering new forms of creativity and authorship. At the same time, these developments have provided rights holders with the technological tools to monitor and control the use of their works in ways previously unimagined” at 239).

<sup>2</sup> RSC 1985, c C-42.

<sup>3</sup> Any attempt at categorization is subject to a degree of arbitrariness and other approaches are equally valid. For instance, Peter Yu and John Cross identify four categories of abusive behaviour by copyright owners in U.S. and Canadian case

The first category includes protective measures that, although procedurally valid, cannot ultimately be substantiated in law. Labelled by commentators as “copyfraud,”<sup>4</sup> these actions involve content holders increasingly laying claim to rights in expressive works that have little or no basis in copyright law. Backed by threats of litigation, these spurious claims often go uncontested due to the power imbalance existing between owner and user groups. The second category includes protective measures that are substantively legal, but entirely divorced from the statutory domain of copyright law. Contractual agreements—many of which are subject to considerable inequality of bargaining power—and an array of technological protection measures or “digital locks”—which can be further supported by anti-circumvention laws—are being employed with increasing frequency by content owners. The result is a comprehensive system of legally enforceable barriers to expressive works that often trump copyright law, the terms of which are set almost entirely by private entities. Taken together, these two categories of behaviour not only tip the balance in favour of content holders, rendering users’ rights such as fair dealing largely ineffectual, but also threaten to marginalize the application and therefore relevancy of copyright law as a whole. Increasingly, copyright is being displaced by a comprehensive “privately defined rights regime.”

In response to this trend, courts, copyright users and legal scholars have begun to look outside the statutory confines of copyright law in the hope of identifying legal tools capable of restoring a degree of balance to the regulation and control of expressive works.<sup>5</sup> One avenue currently being pursued in the United States is the doctrine of copyright misuse, an equitable defence to copyright infringement that arises when a copyright owner has “misused” his or her copyright. Where the *Copyright Act* is silent or unable to prevent content holders from overstepping the bounds of copyright law, the doctrine of copyright misuse provides owners with an incentive to

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law. See John T Cross and Peter K Yu, “Competition Law and Copyright Misuse” (2008) 56 Drake L Rev 427 at 434-438.

<sup>4</sup> See Jason Mazzone, “Copyfraud” (2006) 81 NYU L Rev 1026 at 1028.

<sup>5</sup> Among the legal measures being explored to counteract the abusive behaviour of copyright owners are competition law, the doctrines of copyright misuse and unclean hands, abuse of process and tortious interference. See Cross and Yu, *supra* note 3 at 455-461.

respect the statutory limits of copyright, lest they risk losing the ability to enforce certain legal claims until the behaviour constituting misuse has been remedied.

Although Canada is vulnerable to many of the same forces of overreach and abuse as the United States, no doctrine comparable to copyright misuse currently exists in Canadian law. This may simply be due to the relatively short history of copyright misuse in American jurisprudence, but is likely also attributable to a previous lack of a clearly articulated justification for the doctrine's existence in Canada. However, the Supreme Court of Canada in a "trilogy" of copyright cases has recently filled that purposive vacuum.<sup>6</sup> The notion of balance between dual objectives, the concept of users' rights and an increasingly economic and instrumentalist understanding of copyright law—all principles to emerge from the trilogy—provide strong support for a "made-in-Canada" approach to copyright misuse. Although unlikely to stem the tide of overreach and abuse completely, the doctrine would serve to uphold the statutory limits of copyright, helping to ensure the *Copyright Act's* continuing role as the dominant means of regulating expressive works in Canada.

This paper is divided into four parts. Part I canvasses the growing phenomenon of overreach and abuse by content holders. Two broad categories of behaviour are explored, revealing the need for a judicial doctrine capable of responding to the threats posed to copyright law as a result. Part II examines the American doctrine of copyright misuse as a tool to address instances of overreach and abuse. Its recent emergence from the related doctrine of patent misuse is discussed, along with its various doctrinal approaches and potential for future growth and expansion. Part III justifies the importation of the copyright misuse doctrine into Canadian law. The recent articulation of copyright's purpose by the Supreme Court of Canada is proposed as a justificatory basis for the doctrine's recognition, and

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<sup>6</sup> See Daniel Gervais, "The Purpose of Copyright Law in Canada" (2005) 2 UOLTJ 315 ("[i]n three recent cases, the Supreme Court of Canada provided Canadian copyright law with something that had arguably been missing: a purpose" at 317); *Théberge v Galerie d'Art du Petit Champlain inc.*, 2002 SCC 34 [*Théberge*]; *CCH Canadian Ltd. v Law Society of Upper Canada*, 2004 SCC 13 [*CCH*]; *Society of Composers, Authors and Music Publishers of Canada v Canadian Assn. of Internet Providers*, 2004 SCC 45 [*SOCAN*].

concerns relating to the viability of copyright misuse in Canada are also addressed. Part IV contains a brief conclusion.

## **Part I: Identifying Overreach and Abuse**

### **a) “Copyfraud”: An intellectual property gold rush**

The first category of overreach and abuse concerns systematic attempts by content holders to assert rights in expressive works that are of questionable legal merit. Although the *Copyright Act* provides a variety of remedies to protect the rights of copyright owners, the statute is conspicuously silent on how owners may go about enforcing those rights.<sup>7</sup> Since there is no mechanism within the *Act* to prevent individuals from asserting frivolous claims, copyright owners are incentivized to define their rights as broadly as possible, even laying claim to works in the public domain or to expression not eligible for copyright protection. This behaviour has been labelled by some critics as “copyfraud”: an attempt to exercise monopoly rights in an expressive work that has no basis in copyright law.<sup>8</sup>

False copyright claims commonly arise in the form of cease-and-desist letters. Threats of litigation can be used to stifle critical speech, leverage greater control in the marketplace<sup>9</sup> and extract rents for unauthorized uses of a copyrighted work that are, in fact, fully permitted under the *Act*.<sup>10</sup> While such behaviour is by no means new or even technically illegal, the increasingly aggressive protection of copyrights, made possible in part by recent changes in technology,<sup>11</sup>

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<sup>7</sup> See Cross and Yu, *supra* note 3 (speaking in regards to both U.S. and Canadian copyright law at 455).

<sup>8</sup> See Mazzone, *supra* note 4 at 1028.

<sup>9</sup> See Jennifer M Urban & Laura Quilter, “Efficient Process or ‘Chilling Effects’? Takedown Notices Under Section 512 of the Digital Millennium Copyright Act” (2005-2006) Santa Clara Computer & High Tech LJ 621 at 687.

<sup>10</sup> See Mazzone, *supra* note 4 at 1026.

<sup>11</sup> Content holders regularly scour the Internet searching for potential infringing uses, sometimes sending huge volumes of cease-and-desist letters in response. See Victoria Smith Erkstrand, “Protecting the Public Policy Rationale of Copyright: Reconsidering Copyright Misuse” (2006) Comm L & Pol’y 565 (Erkstrand describes an “ever-growing population of ‘copyright bullies’” who “send out thousands of cease and desist letters” at 566). Legal action *en masse* is often fraught with problems. See generally Urban and Quilter, *supra* note 9.

has led to a “systematic over-claiming of copyright.”<sup>12</sup> The Electronic Frontier Foundation (a non-profit organization dedicated to protecting civil liberties on the Internet), in conjunction with a number of law schools, has been documenting these spurious claims through the joint project “Chilling Effects.”<sup>13</sup> In a study of nearly 900 cease-and-desist letters sent by copyright holders under notice and takedown provisions of the United States *Digital Millennium Copyright Act* (DMCA),<sup>14</sup> roughly a third were found to be deficient in some manner, mostly due to a questionable underlying copyright claim.<sup>15</sup>

This overreaching behaviour is not limited to the online environment, but rather affects old and new media alike. Books and other publications regularly contain copyright notices warning against unauthorized reproduction in any form,<sup>16</sup> even when the majority or all of its content exists in the public domain.<sup>17</sup> Similar notices accompany broadcasts of sporting events on television<sup>18</sup> and even the most casual of film viewers will be familiar with the FBI warnings on VHS tapes and DVDs threatening severe civil and criminal penalties for unauthorized copying.<sup>19</sup> According to Judge Richard Posner, these expansive warnings are nothing more than “pure bluff,” laying claim to sweeping rights that cannot possibly be justified on such absolute terms, particularly in light of fair use laws in the United States (or, for that matter, fair dealing laws in

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<sup>12</sup> See Richard Posner, “Fair Use and Misuse” (24 August, 2004), online: Lawrence Lessig's Blog <<http://www.lessig.org/blog/archives/002119.shtml>>.

<sup>13</sup> See Chilling Effects <<http://www.chillingeffects.org>>.

<sup>14</sup> Pub L No 105-304, Title I, 112 Stat 2860 (1998) (17 USC).

<sup>15</sup> See Urban & Quilter, *supra* note 9 at 666.

<sup>16</sup> See William F Patry & Richard A Posner, “Fair Use and Statutory Reform in the Wake of Eldred” (2004) 92 Calif L Rev 1639 at 1655.

<sup>17</sup> See Mazzone, *supra* note 4 at 1028.

<sup>18</sup> The Computer & Communications Industry Association recently filed a complaint against a number of sports, entertainment and publishing companies, including the National Football League and Major League Baseball, before the Federal Trade Commission alleging that such warnings were misrepresentative of copyright law and constituted deceptive and unfair trade practices. For an excellent account of the dispute, see Cory Tadlock, “Copyright Misuse, Fair Use, and Abuse: How Sports and Media Company are Overreaching Their Copyright Protections” (2008) J Marshall Rev Intell Prop L 621.

<sup>19</sup> *Ibid* at 621.

Canada).<sup>20</sup> Yet the mere threat of litigation, no matter how weak the underlying copyright claim, often yields highly effective results.<sup>21</sup>

In 2003, a controversial intellectual property dispute was initiated over images of the Bluenose, the iconic Nova Scotian tall ship etched on the Canadian dime. The Bluenose II Preservation Trust Society (“the Society”), a group tasked with maintaining a reproduction of the vessel, owned the copyright in the ship's architectural plans and began to assert monopoly rights over *any* use of the ship's image.<sup>22</sup> When a company manufacturing Bluenose souvenirs refused to pay a licensing fee, the Society sued for trademark and copyright infringement. Although the Society eventually dropped the lawsuit after the provincial government intervened, Teresa Scassa analyzed the validity of claims brought by the Society and found them to be “largely without merit,”<sup>23</sup> while the copyright claim in particular verged on absurdity.<sup>24</sup> Nonetheless, the Society had collected licensing fees from a range of local businesses for years prior to the lawsuit,<sup>25</sup> illustrating the harmful and unjust effects of copyfraud. Far from being an isolated case, Scassa believes the overreaching behaviour of the Society is indicative of a larger trend:

In the information age, and in an increasingly "branded" society, intellectual property has taken on a very significant commercial value. As a result, some entities

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<sup>20</sup> Patry & Posner, *supra* note 16 at 1655-1656.

<sup>21</sup> Due to the costs of litigation and the power imbalance often present between owner and user groups, parties facing threats of legal action regularly choose the path of least resistance and simply accede to the frivolous claims. Judge Posner argues that the tendency of users to “underenforce their legitimate rights” is attributable to an “asymmetry of stakes” between owners and users of copyright. See Patry & Posner, *supra* note 16 at 1643, 1658.

<sup>22</sup> For an excellent account of the controversy, see Teresa Scassa, “Nickel and Dimed: The Dispute Over Intellectual Property Rights in the Bluenose II” (2004) 22 *Dalhousie LJ* 293.

<sup>23</sup> *Ibid* at 319.

<sup>24</sup> *Ibid* (“[p]hotographs regularly incorporate objects and items that are built from two-dimensional design plans, as do sketches and paintings. If the Society's position were accepted, a photograph of children playing at a unique modular playground might infringe the copyright in the plans for the playground; a photograph of a person standing on someone's front lawn might infringe the copyright in the landscape design plans for that lawn. The possible examples are limitless” at 316).

<sup>25</sup> *Ibid* at 297.

may attempt to acquire intellectual property over things in which no such rights are likely to exist. It is a kind of intellectual property "gold rush" in which claims are staked over territory in the public domain. This approach poses a real threat to the public domain by effectively turning aspects of general culture into a private party's revenue stream. It also undermines the rights of those who cannot resist or respond to claims because of lack of resources. Instead they are forced to acknowledge the dominion of the other over the asserted intellectual property, regardless of whether the claims to intellectual property have merit.<sup>26</sup>

Scassa's remarks highlight the significance of the disproportionate power dynamic existing between owner and user groups. The right to deal fairly in a work or reproduce material in the public domain is of little use to those unable to afford the legal fees necessary to defend those rights in a court of law. As over-claiming of copyright becomes increasingly systematic and lawsuits are instinctively threatened for every unauthorized use, regardless of its legality, the statutory limits and safety-valves of copyright will be rendered ineffectual, preempted by a separate and distinct "law in action" law.<sup>27</sup>

### **b) Contracts and TPMs: privately defined rights regimes**

The second category of overreach and abuse consists of protection measures that are substantively valid, but exist outside the boundaries of copyright law. Through a combination of contractual agreement and technological access and control measures, content holders are able to construct, almost entirely on their own terms, a comprehensive system of legally enforceable barriers governing the control of expressive works. In many instances, these privately defined rights regimes completely trump copyright law.

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<sup>26</sup> *Ibid* at 299.

<sup>27</sup> See Erkstrand, *supra* note 11 (The term "law in action" law is originally attributed to Judge Richard Posner) at 566.



## i) Contracts

Although the protection provided by copyright law is limited in nature, freedom of contract allows individuals to supersede those limits, amassing rights that would not otherwise be available under the *Copyright Act*.<sup>28</sup> For example, if a consumer purchases a book from an online retailer, a contract may forbid any sale or transfer of the book to a third-party, effectively overriding the first sale doctrine. While two parties are fully within their rights to negotiate an agreement outside the purview of copyright law, this freedom becomes undermined in situations of unequal bargaining power, particularly when an individual is unaware of the true nature of the agreement or has little choice but to accept onerous contractual terms.

These concerns have become especially pertinent in recent years due to the sudden proliferation of end user licensing agreements (EULAs), an umbrella term for clickwrap, browserwrap, shrinkwrap and other forms of contractual agreement characterized by a “common lack of negotiation, as the contract is dictated by the producer and acceptance is indicated by some act other than a written signature.”<sup>29</sup> With a shrinkwrap agreement, for instance, the mere act of opening software packaging can produce a legally binding contract. Although details of the agreement were traditionally placed on the exterior of the box, the contractual terms are now usually found inside the box and acceptance is indicated by the purchaser's use of the product or failure to return the item within a certain length of time.<sup>30</sup> In the context of clickwrap, the digital equivalent of shrinkwrap agreements, a user is typically required to scroll through an agreement and click a button indicating acceptance of the terms.<sup>31</sup> Such terms can be quite severe, touching upon a broad range of legal rights.<sup>32</sup> The fact that individuals often have little or no knowledge

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<sup>28</sup> See Jennifer Knight, “Copyright Misuse v. Freedom of Contract: And the Winner is...” (2005-2006) 73 *Tenn L Rev* 237 at 237.

<sup>29</sup> See Renée Zmurchyk, “Contractual Validity of End User Licence Agreements” (2006) 11 *Appeal* 55 at 55.

<sup>30</sup> *Ibid* at 58.

<sup>31</sup> *Ibid* at 56.

<sup>32</sup> *Ibid* (“[EULA] terms directly conflict with many legal rights including freedom of speech, product liability, privacy rights, security rights and intellectual property rights” at 60).

regarding the substance of these agreements is only further cause for concern.<sup>33</sup>

Due in part to the recent trend of copyright owners licensing rather than selling digital content online, EULAs have fast become the norm in the content industry.<sup>34</sup> They commonly include express prohibitions against reverse engineering, review or criticism (both of the product and the company), the disclosure of benchmark testing and the right to resell the product.<sup>35</sup> They can even provide content holders with the right to unilaterally alter terms of the contract, regardless of whether the user is aware of the change.<sup>36</sup> The potential consequences of this trend for copyright law are severe. According to Margaret Jane Radin, “the widespread regulation of intellectual property rights by contract threatens, in principle, to undermine the official regime of intellectual property.”<sup>37</sup> As EULAs become more pervasive, “democratic debates about the fine details of intellectual property law will become irrelevant as more and more people are 'contracted' out of the official regime,”<sup>38</sup> effectively supplanting laws enacted by Parliament with a network of contractual obligations defined entirely by private entities. “Balanced copyright” (for lack of a better term) is not likely attainable in such an environment.

## ii) TPMs

The current rate of technological advancement and the resulting proliferation of digital content, technological access and control

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<sup>33</sup> See Lydia Pallas Loren, “Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse” (2004) 30 Ohio NU L Rev 495 (highlighting the fact that few, if any, users actually read the terms of clickwrap agreements, Alchemy Mindworks presents users with the following contractual disclaimer: “a leather-winged demon of the night will tear itself, shrieking blood and fury, from the endless caverns of the nether world, hurl itself into the darkness with a thirst for blood on its slaving fangs and search the very threads of time for the throbbing of your heartbeat. Just thought you'd want to know that”) at 497.

<sup>34</sup> See Ian R Kerr, Alana Maurushat and Christian S Tacit, “Technical Protection Measures: Tilting at Copyright's Windmill” (2002-2003) 34 Ottawa L Rev 7 at 44-45.

<sup>35</sup> See Loren, *supra* note 33 at 497.

<sup>36</sup> See Zmurchyk, *supra* note 29 at 61.

<sup>37</sup> Margaret Jane Radin, “Regime Change in Intellectual Property: Superseding the Law of the State with the “Law” of the Firm” (2003-2004) 1 UOLTJ 173 at 178.

<sup>38</sup> *Ibid.*

measures—along with the potential support of additional legal protections in the future—constitute perhaps the greatest challenge to copyright law in Canada. Technological protection measures (TPMs), sometimes referred to as “digital locks,” are mechanisms that protect access to, or control particular uses of, digital content. Common examples of TPMs include passwords and cryptography technologies.<sup>39</sup> Similar to the flexibility provided by contract law, TPMs allow content holders to manoeuvre around the limits of copyright protection, placing virtual fences around content in the public domain and limiting functionality so as to prevent fair dealing in a work. While TPMs strengthen the hand of content holders, the protection they provide is nonetheless imperfect, as users of digital content are still free to remove digital locks if they possess the technical capabilities and know-how. This has led to a push from powerful private actors and certain governments on the international stage, primarily the United States,<sup>40</sup> to place legal prohibitions on the circumvention of such technology.

The United States already has an anti-circumvention regime in the *Digital Millennium Copyright Act*. Although no such system exists in Canada, four attempts have been made to introduce legal protection for TPMs in the past seven years as part of a larger initiative for copyright reform. Bill C-60,<sup>41</sup> C-61<sup>42</sup> and C-32<sup>43</sup> all died on the order paper, while Bill C-11<sup>44</sup> is currently before Parliament. The issue of anti-circumvention laws has proved highly controversial, both in the United States and Canada. The primary concern of critics is the enormous discrepancy between the rights provided to owners under

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<sup>39</sup> See Kerr, Maurushat and Tacit, *supra* note 34 at 13.

<sup>40</sup> In many cases, these forces are one and the same. According to Drahos and Braithwaite, the intellectual property agenda of the United States on the international stage is essentially driven by a small group of powerful corporations through ever expanding spheres of influence, a phenomenon they call “private networked governance.” See Peter Drahos and John Braithwaite, “Hegemony Based on Knowledge: The Role of Intellectual Property” (2004) 21 *Law In Context* 204 at 206.

<sup>41</sup> Bill C-60, *An Act to amend the Copyright Act*, 1st Sess, 38th Parl, 2005 (first reading: 20 June 2005).

<sup>42</sup> Bill C-61, *An Act to amend the Copyright Act*, 2nd Sess, 39th Parl, 2008 (first reading: 12 June 2008).

<sup>43</sup> Bill C-32, *An Act to amend the Copyright Act*, 3rd Sess, 40th Parl, 2010 (second reading: 5 November 2010).

<sup>44</sup> Bill C-11, *An Act to amend the Copyright Act*, 1st Sess, 41st Parl, 2011 (second reading: 13 February 2012).

copyright law and the far more expansive rights available under anti-circumvention regimes. Carys Craig identifies the crux of the matter:

TPMs do not—and generally cannot—distinguish between lawful and unlawful uses and users. There is no necessary (and, typically, no practical) correlation between the limits imposed on would-be users by TPMs and the rights granted to copyright owners under the law.<sup>45</sup>

Because rights under anti-circumvention regimes are defined by a technological system, not by the nature of the content protected by that system, nearly anything can be subject to legal protection, no matter how foreign to copyright law. For this reason, anti-circumvention laws have been referred to as “paracopyright,”<sup>46</sup> an entirely new system of rights that extends far beyond copyright law, subject to none of its statutory limits or safety-valves. Digital locks do not differentiate between works in the public domain and works subject to copyright, nor do they recognize dealings with works that are fair or even forms of expression ineligible for copyright protection. In almost every instance, the same legal rights and remedies are applied with equal force.<sup>47</sup>

### **c) Providing copyright with room to breathe**

According to Carys Craig, exceptions such as fair dealing provide the necessary “breathing space” for a properly functioning copyright system.<sup>48</sup> However, as copyfraud, contracts and technological protection measures are employed with greater frequency to restrict these safety valves and amass rights not available under the *Copyright Act*, the balance inherent in copyright, as well as the relevancy of the entire copyright regime, is effectively being choked

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<sup>45</sup> Carys Craig, “Locking Out Lawful Users: Fair Dealing and Anti-Circumvention” in Michael Geist, ed, *From “Radical Extremism” to “Balanced Copyright”* (Toronto: Irwin Law, 2010) 177 at 192.

<sup>46</sup> See Dan L Burk, “Anti-circumvention Misuse” 50 UCLA L Rev 1095 at 1109.

<sup>47</sup> Bill C-32 did contain specific exceptions to circumvention liability, but they are narrowly defined and of little practical value to the average copyright user. This criticism applies equally to the American DMCA system. See Craig, *supra* note 45 at 194.

<sup>48</sup> *Ibid* at 177.

out of existence. If this outcome is to be avoided (or at least forestalled), an effective deterrent to overreach and abuse is urgently needed. One potential answer is the American doctrine of copyright misuse. Although certainly no panacea, the defence has been successfully raised by copyright users in the United States in the context of abusive contracts, often in relation to software licensing agreements, making it well-adapted to the challenges of an increasingly digital and technologically dependant world. As a judicial doctrine based in equity, it also has the flexibility to expand into novel areas, preventing other problematic behaviour such as copyfraud. It may even be capable of addressing concerns relating to TPMs and anti-circumvention laws, possibly through the development of a separate but related doctrine of anti-circumvention misuse.

## **Part II: Copyright Misuse in the United States**

### **a) From patents to copyrights**

Copyright misuse is a defence in American common law to copyright infringement. Based upon the equitable doctrine of “unclean hands,” the principle behind copyright misuse states that a copyright owner should be barred from enforcing their monopoly rights in an expressive work if they are found to have “misused” their statutory grant of rights. Two approaches to characterizing misuse have emerged: 1) an “anti-trust approach,” which limits misuse to behaviour that is anti-competitive in nature, and 2) a “public policy approach,” which applies more broadly to activity perceived as contrary to the underlying public policy of copyright.<sup>49</sup>

Copyright misuse originally grew out of the older, more firmly entrenched doctrine of patent misuse. In *Motion Picture Patents v. Universal Film Manufacturing. Co.*,<sup>50</sup> the U.S. Supreme Court ruled against the validity of a licensing agreement for the use of a patented movie projector which required that the licensee also purchase unpatented film to be used with the equipment. “It is an attempt, without statutory warrant, to continue the patent monopoly in this

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<sup>49</sup> See Brett Frischmann and Dan Moylan, “Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software” (2000) 15 Berk Tech LJ 865 at 867.

<sup>50</sup> 243 US 502, 37 S Ct 416 (1917).

particular character of the film after it has expired,” stated the court, and “to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside of the patent...”<sup>51</sup> *Motion Picture Patents* effectively laid the groundwork for future interventions by the court on the grounds of equity when an intellectual property owner transgressed the bounds of their limited monopoly rights. It was not until the landmark Supreme Court case of *Morton Salt v. Suppiger*,<sup>52</sup> however, that the defence of patent misuse became fully entrenched in U.S. common law, opening the door for the future growth of an equivalent doctrine of misuse for copyright.

Like many cases in the misuse jurisprudence, the behaviour by the plaintiff in *Morton Salt v. Suppiger* raised competition concerns. Suppiger, the manufacturer of a patented salt-depositing machine, licensed his product on the condition that the licensee only purchase his unpatented salt tablets for use with the device. When Morton began to manufacture and sell a similar salt-depositing machine, Suppiger brought an action for infringement. Upholding the decision of the trial judge, the Court rejected his claim, ruling that the use of a patent to control the market of a non-patented product constituted patent misuse. The grant of a limited-term patent monopoly was a “special privilege,” reasoned the court, provided by the state for the purpose of advancing specific public policy goals, namely the promotion of “the Progress of Science and useful Arts” set out in the U.S. *Constitution*.<sup>53</sup> Suppiger's attempt to claim rights above and beyond his grant was contrary to such goals and therefore a violation of that privilege. Although issues of competition were at the heart of the public policy concerns in *Morton*, the court made clear that its ruling was based purely in equity, not anti-trust law, declining to engage traditional anti-trust analysis under the *Clayton Act*.<sup>54</sup>

In making their decision, the Supreme Court acknowledged in *dicta* the existence of a related doctrine of copyright misuse. The Court cited two cases, *Edward Thompson Co. v. Am. Law Book Co.*<sup>55</sup> and

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<sup>51</sup> *Ibid* at 518.

<sup>52</sup> 314 US 488, 62 S Ct 402 (1942) [*Morton*].

<sup>53</sup> *Ibid* at 492.

<sup>54</sup> *Ibid* at 494.

<sup>55</sup> 122 F 922 (2d Cir 1903).

*Stone & McCarrick, Inc. v. Dugan Piano Co.*,<sup>56</sup> “for the application of the like doctrine in the case of copyright.”<sup>57</sup> Given that the copyright misuse cases referred to by the court were similarly decided on the basis of equity, not anti-trust law, commentators have cited this fact as justification for developing a broad approach to copyright misuse unrestricted by anti-trust analysis.<sup>58</sup> However, due to the passage of legislation, patent misuse now closely resembles an anti-trust-based defence<sup>59</sup> and the correct approach to copyright misuse remains in question.

### **b) *Lasercomb v. Reynolds*: copyright misuse is born**

The doctrine of copyright misuse laid mostly dormant until *Lasercomb America, Inc. v. Reynolds*,<sup>60</sup> the first case to fully develop and uphold the defence in a federal court of appeals.<sup>61</sup> Lasercomb America, a manufacturer of steel rule dies used to cut and score cardboard, developed software called Interact to guide the process. This software was licensed to other cardboard manufacturing companies, including Lasercomb's competitor Holiday Steel, under strict terms of non-competition. Job Reynolds, a computer programmer for Holiday Steel, circumvented the software's protective measures and produced unauthorized copies of the program under the direction of the company's president Larry Holliday. Holiday Steel then began selling its own software, which was almost an exact copy of Interact. Lasercomb sued Holiday Steel, naming Holliday and Reynolds as co-defendants. The District Court granted an injunction against Holliday and awarded Lasercomb damages on the basis of copyright infringement, breach of contract and fraud.

On appeal to the Fourth Circuit, Holliday and Reynolds raised the defence of copyright misuse, attacking the software licensing agreement between the two companies as unduly restrictive. The licence sold by Lasercomb precluded Holliday from developing rival software in any manner for a period of 99 years. After affirming the

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<sup>56</sup> 220 F 837 (5th Cir 1915).

<sup>57</sup> *Morton*, *supra* note 52 at 494.

<sup>58</sup> See Frischmann and Moylan, *supra* note 49 at 883.

<sup>59</sup> See 35 USC § 271(d) (1994).

<sup>60</sup> 911 F2d 970 (4th Cir 1990) [*Lasercomb*].

<sup>61</sup> See Frischmann and Moylan, *supra* note 49 at 888.

availability of copyright misuse as a defence, the court agreed that the licensing agreement was problematic. The non-compete language suppressed “any attempt by the licensee to independently implement the idea which Interact expresses,”<sup>62</sup> effectively undermining the idea/expression dichotomy. In addition, the company was required to “forego utilization of the creative abilities of all its officers, directors and employees in the area of CAD/CAM die-making software,”<sup>63</sup> with the consequence that society as a whole, not just the company, would be deprived of their creative output. Finally, the duration of the agreement “could be longer than the copyright itself.”<sup>64</sup> By reaching beyond the scope of the statutory grant, Lasercomb was “attempting to use its copyright in a manner adverse to the public policy embodied in copyright law.”<sup>65</sup> The Court therefore concluded that the licence constituted a misuse of copyright and set aside the damages for copyright infringement.

Although the Fourth Circuit acknowledged the relatively scant precedent supporting the defence, the Court reasoned that copyright misuse was a logical extension of patent misuse given the shared public policies underlying the two forms of intellectual property. Tracing the historical origins of patent and copyright law in England, as well as their entrenchment in the U.S. *Constitution* and subsequent statutory and judicial developments, the Court observed:

Both patent law and copyright law seek to increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time. At the same time, the granted monopoly power does not extend to property not covered by the patent or copyright.<sup>66</sup>

Given the existence of these common ends, the court found ample justification “for the application of the misuse defense to copyright as well as patent law.”<sup>67</sup>

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<sup>62</sup> *Lasercomb*, supra note 60 at 978.

<sup>63</sup> *Ibid.*

<sup>64</sup> *Ibid.*

<sup>65</sup> *Ibid.*

<sup>66</sup> *Ibid.* at 976.

<sup>67</sup> *Ibid.* at 974.



In upholding the defence, the court was careful to clearly separate the misuse analysis from anti-trust law. Referring to the Supreme Court decision in *Morton Salt* as an authority, “the question is not whether the copyright is being used in a manner violative [*sic*] of antitrust law (such as whether the licensing agreement is ‘reasonable’), but whether the copyright is being used in a manner violative [*sic*] of the public policy embodied in the grant of a copyright.”<sup>68</sup>

### c) Copyright misuse jurisprudence post-*Lasercomb*

Following the germinal decision in *Lasercomb*, courts have been unable to agree upon a single, coherent doctrinal approach to copyright misuse. Although a number of relatively minor issues persist, the most fundamental area of disagreement concerns the role played by anti-trust law in the analysis. At one end of the spectrum are cases that reject the public policy approach adopted in *Lasercomb* outright, instead employing a two-step “rule of reason” test modelled on anti-trust law, which requires a defendant to show actual anti-competitive effects.<sup>69</sup> Guided by Judge Posner's reasoning in *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*,<sup>70</sup> sceptics of the public policy approach argue that anti-trust law offers more certain principles to ground a misuse analysis. It should be noted, however, that Judge Posner seems to have reversed his previous position in light of the growing trend of abusive behaviour among copyright owners,<sup>71</sup> while other commentators have criticized the

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<sup>68</sup> *Ibid* at 978.

<sup>69</sup> See Frischmann and Moylan, *supra* note 49 at 898.

<sup>70</sup> 816 F2d 1191 at 1200 (7<sup>th</sup> Cir 1987) (“[i]f misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the date to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.’ This point applies with even greater force to copyright misuse, where the danger of monopoly is less”).

<sup>71</sup> More than simply a reversal of his former position, Posner now suggests that procedural issues may lead to a finding of copyright misuse. Patry & Posner, *supra* note 16 (“[t]he doctrine of copyright misuse is thus applicable where litigation is threatened in an effort to extract a licensing fee or other profit when there is no reasonable basis for supposing that the threatener's copyright has been infringed. The intent and effect of such behavior are to give the copyright owner more legal protection than copyright law is designed to do - which is a serviceable definition of copyright misuse” at 1658); *Assessment Techs of Wis, LLC, v. WIREdata, Inc.*, 350 F3D 640 at 647 (7<sup>th</sup> Cir 2003) [*WIREdata*] (“[t]he argument for applying copyright misuse beyond the bounds of anti-trust ... is that for a copyright owner to

anti-trust approach as confusing the purposes of copyright and anti-trust law.<sup>72</sup>

At the other end of the spectrum are cases fully removed from the anti-competition context, potentially extending the misuse doctrine to cover restrictions preventing the dissemination of critical language and information,<sup>73</sup> as well as procedural abuses, such as making hollow threats of litigation in order to bully parties into settlement.<sup>74</sup> There is a certain degree of overlap between nearly all approaches, however, with many applications of the doctrine sharing common analytical elements (asking, for instance, whether a restraint falls within the scope of the grant). An exploration of the merits of the two contrasting approaches is beyond the scope of this paper, but the topic has been dealt with at length elsewhere.<sup>75</sup>

One area in which copyright misuse is yet to be recognized is in the context of anti-circumvention technology.<sup>76</sup> Due to this limit on the doctrine's scope, fears have been raised that copyright owners are now incentivized to actively misuse paracopyright in a manner contrary to the public interest.<sup>77</sup> Such concerns seem to be well-placed. In the relatively short time since the DMCA was passed in the United States, anti-circumvention rights have already been applied in a manner that largely mirrors the abuses of copyright owners in copyright misuse cases.<sup>78</sup> Commentators such as Dan Burk have responded by stressing the need to develop a separate but related doctrine of anti-circumvention misuse, noting that much of

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use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.”)

<sup>72</sup> See Neal Hartzog, “Gaining Momentum” (2004) 10 Mich Telecomm Tech L Rev 373 at 400.

<sup>73</sup> See *Rosemont Enterprises, Inc v Random House, Inc*, 366 F2d 303 at 205-206 (2nd Cir 1966). For commentary, see Hartzog, *supra* note 72 at 391.

<sup>74</sup> See *Wiredata*, *supra* note 70 at 647 (7th Cir 2003) (See note 71 above for Judge Posner's commentary in the case.)

<sup>75</sup> See Frischmann and Moylan, *supra* note 49 at 897-900.

<sup>76</sup> See *Lexmark International, Inc v Static Control Components, Inc* 253 F Supp 2D 943 at 966 (2003).

<sup>77</sup> See Jason Sheets, “Copyright Misuse: The Impact of the DMCA Anti-circumvention Measures on Fair & Innovative Markets” (2000-2001) Hastings Comm Ent LJ 1 at 21-22.

<sup>78</sup> See Burk, *supra* note 46 at 1136.

the groundwork has already been laid: “the precedent for elaborating such an anti-circumvention misuse claim lies in the recent development of copyright misuse imported from the patent context. Misuse may again be transplanted out of its previous milieu and into the realm of anti-circumvention.”<sup>79</sup> Others have suggested that the existing doctrine of copyright misuse is adequately flexible to address certain anti-circumvention misuses.<sup>80</sup> However, American courts have yet to move in either direction.

Despite the fact that copyright misuse remains doctrinally uncertain and has yet to be expressly adopted by the United States Supreme Court, scholars generally agree that the doctrine's acceptance is growing.<sup>81</sup> Similar observations have been made by other courts encountering the defence.<sup>82</sup> This can partly be attributed to the increasing ubiquity of technology in society and a resulting reliance on licensing agreements to govern rights to copyrighted works in the digital environment, an area in which copyright misuse is particularly well-suited and most frequently raised.<sup>83</sup> Regardless of the doctrine's ultimate destination in American jurisprudence, however, its judicial origins and underlying basis in equity render it sufficiently adaptable to a host of new legal challenges.<sup>84</sup> As a result, any attempt to import copyright misuse into Canada should not fixate unduly on the specific applications of the doctrine in the American context; the primary issue for consideration is whether copyright misuse, generally conceived, can be justified in principle in Canadian law.

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<sup>79</sup> *Ibid* at 1137.

<sup>80</sup> See Sheets, *supra* note 77 at 22-25.

<sup>81</sup> See Cross and Yu, *supra* note 3 at 458; Hartzog, *supra* note 72 at 405.

<sup>82</sup> See *re Napster, Inc. Copyright Litigation*, 191 F Supp 1087 at 1103 (ND Cal 2002) (in one of the most detailed overviews of copyright misuse since *Lasercomb* more than a decade prior, the court observed that the law of copyright misuse was still in an undeveloped state, but courts had nonetheless shown an increasing willingness to apply the doctrine).

<sup>83</sup> See Hartzog, *supra* note 72 at 387.

<sup>84</sup> *Ibid* (“[b]ecause the misuse doctrine is one of judicial creation, it is easily adapted to resolve novel conflicts that will appear with increasing regularity due to the rapid advance in technological innovation”).

### Part III: Copyright Misuse in Canada

#### a) An unaddressed issue

In comparison to the United States, Canadian jurisprudence and academic literature on the subject of copyright misuse is scant and underdeveloped. While some scholars have noted in brief the need to import such a doctrine into Canadian law, none have seriously attempted to do so. Sunny Handa is possibly the first academic to raise the idea, proposing copyright misuse as a means of protecting the ability of users to engage in reverse engineering of computer software.<sup>85</sup> Noting that the doctrine's basis in equity makes the defence potentially available to Canadian litigants, Handa further suggests that the existence of copyright misuse has already been implicitly acknowledged by the Supreme Court of Canada in *Massie & Renwick Ltd. v. Underwriters' Survey Bureau Ltd.*<sup>86</sup> In contrast, Handa also notes that the Federal Court of Appeal has expressed doubts that anti-competitive behaviour can provide a defence against copyright infringement.<sup>87</sup> However, both cases are quite old, approximately 70 and 30 years respectively, so they seem hardly applicable in the modern technological era, particularly given the context of software licensing agreements in which copyright misuse first arose.

More recently, Canadian academics have turned their attention to copyright misuse in response to controversy surrounding TPMs and various attempts to amend the *Copyright Act* to provide legal protection against the circumvention of such measures. Concerned about the potential chilling effect paracopyright might have on competition, creativity and the dissemination of knowledge and information, Alex Cameron and Robert Tomkowicz propose either incorporating copyright misuse into Canadian law or amending the *Copyright Act* to incorporate the doctrine's principles, arguing that such a move “could help further both copyright and competition policy goals.”<sup>88</sup> Sharing many of the same concerns, Michael Geist

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<sup>85</sup> Sunny Handa, “Reverse Engineering Computer Programs Under Canadian Copyright Law” (1995) 40 McGill L J 650 at 650-652.

<sup>86</sup> [1940] SCR 218, [1940] 1 DLR 625.

<sup>87</sup> *Bell Canada v Intra Canada Telecommunications* (1982), 70 CPR (2d) 252.

<sup>88</sup> Alex Cameron and Robert Tomkowicz, “Competition Policy and Canada's New Breed of 'Copyright' Law” (2007) 52 McGill LJ 291 at 328-329.

also offers copyright misuse as a possible counterweight to anti-circumvention measures, warning that “without a legal principle to mitigate against abuse, Canada would be open to the prospect for even greater abuse of anti-circumvention provisions than that found in the United States.”<sup>89</sup> Finally, Michal Shur-Ofry explores copyright misuse, or a slightly altered form of the doctrine, as a means of furthering his somewhat radical proposal to limit the scope of copyright protection based on the popularity of a work.<sup>90</sup> However, like most scholars touching on the subject, Shur-Ofry mentions the doctrine in brief and makes no attempt to justify the defence in the Canadian context.

While few scholars have attempted to provide a sound basis for recognizing copyright misuse in Canada, fewer still have advanced arguments against its viability. Among those who have, two issues have been raised. First, it has been argued that the Canadian *Copyright Act* lacks a clear and explicit statement of purpose. Without a statutory or constitutional provision similar to that of the U.S. Progress Clause, Canada does not have a firmly articulated policy basis in which to employ the copyright misuse defence.<sup>91</sup> Second, doubts have been raised following the recent decision of *Euro-Excellence Inc. v. Kraft Can. Inc.*,<sup>92</sup> the first Supreme Court of Canada case to expressly mention the term “copyright misuse.” Although the doctrine was only referenced in *dicta* and had no bearing on the outcome of the dispute, the Court's reception to the idea has nonetheless been viewed as unfavourable.<sup>93</sup> However, neither of these concerns provides a sufficient basis to discount a viable “made-in-Canada” approach to copyright misuse.

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<sup>89</sup> Michael Geist, “Anti-circumvention Legislation and Competition Policy: Defining a Canadian Way?” in Michael Geist, ed, *In the Public Interest* (Toronto: Irwin Law, 2005) 211 at 248.

<sup>90</sup> Michal Shur-Ofry, “Popularity as a Factor in Copyright Law” (2009) 59 U Toronto LJ 528 at 574-577.

<sup>91</sup> See Lisa Anne Katz Jones, “Is Viewing a Web Page Copyright Infringement?” (1998) 4 Appeal 60 n 38.

<sup>92</sup> 2007 SCC 37 [*Euro-Excellence*].

<sup>93</sup> See Cross and Yu, *supra* note 3 at 458-459.

## **b) Importing the doctrine into Canadian law**

As we have seen, certain U.S. courts have consistently stressed the public policy behind copyright—a limited grant of monopoly rights aimed at spurring the creation and dissemination of knowledge and information—as justification for the misuse defence. From this perspective, overprotection is just as dangerous as underprotection, and courts therefore have a duty to intervene when owners of intellectual property attempt to claim rights beyond the scope of their grant. So fundamental is this understanding of copyright in the American context that it is expressly entrenched in article 1, section 8, clause 8 of the United States *Constitution*, a provision commonly referred to as the “Progress Clause”:

[The Congress shall have power] To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writing and Discoveries.<sup>94</sup>

The Canadian *Copyright Act* contains no explicit statement of purpose comparable to that of the Progress Clause and Canadian constitutional documents are equally silent on the matter. However, a clear public policy underlying copyright in Canada does nonetheless exist. It is derived from two sources: first, an inherited British system of copyright law, including a history and tradition that similarly shaped developments in the American context; and second, a recent trilogy of cases decided by the Supreme Court of Canada, which articulated for the first time a distinctly Canadian understanding of copyright law and its purpose in society. Taken together, these sources provide a strong justification for the application of copyright misuse in Canada.

### **i) The British tradition**

When looking to evidence of copyright's purpose in the United States, a common starting point is the Progress Clause in the United States *Constitution*, with further discussion usually then leading to the recognition of the influence played by early British developments in the area of copyright law. In *Lasercomb*, the foundational case for

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<sup>94</sup> US Const art I, § 8, cl 8.

copyright misuse in the United States, the court took the reverse approach, beginning with the emergence of “letters” patent in sixteenth century England and the subsequent adoption in 1710 of the *Statute of Anne*.<sup>95</sup> Commonly acknowledged as the world’s first modern copyright legislation, the *Statute of Anne* contained an overt statement of purpose within its formal title: *An Act for the Encouragement of Learning, by vesting the Copies of printed Books in the Authors or Purchasers of such Copies, during the Times therein mentioned*.<sup>96</sup>

The statute stood as a utilitarian bargain.<sup>97</sup> Authors were offered a limited-term monopoly in the reproduction of their published works as an incentive to create, fostering greater innovation and creativity in society. After the term expired, works would enter into the public domain and others would be free to copy and build upon the concepts and expressions contained within. In this regard, the rights granted under the statute were clearly instrumentalist in nature, aimed at promoting the public interest in the creation and dissemination of knowledge. This understanding of copyright has had a lasting effect not only in Britain, but also in the United States and Canada.

As the court in *Lasercomb* observed, the framers of the United States *Constitution* continued the British tradition with the enactment of the Progress Clause, a statement of copyright’s purpose closely aligned with the *Statute of Anne*.<sup>98</sup> The first *Act* governing copyright in the United States, entitled *An Act for the Encouragement of Learning by securing the copies of Maps, Charts and Books to the authors and proprietors of such copies, during the times therein mentioned*,<sup>99</sup> reflects the same British influence,<sup>100</sup> as did early copyright

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<sup>95</sup> *Supra* note 60 at 974.

<sup>96</sup> 1709 (UK), 8 Anne, c 19.

<sup>97</sup> See Paula Samuelson, “Copyright and Freedom of Expression in Historical Perspective” (2003) 10 J Intell Prop L 319 at 324.

<sup>98</sup> *Supra* note 60 at 975.

<sup>99</sup> 1 Statutes at Large 124 (1790).

<sup>100</sup> See P Goldstein, *Copyright’s Highway* (New York: Hill and Wang, 1995) (the legislation was “modeled after the Statute of Anne” and is illustrative of how, in the early years at least, “copyright in the United States paralleled the development of copyright in England” at 51); See also Myra Tawfik, “History in the Balance: Copyright and Access to Knowledge” in Michael Geist, ed, *From Radical Extremism to Balanced Copyright* (Toronto: Irwin Law, 2010) 69 at 78.

legislation adopted at the state level.<sup>101</sup> Although the United States now represents the world's most prominent voice regarding issues of intellectual property, pushing its own distinct brand of copyright law and theory, its British roots remain without question.<sup>102</sup>

Compared to the United States, Canada is even more beholden to the British system of copyright law.<sup>103</sup> In fact, it was not until the passage of the 1911 *Copyright Act*<sup>104</sup> in Britain that Canada and other British Dominions were granted the authority to repeal all existing Imperial copyright laws currently in force at the time.<sup>105</sup> When Canada finally enacted its first modern copyright statute a decade later in 1921,<sup>106</sup> it was essentially a copy of Britain's 1911 *Act* and many elements of the British-influenced legislation remain in place today.<sup>107</sup> Given that Canada and the United States share the same legislative and judicial heritage in the area of copyright, and the influence of early English developments in intellectual property law has been cited as justification for copyright misuse in the United States, it logically follows that the misuse doctrine cannot be wholly alien to the Canadian understanding of copyright. At the very least, solid ground exists for further exploration of the doctrine's legitimacy in Canada.

## ii) The copyright “trilogy”

Despite the strong historical connection to the British tradition of copyright law in Canada, or perhaps even because of it, a clear articulation of a distinctly Canadian understanding of copyright law

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<sup>101</sup> Goldstein, *supra* note 99 (in 1783, Connecticut enacted the first state copyright legislation entitled an act “for the Encouragement of Literature and Genius” at 51).

<sup>102</sup> See Samuelson, *supra* note 97 (“[u]ntil very recently, U.S. copyright law has been true to the basic principles of the *Statute of Anne*” at 326); Craig W Dallon, “The Problem with Congress and Copyright Law: Forgetting the Past and Ignoring the Public Interest” (2004) 44 Santa Clara L Rev 365 (calling the *Statute of Anne* “the direct progenitor of American copyright law”); Sunny Handa, *Copyright Law in Canada*, (Markham, ON: Butterworths, 2002) at 44.

<sup>103</sup> See Handa, *supra* note 102 (“[i]n contrast to the U.S., which charted its own course after gaining independence, the Canadian history of copyright has largely remained in step with that of Britain” at 53).

<sup>104</sup> *An Act to amend and consolidate the Law relating to Copyright* (UK), 1 & 2 Geo 5, c 46.

<sup>105</sup> See Handa, *supra* note 102 at 54.

<sup>106</sup> *Statutes of Canada*, 11-12 Geo V 1921, c 24.

<sup>107</sup> See Gervais, *supra* note 6 at 326.



failed to emerge until only recently.<sup>108</sup> According to Daniel Gervais, it was not until the copyright “trilogy”—three landmark cases beginning with *Théberge v. Galerie d'Art du Petit Champlain*<sup>109</sup> in 2002 and later followed by *CCH Canadian Ltd. v. Law Society of Upper Canada*<sup>110</sup> and *SOCAN v. CAIP*<sup>111</sup> two years after—that the Supreme Court of Canada stepped in to fill the purposive vacuum. The principles laid down in these three cases provide a clear justificatory basis for copyright misuse in Canada.

In *Théberge*, the first case in the trilogy, the Court had to determine whether a process of transferring ink from a poster onto a canvas backing constituted “reproduction” as understood under the *Copyright Act*. Writing for the majority, Justice Binnie took the opportunity to fully articulate for the first time the purpose of copyright law in Canada, defining it 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...”<sup>112</sup> A number of important principles have emerged from this seemingly simple statement of purpose, several of which are particularly relevant in the context of copyright misuse.

First, the concept of “balance” between dual objectives, one of which is the public interest, indicates that copyright law in Canada cannot be viewed entirely through the eyes of the rights-holder; there are other legitimate interests at stake. Second, it logically follows from this concept of balance that the rights of owners must necessarily be limited in nature. If at any time these limits are surpassed, the proper balance will be undermined and the public interest threatened. The Court cautioned against “excessive control by holders of copyrights” for this reason, warning that it may “unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interests of society as a whole, or create practical obstacles to proper utilization.”<sup>113</sup> Third, the Court spoke of copyright in decidedly economic terms. Employing the rationale of incentives, they reasoned that it would be “as inefficient to overcompensate

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<sup>108</sup> *Ibid* at 317.

<sup>109</sup> *Théberge*, *supra* note 6.

<sup>110</sup> *CCH*, *supra* note 6.

<sup>111</sup> *SOCAN*, *supra* note 6.

<sup>112</sup> *Supra* note 6 at para 30.

<sup>113</sup> *Ibid* at para 32.

artists and authors for the right of reproduction as it would be self-defeating to undercompensate them.”<sup>114</sup> It would appear that, from an economic perspective, the rights and rewards of copyright owners are not an end in themselves. Commentators have interpreted such statements as constituting a marked shift to a more instrumentalist view of copyright, one focused on ensuring “the orderly production and distribution of, and access to, works of art and intellect.”<sup>115</sup>

*Théberge* was decided by a narrow 4-3 majority, with two justices absent from the decision. If there were any lingering doubts regarding the precedential authority of the case, however, they were thoroughly put to rest two years later in *CCH Canadian Ltd. v. Law Society of Upper Canada*. At issue was whether the Law Society's Great Library was liable for copyright infringement for photocopying and distributing legal materials published by CCH Canadian. Writing for a unanimous Supreme Court, Chief Justice McLachlin affirmed the dual objectives articulated by Justice Binnie in *Théberge*, adopting the concept of “balance” as a guide for establishing a definition of originality under the *Act*:

When courts adopt a standard of originality requiring only that something be more than a mere copy or that someone simply show industriousness to ground copyright in a work, they tip the scale in favour of the author's or creator's rights, at the loss of society's interest in maintaining a robust public domain that could help foster future creative innovation.<sup>116</sup>

Echoing the language employed in *Théberge*, McLachlin C.J. stressed the dangers of overprotection, warning against the impoverishment of the public domain and the likely consequences of intellectual and creative stagnation. In the interest of society and follow-on creators, she underscored the need to “safeguard against the author being overcompensated for his or her work.”<sup>117</sup>

The Court in *CCH* also took the significant step of granting further weight and legitimacy to the interests of users of copyrighted works.

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<sup>114</sup> *Ibid* at para. 31.

<sup>115</sup> Gervais, *supra* note 6 at 317.

<sup>116</sup> *CCH*, *supra* note 6 at para 23.

<sup>117</sup> *Ibid* at para 23.

In the process of defining the scope of fair dealing, the Court characterized the statutory exception to copyright infringement as a positive right, not simply a defence, held by copyright users: “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.”<sup>118</sup> The concept of users' rights extends beyond fair dealing to include all exceptions under the *Copyright Act*. This means that the interests of copyright-holders must not only be balanced against the public interest generally, but also against the individual rights of each copyright user.

In the last case of the trilogy, *SOCAN*, the Court was tasked with determining the potential liability of Internet service providers (ISPs) for the transmission of copyright protected content across their networks. Although the decision primarily turned on matters of statutory interpretation, the Court nonetheless began their analysis by acknowledging the principle of balance established in *Théberge*, as well as the unique interests engaged by the technology-specific context of the appeal, noting:

The capacity of the Internet to disseminate “works of the arts and intellect” is one of the great innovations of the information age. Its use should be facilitated rather than discouraged, but this should not be done unfairly at the expense of those who created the works of arts and intellect in the first place.<sup>119</sup>

The Court ultimately found that ISPs, acting as mere conduits of information, have not “authorized” or “communicated” content as defined under the *Act* and should therefore be exempt from liability. In the view of Daniel Gervais, the decision in *SOCAN* shows clear evidence of economic and instrumentalist reasoning. Given that the Internet is a public good and ISPs are its guardian, “it would be economically inefficient to impose a liability on them to merely transmit content they do not control,” writes Gervais. “[I]f liability exists for content being transmitted on the Internet, ISPs are not a

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<sup>118</sup> *Ibid* at para 48.

<sup>119</sup> *SOCAN*, *supra* note 6 at para 40.

proper target for rightsholders.”<sup>120</sup> If economic considerations are becoming increasingly central to the Court’s interpretation of copyright, then the inefficiencies of overcompensating creators warned of in *Théberge* should hold further weight, underscoring the need to prevent copyright owners from extending their control of expressive works beyond the scope of their statutory grant of rights.

Together, the trilogy of cases stands for the proposition that copyright protection should be limited in nature. Rather than being an end unto itself, copyright serves a clear purpose, one that can be undermined by too much protection. This understanding goes to the core of copyright misuse and is roughly analogous to the reasoning employed by U.S. courts enforcing the doctrine. In fact, some aspects of the Canadian context arguably provide greater support for the misuse defence than in the United States. Not only has the Supreme Court of Canada stressed the limited nature of copyright through the concept of balance, warning against the negative repercussions of excessive protection, but the language of “user’s rights” goes beyond that of American copyright jurisprudence. Not only is the public interest threatened when copyright owners claim rights outside the scope of the grant, but the rights of users, which must not be subjugated to the rights of copyright owners, are also trampled as a result. Add in the economic and utilitarian calculations that increasingly drive judicial decision-making on matters of copyright and it becomes difficult to understand how instances of overreach and abuse can be allowed to continue unchecked. If a sufficient justificatory basis for copyright misuse in Canada did not exist prior to 2002, then it must surely exist now.

### iii) “Best left for another day”

Soon after the copyright trilogy was decided, *Euro-Excellence Inc. v. Kraft Can. Inc.* arrived on the Supreme Court docket. As the first case to expressly mention the doctrine of copyright misuse, albeit only in passing, some commentators have argued that *Euro-Excellence* potentially stands as a complete rejection of the defence in Canada.<sup>121</sup> However, such a conclusion represents a misreading of the decision and is unwarranted on a number of grounds.

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<sup>120</sup> *Supra* note 6 at 324.

<sup>121</sup> See Cross and Yu, *supra* note 3 at 458.

The dispute in *Euro-Excellence* concerned the parallel importation of goods. Kraft, the owner of Côte d'Or and Toblerone chocolate bars, attempted to stop Euro-Excellence from purchasing the chocolate bars in Europe and importing them into Canada by alleging secondary infringement of the copyrighted logos on the packaging. The Court rejected the claim, ruling that Euro-Excellence could not be held secondarily liable because no primary infringement had occurred. In the course of the proceedings, Euro-Excellence asserted a defence of copyright misuse.

The only opinion to expressly acknowledge the attempted defence, written by Justice Bastarache and supported by Justices LeBel and Charron, declined to rule on the doctrine's validity given the plaintiff's failure to make out their case. The Court's finding that no infringement of Kraft's copyright actually occurred rendered “an appeal to this developing doctrine unnecessary” and, as result, the possible application of copyright misuse in Canada was “best left for another day.”<sup>122</sup>

Although Bastarache J. deferred the question of copyright misuse, his opinion nonetheless turned on logic surprisingly similar to that of the misuse doctrine. He argued that copyright owners should not be able to assert copyright protection in a work in the context of secondary infringement when the copyright is being used in a manner “incidental” to a product being sold.<sup>123</sup> As a result, Kraft cannot use the copyrighted logo appearing on their packaging as a means of protecting market share or goodwill in consumer goods, a domain traditionally reserved for trademark law. In support of this principle, Bastarache J. cited the case of *Kirkbi v. Ritvik Holdings*,<sup>124</sup> which held that trademarks cannot be leveraged to protect subject matter that normally falls within the domain of patent:

Trade-mark law protects market share in commercial goods; copyright protects the economic gains resulting from an exercise of skill and judgment. If trade-mark law does not protect market share in a particular situation,

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<sup>122</sup> *Euro-Excellence*, *supra* note 92 at para 98.

<sup>123</sup> *Ibid* at para 95.

<sup>124</sup> *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65.

the law of copyright should not be used to provide that protection, if that requires contorting copyright outside its normal sphere of operation. *The protection offered by copyright cannot be leveraged to include protection of economic interests that are only tangentially related to the copyrighted work* [emphasis added].<sup>125</sup>

Despite Bastarache J.'s stated intent not to answer the copyright misuse question, this passage seems strangely reminiscent of the misuse defence. Justice Bastarache even grounded his reasoning in the purpose of the *Copyright Act*, the principles of which he derived from the copyright trilogy mentioned earlier, and the concept of “balance” in copyright.<sup>126</sup>

The opinion of Justice Rothstein, supported by Justices Binnie, Deschamps and the concurring opinion of Justice Fish, strongly disagreed with the parallel drawn between the *Kirkbi* decision and the case before them:

The difficulty in attempting to analogize this case and *Kirkbi* is that the Court in *Kirkbi* relied on a provision of the *Trade-marks Act* in order to find that there could be no overlap between trade-mark and patent. In contrast, s. 64(3)(b) of the *Copyright Act* permits a single work to be the subject of both copyright and trade-mark protection. In other words, Parliament has authorized an overlap between copyright and trade-mark.<sup>127</sup>

Although commentators have suggested otherwise,<sup>128</sup> this reasoning does not conflict with the logic underlying copyright misuse. In most instances, the defence only applies when a copyright holder has attempted to extend their copyright beyond the scope of the grant. However, in the case of *Euro-Excellence*, Justice Rothstein found that Parliament clearly intended to authorize concurrent copyright and trade-mark protection, meaning that the use in question fell well within the legitimate scope of the grant. It is impossible to “misuse”

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<sup>125</sup> *Euro-Excellence*, *supra* note 92 at para 83.

<sup>126</sup> *Ibid* at para 84.

<sup>127</sup> *Ibid* at para 13.

<sup>128</sup> See Cross and Yu, *supra* note 3 (arguing that Justice Rothstein's opinion explicitly rejects the possibility of copyright misuse in Canada at 459).

a copyright for a purpose that, according to Justice Rothstein, is endorsed by Parliament. Given that copyright misuse has no theoretical application in such instances, the Court had no justifiable reason to expound upon the potential application of a novel judicial doctrine. Thus, not only was *Euro-Excellence* not liable for secondary infringement, making the consideration of valid defences unnecessary, but Rothstein's interpretation of the *Copyright Act* rendered the issue of copyright misuse moot.

Further muddying the issue, Justice Fish agreed with the opinion of Justice Rothstein, but expressed “grave doubt” as to “whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the *Copyright Act*.”<sup>129</sup> With two groups of justices reaching their concurring decisions through widely divergent paths, Justice Fish expressing concern over a relatively key matter, and McLachlin C.J. and Abella J. standing in dissent, it is difficult to extrapolate any clear principles regarding an issue so peripheral to the case. While none of the scattered opinions constitute anything close to an embrace of the copyright misuse doctrine, it is equally inaccurate to conclude that the defence has been soundly rejected. In fact, the Court's reasoning seems largely harmonious with copyright misuse in many aspects. At most, *Euro-Excellence* indicates a preference on behalf of the Court to refrain from needlessly exploring a novel doctrine's application in Canada unless clearly warranted in the circumstances.

#### Part IV: Conclusion

According to one commentator, “[copyright] misuse has now reached a stage of development similar to the stage that the fair use defense reached before its statutory enactment.”<sup>130</sup> As a result, American scholars have recently proposed codifying the defence in an amendment to the U.S. *Copyright Act*.<sup>131</sup> Other countries are considering similar changes. Currently in the process of copyright reform, Brazil is evaluating a proposed provision with a purpose comparable to that of anti-circumvention misuse. Rather than

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<sup>129</sup> *Euro-Excellence*, *supra* note 92 at para 52.

<sup>130</sup> See Tom W Bell, “Codifying Copyright's Misuse Defense” (2007) *Utah L Rev* 573 at 574.

<sup>131</sup> See generally *Ibid*; see also Erkstrand, *supra* note 11 at 586-589.

temporarily barring actions for infringement, however, behaviour constituting misuse would lead to actual civil sanctions.<sup>132</sup>

While statutory reform may offer a more effective, long-term solution, the threats posed by overreaching copyright owners are urgent and a judicial doctrine of copyright misuse represents a more immediate and flexible approach. Given the clear articulation of copyright's purpose to have recently emerged from the Supreme Court of Canada, a strong justificatory basis now exists for the doctrine's importation into Canadian law. Although the exact doctrinal scope and function of copyright misuse remain uncertain, the need to create a disincentive for overreach and abuse is clear. The questionable procedural behaviour of overzealous copyright owners, coupled with the increasing use of licensing agreements and technological protection measures to control access to expressive works, threaten to not only render the statutory limits and safety-valves of copyright ineffectual, but also to supplant copyright as the dominant means of exercising control over expressive works. Copyright misuse should be considered as one tool among many necessary to avoid such consequences.

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<sup>132</sup> Law No 9610 of 19 February 1998, *on Copyright and Neighbouring Rights*, s 107(1) (Brazil) [unofficial translation].