

IN THE MATTER OF THE TORONTO EXTERNAL CONTRACTS INQUIRY

AFFIDAVIT OF BRUCE STRATTON

I, Bruce Stratton, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am a barrister and solicitor in the Province of Ontario and a partner in the firm Dimock Stratton LLP.
2. I have been practising Intellectual Property law for 17 years and have been a partner with my current firm for the last 10 years.
3. I obtained my LL.B. from the University of Toronto in 1985. I graduated from Queen's University in 1981 with a Bachelor of Science in Computer Science (First Class).
4. I was called to the Ontario Bar in 1987 and since then have practised intellectual property law and with a concentration on the areas of computers and software and intellectual property litigation in the Federal Court of Canada.
5. I am a Registered Patent Agent and was awarded the Marie F. Morency Prize for standing first in the Patent Drafting Qualifying Examination.
6. I have written many articles in the area of computer law. I have spoken on IP Issues on the Internet to the Intellectual Property Institute of Canada, as well as on copyright and the world-wide-web at the Federated Press Seminars in 2002 and 2004 and at an Insight Seminar in 1997.
7. I am a co-author of the chapter "*Computer-Related Disputes*" in *Intellectual Property Disputes: Resolutions & Remedies*, vol. 2 (Toronto: Carswell, 2002). I am also a co-author of the chapter "*Computer Contracts*" in *Canadian Forms and Precedents* (Toronto: Butterworths).

8. In addition, I am active in many professional organizations, sitting on the Computer-Related Technology Committee of the Intellectual Property Institute of Canada. I am also a member of the Computer Law Association, the American Intellectual Property Law Association, the Association for Computing Machinery and the Advocates' Society.
9. I have been counsel in many cases involving copyright including: copyright in legal reports, copyright in music files shared on the Internet, copyright injunctions relating to counterfeit consumer products, a copyright trial involving telephone directories, and a proceeding relating to copyright and injunctive relief relating to computer source code and data conversion.

Scope of this Affidavit

10. I have been asked to consider the following questions and provide a brief overview of the current state of copyright law in Canada as it relates to each:
 1. How does copyright arise or to what does copyright protection attach for software applications?
 2. To whom does copyright vest when the application is created by an independent contractor. Is this different than when an application is created by an employee?
 3. Where a computer program is created by an independent contractor, how is copyright assigned to someone else?
 4. If there is no written assignment of copyright, can there be an implied or unwritten assignment of copyright?
 5. What is the effect of registration of copyright, both in Canada and the United States?

Current State of the Law:

1. How does copyright arise and to what does copyright protection attach for software applications?

11. “In Canada, copyright is a creature of statute and the rights and remedies provided by the *Copyright Act* are exhaustive” (*CCH Canada Inc. v. Law Society of Upper Canada*, [2004] S.C.R. 339, at para. 9).
12. A basic principle of copyright law is that copyright protection extends to expressions of ideas and not to the ideas themselves.¹
13. Under the *Copyright Act*, copyright protection applies to all original literary, dramatic, musical and artistic works. A literary work includes a computer program – both in source code and in executable code form².
14. The *Copyright Act* provides that copyright, in relation to a work, means the sole right to produce or reproduce the work or any substantial part of the work.³
15. There are certain exceptions and permitted uses under the *Copyright Act*⁴. For computer programs these include a right to make a copy for backup purposes and for reasons of computer compatibility⁵.
16. Both the literal and non-literal portions of a computer program may have copyright protection.⁶ The non-literal portions may include the structure, design, and user interface of the program.⁷

¹*CCH Canada Inc. v. Law Society of Upper Canada*, *supra*, at para. 8.

² Section 2 of the *Copyright Act*, R.S.C. 1985, c. C-42, as amended; “computer program” is defined in s. 2: “a set of instructions or statements, expressed, fixed, embodied or stored in any manner, that is to be used directly or indirectly in a computer in order to bring about a specific result;”

³ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s.3.

⁴ *Copyright Act* R.S.C. 1985, c. C-42, as amended, ss. 29-32.2

⁵ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s.30.6.

⁶ *Delrina Corp. v. Triolet Systems Inc.* (1993), 47 C.P.R. (3d) 1 (Ont. Gen. Div.) *aff'd* (2002), 58 O.R. (3d) 339 (Ont. C.A.)

⁷ *Ibid.* See also *Prism Hospital Software Inc. v. Hospital Medical Records Institute* (1994), 57 C.P.R. (3d) 129 at 272 (B.C. Sup. Ct).

17. Moral rights claims may also be asserted in the context of computer software.⁸
18. In summary, a computer program is protectable by copyright. At its most basic, copyright in the computer program allows the copyright holder to prevent the program source code or executable code from being copied without authorization. In practice, this means that an owner of copyright in a computer program may be entitled to stop another from making unauthorized copies of the program, even if the other person may have a right to possess and use a single copy of the program.

2. To whom does copyright vest when the application is created by an independent contractor. Is this different than when an application is created by an employee?

19. The author of a work is usually the first owner of the copyright in the work.⁹ The author is generally the person who actually writes, draws or composes the work, or the person who expends skill, labour and judgment that results in the expression of the work.¹⁰
20. The general rule of author as the first owner does not apply in the situation where the work is made in the course of employment¹¹:

13(3) Where the author of a work was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright...

21. The following four tests have been considered to determine whether the services of an individual have been rendered under a contract of service (employer owns copyright) or a contract for service (author owns copyright):

⁸ *Nintendo of America Inc. v. Camerica Corp.* (1991), 34 C.P.R. (3d) 192 (F.C.T.D.) aff'd (1992) 36 CPR (3d) 352 (F.C.A.).

⁹ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s. 13.

¹⁰ McKeown ed., "Fox on Canadian Law of Copyright and Industrial Designs" (Toronto: Carswell, 2003) at 17-2.

¹¹ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s. 13(3).

- 1) Control test: under a contract for service, the manner of the performance of the work is left to the individual.
- 2) Organization or integration test: under a contract for service, the work is done for the business but is not an integral part of it.
- 3) Economic reality test: is the person carrying on business for himself or for a superior.
- 4) Specified result test: a contract for service envisions the accomplishment of a specific test.¹²

22. Where an independent computer programmer is paid to develop a computer program, absent a written assignment of copyright in the program, the independent contractor will be considered the owner of copyright in the program. The following factors may be considered in deciding if a programmer is an independent contractor: ownership of tools, control of subordination, risk of loss or possibility of profit, and integration of the worker in the work place.¹³

3. Where a computer program is created by an independent contractor, how is copyright assigned to someone else?

23. Subsections 13(4) and 13(5) of the *Act* speak to assignments of copyright:

(4) Assignments and licenses – The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

5) Ownership in case of partial assignment – Where, under any partial assignment of copyright, the assignee becomes entitled to any right comprised in copyright, the assignee, with respect to the rights so assigned, and the assignor, with respect to the rights not assigned, shall be treated for the purposes of this Act as the owner of the copyright, and this Act has effect accordingly.

¹² *Manrotta v. R.* (T.D.) [1986] 2 F.C. 221 (F.C.T.D.).

¹³ *Amusements Wiltron Inc. v. Mairville* (1991), 40 C.P.R. (3d) 521 (Que. Sup. Ct).

24. The Ontario Court of Appeal recently affirmed that no assignment is valid unless it is in writing.¹⁴ An assignment is “after all the cessation of the absolute right of ownership over the product of one’s intellect”, consequently, the Quebec Superior Court held that an assignment can be effected “only when language to that effect is express.”¹⁵ The Federal Court has held that the stipulation of having an assignment in writing is a “substantial legal requirement and not a merely a simple rule of evidence.”¹⁶
25. In *Pizza Pizza v. Gillespie et al.*, the Ontario Court (General Division) held that where a consulting company had developed software for a company and continued to update it, then the consulting company owned the copyright in that work and was free to reproduce and sell the software, unless the copyright was assigned.¹⁷
26. Section 57 of the *Copyright Act* permits assignments or licences to be registered with the Registrar of Copyright:

57(1) The Registrar of Copyrights shall register an assignment of copyright, or a licence granting an interest in a copyright, on being furnished with

- (a) the original instrument or a certified copy of it, or other evidence satisfactory to the Registrar of the assignment or licence; and
- (b) the fee prescribed by or determined under the regulations.

(2) [Repealed, 1992, c. 1, s. 51]

(3) Any assignment of copyright, or any licence granting an interest in a copyright, shall be adjudged void against any subsequent assignee or licensee for valuable consideration without actual notice, unless the prior assignment or licence is registered in the manner prescribed by this Act before the registering of the instrument under which the subsequent assignee or licensee claims.

¹⁴ *Roberston v. Thomson Corp.* (Ont. C.A.), unreported Oct 6, 2004, [2004] O.J. No. 4029 at para. 92.

¹⁵ *Marquis v. DKL Technologies Inc.* [1989] Q.J. No. 492 online: QL (QJ) at para 19 (Que Sup Ct (Civ. Div.))

¹⁶ *Motel 6 Inc. v. No. 6 Motel Ltd. and John van Edmond Beachcraft Hawthorne* [1982] 1 F.C. 638 at 647-648, as per Justice Addy.

¹⁷ *Pizza Pizza v. Gillespie et al.* (1990), 33 C.P.R. (3d) 515 (Ont. Ct. (Gen Div.)).

27. In summary, where an independent contractor creates a computer program, the copyright in the program is assigned to another only by an explicit agreement in writing, which may be registered with the Registrar of Copyrights.

4. If there is no written assignment of copyright, can there be an implied or unwritten assignment of copyright?

28. As indicated above, any assignment or grant of a copyright interest must be in writing.

29. However, “a mere licence” (which does not grant an interest in the copyright) need not be in writing. A licence can be implied in appropriate circumstances.¹⁸ The Ontario Court of Appeal recently held that some licences to use copyright can be granted orally such as the permissions given by freelance authors to have their articles published in newspapers that are based on mutual understanding or customary practice.¹⁹ A non-exclusive licence, permitting merely the use of a work, is not a proprietary interest and as such need not be in writing.²⁰

5. What is the effect of registration of copyright, both in Canada and the United States?

(a) Canada

30. Copyright protection in Canada arises automatically upon the creation of an original work and does not require registration.²¹ This fundamental principle is also put forth in Article 5, paragraph 2 of the *Berne Convention*:

“The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this

¹⁸ *Roberston v. Thomson Corp.* (2001), 15 C.P.R. (4th) 147 (Ont. Sup. C.J.).

¹⁹ *Roberston v. Thomson Corp.* (Ont. C.A.), *supra*, at para. 95.

²⁰ *Ibid.*, at para. 101

²¹ *Zamacois v. Douville* (1943), 3 Fox Pat. C. 44 (Can. Ex. Ct)

Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.”²²

31. Section 53 of the *Copyright Act* provides that a certificate of registration of copyright in a work is evidence that copyright subsists in the work and that the person registered is the copyright owner.²³ Copies of entries in the Register of Copyrights are admissible in all Canadian courts without further proof or production of originals.²⁴
32. Registration also prevents a defendant from pleading innocent infringement at trial. Section 39 of the *Act* provides that a defendant who proves they were not aware and had no reasonable ground for suspecting that copyright existed in a work is not liable for any other remedy against them other than an injunction. However, if at the date of the infringement, the copyright in the work was registered, then the defendant is deemed to have had reasonable grounds for suspecting that the copyright subsisted in the work.
33. In Canada there is no requirement that a copy of the work be deposited with the Copyright Office to obtain registration of copyright.

(b) United States

34. Copyright protection in the United States is secured automatically upon creation of the work. However there are benefits to copyright registration, which acts as a public record of the copyright claim. Copyright occurs automatically once an original work is created and the work is fixed “in any tangible medium of expression.”²⁵

²² *Berne Convention for the Protection of Literary and Artistic Works* (Paris Text 1971), article 5(2).

²³ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s. 53.

²⁴ *Copyright Act* R.S.C. 1985, c. C-42, as amended, s. 53 (3).

²⁵ 17 USC §§ 101, 102(a).

35. On October 31, 1988, the United States ratified an amended version of the Berne Convention Implementation Act of 1988.²⁶ The result was a two-tiered system. If the country of origin of the work is the U.S., then the author must register (or have applied to register) the work in the United States before filing an infringement suit.²⁷ “If the originator of the work is a member of the convention, other than United States, then the author can institute an infringement action in the U.S. without having to register the work first.”²⁸

36. Registration of copyrighted work does provide advantages:

1) the registration is *prima facie* evidence of the validity of the copyright in litigation for copyright infringement.²⁹

2) the author may file suit for infringement of the copyright.³⁰

3) the author may obtain statutory damages between US\$750 and US\$30,000 (i.e., the author is entitled to money from the infringer, without the author needing to show financial loss from the infringement). If the infringement was "wilful", the statutory damages can go as high as US\$150,000.³¹

²⁶ H.R. 4262. See also Barry Sookman “*Computer, Internet and Electronic Commerce Law*” (Toronto: Carswell, 2004) at 3-47 to 3-50.

²⁷ Barry Sookman “*Computer, Internet and Electronic Commerce Law*” (Toronto: Carswell, 2004) at 3-48. See U.S. Copyright Act 17 USC §411(a).

²⁸ *Ibid.*

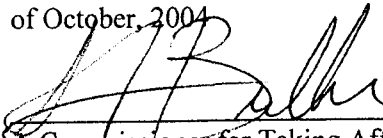
²⁹ 17 USC §410(c).

³⁰ 17 USC §411(a).

³¹ 17 USC §§412, 504(c).

4) An infringer may be required by the Court to pay all of the attorney's fees of the author.³²

SWORN before me at the City)
of Toronto, this 26th day)
of October, 2004)



A Commissioner for Taking Affidavits
(Ahmed Bulbulia)



BRUCE STRATTON

³² 17 USC §§412, 505.