Copyright Board Canada

CANADA

Commission du droit d'auteur Canada

INFLATION ADJUSTMENTS TO ROYALTY RATES: DEFAULT METHODOLOGY

Introduction

In past decisions, the Board has held that adjustments to royalty rates (in dollars and/or cents) to account for inflation may be appropriate to preserve the purchasing power of copyright owners. Failing to make such adjustments could, over time, erode the value of the royalties collected through tariffs.

To promote consistency in decisions related to increases to royalty rates to account for inflation, these non-binding guidelines set out a default methodology for such adjustments.

As these guidelines are not binding, they do not exclude the use of other methods by the Board. Rather, if Members depart from this approach, they are encouraged to explain the reasons for using another approach in that particular case.

Similarly, it does not prevent parties from proposing other methodologies, provided that they are explained.

1. PROCESS

Like any other change proposed to a tariff, a collective society that seeks an increase related to inflation, should identify and explained this in the related Notices of Grounds for Proposed Tariff.

In the same way, once notified of a proposed increase related to inflation, objectors may express their concerns regarding such a proposed inflation increase in their Notices of Grounds for Objection. The consideration of all proposed changes to tariffs, including inflation, will occur at the same time as all other issues relevant to the case.

Please consult the Board's relevant Practice Notices for further details and guidance.

2. METHODOLOGY

There are many ways to calculate inflation. Approaches vary in economic literature as well as among organizations that engage in such calculations. The period covered by the calculation, the index selected and the specific data series used can all vary and any difference in the methodology or key variables used may lead to different results.

The default methodology described below was used by the Board in several past decisions over the years, from SOCAN, Re:Sound - Tariff for CBC Radio (2006-2011)[1] to more recently in SOCAN Tariffs 10.A & 10.B (2023-2025)[2].

This methodology is only to be applied to royalty rates expressed in dollars and/or cents. For rates expressed as percentages, it should be assumed that, everything else being equal, all market prices fluctuate at the same rate as inflation or close to it. As such, royalty rates expressed as percentages of revenues adjust automatically to account for any inflation.

- ***Calculation Period:***

Inflation is calculated starting either from the month after:

- the last period for which the Board determines inflation was last taken into account in a tariff proceeding (usually January of the next calendar year);

or

- the end of the period for which the Board approved a tariff based on a jointly-submitted text (JST) or fixed royalty rates pursuant to an application under s. 71(1) of the *Copyright Act*.

The calculation period will include the last full-year of data available, up to, and including, the last month of the calendar year before the effective period of the proposed tariff.

Example 1: No tariff approved based on a JST or pursuant to an application under s. 71(1) of the Act since the Board last approved an inflation increase.

A proposed tariff is filed on October 15, 2024, for the period 2026-2028. An adjustment to the royalty rate, which is expressed in dollars and/or in cents, is sought. The last time the rate was increased for inflation was in consideration of the tariff proposed for 2015, based on data ranging from January 2008 to December 2014. The Board issues its decision (for the 2026-2028 period) in November 2025. The relevant calculation period would be January 2015 to December 2024. It includes the most recent full-year of data available at the time of the decision, not exceeding the start of the effective period (2026).

Example 2: The last approved royalty rate was based on a JST or pursuant to an application under s. 71(1) of the Act

In the example above, assume that the last time the rate was approved was in 2015 for the years 2015-2020, based on a jointly submitted text. The Board issues its decision (for the 2026-2028 period) in November 2025. In this case, the relevant calculation period would be January 2021 to December 2024.

- ***Period of Application:***

The calculated inflation (i.e., a single value, in percentage terms) is applied to the royalty rate (in dollars and cents) for the period for which the increase was requested in the proposed tariff.

Example:

[1] *SOCAN, Re:Sound - Tariff for CBC Radio (2006-2011)* (Reasons) (July 8, 2011).

[2] *SOCAN Tariff 10.A & 10.B – Parks, Parades, Streets and Other Public Areas (2023–2025)* 2022 CB 6 (August 5, 2022), Gaz Supplement Vol. 156, No. 32.

A proposed tariff is filed for the years 2026-2028, proposing an inflation increase to the royalty rate or the portion of the royalty rate expressed in dollars and/or in cents, applicable in 2026. If approved, the inflation increase would be in effect for each calendar year of the proposed tariff starting in January 2026.

- ***Calculation Index:***

The rate of inflation is measured by the Consumer Price Index (CPI). The CPI is the index most often referred to by the Bank of Canada and other well-known organizations to determine the rate of inflation when considering rate adjustments. Past Board decisions point to the CPI as being the most familiar and better recognized index, familiar to most people, including copyright owners and music users.

Economic efficiency suggests that the price of a good varies with its cost of production. Historically, past Board decisions relied on the Industrial Products Prices Index (IPPI) when considering inflation adjustments to royalty rates but the approach changed in the early 1990s for several reasons. First, since the CPI reflects a wider basket of goods and services than the IPPI, it constitutes a better approximation of the administrative costs of tariffs – or the costs of production. Second, the IPPI was also found to be highly correlated with the CPI so, in practice, the better-known CPI measure produced a similar result. Lastly, the large sampling on which the CPI is based is subject to smaller variations, both upwards and downwards, resulting in a relative higher stability of the price index.

- ***Data Series:***

Statistics Canada's Consumer Price Index monthly series for Canada, all-items, not seasonally adjusted and not adjusted for taxes is used. The Board has previously stated that this data series is considered the most representative, most relevant, and least distorted for the purpose of calculating inflation adjustments. It reflects the prices of all types of goods and services and excludes any seasonal adjustments or transformations, both of which are not relevant for Board calculations.

Calculations

- ***Step 1: Determination of the Inflation Rate***

Subtract the CPI from January of the first year of the calculation period (CPI_1) from the CPI of December of the last year of the calculation period (CPI_T) and divide the answer by CPI_1. This is the inflation rate, expressed in decimal form.

$$INF = \frac{CPI_T - CPI_1}{CPI_1}$$

- ***Step 2: Royalty Rate Adjustment***

Add the unadjusted royalty rate (R_0) to the product of R_0 and the inflation rate expressed in decimal form (*INF*).

$$Adjusted\ rate = R_0 + (INF \times R_0)$$

Round the answer to two decimal places to express it in dollars and cents.