

Avel Pty Ltd v Multicoin Amusements Pty Ltd [1990] HCA 58

HIGH COURT OF AUSTRALIA

MASON CJ, DEANE, DAWSON, GAUDRON & MCHUGH JJ

MASON CJ, DEANE & GAUDRON JJ:

The detailed facts and the relevant provisions of the *Copyright Act 1968 Cth* ("the Act") and of the distribution agreement between Avel Pty. Ltd. ("the distributor") and Williams Electronics Games, Inc. ("Williams") are set out in the judgment of McHugh J. We shall avoid unnecessary repetition of them.

We agree with McHugh J.'s identification of the questions involved in the appeal. Those questions fall generally into three distinct groups. First, there are some questions concerning the construction and effect of the distribution agreement. Secondly, there are questions concerning the construction and effect of provisions of the Act. Thirdly, there are questions of admissibility of particular evidence and of the effect of the overall evidence in so far as entitlement to relief is concerned. On the first two groups of questions, which are interrelated and are best dealt with in logical order rather than as separate groups, we are in general agreement with the reasons of McHugh J. That being so, we can express the conclusions which we have reached in relation to those questions in summary form.

Those conclusions are:

- (i) The preferable construction of the distribution agreement is to read the expression "the Games" as referring not to individual identified machines but to particular models or types of machine.
- (ii) The provision of s. 29(1)(a) defining when a work "shall be deemed *to have been published*" (emphasis added) for the purposes of the Act does not operate as a definition of what is encompassed by the words "to publish" for the purposes of s. 31(1). The words "to publish" in s. 31(1) should be read as meaning to make public that which has not previously been made public in the copyright territory. We are, of course, conscious of the fact that there is an element of artificiality involved in a literalistic confinement of s. 29(1)(a) to defining when a work "has been published" (e.g. for the purposes of determining the subsistence of copyright: see s. 32) as distinct from what constitutes the act of publishing (e.g. for infringement purposes: see s. 31). That confinement of s.

29(1)(a) is, however, dictated by the content of other provisions of the Act (see, in particular, ss. 36, 37 and 38), by general concepts of copyright law and by considerations of policy (cf. *Infabrics Ltd. v. Jaytex Ltd.*¹; Lahore, Copyright Law, pp. 3563-3564; but note Ricketson, *Law of Intellectual Property* (1984), pp. 221-222).

- (iii) The distribution agreement did not make the distributor an "exclusive licensee" of the copyright in the artwork or the computer programmes of the particular models. The exclusive rights of local sale conferred upon the distributor in respect of machines of those models did not encompass exclusive rights of first or other publication. In particular, Williams, as owner of the copyright, remained entitled to publish, and to authorize another to publish, the artwork and computer programmes incorporated in machines of those models. It could, for example, have authorized another to publish that artwork or those computer programmes as part of another product. It could have authorized another to exhibit them as part of the particular models for promotional purposes. Nor did the distribution agreement confer upon the distributor the exclusive authority to do within the copyright territory any other act comprised in the copyright. It follows that the distribution agreement did not authorize the distributor, " *to the exclusion of all other persons* ", to do an act that, by virtue of the Act, the owner of the copyright would, but for the agreement, have the exclusive right to do (see the Act, s. 10 (definition of exclusive licensee) and s. 31(1)).
- (iv) The distributor, not being an "exclusive licensee" (or the legal or equitable owner of the copyright), could not itself bring proceedings for infringement of copyright. That being so, the Full Court of the Federal Court was correct in holding that the distributor's counter-claim failed.
- (v) A person who has threatened proceedings for infringement and against whom a declaration is sought pursuant to s. 202 of the Act can, at least in some circumstances, resist declaratory or injunctive relief by establishing that the act the subject of the threats constituted or would constitute an infringement of another's copyright. Thus, a threatening letter from a legal representative or other local representative could be justified notwithstanding that the writer had no personal interest in the relevant copyright. On the other hand, there is something to be said in support of the view that

¹ [1982] A.C. 1, at pp. 15-17, 22-25.

the threat of proceedings for infringement must, if it is to be justified, have been of proceedings by a person competent to maintain them. That precise point did not, however, seem to us to be fully explored in argument and, in view of the conclusion which we have ultimately reached in relation to other matters, it is unnecessary that we form a final view in relation to it. Notwithstanding that the threatened proceedings in the present case were proceedings by the distributor itself and not proceedings by or on behalf of the owner (Williams) or an exclusive licensee, we are prepared to proceed on the basis that it would suffice as a defence to the proceedings brought against it under s. 202 if the distributor established that the acts in respect of which the threat was made would, if done, have constituted a breach of Williams' copyright in the artwork and computer programs of those models.

- (vi) The onus of proving the absence of the licence of the owner of the copyright in relation to an issue of infringement under s. 37 or s. 38 of the Act lies on the party who asserts infringement. The reason why that is so is that the absence of such licence constitutes an element of the wrong of infringement under those sections as distinct from a justification or excuse for doing something which prima facie constitutes infringement. A fortiori, a defendant to proceedings under s. 202 bears the onus of establishing absence of licence in a case where he seeks to "establish" by way of defence that the actual or proposed import for sale or sale in respect of which the threat of infringement proceedings was made constituted or would have constituted an infringement under s. 37 or s. 38.

There remains for consideration the third group of questions, namely, questions of the admissibility of particular evidence and of the effect of the overall evidence in so far as entitlement to relief is concerned. The conclusions which we have reached in relation to those questions are different from those reached by McHugh J. It is, nonetheless, possible to deal with them in the context of the detailed statement of the relevant facts contained in his Honour's judgment.

There are some passages in the correspondence in evidence which suggest that the threat of infringement proceedings extended to any importation for sale of the machines even with the licence of Williams. In particular, the letter of 27 November 1987 from the legal representatives of the distributor expressly stated that the distributor would hold Multicoin Amusements Pty. Ltd. ("Multicoin") liable for any damage sustained by reason of Williams being induced "to

terminate or otherwise vary its exclusive arrangements" with the distributor. If that construction of the correspondence be correct, it would seem to follow that the distributor would be unable to establish that the acts in respect of which the threat was made would, if carried out, have constituted an infringement of copyright. For reasons which will appear, however, it is unnecessary to pursue that aspect of the matter. It appears to us to suffice for the resolution of the case to say that the correspondence makes clear that the distributor's threat of infringement proceedings was not confined so as to apply only to importation for sale made without the licence of Williams. That being so, it follows from what has been said above (see par. (vi)) that the distributor could not succeed in establishing that the acts the subject of the threat of infringement proceedings would, if done, have constituted an infringement of copyright under s. 37 or s. 38 unless it established that the importation of the machines for sale or the sale of them in Australia would, if it had taken place, have been without the licence of Williams.

The question whether an importation or sale which has not in fact taken place would, if it had taken place, have been without the licence of Williams necessarily involves a varying element of speculation; varying by reference to the stage which a proposed importation or sale has reached and the extent to which the attitude of Williams to such importation or sale has become firmly settled. The larger the element of speculation, the more difficult it will be to discharge an onus of proving that the licence of Williams would not have been forthcoming.

The threatened or contemplated import of machines by Multicoin was of used machines. The material in evidence in the courts below is largely uninformative about whether Williams regarded the distribution agreement as extending only to unused machines or whether it would, if requested, have given an express or implied licence to the importation by Multicoin of used machines for the purposes of sale. Relevant to that question is whether the distributor would, if Williams had proposed to give such a licence, have sought or threatened to enjoin Williams from giving it.

The correspondence between the distributor and Williams (or its attorney) which was excluded from evidence on the objection of the distributor was relevant to the question whether Williams had given or would have given its licence to the importation or sale in Australia of used machines of the relevant models. It indicates that Williams did not place restrictions on any of its sales of new machines which would preclude the importation into Australia for sale or sale in Australia of the used machines which Multicoin proposed to import for resale. Indeed, it

indicates that Williams understood that any such restrictions would have been, or may well have been, contrary to United States law. It also indicates that Williams took the view that the distribution agreement did not require it to ensure that used machines of the relevant models were not imported for sale into Australia or sold in Australia by persons other than the distributor. Finally, it discloses that the distributor, having been appraised of Williams' approach in the above respects, did not seek or threaten to institute proceedings against Williams either to vindicate any claim that the distribution agreement required Williams to ensure that used goods were not imported or sold in Australia or to prevent Williams from continuing to sell machines of the relevant models on the basis that the purchaser was free to do with them what he would.

Putting to one side the above correspondence, there is nothing in the evidence which established whether or not Multicoin applied to Williams for its licence to import into this country and sell the used machines or whether Williams had expressly or impliedly licensed such import and sale. The main basis in the evidence for speculation that it is unlikely that Williams granted or would have granted such a licence is that it is arguable that the distribution agreement applied to both new and used machines. If Williams considered that that was so, it would seem unlikely that it could have granted or would grant a licence to Multicoin since it is unlikely that it would be prepared to breach its contractual obligations and, even if it were prepared to do so, it might be subjected to restraining proceedings at the suit of the distributor. In that context, the correspondence between the distributor and Williams (or its attorney) was, in our view, admissible. The letters from the distributor were admissible as admissions of the fact that Williams had refused to join in the proceedings against Multicoin for the reason "that it had no objection to the exportation of second-hand machines out of the United States" and had rejected the distributor's request to execute a deed to overcome the absence of any reference to copyright in the distribution agreement. The letter from Williams to the distributor was admissible in that it represented an assertion by Williams to the distributor to the effect that the distribution agreement had no application at all to the used machines which Multicoin was proposing to import and in that it put the distributor on notice that Williams would "not interfere with the free trade in used games". In all these respects, the correspondence was not hearsay. It represented of itself material fact. Williams' assertion to the distributor that the distribution agreement applied only to new machines effectively removed the only real basis in the evidence for speculating that it would have refused to license the import or sale of the used machines in order to avoid breach of the agreement on its part or proceedings by the distributor to enforce

it. Its rejection of the distributor's efforts to get it to interfere with the free trade in used games was itself a fact relevant to speculation about the likelihood that it had granted or might grant a licence to Multicoin to import and sell the used machines in Australia.

It was not suggested on behalf of the distributor that, in the event that the Court were of the view that the relevant correspondence should have been received in evidence, the matter should be sent back for further hearing so that the distributor could have the opportunity of adducing further evidence. As we followed the argument, it was common ground that, in that event, this Court should proceed to dispose of the appeal on the basis of the expanded evidence. On that basis, it seems to us that the distributor failed to discharge the onus of proving that, in the hypothetical event that the proposed import and resale of the used machines had gone ahead, it would have been without the licence of Williams. The most that can be said is that, at best from the distributor's point of view, it is a matter of speculation whether any such licence would have been obtained. It follows that we would dismiss the appeal.

There is one further matter which should be mentioned, if only to be put to one side. As has been said, the distributor's claim that copyright existed in relation to the machines was restricted to the artwork and computer programs of the particular models. The evidence would seem to be silent about whether Williams also had patent rights in relation to the machines. The inference to be drawn from the letter from Williams' attorney to the distributor was that Williams' initial sale of the particular used machines which Multicoin proposed to import had been an unconditional one. Indeed, that letter makes plain that the sale was, so far as Williams was concerned, on the clear understanding that the purchaser, and any purchaser from it, was free to do what it wished with the used machines. That being so, if the machines were patented, it would seem to be settled law that Williams gave to the purchaser (and any purchaser from it) an implied licence to import the used machines into Australia for resale and to resell them here (see, e.g., *Interstate Parcel Express Co. Pty. Ltd. v. Time-Life International (Nederlands) B.V.*²; and note that the goods (books) in that case were clearly not patented). One can only speculate about whether Williams did or did not have patent rights in the machines. If it did have such patent rights, however, it would seem that the inference should be drawn that, if

² (1977) 138 C.L.R. 534, at pp. 540-542, 548-553.

Multicoin had gone ahead with the proposed import and resale of the used machines, it would have done so with the implied licence of Williams. Accordingly, the failure to negate the existence of such patent rights might well, in the context of the evidence, be seen as supporting the conclusion that the distributor had failed to discharge the onus of showing that the proposed import and resale of the used machines would, if they had taken place, have been without the licence of Williams. This aspect of the matter was not, however, raised by Multicoin in argument and we have not relied upon it in concluding that the appeal should be dismissed.

DAWSON J:

This appeal arises out of an action brought by Multicoin Amusements Pty. Ltd. ("Multicoin") and British Amusements (North Coast) Corporation Pty. Ltd. ("British Amusements") against Avel Pty. Ltd. ("Avel") under s. 202 of the *Copyright Act 1968 Cth*. That section provides that a person threatened with an action or proceedings for an infringement of copyright may obtain a declaration that the threats are unjustifiable, together with an injunction and damages, unless the person making the threats satisfies the court that "the acts in respect of which the action or proceeding was threatened constituted, or, if done, would constitute, an infringement of copyright". The defendant in an action "may apply, by way of counterclaim, for relief to which he would be entitled in a separate action in respect of an infringement by the plaintiff of the copyright to which the threats relate": s. 202(4). Avel brought such a counterclaim.

On 1 May 1986, Avel entered into a distribution agreement with a United States manufacturer of pinball machines, Williams Electronics Games, Inc. ("Williams"). Under the agreement, Williams granted to Avel with respect to the "Games" set forth in [Exhibit A] the sole and exclusive right to: (a) receive from Williams or direct Williams as to the delivery of; (b) sell or resell transfer or otherwise dispose of or arrange for the sale or resale of or other disposal by Williams of; and (c) advertise and otherwise in any manner promote the lease, sale, distribution and use of Games produced or dealt with by Williams and intended by Williams for disposal and use within [Australia], provided, each Game dealt with by Williams subsequent to the Games set forth on said Exhibit A shall be subject (i) to the mutual agreement of the parties as to the Premium to be paid and (ii) to the execution and delivery of an amendment to said Exhibit A". Williams agreed not to "(a) distribute, sell, dispose or otherwise deal with the Games in competition with [Avel] within [Australia], nor (b) grant the right to allow any other person to distribute, sell, dispose of or otherwise deal with the Games in competition with [Avel] without the prior written consent of [Avel] having been first obtained". Exhibit A originally stated

"1. *Specific Games covered by this Exhibit.* Williams Grand Lizard and Williams Road King." It was subsequently amended on 3 November 1986 by the addition of "Williams PIN-BOT".

In February 1987, British Amusements imported into Australia nine new and five used Williams Road King machines and advertised them for sale in trade magazines. Avel responded by publishing its own advertisement claiming "exclusive rights" over "Williams-Pinball Games (all models since 1985)" and threatening to institute legal proceedings against any person "who imports, manufactures, distributes or operates any game which is an infringement of our rights". This dispute ultimately ended in a settlement. In November 1987, Multicoïn ordered a consignment of used Williams machines from two United States wholesalers, but, after correspondence with Avel and Williams, cancelled the order. Avel continued to assert an exclusive right to import into Australia games manufactured by Williams and threatened legal proceedings if Multicoïn and British Amusements did not give undertakings that they would refrain from importing these games. The immediate act which was alleged by Avel in these proceedings to be an infringement of copyright if done was the importation of used pinball machines by Multicoïn.

Multicoïn and British Amusements commenced their action under s. 202 in the Supreme Court of Queensland seeking a declaration and an injunction. Avel counterclaimed a declaration that its conduct was justifiable as an exclusive licensee of Williams and an injunction restraining Multicoïn and British Amusements from acting in contravention of its rights under the agreement.

It is common ground that there was copyright in the machines consisting of the visible artwork and of the computer programs which ran them. The machines, therefore, comprised both an artistic work and a literary work: *Copyright Act*, s. 10. It is also common ground that Williams was the owner of the copyright. What is disputed is whether Avel was an exclusive licensee so as to have, under s. 119 of the *Copyright Act*, the same rights of action and remedies as Williams would have had for infringement of the copyright. The contention of Multicoïn and British Amusements is that the rights which Avel acquired under the agreement do not amount to rights of copyright at all and, for that reason, Avel was not an exclusive licensee under s. 119: see s. 10.

In the case of a literary or an artistic work, copyright is, under s. 31 of the *Copyright Act*, the exclusive right to do all or any of a number of acts, including the right "to reproduce the work in a material form" and "to publish the work". Obviously, the agreement did not give Avel the right to reproduce Williams pinball machines and the only ground upon which Avel is able to assert an exclusive licence in relation to the copyright is that the agreement gave it the exclusive right to publish the machines.

Before turning to that argument, however, it is necessary to dispose of a submission made by Multicoin and British Amusements, and accepted upon appeal to the Full Court of the Federal Court, that the agreement gave Avel rights only in respect of those specific, individual machines which Williams intended for disposal within Australia: *Multicoin Amusements Pty. Ltd. v. Avel Pty. Ltd.*³. That is to say, it was argued that Avel had rights only with respect to those actual machines which it imported, leaving it with no rights in relation to the importation of machines by others. Clearly, such a construction of the agreement would rob it of any meaningful content. Each individual machine imported would require identification in Exhibit A and all that the agreement would do would be to give Avel the right to sell or dispose of it upon importation. The representation made by Williams in the agreement that it "can obtain and will be able to obtain supplies of the Games as required by [Avel] from time to time" would serve little or no purpose. The obligation undertaken by Avel in the agreement to "maintain places of business satisfactory to Williams and purchase from Williams for each place of business at least one demonstration unit of each Game distributed by [Avel]" would similarly be inapt. The result contended for makes little sense and can hardly have been intended by the parties. It is apparent, in my view, that the games referred to are models and not individual machines, so that the rights conferred upon Avel by the agreement extended to all machines of the specified models.

Upon the basis that the agreement applied to those models which were specified in Exhibit A, the question is whether Avel became an exclusive licensee in relation to Williams' copyright in them. That in turn depends upon whether the agreement gave to Avel an exclusive right to

³ [1990] A.I. P.C. 36,118.

publish them. The meaning of the word "publish" in the *Copyright Act* is far from clear. It is not defined, although s. 29 in part provides:

(1) Subject to this section, for the purposes of this Act:

(a) a literary, dramatic, musical or artistic work, or an edition of such a work, shall be deemed to have been published if, but only if, reproductions of the work or edition have been supplied (whether by sale or otherwise) to the public.

Avel relies upon s. 29(1)(a) and says that within the meaning of the Act, and in particular s. 31, "publish" amounts to the same thing as "supply to the public". The agreement, of course, gives to Avel the exclusive right to supply the machines covered by it to the public in Australia.

However, s. 29(1)(a) is not a definition. By deeming a work to have been published if, but only if, reproductions have been supplied to the public, the provision may afford assistance in determining whether or not publication has taken place at a particular point in time. For example, the provision may be of assistance in determining when a work was published for the purpose of determining the subsistence of copyright or calculating the duration of copyright in the work: see ss. 32(2), 33. But to treat s. 29(1)(a) as supplying the meaning of the word "publish" throughout the Act would be to produce a result that was obviously not intended.

Section 36(1) provides:

Subject to this Act, the copyright in a literary, dramatic, musical or artistic work is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in Australia, or authorizes the doing in Australia of, any act comprised in the copyright.

Infringement under s. 36(1) is often called direct infringement. Knowledge of the infringement is not required. A person will be guilty of infringement under s. 36(1) if, for example, he reproduces or publishes a work without the licence (which means consent) of the owner, whether or not he is aware of the infringement.

On the other hand, infringement by importation for sale or hire under s. 37, which is often referred to as indirect infringement, requires knowledge. Section 37 provides:

The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of:

(a) selling, letting for hire, or by way of trade offering or exposing for sale or

hire, the article;

(b) distributing the article:

(i) for the purpose of trade; or

(ii) for any other purpose to an extent that will affect prejudicially the owner of the copyright; or

(c) by way of trade exhibiting the article in public;

where, to his knowledge, the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright.

Similarly s. 38, which provides for indirect infringement by sale and other dealings, also requires knowledge. It provides:

(1) The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, in Australia, and without the licence of the owner of the copyright:

(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire, an article; or

(b) by way of trade exhibits an article in public;

where, to his knowledge, the making of the article constituted an infringement of the copyright or, in the case of an imported article, would, if the article had been made in Australia by the importer, have constituted such an infringement.

(2) For the purposes of the last preceding subsection, the distribution of any articles:

(a) for the purpose of trade; or

(b) for any other purpose to an extent that affects prejudicially the owner of the copyright concerned;

shall be taken to be the sale of those articles.

If "to publish" means, as it would if s. 29(1)(a) were to be regarded as a definition, "to supply to the public", every act of supply (including sale) of a work in which copyright subsists, without the consent of the owner of the copyright, would, without any knowledge on the part of the supplier, constitute an infringement of copyright under s. 36. The purchaser of an article subject to copyright would be severely curtailed in any subsequent dealings with the article if each dealing constituted a publication: see *Interstate Parcel Express Co. Pty. Ltd. v. Time-Life International (Nederlands) B.V.*⁴. Moreover, ss. 37 and 38 — the sections dealing with indirect

⁴ (1977) 138 C.L.R. 534, at p. 553.

infringement — would have little or no work to do, because the acts which they contemplate by and large involve the supply of the article in question to the public. Thus a person otherwise falling within the terms of s. 37 or s. 38 would be deprived of the defence of lack of knowledge because his act would also constitute direct infringement under s. 36, for which no knowledge is required.

The like anomaly produced by the equivalent sections in the *Copyright Act 1956 U.K.* was considered by the House of Lords in *Infabrics Ltd. v. Jaytex Ltd.*⁵, which concluded that the section corresponding to s. 29(1)(a) (s. 49(2)(c)) provided no definition of the right to "publish" and that publishing could only mean making public what had not previously been made public in the relevant territory. Notwithstanding differences in wording between the *Copyright Act* and the *United Kingdom Act*, the interpretation of the House of Lords is to be preferred. There is no requirement that s. 29(1)(a) should, despite the opening words "for the purposes of this Act", be treated as a definition and the result of so doing is sufficiently incongruous to show that it would be incorrect to do so.

Thus the rights conferred upon Avel under its agreement with Williams were insufficient to amount to an exclusive licence in relation to Williams' copyright in its machines. The only right amounting to copyright which could be, or was, relied upon by Avel was the right to publish the work. If, as I have held, the right to publish under s. 31(1) is a right to make public in Australia what had not previously been made public, then that was a right which the agreement did not give Avel exclusively. There was nothing in the agreement which prevented Williams from incorporating the work in machines, other than those covered by the agreement, to be sold in Australia, nor was there anything to prevent it from exhibiting or promoting its machines for itself. The right given to Avel to sell or resell, advertise and promote was insufficient to amount to a right of copyright. Moreover, the duration of the agreement is not defined by reference to the duration of any copyright, nor is there any need to imply any right of copyright into the agreement to give it commercial efficacy: cf. *Kervan Trading Pty. Ltd. v. Aktas*⁶.

⁵ [1982] A.C. 1.

⁶ (1987) 8 I.P.R. 583.

Avel, not being an exclusive licensee in relation to Williams' copyright, has no standing to bring an action for infringement: ss. 115, 119. It was not, therefore, entitled to any direct relief against Multicoin or British Amusements arising from the infringement of copyright. But the question remains whether the threats made by Avel were justifiable by reference to the infringement or threatened infringement of Williams' copyright. Section 202 does not require the threats to have been made by the owner of the copyright or an exclusive licensee and it was Avel's contention that it was sufficient that the threatened importation of used machines by Multicoin, which was the immediate basis of Avel's complaint, would constitute an infringement of Williams' copyright. Those acts would, it was said, constitute an infringement under s. 37 of the *Copyright Act*, being the importation of articles into Australia for the purpose of sale or distribution where, to the knowledge of the importer, the making of the articles would, if the articles had been made in Australia by the importer, have constituted an infringement of the copyright.

Whilst s. 202(1) is expressed to apply whether or not the threats in question were made by a person who is or is not the owner of the copyright or an exclusive licensee, it is not equally apparent that the person making the threats can raise the defence that the acts in respect of which the threats are made would constitute an infringement of copyright of which he is neither the owner nor an exclusive licensee. Avel, at the time it threatened proceedings, did so in relation to an alleged infringement of its own, and not Williams' rights, and the question arises whether it may nevertheless in these circumstances rely upon a threatened infringement of Williams' copyright as a defence.

Section 202 of the *Copyright Act* is based upon a similar provision to be found in s. 121 of the *Patents Act 1952 Cth*. The latter section may be seen as implicitly limiting to patentees or their agents the defence that the threats were justified. As von Doussa J. said of s. 121 in *Townsend Controls Pty. Ltd. v. Gilead*⁷:

Section 121 provides the statutory machinery to enable the party threatened to bring down the sword. The provisions of s. 121 give no right to a patentee to make a threat. The purpose of the section, on the contrary, is to provide a statutory remedy for a person against whom a threat is made by a patentee who embarks on "self help" measures instead of enforcing his claimed monopoly by instituting proceedings for

⁷ (1989) 14 I.P.R. 443, at p. 448.

infringement.

See also *Mechanical Services (Trailer Engineers) Ltd. v. Avon Rubber Co. Ltd.*⁸

A parallel line of reasoning would suggest that s. 202 was not intended to provide an alternative remedy to someone who has available to him an action for infringement; it is a section designed to assist the person against whom the threats are made, not the person making the threats. A fortiori, it would suggest that the section was not intended to make available to someone who is not the owner of copyright or an exclusive licensee, a remedy which would otherwise be available only to the owner or exclusive licensee upon infringement, namely, a finding that the copyright has been infringed. The alternative construction of the section would permit a person to do indirectly what he could not do directly: he could provoke proceedings under s. 202 by making threats and then go on to justify those threats by showing that the conduct which was the subject of the threats infringed or would, if carried out, infringe someone else's copyright.

Whilst there is much to be said for the view that Avel, not being the owner of the relevant copyright or an exclusive licensee, has no standing under s. 202 to raise a defence of infringement of copyright, it is unnecessary to determine the point for the purpose of deciding this appeal. Any defence of infringement would arise, if at all, under s. 37. Avel would, if the defence were available to it under s. 202, have to prove that an importation by Multicoïn or British Amusements would be without the licence of the owner of the copyright, namely, Williams. It was not disputed that the making of the articles in question in Australia by either of the companies concerned to import them would, to their knowledge, constitute an infringement of the copyright.

I say that the onus would be upon Avel to prove that importation by Multicoïn or British Amusements would be without Williams' licence because lack of licence, or consent, is a constituent element of infringement under s. 37; it is not by way of proviso, saving, exception or excuse, so that the onus of proving it is upon the person seeking to raise it. It goes to the substance of an infringement under s. 37 that there should be no licence by the owner and, consequently, as Avel must satisfy the court that the acts he complained of would constitute an

⁸ [1977] R.P.C. 66, at pp. 74-75.

infringement, the burden of establishing the absence of consent would lie upon Avel: *Vines v. Djordjevitch*⁹; *Director of Public Prosecutions v. United Telecasters Sydney Ltd.*¹⁰ *Chugg v. Pacific Dunlop Ltd.*¹¹ It is true that in *Interstate Parcel Express Co. Pty. Ltd. v. Time-Life International (Nederlands) B.V.*¹² the suggestion was made that the defendants, who, knowing that the plaintiff was the exclusive licensee in Australia of the owner of copyright in certain cookery books, imported large volumes of copies of those books into Australia, needed to show that they were licensed by the owner to do so. But the onus of proof was not in issue in that case and accepted principle establishes clearly, in my view, that, having regard to the manner in which s. 37 is expressed, the onus of proving lack of consent would lie upon Avel.

Neither Multicoïn nor British Amusements made any admission concerning lack of consent or prospective lack of consent from Williams. No evidence was called from Williams. There was thus no evidence before the trial judge that Williams had not or would not consent to the importation. Nor, in my view, could such lack of consent be inferred in all the circumstances.

Evidence in the form of three letters was tendered against Avel, but the trial judge rejected the letters upon the ground that the statements in them were either hearsay or inadmissible evidence of opinion. Multicoïn and British Amusements contend that the letters ought to have been admitted and say that they support their submission that Avel failed to prove that consent would not have been forthcoming to the importation by them of Williams machines.

The first was a letter, dated 8 February 1988, from Avel's solicitors to Williams. The letter reflected Avel's concern that Williams' games were being imported into Australia by others and sought Williams' co-operation in bringing infringement proceedings against the importers.

The letter continued:

In order for those proceedings to be commenced it will be necessary, however, for a further Agreement to be entered into whereby your Company licenses to our client the copyright in Australia of the games. In that regard we note that your Company's Distribution Agreement contains no reference to copyright. We have enclosed a draft Deed to rectify the problem. If your Company is not prepared to sign the Deed then it

⁹ (1955) 91 C.L.R. 512, at pp. 519-520.

¹⁰ (1990) 168 C.L.R. 594.

¹¹ (1990) 170 C.L.R. 249.

¹² (1977) 138 C.L.R., at pp. 547-548, 553, 554.

will be necessary for your Company to be joined as a Plaintiff in the proceedings.

The second letter, dated 1 March 1988, was from the managing director of Avel to Williams and stated that:

As I understand it, your company was not prepared to assign to us the copyright of the above games nor was it prepared to be joined as a Plaintiff in proceedings which we intended to commence against importers of second-hand games

I was disappointed to learn that the reason why your company did not wish to join in the proceedings or license the copyright was that it had no objection to the exportation of second-hand machines out of the United States.

The third letter, dated 7 April 1988, from Williams' attorneys to the managing director of Avel, contained the following passage:

Williams does not attempt, nor has it ever attempted, to control the sale or distribution of used games within the U.S. or elsewhere

The situation which you seek to create would require that we discriminate in favour of one distributor (your company) against all other distributors worldwide. That is neither good business nor, under U.S. law, advisable. To do so would subject Williams to possible litigation exposure under the anti-trust, unfair competition and trade regulation laws

In any case, as a policy matter, Williams will not interfere with the free trade in used games.

As I have said, the basis upon which the trial judge refused to admit the letters in evidence was that they constituted inadmissible hearsay and contained statements merely of opinion. In my view, the letters were admissible, not to prove the truth of hearsay assertions nor as statements of opinion put forward for the court itself to adopt, but as evidence of the course of dealing by Williams with its distributors. It is apparent from the correspondence that Williams was maintaining, rightly or wrongly, that its distributorship agreements did not apply to used pinball machines and that it had no say over the use of them. The possible breach of "anti-trust, unfair competition and trade regulation laws" was put forward as a reason for the maintenance of this attitude. The letter from Williams' attorneys was relevant to the question of the likelihood of Williams' consent, express or implied, to the proposed importation by Multicoïn of used machines into Australia. The attitude adopted by Williams might, as a matter of inference, be gleaned from what was expressed in that letter, irrespective of the truth or otherwise of any assertion contained in it. The letters from Avel's solicitors and its managing director to Williams were admissible, if for no other reason, to complete and render intelligible the

correspondence which, as I have said, was relevant to establish the attitude maintained by Williams: see Wigmore on Evidence, vol. 7 (Chadbourn rev. 1978), par. 2104. To the extent that those letters also contain admissions by Avel that Williams declined to join in proceedings to stop the importation of used machines into Australia, they were admissible upon an additional basis.

We were invited, if we reached the conclusion that the letters ought to have been admitted, to deal with the case upon the basis that they were included in the evidence. In my view, whatever may have been the proper inference from the evidence in the absence of the letters, they establish that it would be merely speculative to conclude that Williams would or would not have consented, expressly or impliedly, to the importation of used machines into Australia. Clearly, Williams adopted the attitude that it did not seek to control the distribution of used machines. Perhaps it was influenced in the stand which it took by possible restraints imposed by United States law. But, whatever the reason, it maintained that its distributorship agreements did not cover used machines and resisted Avel's attempts to enlist its aid in resisting the threatened importation of used machines by Multicoïn. In those circumstances, it is to my mind apparent that Avel failed to show that Williams would have denied its consent to Multicoïn or British Amusements to import used machines, had that consent been sought.

Accordingly, upon the assumption and without deciding the point, that Avel was entitled to rely upon a threatened infringement of Williams' copyright under s. 37 of the *Copyright Act* in defence of the action under s. 202, I am unable to conclude that Avel established any such defence, being unable to prove that the importation of used machines would be without the licence of Williams.

The appeal ought to be dismissed.

MCHUGH J:

Pursuant to the grant of special leave, Avel Pty. Ltd. ("the distributor") appeals against an order of the Full Court of the Federal Court which declared that the conduct of the distributor in threatening Multicoïn Amusements Pty. Ltd. and British Amusements (North Coast) Corporation Pty. Ltd. ("the importers") with an action or proceeding in respect of an infringement of copyright concerning used Williams pinball machines was unjustifiable within

the meaning of s. 202 of the *Copyright Act 1968 Cth* ("the Act"). The Full Court also ordered that a counterclaim by the distributor that the importers be restrained from infringing copyright in certain amusement games be dismissed.

The principal question in the appeal is whether the distributor had satisfied the Supreme Court of Queensland "that the acts in respect of which the action or proceeding was threatened constituted, or, if done, would constitute, an infringement of copyright" within the meaning of s. 202(1) of the *Act*. Central to this issue is the question whether the importers were or would be in breach of s. 37 of the Act which makes it an infringement of the copyright in a "work" for a person, without the licence of the owner of the copyright, to import an article into Australia for the purpose of selling it where, to the importer's knowledge, if the article had been made in Australia by the importer, the making of the article would have constituted an infringement of the copyright.

The background to the present dispute

In 1986, the distributor entered into a sole and exclusive distribution agreement with Williams Electronics Games, Inc. ("Williams"), a United States manufacturer of amusement machines. The agreement, which was dated 1 May 1986, was for one year, but was subject to extension. The precise rights which the distributor obtained under this agreement are in dispute. Later, it will be necessary to set out some of the terms of this agreement. At this stage it is sufficient to say that the agreement gave the distributor exclusive selling and distribution rights in respect of two models of pinball machines, "Williams Grand Lizard and Williams Road King" machines, and contemplated that, from time to time, Williams and the distributor might apply the terms of the agreement to other models.

It is common ground that Williams was the owner of the artwork on its machines and of the computer programmes which ran them. Hence, Williams was the owner of the copyright of an artistic work and of a literary work within the meaning of the Act.

In November 1987, one of the importers ordered a consignment of 19 used Williams "Hi-Speed" machines and eight used Williams "Pin-Bot" machines from two American dealers, World Wide Distributors Inc. ("World Wide") and C. A. Robinson and Co. Inc. ("C. A. Robinson"). The order for the proposed consignment was later cancelled. However, the order gave rise to correspondence between the parties and their solicitors in the course of which the

distributor sought undertakings that the importer would refrain from importing Williams machines and threatened to take legal action for breach of copyright if the undertakings were not given.

On 22 June 1988, the importers instituted proceedings against the distributor in the Supreme Court of Queensland. They alleged that the threats made by the distributor were unjustifiable within the meaning of s. 202 of the Act. They also sought an injunction to restrain the distributor from threatening the importers with any legal proceedings for infringement of copyright for importing second-hand Williams amusement games and any new Williams games, apart from games known as "Grand Lizard", "Road King" and "Pin-Bot". The distributor denied that the importers were entitled to the relief claimed. It counterclaimed for a declaration that its conduct was justifiable and in protection of its rights as an exclusive licensee of Williams. It also sought an injunction restraining the importers from infringing copyright in Williams "Games" and otherwise acting in contravention of the distributor's rights under its exclusive distribution agreement.

The nature of the distributor's case

Section 202 of the Act provides:

(1) Where a person, by means of circulars, advertisements or otherwise, threatens a person with an action or proceeding in respect of an infringement of copyright, then, whether the person making the threats is or is not the owner of the copyright or an exclusive licensee, a person aggrieved may bring an action against the first-mentioned person and may obtain a declaration to the effect that the threats are unjustifiable, and an injunction against the continuance of the threats, and may recover such damages (if any) as he has sustained, unless the first-mentioned person satisfies the court that the acts in respect of which the action or proceeding was threatened constituted, or, if done, would constitute, an infringement of copyright.

(3) Nothing in this section renders a barrister or solicitor of the High Court, or of the Supreme Court of a State or Territory, liable to an action under this section in respect of an act done by him in his professional capacity on behalf of a client.

(4) The defendant in an action under this section may apply, by way of counterclaim, for relief to which he would be entitled in a separate action in respect of an infringement by the plaintiff of the copyright to which the threats relate and, in any such case, the provisions of this Act with respect to an action for infringement of a copyright are, *mutatis mutandis*, applicable in relation to the action.

The distributor claimed that its threats were justifiable within the meaning of s. 202 because the importation of the machines and their subsequent sale would breach the provisions of ss. 37 and 38 of the Act. Those sections provide:

15. The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of:

(a) selling, letting for hire, or by way of trade offering or exposing for sale or hire, the article;

(b) distributing the article:

(i) for the purpose of trade; or

(ii) for any other purpose to an extent that will affect prejudicially the owner of the copyright; or

(c) by way of trade exhibiting the article in public;

where, to his knowledge, the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright.

16.(1) The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, in Australia, and without the licence of the owner of the copyright:

(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire, an article; or

(b) by way of trade exhibits an article in public;

where, to his knowledge, the making of the article constituted an infringement of the copyright or, in the case of an imported article, would, if the article had been made in Australia by the importer, have constituted such an infringement.

(2) For the purposes of the last preceding subsection, the distribution of any articles:

(a) for the purpose of trade; or

(b) for any other purpose to an extent that affects prejudicially the owner of the copyright concerned;

shall be taken to be the sale of those articles.

The distributor contended that the provisions of s. 115(1) and s. 119(a) would enable it to bring an action for breach of ss. 37 and 38 if the importers imported Williams machines. Section 115(1) provides that, subject to the Act, "the owner of a copyright may bring an action for an infringement of the copyright". Section s. 119(a) provides that, except against the owner of the copyright, an exclusive licensee has the same rights of action as he would have by virtue of s. 115 if the licence had been an assignment of copyright. Section 10 defines an "exclusive licence" to mean "a licence in writing authorizing the licensee, to the exclusion of all other persons, to do an act that, by virtue of this Act, the owner of the copyright would, but for the licence, have the exclusive right to do". The distributor contended that, as a result of the distribution agreement, it had the exclusive right to "publish" the artistic and literary works on or in Williams machines. It pointed out that, under s. 31(1), copyright is the exclusive right:

(a) in the case of a literary, dramatic or musical work, to do all or any of the following acts:

(i) to reproduce the work in a material form;

(ii) to publish the work;

(b) in the case of an artistic work, to do all or any of the following acts:

(i) to reproduce the work in a material form;

(ii) to publish the work.

The distributor also relied on s. 29(1)(a) which provides that, for the purposes of the Act, a literary, dramatic, musical or artistic work, or an edition of such a work "shall be deemed to have been published if, but only if, reproductions of the work or edition have been supplied (whether by sale or otherwise) to the public". The distributor contended that s. 31(1), when read with s. 29(1)(a), gave it the exclusive right to supply Williams machines to the public. It contended that it was an exclusive licensee which, by virtue of s. 119, could bring an action for breach of s. 37 or s. 38.

The findings of the Supreme Court and the Full Court of the Federal Court

In the Supreme Court, Helman A.J. held that the threats made by the distributor in relation to the Hi-Speed machines were not justifiable because the distribution agreement did not extend to that model. However, his Honour declared that the distributor's conduct, except in connexion with Hi-Speed, was justifiable in protecting its rights as the exclusive licensee of Williams. He made an order restraining the importers from infringing copyright "in the Williams games the subject of the [distributor's] exclusive licence". On appeal, the Full Court of the Federal Court unanimously held that the distributor was not an "exclusive licensee" within the meaning of the Act and that the distributor had no standing to restrain any infringement by the importers of Williams' rights. Their Honours said that the distributor had also failed to demonstrate any infringement by the importers of Williams' copyright. The Full Court held that the onus was on the distributor to prove that the machines were to be imported "without the licence of the owner of the copyright" and that "there was no evidence before the trial Judge that Williams had not consented to the importations".

The terms of the distribution agreement

The distribution agreement contained two recitals. They were:

A. Williams is the exclusive manufacturer of various coin operated amusement machines ("the Games") which term shall mean and include the parts of the Games whether original or substituted and any other product or products of a similar nature

dealt with or produced by Williams; and

B. Williams and the Distributor agree that the Distributor will have sole and exclusive rights of distribution in the Commonwealth of Australia ("the Territory") in respect of the Games upon the terms and subject to the conditions contained herein.

The agreement also contained 28 clauses, but reference need only be made to the following clauses:

1. Rights of Distributor. In consideration of the "Premium" set forth in Exhibit A being paid by Distributor in the "Manner" and with respect to the "Games" set forth in said Exhibit, Williams grants to the Distributor the sole and exclusive right to:

- (a) receive from Williams or direct Williams as to the delivery of;
- (b) sell or resell transfer or otherwise dispose of or arrange for the sale or resale of or other disposal by Williams of; and
- (c) advertise and otherwise in any manner promote the lease, sale, distribution and use of

Games produced or dealt with by Williams and intended by Williams for disposal and use within the Territory, provided, each Game dealt with by Williams subsequent to the Games set forth on said Exhibit A shall be subject (i) to the mutual agreement of the parties as to the Premium to be paid and (ii) to the execution and delivery of an amendment to said Exhibit A.

2. Sole Rights. Williams shall not:

- (a) distribute, sell, dispose or otherwise deal with the Games in competition with the Distributor within the Territory, nor
- (b) grant the right to allow any other person to distribute, sell, dispose of or otherwise deal with the Games in competition with the Distributor without the prior written consent of the Distributor having been first obtained.

4. The Williams' Representations. Williams represents to the Distributor that:

- (a) Williams can obtain and will be able to obtain supplies of the Games as required by the Distributor from time to time.
- (b) Williams has or at the Delivery Date (as is hereinafter defined) will have good title to all items of the Games supplied to the Distributor and that the same are or at the Delivery Date will be free from encumbrances.
- (c) Williams is a sole supplier of the Games within the Territory and has good right and title and authority to enter into this Agreement and to grant the sole and exclusive rights to the Distributor and no other party has or shall have any rights within the Territory inconsistent with the rights granted herein.

11. *Place of Business; Demonstration Unit.* Distributor agrees to maintain places of business satisfactory to Williams and Williams shall have the right at all reasonable times during business hours to inspect the facilities of Distributor. Distributor shall purchase from Williams for each place of business of Distributor from which sales are made at least one demonstration unit of each Game distributed by Distributor. Each such demonstration unit of a Game shall be maintained in good working order at such place of business for exhibition to prospective customers during the period in which

Williams offers such Game for sale.

Exhibit A provided:

1. *Specific Games covered by this Exhibit.* Williams Grand Lizard and Williams Road King.

The exhibit also stated the amount of the "premium". However, for reasons of confidentiality, the precise sum was not disclosed at the trial of the action, although counsel for the distributor informed us that the sum was substantial.

The Full Court concluded that the distribution agreement did not give "a right in respect of all individual machines which fall within a particular model". Their Honours said:

clause 1 relates only to the individual machines — whether new or used — which are designated by Williams for the Australian market. Clause 1 has no application to goods which are designated for the Australian market by somebody else; having originally been supplied by Williams to some other market.

On this analysis the critical question is not whether particular goods are new or used. Although it might naturally be expected that, as a manufacturer, Williams would deal primarily in new goods, clause 1 would apply to any used machines, of the relevant models, which Williams might choose to designate for the Australian market. But it does not apply to goods selected for the Australian market by some other, independent dealer, such as World Wide or C. A. Robinson. In relation to those machines clause 1 gives no right whatsoever. It follows that, leaving aside any other difficulties, the clause confers no right to "publish" those machines. And these are the machines which the appellants sought, and continue to seek, to import.

The construction which the Full Court has placed upon the distribution agreement leads to the result that the distributor has the sole and exclusive right to obtain and sell only those *machines* "which are designated by Williams for the Australian market". In other words, it is only when Williams decides to dispose of a particular machine in Australia that the distributor obtains any right to receive, sell or advertise that machine. This is a surprising result in the light of Williams' representation that it will be able to obtain "supplies of the Games as required by the Distributor from time to time". It is even more surprising that the distributor should pay a premium (whether substantial or not) for the exclusive right to resell machines which Williams has sold to it for the purpose of resale. Moreover, it follows from the construction which the Full Court has placed on the distribution agreement that the distributor would have no rights under cl. 1 or cl. 2 in respect of any machine (new or used) sold by

Williams to any other person outside Australia even though Williams was aware of the probability or even the certainty that the machine would be exported to Australia.

With great respect to the Full Court, the construction which it has placed on the distribution agreement is erroneous. When the terms of the agreement are considered, it is apparent that the expression "the Games" does not refer to individual machines, as the Full Court thought, but to models of a particular machine or machines. The premium was paid in respect of the "Games set forth in said Exhibit". They were identified as "Williams Grand Lizard and Williams Road King". Thus, the premium was paid in respect of two models and not in respect of any particular machine or number of machines. Hence, when cl. 1 speaks of the "Games set forth in said Exhibit", it is referring to the two models and not to individual machines. The "Games produced or dealt with by Williams and intended by Williams for disposal and use within" Australia, therefore, are models and not particular machines. Other clauses in the agreement also indicate that the term "Games" is referring to models and not to machines: see cl. 4(a) "supplies of the Games as required"; cl. 4(b) "all items of the Games"; cl. 11 "one demonstration unit of each Game". If the construction which the Full Court placed on cl. 1 were correct, the proviso to cl. 1 would require that no machine could be sold until it was made the subject of an agreement as to the premium to be paid in respect of it and until Exhibit A was amended.

Upon the proper construction of cl. 1 of the distribution agreement the distributor was given the rights specified in sub-cll.(a), (b) and (c) in relation to machines of the Grand Lizard and Road King models and in respect of machines of any other model intended by Williams for disposal and use within Australia, provided that any such additional model was made the subject of an agreement between the parties as to the premium to be paid and an amendment to Exhibit A was executed and delivered. For its part, Williams agreed not to distribute, sell or otherwise deal with machines of the models falling within the agreement "in competition with" the distributor within Australia, nor to grant the right to any other person to distribute, sell, dispose of or otherwise deal with these machines in competition with the distributor without the distributor's prior written consent having been obtained: cl. 2. Williams also represented that it could obtain supplies of the models as required by the distributor: cl. 4(a).

It follows that the distributor had the exclusive right to sell and otherwise deal with machines of the models covered by the distribution agreement. It does not follow, however, that the distributor had the exclusive right to publish the copyright of the literary and artistic works

reproduced in or on those machines. The distribution agreement does not mention the subject of copyright.

The right to publish

The contention that the distributor obtained an exclusive right to publish the copyright work is based on the proposition that the right of exclusive sale of a particular article carries with it the right of exclusive publication of the copyright work reproduced on or in that article. This proposition would lead to the result that, because a person has the exclusive right to sell an article which reproduces an artistic or literary copyright, he or she has the exclusive right to publish that artistic or literary work in whatever form it is reproduced. No doubt the sale of an article which is the subject of a copyright work entitles the buyer to resell the article and thereby in a general sense publish the copyright. But the sale does not give a general right to publish the copyright work. As Gibbs J. pointed out in *Interstate Parcel Express Co. Pty. Ltd. v. Time-Life International (Nederlands) B.V.*¹³:

It was not, and could not be, suggested that the sale of a copy of a book is a licence to do the acts comprised in the copyright and set out in s. 31 of the Act.

Nor can it make any difference in principle that the purchaser has the exclusive right to sell all articles of a particular kind.

The distributor also relied on s. 29(1)(a) of the Act. That paragraph provides that, "for the purposes of this Act", a literary or artistic work is deemed to have been published "if, but only if, reproductions of the work or edition have been supplied (whether by sale or otherwise) to the public". No doubt it is arguable that s. 29(1)(a) is a definition which is applicable to the term "publish" in s. 31(1). If it is, the right to publish is a right to sell or distribute the work to the public at any time. Such an interpretation of "publish" in s. 31(1), however, would render s. 38 of the Act superfluous. Section 36 makes the doing or authorizing of any act comprised in the copyright of a work an infringement unless the person doing or authorizing the act is the owner of the copyright or is acting with his or her licence. Hence, if the terms of s. 29(1)(a) apply to s. 31(1), or if "publish" in the latter section is otherwise construed to mean publish at any time, then the mere sale or distribution to the public of an infringing article would constitute

¹³ (1977) 138 C.L.R. 534, at p.543.

an infringement of the copyright under s. 36. Yet s. 38 of the Act provides that the sale or distribution of an article will constitute an infringement of copyright only where, *to the knowledge of the seller or distributor*, the making of the article constituted an infringement or, in the case of an imported article, would have constituted an infringement if the article had been made in Australia. In *Infabrics Ltd. v. Jaytex Ltd.*¹⁴, the House of Lords held that the United Kingdom equivalent of s. 29(1)(a) did not provide a definition of publication and that the term "publishing" in the United Kingdom equivalent of s. 31(1)(b)(ii) meant making public what had not previously been made public. Commentators on this decision have pointed out that there are differences between s. 29(1) of the Act and the comparable U.K. provision: see Lahore, *Copyright Law*, pp. 3563-3564; Ricketson, *Law of Intellectual Property* (1984), pp. 221-222. They have argued that it is doubtful whether the term "publish" in s. 31(1) can be interpreted to mean publish for the first time. Notwithstanding the differences in the legislation, however, I think that the reasoning which led Lord Wilberforce in *Infabrics Ltd.* to conclude that "publishing" meant publish for the first time is equally applicable to the term "publish" in s. 31(1) and therefore that term means publish for the first time. Such an interpretation is in accordance with the law as it stood before the passing of the 1968 Act, and enables s. 38 to operate independently of the direct infringement provision of s. 36.

Accordingly, even if the exclusive right to sell Williams machines of a particular model also gave rise to the right of first publication in Australia, it would not be a relevant right in the present proceedings. There is no suggestion that the proposed imports might affect the right of first publication of any of the "works" on or in any model.

Accordingly, the distributor was not an exclusive licensee within the meaning of the Act and could not bring any proceedings for breach of the Act. Moreover, even if the distributor had the exclusive right to publish, it could not bring an action under s. 37 or s. 38. A breach of those sections only takes place where, if the article had been made in Australia by the importer, the *making* of the article would have constituted an infringement of the copyright. However, the *making* of the article would not have constituted an infringement of any right to publish the work which is the only relevant right which the distributor could claim. No doubt the making

¹⁴ [1982] A.C. 1.

in Australia of the machines which the importers sought to import would have constituted an infringement of copyright. But this would be because the making of the machines would infringe the exclusive right of the owner to reproduce the work in a material form: see s. 31(1)(a)(i) and s. 31(1)(b)(i). The making of the article itself would not constitute an infringement of the right to publish. The result is that the distributor could not establish that the importation or subsequent sale of Williams machines would have constituted a breach of any right of the distributor which is protected by s. 37 or s. 38 of the Act.

Accordingly, the counterclaim of the distributor brought pursuant to the provisions of s. 202(4) of the Act which relied on breaches of ss. 37 and 38 must fail. The Full Court was correct in dismissing the distributor's counterclaim.

However, it is still necessary to consider whether the distributor satisfied the Supreme Court "that the acts in respect of which the action or proceeding was threatened constituted, or, if done, would constitute, an infringement of copyright" within the meaning of s. 202(1) of the Act even though it did not establish that the acts would constitute a breach of any of its rights.

The construction of s. 202

Despite the submissions made on behalf of the importers, s. 202 does not authorize the making of a declaration that threats are unjustifiable whenever the person making the threats fails to establish that the acts the subject of the threats constituted or would constitute an infringement of his or her copyright. If a patent attorney wrote to a person threatening that the attorney's client would bring an action for infringement of copyright against that person unless he or she ceased doing certain acts, it seems clear enough that the person threatened could commence an action under s. 202 against the patent attorney. It is unlikely that the legislature intended that in such a case the patent attorney should be liable even though the acts the subject of the threats constituted a breach of the client's copyright. The language of s. 202 is wide enough to enable a patent attorney or anybody else to defend an action brought under that section by showing that the acts done constituted or, if done, would constitute an infringement of someone else's copyright. The evident object of the section is not to determine whether the threats are justifiable in some general sense but to provide a curial mechanism for a "person aggrieved" by threats of legal proceedings to obtain a determination as to whether the acts in respect of which the action or proceeding was threatened constituted or would constitute an infringement of copyright. In my opinion, the distributor was entitled to defend the action brought against it

under s. 202(1) by establishing that the acts in respect of which the action or proceeding was threatened constituted or, if done, would have constituted an infringement of Williams' copyright.

As I have pointed out, the making of the article in Australia by the importer would have constituted an infringement of the owner's copyright and, subject to the question of whether the existence of a licence had been negatived or proved, all other elements of the cause of action under ss. 37 and 38 were proved. The crucial question is thus whether, in defending the s. 202 action, the distributor bore the onus of proving that the article was imported "without the licence of the owner of the copyright" within the meaning of s. 37 and, if so, whether the evidence established that the importers did not or would not have had the licence of Williams to import the machines into Australia for the purpose of sale.

The onus of proof in respect of the owner's licence

When a statute imposes an obligation which is the subject of a qualification, exception or proviso, the burden of proof concerning that qualification, exception or proviso depends on whether it is part of the total statement of the obligation. If it is, the onus rests on the party alleging a breach of the obligation. If, however, the qualification, exception or proviso provides an excuse or justification for not complying with the obligation, the onus of proof lies on the party alleging that he falls within the qualification, excuse or proviso: *Vines v. Djordjevitch*¹⁵. Whatever form the statute takes, the question has to be determined as one of substance: *Vines*¹⁶; *Banque Commerciale S.A., en Liquidation v. Akhil Holdings Ltd.*¹⁷

The words "without the licence of the owner of the copyright" are an integral part of the content of the obligation imposed by s. 37. I do not think that s. 37 imposes a general obligation on persons subject to the excuse or justification that an importer has the owner's licence. The obligation to comply with the section is imposed only on a person who does not have the licence of the owner of the copyright to import the article in question. In *Computermate Products*

¹⁵ (1955) 91 C.L.R. 512, at p. 519.

¹⁶ (1955) 91 C.L.R. 512, at p. 519.

¹⁷ (1990) 169 C.L.R. 279, at p. 285.

*(Aust.) Pty. Ltd. v. Ozi-Soft Pty. Ltd.*¹⁸, the Full Court of the Federal Court took the view that the onus lay on a claimant to negative the existence of a licence. They said:

We should add that on its face, s 37 places upon the applicant for relief the burden of showing, inter alia, the absence of a licence, rather than placing upon the other side the burden of showing a licence.

In submitting that the importers bear the onus of proving that the article was imported with the licence of the owner of the copyright, the distributor placed considerable reliance on statements made by members of this Court in *Interstate Parcel Express Co. Pty. Ltd.* Stephen J. said¹⁹:

The appellant [i.e. the importer] has, in my view failed to establish the existence of any implied licence by the owner of the copyright such as might be thought to satisfy ss. 37 and 38 of the Act.

See also pp. 547-548, 553-554 and 556. However, the statements made in *Interstate Parcel Express Co. Pty. Ltd.* have to be read in the context of the issue in that case. The importer relied on the circumstances of the overseas sale as constituting an implied licence to import the articles in question and was content to conduct the case on the basis that, unless the implication was drawn, its appeal failed. The question of onus of proof was not in issue. *Interstate Parcel Express Co. Pty. Ltd.* therefore cannot be regarded as an authority in relation to the issue of onus of proof under ss. 37 and 38 of the Act.

Accordingly, I would hold that the onus was on the distributor to establish that the importation of the machines was or would be without the consent of Williams.

Was it proved that the importation was made without the licence of the owner of the copyright?

The distribution agreement gave the distributor the sole right to sell or otherwise dispose of or arrange for the sale or resale or other disposal of models produced by Williams for disposal and use within Australia. In addition, Williams covenanted not to grant the right to allow any other person to distribute, sell, dispose of or otherwise deal with the models in competition with the distributor without obtaining the prior written consent of the distributor. In these circumstances, the inference to be drawn is that the importation was made without the consent of Williams, for it is not to be inferred or assumed that Williams would breach its distribution

¹⁸ (1988) 20 F.C.R. 46, at p. 48.

¹⁹ (1977) 138 C.L.R., at p. 554.

agreement with the distributor by consenting to the importers competing with the distributor. In order to rebut the inference which arises from the terms of the distribution agreement, the importers sought to tender certain letters which passed between Williams and the distributor and their solicitors. The learned trial judge rejected the tender on the basis that in so far as the letters contained statements of fact they were hearsay and in so far as they contained statements of opinion they were not admissible. The importers argue that this ruling was erroneous and that the letters should have been admitted into evidence.

The first letter, dated 8 February 1988, was one from the solicitors for the distributor to Williams. The letter stated that the distributor had recently become aware that second-hand Grand Lizard and Road King Games were being imported into Australia; in the solicitors' view those actions constituted an infringement of Williams' copyright. The solicitors noted that the distribution agreement contained no reference to copyright. They enclosed a draft deed "to rectify the problem" and stated that, if Williams was not prepared to sign the deed, then it would be necessary for it to be joined as a plaintiff in proceedings seeking injunctive relief.

The second letter was dated 1 March 1988 and was written by the managing director of the distributor to Williams. The letter referred to "the recent correspondence passing between our company's solicitors and yourselves relating to an assignment of copyright" in the Grand Lizard and Road King Games. It stated:

I was disappointed to learn that the reason why your company did not wish to join in the proceedings or licence the copyright was that it had no objection to the exportation of second-hand machines out of the United States.

The writer went on to conclude:

I would be grateful if you could reconsider your company's stance and, hopefully, agree to assist my company in preventing the importation into Australia of the second-hand games. I do not wish to prevent your company authorising the exportation of second-hand games from the United States to any other country other than Australia.

The third letter, dated 7 April 1988, was from the attorneys acting for Williams. It was addressed to the managing director of the distributor. The relevant parts of the letter were as follows:

Williams Electronics Games, Inc. has asked me to review your recent correspondence with Marty Glazman concerning copyrights and the used game market in Australia. Further, I have been requested to write to you concerning Williams' position.

Williams does not attempt, nor has it ever attempted, to control the sale or distribution of used games within the U.S. or elsewhere.

The only games Williams can "intend" to be disposed are games it has control over, namely new games. In our view your distribution agreement gives you the sole right to distribute the new Williams games as are agreed to and as specified on Exhibit A.

The situation which you seek to create would require that we discriminate in favour of one distributor (your company) against all other distributors worldwide. That is neither good business nor, under U.S. law, advisable. To do so would subject Williams to possible litigation exposure under the anti-trust, unfair competition and trade regulation laws

In any case, as a policy matter, Williams will not interfere with the free trade in used games. That the Australian copyright law may be broad enough to deal with the "parallel imports" question is simply beside the point. On the other hand, if anyone seeks to violate your exclusivity with respect to new games, we are prepared to take such stance as may be necessary to protect your exclusive rights.

I think that the letters of 8 February 1988 and 1 March 1988 were admissible against the distributor in so far as they contain admissions by it or by its solicitors. However, the letter of 7 April 1988 was a hearsay statement, made out of court, by a person who was not a party to the action. It was tendered for the purpose of proving that Williams would consent to the importation of its machines by the importers. That is to say, it was tendered to prove the state of mind of the owner of the copyright. That fact could not be proved by the out-of-court statements of a person who was not a party to the action. In my opinion the letter of 7 April 1988 was inadmissible.

The importers sought to justify the admissibility of the letter on the ground that it was written by an agent of a predecessor in title of the distributor. The importers relied on *Falcon v. Famous Players Film Co.*, where McCardie J.²⁰ and the Court of Appeal²¹ held that a letter written by the agent of the owner of the copyright was admissible against a later assignee of part of that copyright although the owner was not a party to the action. The letter was held to be admissible because it was an admission by an agent of the owner of the copyright that the owner was no longer entitled to assign a right which was in derogation of the right which he had already assigned to the plaintiff and because the defendants were setting up against the plaintiff a title subsequently derived from the owner, part of which he had already assigned to the plaintiff²².

²⁰ [1926] 1 K.B. 393.

²¹ [1926] 2 K.B. 474.

²² [1926] 2 K.B., at pp. 488-489, 498.

In my opinion Falcon's Case does not assist the importers in the present case. Even if the letter of 7 April 1988 could be construed as a statement against the interest of Williams, it does not touch the title to the copyright which the distributor received from Williams. The letter is concerned only with Williams' attitude to an issue which arises under the Australian statute.

In my opinion, the correct conclusion to be drawn from the letters of 8 February 1988 and 1 March 1988 is that Williams has no objection to the importation of its machines into Australia. It is true that the letter of 1 March states that Williams "had no objection to the exportation of second-hand machines out of the United States". But, in the context of the correspondence between the distributor, its lawyers and Williams, I think that the proper conclusion to draw is that Williams had no objection to the *importation* of its machines into Australia.

It is another question, however, whether lack of objection to the importation of Williams machines into Australia constitutes a licence from the owner to import those machines into Australia. No doubt indifference may reach a stage where authorization or permission may be inferred: see *Performing Right Society v. Cyril Theatrical Syndicate*²³. But a failure to object or even an intention not to take any action to object to the importation of articles does not necessarily constitute a licence to import them. Although Williams was under a contractual obligation not to *grant* the right to allow any other person to deal with the Games in competition with the distributor, it was not under any duty to object to the importation of any goods. If it had been, its failure to object would have been sufficient to draw the inference that it was in fact consenting. Since Williams was under no duty to object to the importation, the proper conclusion to be drawn from its failure to object is that its position on the subject of importation was neutral. To make out a case under ss. 37 and 38, the owner or exclusive distributor must prove, inter alia, that the owner did not positively intend to grant a licence to import the article into Australia: cf. *Interstate Parcel Express Co. Pty. Ltd.*²⁴, per Jacobs J. On the evidence, in my opinion, the distributor has proved that the owner was neutral. It has proved, therefore, that the owner did not consent to the importation of the machines.

²³ [1924] 1 K.B. 1, at p. 9.

²⁴ (1977) 138 C.L.R., at p. 556.

Accordingly, in my opinion, the importation of Williams machines, whether or not they were covered by the distribution agreement or its amendment, would constitute a breach of s. 37 of the Act. It follows, therefore, that the importers were not entitled to a declaration that the threats were unjustifiable.

Orders

The appeal should be allowed. The orders made by the Federal Court should be set aside. In lieu thereof, it should be ordered that the action and counterclaim be dismissed. The distributor should receive the general costs of the action before Helman A.J. and of the proceedings in the Federal Court and this Court except such costs as are exclusively referable to its counterclaim.