

HIGH COURT OF AUSTRALIA

FRENCH CJ,
CRENNAN, KIEFEL, GAGELER AND KEANE JJ

Matter No S168/2012

ARISTOCRAT TECHNOLOGIES AUSTRALIA PTY
LTD & ORS

APPLICANTS

AND

GLOBAL GAMING SUPPLIES PTY LTD & ORS

RESPONDENTS

Matter No S169/2012

ARISTOCRAT TECHNOLOGIES AUSTRALIA PTY
LTD & ORS

APPLICANTS

AND

RIAD ALLAM & ORS

RESPONDENTS

*Aristocrat Technologies Australia Pty Ltd v Global Gaming Supplies
Pty Ltd*

Aristocrat Technologies Australia Pty Ltd v Allam
[2013] HCA 21

Date of Order: 2 May 2013

Date of Publication of Reasons: 10 May 2013
S168/2012 & S169/2012

ORDER

In each matter, special leave refused with costs.

On appeal from the Federal Court of Australia

Representation

A J L Bannon SC with J M Hennessy SC for the applicants in both matters (instructed by Gilbert + Tobin Lawyers)

M L D Einfeld QC with A C Harding for the respondents in S168/2012 and the second to fifth respondents in S169/2012 (instructed by Paul Bard Lawyers)

M Green for the first and sixth respondents in S169/2012 (instructed by Bruce & Stewart Lawyers)

Notice: This copy of the Court's Reasons for Judgment is subject to formal revision prior to publication in the Commonwealth Law Reports.

CATCHWORDS

Aristocrat Technologies Australia Pty Ltd v Global Gaming Supplies Pty Ltd

Aristocrat Technologies Australia Pty Ltd v Allam

Evidence – Tendency rule – Section 97(1) of *Evidence Act* 1995 (Cth) – Failure to comply with tendency rule where evidence not characterised as tendency evidence at first instance – Applicants alleged that respondents refurbished and sold machines that incorporated pirated copies of material in which applicants held copyright, thereby infringing ss 36 and 38 of *Copyright Act* 1968 (Cth) – Email communications of respondents relied upon by primary judge to prove that respondents had knowledge of infringing conduct – Full Court of Federal Court held that email communications relied upon by primary judge to establish tendency to engage in infringing conduct without compliance with s 97(1) of *Evidence Act* 1995 (Cth) – Whether open to Full Court to conclude that email communications were relied upon by primary judge to establish tendency.

Words and phrases – "tendency evidence".

Copyright Act 1968 (Cth), ss 36, 38.

Evidence Act 1995 (Cth), ss 94(1), 95(1), 97(1), 136.

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Introduction

1 By orders made on 25 May 2012 the Full Court of the Federal Court of Australia allowed appeals by the respondents against a judgment of a single judge awarding damages against them for infringement of the applicants' copyright. The copyright related to literary and artistic works in and on components of electronic gaming machines manufactured by the applicants. The applicants sought special leave to appeal to this Court against the decisions of the Full Court. Their applications for special leave were referred to an enlarged Bench by orders of French CJ and Heydon J made on 16 November 2012.

2 After hearing argument on 2 May 2013 this Court made orders dismissing the applications for special leave with costs and stated that reasons for its decision would be published subsequently. The question upon which special leave was sought was whether the Full Court had erred in characterising the primary judge's reasoning about evidence of email communications as inferring a "tendency" on the part of the respondents to engage in infringing conduct. Section 97 of the *Evidence Act* 1995 (Cth) ("the Evidence Act") provides that, absent compliance with conditions including reasonable notice, evidence of a tendency that a person has or had is not admissible to prove that a person has or had a tendency to act in a particular way. The applicants argued that the Full Court was wrong to say that the primary judge used the email evidence to infer tendency and that the appeal to that Court should not have been allowed on that basis. As appears from the reasons that follow, this Court was of the opinion that the Full Court's characterisation of the primary judge's reasoning was open to it and not attended with sufficient doubt to warrant the grant of special leave.

3 The case was one of some complexity factually and procedurally. It is helpful to outline the background as appears from the judgments both at first instance and in the Full Court of the Federal Court.

Factual and procedural background

4 The applicants manufactured and sold electronic gaming machines and game software. Each of the applicants' gaming machines incorporated computer programs that play games of chance displayed on a video screen. The computer programs that embodied the games, and compliance plates and artwork displayed on the machines, were literary and artistic works within the meaning of s 10 of the *Copyright Act* 1968 (Cth) ("the Copyright Act"). Copyright subsisted in those works and was owned by the applicants.

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5 The respondents Global Gaming Supplies Pty Ltd ("Global") and Impact Gaming Pty Ltd ("Impact") were in the business of selling second hand gaming machines to overseas markets. The respondents Anthony Andrews and Francis Cragen were the sole directors and shareholders of Global and Impact respectively. Those parties are referred to collectively as the Global and Impact respondents. The other corporate respondent is Tonita Enterprise Pty Ltd. Riad Allam is its principal. He and his company are referred to in these reasons as the Tonita respondents. Mr Allam is a gaming technician who provided gaming machine refurbishment services to Global.

6 From at least October 2004 there was a joint venture between the Global and Impact respondents for the supply of refurbished gaming machines to overseas markets. The Tonita respondents carried out significant technical work for the joint venture. The applicants' gaming machine software was stored in removable memory chips known as erasable programmable read only memory chips ("EPROMs"). The compliance plates were attached to the applicants' gaming machines to meet regulatory requirements.

7 The essence of the applicants' case, as the primary judge described it, was that the Global and Impact respondents were in a joint venture together "to counterfeit and sell, principally in South America, second hand gaming machines assembled in Australia using pirated copies of materials in which the applicants hold the copyright." The principal question as his Honour put it, was whether he could infer copyright infringement "in the absence of direct evidence of the gaming machines which are said to have been counterfeited."

8 The applicants alleged 54 transactions in which some or all of the respondents were said to have exported "counterfeit gaming machines to South America." These involved a total of 618 machines. The applicants were not in a position to identify which components in the gaming machines in the impugned transactions involved infringements of any copyright of the applicants. In the end the primary judge was satisfied that 11 of the 54 impugned transactions involved gaming machines which contained infringing components. It was not possible, however, to conclude on the evidence precisely which components in the machines, the subject of those transactions, were "counterfeit" components.

9 The primary judge's findings of infringement were based upon what he described as "five essential propositions". They were:

1. The Tonita respondents (specifically Mr Allam) had copied the applicants' game software onto blank EPROMs.

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2. The Tonita respondents (specifically Mr Allam) manufactured counterfeit compliance plates.
3. Mr Andrews and Mr Cragen were aware that Mr Allam was copying the applicants' game software onto blank EPROMs.
4. Mr Andrews and Mr Cragen were aware that Mr Allam was manufacturing counterfeit compliance plates for export to foreign markets.
5. Mr Andrews and Mr Cragen sent, or were aware that the joint venture had sent, original and digital artwork to South America for the purpose of having it copied.

10 The first two propositions involved findings that the Tonita respondents without the licence of the applicants did acts comprised in the applicants' copyright within the meaning of s 36 of the Copyright Act and thereby infringed that copyright. His Honour also found that the Global and Impact respondents had authorised copyright infringements, either as participants in the joint venture which had commenced at least by 1 October 2004, or before that date individually. His Honour found that the nature of the joint venture contemplated the very infringing acts alleged to have taken place.

11 In addition to the claims of primary infringement under s 36, the applicants alleged that by dealing with infringing copies of the works with knowledge or constructive knowledge of the infringements the respondents infringed copyright pursuant to s 38 of the Copyright Act. As the applicants pointed out in their written submissions, his Honour's findings of infringement against the respondents did not specifically refer to s 38 or satisfaction of the knowledge element of that section in making findings but "clearly enough found that element was satisfied."

12 At trial the applicants tendered, over objection, a number of business communications including six chains of email correspondence said by them to constitute "instances of unguarded communications that make plain the true nature of the joint venture's trade (a counterfeiting operation)." The email communications, as the Full Court found, were used by the primary judge as an essential part of his reasoning process leading to his findings of infringement. The emails involved exchanges between or copied to Mr Andrews, Mr Cragen, Mr Allam and customers of the Global and Impact respondents.

13 Some of the emails, along with much other evidence tendered at the trial, had been the subject of rulings by the primary judge under s 136 of the Evidence

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Act limiting their admissibility to the case against particular respondents. After the close of evidence and at the time of final submissions, the applicants applied for a variation of those rulings. The primary judge then admitted all evidence on a provisional basis subject to relevance. His Honour subsequently made orders revoking all previous orders made pursuant to s 136 that had had the effect of limiting the admissibility of that evidence to the case against particular respondents.

14 The Full Court held that the primary judge had erred in revoking his s 136 rulings. The Full Court's conclusion on those rulings was not challenged in the application for special leave. It was nevertheless invoked by the respondents as the basis for an argument that there would be insufficient prospects of success on an appeal to this Court if special leave were to be granted on the ground advanced by the applicants. For even if the applicants were to succeed on the question raised in their proposed amended grounds of appeal, they would still be faced with the consequences of the Full Court's finding that, in effect, evidence that had been admitted against some respondents only should not later have been treated as evidence against all. It was not necessary to consider that argument, as the point upon which the applicants seek special leave relating to the Full Court's characterisation of the primary judge's use of the email correspondence did not warrant the grant of special leave.

The primary judge's treatment of the emails

15 The relevant email communications were made between November 2004 and November 2005. There was also reference to an earlier email chain in 2002. The primary judge observed that the emails "were not tendered as proof of the facts stated in them", but said that "the contents of the communications are revealing."

16 His Honour made a number of findings based on the emails. He found that:

- Mr Andrews had offered to provide a customer with artwork that was digitally copied from the applicants' artwork. This was plain from an email he sent to "Aldo" in 2002.
- Mr Andrews offered to send to another customer in South America artwork which could be matched to games that could be copied in South America.

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As to the offers mentioned in those findings, his Honour observed that they were not offers to do an act which would have constituted an infringement of the applicants' copyright pursuant to ss 36 or 38 of the Copyright Act. He said:

"[b]ut they do indicate Mr Andrews' willingness to assist the 'serial counterfeiters' in South America in carrying out their actions."

It would be difficult to find a clearer indication of the use of the evidence as indicative of a tendency.

17 His Honour observed that there were other offers to the same effect, including in an email chain dated 21 and 25 October 2005 and in a request from South America for artwork to be translated into Spanish as appeared from an email of 10 November 2005. The email chain of 21 and 25 October 2005 was said to be an example of Mr Cragen's "tacit acceptance of the joint venture's role in the South American counterfeiting operations."

18 His Honour found, on the basis of the emails, that Mr Andrews had offered to arrange for the applicants' compliance plates with fake serial numbers to be made for a customer of the Global and Impact joint venture. Mr Andrews did so following a conversation between Mr Cragen and the customer about the supply of gaming machines. That third finding was said to be clear from an email chain of 12 and 15 November 2004. Implicit in the email communication and a concession by Mr Cragen in cross-examination that he had had a discussion about the topic of compliance plates with a customer, Mr Mendelson, was:

"the acceptance by Mr Cragen that the Global/Impact Joint Venture was prepared to supply gaming machines with false Aristocrat compliance plates."

Again, it is not difficult to see how this observation could be characterised as a use of the email evidence to establish a tendency to act in a particular way.

19 His Honour made three further findings based on the emails:

- Mr Allam gave Mr Walter Di Palma, an Argentinian gaming technician, a CD containing game software belonging to the applicants which Mr Allam had "burned" onto the CD.
- Mr Allam was requested by Mr Nuevo, a South American customer, to provide blank EPROMs for the applicants' gaming machines and Mr Allam knew that the purpose of the request was to enable the customer to copy the applicants' game software onto EPROMs in South America.

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- Mr Andrews adopted protocols to avoid detection of the Global and Impact joint venture's involvement in copyright infringement in particular by the adoption of a web-based Yahoo email address.

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After considering the email chains and other aspects of the evidence, his Honour found the first and second of his essential propositions made out, namely, that the Tonita respondents had copied the applicants' game software onto blank EPROMs and had manufactured counterfeit compliance plates. In relation to each of the third, fourth and fifth "essential propositions", which directly concerned the Global and Impact respondents, his Honour's findings may be summarised as follows:

- It was clear from the email correspondence that Mr Andrews and Mr Cragen were aware of the fact that Mr Allam was burning the applicants' game software onto blank EPROMs. His Honour rejected their explanations of the emails.
- Mr Andrews and Mr Cragen were aware that Mr Allam was manufacturing counterfeit compliance plates for export to foreign markets. Mr Andrews had told Mr Mendelson that he could organise counterfeit compliance plates in an email in November 2004, which was copied to Mr Cragen. The email was sufficiently clear on its face to reveal what Mr Andrews had in mind.
- Even before the Global and Impact joint venture Mr Andrews had engaged in discussion about the supply of digital artwork panels as appeared from an email of August 2002. In an undated email Mr Andrews had made the unequivocal statement that he could send a set of artwork to South America and that the customer, Mr Nevada, could "just copy the game chips" and make some new artwork. Emails sent after the establishment of the Global and Impact joint venture showed that both Mr Andrews and Mr Cragen were aware that the applicants' artwork was being sent by them to South America for the purpose of copying.

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His Honour found on the basis of "the extensive email correspondence" that the Global and Impact joint venture was in operation by November 2004 and had commenced by at least 1 October 2004. His Honour found that the Global and Impact respondents as parties to the joint venture had authorised any copyright infringements committed by the joint venture in the carrying out of its activities from that date forward. The requirements of s 36 were satisfied because Mr Andrews and Mr Cragen each had power to prevent the other from doing the acts concerned and the nature of the joint venture contemplated the

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very acts alleged to have taken place in the proceedings in the Federal Court. Neither Mr Andrews nor Mr Cragen took reasonable steps to prevent the infringements which his Honour found to have been committed. His Honour referred to a "studied and deliberate course of action" in which each of the Global and Impact respondents had decided to ignore the rights of the applicants "with knowledge that there was likely to be an infringement of copyright". He said:

"Moreover, the email correspondence to which I have referred at some length makes it plain that the Global and Impact respondents sanctioned, approved or countenanced the infringements of copyright carried out by the Tonita respondents ... Indeed, whilst there was no joint venture between the Tonita respondents and the other respondents to the proceedings, there was, in my view, something in the nature of concerted action or agreed common action; it was not necessary for the Aristocrat companies to prove an express plan mapped out by the primary offenders. The evidence more than sufficiently establishes 'tacit agreement' between the parties".

22 It was open to the Full Court to regard the path by which his Honour reached that conclusion as one which involved treating the email correspondence as evidence of a "similar fact" or tendency character. So to characterise his reasoning process did not involve any logically difficult suggestion that what he found, *sub silentio*, was a "tendency to know". The applicants submitted that the reasoning of the Full Court erroneously attributed that illogicality to the primary judge. That submission should be rejected.

The Full Court's treatment of the primary judge's reasoning

23 In the Full Court the respondents challenged the primary judge's use of the email chains in relation to the third, fourth and fifth of his "essential propositions". Those propositions were regarded by the Full Court as establishing the "knowledge" requirement of s 38 of the Copyright Act. The Full Court observed:

"The Aristocrat parties' case on infringement by dealing could not and cannot succeed without that requirement being established with respect to the Global/Impact parties."

24 The emails had been the subject of objection before the primary judge in relation to the purposes for which they could be admitted and their relevance to the infringing transactions alleged by the applicants. The Full Court identified the issues raised before it as:

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- whether the emails held to be admissible only against the respondents from whom they derived under the "usual s 136 ruling" could then be admitted against all respondents (subject to relevance) after the close of evidence; and
- whether the primary judge could rely on the contents of the emails to establish the connection between the joint venture and the conduct constituting the alleged copyright infringement.

In relation to the first issue the Full Court noted that, while not all of the emails were subject to the usual s 136 ruling, most of those relied upon by the primary judge as essential to his conclusions were subject to such rulings.

25 The Full Court correctly emphasised the centrality of the emails to the conclusions reached by the primary judge. They had been treated as relevant to findings about credit, the joint venture, the existence of a "tacit agreement" between the parties, and the primary judge's satisfaction as to "the counterfeiting operation". Their Honours said:

"As such, without the emails being relied upon by the primary judge, he could not have connected the particularised infringing transactions with the joint venture and 'tacit agreement' as to the counterfeiting operations that His Honour found existed."

Their Honours considered each of the email chains in detail and the findings made by the primary judge on the basis of those communications.

26 The Full Court observed that it was apparent throughout the trial that the email correspondence was admitted on a limited basis and that this did not change by reason of the cross-examination. In this respect their Honours' consideration of the revocation of the s 136 rulings generally intersected with their consideration of the way in which the email evidence was used by the primary judge. The applicants' application to vary the s 136 rulings was, in effect, an application to reopen their case. The Full Court said:

"[T]o allow the emails to be introduced as evidence against respondents who had not been required to respond in any way to the email evidence, even if tendered for what their contents revealed against other respondents, was to put the respondents in an unsatisfactory position."

27 The Full Court then gave separate consideration to the use of the evidence by the primary judge. Their Honours concluded that the emails should not have been relied upon by his Honour to find that the infringing transactions occurred

as alleged by the applicants. The question whether the primary judge had impermissibly treated the email evidence as tendency evidence was raised by the Full Court in the course of argument. No procedural fairness point was taken by the applicants in this respect. The applicants' case in this Court turned on the correctness of the way in which the Full Court viewed the primary judge's reasons.

28 In holding that the primary judge should not have relied upon the emails to find that the alleged infringing transactions occurred, the Full Court made the following observations:

- The applicants' case at trial was primarily based upon circumstantial evidence which the applicants sought to relate to a number of transactions in which some or all of the respondents were said to have exported counterfeit gaming machines to Latin America.
- The significant emails tendered did not relate to the alleged infringing transactions. They appeared to have been tendered to discredit witnesses and/or prove the existence of a joint venture.
- The primary judge treated the contents of the emails as going beyond questions of credit and the existence of the joint venture.

The only way the primary judge could have made the necessary connection between the infringing transactions and the joint venture was to draw an inference, based on the content of the emails, that the respondents had the tendency to act in a particular way, which involved dealing with articles, the making of which infringed copyright of the applicants, with the requisite knowledge.

29 Having thus characterised the primary judge's use of the emails, the Full Court looked to Pt 3.6 of the Evidence Act, and in particular s 97(1), which provides:

"Evidence of the character, reputation or conduct of a person, or a tendency that a person has or had, is not admissible to prove that a person has or had a tendency (whether because of the person's character or otherwise) to act in a particular way, or to have a particular state of mind unless:

- (a) the party seeking to adduce the evidence gave reasonable notice in writing to each other party of the party's intention to adduce the evidence; and

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- (b) the court thinks that the evidence will, either by itself or having regard to other evidence adduced or to be adduced by the party seeking to adduce the evidence, have significant probative value."

Section 97(2) provides that the notice requirement does not apply if the evidence is adduced in accordance with directions made by the court under s 100 or to explain or contradict tendency evidence adduced by another party. Neither of those conditions applied in this case.

30 Section 97 must be read with s 95(1), which provides:

"Evidence that under this Part is not admissible to prove a particular matter must not be used to prove that matter even if it is relevant for another purpose."

That provision in turn must be read with s 94(1), which provides:

"This Part does not apply to evidence that relates only to the credibility of a witness."

31 The email evidence did not relate only to credibility. It was also relevant to prove the existence of the joint venture. It could not be used to show a tendency on the part of the respondents to act in a particular way without compliance with s 97(1). The Full Court said:

"The primary judge was right in saying that he should not rely on the contents of the emails for the truth of their contents, but fell into error in doing just that in relying upon evidence that did not relate to the particularised infringing transactions. Used in this way, the evidence in the emails could show nothing more than a tendency on the part of the respondents at trial to engage in infringing transactions."

32 The primary judge was found to have erred in treating the emails as probative of the particularised infringing transactions and in using the contents of the emails to demonstrate the connection between the joint activity and those transactions. The Full Court held that without the emails the primary judge could not have found such connection to the infringements as was alleged. His third, fourth and fifth "essential propositions" could not be supported. Even accepting proof of the existence of a joint venture the applicants had failed to prove the alleged infringing transactions. The Full Court added:

"No attempt was made by the Aristocrat parties before the primary judge or before us to prove the 'essential propositions' without reference to the

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emails relied upon by the primary judge. It seems to be accepted that without reliance upon the emails, the third, fourth and fifth 'essential propositions' cannot be supported, and the case brought by Aristocrat must fail."

On that basis the Full Court allowed the respondents' appeals.

Contentions and conclusions

33 The first ground of appeal in the applicants' proposed notice of appeal alleged error on the part of the Full Court in finding that the applicants had failed to demonstrate that the Global and Impact respondents knew, or ought reasonably to have known, that the making of the gaming machines involved an infringement of copyright. The applicants' notice referred to matters of fact said to go to the relevant awareness of the Global and Impact respondents. That ground of the proposed appeal appeared to invite a conclusion that the findings of infringement could and should have been made independently of any use of the email evidence as tendency evidence. The respondents in their written submissions argued that the applicants should not be permitted to contend in this Court that the knowledge element in s 38 of the Copyright Act was satisfied without reliance upon evidence erroneously admitted. As to that, the issue about the email evidence was not that it was erroneously admitted. It was properly admitted as relevant to credit and the existence of a joint venture. It was the use of the email evidence by the primary judge, albeit sub silentio, to infer a tendency to act in a particular way that was central to the reasoning of the Full Court.

34 Be that as it may, senior counsel for the applicants at the hearing of the referred application for special leave expressly disclaimed any reliance upon the proposition that concurrent findings of fact by the primary judge and the Full Court were sufficient to establish the requisite knowledge without reference to the emails.

35 The applicants made detailed written submissions criticising the Full Court's characterisation of the primary judge's use of the email evidence. They contended that there was nothing said in the primary judge's reasons which indicated that his Honour had used the emails as tendency evidence. While the primary judge did not use the word "tendency" nor refer to s 97 of the Evidence Act his Honour, as already pointed out, used the email evidence in such a way as to justify the Full Court's view of his reasoning process. The applicants referred to elements of his Honour's reasoning which, it was said, did not link his findings about the infringing transactions to evidence of a tendency. However, the inferences that his Honour drew, that the Global and Impact respondents

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"sanctioned, approved or countenanced the infringements of copyright carried out by the Tonita respondents", did not appear to have been based upon conduct related directly to the particularised infringing transactions. Once that much is accepted, and having regard to other findings of the primary judge mentioned earlier, it must also be accepted that it was open to the Full Court to characterise his Honour's reasoning as based upon discernment of a tendency on the part of the respondents to act in a particular way which involved dealing with articles, the making of which infringed copyright of the applicants.

Conclusion

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It is sufficient to say that the Full Court's view of the approach taken by the primary judge to the use of the email evidence was reasonably open. The applications did not involve a question of law of public importance¹. The applicants did not contend that they involved such a question. They argued, in effect, that the interests of justice, either generally or in this particular case, required consideration by the High Court of the Full Court's judgment². For the reasons given, the Court did not accept that argument and special leave was refused with costs in each application.

1 *Judiciary Act* 1903 (Cth), s 35A(a)(i).

2 *Judiciary Act* 1903 (Cth), s 35A(b).

