



Date: 7th June 2015

Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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Date	21-05-2015

I. Current law and practice

Aspect (i) - Overlap with restraint of trade

- 1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?
- yes
Please comment.:
- Yes; particularly in the employment context, trade secret protection is in tension with the general and important principle of public policy that there should be freedom of trade and that, in the public interest, persons should not be unduly restrained from carrying on their chosen occupation.

- a) If so, under what circumstances and under which legal regimes (e.g. competition law)?
- Trade secrets protection is not codified in Australia - it is an element of the common law.

- 2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?
- Australian law distinguishes between general skills or knowledge acquired during the course of employment, on the one hand, and confidential information and trade secrets, on the other hand.
- General skills or knowledge acquired during the course of employment, often referred to as know-how,

is information which is only protected by the duty of fidelity of an employee during employment. An employee is free to use know-how after termination of the employment.

Australian law regards trade secrets as just a particular subject-matter to which the principles relating to breach of confidence have been applied, namely the subject of trade or business.

Australia has adopted the approach of the UK Courts in *Faccenda Chicken Ltd v Fowler* (1985) 6 IPR 155 and has approved the general test for distinguishing know-how from a trade secret set out in the UK case of *Printers and Finishers Ltd v Holloway*.^[1] The Court said that:

If the information in question can fairly be regarded as a separate part of the employee's stock of knowledge which an employee of ordinary honesty and intelligence would recognise to be the property of his old employer, and not his own to do as he likes with, then the court, if it thinks that there is a danger of the information being used or disclosed by the ex-employee, to the detriment of the old employer, will do what it can to prevent that by granting an injunction.

The leading Australian case of *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 also set out some useful factors to be considered in determining whether certain information is a trade secret:

An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are:

- 1. the extent to which the information is known outside of the business;*
- 2. the extent to which it is known by employees and others involved in his business;*
- 3. the extent of the measures taken by him to guard the secrecy of the information;*
- 4. the value of the information to him and to his competitors;*
- 5. the amount of effort or money expended by him in developing the information;*
- 6. the ease or difficulty with which the information could properly be acquired or duplicated by others.*^[2]

^[1] *Printers and Finishers Ltd v Holloway* [1965] RPC 239

^[2] *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 at 49 per Gowen J. See also *Wright v Gasweld Ptd Ltd* (1991) 22 NSWLR 317.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

Yes. During employment, employees have a fiduciary duty to their employers to act honestly and not abuse the confidence their employers have entrusted in them. Therefore, any breach of a trade secret throughout the course of employment may be (in addition to being a common law breach of confidence) a breach of an implied term of the employment contract on the basis of the equitable fiduciary duty that the employee owes to his or her employer.

It is conceivable that an express confidentiality clause could protect a class of information broader than would otherwise be protected by an employee’s duty of confidence, subject to the limitation that a Court will not enforce a clause that is in restraint of trade. However, in practical terms, it is likely to be a very exceptional case where a Court would protect information of a character that falls short of the usual requirements for the protection of a trade secret.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

After employment has terminated, in the absence of an express confidentiality clause, an employer wanting to allege breach of a trade secret against an ex-employee will only be able to rely on breach of confidence. Courts will protect information from disclosure for as long as it retains the requisite character as a trade secret - it must be information which, if disclosed to a competitor, would be liable to cause real (or significant) harm to the owner of the secret. In most circumstances, the value of a trade secret diminishes over time.

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes
If yes, is there any distinction between the types of knowledge they can use?:

Yes, an employee may use know-how but not a trade secret. See the response to Q2 for an explanation of the way Australian Courts distinguish know-how from trade secrets.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes
If so, which employees, and what is the rationale for any distinction between employees?:

Answer is NO but clicking NO did not allow further comments:

No, not in the absence of an enforceable non-compete agreement. However, where a non-compete agreement exists, the Courts will generally uphold a longer and more extensive restraint as enforceable for more senior employees than they would for more junior employees.

Other areas of the law may impose separate obligations on senior employees which may further restrict their ability to compete with ex-employers - notably fiduciary duties (under the law of equity) and director’s duties (under company law) of fidelity and good faith which may persist even after an employee has left the employer.

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

Each of the Courts in which actions for breaches of trade secrets would usually be brought have broad powers to make such orders as they see fit as to the confidentiality of documents, evidence, hearing and judgments. The overarching consideration is the administration of justice. This principle recognises the importance of preserving the confidentiality of the substance of the dispute as a necessary part of doing justice as between the parties.

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

Each of the mechanisms identified in sub-paragraphs a - d above are available in Australian Courts.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

Each of the mechanisms identified in sub-paragraphs a - d above are available in Australian Courts.

c) non-confidential versions of documents being provided to all except authorised individuals;

Each of the mechanisms identified in sub-paragraphs a - d above are available in Australian Courts.

d) only non-confidential parts of any judgment / decision publicly available?

Each of the mechanisms identified in sub-paragraphs a - d above are available in Australian Courts.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

Confidentiality measures do not apply by default - they must be requested.

The owner of the trade secret must satisfy the Court that confidentiality of the substance of the dispute must be preserved but this does not entail the Court adjudicating on whether the information alleged to be a trade secret qualifies as such - that is a question for the trial of the action.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

A litigant is bound to use information gained as a result of the proceeding only for the purpose of the proceeding and not for any collateral purpose.

Aspect (iii) - Valuation of loss

9)	Are damages available as a remedy for trade secret violation?
	yes
	If so please answer the following sub-questions::
a)	<p>how (if at all) is that value diluted by publication?</p> <p>Damages may be awarded in cases where no injunction is granted (for example, in situations where the trade secret has already entered the public domain). However, the award of damages will generally be limited to the extent of the diminution in value of the aggrieved party's right.^[1] This may be calculated by reference to lost profits, if they can be proved, or a reasonable royalty fee.</p> <p>Where the breach of confidence has caused distress, embarrassment or humiliation, aggravated damages may be awarded,^[2] however these circumstances are less likely to occur in the context of a breach of a trade secret.</p> <p>Available remedies also include an account of profits made resulting from the breach of a trade secret, as an alternative to damages.</p> <p>Whilst common law damages are the most common remedy granted in respect of breach of a trade secret, restitutionary remedies are available to a party who is successful in a civil action for breach of a trade secret in order to prevent unjust enrichment. For example, a Court may impose a constructive trust over goods in the possession of the party who has breached the trade secret.</p> <p>In an extreme case, a Court may find that an entire business should be held on trust for the plaintiff, if the business has been established on the basis of a breach of trade secrets (such as the misuse of a customer list).</p> <hr style="width: 20%; margin-left: 0;"/> <p>^[1] <i>Talbot v General Television Corp Ltd (No 2)</i> [1980] VR 224.</p> <p>^[2] <i>Giller v Procopets</i> (2008) 24 VR 1</p>
b)	<p>how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?</p> <p style="text-align: center; padding-top: 20px;">see (a)</p>
c)	<p>can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?</p>
d)	<p>If so, how is moral prejudice defined and how are such damages quantified?</p> <p style="text-align: center; padding-top: 20px;">see (a)</p>

Aspect (iv) - Proving infringement

10)	What elements must be proved to establish violation of a trade secret?
	<p>The action of breach of confidence consists of three elements:[1][#_ftn1]</p> <p>(a) the information is confidential;</p> <p>(b) that information was transferred in circumstances arising under an obligation of confidence; and</p> <p>(c) there is an actual or threatened use or disclosure of that information, which is unauthorised.</p> <p>As to the third element, the general rule is that the “use and disclosure of information obtained in confidence is limited to the purpose for which the information was provided”. [2][#_ftn2] In this way, the threshold for breach of a trade secret is low.</p> <p>The key question is whether an “unconscientious use” has been made of the information. [3][#_ftn3]</p> <hr/> <p>[1][#_ftnref1] <i>Coco v A N Clark (Engineers) Ltd</i> [1969] RPC 41, (1968) 1A IPR 587; <i>Commonwealth of Australia v. John Fairfax & Sons Ltd</i> (1980) 147 CLR 39.</p> <p>[2][#_ftnref2] <i>Elliot v Ivey</i> [1998] NSWSC 116 at [9].</p> <p>[3][#_ftnref3] <i>Smith Kline & French Laboratories (Aust) Ltd v Secretary, Department of Community Services and Health</i> (1991) 20 IPR 643 at 656.</p>
11)	What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?
	<p>None - they are not regarded as being different under Australian law.</p>
12)	Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?
	<p>yes</p> <p>If so, in what circumstances? :</p> <p>Actual knowledge might be imputed, subject to the usual rules of proof - if a plaintiff could demonstrate that an employee would have needed the relevant information to do their job, it is likely that actual knowledge would be imputed by the Court. However, it is unlikely that the Court would ever impose a restraint based on constructive knowledge. In appropriate cases, constructive knowledge that the information was confidential might be imputed.</p>
13)	Does your jurisdiction provide for discovery?
	<p>yes</p> <p>If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:</p>

Yes - discovery is available in Australia.

Australia also provides for pre-action discovery in circumstances where the prospective plaintiff suspects a breach (or threatened breach) of a trade secret but does not have sufficient information to enable it to decide whether to commence an action. Such pre-action discovery is available against the prospective defendant and relevant third parties.

During the course of an action, Australia also provides a mechanism for discovery against third parties if necessary.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

Answer is NO but if NO is clicked, no opportunity for comments

There is no formal switch of the burden of proof to the defendant in a trade secrets case. The plaintiff maintains an obligation to prove a breach (or threatened breach) of the trade secret on the balance of probabilities (that is, it must be more probable than not that the breach occurred). In considering whether the case has been proved on the balance of probabilities, the court will take into account the nature of the cause of action or defence; and the nature of the subject-matter of the proceeding; and the gravity of the matters alleged.

However, if a defendant is able to give evidence from a relevant witness but chooses not to do so, the Court can draw an inference that the person's evidence would not have assisted the defendant's case.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

There is a mechanism available to obtain an ex-parte pre-action search and seizure order in Australia. The plaintiff must satisfy the Court that there is a serious risk that the material to be seized will otherwise become unavailable if the seizure order is not made and the defendant is given notice of the claim. This usually entails presenting evidence that the defendant is untrustworthy.

There are a number of safeguards in place to prevent abuse. First, the plaintiff (and the lawyers acting for the plaintiff) have an obligation to give complete disclosure of the relevant circumstances giving rise to the need for the seizure order. Secondly, the execution of the search and seizure order must be supervised by an independent lawyer nominated by the Court. Thirdly, the independent lawyer must provide a report to the Court on the conduct of the execution of the search and seizure order.

In exceptional circumstances, it is also possible to freeze assets. The purpose of a freezing order is to prevent the frustration or inhibition of the Court's process by seeking to meet a danger that a judgment or prospective judgment of the Court will be wholly or partly unsatisfied.

A first party may apply for a freezing order where they believe the second party may dispose of, or deal with assets, which could culminate in the party not fulfilling the enforcement of a judgment the first party may obtain if successful in subsequent litigation.

16)	Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?
	A seizure order is usually used for securing evidence of breaches of trade secrets and may also be used to prevent articles entering into circulation.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17)	Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?
	<p>yes</p> <p>If so, what limits? :</p> <p>It is important to distinguish carefully between information that is truly a trade secret (namely information the disclosure of which to a competitor would be likely to cause real or significant harm to the owner of the trade secret) from know-how.</p> <p>However, once information is characterised as a trade secret, the only further limitation on protection should be a requirement that the information continue to have the character of a trade secret. Any further limitation would be essentially arbitrary and would not reflect the fact that some information will retain the character of a trade secret for only a short period (for instance disclosure of a five year old customer list may not cause significant harm to the owner of the customer list) whereas some information will retain that character indefinitely (the manufacturing method for Cadbury's Flake is an example).</p>

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	Subject to the additional protections afforded by other areas of the law (such as those protections which are offered by equity in relation to breaches of fiduciary duty and company law in relation to director's duties, no. Given that the rationale for trade secrets protection is to protect information that would be valuable in the hands of a competitor, it would be a peculiar outcome if protection were afforded against disclosure of a trade secret by a senior employee but not disclosure of the same information by a junior employee.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19)	Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?
	Yes. There would otherwise be a significant potential loss suffered by the plaintiff as a consequence of the litigation which would discourage plaintiffs from bringing meritorious claims. As a matter of public policy, a defendant ought not be able to profit by taking collateral advantage of litigation brought against it.

20)	Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?
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No. Trade secrets protection should be confined to protection of the disclosure and use of valuable commercial information. It should not extend to restrain the independent development of the same or similar information. This is because the “springboard” advantage that protection of a trade secret guards against is not taken by the party who independently develops the information – that person has expended the effort required to produce the information and should be entitled to use it.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes

If yes, in what circumstances? :

In exceptional circumstances, **actual** knowledge of a trade secret might be imputed to a new employer. For example, if an employee works for Cadbury making Flake (which is protected as a trade secret), leaves Cadbury and goes to work for Cadbury’s competitor, and 6 weeks afterwards the competitor starts making a similar product, it might be possible to impute actual knowledge on the balance of probabilities. Generally speaking, however, Courts will be slow to impute constructive knowledge to a new employer, and restraints of trade (to the extent that they exist) will be enforced against the employee.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes, pre-action evidence preservation orders and seizure orders should be available in appropriate circumstances. The option for such orders to be granted on an ex parte basis should also be available, with appropriate safeguards. The rationale for such orders is to ensure that pertinent evidence is available to the Court and is not destroyed or otherwise put beyond the Court’s reach. It is a necessary element of the proper administration of justice in trade secrets cases.

b) Should pre-action evidence seizure orders be available?

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

The risk of this can be minimised by a Court imposing an obligation upon the lawyers or agents of a party undertaking the seizures not to disclose information irrelevant to the claimant’s case to the claimant. The risk is also minimised by the requirement to have an independent lawyer present.

If disclosure to the claimant occurs nonetheless, the Court should impose an obligation not to use the information for any collateral purpose.

III. Proposals for harmonisation

25)	Is harmonisation in this area desirable?
	Yes. Disparate approaches to the protection of the same information in different jurisdictions create undesirable uncertainty for owners of trade secrets.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26)	Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.
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27)	What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?
	None. If enforcement action is barred as a restraint of trade then it follows that no relief should be available from the Courts.

28)	Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?
	A contractual obligation not to disclose or use certain information should be unenforceable if the obligation extends beyond what is reasonable to protect the legitimate commercial interests of the owner of the information. This will depend on the character of the information, the extent of protection contracted for and the consideration given for that extended protection.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29)	What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?
	Adequate protection to ensure that the alleged trade secret the subject of the proceedings does not fall into the public domain by virtue of the Court process itself should be provided as a matter of course and without the need to satisfy any conditions or threshold regarding the character of the information in suit. It should be sufficient for a representative of the owner of the alleged trade secret to verify on oath that the owner regards the information as a trade secret.

30)	If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?
	If the action is not made out, the only obligations which should continue to apply are those which would otherwise apply. For example, to the extent that the information is still confidential, the employee should not be free to disclose the confidential information to third parties.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

The principles which should apply are the same principles which apply to the quantification of equitable damages. There should also be provision for "springboard damages", where the party has used the confidential information to secure a further advantage (for example, entering a market earlier than they otherwise could have done).

32) Should courts award moral damages?

yes
If so, how should they be quantified?:

Answer is NO but can't provide comments when NO is clicked

No. Damages should be based on losses suffered. Where there are damages that are not purely financial - eg damage to reputation - they should be reimbursed if they can be proven.

In appropriate cases, the Court can mark its disapproval of a party's conduct by making an exceptional award of costs (that is, reimbursing the plaintiff's legal costs at a higher level than would otherwise be the case).

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

See the answer to Q23 above.

34) What restrictions should apply to the use of seized evidence by the claimant?

The seized evidence should be used only for the purpose of the legal proceedings and not for any collateral purpose. Safeguards should be adopted by the Court to ensure that outcome.

Summary

Australian law distinguishes between general knowledge (know-how) and trade secrets. Employees may use know-how after employment ceases. Trade secrets are protected.

Senior employees may be subject to greater restraints, but truly confidential information will be protected regardless.

Australian courts will protect confidential information disclosed in proceedings. Litigants can only use that information for the purpose of proceedings.

Damages will be referable to damage suffered. Restitutionary remedies may be available.

Discovery is available. Search and seizure and freezing orders are available in exceptional circumstances.

The law should distinguish between trade secrets and know-how. Trade secrets should be protected. A defendant's independently developed information should not be protected.

Litigants should not use information obtained in litigation for collateral purposes. Monetary remedies should compensate for loss or account for a defendant's profit. Search and seizure should be available where necessary.

It is desirable to harmonise the law of breach of confidence.

Contractual obligations which go beyond what is reasonable should not be enforced.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

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