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Q247

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

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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.:

Trade secret protection may be viewed as a form of restraint of trade.

Under the common law, restraints of trade are regarded as unenforceable unless they can be justified as reasonably necessary to protect a legitimate proprietary interest of the employer in the public interest. An employer may protect a proprietary interest such as a trade secret or confidential information provided the restraint is no wider than necessary to protect the identifiable interest.

In recent years, there has been a growing trend towards enforcing restraints of trade.

a) If so, under what circumstances and under which legal regimes (e.g. competition 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?

New Zealand law treats trade secrets and confidential information as essentially synonymous.

An employer may restrain an ex-employee from disclosing trade secrets or confidential information in certain circumstances. However, an employer cannot restrain an ex-employee using the skills, experience and general knowledge that the employee has acquired over time during their employment.

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

An employee is under an obligation to their employer not to disclose confidential information obtained by them in the course of and as a result of their employment.

The obligation of confidence during employment applies only to information the employee is told is confidential, or is obviously so. If the obligation is capable of being enforced in an oppressive way, or unreasonably limits the employee's ability to work, the obligation may be considered an unenforceable restraint of trade.

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?

Restraint on ex-employees must be limited in scope and duration. There is no prescribed time limit for a restraint, but it must be reasonable in the circumstances.

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?:

New Zealand law will not protect restraints solely aimed at prohibiting competition. Workers may use knowledge acquired in the course of earlier employment in their new employment, provided that it does not constitute confidential information of the earlier employer.

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?:

Certain employees may have more stringent obligations of confidence than others, but this is due to the information they possess rather than their position.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

The procedural rules of the various New Zealand courts provide measures to preserve the secrecy of

trade secrets/confidential information during court proceedings. The High Court may also impose protection measures pursuant to its inherent common law jurisdiction.

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;

It is a governing principle that justice should be administered in public. A court may sit in camera, but only where justice cannot otherwise be done. Orders for hearings in camera are seldom made.

Similarly, there is a general rule providing that any person may access documents (including evidence) relating to the proceeding during the substantive hearing stage. However, a judge may order that certain documents on the court file not be accessed without permission of the judge.

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

A court can order that evidence only be disclosed to the opponent's lawyer, or an independent expert engaged by the opponent.

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

A court can order that confidential documents only be made available to authorised persons (for example, those who have signed a confidentiality agreement). A version of the document with confidential information redacted could be made available to non-authorised persons, but only where the confidential information can be readily excised.

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

A court can order that a judgment be published with confidential portions redacted, or not published at all.

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?

A party seeking protection for confidential information in its evidence or other documents can seek agreement from the other side that documents be kept confidential. However, a party would have to apply to the court to have a confidentiality order placed on the court file, or prevent publication of the judgement. If the opponent objects to the confidentiality orders, the party will have to satisfy the court that the trade secret measures are required.

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 court does not restrict a party's use of confidential information gained during proceeding unless orders are sought to that effect. However, parties are prohibited from using documents obtained during discovery for the purposes of another proceeding.

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)	how (if at all) is that value diluted by publication?
	Under New Zealand law damages are compensatory; that is, they are intended to put the plaintiff in the position it would have been had the infringement not occurred. Therefore, publication of the trade secret/confidential information will not lessen the amount of damages available.

b)	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?
	The court can use various mechanisms for assessing damages, depending on the facts of the case. Typically a court will look to calculate damages based on the loss arising from the use of the confidential information, or on the basis of a notional royalty rate where an assessment of loss is not possible. Exemplary (ie, punitive) damages may be available for flagrant breaches.

c)	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?
	no If not please comment.: New Zealand does not have a concept of damages for moral prejudice.

d)	If so, how is moral prejudice defined and how are such damages quantified?
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Aspect (iv) - Proving infringement

10)	What elements must be proved to establish violation of a trade secret?
	New Zealand courts apply the formulation for breach of confidence set out in <i>Coco v A N Clark (Engineers) Ltd</i> [1969] RPC 41: <ul style="list-style-type: none">• The information must have the necessary quality of confidence about it.• The information must have been imparted in circumstances importing an obligation of confidence.• There must be an unauthorised use of that information to the detriment of the party communicating it.

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?
	A trade secret violation and a breach of confidence are not treated as different kinds of violations.

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?

yes

If so, in what circumstances? :

Often there will be no direct evidence of breach of confidence. The court is prepared to infer infringement based on evidence, but if there are two reasonably possible explanations for the activities of the party accused of the breach it will be hard for the plaintiff to prove the breach. The court will not unduly inhibit competition, and the possession of confidential information does not inevitably mean that the information has been misused.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Discovery is part of legal proceedings in New Zealand. Pre-action discovery is possible, and is available against third parties in certain circumstances.

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?

no

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?:

New Zealand law provides for seizure orders (previously Anton Piller orders), under which premises may be entered and evidence seized and preserved.

Seizure orders are sought ex parte. An applicant for a search order must demonstrate:

- a strong prima facie case
- that the applicant will suffer potential or actual serious damage if a search order is not made
- that the respondent possesses the relevant material, and that there is a real possibility it may be destroyed or made unavailable for use in evidence in a proceeding or anticipated proceeding before the court.

The applicant must undertake to pay the costs incurred by a court appointed independent solicitor, who supervises the order's execution.

A search order applies only to the premises specified and the items listed.

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 may be used to recover confidential information/property taken by respondent, and may also provide strong evidence for claims against the respondent.

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?

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

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?

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?

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?

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

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

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?

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

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.

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?

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

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?

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?

Aspect (iii) - Valuation of loss

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

32) Should courts award moral damages?

Aspect (iv) - Proving infringement

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

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

Summary

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