

CLE Seminar

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**Injunctions to restrain breaches of restraint of
trade and the misuse of confidential information**

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1 Restraints of trade

The prima facie common law position with a covenant in restraint of trade is that it is invalid for offending public policy and the onus of demonstrating validity is on the party who seeks to rely on it. The seminal statement on the topic is that of Lord Macnaghten in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535, 565:

"The public have an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. That is the general rule. But there are exceptions: restraints of trade and interference with individual liberty of action may be justified by the special circumstances of a particular case. It is a sufficient justification, and indeed it is the only justification, if the restriction is reasonable – reasonable, that is, in reference to the interests of the parties concerned and reasonable in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour it is imposed, while at the same time it is in no way injurious to the public. That, I think, is the fair result of all the authorities."

This passage represents the law in Australia: *Lindner v Murdock's Garage* (1950) 83 CLR 628, 642-643; *Buckley v Tutty* (1971) 125 CLR 353, 376; *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288, 305-306.

To like effect is *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688, 715, which is also oft cited in Australia eg in the *Lindner* cases (ibid).

This principle relates both to restraints against competition and also restraints on solicitation of customers.

However, such restraints “...*may be valid where they are reasonably necessary to prevent disclosure of confidential information garnered by the former employee in the course of his or her former employment, or the exploitation of a connection built up by that employee with the former employer’s customers in the course of that employment*”: *Kearney v Crepaldi* [2006] NSWSC 23, McDougall J.

“[A] covenant given by an employee to an employer, prohibiting the employee, after termination, from soliciting former fellow employees to join a new business venture, may not be justified simply by the employer’s interests in maintaining a stable trained workforce, but may be justified where the solicitation is based on confidential information which the former employee has concerning the relationship between the other employees and the employer. In other words, it may be justified where the former employee uses (or may use) confidential knowledge gained in the course of the contract of employment to target particular employees and to pitch the terms of offers of employment to them. I do not intend this to be a comprehensive statement of the circumstances in which such a covenant may be upheld...”: per McDougall J in the *Kearney* case above at para [53].

2 New South Wales legislation

In New South Wales s4(1) of the *Restraints of Trade Act (1976)* provides that “*a restraint of trade is valid to the extent to which it is not against public policy, whether it is in severable terms or not.*”¹

The section only applies where the sole reason why the clause is void is because it is so unreasonable that it is against public policy. The section does not apply where a clause is attacked as being void for uncertainty: *Corporate Express Australia v Swift McNair* Unreptd NSWSC Young J 2 October 1998.

In *Woolworths Limited v Mark Konrad Olson* [2004] NSWCA 372 (*Olson*) Mason P (with whom McColl and Bryson JJA agreed) summarised the New South Wales position as follows:

- 1 The restraint operates for a fixed period after termination of employment and is justifiable only if the restriction is reasonable in reference to the interests of the parties and of the public. If it is not, the restraint will be contrary to public policy and invalid.

¹ Until the decision in *Woolworths* in 2004, the main decision on the correct approach to s4(1) of the *Restraints of Trade Act (NSW) 1976* was *Orton v Melman* (1981) 1 NSWLR 587.

- 2 The courts in general take a stricter and less favourable view of covenants in restraint of trade entered into between employer and employee than of similar covenants in commercial agreements. Nevertheless an employer may have interests capable of protection by a restraint covenant. These interests go beyond protection of goodwill and retention of customers and extend to trade secrets.
- 3 The court gives considerable weight to what parties have negotiated and embodied in their contracts, but a contractual consensus cannot be regarded as conclusive, even where there is a contractual admission as to reasonableness.
- 4 The validity of the restraint is to be tested at the time of entering into the contract and by reference to what the restraint entitled or required the parties to do rather than what they intend to do or have actually done.
- 5 The court may not re-write the covenant in restraint of trade whilst exercising power under s4(1) but may “amputate” such parts as are unreasonable.

3 Negative covenant during period of employment

The general position with negative covenants which operate only during the period of employment and which for example, prevent the employee working for another person, is that they will be unreasonable only in “very unusual” circumstances: *Buckenara v Hawthorn Football Club Ltd* [1988] VR 39.

The more special the services, the more fair and lacking in oppression will be such a negative covenant; however, to the extent they are unreasonable, they are invalid by reason of the doctrine of restraint of trade: *Curro v Beyond Productions Pty Ltd* (1993) 30 NSWLR 337 (CA).

A negative covenant will not be upheld if its effect is that the employee will be idle or starve: *Evening Standard v Henderson* [1987] ICR 588, where an injunction issued to restrain an employee working for a competitor in his two month’s notice period.

4. Cascading restraints ²

A cascading restraint is one which contains alternative restraints as to temporal and geographic compass. As the analysis below shows, where

² See generally, Arthur Moses “*Restraints of Trade in New South Wales*” [2004] UNELJ 10

there is an internal contractual mechanism whereby the court can excise such sections as are unreasonable, the clause is more likely to be upheld; and vice versa.

The leading case on this topic (as observed by Finkelstein J in *Run Corp Limited v McGrath Limited* [2007] FCA 1669 at para [27] ff) is the Court of Appeal decision in *Davies v Davies* (1887) 36 Ch D 359. There a retiring partner covenanted to "*retire wholly and absolutely from the partnership, and so far as the law allows from the trade or business thereof in all its branches ...*" The court held these words were too vague to enforce.

Cotton LJ held at 387-388 "A covenant in this form, indefinite as it is in my opinion, is one which neither a Court of Equity nor a Court of Law ought to enforce. The parties must make up their minds to say what they agree to as regards the limits of time or space within which there is to be no trading." Bowen LJ and Fry LJ emphasised that it is only the duty of the courts to interpret contracts which the parties themselves have made; not the duty to make the contract for the parties.

See also *Peters Ice Cream Vic Ltd v Todd* [1961] VR 485, 490-491; *Austra Tanks Pty Ltd v Running* [1982] 2 NSWLR 840, 845-846.

In *HiTech Contracting Limited v Jane Lynn*, Unreptd NSWSC Austin J , 1 May 2001 there were cascading restraints with an internal mechanism which allowed the court to read them down as required. This was regarded as enforceable.

In *Tyser Reinsurance Brokers Pty Ltd v Cooper* [1998] NSW SC 689, Young J considered, obiter, that in the absence of an internal mechanism to read them down, the cascading restraints, was not a reasonable way of letting employees know of the requirements that bind them. In the result, the contract was held void for uncertainty on a separate basis.

In *Run Corp* (ibid), Finkelstein J, without reference to the *Hi Tech* and *Tyser* cases, came to the same decision, viz the clause was valid as there was a contractual mechanism whereby the court could sever any part of the clause found to be invalid.

5 Confidential information

Two main categories of confidential information: contractual and under general equitable principles

There are two broad classes of actions for breach of confidence – first, where there is an express or implied contractual obligation not to use specified information; and second, where the equitable jurisdiction is invoked to enjoin

the use of confidential information: *Seven Network Ltd v News Ltd* [2007] FCA 1062 para [2949]. Moreover, some statutes clothe certain information with the character of being confidential: eg *Southern Adelaide Health Services Inc v C* [2007] SASC 181.

As regards the second class, the initial question which arises is whether the plaintiff can show that the information sought to be protected has “the necessary quality of confidence” about it: see *Coco v A N Clark (Engineers)* 1969 RPC 41; (1968) 1A IPR 587.

As was said in *Seven Network Ltd v News Ltd*:

“In Coco v Clark, Megarry J considered (1A IPR, at 590) that three elements are normally required if, independently of contract, a case of breach of confidence is to succeed:

‘First, the information itself...must “have the necessary quality of confidence about it”. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it’.

“Although there is doubt as to whether detriment is always essential, Megarry J’s formulation has been cited with approval in Australia: Commonwealth v John Fairfax & Sons Ltd (1980) 147 CLR 39, at 51, per Mason J; Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd (2001) 208 CLR 199, at 222 [30], per Gleeson CJ.

“In Corrs Pavey Whiting & Byrne v Collector of Customs (Vic) (1987) 14 FCR 434, at 443, Gummow J regarded it as settled that a plaintiff or applicant must satisfy four criteria to make out a case in equity for the protection of allegedly confidential information:

‘The plaintiff: (i) must be able to identify with specificity, and not merely in global terms, that which is said to be the information in question; and must also be able to show that (ii) the information has the necessary quality of confidentiality (and is not, for example, common or public knowledge); (iii) the information was received by the defendant in such circumstances as to import an obligation of confidence; and (iv) there is actual or threatened misuse of that information’.

“Although his Honour dissented as to the result, the majority did not disagree with this formulation.

“There is a somewhat imprecise quality to the elements of a claim based on breach of confidentiality articulated in these statements. This is perhaps not surprising, given the infinite range of circumstances in which the principles might be invoked. As Gleeson CJ observed in ABC v Lenah Game 208 CLR, at 227 [45], the difficulty in any given case is to determine what a ‘properly formed and instructed conscience’ has to say about the particular circumstances. The circumstances include the

nature of the allegedly confidential information and the manner in which it was communicated to the defendant.”

6. General principles

Employers sometimes seek to enjoin ex employees or consultants from using allegedly confidential information obtained in the course of employment/consultancy, eg pricing lists and customer names. However, courts are reluctant, at an interlocutory stage, to restrain a person from carrying on his or her chosen career or profession, especially if they have been engaged in it for any length of time. Not only would there have to be a serious question to be tried regarding the underlying right to restrain such person (for example under a non-competition clause or restraint of trade agreement) but in addition *“clear evidence of substantial prejudice which may be irremediable to the Plaintiff should be before the Court before the Court will take that step”* and further, there would have to be evidence of a real risk of misuse of confidential information: *Webster Signs Pty Ltd v Nicolaou (No 2)* [2007] NSW SC 705, Palmer J. The extent and reach of a non-competition covenant is “debatable”: *Webster Signs Pty Ltd v Nicolaou* (particularly at para [12]), and hence as the commentary below demonstrates, courts will be very reluctant to grant interlocutory relief merely on the basis of a serious question that there has been a breach of such a clause.

Naturally, injunctions can issue to restrain the unlawful use of information which, for example, a contract of employment has stipulated is confidential although when considering whether to seek urgent relief in that regard, it should be carefully remembered that *“in the absence of a valid restrictive covenant an employee is entitled to use retained knowledge of his former employer’s customers – their identity, requirements, contact details and so on – when the employee leaves the employment of his employer and sets up in competition. What the employee is not able to use is any property of the former employer, such as customer lists, which would enable the employee more readily to identify customers of the former employer or contact details of the customer”*: per Young CJ in Eq in *Pathfinder Systems Australia Pty Ltd v Austact Pty Ltd* [2006] NSWSC 892, which demonstrated the difficulty of obtaining an injunction to prevent an employee from canvassing the clients of the ex-employer, in the absence of a restraint of trade. This was despite the fact that there was a clause in the employment contract whereby the employee undertook to keep confidential a range of information concerning the ex-employer’s business.

In *Malone v Metropolitan Police Commissioner (No 2)* [1979] Ch 344 at 361, Megarry VC said (emphasis added):

“If A makes a confidential communication to B, then A may not only restrain B from divulging or using the confidence, but also may restrain C from divulging or using it if C has acquired it from B, even if he acquired it without any notice of impropriety ... In such cases, what will be restrained is the use or disclosure of it after notice of the impropriety...”

In *Director of Public Prosecutions v Kane* (1997) 140 FLR 468, where defendants had inadvertently been provided by the DPP with a copy of a privileged advice, Hunt CJ at CL restrained them “*from using or otherwise dealing*” with the document.

In *Sullivan v Sclanders & Goldwell International Pty Ltd* (2000) 77 SASR 419, the Full Court of the Supreme Court of South Australia restrained the plaintiffs/respondents – who had brought proceedings using the defendant/appellant’s confidential information which they had obtained by a subterfuge – from “*disseminating or making use of the contents of the confidential documents*”. The statement of claim, which had been filed making use of those documents, was struck out. The plaintiff was granted liberty to file a fresh statement of claim “*making no use either directly or indirectly of the confidential documents or their contents*”. In other words, no use – not even an intellectual use – of the confidential documents or their contents could inform the preparation of the fresh statement of claim.

In *AG Australia Holdings Limited v Burton* [2002] NSWSC 170 at [222], Campbell J (as his Honour then was) said:³

“The decision of the English Court of Appeal in Lord Ashburton v Pape, which had the effect that surreptitiously obtained material could not be used at all in the bankruptcy court, illustrates how it is within the scope of the way in which an equity court will enforce an obligation of confidence, to ensure that no advantage is obtained in litigation from the breach of confidence.”

The aforesaid authorities were cited with approval in *British American Tobacco Australia Ltd v Peter Gordon* [2007] NSWSC 230, para [21]ff.

7. Information received in course of employment

Information received by an employee in the course of employment often can be considered confidential and thus imposes a duty of confidence towards the employer in relation to it: *Ashworth Hospital Authority v M G N Limited* [2001] 1 WLR 515, 527-528, paras [51]-[53]. However, this may well only be the position if the employer has taken steps – perhaps considerable – to ensure such information is protected and not widely disseminated: *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2001) 210 CLR 181; *Wright v Gasweld Pty Ltd* (1991) 22 NSWLR 317.

³ [2002] NSWSC 170 at [222].

8. Customer lists and contact details

It is well established that customer lists may be confidential: *Mid City Skin Cancer & Laser Centre v Zahedi-Anarak* [2006] NSWSC 844 at [140], [144]-[149].

Naturally, injunctions can issue to restrain the unlawful use of information which, for example, a contract of employment has stipulated is confidential although when considering whether to seek urgent relief in that regard, it should be carefully remembered that “in the absence of a valid restrictive covenant an employee is entitled to use retained knowledge of his former employer’s customers – their identity, requirements, contact details and so on – when the employee leaves the employment of his employer and sets up in competition. What the employee is not able to use is any property of the former employer, such as customer lists, which would enable the employee more readily to identify customers of the former employer or contact details of the customer”: per Young CJ in Eq in *Pathfinder Systems Australia Pty Ltd v Austact Pty Ltd* [2006] NSWSC 892, which demonstrated the difficulty of obtaining an injunction to prevent an employee from canvassing the clients of the ex-employer, in the absence of a restraint of trade. This was despite the fact that there was a clause in the employment contract whereby the employee undertook to keep confidential a range of information concerning the ex-employer’s business.

9. The head-start or springboard principle and the hypothetical uninformed competitor

In *Terrapin Ltd v Builders Supply Co (Hayes) Ltd* [1967] RPC 375, Roxburg J clarified the “head start” principle (at [391]) by stating that the essence of this branch of the law is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication. Further, that the possessor of such information must be placed under a special disability in the field of competition in order to ensure that he does not get an unfair start. There is numerous authority to the same effect.⁴

Megarry J in *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41 at 49, stresses that the person who obtains confidential information should “*not get a start without paying for it*”.

As the cases below show, after the expiration of the head start period, the competitor is free to bring its goods to market. However, competition within the period is sanctioned by an injunction or damages, at the election of the plaintiff, with the plaintiff being entitled by way of compensation to the profit it was deprived of by reason of such competition. That is, the profits it would have made in the springboard period or such other measure as may be

⁴ For example, Lord Denning MR in the Court of Appeal in *Seager v Copydex Ltd* [1967] 2 All ER 415 at 417 specifically approved these dicta; *Harrison v Project & Design Co (Redcar) Ltd* [1978] FSR 81 at 86. McLelland J, the primary judge in *Hospital Products v United States Surgical Corp* (1984) 156 CLR 41 - see the observations of Dawson J in the High Court.

appropriate, for example, depreciation of the value of its rights: *Titan Group v Steriline Manufacturing* [1991] AIPC 37, 514; 19 IPR 353. The determination of the duration of the springboard is “a question of degree depending on the particular case”: *Franchi v Franchi* [1967] RPC 149 at 153 per Cross J. However, in every case, the period of the springboard will always be “one of limited duration”: *Harrison v Project & Design Co (Redcar) Ltd* [1978] FSR 81 at 87 per Graham J.

In *British Franco Electric Pty Ltd v Dowling Plastics Pty Ltd* [1981] 1 NSWLR 448, a design for twin-wheel furniture castors had been registered by the first plaintiff. The first defendant was the first plaintiff's joint venturer and was to manufacture and market the castors. Twelve months after the termination of the agreement the first defendant began manufacturing the castors for itself. Wooten J held that the castors had been available on the market for twelve months and thus the springboard period commenced at the time the product was commercially available. His Honour said that if the defendants “had a springboard, it would no longer have projected them ahead of competitors” (at [453]).

A further Australian example⁵ is *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 at 191 per Fullagar J, where Fullagar J said that the period of the springboard could be determined as follows:

- The time it takes the plaintiff to get its product onto the market in substantial quantities; and in addition
- The time it would reasonably take some uninformed competitor (that is, one without the current know how of the defendants obtained from their breach of confidence) to reverse engineer and get into production a tool for the manufacture of a similar product.

In that case, his Honour had to consider the proper time for an injunction to eliminate the defendant's head start.

In *Titan Group v Steriline Manufacturers* (1991) 19 IPR 353 per Loughlin J, the defendant manufactured specialised hydraulic gym equipment for the plaintiff (Titan) and used the plaintiff's technology in introducing a competing range. However, it was held that their unlawful use did not give them a “head start” in the market, and accordingly it was held that Titan did not suffer any damage by reason of the unauthorised use. His Honour spent some time considering when precisely the public became aware of the product and noted that⁶ the defendant cannot, “exploit any advantage he may have gained over other members of the public by reason of having had advance knowledge of the former ‘secret’”.

His Honour looked at the factors relevant to an objective assessment of the steps that a member of the public who wished to copy Titan's idea would have to take and noted that when introduced onto the market, such member had merely achieved awareness or an appreciation of an idea:

⁵ See also the pre-*Terrapin* case of *Ackroyds (London) v Islington Plastics Ltd* [1962] RPC 9 and its treatment by Loughlin J in *Titan's* case highlighting the very important aspect of when the public generally became aware of the product.

⁶ Citing Pritchard J in *Aquaculture Corp v New Zealand Green Mussel Co Ltd* (1985) 5 IPR 353 at 383.

“He would have known nothing about internal designs or patents. He would, as a prudent businessman, need to investigate costing, the type of manufacturing equipment and machinery that would be needed, the availability and suitability of factory premises and the need for a workforce, including, perhaps, skilled tradesmen. A prudent businessman would not even then embark upon a manufacturing exercise without investigating his likely market. This exercise would lead to cash flow projections, budgets and forecasts. The list is very long and I would not suggest that what I have so far identified is, by any means, exhaustive.” ((1985) 19 IPR 353 at 382).

In other words, his Honour, in considering the head start period, was looking at matters from the perspective of the hypothetical uninformed competitor. His Honour concluded⁷ that as the head start period had elapsed by the time Steriline introduced its competitive product, there could be no damages. In the event he was wrong as regards the springboard period, his Honour went on to consider damages and after expressing his difficulties with the various mathematical approaches propounded, he rejecting a strict statistical approach, and considered himself *“forced back to the role of the jurymen”*.

Titan submitted that Steriline’s presence in the market had forced it to sell at a discount and claimed almost \$100,000 on account of accumulated discounts. This claim failed for want of evidence, however, the important aspect to note was that his Honour made no adverse comment about its theoretical application.⁸

Wielding a jury’s broadaxe, the court recognised that Titan’s sales did drop off in the period under consideration and that the entry of Steriline into such a small market for hydraulic gym equipment would have had a material effect. However, it would not be fair to lay all Titan’s misfortunes at the door of Steriline.

10. Pricing information

Pricing information, including the basis on which prices are calculated, may be confidential: *Brinks v Kane* [2007] NSWSC 62 at [45]-[47].

11. Third party who comes into possession of confidential information

A third party who comes into possession of such information on notice of its confidential character owes similar duties to the person who initially receives the confidential information: *Jockey Club v Buffham* [2003] 2 WLR 178 at 189, adopting the general principle enunciated by Lord Goff in *Attorney-General v Guardian Newspapers Limited (No 2)* [1990] 1 AC 109, 281.

⁷ *Titan Group v Steriline Manufacturing* [1991] AIPC 37,514; 19 IPR 353.

⁸ However, note the discussion on depreciation being the correct measure.

In *Malone v Metropolitan Police Commissioner (No 2)* [1979] Ch 344, Megarry VC said (at 361) (emphasis added):

"If A makes a confidential communication to B, then A may not only restrain B from divulging or using the confidence, but also may restrain C from divulging or using it if C has acquired it from B, even if he acquired it without any notice of impropriety ... In such cases, what will be restrained is the use or disclosure of it after notice of the impropriety..."

12. Information in the public domain

There can be no breach of an equitable obligation of confidence if information is in the public domain: *Seven Network Ltd* [2007] FCA 1062 at [2954], and likewise as regards a contractual obligation of confidence; *EPP v Levy* [2001] NSWSC 482 (6 June, 2001), Barrett J, para [21].

In *Seager v Copydex Ltd* [1967] 1 WLR 923, Lord Denning MR (at 931) cited the following passage from the judgment of Roxburgh J in *Terrapin Ltd v Builders Supply Company (Hayes) Ltd* [1960] RPC 128, 130:

"As I understand it, the essence of this branch of the law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public.

"The law on this subject does not depend on any implied contract. It depends on the broad principle of equity that he who has received information in confidence shall not take unfair advantage of it. He must not make use of it to the prejudice of him who gave it without obtaining his consent. The principle is clear enough when the whole of the information is private. The difficulty arises when the information is in part public and in part private. As, for instance, in this case. A good deal of the information which Mr Seagar gave to Copydex was available to the public, such as the patent specification in the patent office, or the "Klent" grip, which he sold to anyone who asked. If that was the only information he gave them, he could not complain. It was public knowledge. But there was a good deal of other information he gave them which was private, such as the difficulties which had to be overcome in making a satisfactory grip; the necessity for a strong, sharp tooth; the alternative forms of tooth; and the like. When the information is mixed, being partly public and partly private, then the recipient must take special care to use only the material which is in the public domain. He should go to the public source and get it: or, at any rate, not be in a better position than if he had gone to the public source. He should not get a start over others by using the information which he received in confidence. ..."

13. Defences to claims of misuse of confidential information

13.1 Defence of public interest

In some cases, the “primacy” of the right of freedom of expression is illustrated, for example *Reynolds v Times Newspapers Ltd* [2001] 2 AC 127; *McCartan Turkington Breen v Times Newspapers Ltd* [2001] 2 AC 277 at 297 per Lord Steyn.

The principles were summarized by Gray J in *Jockey Club v Buffman* [2003] 2 WLR 178 at 191, paras [47]-[50], which I will set out in full over the next two pages:

“In some cases the public interest may justify no more than limited disclosure, for example to the police or some other regulatory authority. But there is ample authority that there are matters of sufficient general public interest to warrant disclosure by the media: see Grobbelaar v News Group Newspapers Ltd [2001] 2 All ER 437, 450, 483, paras 47, 201. I accept, as did Morland J in his judgment on an earlier application for injunctive relief in relation to two of the documents with which the present application is concerned, Chandler v Buffham [2002] EWHC 1426 (QB), that the questions of the integrity and fairness of bookmaking to the betting public; the relationship of bookmakers to trainers and racing stables, and the effectiveness of the Jockey Club’s regulatory role over the sport and industry of horseracing, are questions of proper and serious interest and concern to the public and, in particular, to the very many hundreds of thousands of people interested in horseracing, very many of whom will place bets from time to time. The comments of Sir Thomas Bingham MR in R v Disciplinary Committee of the Jockey Club, Ex p Aga Khan [1993] 1 WLR 909, 912, 914 are in point.

“But the case which I have found most illuminating as to the correct approach is London Regional Transport v Mayor of London [2001] EWCA Civ 1491. In that case London Regional Transport sought to prevent publication by the Mayor of London of a report commissioned by accountants concerning the London Underground. Sullivan J held that it was genuinely in the public interest for a redacted version of the report to be published. He arrived at that conclusion having balanced ‘the desirability in the public interest of upholding confidentiality agreements and the public interest in freedom of access to information’: see para 42 of the Court of Appeal judgment. The Court of Appeal held that the judge was correct to have conducted such a balancing exercise, even in a case (such as the present) where the information has been disclosed by a former employee of the claimant. The Court of Appeal expressly declined to consider whether Sullivan J was right to have held that it was for the Mayor to make out ‘an exceptional case’ to justify publication. Reference was made by Robert Walker LJ, at para 39 the comment made by Simon Brown LJ in R v Department of Health, Ex p Source Informatics Ltd [2001] QB 424, 444, para 52 about

'the importance of confining any public interest defence in this area of the law within strict limits – lest ...it becomes 'not so much a rule of law as an invitation to judicial idiosyncrasy by deciding each case on an ad hoc basis as to whether, on the facts overall, it is better to respect or to override the obligation of confidence'...'

"Sedley LJ agreed that the appeal of London Regional Transport should be dismissed. He too, having stressed the importance of the right to receive and impart information, conducted a balancing exercise by reference to the test of proportionality. He set out in his judgment the various factors applicable in the circumstances of that case which led him to the conclusion that the right to freedom of expression should prevail.

"It appears to me that the approach adopted in London Regional Transport v Mayor of London broadly corresponds with the way in which Stephenson LJ held in Lion Laboratories Ltd v Evans [1985] QB 526 the conflict between the two competing public interests should be resolved. He said, at pp536-537:

'The courts will restrain breaches of confidence, and breaches of copyright, unless there is just cause or excuse for breaking confidence or infringing copyright. The just cause or excuse with which this case is concerned is the public interest in admittedly confidential information. There is confidential information which the public may have a right to receive and others, in particular the press, now extended to the media, may have a right and even a duty to publish, even if the information has been unlawfully obtained in flagrant breach of confidence and irrespective of the motive of the informer. The duty of confidence, the public interest in maintaining it, is a restriction on the freedom of the press which is recognised by our law, as well as by article 10(2) of the Convention for the Protection of Human Rights and Fundamental Freedoms...the duty to publish, the countervailing interest of the public in being kept informed of matters which are of real public concern, is an inroad on the privacy of confidential matters.'

"He went on, at pp538-539:

'But to see if there is a serious defence of public interest which may succeed at the trial, we have to look at the evidence and if we decide that there is such a defence, to perform a balancing exercise...'

In the above case, confidential information of the Jockey Club, relating to allegations of corruption, had come into the possession of the BBC. The person who leaked the information, an ex director of security of the Jockey Club, was subject to a final injunction restraining him from publishing the confidential information.

The court gave permission to the BBC to publish the allegations, having regard to the public interest in disclosure which outweighed the right of confidence of the Jockey Club. The court held that the information relating to alleged wide-scale corruption within racing was “*of legitimate concern to a large section of the public who either participate in racing or who follow it or who bet on the results of races...*” (at p194H); that the Jockey Club was a public authority and in “*a proper case the conduct of a public authority may be more readily open to scrutiny by the media even in cases where the scrutiny is based in part on confidential documents belonging to the authority concerned.*” (at p195A-B); That the BBC program-makers had taken a “*responsible approach*” (p195E-F) and other like considerations. Having regard to these considerations, the “*proportional*” balancing of competing considerations militated in favour of publication.

13.2 Defence of iniquity

If a defendant can establish on the balance of probabilities that there are “*reasonable grounds for believing*” or a “*prima facie case*” that documents and information in which confidence and privilege are claimed, disclose an iniquity, then that will constitute a defence to an application for an injunction for breach of confidence: *British American Tobacco Australia Ltd v Peter Gordon* [2007] NSWSC 230 and the authorities cited in para [11] thereof.

13.3 Defence of public domain

If information is in the public domain, eg available via the internet, that negates its confidential nature: see above. This defence is available both as regards an action based on an equitable obligation of confidence *Seven Network* (ibid) at para [2954]; and likewise, as regards a contractual obligation of confidence: *EPP v Levy* (2001) NSWSC 482, Barrett J, para [21].

14. What prima facie cases/serious questions can be contended for?

In an application for interlocutory relief it is not appropriate to resolve finally any issue between the parties, including their dispute about the construction of the restraint of trade clause. *Run Corp Limited v McGrath Limited* [2007] FCA 1669 para [16] per Finkelstein J. As his Honour there observed, all that is to be done is, first, to consider whether the applicants have shown a prima facie case of breach, or, as Gummow and Hayne JJ put it in *Australian Broadcasting Corporations v O'Neill* (2006) 227 CLR 57, 82 to consider whether the applicants have “*show[n] a sufficient likelihood of success to justify in the circumstances the preservation of the status quo pending the trial.*”⁹

⁹ See especially paras [65]-[72] of *O'Neill* for the current formulation of the test for interim relief.

As his Honour observed, if the applicants get over the first hurdle, one then turns to consider where the balance of convenience lies . This is dealt with more fully below.

A plaintiff can contend for the following prima facie cases:

- 1 Is there a good case of a breach of a restraint of trade? eg is there a good case that the former employee has solicited customers or perhaps sought to entice other employees away: *Brinks v Kane* [2007] NSWSC 62 at [25].
- 2 **Is there a good case of a breach of a covenant not to use confidential information?**
- 3 Is there a good case of breach of a covenant not to solicit employees of the former employer?
- 4 Is there a good case that the defendant is in possession of the plaintiff's confidential information?

Serious questions capable of being raised by a defendant would include:

- 1 whether the defences referred to above can be raised;
- 2 whether the restraint ought be read down under s4(1) of the *Restraints of Trade Act (NSW)*;
- 3 whether the application has been brought on very promptly: *Capogeminis US v Case* [2004] NSWSC 674.

15. Balance of convenience in restraint of trade cases

If damages will be an adequate remedy, that will militate strongly against an injunction: *Kearney* ibid para [92].

If the former employee has no ability to influence clients of the former employer to migrate to his new business, that would militate strongly against interlocutory relief, even if there were a restraint of trade clause: *Kearney* ibid para [70], cf where the former employee is “armed with skills and contacts”: *Hi-Tech Contracting Ltd v Lynn*, unreported, SC NSW 31/5/01, Austin J.

If there is evidence showing that the former employer had no “*secret or confidential manner of performing its business, or providing its services, that gave it some competitive edge...*” over other service providers in the same industry, and to which the former employee became privy in the course of his employment, that would also militate strongly against interlocutory relief: *Kearney* ibid.

If the former employer specifically suggested that a particular client should migrate to the new business of the former employee then, despite the existence of a restraint of trade/non compete clause, this would also strongly militate against interlocutory relief: *Kearney* ibid para [72].

If the non-solicitation clause is drafted far too widely, for example encompassing also former employees who had long since left the employment of the former employer, that would militate strongly against an injunction to restrain solicitation of former employees: *Kearney* ibid at para [83].

The relevant question seems to be this: is the restraint grossly in excess of what is adequate to protect the former employer from the dangers against which protection is required?: *Kearney* ibid para [84].

Whether the former employee is now in competition with the former employer: if so, a court is more likely to find that the policy underlying the validity of a restraint of trade, militates in favour of injunctive relief: see paras [32]-[34] of *Woolworths v Banks* [2007] NSWSC 45.

So too where the employee wishes to decamp to a competitor: *Woolworths Ltd v Olson* [2004] NSWCA 372.

Whether there will be irreparable prejudice to the defendant, if an injunction is granted: *Woolworths* case ibid para [35].

Whether the grant of an injunction would, in a practical sense, give the plaintiff final relief; for example where there would only be 6 months or so remaining in a restraint period, to grant an injunction would in effect give final relief because the hearing on the merits might not come on for 6 months: *Woolworths* case ibid.

It will militate against injunctive relief if it can be inferred from the history of employment of the former employee, that the former employer did not regard the prospect of the former employee taking up employment with the company he/she is employed by, by the time of the application for injunction, as “involving any threat to its confidential information”: *Woolworths* case ibid para [50].

Whether the employer took active steps to prevent the dissemination of information said to be confidential: *Wright* (ibid).

The strength of the plaintiff's case is relevant to the balance of convenience: *Brinks v Kane* [2007] NSWSC 62 at [16].

Has the former employee acted in an underhand way and deceived colleagues in the process of resigning? Has he sought to misuse confidential information?: *Brinks v Kane* (ibid) at [42].

16. Balance of convenience in confidential information cases

- 1 If damages are an adequate remedy, that militates against injunctive relief: *Mincom Ltd v Oniqua Pty Ltd* [2006] QSC 155, para [29]. Where a defendant is obliged to maintain good records of its allegedly infringing conduct, damages will be readily capable of quantification (*ibid*).
- 2 Where the breach of confidence alleged is contractual, there is no problem with damages being an adequate remedy (as opposed to where the obligation of confidence is said to be equitable): *Mincom* (*ibid*) para [30].
- 3 The width of the injunction sought: *Mincom* (*ibid*) para [31] ie the wider the relief sought, the more the balance swings against relief.
- 4 If the injunction would impact negatively on third parties who are not parties to the litigation, eg customers of the party sought to be enjoined, which customers were reliant on such party for goods and services, that would militate against injunctive relief: *Mincom* (*ibid*) para [33].
- 5 Failure by the plaintiff to define with precision the information said to be confidential, would militate against relief: *O'Brien v Komesaroff* (1982) 150 CLR 310 at 326-328; *Mincom* (*ibid*) para [32].

17. Forms and precedents

Pro forma order to restrain a breach of confidence upon the plaintiff's usual undertaking as to damages:

- 1 pending the hearing and determination of the application for interlocutory relief or further order, X by herself, her servants and agents, must not disclose, publish, disseminate or use the information claimed to be confidential or privileged and identified more fully in Schedule A hereto;
- 2 the order in paragraph 1 above is not intended to and does not preclude X from using the information for the purposes of these proceedings, including providing same to her legal representatives;
- 3 the defendant must not make use of nor rely in any manner whatsoever on the documents enumerated in Schedule A hereto;
- 4 the defendant must forthwith deliver up the documents enumerated in Schedule A hereto together with all further copies of them the defendant might have made and were in his possession, power and control.

See paragraphs [15]ff in *British American Tobacco Australia Ltd v Peter Gordon* [2007] NSWSC 230.

Post script

Whilst I have made every effort to correctly state the law , I welcome any comments or positive criticism to l7s1@wentworthchambers.com.au (ie elle seven ess one @....).

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