

FOLEY'S | LIST

THE PROTECTION OF TRADE SECRETS

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THE PROTECTION OF TRADE SECRETS (COMMERCIAL CONFIDENTIAL INFORMATION) CAN BE DEVIDED INTO TWO PARTS. INFORMATION TAKEN DISHONESTLY IN BREACH OF LOYALTY TO AN EMPLOYER AND INFORMATION TAKEN HONESTLY AS PART OF AN EX EMPLOYEE'S KNOWHOW AND SKILL

THE HONEST EMPLOYEE

THE PROTECTION OF COMMERCIAL CONFIDENTIAL INFORMATION

1. Trade Secrets and Goodwill

1.1. Growth

Compared with other company assets both the ease of obtaining trade secrets and the desire to acquire them leave them vulnerable to competitors. The quickest way for the unscrupulous company to take over a large portion of its competitor's business is to offer that company's key employees a handsomely paid job. If the new employees bring with them their ex-employer's client details, such as names, addresses, telephone numbers and product history, a copy of the ex-employer's price lists, formulae and employee contact numbers, the competitor may never recover.

Protection trade secrets, especially when they are arise in the context of a fiduciary relationship, is a growing area of the law

It is necessary to have an understanding of the principle the courts are relying on to act as a guide through the various tests that define a trade secret and knowhow.

My purpose today is to demonstrate the legal framework for the protection of confidential information in the form of trade secrets and knowhow.

Goodwill is largely knowhow.

1.2. Related causes of action

Because of time constraints there will be some important and related topics left unsung.

They are:

1. Confidential Information within specific relationships such as the relationship between directors and companies, joint venturers and the professional and his or her clients.¹
2. Restraint of trade clauses².
3. Tactics and Anton pillar orders.
4. Personal secrets.³
5. Related common law causes of action

(The protection of personal secrets and commercial secrets has grown up to be quite separate animals. Hence my service volume 1 is entitled 'Trade Secrets' and volume 2 is entitled 'Privacy')

Each in its own way is part of a complete picture of the law available to protect secret commercial information. Like all intellectual property, trade secret disputes are embedded in commercial law.

I will also limit myself to commercial confidential information within the employment relationship.

1.3. Basis of protection

Despite what some academics may propose information is not property.⁴ This truism was not overturned by the High Court in the Lenah Game Meats case⁵.

It may have value⁶; it may be taxable⁷; it may look, smell and behave like property, but it is not property.

Information cannot be devised. It can, to some extent, be "transferred" when licensed but it cannot be given away. A person who gives information still retains it.

¹ Recent case demonstrating fiduciary obligations of lawyers - Sharp & anor v Rota International Pty Ltd [2013] VSC 328

² recent case - shows the difference between NSW and Vic - Paul Fishlock Pty Ltd v The campaign Palace Pty Ltd [2013] NSWSC 53

³ ABC v Lenah Game Meats Pty Ltd (2000) 208 CLR 199

⁴ Victoria Park Racing v Taylor (1937) 58 CLR 411

⁵

⁶ Re Keen [1922] 2 Ch 475

⁷ Federal Commissioner of Taxation v Aircraft Corp (1943) 68 CLR 525

But the most important reason why only secret information can't be property is that if all information was property, the private enterprise system as we know it would grind to a halt.

The economics of information means that information will only be protected per se, if the information is secret or in specific instances by statute where the protection is limited to temporary protection in return for publication (e.g. patents trademarks, designs and goodwill).

If it is not property then how is information protected?

How can it be categorised and identified as a trade secret or as goodwill?

The courts use, as the basis of their protection, the equitable notion of *unconscionable conduct* whether it is under the doctrine of breach of confidence or breach of fiduciary duty.

Here I have to take a very brief historical excursion in the world of secret commercial information. An appreciation of this history assists in understanding the framework which underpins the protection of confidential information.

In the 19th Century the kings agents sought extract equity from the straitjacketed very limited rules of the Common Law. They did this by referring to the conscience of the defendant. In the poignant words of Sir Thomas More

"Three things are to be helpt in conscience, Fraud; Accident and Confidence"

Essentially these courts assessed the defendant's conscience. The question they asked - should the conscience of a reasonable person in the defendant's position have told him or her that the act was unconscionable? (Or "unconscientious" as Hayne and Gummow JJ would refer to it in the Lenah Game Meats case (Australian Broadcasting Commission v Lenah Game Meats Pty Ltd⁸). This enabled the Courts of Equity to draw the long bow to protect those who possessed confidential information where it was used or abused by someone who should have known better.

⁸ (2001) 208 CLR 199

Examples of the cases are the publication of Prince Albert's etchings⁹, Morison's recipes¹⁰ and Abernethy's lectures¹¹.

With the rise of commerce the focus was on commercial transactions, everything became about a contract or a bargain. The courts appeared to forget about the original premises of protecting confidential information and began to limit the protection of confidential commercial information to the doctrine called "*Breach of Confidence*". This term presupposes that some person had told another about confidential information, and as a consequence a 'confidence' was created and that confidence was then dishonoured. Examples of such cases are Robb v Green¹², Coco V. A. N. Clarke¹³. The latter case set out three elements said to be required to succeed in a Breach of Confidence action. They were repeated constantly as a mantra for breach of confidence. They were that:

1. The information is confidential.
2. The information was transferred to the defendant in confidence.
3. The confidence was breached and the information is misused.

Courts still wrestle as to whether detriment is necessary.¹⁴ Detriment is not necessary.

This led to great confusion when it came to the industrial spy or the lucky finder who per chance found the secret diary. There was no 'confidence' there.

Acres of forests were cut down to provide paper for the academics to write learned papers trying to explain cases that had protected secret information when there was no relationship or confidence between the possessor of a secret and the defendant.

About a decade ago courts of Equity looked back and realised that the only relevant test to determine whether an information was confidential was first that the information was secret, and secondly, that its use by the defendant

⁹ Prince Albert v Strange 47 ER 1302

¹⁰ Morison v Moat 68 ER 492

¹¹ Abernethy v Hutchinson 47 ER 1313

¹² [1895] 2 QB 315

¹³ (1968) 1 IPR 587

¹⁴ University of Western Australia v Gray (2009) 179 FCR 347

was unconscionable¹⁵. The industrial spy and the lucky finder of the diary were now caught.

The articles stopped.

1.4. Public Domain

In deciding whether information is a trade secret is to ask the questions - to what extent is the information known outside the business? Is it in the public domain?

In the area of 'commercial secrets' the 'public domain' is not the public as a whole but is limited to 'the trade in which the plaintiff competes'¹⁶. The information is judged in the light of the usage and practices of the particular industry or trade concerned¹⁷. The question is to what extent is it 'acquired in the trade generally'¹⁸. This is to be judged in the light of a reasonable employee's knowledge of the industry or trade in which he or she works.

The court looks at the reasonably 'determined and persistent rival'.¹⁹ It may be that a springboard injunction is an awarded equivalent to the time that would have been taken by independent trial and error and experimentation to acquire the information, or on the other hand it may be a permanent injunction because that rival would not even have thought to pursue the information but for the breach.

Having determined the 'public domain', the second question to ask is - to what extent is the information in the public domain and to what extent is it confidential?

If it is on the internet it is probably in the public domain.²⁰

¹⁵ [20.05]; [20.130]; [30.400]

¹⁶ Thomas Marshall(Exports) Ltd v Guinle [1979] Ch 227

¹⁷ GD Searle & Co Ltd V Celltech Ltd [1982] FSR 92

¹⁸ New Zealand Needle Manufacturers Ltd V Taylor [1975] NZLR 33

¹⁹ E Worsley & Cooper [1939] 1 All ER 290,308; [30.3910]; Markem Corp v Zipher Ltd [2005] All ER 377

²⁰ Volunteer Eco Students Abroad Pty Ltd v Reach Out Volunteers Pty Ltd [2013] FCA 73, [243]

1.5. Faccenda Chicken v Fowler

Until the leading case of Faccenda Chicken Pty Ltd v Fowler²¹ the law pertaining to the protection of confidential information was something of a mess. The courts simply referred to confidential information as an undefined mass of information. In 1986, to the great relief of all common law jurisdictions, the trial court in Faccenda Chicken v Fowler divided information into public and confidential information and then further divided confidential information into three parts.

Faccenda Chicken divided confidential information into;

1. Trivial information
2. Knowhow
3. Trade secrets

It allotted different levels of protection to each type of information each countenanced in terms of the level of unconscionability associated with its misuse

Trivial information is information which although confidential, is unworthy of protection because it is 'useless' or just 'pernicious nonsense' (for example a formula for betting on horses that doesn't work) the courts refuse protection on policy Grounds.²²

The court then distinguishes between trade secrets and knowhow.

The Court referred to knowhow as confidential information (such as customer names) because '*once learnt necessarily remains in [the employee's] head and becomes part of [the employee's] skill and knowledge ..[and] ..If an employer wants to protect information of this kind he can do so [by a valid restraint of trade clause]*'²³

²¹ [1985] 1 All ER

²² [30.1080])

²³ Faccenda Chicken Pty Ltd v Fowler [1985] FSR 105, 731

To do otherwise would be '*an unusual interference with trade*'²⁴.

One is entirely secret and remains completely protected until it enters the public domain and the other is secret but becomes part of the employee's skill and expertise which for policy reasons should only receive limited protection.

NB: There was until *Faccenda Chicken* (Supra) some confusion as to whether only trade secrets were confidential information or both trade secrets and knowhow were confidential information. Some courts still fail to include both trade secrets and knowhow under the umbrella of confidential information. It is best to be beware of this and set out that framework right at the start of a trial so that everyone in the court room is singing from the same hymn sheet. Quote *Faccenda Chicken* right at the start.

The Trial Court has been taken as the yardstick for the test not the Court of Appeal²⁵.

2. Trade Secrets – the tests

There is a general test and specific indicators which assist in making the decision as to whether the information is a trade secret or not.

The case which is attributed as having laid out the general test is *Printers and Finishes v Halloway*²⁶. The Court said:

"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 result by granting an injunction".

This formula is repeated in all jurisdictions as the base plate of the definition of trade secrets²⁷. It is underpinned by unconscionability.

²⁴ *Searle (GD) & Co v Celltech Ltd* [1982] FSR 92

²⁵ [40.4800]

²⁶ [1965] RPC 239

In the leading Australian case of Ansell rubber Pty Ltd v Allied Rubber Industries Pty Ltd Gowen J said:

“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 its 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.”²⁸

To these elements could be added;

(9) If an employer warned the employee that the information was a trade secret this will be taken into account.²⁹

(8) The more sensitive the information, the more likely an honest employee will understand that the information is not knowhow.^{30 31}

(10) Is the information highly specific or voluminous? If so, it may be a trade secret because it could not practically be part of an employee's memory and because that time and effort should be protected.

(11) The fact that the usage and practices of the industry support the assertion of secrecy.

²⁷ ICAP Australia Pty Ltd v BGC Partners (Australia) Pty Ltd [2004] NSW SC 674; GD Seal & Co. Limited v Celtech Limited [1982] FSR 92

²⁸ See also Kirby J in Wright v Gaswell (1991) 22 NSWLR 20; Blue scope Australia v Ritchie [2000] VSC 164 [40]

²⁹ Blackmajic Design [2010] FCA 13

³⁰ AIM Maintenance Ltd v Brunt (2004) 28 WAR 357; [30.2190]

³¹ Disclosure on discovery - Civic Video Pty Ltd v Paterson [2013] WASC 107,[32]

- (12) The fact that the employee has been permitted to share the information only by reason of her or his seniority or high responsibility.
- (13) The greater the extent to which the confidential material is habitually handled by an employee, the greater the obligation of confidentiality imposed. (this is a bad test)
- (14) That the information can be readily identified and
- (15) The existence of some novelty is indicative but not necessary. ³²

[30.4130], [40.5070], [4.04600]

It is important to note that these are simply factors to consider they are not determinative.

The first factor we have already discussed. Most of the factors are self-explanatory but some need further elucidation.

To what extent did the employee had access to the information? If the employee had constant access to the information the reasonable employee is more likely to honestly believe it is a trade secret. I don't like this test but is it expanded in MP Generations Pty Ltd v Feneley³³

What was the employer's attitude to the information?³⁴ This again impacts on the level of unconscionable behaviour. If the employer led people to believe that the information was not confidential why should the employee should be blamed for having the same attitude?

The court asks - to what lengths did the employer go to safeguard the information?³⁵; were visitors allowed in the area?³⁶; what warnings were given?

In Thomas Marshall exports V Guinle³⁷ Megary VC said,

First, I think that the information must be information the release of which the owner believes would be injurious to him or of

³² [30.1570]

³³ [2000] SASC 240

³⁴ Searle (GD) & Co Ltd v Celltech Ltd [1982] FSR 92

³⁵ Commercial plastics Ltd V Vincent [1965] 1QB 623

³⁶ American Express International Inc. VD Thomas assoc's Pty Ltd 19 IPR 574

³⁷ [1979] Ch 227

advantage to his rivals or other and second, I think the owner must believe that the information is confidential or secret, that it is not already in the public domain.

To this should be added that the belief is reasonable. Just to call confidential information a trade secret will not make it so.³⁸

This test has an impact on how a client should be advised to 'set up' their information management systems (see tactics below).

It is possible that information which is not otherwise available but which is able to be extracted from public sources is a trade secret because it is valuable and because its accumulation took time, tabulation, skill and effort. Tables of data are an obvious example³⁹. If the case is on the borderline and the information is, for example, lists of client's details which took years to amass, it would be contrary to the defendant's conscience to take all that blood sweat and tears for him or herself.

It is important to remember these are only non-determinative tests.

This later test raises the springboard doctrine. That doctrine is referred to below.

The information must be identified.⁴⁰ Since the case of Corrs Pavey Whiting and Byrne v Collector of Customs⁴¹ the courts have made this central test. It is one of the most important tests alongside whether the information is secret or not. In Corrs Pavey Whiting and Byrn v Collector of Customs Gummow J said "... *the plaintiff must be able to identify with specificity, and not merely in global terms, that which is said to be the information in question...*"⁴²

A court will not enjoin an employee from using particular information if neither the defendant nor the court is absolutely sure, in detail, of the particulars of that information.

³⁸ [30.4160]

³⁹ A, B Consolidated Ltd V. European Strength Food Bar Co [1978 NLR 515]

⁴⁰ Highley v Vodafone NZ Ltd [2007] NZLR 128 [12]

⁴¹ (1987) 74 ALR 428,437

⁴² Volunteer Eco Students Abroad Pty Ltd v Reach Out Volunteers Pty Ltd [2013] FCA 73, [243]

Perhaps the last word on the importance of pleading particulars which accurately set out the information is in the case of Harper J's judgement in Meridian VAT Reclaim Pty Ltd v Aguis⁴³. There the plaintiffs were told to properly particularise the information and after three tries were struck out.

The court asks, If a rival had directed its energies towards acquiring the information from its own honest endeavours, how easily could it have obtained it? The competitor is defined as 'a determined rival' with an interest and energy in finding out the information (See Public Domain above). If the information is contained in the product then, with time, it may be able to be reverse engineered. On the other hand a product may have a "black box" which cannot be reverse engineered by a determined competitor⁴⁴ and that competitor will be enjoined if and until the information enters the public domain.

2.1. Springboard [30.5110]

This brings us to a discussion of reverse engineering, experimentation and the springboard doctrine.

The first occasion that the springboard doctrine may come into play is that although the information complies with all the tests and is thus defined as a trade secret, nevertheless with time a determined rival would discover the information. It is not unconscionable for such a competitor to use that information after the appropriate handicap.

Consequently when secret information finds its way into the hands of a defendant or third party that third party should only be enjoined for as long as it would have taken it to discover the information for itself. The court will work this out and provide protection for the owner of the secret only for so long as it would have taken that competitor to discover the information for itself.

The second aspect of the springboard doctrine concerns a situation where all the information is in the public domain but to reach the final product some time has to be spent readying the information to place the product on the market. (E.g. a marketing campaign)

⁴³ [2006] VSC 503, Note the difference between particulars and evidence Palram Australia Pty Ltd v Rees [2013] FCA 649

⁴⁴ Wright v Gaswell Pty Ltd (1991) 22 NSWLR 317; Electro Cad Australia Pty Ltd v Megati [1999] FSR 291

The situation may be different if the information was obtained by some moral turpitude – that is another question. It is possible (although as yet undecided) that the defendant can be put in a worse position than the rest of the trade. ([30.3910])

Looking back on the tests, each and every one arises out of the question - would the defendant's conscience be troubled by the use of the information and if so what is the extent of the remedy that should follow? But each test is affected by the nature of the information and thus its "property" characteristics.

Looking at the diagrams, you can see that confidential information is divided into trade secrets which are protected 'per se' and knowhow which can only be protected with a restraint of trade clause.

2.2. Inseparability

What happens when the information is clearly a trade secret but is part of a larger body of information which is so entwined with the way an employee exercises their skill that to prevent an ex- employee using it would be to prevent that employee earning a living or following a trade. It is a difficult question.

In the case of *Balstone Ltd v Headline Filters Ltd*⁴⁵, Scott J, referring to technical information learned by the ex-employee during his employment said:

"The contention is that the Defendant must carry out a series of experiments which, it must be supposed, will lead to the conclusion that "Y" per cent for weight is the most efficient concentration. But how can the second defendant exclude from his mind his knowledge that "Y" per cent or something very near to it, will constitute a satisfactory solvent concentration? Why should he experiment with "X" per cent or "W" per cent when he knows that neither will be as satisfactory as "Y" per cent or "Z" per cent? The suggestion that a person in the position of the second defendant should be required to carry out experiments before being allowed to use the knowledge

⁴⁵ [1987]FSR 330,344; [40.490]

and experience he already has is, in my view, hopefully artificial. The question must be fairly and squarely faced. Can the second defendant use his knowledge and experience gained while employed by the first plaintiff in order to compete with the first plaintiff or can he not? It is not, in my view, a plausible answer to say that he can only do so after he has carried out a series of to him, meaningless experiments".

In my opinion the "Y" per cent is on every test a 'trade secret' and no reasonable employee would think otherwise. It epitomises how difficult this area can be and how it is important to be on top of the principles as well as the tests. The court is saying the defendant's conscience should not be troubled.

In my opinion the judge has it wrong. The injunction could have been crafted to last as long as it would take for the employee to conduct those experiments. It may be a good situation for a spring board injunction. I would attempt to distinguish the case on the grounds that;

1. It was essential to the ex-employee carrying out his or her trade and to prevent it would be to sterilise his or her skills and,
2. the damage caused by the use will not be huge because experimentation would in short time discover it.

This test demonstrates the fact that courts are still struggling with basic tests and it is up to a party to the proceeding to take the court through the steps. With respect, to some extent an advocate has to perform an educative advocacy in these cases.

3. Knowhow - the tests [40.4600]

The reason why it is crucial to determine whether the information, the subject of the enquiry, is a trade secret or knowhow is because to protect 'knowhow' a valid restraint of trade clause is required. Without it the information is lost to its "owner".

One way of defining 'knowhow' is to say - having defined the confidential information is a 'trade secrets', what is left is knowhow. Sometimes the courts simply reverse the Printers and Finishers (Supra) definition by stating that

knowhow is information which the employee would regard as his or hers to do with as they like will. This is not a helpful definition.

The two policy considerations that underpinned the courts decisions.

“The principles upon which the courts distinguish between customer information available to an ex-employee and that which is the ex-employer’s trade secret have been enunciated many times. They are predicated upon a conflict between two policy considerations. The first is that the court seeks to uphold contracts between contracting parties and the obligations of confidentiality which have expressly or impliedly been undertaken. The second is that the court ‘seeks to respect the rights of servants to advance their chosen trade and profession...[and] promote their own private interests by changing their employment and so promote the public interest by better use of the servants personal aptitudes, experience and skill’. ⁴⁶

A better definition is found in Stephenson Jordan and Harrison Ltd V MacDonald and Evans⁴⁷

“If I understand the use of language correctly, “knowhow” seems to me to indicate something quite essentially different from a trade secret It indicates the way in which a skilled man does his job and is an expression of his individual skill and experience...in practise the best result is obtained not merely by following all the directions in the book, but by the way in which the experienced man carries out those directions. This knowledge...was a quality...resulting from experience which a man is entitled to use for his own purposes and for his own advancement in his trade or profession”.

In another seminal case, Ormonoid Roofing & Asphalts Ltd v Bituminoid Ltd ⁴⁸ Harvey CJ said:

⁴⁶ Muggbury Pty Ltd v Hafele Australia Ltd [2001] HCA 70, [68]; Timber Engineering Co. Pty Ltd v Anderson [1982] NSWLR 488, 504

⁴⁷ (1952)69 RPC10,15

⁴⁸ (1930) 31 SR (NSW) 347

“In my opinion the cases show that where an employee has, in the course of his employment and for the purposes of his employment obtained particular information with regard to his employer's business, such as knowledge of processes, details of management or particulars of customers, which have been stored up in his mind as a necessary consequence of the way in which his master employed him, there is no justification, in the absence of an express contract, for preventing him from making use of that knowledge”

Knowhow is part of the employee's goodwill and is information that becomes part of the employee's skill and experience which is not public in itself but it is information which it would just be plain wrong not to allow the employee to use after he or she left their employment. Hence a temporary or limited injunction is called for.

It is information that any reasonable person would expect the employee to be able to retain it as part of their ability to earn a living.

The tests which define knowhow are, in effect the reverse of the trade secret tests.

3.1. Customer lists

Business methods, prices, manufacturing quantities, arrangements on the factory floor or the knowledge of a tender are all confidential information which subject to the above tests are either trade secrets or knowhow. From my experience the desire to protect lists and details of customers account for 70% or so of the cases in this area. This usually arises in a situation where an employee is engaged with customers and either defects to a competitor of his employer or sets up in competition with his employer.

In 60% of those cases, if there is a restraint it is too wide and invalid.

The general rule is that customer lists are knowhow to the extent that they can be taken away in the employee's head because they are part of that employee's skill and knowledge gained in the course of and for the purpose of their employment.

They become trade secrets when they are voluminous or include the details of customers such as the customer's history, commercial characteristics, or specific needs so that no reasonable employee could remember those details without having taken a list with them.⁴⁹ Also, the details on the list might be trade secrets because they are so unusual or secret that no reasonable employee would regard them as his own to do with as he likes. Again the touch stone is the level of unconscionability.⁵⁰

In Faccenda Chicken Pty Ltd v Fowler⁵¹ the Court of Appeal said:

"We can appreciate that in certain circumstances information about prices can be tested with sufficient degree of confidentiality to render that information a trade secret or its equivalent. The price put forward in the tender document is an obvious example. There may be many other cases where the circumstances show that the price or prices on matters of general importance are?? highly confidential."

In most cases the courts will conclude that if the employee has been honest and the information has been used by them in their daily contact with customers it will allow them to use it in their next job unless there is a restraint of trade clause.

Restraint of trade clauses are a topic on their own. Here, suffice to say that if the information is knowhow it can only be protected by way of a valid restraint of trade clause. To be a valid restraint clause it must be limited to a certain amount of time in a certain area for a certain type of activity (e.g. dealing with certain clients only). Its object is to give the ex-employer time to employ, train and introduce a replacement employee to the list of customers that that ex-employee serviced.

So far we have looked at the protection of knowhow obtained by the honest employee as part of that employee's skill. A more powerful tool to protect confidential information is in a situation where an employee has obtained the information dishonestly. (See diagram)

⁴⁹ NP Generations Pty Ltd v Feneley [2000] SASC 240,[72]

⁵⁰ AIM Maintenance v Bruit [2004] WASC 49 [69]; [40.5350]; E Worsley & Cooper [1939] 1 All ER 290,308

⁵¹ [1986] FSR 291,303

The relationship of employer and employee is a fiduciary relationship.

THE DISHONEST EMPLOYEE

THE PROTECTION OF INFORMATION WITHIN A FIDUCIARY RELATIONSHIP

1. Fiduciary Relationship

What is meant by a fiduciary relationship?

In the High Court the majority in Palmer v Duke Group⁵² citing Mason J. in News Ltd v Rugby Football League⁵³ said:

'The crucial feature of a fiduciary relationship is an undertaking or agreement whereby the fiduciary acts for and on behalf of and in the interests of another person, in the exercise of power or discretion which in a legal or in a practical sense, affects the interests of that person... It is often used very loosely; it encompasses the errand boy and the company liquidator (Disctronics v Edmonds [2002] VSC 454 [152]. It is something of a chicken and an egg argument (Bell Group v Westpac [2008] 39 WAR 1).'

In short, it is a duty upon the employee to act on behalf of an employer, to act honestly and professionally up until moment of the termination of the relationship.

The facts and the circumstances determine the relationship. They are the crux of Mason J's test. The facts will define how serious the relationship is and where it comes on the scale of fiduciary duties. The fact which define the status of the employee within the relationship are crucial to the level of the duty that employee owes to the employer. (E.g. Director). This determines what that employee can or cannot do before they leave.

1.1. Equity or contract

It is easy to become confused when considering whether the duty of an employee to refrain from misusing his or her master's information arises out of Equity or Contract.

⁵² (2010)207 CLR 165, [70]

⁵³ (1996) 64 FRC 410

Obviously specific clauses determine specific duties (unless they sterilize an employees opportunities). But every employment contract implies duties and obligations of good faith. When drawing a statement of claim I always include alongside breach of confidence and fiduciary relationship, (if there is one), implied contract. I have yet to come across a case where the test of the reasonable bystander who says "yes of course that must be implied" does not also amount to an equitable duty pursuant to a fiduciary relationship. My instructors get nervous if I don't include a contractual term so I always do. Today's expanded definition of compensation for breach of an equitable duty provides the plaintiff with the same quantity of damages as does the damages test in contract.

1.2. The dishonest employee

Some will tell you that an employer/employee relationship is not a fiduciary relationship. It is. They may be confused by the fact that the nature of the relationship depends on the status of the employee. [40.2800]. A manager would have a high level of fiduciary obligation, but the even the employee assembly worker also owes a limited duty of good faith pursuant to a fiduciary relationship depending on the circumstances.⁵⁴ The more important the job, the higher duty. The gardener may be able to work for a competitor but the supervisor certainly may not.⁵⁵

Quite often the remedy will usually be required after the employment has terminated. The classic example is the ex-employee who tells the employer that he or she is taking a week off to tend to a sick grandmother but then doesn't return and a month later the employer finds that employee is working for a competitor or had set up a competitive firm. The employer is faced with a search to find out whether the employee was dishonest before he or she left for greener pastures.

Once dishonesty is found, the nature of the information becomes irrelevant. The courts jealously guard duties of loyalty in fiduciary relationships including the employer employee relationship. The courts will provide restitution against any employee who dishonestly takes the employer's information, whether it is a trade secret or knowhow and whether or not there is a restraint

⁵⁴ [40.2300]

⁵⁵ Hivacs case and see Secton v Dalwood 33 AILR (1991) 203 152; Lablemakers Group Pty Ltd v Force Pty Ltd [2012] FCA 512 [105], [177]

clause. The question is not how secret was the information, the question is has the employer suffered damage as a consequence of the disloyalty. Whatever the classification of the information, the courts will often have no hesitation enjoining the dishonest employee at an interlocutory stage and require the deliver up at trial of any advantage that may have been gained through the disloyalty.

The higher the strength of the fiduciary relationship and the status of the discredited employee, the stronger the courts remedy will be.⁵⁶ The courts become very upset when a trustee breaches its duty to a beneficiary, extremely concerned when an employee is dishonest, annoyed when a joint-venture misleads and deceives his or her partners and mildly interested by a gardener when he or she starts using the employer's time to work for the opposition⁵⁷.

The biggest problem your client will face is - can you prove that when the ex-employee left the firm he or she had acted dishonestly by taking confidential information in written or electronic form, or has that employee done something else to enhance his or her capacity to use confidential information for their own or another's purposes.

The types of disloyalty that will lead to a court intervening are most often found at the time the employee prepares for departure. They can include:

- a. Advising customers of the proposed impending departure and advising them of the new employment.⁵⁸
- b. Copying and removing lists, taking manuals⁵⁹ or sending emails to themselves.⁶⁰
- c. Deliberately memorising knowhow.⁶¹
- d. Enticing fellow employees to follow. This used to be called the "stable of employees" doctrine. That doctrine is now defunct, save where the knowledge the ex-employee has of the employee he or she entices is a special knowledge of the specific abilities and skill.

⁵⁶ [40.280]

⁵⁷ Volunteer Eco Students Abroad Pty Ltd v Reach Out Volunteers Pty Ltd [2013] FCA 73

⁵⁸ [40.3700]

⁵⁹ Blackmajic Designs Supra

⁶⁰ Digital Pulse V Harris (2002) NSWSC 33

⁶¹ Ormond Roofing & Asphalts v Bituminoid (1930) 31(NSW)347; [40.3650];[40.5800]

- e. Hiding information or not disclosing important information to the employer so it can be used later by the ex-employee.⁶² There is a duty to disclose such information.
- f. Ingratiating themselves with customers prior to leaving - but see Metrans v Courtney Smith⁶³
- g. Dragging their feet in the weeks before they resign.

Is there is a duty on an employee to advise that he or she is leaving? The answer is yes if the employee gives a false reason. Not to do so will only antagonise the court and may cause it to think that the defendant is generally dishonest.⁶⁴

What can a middle ranking employee do by way of preparing to enter competition without being disloyal?⁶⁵

- a. Set up a rival company outside hours.⁶⁶
- b. Give very good service to customers.⁶⁷
- c. Advising customers of the termination if it is in the employers interest that the customer knows that - but anything more such as telling the customer where you can be contacted for future business (even if the customer asks) is a step too far.⁶⁸
- d. Preparation outside employer's time. e.g. renting the proposed premises.

1.3. Evidence of dishonesty – practical steps

One of the most difficult things about proving dishonesty is first, that the ex-employee will attempt to hide his or her conduct and secondly, the courts take a strict view of the evidence, because to call an ex-employee dishonest requires cogent proof.

On the other hand once dishonesty is shown, other actions of the employee will come under close scrutiny.

⁶² Deeson Heavy Hauling v Cox [2009] QSC 277

⁶³ (1983) 1 IPR185

⁶⁴ Woolworths v Olson [2004] NSWSC 849 [69] – Einstein J

⁶⁵ Volunteer Eco Students Abroad Pty Ltd v Reach Out Volunteers Pty Ltd [2013] FCA 73 [171], [182]

⁶⁶ [40.300]

⁶⁷ see Metrans case supra; Libra Collaroy & Simon Gourley Real Estate v Angell(1938 39 IPR 549

⁶⁸ [40.300])

Policy dictates that it is best to keep in mind that the courts are biased in favour of the ex-employee. The court does not wish to sterilise the employee's skills. Further, the mobility of employment and information is the crux of a private enterprise system.

When the employee has left, the employer has to act quickly to obtain evidence of dishonesty. Most of this is common-sense but there are cases which deal with specific matters.

It should:

- Look for evidence of the employee taking written materials with them, retaining written lists or other confidential information or sending emails to the employee's home;
- Check the date of emails and immediately instruct the company's IT computer engineer to look at laptops, PCs and mobile phones.
- Enquire about time spent outside work in the last few days or weeks.
- Look for things like the number of your client's customers being approached by the ex-employee and particular characteristics of clients being approached.
- Ask how quickly did the ex-employee contact the clients?
- Look for mistakes arising from the ex-employee's contact list which are the same as the employer's mistakes in its lists.
- Ask how much did the ex-employee contribute to compiling the lists and hence how much could you expect the ex-employee to remember.
- Look at how lists were obtained,
- Compare the nature of ex-employee's work with what work the ex-employee is now engaged in.
- Ask - was there only one original list?
- What efforts did your client make to keep the list confidential?
- Look for consistent under-quoting.
- Check which employees are leaving and the skills they possess.

The memory of the defendant inevitably becomes important. The courts have developed tests to help in deciding whether the defendant is relying on his or her memory or not. [40.5060]ⁱ

All this will assist in finding out if the ex-employee is in possession of lists, or was dishonest in obtaining confidential information.

2. Tactics [120.05] ff

Inevitably, the client is angry about what it sees as betrayal and the unfairness of the employee's ability to compete with its information. Usually it will expect from you far more than you may be able to deliver.

I have found asking the client to do some of the work needed to succeed in obtaining the interlocutory injunction gives it a good appreciation of any holes in the case. It is the client's job to find and gather the information you need to bring the court action.

Nothing stops the over anxious and demanding client faster than sending it away to collect evidence of dishonesty.

Another task that should be performed by the client is to give you an accurate description and detailed particulars of the information. To say the defendant has taken customer lists is not enough. Which lists and which customers must be described. If the client is sure the defendant has the information it may not matter that it is particularised in the statement of claim or affidavit. If the client is worried about exposing its confidential information in court documents it may be necessary to plead the category of information generally and place the particulars in a sealed envelope and seek confidentiality orders.

It soon becomes clear to the client that it is more complicated than just coming into your office and demanding action.

When a client comes into a solicitor's office upset about the employee who has taken secrets, the list of priorities can be defined thus:

- a) Pray for breach of fiduciary obligation – some form of dishonesty or conflict, if none
- b) Pray for a trade secret or if not
- c) Pray for a restraint of trade clause and if so

- d) Pray that it is valid and if not
- e) Pray you didn't draft it
- f) If none of the above ask your client to pray with you to settle the case.

It is important that solicitors check the employer's restraint of trade clauses to see if they are too wide.

General tactics and outlining the advice a solicitor can give to enable the client to undertake proactive steps to prepare for the any of the eventualities referred to is an important topic. The client needs to know how best to set itself up to obtain an injunction if it needs to. But as a start, the above summaries of the tests for determining a trade secret indicate how a client can best prepare itself so it can comply with each of the tests at an interlocutory hearing.

How to decide whether to seek an Anton Pillar and which defendant to sue and tactics generally is another topic in itself (Chapter 12 "Litigation"). Much of that topic is experience based.

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