

# Bird & Bird & Trade Secrets

## *An overview and update on the protection of trade secrets in Australia*

This publication is the 10<sup>th</sup> of a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions.

In this article, we provide an overview and update on the protection of trade secrets under Australian law. The position of the Australian law is complex as there is no relevant statutory or regulatory regime, such as in the UK, where the *Trade Secrets Directive (TSD)* was implemented in June 2018 by the *Trade Secrets (Enforcement etc) Regulations 2018*.

### **The meaning of 'trade secret' under Australian law**

Under Australian law, a 'trade secret' is considered to be merely a form of confidential information and does not have a clear or rigid meaning. The term 'trade secret' is not defined under Australian law, as contrasted with its meaning under the TSD, or US law, for instance.

However, guidance on the relevant meaning of 'trade secret' is provided by the World Trade Organisation's *Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)* (1995), to which Australia has acceded. Article 39(2) requires member states to accord protection against unauthorised use of "undisclosed information" in a way that is "contrary to honest commercial practices", and defines "undisclosed information" for this purpose as:

- (a) Secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (b) Having commercial value because it is secret; and
- (c) Having been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Accordingly, since this TRIPS definition has been implemented in the TSD, there is arguably scope for significant alignment between the position in Australia and in the EU in this regard.

Australian trade secret cases often involve subject matter such as client, customer and supplier lists; manufacturing techniques; engineering designs; marketing procedures; and information related to prices, sales forecasts, merchandising and finances.

### **Statutory sources of an obligation of confidence**

While Australia does not have a specific statutory regime for protecting trade secrets, there are various statutes which protect against the disclosure of confidential information through imposing an obligation of confidence.

The *Corporations Act 2001 (Cth) (Corporations Act)* provides that "a person who obtains information because they are, or have been, a director or other officer or employee of a corporation must not improperly use the information to: (a) gain an advantage for themselves or someone else; or (b) cause detriment to the corporation." This provision imposes a duty that continues after a person has stopped being an officer or employee of the corporation. Similarly, the Corporations Act states that an officer or employee of a corporation "must not improperly use their position to: (a) gain an advantage for themselves or someone else; or (b) cause detriment to the corporation."

The *Privacy Act 1988 (Cth) (Privacy Act)* applies to private sector organisations and Commonwealth agencies. This statute establishes principles relating to a wide range of privacy issues, such as collecting, storing, securing, using and disclosing private or personal information. For example, the Privacy Commissioner shall have regard to the need to prevent the unreasonable disclosure of confidential commercial information in a report following an investigation on act or practice. A person who is aggrieved by an infringement of the Privacy Act may lodge a complaint with the Privacy Commissioner seeking either compensation or a restraining order.

Under the *Freedom of Information Act 1982 (Cth) (FOI Act)*, disclosure under that statute of documents is prevented if it would found an action for breach of confidence. As the statute does not define confidence, it is left to the Federal Court of Australia and the Administrative Appeals Tribunal to determine what is confidential. It is in the best interest of corporations seeking to protect trade secrets from competitors to understand the limits of a request for information made pursuant to the FOI Act.

### **Contractual protection of confidential information**

Parties to a commercial relationship can protect confidential information expressly through terms of the contract that specifically establish that the information is to be treated as secret between the parties. An express contractual term can also establish the nature and scope of the duty of confidentiality, such as the instances in which disclosure of information that would otherwise be confidential will be permitted. These confidentiality terms are commonplace in commercial agreements between sophisticated parties dealing at arms-length.

A term of confidentiality can also be implied into a contract, such as from the fact of employment. In the context of a contract of service, the existence of a contractual relationship between the parties imposes the obligation of confidence upon an employee.

### **Equitable action for breach of confidence**

In addition to claims for breach of contractual and statutory obligations of confidence, a common method of enforcing trade secrets that have been unlawfully disclosed is through the bringing of an equitable action for breach of confidence. This equitable action is often relied upon when there is no contractual

protection of confidential information at all or when a contract that seeks to protect confidential information is unclear or inappropriately narrow in its terms. On a similar note, disputes relating to breach of confidence commonly arise when the parties do not, at the outset of a commercial relationship, accurately or completely contemplate what information will be confidential. Under this action, the threshold of proving confidentiality of information is high.

In respect of the elements of the equitable action, in *Smith Kline and French Laboratories (Aust) Ltd v Secretary, Department of Community Services and Health* it was held that:

"A general formulation apt for the present case of an equitable obligation of confidence has four elements: (i) 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, and must 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, without the consent of the plaintiff."

### Litigation related to trade secrets during COVID-19

The topic of trade secret litigation is particularly relevant during COVID-19 and the accompanying economic recession. It has been observed that it is common that "in the context of corporate failure or restructuring, [...] redundant employees use their payouts to set themselves up in the same line of business as their former employers": David Price, Colin Bodkin and Fady Aoun, *Intellectual Property: Commentary & Materials* (Thomson Reuters, 6<sup>th</sup> ed, 2017) 788. This highlights an issue arising under the common law principle that it is against public policy to prevent an employee, after leaving employment, to exploit their general knowledge and skill acquired in their capacity as an employee. There can be challenges in delineating between general knowledge and skill – which an employee may legitimately exploit elsewhere – and confidential information. Moreover, if a former employee who is breaching their fiduciary duty of loyalty incorporates a company to take the benefits of the breach, then case law has held that "the company itself will be held to have participated in the breach so that it will be liable to the employer to the same extent as the employee". Thus, employees should stay

aware of their obligations to their employer, even if they leave their employment.

In a recent Australian case, heard in the midst of the COVID-19 pandemic, relating to this topic, the first defendant, who was an employee and director of the plaintiff, resigned and incorporated a competing business – the second defendant – in the same industry as the plaintiff. The plaintiff sought interlocutory relief to restrain the first defendant and the incorporated business from using its confidential information. It also sought an interlocutory injunction to restrain the first defendant from soliciting and dealing with the plaintiff's clients, employees and sub-contractors. The defendants undertook to the Court not to use or disclose the plaintiff's confidential information; and not to solicit, interfere with or engage any current employee or subcontractor of theirs. However, the issue for determination remained whether the plaintiff should be granted an interlocutory order seeking to restrain the first defendant from "soliciting, canvassing, approaching, accepting approaches from, or attempting to entice away or provide services to any client of [the plaintiff]". The Court held that there was a serious question to be tried, primarily because the first defendant was the "human face" of the plaintiff, and was largely responsible for bringing in clients to the business. Nevertheless, the Court decided that the balance of justice would be best served by not granting the injunction. Among other things, this is because there would be a possibility of hardship on third parties if an injunction was granted, such as the fulfilment of a major contract entered into by the defendants and a third party.

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