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# Confidential information and trade secrets: When is a trade secret in the public domain?

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*The public domain is a limiting concept on breach of confidence claims. Information in the public domain is not confidential. Where the information is a trade secret about a product, sale of the product in the marketplace does not necessarily mean that the confidentiality of the secret, along with the plaintiff's cause of action, is destroyed. A court of equity may order relief despite the sale in appropriate circumstances.*

## INTRODUCTION

Trade secrets constitute valuable information which owners seek to protect from use by others. However, for the owner to exploit the commercial value of the information, it is usually necessary for the information to be shared. Problems thus arise for the owner: how are trade secrets which it shares with others to be protected from unauthorised use? If misuse does occur, what legal remedies are available? Regarding prevention, the trade secret owner is likely to seek to bind the recipient/confidant by contract not to use the trade secret for unauthorised purposes, particularly in the absence of any other form of intellectual property right. Where misuse has occurred, the equitable breach of confidence cause of action can provide the trade secret owner with an effective remedy even where no contractual protection has been put in place. It enables the trade secret owner to control the use by others of its confidential information, by preventing unauthorised use or by obtaining compensation for such misuse.

A fundamental limiting concept on breach of confidence claims is that of the public domain. Information which is in the public domain is not confidential and hence cannot be protected from unauthorised use by a breach of confidence claim. When is information in the public domain? The answer to this question can be problematic where the information is a trade secret concerning products, devices or goods sold in the marketplace. This article considers the breach of confidence claim where the information is a trade secret of that kind, places the claim in the context of other types of legal protection for trade secrets and seeks to elucidate the public domain concept, and other related matters of importance by reference to relevant authorities.

The expression "trade secret" in a confidential information context has a variety of meanings<sup>1</sup> and is imprecise for that reason. In this article the expression "trade secret" is used to refer to a broad class of confidential information. Trade secrets in relation to products, devices or goods can include their design, configuration, component parts, dimensions, tolerances, constituents and the method or principle of construction, and devices, used to make or manufacture them. I do not here refer to employer/former employee issues. Trade secret cases are to be distinguished from other breach of confidence claims which protect different interests, such as privacy or government secrets.

## BREACH OF CONFIDENCE CAUSE OF ACTION

The most generally accepted statement of a breach of confidence claim, by Megarry J in *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41 at 47-48; 1A IPR 587,<sup>2</sup> is that the following three matters must be established.

- First, that the plaintiff's information has the necessary quality of confidence.

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<sup>1</sup> *Del Casale v Artedomus (Aust) Pty Ltd* (2007) 165 IR 148; 73 IPR 326 at 347-354 (Campbell JA).

<sup>2</sup> Approved in *Australian Broadcasting Corp v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199 at 222 (Gleeson CJ); see also *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Department of Community Services & Health* (1990) 22 FCR 73 at 87 (Gummow J) for another commonly cited statement.



- Secondly, that the information was imparted to the defendant in circumstances importing an obligation of confidence.
- Thirdly, that the defendant used the information without the authority of the plaintiff and to its detriment.

It is not essential that there is a pre-existing relationship between the parties before the confidential information is disclosed, although that may be the case.

First, what is the necessary quality of confidence which the information must have? The starting point is clear and precise identification of the information which the plaintiff claims to be confidential. Many confidential information cases fail because the information sought to be protected is not able to be adequately particularised.<sup>3</sup> A problem for the plaintiff can be that it does not know precisely what conduct the confidEE has engaged in. However, if the plaintiff cannot identify the trade secret that should be protected, the court is unlikely to find in favour of the trade secret owner.

The requisite quality of confidence can be considered to involve objective and subjective aspects.<sup>4</sup> A subjective issue is whether preservation of the confidentiality of the information is of substantial concern to the plaintiff.<sup>5</sup> The cases contain long lists of steps which the courts expect the plaintiff to have taken to preserve the confidentiality of the information if the plaintiff is to demonstrate that its information is a valuable trade secret.<sup>6</sup> If the plaintiff does not take rigorous steps to keep the information secret, particularly within its own business, the plaintiff will struggle to persuade the court that the information is worthy of protection from unauthorised use by others.

That the plaintiff has taken careful steps to preserve the confidentiality of its information will not be enough. Not everything that is confidential in business will be sufficient to attract protection.<sup>7</sup> Objectively considered, the information must be of a kind that warrants protection. If the information has become part of the public domain, as a result it is not confidential to the plaintiff and is not a secret, however much the plaintiff considers it to be. That proposition must be qualified in that some features of the trade secret sought to be protected may be in the public domain. The secret may be in the way that they are combined or used. There is no novelty or originality hurdle to be cleared.<sup>8</sup> On the other hand, trivial information will not be protected.

Secondly, what is it about the circumstances in which the trade secret owner discloses the information to the confidEE which gives rise to the obligation of confidence? Although breach of confidence is an equitable cause of action, a common law concept (that of the reasonable man) intrudes. The issue is whether a reasonable person in the position of the recipient of the information would appreciate that the information was confidential.<sup>9</sup> Again, subjective and objective issues are involved (what did the recipient know/what ought the recipient to have known), and the court will consider all the relevant circumstances. These will include:

- the nature of information;

<sup>3</sup> The requirement for the claimed confidential information to be particularised has been emphasised in a large number of cases, eg, *O'Brien v Komesaroff* (1982) 150 CLR 310 at 326-238; 56 ALJR 681; *Corrs Pavey Whiting & Byrne v Collector of Customs (Vic)* (1987) 14 FCR 434 at 443; 10 IPR 53; *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Department of Community Services & Health* (1990) 22 FCR 73 at 87; *Liberty Financial Pty Ltd v Scott [No 3]* (2004) 11 VR 621; *Liberty Financial Pty Ltd v Scott [No 4]* 11 VR 629 (Harper J); *GlaxoSmithKline Australia Pty Ltd v Ritchie* (2008) 77 IPR 306 at [37]-[44] (Harper J).

<sup>4</sup> *Autodata Ltd v Boyce's Automotive Data Pty Ltd* [2007] FCA 1517 at [10] (Tamberlin J).

<sup>5</sup> *Moorgate Tobacco Co Ltd v Philip Morris [No 2]* (1984) 156 CLR 414 at 438 (Deane J); 59 ALJR 77.

<sup>6</sup> See, eg, *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 at 50 (Gowans J); *Mense v Milenkovic* [1973] VR 784 at 796-798 (McInerney J); *Del Casale v Artedomus (Aust) Pty Ltd* (2007) 73 IPR 326 at 335-336 (Hodgson JA), 354-355 (Campbell JA). A useful recent illustration is *Dais Studio Pty Ltd v Bullet Creative Pty Ltd* (2007) 165 FCR 92 at 116-126 (Jessup J); 74 IPR 512.

<sup>7</sup> *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd* (2008) 78 IPR 262 at [104] (Gordon J).

<sup>8</sup> *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd* (2008) 78 IPR 262 at [89].

<sup>9</sup> *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41 at 48 (Megarry J); *Wheatley v Bell* (1982) 2 NSWLR 544 at 548 (Helsham CJ in Eq); 1A IPR 613; *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 at 193 (Fullagar J); Arnold R, "Circumstances Importing an Obligation of Confidence" (2003) 119 LQR 193-199.



- the purpose of the confider communicating the information to the recipient/confidee;
- the communications by the confider to the confidee in writing, orally or impliedly regarding the use to which the recipient can put the information to, and as to restrictions upon use.

Thirdly, as to breach, a confidential information case is somewhat like a breach of copyright case: unauthorised use must be demonstrated. In a copyright case there must be copying by the defendant of the copyright work and reproduction of at least a substantial part of the work. Likewise, in a breach of confidence case there must be reference to and use of the confidential information by the defendant. The concept of (mis)use in a breach of confidence case is broader than that of substantial reproduction in a copyright case. Head-start or springboard use is enough.<sup>10</sup> Provided that the defendant has used the plaintiff's confidential information, there is no necessary relation, or criterion of similarity to be established, between the result of the defendant's use and the plaintiff's information. However in both independent creation (from non-copyright sources or from those in the public domain) is a complete defence.

Authorised use by the recipient does not necessarily mean that the recipient is obliged to maintain the confidentiality of the information imparted to it by the owner. Information sharing for commercial purposes need not involve the maintenance of confidentiality. However, in a consensual business relationship the trade secret owner's information is typically disclosed to the recipient for use by it only on a confidential basis. The recipient will not have an interest in merely *preserving* the confidentiality of the information. Rather the recipient's interest will be in *using* the information, and it will have a common interest with the trade secret owner in the maintenance of confidentiality so that the recipient can share in the competitive advantage that that provides. Hence, use by the recipient of the information for purposes other than those for which it was provided to the confidee by the trade secret owner will constitute a breach of the obligation of confidence, even if such use is not a confidentiality-destroying one due to release into the public domain.

The breach of confidence cause of action is about the plaintiff preventing unauthorised use of information which has been provided to another on a confidential basis. However, for the plaintiff to succeed it does not have to prove that the defendant has destroyed the confidentiality of the information. Somewhat paradoxically, the defendant will sometimes contend that its own alleged destruction of the confidentiality of the information by placing it in the public domain provides a complete defence because the information is no longer confidential.

## EQUITABLE NATURE OF A BREACH OF CONFIDENCE CLAIM

It is now well-established that a breach of confidence claim arises in the original jurisdiction of a court of equity.<sup>11</sup> This has important practical consequences.

- The jurisdiction exists where there is no contract. The auxiliary jurisdiction of a court of equity is not invoked, as it is for example when a common law claim for breach of contract is enforced by an order for specific performance or injunction.
- Equitable principles apply generally in relation to a confidential information claim. An important focus of the court's inquiry will be upon the conscience of the confidee in the events which occurred.<sup>12</sup>
- The content of the three elements of a breach of confidence claim as applied to the circumstances of a case, is susceptible to evolution and change. It is now well-established that the cause of action is not property-based in the sense that confidential information is a species of personal property whose violation the court can prevent at the suit of the owner. Confidential information is not property<sup>13</sup>, although some older cases suggest that it is. The equitable basis of the cause of

<sup>10</sup> *Dart Industries Inc v David Bryar & Associates Pty Ltd* (1997) 38 IPR 389 at 408-409 (Goldberg J).

<sup>11</sup> *Moorgate Tobacco Co Ltd v Philip Morris [No 2]* (1984) 156 CLR 414 at 437-438; *Breen v Williams* (1996) 186 CLR 71 at 128 (Gummow J); 70 ALJR 772.

<sup>12</sup> For example, *Franklin v Giddins* [1978] Qd R 72 at 78-84 (Dunn J); 1B IPR 807.

<sup>13</sup> *Moorgate Tobacco Co Ltd v Philip Morris [No 2]* (1984) 156 CLR 414 at 438.



action now having been authoritatively established, cases which use the language of property<sup>14</sup> should now be understood in that different light. The court now focuses instead upon the relationship between the confider and the confidEE arising from the initial circumstances in which the information was imparted, and then upon the circumstances in which the information is alleged to have been misused by the recipient. Nevertheless, the originator or creator of the information can in a loose sense be described as the “owner” of the trade secret.

- Although confidential information which is protected by an equitable claim of breach of confidence is not property, nevertheless such information can be assigned and licensed.<sup>15</sup> An assignee or licensee can sue others for breach of confidence.<sup>16</sup>
- The court fashions remedies against an infringer which are appropriate to the circumstances at hand consistently with equitable principles, for example injunctive relief, damages, an account of profits or the imposition of a constructive trust. Although injunctive relief, interlocutory or final, can be considered to be the “natural” remedy in a breach of confidence claim, other equitable remedies should not be overlooked.

On the other hand, there is a view among some commentators that particularly having regard to the perhaps unclear origins of the equitable jurisdiction to restrain breaches of confidence, the cause of action is *sui generis*.<sup>17</sup> Such a *prima facie* unhelpful description is best understood as follows.

The three elements of the equitable cause of action referred to by Megarry J in *Coco* have evolved from a variety of factual circumstances which have little to do with one another, but yet those elements apply generally across such a wide variety of circumstances. Today, what this means is that the manner in which the cause of action applies depends importantly upon the type of confidential information sought to be protected, or more fundamentally upon the nature of the interest which the plaintiff seeks to protect.

The breach of confidence cause of action can apply not only in relation to trade secrets, but can also protect a person’s privacy from media or other intrusions, government secrets, doctor-patient relations, solicitor-client privilege and other interests. Care must be taken in transposing case law which has developed in one branch of confidential information cases to others.

For example, an issue in *Douglas v Hello! Ltd* [2008] 1 AC 1 was whether an English magazine (*OK!*) which had purchased from two celebrities the exclusive right to publish photographs of their wedding, could restrain a rival magazine (*Hello!*) from publishing unauthorised photographs of the wedding. The majority held that *OK!* succeeded in its claim for damages for breach of confidence (at 48-50, 85, 93). The unauthorised photographer was subject to an obligation of confidence and *Hello!*, to which he had sold the photographs, was subject to the same obligation. *OK!* had notice of the intended date of *Hello!*’s publication after the Court of Appeal had lifted an injunction, and brought forward its publication of the authorised photographs to the same day.

A minority of their Lordships would have dismissed *OK!*’s claim on the basis that its own publication of the authorised photographs destroyed their confidentiality (at 72-73, 75-85). The majority rejected that objection, essentially on the basis that *OK!* was entitled to receive value for the £1 million it had paid the celebrities for the exclusive right to publish photographs of the wedding, which *Hello!*’s conduct devalued. I suggest that such policy considerations have no place in a breach of confidence claim concerning trade secrets. In that context, no proposition can be taken from *Douglas v Hello!* that a plaintiff’s own publication of a trade secret does not destroy the confidence.

<sup>14</sup> For example, *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 at 190-193.

<sup>15</sup> *TS & B Retail Systems Pty Ltd v 3 Fold Resources Pty Ltd [No 3]* (2007) 72 IPR 492 at 505-511 (Finklestein J); *Mid-City Skin Care & Laser Centre Pty Ltd v Zahedi-Anarak* (2006) 67 NSWLR 569 at 609-622 (Campbell J); see generally Wei G, “Licensing of Confidential Private Information: Hello and Goodbye to the Rights of the Licensee & Third Parties” (2003) 23 JCL 55.

<sup>16</sup> *O Mustad & Son v Dosen* [1963] RPC 41; 1B IPR 773; *Douglas v Hello! Ltd* [2008] 1 AC 1.

<sup>17</sup> For example, Gurry F, *Breach of Confidence* (OUP, 1984) pp 58-61; Tsaknis L “The Jurisdictional Basis, Elements and Remedies in the Action for Breach of Confidence – Uncertainty Abounds” (1993) 5 Bond LR 18.





How a breach of confidence claim applies, and what defences are available to the confidEE, can be different according to the nature of the interest sought to be protected. In a government secrets case, detriment to the plaintiff does not appear to be an essential element of the cause of action,<sup>18</sup> whereas unauthorised use of a plaintiff's trade secrets by a competitor is likely to cause the owner detriment. In a government secrets case, the onus is upon the plaintiff to satisfy the court that the public interest justifies the information not being released into the public domain.<sup>19</sup> Such considerations do not apply in trade secret cases. In privacy cases, particularly where the defendant is a media organisation, the plaintiff often has a critical interest in preventing media publication as such in that upon publication, the confidence may be lost. In trade secret cases, such considerations generally do not apply as it is the use to which the confidEE puts the information which is of concern to the plaintiff, not the mere fact of the information becoming publicly known.

### UTILITY OF A BREACH OF CONFIDENCE CLAIM TO PROTECT TRADE SECRETS

Other legal claims can also apply in circumstances where a trade secret breach of confidence claim is made, including breach of contract, breach of fiduciary obligations, breach of the *Corporations Act 2001* (Cth), ss 182(1), 183(1), and breach of copyright. Such causes of action are commonly pursued by the plaintiff together with the breach of confidence claim.

However, there are two broad types of situation where a breach of confidence claim is particularly effective to protect trade secrets.

First, the trade secret owner provides the confidential information to the confidEE and they are in some form of business relationship. The recipient uses the information with the licence, authority or consent of the owner. The recipient is obliged to keep the information confidential. The relationship sours or terminates. Use becomes misuse. The relationship is not governed by a legally binding agreement. Negotiations may not have been concluded, or a prospective agreement may be too uncertain to be enforced. No fiduciary obligations have arisen. In such circumstances, a breach of confidence claim may be the only form of legal redress available to the trade secret owner.

The second situation is where there has been a business relationship between the owner and the recipient concerning the use of the trade secret, but the information is communicated to, and used by, a third party with whom the owner has had no prior dealings at all. Hence, prima facie there will be no contractual or other obligation owed by the third party to the trade secret owner. Nevertheless, provided that the breach of confidence claim can be made good against the first recipient, a court of equity will generally restrain unauthorised use by the third party. The third party may have been, or become, aware of the wrongful conduct of the first recipient and then the court fastens upon the conscience of the third party to restrain further unauthorised use. Even where the third party is entirely unaware of the first recipient having engaged in any breach of confidence, after the trade secret owner gives the third party full notice of its claim and of the impugned conduct by the first recipient, a court of equity can act upon the conscience of the third party and restrain continued use by it.<sup>20</sup> In the case of either witting or unwitting participation by the third party in the first recipient's breach of confidence, the court can restrain unconscionable use of the trade secret by the third party.

Although the court has jurisdiction to restrain the unwitting participant after notice, restraint of such defendants remains somewhat controversial. The mere fact of the third party having received notice of the first recipient's wrongdoing can be considered to be inadequate to translate the third party's otherwise lawful conduct, into unconscionable conduct. This is especially so where, although confidential information is not property, the third party is a bona fide purchaser (or user) for value

<sup>18</sup> *Moorgate Tobacco Co Ltd v Philip Morris [No 2]* (1984) 156 CLR 414 at 437; *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Department of Community Services & Health* (1990) 22 FCR 73 at 111-112.

<sup>19</sup> *Victoria v Nine Network* [2007] VSC 431 at [16]-[38] (Osborn J).

<sup>20</sup> *Johns v Australian Securities Commission* (1993) 178 CLR 408 at 460 (Gaudron J); 67 ALJR 850; *Breen v Williams* (1996) 186 CLR 71 at 129 (Gummow J); *Dart Industries Inc v David Bryar & Associates Pty Ltd* (1997) 38 IPR 389 at 406.



without notice.<sup>21</sup> In such circumstances, for the court to restrain the third party from continuing to use the plaintiff's trade secret may seem harsh. Where the third party *is* restrained, publication of the trade secret by the first recipient to the third party appears not to result in the information entering the public domain to the extent that the plaintiff is denied relief.

## OTHER INTELLECTUAL PROPERTY RIGHTS

A breach of confidence claim protects trade secrets in a fundamentally different manner from the legal protection given to other types of intellectual property. A patentee's monopoly is granted in consideration of the publication of the invention in the patent specification. A copyright owner's copyright survives publication and indeed (public) reproduction is a central right enjoyed by the owner. A design monopoly includes a right to vend products made in accordance with the design. Trade mark usage by the proprietor, whether the mark is registered or not, occurs in public.

None of these intellectual property rights depend for their existence upon any form of relationship existing between the proprietor and anyone else. However, a breach of confidence claim in relation to trade secrets generally involves the existence of a commercial relationship between a confider and a confidant, arising at least from the nature of the information and the circumstances in which it has been communicated.

In a breach of confidence claim, publication of the information to the extent that it has entered and become part of the public domain destroys the confidentiality of information sought to be protected. The confidentiality is gone. A trade secret is just that. Its value to the owner lies in the inaccessibility of the information to persons whose use of the trade secret is not restricted or controlled, and the competitive advantage which that gives. Where the court protects the plaintiff's trade secret, it protects the value of the work that the plaintiff has done to create or develop the information, being work that others who appropriate or use the information without authority have not done.

A policy consideration which underlies other intellectual property rights is the spur to innovation, development and competition of a non-infringing kind which public access to, and disclosure of, the intellectual property right enables. Such matters have no application in a breach of confidence claim by a trade secret owner, whose interest is in keeping the light under the bushel.

These seemingly conflicting policy considerations are perhaps reconciled by the centrality of the public domain limitation on breach of confidence claims. The trade secret owner can only obtain protection against unauthorised use by the recipient of the information to the extent that the information is not in the public domain. However, there are unresolved issues concerning what the "public domain" means in breach of confidence claims. Such issues arise acutely where the plaintiff's interest is in seeking to protect a trade secret from unauthorised use because there may well be practical limitations on the extent to which the secret can be maintained, and entry into the public domain avoided.

In confidential information cases, there is often a dispute about whether the information is in the public domain. The defendant may contend that the plaintiff's claimed trade secret was always in the public domain, or more likely had entered the public domain by the time of an interlocutory injunction application, or the trial of the proceeding. The following cases merit particular consideration.

## MAGGBURY V HAFELE AUSTRALIA

The most recent confidential information case concerning trade secrets in the High Court is *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2001) 210 CLR 181. *Maggbury* concerned an unsuccessful attempt to enforce agreements against an Australian company and its German parent concerning the commercialisation of folding ironing boards. The agreements provided that specifically defined information was to be treated by the recipients as private and forever confidential. Trade secrets were disclosed by the owner under the agreements. The parties fell out and the defendants sold ironing boards in Australia which were similar to the plaintiff's boards. However, by that time a patent

<sup>21</sup> *Retractable Technologies v Occupational & Medical Innovations* (2007) 72 IPR 58 at 77-82 (Greenwood J); Stuckey J, "The Liability of Innocent Third Parties Implicated in another's Breach of Confidence" (1981) 4 UNSWLJ 73.



specification of the plaintiff in relation to the claimed confidential information had been published and the plaintiff's invention had been displayed at a trade fair.

The High Court, by majority, held that:

- On the proper construction of the agreements, the confidentiality obligations on the defendants continued despite the public disclosure by the plaintiff of the invention.
- The agreements were subject to the application of the common law restraint of trade doctrine.
- The agreements were unenforceable as being in unlawful restraint of trade as the onus was on the defendants to demonstrate that they were *not* in restraint of trade, and they had not attempted to show that at trial.

The court was not prepared to follow English authority which suggested that the publication of the plaintiff's patent application ipso facto released the confidante from a contractual obligation of confidence (at 199-201). The same result (there was no confidentiality obligation), was reached via the different route of the application of the restraint of trade doctrine. Nevertheless, the majority appeared to approve of authorities which decided that publication of the information in a patent specification destroyed the foundation of an equitable confidential information claim (at 189-190, 199-201). Publication of a patent specification containing the claimed trade secret would seem to be an exemplar of conduct causing the entry of the information into the public domain. Although evidence as to the number of persons who had read the specification would be relevant to show that it had entered the public domain, the court will readily infer from the nature of a patent specification that its publication, especially on the internet at the IP Australia website, is sufficient to destroy the confidentiality of the information contained in it.

The majority of the High Court, in reference to the English authorities, appeared to approve of emphasis being placed upon the fact of the information having been published by the plaintiff (at 201-202). This is not surprising. Publication by the plaintiff of information into the public domain seems inconsistent with the plaintiff at the same time seeking to restrict unauthorised use by the defendant on the ground of a breach of confidence. I suggest that there is a distinction to be drawn between an alleged confidentiality-destroying publication being made by the plaintiff trade secret owner, and by the defendant confidante. In the latter case, the defendant which contends that as a result of its own release of the information into the public domain the confidentiality has been destroyed, is seeking to take advantage of its own wrong. The authorities which deal with this issue have not clearly decided the point.<sup>22</sup> However, it does seem consistent with the equitable nature of a breach of confidence claim that the defendant should not be able to take such an advantage. Although the plaintiff may not be able to obtain an injunction if the defendant's publication has caused the information to enter the public domain, I suggest that a court of equity ought have no difficulty in awarding damages in lieu of an injunction.

Dicta in *Magbury* (at 197) imply that care should be taken in the drafting of confidentiality agreements concerning trade secrets that they are not expressed to be of unlimited duration, and that the relevant clauses should be limited in their operation to the period in which the information is not in the public domain.

In *Magbury*, the trial judge did not decide the equitable confidential information claim that was put by the plaintiff as an alternative to the contractual claim. As a result, the High Court made no finding as to that. In later cases, some judges have taken a like view and in effect held that the plaintiff ought be confined to its contractual remedy,<sup>23</sup> whereas others have decided both equitable and contractual claims.<sup>24</sup> I suggest that there is no reason in principle why a common law claim and an

<sup>22</sup> *Attorney-General (UK) v Heineman Publishers Australia Pty Ltd* (1987) 8 NSWLR 314 at 374; *Attorney-General v Guardian Newspapers* [1990] 1 AC 109 at 267, 271, 293; cf 286-288; *Titan Group Pty Ltd v Steriline Manufacturing Pty Ltd* (1990) 19 IPR 353 at 378 (O'Loughlin J); *Lancashire Fires Ltd v SA Lyons & Co Ltd* [1996] FSR 629 at 674.

<sup>23</sup> *Hunter Business Finance v Australian Business & Equipment Finance* [2003] NSWSC 122 at [78]-[79] (Gzell J); *Coles Supermarkets Australia Pty Ltd v FKP Ltd* [2008] FCA 1915 at [63]-[64] (Gordon J).

<sup>24</sup> For example, *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd* (2008) 78 IPR 262.



equitable claim which arise out of the same circumstances ought not both be decided, as the interests sought to be protected are different. No issue of equity following the law arises.

## KRUEGER TRANSPORT EQUIPMENT V GLEN CAMERON STORAGE

*Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd* (2008) 78 IPR 262; [2008] FCA 803, concerned trade secrets about the construction of large truck trailers. A company proposed to tender to supply distribution services and cartage of another company's cargo. To do so it needed to purchase a number of trailers, and invited the applicant and two other companies to quote to manufacture and supply the trailers. The applicant provided trade secrets to the tenderer, which it passed on to one of the two other trailer manufacturers. The trade secrets were copyright works. The applicant's competitor used the applicant's trade secrets to enable it to design trailers to meet the requirements for the tender. The tender was successfully made, with the tenderer to use trailers supplied by the recipient of the applicant's confidential information. The applicant sued both the tenderer and its competitor.

The applicant succeeded against the tenderer for breach of contract, breach of confidence and breach of copyright and against the competitor for breach of copyright. The applicant did not pursue a breach of confidence claim against the competitor, although that seemed to be open on the facts found by the court. The court ordered judgment for damages to be assessed.<sup>25</sup> The applicant lost the potential contract for it to supply the trailers to the tenderer. After the tender had closed, the applicant was successful in obtaining patent protection for the invention the subject of the claims. Injunctive relief was not pursued by the applicant.

Regarding the breach of contract claim, the court found that the agreement was a *reasonable* restraint of trade because, unlike in *Maggbury*, the trade secret in issue was not in the public domain at relevant times. An issue which perhaps awaits determination is whether the policy considerations underlying the restraint of trade doctrine concerning agreements<sup>26</sup> have any like application to the equitable cause action. *Krueger Transport* reminds us that damages, rather than injunctive relief, can be awarded in breach of confidence cases.<sup>27</sup>

## SPRINGBOARDING AND REVERSE ENGINEERING

The trade secret owner engages the defendant to manufacture a product for it using the confidential information. The defendant uses its own skill and expertise in the manufacturing process, or contributes to design features. The plaintiff sells the product to its customers. The defendant commences to sell the product to other customers, or to the plaintiff's customers, at a lower price. Contractual arrangements are informal. The defendant makes its money from a margin incorporated in the price of the product which it sells.

The question arises: as the product is sold in the marketplace, has not the trade secret, and hence the plaintiff's cause of action, been destroyed because the information sought to be protected has entered, and become part of, the public domain? The springboard doctrine seeks to resolve the tension between the law on the one hand seeking to prevent the defendant from engaging in unconscionable conduct and enjoying the benefit of the plaintiff's work in creating the trade secret, and on the other encouraging traders to compete in relation to publicly available products in the absence of the plaintiff owning any traditional form of intellectual property right preventing copying or reverse engineering.

Two well-known passages describe the springboard principle. The first is from *Saltman Engineering Co Ltd v Campbell Engineering Co* (1948) 65 RPC 208 at 215, where Lord Greene stated:

<sup>25</sup> The damages claim against the tenderer settled. The court assessed damages on the breach of copyright judgment against the competitor: *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd* [No 2] [2008] FCA 1493.

<sup>26</sup> *Peters (WA) Ltd v Petersville Ltd* (2001) 205 CLR 126; 75 ALJR 1385; 52 IPR 289.

<sup>27</sup> See also *Seager v Copydex Ltd* [No 2] [1969] RPC 250 (CA); *Cadbury Schweppes Inc v FBI Foods Ltd* [2000] FSR 491 (SC, Canada).





The information, to be confidential, must, I apprehend, apart from contract, have the necessary quality of confidence about it, namely, it must not be something which is public property and public knowledge. On the other hand, it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker upon materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process. What the defendants did in this case was to dispense in certain material respects with the necessity of going through the process which had been gone through in compiling these drawings, and thereby to save themselves a great deal of labour and calculation and careful draughtsmanship. No doubt, if they had taken the finished article, namely, the leather punch, which they might have bought in a shop, and given it to an expert draughtsman, that draughtsman could have produced the necessary drawings for the manufacture of machine tools required for making that particular finished article. In at any rate a very material respect they saved themselves that trouble by obtaining the necessary information either from the original drawings or from the tools made in accordance with them. That, in my opinion, was a breach of confidence.

The second passage is from *Terrapin Ltd v Builders' Supply Co (Hayes) Ltd* [1960] RPC 128 at 130; 1B IPR 777, where Roxburg J stated:

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 brochures are certainly not equivalent to the publication of the plans, specifications, other technical information and know how. The dismantling of a unit might enable a person to proceed without plans or specifications, or other technical information, but not, I think, without some of the know-how and certainly not without taking the trouble to dismantle. I think it is broadly true to say that a member of the public to whom the confidential information had not been imparted would still have to prepare plans and specifications. He would probably have to construct a prototype, and he would certainly have to conduct tests. Therefore, the possessor of the confidential information still has a long start over any member of the public. It is, in my view, inherent in the principle upon which the *Saltman case* rests that the possessor of such information must be placed under a special disability in the field of competition to ensure that he does not get an unfair start.

Where the springboard doctrine applies, the effect will be to limit the duration of any injunction ordered and/or the period of time during which damages will be awarded.<sup>28</sup> The duration of the springboard advantage which the defendant obtained from using the plaintiff's confidential information can be measured in two ways, which may or may not be the same in relation to the particular circumstances of a case. First, the time and expense that the defendant would have taken to reach the same result without reference to the plaintiff's trade secrets and in reliance only upon publicly available information. Secondly, the time and expense that a relevantly skilled member of the public would take to reverse engineer the product, after it became publicly available, to produce the same result. Both measures are necessarily hypothetical in nature, and will depend upon the evidence led by the parties.

Regarding both measures of springboard advantage, I suggest that the "hindsight objection" familiar to patent lawyers when considering an obviousness objection,<sup>29</sup> is relevant. Dependent upon the degree of originality or novelty of the product created using trade secrets, or which embody trade secrets, due allowance should be made in favour of the owner for the advantage that examination of the product gives. Once you see the solution to a problem, it all seems so obvious.

<sup>28</sup> See generally: *United States Surgical Corp v Hospital Products International Pty Ltd* [1983] 2 NSWLR 157 at 228-233 (rev'd on other grounds *Hospital Products Pty Ltd v United States Surgical Corp* (1984) 156 CLR 41); *Titan Group Pty Ltd v Steriline Manufacturing Pty Ltd* (1990) 19 IPR 353 at 376-387; *Industrial Rollformers Pty Ltd v Ingersoll-Rand (Australia) Ltd* [2001] NSWCA 111 at [182]-[186]; Lavery P, "Secrecy, Springboards and the Public Domain" [1998] EIPR 93; Brennan DJ, "Springboards and Ironing Boards: Confidential Information as a Restraint of Trade" (2005) 21 JCL 71.

<sup>29</sup> For example, *Olin Corp v Super Cartridge Co Pty Ltd* (1977) 180 CLR 236 at 262-263; 51 ALJR 525; *Minnesota Mining & Manufacturing Co v Beiersdorf Australia Ltd* (1980) 144 CLR 253 at 293-294; 1A IPR 231; *Aktiebolaget Hassle v Alphapharm Pty Ltd* (2002) 212 CLR 411 at 423; 56 IPR 129; *Colgate-Palmolive Co v Cussons Pty Ltd* (1993) 26 IPR 311 at 355-356 (Sheppard J).



It is important to recognise that mere perusal of the product being sold in the marketplace by a person skilled in the art may not reveal the plaintiff's trade secret. Compare perusal of a patent specification. For example:

- Fine tolerances may be involved in making the product which may not be readily apparent even from close and careful measurement.<sup>30</sup> Trial and error in ascertaining the best combination of measurements may take time.
- The constituent elements of a product may only be apparent after the application of a process to reveal the elements.<sup>31</sup>
- The relevant trade secret may be in the manufacturing process employed to make the product, rather than in the product itself,<sup>32</sup> and it may take work for the features of the process to be revealed by inference from the features of the product (if that can occur at all).

To the extent that mere examination of the product without reverse engineering does not reveal the trade secret, the trade secret can be considered to remain *relatively* secret despite sale of the product in the marketplace. Here the confidential information sought to be protected will not have entered the public domain merely by reason of the sale of the product incorporating, or made as a result of the use of, that information.

The concept of relative secrecy appears to have originated from a dictum of Cross J in *Franchi v Franchi* [1967] RPC 149. The question there was whether the publication of a trade secret in a Belgian patent specification destroyed its confidentiality. Cross J held that evidence that patent agents in the United Kingdom often inspected patent specifications as soon as they were published meant that the trade secret had entered in public domain there. However, Cross J stated (at 153): "It must be a question of degree depending on the particular case, but if relative secrecy remains, the plaintiff can still succeed."

In *Australian Football League v The Age Co Ltd* (2007) 15 VR 419, an issue was whether the names of three AFL players who had tested positive to illicit drugs upon testing by the League was still confidential despite the publication of the names on the internet. The AFL had not published the names, nor had the defendant newspaper. They were published by persons unknown and the publications on the internet were characterised as being in the nature of merely rumours or speculation. Kellam J (at 427-433) referred to the dictum of Cross J in *Franchi* concerning relative secrecy and found on the evidence before the court that the names had not become part of the public domain. The information had not been published to the requisite degree. That some persons had learned of the names via the internet was not enough to destroy the confidentiality of the information. Permanent injunctions were granted against the defendant restraining publication.

## EPI ENVIRONMENTAL TECHNOLOGIES V SYMPHONY PLASTIC

An important recent English decision which considers the public domain issue in a trade secret context in some depth, but which has received little attention in Australia, is *EPI Environmental Technologies Inc v Symphony Plastic Technologies Inc* [2005] FSR 22 (Peter Smith J in the Chancery Division).

Under a number of agreements, for a period of six years the plaintiff supplied the defendant various additives used by it in the manufacture of a range of thin film plastic products. The additives worked to make the plastic products degradable. The plaintiff's confidential information was defined, the defendant's use or disclosure of the information was restricted and the defendant was prohibited from analysing, or attempting to analyse, the additives. Under a variation to the agreement, the defendant was entitled to develop and sell competing products, but only products which did not require the use of the plaintiff's confidential information. The plaintiff terminated the agreement. The

<sup>30</sup> *Dart Industries Inc v David Bryar & Associates Pty Ltd* (1997) 38 IPR 389 at 404-405 (Goldberg J); *Bluescope Steel Ltd v Kelly* (2007) 72 IPR 289 at 320-327 (Emmett J); cf *Alfa Laval Cheese Systems Ltd v Wincanton Engineering Ltd* [1990] FSR 583 at 590-591.

<sup>31</sup> *Environmental Technologies Inc v Symphony Plastic Technologies* [2005] FSR 22.

<sup>32</sup> *Mense v Milenkovic* [1972] VR 784.



defendant had developed an additive which the plaintiff alleged was a substantial copy of one of the plaintiff's additives. The defendant denied that it had analysed the plaintiff's additives in the process of creating its own additive.

The plaintiff alleged breach of contract and breach of confidence. The plaintiff's claims both failed. The breach of contract claim was decided in a confidential part of the judgment. However, it is known from the published judgment that the defendant abandoned a contention that the agreement was an unlawful restraint of trade. The defendant argued that *even if it had* analysed the plaintiff's additives and used that information to develop its own additive, the plaintiff's claim failed because its confidential information was in the public domain. The plaintiff claimed that the make-up of its additives and the fact that they worked successfully, constituted confidential information belonging to it. The plaintiff conceded that it was possible to analyse the defendant's plastic products and break them down into their constituents. The plaintiff on its website indicated that its proprietary additives made plastic products degradable in the finished product.

Peter Smith J held that:

- The defendant's own plastic products included the plaintiff's proprietary additive, the products were publicly available and anyone could analyse the products into their constituents and so reveal the plaintiff's formulations. Accordingly, the plaintiff's claim failed because the relevant constituent was in the public domain.
- Subject to any contractual constraint upon the defendant from analysing the plaintiff's additive, the defendant was not to be placed in a worse position than anyone else and was likewise entitled to analyse the additive.
- Even if the defendant had analysed the plaintiff's additive supplied to it under the confidentiality agreement (and hence used non-public domain information), the plaintiff's claim failed as that information was in the public domain *because* an analysis of the defendant's products by anyone else would reveal the same information.

The judge also considered that the position could well have been different if the defendant had merely copied the plaintiff's constituent, rather than made its own using knowledge of the plaintiff's additives.

Although one's understanding of the decision in *EPI* is limited by lack of access to the court's judgment concerning the breach of contract claim, I suggest that the court's decision was wrongly decided and should not be followed.

First, the mere fact that the defendant's product was sold publicly did not mean that thereupon the plaintiff's proprietary constituent became part of the public domain, contrary to the holding of the court. The plaintiff had not published the formulation of the relevant additive to the public (*or to the defendant*). At the least, a process of analysis of the product had to be undertaken to reveal the constituent. I suggest that the plaintiff's additive remained *relatively* secret, despite the public sale of the defendant's products. The sale of the products was not analogous to the publication of a patent specification. Although the court's decision was affected inevitably by the evidence led and the arguments put, no consideration was given to how long, or at what expense, an analysis by others of the defendant's product to reveal the plaintiff's constituent would have taken, how long it took the defendant to do its analysis, or whether anyone else had in fact analysed the defendant's products or was likely to do so.

Secondly, the defendant ought not be in a better position because its additive was somewhat different to the plaintiff's additives, compared to the position it would have been if it had been a mere copier.

Thirdly, the court appeared to place no significance upon the fact that it was *the defendant's products* which contained the plaintiff's proprietary additive. Without the supply of the plaintiff's additive to the defendant, the defendant's plastic products would not have included that additive. The defendant knew what the plaintiff's constituents were and did not need to analyse its own products to discover what it put into them. Although the *plaintiff* sold its additives for incorporation into *the defendant's* plastic products for sale to the public, I suggest that the defendant sought to take



advantage of its own wrong in a manner which a court of equity ought restrain, not permit. Even if the defendant had not breached the terms of the confidentiality agreement, concerning the equitable cause of action the defendant's conduct was inconsistent with the purpose for which the plaintiff sold its proprietary additives to the defendant. I suggest that the fact that others *could have* analysed the defendant's product to reveal the plaintiff's proprietary constituent, particularly in the absence of any evidence that anyone else had done so,<sup>33</sup> or was likely to do so, did not excuse the defendant's unconscionable conduct in taking advantage of the relationship between the parties to obtain the same information. What remedy the court should have granted is a different question.

Where a product or device is custom-made for a client and the client uses the product in its business, rather than re-sells it, it may be possible for the trade secret owner by contract to require the client to maintain the confidentiality of the product and not to reverse engineer it. Subject to what other steps the trade secret owner takes to preserve the confidentiality of the information, it may be that in such cases the confidentiality is able to be preserved despite the sale of the product to the customer. Dependent on the circumstances, the mere fact that the product has been sold does not mean that as a result confidential information concerning the product is in the public domain.

### POLWOOD V FOXWORTH

In perhaps most breach of confidence claims concerning trade secrets, the plaintiff seeks to restrain the defendant from continuing its unauthorised use of the plaintiff's information, or to obtain compensation in relation to such conduct. Even where the defendant has used the plaintiff's information as a springboard in the sense of developing a modified or different product using the trade secret, the plaintiff typically has no interest in alleging that the new product belongs to it, rather than to the defendant. Instead, the plaintiff simply wants to stop the defendant.

However, there are situations where the plaintiff claims ownership of the defendant's product developed in part from use of the plaintiff's trade secrets. The recent Full Court decision in *Polwood Pty Ltd v Foxworth Pty Ltd* (2008) 75 IPR 1 (Finn, Bennett and Greenwood JJ), is a case of this kind. *Polwood* concerned a dispute between two claimants as to proprietorship of a patent application. The field of the invention was a method and apparatus for producing potting mix using waste vegetable matter. Under a licence agreement the applicant provided confidential information to the respondent which it used to develop the product. The confidential information comprised a particular concept of a steaming tube, information that that concept had specified advantages over existing methods and the timing and temperatures used in the process. The licence expired and the respondent made a device according to the invention.

At trial<sup>34</sup> the parties were held to be joint inventors and that decision was upheld on appeal. The trial judge also held that the respondent had engaged in a breach of the applicant's confidence after the licence had expired by using the applicant's trade secret to make the device for its own purposes. However, Muir J refused to extend an interlocutory injunction, holding that that injunction had been effective to deprive the respondent of its springboard advantage. The patent application had been published. Muir J also declined to grant a constructive trust in relation to the invention in favour of the applicant.

On appeal, the applicant reiterated its claim for a constructive trust on the basis that the invention was created by the respondent using the applicant's confidential information. The applicant denied that if a constructive trust were to be granted, any allowance should be made in favour of the respondent for its time and effort in contributing to the invention. The Full Court rejected the claim. The invention was not attributable solely to the defendant's use of the plaintiff's confidential information. The court held that absent any contractual entitlement to the advantage of the respondent's exertions, the applicant had no proper basis for claiming that all of the advantage produced by those exertions belonged to it because some part was contributed to by the confidential information used (at 21).

<sup>33</sup> As to the relevance of that, see for eg, *Lancashire Fires Ltd v SA Lyons & Co Ltd* [1996] FSR 629 at 674.

<sup>34</sup> *Foxworth Pty Ltd v Polwood Pty Ltd* [2006] QSC 185.





The Full Court decision here is plainly correct. It may be contrasted with the well-known decision of Fullagar J in *Deta Nominees Pty Ltd v Viscount Plastics Pty Ltd* [1979] VR 167 where essential facts which grounded the plaintiff's successful claim were that the defendant had been specifically engaged by the plaintiff to develop a mould for it using the plaintiff's confidential information, and that the plaintiff paid the defendant for the work. *Polwood* emphasises the need for licence agreements concerning trade secrets to deal with the ownership of the product of work performed under licence when the licence expires or is terminated.

### SO WHEN IS A TRADE SECRET CONCERNING A PRODUCT IN THE PUBLIC DOMAIN?

I suggest in three situations. First, upon publication of a patent specification containing the trade secret. Secondly, upon publication of any other form of document containing the trade secret, whether on the internet or otherwise, if a sufficient number of relevantly skilled persons have, or are likely to have, accessed the document. Thirdly, upon the public sale or display, without any relevant contractual restraint, of a product which incorporates the trade secret, or was made using the trade secret, if that information is apparent to relevantly skilled persons upon mere inspection of the product and without such persons having to perform any work, analysis or calculations.

I suggest that in each of these three situations, it is appropriate to consider the position of the relevantly skilled person, because the type of information constituting a trade secret in relation to a product, device or goods will generally require some expertise in the art to enable the information to be understood, or at least appreciated as to its significance. A member of the public without relevant expertise may have no understanding of the trade secret, or appreciation of its significance. However, the information will have entered the public domain nonetheless if it has been published to persons skilled in the art. Such an analysis fits a rationale of the public domain concept in cases of this kind. It is the person skilled in the art who has not accessed the information through any form of unconscionable conduct, who is to be encouraged to use publicly available trade information in an unrestricted manner, provided that no other intellectual property right applies.

The consequences in the litigious context are these:

- The mere fact that a purchaser of a product or device *other than the defendant* is prima facie entitled to do what it chooses with its own property, including dismantling or reverse engineering it,<sup>35</sup> does not mean that the plaintiff's breach of confidence claim fails.
- When the trade secret concerning a product which has been sold in the marketplace is not in the public domain in the types of circumstances referred to above, the defendant will not succeed on an argument that the confidentiality of the information, and hence the plaintiff's cause of action, has been destroyed by the sale.
- Even if the trade secret is in the public domain but the springboard doctrine applies, such a loss of confidentiality will not mean that the plaintiff fails to make out its case for that reason.
- In either situation, while the court may not grant a perpetual injunction at trial, the court instead may grant an interim or permanent injunction of a limited duration, or an award of damages or other relief.

### CONCLUSION

The equitable cause of action for breach of confidence in relation to trade secrets is not a first-line means of protecting such confidential information. The cause of action can be considered to be a gap-filler where other more certain means of controlling the use by others of valuable information are not available. Nevertheless, that is the strength of the equitable claim. It is a question of fact in each case whether a trade secret concerning a product has been published, or otherwise been made publicly known, in a manner or to the extent that it has entered the public domain such that the plaintiff's claim fails on liability, rather than it succeeding on liability with the court granting more limited relief than a perpetual injunction.

<sup>35</sup> For example, *Mars UK Ltd v Teknowledge Ltd* [2000] FSR 138 at 149; 46 IPR 248.

