RECENT DEVELOPMENTS IN THE LAW ON POST EMPLOYMENT RESTRAINTS IN NSW, VICTORIA & QUEENSLAND[1]

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A. INTRODUCTION

The practice of incorporating provisions restraining former employees and contractors from engaging in employment/engagement etc with competitors of the former employer (non compete provisions), and restraints protecting former employers from employees and contractors using confidential information gained during the course of employment/engagement (confidential information provisions) and restraints protecting former "employers" from former employees and contractors soliciting customers, employees etc of the former "employer" (non solicitation provisions) has been a feature of professional and senior management contracts of employment or engagement for many years. In recent years the practice has spread to contracts governing middle management and sales and information technology specialists in the labour market.

At the same time the response of jurisdictions on the eastern seaboard to the spread of post employment restraints has varied considerably. The New South Wales Supreme Court has, in recent years, taken an actively supportive attitude in favour of post employment restraints[3] and employers have accordingly adopted a more aggressive approach to enforcement of post employment restraints[4]. The Victorian Supreme Court has taken a less enthusiastic

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[1] The law in this paper is (hopefully) current to early June 2008.

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[3] Illustrative of this attitude is the following observation from a recent judgment: "There is no doubt that enforcing the restraints by injunction will occasion hardship to Mr Birt, and one cannot but have considerable sympathy for his predicament: he will be out of employment for three months, although it seems that upon expiration of the three month restraint, Hannan will still employ him, so that he will not lose his employment opportunity forever. This hardship is increased by the circumstance that his wife is expecting their second child in about a month; and their first child is only 16 months old. However, enforcement of such restraints frequently occasion hardship to employees who, in defiance of them, accept employment with competitors. To a significant extent, an employee who pursues such employment despite the terms of a restraint is **the author of his or her own misfortune**.(*my emphasis*) I do not think that sympathy for the position in which Mr Birt now finds himself can justify not enforcing the contractual rights of Fairfax Publications." *John Fairfax Publications Pty Limited v Birt & ors* [2006] NSWSC 995 at para. 49. This may be contrasted with Lord Macnaughten's observation in 1894 in *Nordenfelt v. Maxim Nordenfelt Guns & Ammunition Company Limited* [1894] AC 535 at 566 that " there is obviously more freedom of contract between a buyer and a seller than ... an employer and a person seeking employment". Commenting on Lord Macnaughten's observation McTiernan J in *Lindner v Murdock's Garage* (1950) 83 CLR 628 at 641 observed "...There is not full scope for freedom of contract when an individual worker is making a contract of service with his employer...Current opinion on relations between employer and employees has not moved away from this view..."

[4] A search of recent judgments reveals more than 35 judgments in five years dealing with attempts to enforce post employment/engagement restraint usually by means of injunctive relief and occasionally subsequently for damages and accounting of profits.

attitude to post employment restraints[5] and employers have accordingly adopted a less aggressive approach to enforcement of post employment restraints[6]. The Queensland Supreme Court has steered a middle course – a quite restrictive attitude to enforcement of post employment restraints[7] but a willingness to countenance some severance of excessive and therefore unreasonable post employment restraints.

In New South Wales at least, given the prevailing attitude of the Supreme Court[8], and with no restraints on employer pattern bargaining under Workchoices (or envisaged under the Rudd industrial relations policy), (and leaving aside two nice arguments viz that all contracts of employment with constitutional corporations may be AWAs under the *Workplace Relations Act (Cwth)* and post employment restraints may be "prohibited content"; and that *the Restraint of Trade Act* is a *"state industrial law"* for the purposes of s.16(1) of that *Act* or a law about "*a workplace related matter"* for the purposes of s7(1)(a) of the *Independent Contractors Act (Cwth)* [9]) the use of non compete provisions, confidential information provisions and non solicitation provisions are likely to continue to spread throughout white collar and into the blue collar labour market.

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[5] The comments in Birt (op cit) may be contrasted with the observations of Anderson J In Drake Personnel Ltd v Beddison [1979] VR 13 at 19: *'"General skill and knowledge is not a trade secret of his employer, and such skill and knowledge which a person of ability necessary acquires in his employment are not things in which an employer can claim any proprietry interest.'A man's aptitude, his skills, his dexterity, his manual or mental ability ... ought not be relinquished by a servant; they are not his master's property; they are his own property; they are himself.'"* Beddison continues to be good law in Victoria see *Monash Real Estate Pty Ltd v Ross* [2005] VSC 116 ; *IF Asia Pacific Pty Ltd v Galbally* [2003] VSC 192 ; *Springboard Consulting Group Pty Ltd v Cunningham* [2007] VSC 447; *Pinnacle Hospitality People Pty Ltd v Ramasamy Ors* [2007] VSC 433; *BearingPoint Australia Pty Ltd v Hillard* [2008] VSC 115 (18 April)*Hoppers Crossing Club Limited v Tattersalls Gaming Pty Ltd [2005] VSC 114; Aufgang v Kozminsky Nominees Pty Ltd [2008] VSC 27*;Barnes v Hance [2001] VSC 238.

[6] I could find 11 decided Supreme Court cases since June 2004 seeking to enforce restraints on employees/contractors with seven cases being unsuccessful.

[7] Illustrative of this attitude is the fact that I could find only 6 decided Supreme Court cases in twelve years and with all three cases seeking to enforce restraints on employees/contractors (outside the context of sales of businesses) being unsuccessful. (Cedar Hill Flowers & Foliage P/L & Anor v. Spierenburg & Ors [2002] QCA 348; Maggbury [op cit]; Burton & Eising v. Wright Trading Pty Ltd [2007] QSC 17; Artcraft P/L v Chandler [2003] QSC 102.)

[8] One commentator has suggested that it's a case of "serfs up" in New South Wales.

[9] Incidently I do not advocate that these arguments be "left aside" at least for the moment. It is extraordinary that more than 2 years since the passage of Workchoices these issues have apparently not been litigated. The very raising of the Workplace Relations Act defences, of course, has an impact on legal costs from a Respondent/Defendant' employee's point of view. See Goldman Sachs J B Were Services Pty Limited v Nikolich [2007] FCAFC 120 & s.824 which provides;

"(1) A party to a proceeding (including an appeal) in a matter arising under this Act (other than an application under section 663) must not be ordered to pay costs incurred by any other party to the proceeding unless the first-mentioned party instituted the proceeding vexatiously or without reasonable cause.

(2) Despite subsection (1), if a court hearing a proceeding (including an appeal) in a matter arising under this Act (other than an application under section 663) is satisfied that a party to the proceeding has, by an unreasonable act or omission, caused another party to the proceeding to incur costs in connection with the proceeding, the court may order the first-mentioned party to pay some or all of those costs.

(3) In subsections (1) and (2):

***"costs"** includes all legal and professional costs and disbursements and expenses of witnesses."*

This presentation examines the current state of the law in New South Wales, Victoria and Queensland with emphasis on recent High Court and Supreme Court judgments in each state.

B. STRUCTURE OF PAPER

Part C of this paper describes the general law and statutory obligations that an employee or contractor has in relation:

- to the use of confidential information as an employee or contractor and also after the employment/engagement has ceased;
- to engaging in any business or activity in competition with or the same or similar to the former employer's business; and
- to the solicitation of customers/clients or suppliers of the former employer or inducing officers, directors or employees or contractors of the former employer to terminate their employment or engagement with the former employer.

Part D describes the obligations which a contract of employment/engagement may impose on an employee/contractor in relation to the use of confidential information and the enforceability of such confidential information provisions.

Part E describes the obligations which a contract of employment/engagement may impose on an employee/contractor in relation to non-compete provisions and the enforceability of such non-compete provisions of the Agreement. Part E also describes the obligation which a contract of employment/engagement may impose on an employee/contractor in relation to non-solicitation provisions and the enforceability of such non-solicitation provisions.

Part F describes the obligations which a contract of employment/engagement may impose on an employee/contractor in relation to the use of confidential information and the enforceability of such confidential information provisions.

Part G describes some matters of practice and procedure in relation to restraint of trade matters.

C. DISCUSSION OF GENERAL LAW

At general law, there is an implied term in the contract of employment/engagement which requires the employee or contractor to act in the interests of the employer with good faith

and fidelity. When the employment/engagement ceases, the employee or contractor is free to compete with the employer unless subject to a valid contractual restraint on competition. The employee or contractor may take away and utilise the benefit of personal relationships built up with particular customers of the former employer and may solicit any customer or supplier who the employee or contractor can recall without the aid of a list taken from the former employer and without deliberate memorisation of the customer or supplier list. The employee or contractor may induce officers, directors or employees or contractors of the former employer to terminate their employment or engagement with the former employer provided that such termination is not in breach of their employment/engagement contract. The employee or contractor may not, however, use for his or her own benefit confidential information of the former employer, whether to solicit business from the former employer's customers or to carry out work for such customers even if unsolicited. (In NSW this obligation arises as part of the general law concerning confidentiality of information rather than as an implied term of the contract of employment. See *Del Casale & ors v Artedomus (Aust) Pty Ltd* [2007] NSWCA 172). A number of factors are relevant in assessing whether information can be used after cessation of employment/engagement, including the nature of employment/engagement (is it one where confidential information is inevitably handled) and the nature of the information (is it a trade secret or something equivalent thereto), whether the employer impressed on the employee or contractor the confidentiality of the information and whether the information can easily be isolated from other information the employee or contractor is free to use or disclose. (For an enlarged and updated "list" see *Del Casale* (op cit) at paras.40 – 49 & for a discussion of the meaning of "trade secrets" in a variety of circumstances see pars. 108 – 137.)[10] The employer cannot protect him or herself against competition per se but can prevent the use of information in which the employer has something in the nature of proprietary interest. These principles were established by cases such as *Robb v. Green* [1895] 2 QB 315: *Wessex Dairies Limited v. Smith* [1935] 2 KB 80; *Herbert Morris Limited v. Saxelby* [1916] 1 AC 688; *Littlewood Organisations Limited v. Harris* [1977] 1 WLR 472; *Faccenda Chicken Limited v. Fowler* [1987] 1 Ch 117; *Wright v Gasweld Pty Ltd* [1991) 22 NSWLR 317; *Del Casale* (op cit) at paras. 32,77; *Hartleys Ltd v Martin* [2002] VSC 301 at paras 75; *Hivac Limited v Parkwell Scientific Instruments Limited* [1946] 1 CH 169; *Hospital Products Limited v. United States Surgical Corporation* [1984] 156 CLR 41; *Warman International Limited v. Dwyer* [1995] 182 CLR 544.

In addition to the duty of good faith and fidelity, legislatures in Australia have imposed duties and obligations upon the relationship between a director or officer of a corporation and the

[10] *Del Casale* does not appear to represent the law in Victoria see note 14.

corporation itself. At first, the statutory duties were imposed only upon company directors and managers and reflected in fairly straightforward terms the fiduciary principles which had been developed by the Equity Court in the law of trusts and the law of agencies. See for example *Re Imperial Hydropathic Hotel; Blackpool v. Hampson* [1882] 23 ChD 1 at 12; *Regan (Hastings) Limited v. Gulliver* [1942] 1 All ER 378 at 387. These duties and obligations are now also imposed by s.182(1) and s.183(1) of the *Corporations Act.* Those sub-sections provide respectively:

> "A director, secretary, other officer or employee of a corporation must not improperly use their position to:
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> (a) gain an advantage for themselves or someone else;
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> (b) cause detriment to the corporation."
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> and
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> "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:
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> (a) gain an advantage for themselves or someone else; or
>
> (b) cause detriment to the corporation."

See for example *Angas Law Services Pty Ltd v Carabelas* [2005] 226 CLR 507; *ASIC v Vizard* [2005] 219 ALR 714.

Notwithstanding the foregoing discussion, contracts of employment/engagement may validly make provision for post termination restrictions on use of confidential information, non-compete provisions and non-solicitation provisions in certain circumstances discussed in Parts D, E and F of this paper. The general approach of Courts has been that such restraints will only be enforceable if the restrictions are reasonable "*in reference to the interests of the parties concerned and reasonable in reference to the interests of the public*". *Nordenfelt v. Maxim Nordenfelt Guns & Ammunitions Company Limited* [1894] AC 535 at 565. See also *Lindner v Murdock's Garage* [1950] 83 CLR 628, *Peters (WA) Ltd v Petersville Ltd* [2001] 205 CLR 126. In general law, in order to be enforceable , the employer has to show that the restraint is intended to protect some "legitimate interest of the employer" and that the extent of the restriction imposed on the employee/contractor is commensurate with that interest, being no more than is strictly necessary to protect the interest. *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* [1973] 133 CLR 288 at 315.

In *Cedar Hill Flowers & Foliage P/L & Anor v. Spierenburg & Ors* [2002] QCA 348 the proposition that an otherwise unreasonable restraint can provide the basis for injunctive

and other relief where the employee's conduct after the termination of the contract of employment can be classified as illegitimate was rejected.

The general law does not generally countenance a severance of an excessive and therefore unreasonable restraint[11] and this has broadly remained the situation in Victoria. *Monash Real Estate Pty Ltd v Ross* [2005] VSC 116 at para. 42; *IF Asia Pacific Pty Ltd v Simon Galbally & Ors* at para. 105; *IF Asia Pacific Pty Ltd v Galbally* [2002] VSC 192 at paras. 174 – 202; *BearingPoint Australia Pty Ltd v Hillard* [2008] VSC 115 at para. 158; *Courtenay Polymers Pty Ltd v Deang* [2005] VSC 318 at paras.116 – 122.

The only exception is the blue pencil test which was explained by the High Court in *SST Consulting Services Pty Ltd v Rieson* [2006] 225 CLR 516 as follows: *"[45] The "blue pencil" test was imported into the treatment of covenants in restraint of trade even though in that field, at least following the general adoption of the approach of courts of equity to such restraints the emphasis has been upon questions of substance and of public policy [46]. The modern law respecting severance in relation to covenants in unreasonable restraint of trade may be seen as turning on three questions. The first question is whether the covenantee can enforce the restraining covenant to the extent to which it would have been valid had it been narrowly drafted. The answer is that the covenantee can do so if the parts which are too wide can be removed without altering the nature of the contract and without having to add to, or modify, the wording in any way other than by excision..."*

However in Queensland a different approach to severance appears to be tentatively emerging. In *Maggbury Pty Ltd v. Hafele Australia Pty Ltd & Anor* [2000] QCA 172 the Queensland Court of Appeal observed: *"[19] This leads to another aspect of the argument about an implied term, discussed above. In England there has arisen what Mr Robert Dean in his work on The Law of Trade Secrets (LBC, Sydney, 1990) refers to as the flexible approach. This has two aspects: first, reading restraint clauses down by rejecting words which consist of "unskilful drafting in which the draftsmen inserted rather too wide words" and, secondly, leaving "improbable and unlikely events" out of consideration when looking at validity (at 394). In Rentokil Pty Ltd v Lee (1995) 66 SASR 301, Doyle CJ was prepared to accept that restraints of the present kind should not be held void merely because of circumstances "falling within the restraint but either unlikely to occur or not within the contemplation of the parties" (at 304). Matheson J read down the relevant covenant by consideration of what it was "aimed at" (326) and a similar approach was taken by Debelle J*

[11] See *Butt v Long* (1953) 88 CLR 476 at 488; *Maggbury v Hafele Aust. Pty Ltd* [2001] 210 CLR 181 at para. 57.

(at 340). ..[20] The High Court has in no case we have found given any encouragement to severance by this process of reading down; see Butt v Long (1953) 88 CLR 476 at 488. It appears that, nevertheless, this Court should follow the approach of the South Australian Full Court in the Rentokil case and apply the doctrines to which Mr Dean refers in his work. To do so will amount to making contractual excisions or additions to avoid outcomes which appear to be contrary to the parties' true intentions."[12]

The approach adopted by the Queensland Court of Appeal had earlier been rejected by two Queensland based Federal Court judges - Spender J in *Lloyd's Ship Holdings Pty Ltd v Davros Pty Ltd* [1987] 72 ALR 643 & Pincus J in *Talk of the Town Pty Ltd v Hagstrom* [1990] 99 ALR 130 but these judgments were not referred to by the Queensland Court of Appeal.

In New South Wales the *Restraints of Trade Act 1976* (s.4(1)) has overturned the general law doctrine which did not countenance a severance of an unreasonable restraint[13]. Section 4(1) of the *Restraints of Trade Act 1976* provides that a restraint of trade is valid to the extent to which it is not against public policy whether it is in severable terms or not. Section 4 permits a Court to enforce a non-compete provision which is otherwise invalid as against public policy, if the non-compete provision insofar as it applies to the breach of that provision, is not contrary to public policy. The New South Wales Supreme Court is given the capacity to enforce a reasonable restraint provision falling within the expressed contractual restraint provision although the express contractual restraint provision is too widely stated to survive at general law, provided that the conduct sought to be restrained falls wholly within the scope of the express contractual restraint provision. The New South Wales Supreme Court has held that the proper approach to s.4(1) is first to determine whether the impugned conduct has or will breach the restraint provision; and then, if so, to consider whether the restraint provision would be contrary to public policy by reference to the actual conduct in breach of the express contractual provision. If the answer is yes, then the New South Wales Supreme Court will enforce the restraint provision. *Orton v Melman* [1981] 1 NSWLR 583; *Industrial Rollformers Pty Ltd & Anor v. Ingersoll-Rand (Aust) Limited*

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[12] On appeal in *Maggsbury v Hafele Aust. Pty Ltd* (op cit) Gleeson CJ,Gummow & Haynes JJ stated at para. 58 *"it is unnecessary to determine whether the restraints in question here could be severed or read down"* which is hardly enthusiastic endorsement of the Queensland Court of Appeal's reasoning; now see also *SST Consulting Services Pty Ltd v Rieson* [2006] 225 CLR 516 which confirms the orthodox view of the blue pencil rule.

[13] The existence of this Act may explain the more aggressive employer approach in NSW compared to Victoria & Queensland. For an illustration of the impact of the Act and the difference that it makes to employee/contractor's rights see *Aussie Home Loans v XNL Services* (2005) NSWSC 285 where the NSW Supreme Court was required to apply the Victorian law and observed "The covenant cannot be read down to apply only to contractors in Victoria who were contractors of the first plaintiff during the period of the third defendant's employment. Nor can it be read down to apply for a lesser period than twelve months. The *Restraints of Trade Act* 1976 (NSW) is inapplicable. Because the clause goes further than is reasonably necessary to protect the legitimate interest of the first plaintiff, it is unenforceable at common law. It follows that the first plaintiff's claim against the third defendant seeking to restrain him from breaching the clause must fail."

[2001] NSWCA 111 at para. 165; *ICT Pty Ltd & Buquebus International Ltd v. Sea Containers Limited* [1995] 39 NSWLR 640 at 674.

The following discussion of New South Wales judgments does not distinguish between situations where restraints have been upheld with the assistance of the *Restraints of Trade Act 1976* or at general law. For present purposes there is little practical point to making such a distinction in New South Wales.

D. RESTRAINT ON CONFIDENTIAL INFORMATION

As previously noted, contracts of employment/engagement may validly make provision for additional restraints protecting former employers from employees or contractors using confidential information gained during the course of employment/engagement. Often these restraints effectively take the form of a non-competition provision (see discussion in Part E). Such restraints may be acceptable to a Court if they are the only method of protecting the employer from the misuse of confidential information. *A. Buckle & Son Pty Ltd v. McAllister & Anor* [1987] ATPR 40-797.

Historically Courts have generally been careful to limit the operation of restraints to the use of information that is "trade secrets", or something tantamount to a trade secret. *Faccenda Chicken v. Fowler* (op cit) at 126; *Drake Personnel Ltd v Beddison* [1979] VR 13 at 19.[14] However the New South Wales Supreme Court of Appeal, has declined to follow *Faccenda Chicken* holding that confidential information may legitimately be protected by a restraint of trade, even if the information is not in the nature of a trade secret in *Wright v Gasweld* [1991] 22 NSWLR 317 per Samuels JA at 340-341. Information about a particular job of work has been held to be confidential information[15]. *Co-ordinated Industries v. Elliott* [1998] 43 NSWLR 282 at 297.

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[14] In *Beddison* Anderson J observed: *'"Trade secrets", such as secret processes of manufacture, may be protected, and an employer is entitled to not to have his old customers by solicitation or otherwise enticed away from him, but otherwise freedom in his trade or business from all competition is not his right; however lucrative such freedom might be to him he is not entitled to be protected against competition. General skill and knowledge is not a trade secret of his employer, and such skill and knowledge which a person of ability necessary acquires in his employment are not things in which an employer can claim any proprietry interest.'A man's aptitude, his skills, his dexterity, his manual or mental ability ... ought not be relinquished by a servant; they are not his master's property; they are his own property; they are himself.'"* *Beddison* continues to be good law in Victoria see *Monash Real Estate Pty Ltd v Ross* [2005] VSC 116 at para. 17 ; *IF Asia Pacific Pty Ltd v Galbally* [2003] VSC 192 at paras. 215 - 228 ; *Springboard Consulting Group Pty Ltd v Cunningham* [2007] VSC 447 at para. 5; *Pinnacle Hospitality People Pty Ltd v Ramasamy & Ors* [2007] VSC 433 at para. 24 ; *BearingPoint Australia Pty Ltd v Hillard* [2008] VSC 115 at para. 56); *Barnes v Hance* [2001] VSC 238 at para. 49.

[15] For a recent restatement of this view see *Digital Products group v Opferkuch* [2008] NSWSC 525 at paras. 19 & 20.

Generally knowledge of matters of how the corporation "runs its business" cannot be the subject of restraints on the use of information. *A. Buckle & Sons Pty Ltd* (op cit) relying on *Littlewoods Organisation Limited v. Harris* [1977] 1 WLR 472 at 485. Merely because a person says that something is regarded as confidential or a trade secret does not make it so. *Drake Personnel v. Beddison* [1979] VR 13 at 20; *Wright v. Gasweld* [1991] 22 NSWLR 317 at 333 – 334; *Birt* (op cit) at para. 19.The expression "confidential information" will not usually include skills that have been taught to an employee as part of his/her training process. *Brown & Krippner* [1995] ATPR 41-386.

In *Birt* [op cit] at para. 31, the New South Wales Supreme Court discussed relevant authority and set out five relevant considerations for determining in particular cases what is confidential information. These were:

> "(a) The fact that skill and effort was expended to acquire the information ...
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> (b) The fact that the information is jealously guarded by the employer, is not readily available to employees or contractors and could not, without considerable effort and/or risk be acquired by others ...
>
> (c) The fact that it was plainly known to the employee or contractor that the material was regarded by the employer as confidential ...
>
> (d) The fact that the usages and practices of the industry support the assertion of the confidentiality ..
>
> (e) The fact that the employee or contractor in question had been permitted to share the information only by reason of his or her seniority or high responsibility within the employer's organisation ..."

For a further enlarged and updated "list" see *Del Casale* (op cit) at paras.40 – 49 & for a discussion of the meaning of "trade secrets" in a variety of circumstances see pars. 108 – 137.

A party who seeks to restrain a former employee from using confidential information must be able to identify with specificity, and not merely in global terms, the relevant information *Saltman Engineering Co Limited v Campbell Engineering Co Ltd* [1948] 65 RPC 203, 215; *Corrs Pavey Whiting and Byrne v Collector of Customs (Vic)* [1987] 14 FCR 434, 443 (Gummow J); *Pioneer Concrete Services Limited v Galli* [1985] VR 675 at 711; *Creative Brands Pty Ltd v Franklins* [2001] VSC 338 at paras. 16 -18; *Rosewood Advertising Pty Limited v Hannah Marketing Pty Limited* [2000] NSWSC 1034; *Cactus Imaging Pty Ltd v. Glenn Peters* [2006] NSWSC 717 at para. 14.

Ordinarily obligations relating to the use and disclosure of confidential information will be construed as limited to subject matter which retained the quality of confidentiality at the time of the breach or threatened breach of confidentiality. *Maggsbury v Hafele Aust. Pty Ltd* [2001] 210 CLR 181 at para. 45.

When considering the validity of confidentiality provisions in contracts the following questions about the enforceability/appropriateness of the particular provisions should be considered:

(a) Is the definition of "confidential information" too wide eg extending into matters such as how a company runs its business? This is important because no relief can be obtained unless the employer can specify precisely the material to be covered by any order.

(b) From a potential employee's perspective, having regard to the discussions set out above in *John Fairfax* (particularly paragraph (c)) it is desirable that provisions of the clauses that are too wide be reworked and reliance not be placed on advice to the effect that the provision "will be unenforceable any way".

(c) Avoid clauses with provisions like "all information including and related in any way to ..." because they are impossibly wide; and may not be capable of identifying an actual non-compete provision even for the purposes of the *Restraints of Trade Act 1976*.

(d) Be careful of obligations on the use of confidential information that are enduring for an unlimited period of time.

E. RESTRAINT ON COMPETITIVE EMPLOYMENT

As previously noted, contracts of employment/engagement may validly make provisions restraining employees or contractors from engaging in employment/engagement etc with competitors of the former employer but only if the restrictions are reasonable in reference to the interests of the party and the public. *Nordenfelt v. Maxim Nordenfelt Guns & Ammunition Company Limited* [1894] AC 535 at 565; *Mason v Provident Clothing & Supply Co Ltd* [1913] AC 724. In an employment/engagement situation , a provision restraining an employee or contractor from engaging in employment/engagement with a competitor is prima facie void. *Herbert Morris Ltd v. Saxelby* [1916] 1 AC 688 at 702. A provision restraining an employee or contractor from engaging in employment/engagement with a competitor which is not reasonable in reference to the interests of the parties and of the public, is contrary to public policy and invalid. *Buckley v. Tutty* [1971] 125 CLR 353 at 376.

Where an employee/contractor is a specialist similar to the skilled tailor in *Attwood v Lamont* ([1920] 3 KB 571, p 590), or the ship's captain in *Aloha Shangri-La Atlas Cruises Pty Ltd v Gaven* ([1970] Qd R 438) it is reasonable to conclude that it is probable that these considerations would lead a client/customers to seek his services and the former employer will not, without more, be entitled to restrain him/her from using his/her professional reputation in competition. *Linwar Securities Pty Ltd v Christopher Savage* [2006] NSWSC 786 at para. 40.

It is nevertheless well established that an employer may have interest capable of protection by a provision restraining employees or contractors from engaging in employment/engagement with a competitor in circumstances involving the protection of goodwill and retention of customers and the protection of trade secrets. *Knogo Corporation v. Halligan* [1984] ATPR 40-460; *Kone Elevators Pty Ltd v. McNay & Anor* [1997] ATPR 41-564; *Woolworths Limited v. Olson* [2004] NSWCA 372 at para. 38; *Beddison* (op Cit) at 19; *Harley Ltd v Martin* (op cit) at para. 91`. In this respect in determining what is an interest capable of protection, Courts will give considerable weight to what the parties have negotiated and embodied in their contract, but the contractual consensus cannot be regarded as conclusive (see *Queensland Co-operative Milling Association v. Pamag Pty Ltd* [1973] 133 CLR 260 at 268) even where there is a contractual admission as to reasonableness.

The validity of the restraint is to be tested at the time of entering into the contract and by reference to what the restraint entitles or requires a party to do rather than what they intend to do or have actually done. *Curro v. Beyond Productions Pty Ltd* [1993) 30 NSWLR 337 at 344; *Beddison* (op cit) at 25; *Hartleys Ltd v Martin* [2002] VSC 301 at para. 89.

Where Courts have been prepared to enforce a provision restraining an employee or contractor from engaging in employment/engagement etc with a competitor as a means of protecting confidential information, it has only been for a short period of time. See for example *Knogo Corporation* (op cit); but cf *Koops Martin Financial Services Pty Ltd v. Reeves* [2006] NSWSC 449 where twelve months was found to be reasonable. Courts have taken the view that where an employee or contractor has agreed to a non-compete restriction it is in itself some evidence that it is a reasonable restriction. *Stenhouse Australia Limited v. Phillipsz* [1974] AC 391 at 401; *Russ Australia Pty Ltd v. Benny* [2006] NSWSC 1118 at para. 49.

Drafting comprehensive non-compete provisions have proved notoriously difficult. Examples of the kinds of difficulties are found in decisions such as *Brown & Krippner* (op cit) and *Schindler Lifts Australia Pty Ltd v Debelak* [1989] 15 IPR 129 where terminology such as "carry on or be engaged in" and being "concerned or interested in" are discussed. See also *IF Asia* (op cit) at at paras. 150 – 170 where the authorities on the terminology "business of a similar kind" etc are discussed; and *Landmark Underwriting Agency Pty Ltd v Kilborn* [2006] NSWSC 1108 where the term "business competitive with our business" is discussed.[16]

Courts may be prepared to enforce a provision restraining an employee or contractor from accepting business (as distinct from one merely against soliciting it) from former customers. *Home Counties Dairies Limited v Skilton*, (op cit) ; *Scorer v Seymour-Johns* [1966] 1 WLR 1419, 1427. In professional situations restraints against acting for clients of the employee's/contractor's former practice have been upheld. Reasons for accepting that such restraints are permissible include that it removes the difficulty of proof of actual solicitation; and removes the temptation to lay the groundwork for post-termination competition by surreptitious solicitation before termination; and the fact that the stronger the customer connection which the employee/contractor develops, the less will solicitation be required notwithstanding that the client connection belongs to the employer. *Koops* (op cit) paras. 82 - 84.

The situation will be different where the employee/contractor has entered into a non-compete clause in circumstances involving the sale of shares in a former business or the purchase of goodwill. Restraints in these contracts are regarded much less stringently than restraints in contracts of employment/engagement. For a recent reaffirmation of this approach see *Del Casale* (op cit) at paras. 24,53 – 57, where a non-compete clause of three years duration was found to be reasonable.

When considering the validity of a non-compete provision specifically concerning employees and contractors in a contract, the following questions about the enforceability/appropriateness the particular provisions should be considered:

(a) Avoid a clause with a provision like "any business or activity that is ... similar" which may be too wide and may be void for uncertainty; and may not be capable of

[16] At para. 55 where Young J stated "*There is then the vagueness of the phrase "business competitive with our business". Whether businesses are competitive with each other is a question of fact to be resolved by considering all relevant facts; see eg* ***Ex parte Campbells Transport Pty Ltd; Re Sneddon*** *[1962] NSWR 371. Ordinarily one needs to look to what is the relevant market and determine whether the rivals are both competing for custom in that market. If the market in the present case is farmers or vine growers seeking insurance then the defendants' proposed business is a competitive business. I suspect that what I have just said is the market. However, I would not be comfortable in making such a finding in the absence of proper evidence from either side."*

identifying a reasonable non-compete provision even for the purposes of the *Restraints of Trade Act 1976* to operate upon.

(b) Avoid a clause with a provision like "become associated in any way ... with any business or organisation" which would be too wide and may be void for uncertainty; and may not be capable of identifying an actual non-compete provision even for the purposes of the *Restraints of Trade Act 1976* to operate upon.

(c) The extension of a non-compete provision to cover "a business ... which ... intends to compete in any line of business with the business of ....." may be void for uncertainty and, if it can be construed, probably contrary to public interest having regard to the possible width of the restrictions; and may not be capable of identifying an actual non-compete provision even for the purposes of the *Restraints of Trade Act 1976* to operate upon.

(d) Pay careful attention to the definition of geographic area in a non-compete clause. It should be certain (i.e. easily ascertained) and not too wide. It should also have a real connection to permissible restraints which may be imposed on competition by a former employee or contractor i.e. the employer's right to protect goodwill, retention of customers and trade secrets in the actual circumstances of employees' or contractors' employment/engagement.

(e) Pay careful attention to the "restricted period". A consideration of the various cases in relation to restrictions on competitive employment/engagement situations generally demonstrates that a period of 12 months or in the alternative 9 months is unreasonably long and no restriction beyond a period of 6 months has usually been enforced by the Courts.

(f) Pay careful attention to when the restraint was entered into – because if it was entered into after employment/engagement commenced there will need to have been further consideration. *Stenhouse* (op cit).

(g) Pay careful attention to the termination notice period in the contract. If the employer can terminate on one month's notice how can it be reasonable to restrain the employee/contactor in most situations for beyond one month bearing in mind that the reasonableness is determined at the time that the restraint was entered into. See McTiernan J's remarks in *Lindner* (op cit) at 644; *Aussie Home Loans v X Inc. Services* (2005) NSWSC 285 at paras. 37 – 38.

(h) Pay careful attention to the preamble to the restriction. Often preambles express the rationale for the restraint ie "in consideration of the specialised, unique, invaluable etc training etc of and passing on of trade secrets to x as a street sweeper...". The preamble can often under-cut the reasonableness of the restraint.

(i) Do not assume that the non compete provision necessarily covers the activities sought to be restained.

Because the fact of agreement as to restrictions has been regarded by Courts as some evidence that the restrictions are reasonable – employees/contractors should be clearly advised that they should attempt to modify the offending provisions at the outset.

F. NON-SOLICITATION CLAUSES

As previously noted, contracts of employment/engagement may validly make provision for additional restraints protecting former employers from former employees or contractors soliciting customers, suppliers, employees or contractors of the former employer.

It is plain that an employer's customer or supplier connection is an interest which can support a reasonable restraint of trade. *Herbert Morris Limited v. Saxelby* [1916] 1 AC 688 at 709; *Lindner v. Murdock's Garage* [1950] 83 CLR 628 at 633-634, 650, 654; *Kopps* (op cit) at para. 29-33 [*Reeves v. Koops Martin Financial Services Pty. Limited* [2006] NSWCA 221 on appeal[17].] It has been said that such a restraint is legitimate only if the employee or contractor has become, viz-a-viz the client, the "human face of the business", namely the person who represents the business to the customer. *21st Australia Inc v. Shad* (NSWSC, Young J, 31 July 1998 unreported); however more recent cases have taken a less restrictive view stressing goodwill or customer connection is a propriety interest in itself. *Koops* (op cit) at para. 40. An employer is entitled to be protected against unfair competition based on the use by the former employee or contractor after termination of employment/engagement of customer connections which the employee or contractor has built up during the employment/engagement. *Koops* (op cit) at para. 30.

Generally such a restraint will be prima facie excessive insofar as it prohibits solicitation of customers other than those with whom the former employee or contractor dealt or those who became customers after the former employee or contractor left the employer. *Burwood Night Patrol Pty Ltd v Lagarde* [1993] 51 IR 118 at 120. However, recent authority suggests such a restraint may be reasonable notwithstanding that it extends beyond customers with whom the employee or contractor had personal contact, in particular, where despite the absence of personal contact, the employee or contractor may have acquired influence over or special knowledge of the clientele as a result of the seniority of his or her position, or where the

[17] The New South Wales Supreme Court of Appeal judgment takes the discussion of the law no further.

employee or contractor's role includes obtaining and extending customers for the employer's business. *Cactus Imaging Pty Ltd v. Glenn Peters*[18] [2006] NSWSC 717 at para. 33. In such circumstances a wider restraint is more likely to be upheld, because the employer is entitled to protection against the employee/contractor taking advantage of the period of service to prepare for later competition. *G W Plowman & Son Limited v Ash* [1964] 1 WLR 568; [1964] 2 All ER 10; *Normalec Limited v Britton* [1983] FSR 318, 324; *Dean, The Law of Trade Secrets*, 2nd edn, [11.150]. In such a case, the establishment of a customer connection is not merely incidental to the employment/engagement, but its purpose. In that context, a restraint "*is considered reasonable, first, to remove the temptation that by cultivation of the target market during employment, the employee may prepare the ground for its exploitation by himself after the employment ends, rather than for his employer during the employment; and, secondly, to prevent exploitation after termination of the employment by the employee of a connection with the customer which the employer has paid the employee to establish for the employer's benefit.*" *Koops* (op cit) at para. 44.

Non solicitation clauses extending to other businesses of the Groups will usually be considered excessive. *Koops* (op cit) at para. 70.

Merely responding to approaches from former clients or customers will not constitute "solicitation" (although such conduct is usually caught by not compete restraints).
As to reasonableness, the extent of business which a restraint leaves open to the employee/contractor is a relevant consideration as to whether the protection afforded by the restraint is excessive. Another general consideration is industry standards and practice. Whether the parties were in an approximately equal bargaining position and whether advice was available to or taken by the employee will be relevant. The absence of independent legal advice will not render unreasonable a restraint which would otherwise be reasonable, at least in the absence of an application under the *Contracts Review Act* 1980 (NSW) or *Industrial Relations Act* 1996 (NSW), s 106. *Koops* (op cit) at paras. 55 -59.

The test of reasonableness for the duration of a non solicitation clause depends on how long it would take a reasonably competent replacement employee to show his or her effectiveness and establish a rapport with customers. *Stenhouse* (op cit) ;*Daly Smith Corporation (Australia) Pty Limited v Cray Personnel Pty Limited* (NSWSC, Young J, 14 April 1997, unreported). A related albeit subsidiary consideration is how long might the hold of the

[18] Mr. Peters earned a total remuneration package of $ 65,000 being essentially, in my view, a sales representative.

former employee/contractor over the clientele be expected to last before weakening. *Koops* (op cit) at para. 88.

The situation in relation to soliciting etc employees or contractors etc of a former employer is not as clear. Courts have defined the matter requiring protection as being the adequacy and stability of the former employer's respective complement of employees or contractors. *Kores Manufacturing Company Limited v. Kolok Manufacturing Company Limited* [1958] 2 All ER 65 at 74. In *Cactus Imaging* (op cit), the New South Wales Supreme Court reviewed much of the recent authority and concluded " more recent cases have tended to support restraints on recruitment on the basis of protection of confidential information; thus it has been said that an employer may be able to demonstrate a legitimate interest in maintaining a stable, trained workforce, at least if the former employee may seek to exploit knowledge gained of the particular qualifications, rates of remuneration and so on pertaining to other employee which is confidential to the employer ..." (para. 54). The New South Wales Supreme Court ultimately concluded that apart from protection against misuse of confidential information, an employer may have a protectable interest in staff connection i.e. in maintaining a stable, trained workforce and such interest was amenable to protection by a restraint provision in a manner similar to customer connection, even in the absence of protectable confidences. However, the New South Wales Supreme Court said it is difficult to see why, as a matter of policy, an employer who wishes to maintain flexibility in its labour force by engaging staff on contracts terminable on relatively short notice on either side, should at the same time be entitled to insist on maintaining stability by a restraint provision. Ultimately the New South Wales Supreme Court concluded that a non-recruitment provision should be treated as enforceable for 12 months only in respect of staff directly under the control of the former employee or contractor and only in respect of their solicitation for the purposes of engagement in a competing business. *Cactus* (op cit) paras. 55-59. See also *A T Kearney Australia Pty Ltd v Crepaldi* [2006] NSWSC 23 at pars. 56 -58.

When considering the validity of a non-solicitation provision specifically concerning employees/contractors the following questions about the enforceability/appropriateness the particular provisions should be considered:

(a) Be wary of the extension of a non solicitation provision to "all customers and suppliers" of the former employer which is too wide and probably contrary to public interest. The restraint should generally be limited to customers or suppliers with whom the employee or contractor has actively dealt in a defined recent period.

(b) Be wary of the extension of the non-solicitation provision to all employees or contractors of the former employer which is also too wide. The restraint should be

relevantly limited to those employees or contractors who were directly under control of the employee or contractor and arguably to situations where the purposes of soliciting their employment/engagement was for the purpose of joining an entity competing with the former employer.

(c) Pay careful attention to the definition of geographic area in a non-compete clause. It should be certain (i.e. easily ascertained) and not too wide. It should also have a real connection to permissible restraints which may be imposed on competition by a former employee or contractor i.e. the employer's right to protect goodwill, retention of customers and trade secrets in the actual circumstances of employees' or contractors' employment/engagement.

(d) Pay careful attention to the "restricted period". A consideration of the various cases in relation to restrictions on non solicitation provisions generally demonstrates that a period of 12 months or in the alternative 9 months is unreasonably long and no restriction beyond a period of 6 months has usually been enforced by the Courts.

(e) Bear in mind the relationship between restrictions on the use of confidential information eg remuneration levels and non solicitation provisions.

G PRACTICE AND PROCEDURE

There is a necessity to find an actual or threatened breach of the restraint to ground an entitlement to orders. In New South Wales, a breach of one aspect of a restraint can apparently found sufficient concern about the possible breach of another aspect to justify an injunction in respect of the other aspect. *Koops* (op cit) at para. 20..

The general approach to be taken by the New South Wales Supreme Court in proceedings for interlocutory relief is explained in the well-known passage from *Kolback Securities v Epoch Mining NL* [1987] 8 NSWLR 533 per McLelland, J (pp 535, 536): *"... Where a plaintiff's entitlement to ultimate relief is uncertain, the Court, in deciding to grant or refuse an interlocutory injunction, must consider what course is best calculated to achieve justice between the parties in the circumstances of the particular case, pending the resolution of the uncertainty, bearing in mind the consequences to the defendant of the grant of an injunction in support of relief to which the plaintiff may ultimately be held not to be entitled, and the consequences to the plaintiff of the refusal of an injunction in support of relief to which the plaintiff may ultimately be held to be entitled: ... Where the uncertainty depends in whole or in part on a contested question of fact it is not appropriate for the Court to decide that question on the interlocutory application. Where the uncertainty depends in whole or in part on a contested question of law, it may or may not be appropriate for the Court to decide that*

question on the interlocutory application, depending on circumstances, eg, whether the question is novel or difficult, or is susceptible of resolution on the present state of the evidence, or whether the urgency of the matter renders it impracticable to give proper consideration to the question: ... If the Court does decide the question of law the uncertainty is to that extent removed. Unless the plaintiff shows that there is at least a serious question to be tried which if resolved in its favour would entitle it to final relief, then the requirements of justice as between the parties will dictate that an interlocutory injunction should be refused. ... "

The general approach to be taken by the Victorian Supreme Court in proceedings for interlocutory relief is most recently explained in Brilliant Lighting (Aust) Pty Ltd v Baillieu [2004] VSC 248 where Hollingworth J observed (para. 7) *"Whilst the test of "serious question to be tried" is not a particularly onerous one, in a case such as this the party moving for the injunction faces a higher test. The reason for that is conveniently set out in the judgment of Gillard J in Hartleys Limited v Martin ... competition with their former employer. I quote from paragraphs 32 and following of that judgment.*

"32. However, there are exceptions to the general rule [in relation to serious or substantial question to be decided], and depending upon the circumstances, a party claiming an interlocutory injunction may have to establish something more than the fact that there is a serious question to be tried in the principal proceeding. By way of example, where a party seeks a mandatory interlocutory injunction or seeks, in effect, final relief at the interlocutory stage.

33. In those circumstances the court is bound to consider something more than a serious question to be tried.

34. Where the most likely outcome is that if the granting of relief on an interlocutory application will have the practical effect of putting an end to the proceeding because the plaintiff will obtain all that he seeks, then the general rule is that this court should consider the likelihood of the plaintiff succeeding in his proceeding."[19]

Delay in commencing proceedings is relevant not only to the Court's general discretion to grant or refuse equitable relief, it is particularly relevant to a consideration of the balance of convenience in interlocutory applications. Capgemini US LLC v Case [2004] NSWSC 674 at para. 40; AMI Sport & Entertainment Pty Ltd & Anor v Rugby Union Players Association [2005] NSWSC 950

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[19] In Monash Real Estate Pty Ltd v Ross [2005] VSC 116 Kaye J observed (at para. 14) *"Further, in cases involving contracts which contain a provision in restraint of trade, the authorities suggest that a higher onus rests on the plaintiff to persuade the court to grant the interlocutory injunction since such relief may impinge on the right of the defendant to pursue gainful employment. See Hartleys Limited v Martin ; Brilliant Lighting (Aust) Pty Ltd v Baillieu."* See also the comments of Anderson J in *Drake Personnel v Beddison* (op cit) at pages 24 – 25 extolling the virtues of a *"guarded order... for it enabled the defendant to continue in business".*

In regards to an enquiry as to damages, the New South Wales Supreme Court will not ordinarily order an enquiry as to damages unless it is shown to be of utility by evidence that some substantial damage has been suffered . *National Engineering Limited v. Chilco Enterprises Pty. Limited* [2001] NSWCA 291 at [2]-[8]; *ICT Pty. Limited & Buquebus International Ltd v. Sea Containers Limited* [1995] 39 NSWLR 640 at 660; *Artedomus* (op cit) at para. 66.