

# Confidentiality Crisis

In December last year, the High Court of Australia held that a confidentiality agreement was unenforceable as a restraint of trade. The decision has the potential to change the way we protect shared confidential information, and our willingness to disclose it.

The agreement in *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2001) 185 ALR 152 was between an inventor and a prospective manufacturer. The prospective manufacturer agreed to forever treat as confidential *all* information it received from the inventor. The agreement prevented the manufacturer from using the information even if it became public knowledge.

Negotiations between the inventor and the manufacturer broke down and the manufacturer proceeded to make and sell an ironing board that was the same in all significant respects as the inventor's product. The High Court found that the manufacturer had breached the confidentiality agreement by using the inventor's information — even though the inventor had made the information publicly available through patent applications and demonstrations at trade fairs.

However, this was cold comfort to the inventor, as by a 3-2 majority the Court also held that the confidentiality agreement was unenforceable. The Court held that it was an unlawful restraint of trade to prevent the manufacturer from using information obtained from the inventor after that information had become publicly available. The fact that the manufacturer had voluntarily accepted the excessive confidentiality restraints was irrelevant.

A party that enters into a joint venture, which intends to exploit its confidential information, can lose its contractual

protection at the time it markets or patents a product. Its venture partner, no longer restrained contractually (because the information is now publicly available), may compete with them using the information gained from the venture, having a 'head start' over other competitors.

How to avoid a confidentiality crisis  
In *Maggbury*, the Court indicated that a confidentiality agreement, that restrained a recipient of information from using the information for a limited time after it was made publicly available, may be enforceable. This would prevent the recipient from obtaining a head start over other competitors. More extensive restrictions, operating on information that has become public through no breach on the part of the recipient, risk being declared unenforceable.

The common law restraint of trade doctrine means that confidentiality agreements should be drafted with severable confidentiality clauses — in a similar way to the "non-compete" clauses in employment contracts. For instance, the confidentiality restraint may be expressed to apply to "the whole world forever" or, if this is declared invalid, "New South Wales for the next five years".

The restraint of trade doctrine may not apply if the confidentiality clause can be shown to be reasonable to protect the interests of the parties or the public. Any matters that make a more extensive restraint reasonable, to protect the respective interests of the parties, should be stated in the contract.

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THE KEMP  
STRANG  
BRIEF

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- Partner



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- Partner



A look at a recent NSW Court of Appeals decision involving financiers and recovery options.

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New legislation has broadened universities' commercial activities. The legislation affects all universities in NSW and will also affect how university funds are invested.

# NSW Universities' Commercial Powers Expanded

The powers of universities to engage in commercial activities has recently been updated and expanded. This is a significant development in the increasingly important interface between public and private commercial endeavours.

Over the last decade, the funds that Australian universities have generated from commercial enterprises has more than doubled. With an increasing imperative to source funds other than from government, this trend presently has bipartisan political support, and is tipped to expand considerably. The University of New South Wales, a Kemp Strang client, has been very successful at attracting and working with commercial investors.

New legislation, the *Universities Legislation Amendment (Financial and Other Powers) Act 2001*, which came into effect on 1 March 2002, affects all universities in New South Wales.

The legislation amplifies the commercial functions of NSW universities and the ability of their governing bodies to borrow funds and participate in various entities. As a result of the amendments, the governing bodies of NSW universities are authorised to invest university funds in any manner approved by the NSW Minister for Education and Training.

The powers of NSW universities to undertake international commercial activities has also been expanded.

The legislation amplifies the commercial functions of NSW universities and the ability of their governing bodies to borrow funds and participate in various entities.

The new legislation also requires NSW universities to comply with approved guidelines, which are to provide for matters such as due diligence, feasibility studies and risk management.

Guidelines may be developed by individual universities, and approved by the Minister. In particular, commercial activities must be conducted in an appropriate corporate structure that will safeguard the university's interests, and limit liability.

It remains to be seen whether these reforms will achieve their objective of reducing risk, or will instead overly restrict the ability of universities to turn their considerable intellectual property to account.

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# Unjust Enrichment - A Win For Financiers

A recent decision of the Court of Appeal will be welcomed by financiers. Often when a fraudster skips off or has no money, the financier is left out of pocket. However, Kemp Strang recently acted for a financier who obtained damages against a third party who unwittingly assisted in a fraud.

In this matter, a customer of two finance companies requested that the finance companies enter into finance agreements with it to enable the purchase of refrigeration equipment. At the same time, the customer arranged for a supplier of goods to issue invoices for the refrigeration equipment to the finance companies. On receipt of the invoices, and on the faith thereof, the finance companies drew cheques in favour of the supplier, and in accordance with usual practice handed them to the customer.

The customer delivered the cheques but indicated to the supplier that it now intended to purchase the goods from a different supplier, and requested that the supplier endorse the cheques over to it. The supplier did so and the customer then misappropriated the proceeds of the cheques.

The Court found that the supplier was liable to the finance companies for endorsing over to the customer the cheques drawn upon the invoices.

Although the supplier was not implicated in the fraud itself, nor was it able to be shown that the supplier had received any benefit for its endorsement of the cheques, the Court overturned an earlier District Court decision and found that "the [finance companies] had a right of recovery against the [supplier] arising from the conversion of their cheques and from the principles of unjust enrichment."

The Court found that there was no contract between the financier and the supplier as there was a lack of consideration (the subject goods were never delivered, nor had it ever even intended that the goods be delivered). However, by its endorsement of the cheque in favour of the customer, the supplier had dealt with the cheques. Even though the supplier had not retained the proceeds of the cheques, it had dealt with them as its own property and was accordingly liable to repay to the finance companies the amount by which it had been unjustly enriched less any monies subsequently received by the financiers.

This decision follows the recent High Court decision in *Roxborough v Rothmans of Pall Mall Australia Pty Ltd* (2002) HCA 68 and confirms the application of principles of unjust enrichment to cases where there is no underlying contract.

This decision is another useful decision for financiers in circumstances where there is no recourse against the guilty party and action against a third party is being contemplated as an alternative.

If you would like further information on the NSW Court of Appeal's decision, please contact John Baird, who acted for the appellants in this matter.

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This month we talk to Tania Zordan and Sarina Roppolo, who were both made partners of Kemp Strang on 1 January this year. They discuss their work, their reflections on the firm and what they enjoy doing in their spare time.

What do you do at Kemp Strang?

*Tania:* I work in the corporate group, so I advise on all aspects of corporate law, including public and private capital raisings, mergers and acquisitions, corporate restructures and general commercial law work. Issues relating to other areas, such as trade practices, often arise for which we are able to draw on the expertise of other groups within the firm. Intellectual property and IT are the other areas in which I specialise. With the recent changes to the *Privacy Act 1988* which took effect on 21 December 2001, I have also been involved in advising and assisting clients in complying with their obligations in this area.

*Sarina:* I work with the commercial litigation practice group. I undertake litigation and commercial work for clients including banks and other financial institutions, accountants and liquidators, real estate agents, developers, builders and subcontractors with respect to a large range of transactions and disputes. I have special interest in alternative dispute resolution and am in the process of undertaking the requirements to be accredited as a mediator.

What do you like about working here?

*Tania:* I like the friendly atmosphere at Kemp Strang. I particularly appreciate the firm's focus on high quality outcomes for our clients, taking the time to personally ensure clients' matters are given the attention they require.

*Sarina:* I really enjoy that my work is so varied and always challenging. I also like that I deal with issues involving individuals as well as companies.

Kemp Strang is a high calibre firm that prides itself on providing excellent legal services in a down-to-earth, approachable way.

What do you do when you're not working?

*Tania:* When I'm not working I am a keen photographer and enjoy spending time at the beach in summer. Fitness is also important to me, so I like working out at the gym, running and swimming.

*Sarina:* I love to travel and will try to get to Europe during our winter and their summer.

When work commitments allow, I try to get away from Sydney as much as possible - I find a weekend away from the city does wonders. Like most people, I like to get together with good friends, see any type of live performances and try new restaurants.



### New Partners and Staff

Congratulations to Sarina Roppolo and Tania Zordan who were made partners of the firm on 1 January 2002.

Welcome to Krystyna Conomos and Peter Frazer our new associates and also to our new solicitors Vanessa Whittaker and Lucy Vecchio.

### Triangular Cricket Series

Congratulations to Ferrier Hodgson, last wicket winners against Kemp Strang, of the annual triangular cricket series amongst Kemp Strang, ANZ Bank and Ferrier Hodgson.

### In Print

Kemp Strang has again been acknowledged by its peers in this year's *Legal Profiles* with a premier ranking (the highest available) for its Insolvency and Debt Recovery practices. The strength of the firm's Corporate Advisory practice was also recognised.

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