PROBLEMS WITH ONGOING OR LONG TERM CONTRACTS

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INTRODUCTION

1. Business often enter into long term commercial contracts or relationships of various types. When the relationship sours, the problems arise usually according to the type of vehicle chosen or the type of relationship.

2. The types of relationships include a company, a joint venture, a trust, a partnership or even as an unincorporated association. Each has its own issues and each is quite different. In almost every situation there will be a written agreement recording the rights and obligations of each party. This may take the form of a constitution and articles of association for a company; a shareholders agreement; a trust deed; a unitholders agreement (for a unit trust); a partnership deed or a joint venture agreement in the case of joint ventures. The document will create the parameters of the relationship, and stipulate the obligations of each party, the rights of each party, dispute resolution procedures, *"exit"* procedures and circumstances and ownership of assets and income distribution.

3. Rather than traverse all the different types of relationships, I will use several different structures as examples. The issue which I will focus upon is what types of things can be done to *"exit"* the relationship or to protect assets when the relationship breaks down.

JOINT VENTURE

4. A vehicle, or description often used in an ongoing relationship is that of *"joint venture"*.

5. Any consideration of the problems which may arise in a joint venture, must first deal with the legal concept of joint venture.

6. Whilst the concept of a joint venture is probably the creation of American courts it is a term which is widely used and it is well known in Scottish law where it is regarded as a variety of association, partnership or not, in which no firm name is used and the association is confined to a particular adventure, speculation, course of trade or voyage.[2] The joint venture is a form of association which has been put to considerable use in the

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[2] See Dawson J in *United Dominions Corporation Limited v Brian Proprietary Limited and Others* (1984) 157 CLR 1 at 14-16.

United States, largely because in that country a corporation may not, generally speaking, join a partnership. That view, of course, has never been taken in Australia but explains why in the United States a clear differentiation is made between a joint venture which involves a single business transaction and a partnership which involves general and continuing business of a particular kind. In this country a partnership is defined in the various Partnership Acts as the relation which subsists or exists between persons carrying on a business in common with a view of profit, the requirement that a business should be carried on provides no clear means of distinguishing a joint venture from a partnership. The important distinction of Australia between a partnership and a joint venture perhaps is for practical purposes the distinction between an association of persons who engage in a common undertaking for profit and an association of those who do so in order to generate a product to be shared amongst the participants. That distinction, of course, does not exist in the present circumstances and it is irrelevant.

7. In Australia, the term *"joint venture"* is not a technical one with a settled common law meaning. As a matter of ordinary language, it connotes an association of persons for the purposes of a particular trading, commercial, mining or other financial undertaking or endeavour with a view to mutual profit, with each participant usually (but not necessarily) contributing money, property or skill. Such a joint venture (or, under Scots' law, *"adventure"*) will often be a partnership. The term is, however, apposite to refer to a joint undertaking or activity carried out through a medium other than a partnership: such as a company, a trust, an agency or joint ownership.

8. The borderline between what can properly be seen as no more than a simple contractual relationship may on occasion be blurred. Thus, where one party contributes only money or other property, it may sometimes be difficult to determine whether a relationship is a joint venture in which both parties are entitled to a share of profits or a simple contract of loan or a lease under which the interest or rent payable to the party providing the money or property is determined by reference to the profits made by the other. One would need a more confined and precise notion of what constitutes a *"joint venture"* than that which the term bears as a matter of ordinary language before it could be said by way of general proposition that the relationship between joint venturers is necessarily a fiduciary one: The most that can be said is that whether or not the relationship between joint venturers is fiduciary will depend upon the form which the particular joint venture takes and upon the content of the obligations which the parties to it have undertaken.

9. If the joint venture takes the form of a partnership, the fact that it is confined to one joint undertaking as distinct from being a continuing relationship will not prevent the relationship between the joint venturers from being a fiduciary one. In such a case, the joint venturers will be under fiduciary duties to one another, including fiduciary duties in relation to property the subject of the joint venture, which are the ordinary incidents of the partnership relationship, though those fiduciary duties will be moulded to the character of the particular relationship.[3]

10. The relationship will be more in the nature of an unincorporated association or a common law partnership. I will not rehearse the details of these issues save to say that each are different. The relationship at its heart will have a document which records the compass of the relationship or *"joint venture"*.

Intellectual property

11. The joint venture relationship is a convenient way of sharing expenses of research and development especially in high risk areas like mining. The problem at the end of a relationship is determining who owns what. In the absence of a contractual allocation, the rights and obligations will be determined by the statutory regime and common law.

Patents

12. The *Patents Act* 1990 (Cth) sets out the statutory framework for patents in Australia. The grant of a patent confers on the patentee the exclusive right to exploit the invention and to authorise another person to exploit the invention during the term of the patent.[4] Generally speaking, in order to obtain a patent, the invention must be novel and inventive. Once granted, the term of a standard patent is 20 years and for a "innovation patent" eight years from the date of the patent.[5]

13. The rights of a patentee are personal property and therefore capable of being assigned to another person.[6]

14. To or more persons make a joint patent application and if the patent is granted, then it is granted to them jointly.[7] In such circumstances, the patentees hold as tenants in common

[3] *United Dominions Corporation* at 10-11 per Mason, Brennan and Deane JJ.
[4] Section 13(1).
[5] Sections 67 and 68.
[6] Section 13(2).
[7] Section 31.

in equal, undivided shares. Each co-owner is entitled to deal with the patent without reference to the other but may not grant a licence or assign an interest in the patent without the consent of the co-owner.[8]

15. Accordingly, unless the joint venture agreement specifically deals with ownership of patents, there may arise a situation where one or other joint venturers owns the patent or the patent is owned jointly. This may have adverse consequences in the event that the joint venture is dissolved or one joint venturer exits the relationship.

Copyright

16. The *Copyright Act* 1968 (Cth) governs copyright protection in Australia. Copyright protection is given the manner of expression rather than the idea or concept which is expressed. It can be either a literary, dramatic, musical or artistic work. In the case of a joint venture it is more likely to be a literary work in the form of computer software or other digital data.[9] The first author is generally the owner of the copyright work[10] and in the case of literary works, the copyright will last for the lifetime of the author plus 70 years.[11]

17. The *Copyright Act* recognises the concept of joint authorship[12] which is defined as a work produced by the collaboration of two or more authors and in which the contribution of each author is inseparable from the contributions of the other authors. It will therefore be necessary for a joint venturer to show that the contribution has been significant and inseparable from the work of another, a matter which could be quite difficult to prove in the commercial joint venture. Like patents, joint authors hold their interests as tenants in common in an equal, undivided share.

18. Copyright works created by an employee pursuant to a contract of service will belong to the employer.[13] Although that produced by an independent contractor pursuant to a contract of service will belong to the independent contractor.[14] It can be seen that in the absence of clear stipulation as to either in the input and degree of ownership or allocation

[8] Section 16(1).
[9] See for example *Data Access Corporation v Powerflex Services Pty Ltd* (1999) 202 CLR 1
[10] Section 35.
[11] Section 33(2).
[12] Section 10(1).
[13] Section 35(6).
[14] Section 35.

of proprietary interest, there may be results in a joint venture break up which are unexpected and unsatisfactory.

Designs

19. The *Designs Act* 2003 (Cth) sets out the statutory regime in Australia in respect of industrial designs. A design is defined as meeting the overall appearance of the product resulting from one or more visual features of the product.[15] Visual features include shape, configuration, patent or ornamentation of the product and are not needed to be functional.[16] Although to be registerable a design must be both new and distinctive.[17] The designer is entitled to be registered as owner of the design[18] and the designer is the person who created the design.[19] The law of designs is closely related to that of copyright but includes special provisions as to the overlap between copyright works and industrial designs but which are an area which I will not deal with in this paper.

20. More than one person may be registered as an owner.[20] If there is more than one owner, the co-owners hold their shares as tenants in common in equal, undivided shares[21] and the co-owners are each entitled to make use of the design without accounting to the others but cannot grant a licence or assignment without the consent of the other co-owners.[22]

Trademarks

21. The *Trademarks Act* 1995 (Cth) establishes the regime for registered trademarks in Australia. A trademark is a sign used or intended to be used to distinguish goods and services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person.[23] Registration of a trademark is for a period 10 years[24] but may be renewed for further periods of 10 years.[25]

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[15] Section 5.
[16] Section 7.
[17] Section 15.
[18] Section 13.
[19] Section 13(1)(a).
[20] Sections 21(3), 13(3).
[21] Section 14(2)(a).
[22] Section 14(2)(b) and (c).
[23] Section 17.
[24] Section 72(3).
[25] Section 77.

22. If the relationship between two or more persons interested in a trademark are such that none of them is entitled to use the trademark except:

    (a) on behalf of all of them; or

    (b) in relation to goods or services with which all of them are connected in the course of trade,

    those persons may apply together for its registration.[26] Otherwise the rights of a trademark owner accrue on registration and registration is by reference to a person who applies who claims to be the owner.[27]

23. It can be seen that unless the contract between the joint venturers expressly deals with ownership of intellectual property then there can be a variety of results and which would be quite unpredictable depending on the circumstances. Common issues which can arise include the following:

    (a) intellectual property right which is registered in the name of one joint venturer and not another;

    (b) the contractual relationship being silent as to the consequences of a dissolution of the relationship upon ownership or registration;

    (c) who gets royalties from the intellectual property, in what percentages and for how long;

    (d) who can control the use of the intellectual property rights, can they be transferred or assigned to another party without the consent of the other joint venturer.

TRUSTS

24. Another vehicle often used is the trust, frequently a unit trust. The issue which arises is that of a falling out between the protagonists resulting in an inability to function. This occurs because the trustees of the trust are usually the protagonists and when there is a breakdown in the relationship the trust is unable to function or functions by ignoring the minority trustees.

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[26] Sections 28 and 27(1).
[27] Section 27(1)(a).

25. A convenient way to regain control of a trust may be to remove *"bad"* trustees by an application to the Court.

Grounds for removal of and duties of a trustee

26. The power to remove a trustee may be included in the trust deed, the statutory power to appoint new trustees,[28] or in the Court's inherent jurisdiction over trusts.[29]

27. The jurisdiction to remove a trustee is exercised having regard to the interests of the beneficiaries, to the security of the trust property and to an efficient and satisfactory execution of the trusts and the exercise of the powers conferred upon the trustee. In deciding to remove a trustee the Court considers whether the acts or omissions complained are of *"such as to endanger the trust property or to show a want of honesty, or a want of proper capacity to execute the duties, or a want of reasonable fidelity"*.[30]

28. However, the jurisdiction to remove the trustee will be exercised cautiously and only in exceptional circumstances[31] and any conflict with the beneficiaries will not suffice.[32] Neither will a trustee will be removed because some beneficiaries desire it.[33] The Court will have regard to the best interests of the trust estate as a whole or *"having regard to the welfare of the beneficiaries"*. In *Gauzzini v Pateson*, Street CJ said:

> *"In considering the interests of the beneficiaries, I have to consider the interests of all, not those of the plaintiff only, and I have to ask myself whether the facts disclosed in the case establish that it is for the welfare of the trust estate as a whole that the trustee should be removed."*[34]

29. The expression *"welfare of the beneficiaries"* is a broad principal incapable of precise definition and depends on the facts of the case in issue. The Court forms a judgment based on numerous and various considerations which combine to determine whether the welfare of all of the beneficiaries and the trust as a whole is or is not opposed to the trustees continued occupation of the office.[35]

30. A trustee will not necessarily be removed because the trustee has been in the situation of conflict between the duty to the trust and his or her own personal interest or duty to

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[28] *Trustee Act* 1958 (Vic), s.48.
[29] *Supreme Court Rules* O.54.
[30] *Letterstedt v Broers* (1884) 9 App Cas 371.
[31] *Quinton v Proctor* [1998] 4 VR 469 at 475.
[32] *Re Henderson* [1940] Ch 764.
[33] *Guazzini v Pateson* (1918) 18 SR (NSW) 275.
[34] *Gauzzini* at 293.
[35] *Craven-Sands v Koch* [2000] NSWSC 374 at [207]-[210] per Bergin J.

another,[36] or because he or she has committed a breach of trust.[37] The Court will also take into account whether the trustees are best placed to continue in the role therefore to be in the best interests of the beneficiaries. In *Princess Anne of Hess v Field*[38] notwithstanding a conflict of interest by the trustees, the Court refused to remove the trustees, Jacobs J said:

> *"Although I have concluded that the trustees are accountable for some portion of the liquidators' commission, nevertheless I have not generally sustained the plaintiff's claim that the conflict of duty as trustees and duty as directors of the company and liquidators of the company vitiated the acts of the trustees.* ***It seems to me that when the position of the estate is broadly considered, the manner of administration by the executors and the manner in which they have dealt with the company through their offices as directors and as liquidators have resulted in the saving to the estate of something out of what could have been an insolvency disastrous to the interest of the life tenant. …It seems to me that the executors and trustees have been and will remain the best persons to deal with it as against the complex background created by the testator himself****."*[39] (Emphasis added).

31. A breach of trust that impacts negatively on the welfare of the beneficiaries, such as a breach that is likely to jeopardise the security of the trust property or that evidences the likelihood that the trust will not be properly executed in the interest of the beneficiaries, will justify the removal of the offending trustee.[40]

32. A breach of trust does not automatically justify the Court removing a trustee. A trustee will not be removed merely from making a mistake or taking into account a relevant consideration if this was bona fide and the Court is satisfied that there is no reason in the future why the trustee should not comply with their duty.[41]

33. The Court will be reluctant to remove trustees where friction in carrying out the trust is caused by the beneficiaries and cannot be said to be the fault of the trustees, because this effectively allows beneficiaries to cause the removal of a trustee by raising a dispute with them.[42]

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[36] *Shalfoon v Potts* [1948] NZLR 1214.
[37] *Re Wrightson* [1908] 1 Ch 789; *Nissen v Grunden* (1912) 14 CLR 297 at 299.
[38] [1963] NSWLR 998.
[39] *Princess Anne of Hess* at 1019.
[40] *Gibbs v Gibbs* [2004] WASC 132 at [10] – [12].
[41] *Gibbs v Gibbs* [2004] WASC 132 at [10] – [12].
[42] *Gibbs v Gibbs* [2004] WASC 132 at [10] – [12].

CORPORATIONS

34. A company may be used as the vehicle for a long term relationship. The protagonists usually hold equal shares and are directors. The problem occurs in a breakdown of relationships which either results in a deadlocked company or with a minority interest being *"oppressed"* by the majority. There are a number of different approaches depending upon the circumstances. A director may be removed, or the company wound up and assets sold in the case of an *"oppression"* of the minority.

Removal of a director for breach of duties

35. Directors of a company are fiduciary agents and the power conferred upon them cannot be exercised in order to obtain some private advantage or for any purpose foreign to the power.[43] The test for determining whether a director has breached his or her fiduciary duty in connection with a commercial transaction is whether "*as an intelligent and honest man in the position of a director of the company, do I in the whole of the existing circumstances, reasonably believe that the transactions are for the benefit of the company*".[44] The fiduciary character of the role affects all aspects of a director's functions and his or her duties. These include: the duty of good faith;[45] the duty to avoid situations where there is a conflict between the interest of the director and the interest of the company;[46] the duty to exercise powers conferred on a director as a result of his or her office for purposes.[47]

36. The *Corporations Act* also imposes statutory obligations on directors as follows:

    (a) section 180(1) provides that a director of a corporation must exercise his powers and discharge his duties with the degree of care and diligence that a reasonable person would exercise if they:

        (i) were a director of the corporation in the corporation circumstances; and

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[43] *Mills v Mills* (1938) 60 CLR 150 at 195 per Dixon J
[44] *Charterbridge Corp Ltd v Lloyds Bank Ltd* [1970] Ch 62 at 74; *Farrow Finance Co (in liq.) v Farrow Properties Pty Ltd (in liq.)* (1997) 26 ACSR 544 per Hansen J
[45] *Richard Brady Franks Ltd v Price* (1937) 58 CLR 112 at 142 per Dixon J
[46] *Regal (Hastings) Ltd v Gulliver* [1967] 2 AC 134; *Furs Ltd v Tomkies* (1936) 54 CLR 583
[47] *Mills* at 185 per Dixon J; *Ngurli v McCann* (1953) 90 CLR 425 per Williams ACJ, Fullagher and Kitto JJ at 438-9

(ii) occupy the office held by and had the same responsibilities within the corporation as the director or officer;

(b) section 181(1) provides that a director must exercise his powers and discharge his duties in good faith in the best interests of the corporation and for a proper purpose.

(c) section 182(1) provides that a director of a corporation must not improperly use his position to gain an advantage for himself or someone else or cause detriment to the corporation.

37. It is clear that a director will breach his duty to the company in at least the following situations:

(a) neglecting to ascertain the actual position of the corporation and failing to inform the board of relevant developments that could adversely affect the corporation;48

(b) allowing the company to enter into transactions that produce no benefit to the company;[49]

(c) allowing the company to trade in an unreasonably risky manner, which goes against industry practice.[50]

38. The board of a company, other than a public company, may remove a director if the constitution so authorises.[51] Such a remedy is unlikely to be successful in a deadlock or oppression situation. The members of a company, other than a public company, cannot remove a director by a resolution passed in general meeting unless the constitution authorises them to do so.[52]

Oppression of a minority

39. Section 232 of the *Corporations Act* provides that a Court can make an order under section 233 if:

(a) the conduct of a company's affairs;

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[48] *ASIC v Rich* (2003) 44 ACSR 341
[49] *Gamble v Hoffman* (1997) 24 ACSR 369; *ASIC v Adler* (2002) 41 ACSR 72
[50] *Circle Petroleum (Qld) Pty Ltd v Greenslade* (1998) 16 ACLC 1577
[51] *Lee v Chou Wen Hsien* [1984] 1 WLR 1202; *Hillig v Darkinjung Pty Ltd* (2006) 57 ACSR 733; see *Corporations Act* s. 203C-203D.
[52] See s. 203C *Corporations Act.*

(b) an actual proposed act or omission by or on behalf of a company; or

(c) a resolution or a proposed resolution of members or a class of members of a company

is either contrary to the interests of the members as a whole, or as oppressive to, unfairly prejudicial to or unfairly discriminatory against a member or members whether in that capacity or in any other capacity.

40. In *Fexuto Pty Ltd v Bosnjak Holdings Pty Ltd*,[53] Spigelman J observed that the statutory formulation of "oppression" confers a wide ranging remedial jurisdiction on the Court and that jurisdiction should not be confined by technical distinction. His Honour noted that the individual elements of oppression from unfair prejudice and unfair discrimination referred to in the statutory formulation illuminate each other and each affect the central criterion of commercial fairness. In *Liosatos v Kefalinian Brotherhood 'O Kefalos' of NSW*[54], Bergin J noted that a finding of oppression may be made in circumstances in which the conduct complained of involves a visible departure from the standards of fair dealing and their violation of the conditions of fair play, or that decision has been made so as to impose a disadvantage, a disability or burden on the plaintiff that, accordingly to ordinary standards of reasonableness and fair dealings is unfair. Conduct may be oppressive if inconsistent with the "*legitimate expectations*" of shareholders but non-fulfilment of such expectations will not establish oppression if there has been good reason for the expectation being extinguished.[55] Unfairness is assessed by reference to whether "*objectively in the eyes of a commercial bystander, there has been unfairness, namely conduct that is so unfair that reasonable directors who consider the matter would not have thought the decision fair*."[56]

41. The orders which may be made by a Court are set out as section 233. That section provides that the Court can make any order that it considers appropriate in relation to the company including an order:

(a) that the company be wound up;

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[53] (2001) 37 ACSR 672
[54] [2000] NSWSC 1138
[55] *Fexuto* at [85]-[86]
[56] *Campbell v Backoffice Investments Pty Ltd* (2008) 66 ACSR 359 at [181]

(b) that the company's existing constitution be modified or repealed;

(c) regulating the conduct of the company's affairs in the future;

(d) for the purchase of any shares by any member or by any person to whom a share in the company has been transmitted by will or by operation of law;

(e) for the purchase of shares with an appropriate reduction in the company's share capital;

(f) for the company to institute, prosecute, defend or discontinue specified proceedings;

(g) authorising a member or a person to whom a share in the company has been transmitted by will or by operation of law to institute, prosecute, defend or discontinue specified proceedings in the name and on behalf of the company;

(h) appointing a receiver or a receiver and manager of any or all of the company's property;

(i) restraining a person from engaging a specified conduct or from doing a specified act; or

(j) acquiring a person to do a specified act.

42. Section 234 specifies the person who may apply for an order under section 233 and which include a member of the company. Section 461[57] allows the Court to make an order for the compulsory winding up of a company in circumstances where the directors have acted in their own interests rather than the interests of the members as a whole or in a manner which is unfair or unjust to other members or where the affairs of the company be conducted in a manner which is oppressive or unfairly prejudicial to a member or members or contrary to the interests of shareholders as a whole. The court can also make an order on the just and equitable ground under section 461(1)(k)[58] by reason of mismanagement and misconduct or lack of confidence in the conduct and management of the company's affairs, in order to ensure investor protection, if a company has not

[57] *Re Cumberland Holdings Ltd* (1976) 1 ACLR 361-375 per Bowen CJ
[58] *ASIC v Kingsley Brown Properties Pty Ltd* [2005] VSC 506; *Macquarie Bank Ltd v TM Investments Pty Ltd* (2005) 223 ALR 148

carried on its business candidly, and in a straightforward manner with the public, whether there has been serious fraud or misconduct or oppression in regard to the company's affairs, or the company's obligations under the *Corporations Act* with respect to financial records or reports. Winding up is a characteristic remedy where a working relationship predicated on mutual cooperation, trust and confidence has broken down.[59]

43. Section 1324 allows a person whose interests have been, are or would be affected by actions in breach of the *Corporations Act* to apply for an injunction or damages.[60]

Statutory derivative action

44. Pursuant to the *Corporations Act*, an individual shareholder may bring an action, referred to as a derivative action, on behalf of a company for a breach of duty by a director where the company is unwilling or unable to do so. Section 236(1) sets out the circumstances in which a person may bring such proceedings.[61] Section 237 sets out the circumstances in which the Court may grant leave for a statutory derivative action to be brought, or authorise the applicant to intervene in proceedings for the purpose of taking responsibility for those proceedings, or for a particular step in those proceedings. The Court will be required to grant leave if it is satisfied that:

    (a) it is probable that the company will not itself bring the proceedings or properly take responsibility for the proceedings or for a particular step in them;

    (b) the applicant is acting in good faith;

    (c) it is in the best interests of the company that the applicant be granted leave;

    (d) if the applicant is applying for leave to bring proceedings that there is a serious question to be tried; and

    (e) either at least 14 days before making the application, the applicant gave written notice to the company of any intention to apply for leave and of the reasons for applying or that it is appropriate to grant leave although that provision is not satisfied.

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[59] *Accurate Financial Consultants Pty Ltd v Koko Black Pty Ltd* (2008) 66 ACSR 325 at [119]
[60] *BHP Co Ltd v Bell Resources Ltd* (1984) 8 ACLR 609; *Eastern Petroleum Australia Ltd v Horseshoe Lights Gold Pty Ltd* (1985) 9 ACLR 980
[61] Proceedings on behalf of a company must be brought in the company's name, section 234(2)

45. If the Court concludes that all the criteria in section 237(2)(a)-(e) are satisfied, it must grant leave and conversely if the Court is not so satisfied, it must refuse that leave.[62]

46. The first requirement for the grant of leave is that it is probable that the company will not itself bring the proceedings. The applicant for leave is not required to raise the matter before a general meeting of the company as a precondition to obtaining leave under section 237, however an attempt to do so will assist the applicant to establish the probability that the company would not itself bring the proceedings.[63]

47. The second requirement for the grant of leave is that applicant is acting in good faith. This must be established to the Court's satisfaction.[64]

48. The third requirement for the grant of leave is that it is in the best interests of the company then that the applicant be granted that leave. The "*best interests*" of the company test requires more than a prima facie indication that the proceedings may be or are likely to be in the interests of the company. The Court must be satisfied that the proposed action actually is, on the balance of probabilities, in the company's best interests. The onus is on the applicant to provide evidence of the company's circumstances in this regard so the effects of conduct of the litigation can be appreciated, whether the redress sought by the applicant is available by means which do not require the company to be brought into litigation against its will and as to the defendant's ability to meet at least a substantial part of any judgment in favour of the company in the proposed derivative action.[65]

49. The fourth requirement is that there be a serious question to be tried. This is the test regularly employed by the Courts in the context of interim injunctions, however it should not be turned into a trial of the substantive issues.[66]

50. The fifth requirement for the grant of leave is that at least 14 days before making the application, the application gave written notice to the company of the intention to apply

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[62] *Charlton v Baber* (2003) 47 ACSR 31, *Isak Constructions (Aust) Pty Ltd v Faress* (2003) 47 ACSR 224 at [10]
[63] *Ragless v IPA Holdings Pty Ltd (in liq)* (2008) 65 ACSR 700 at [25]-[27]
[64] *Ehsman v Nutectime International Pty Ltd* (2006) 58 ACSR 705; *Chahwan v Euphoric Pty Ltd* (2008) 245 ALR 780 at [74]
[65] *Swansson v Pratt* (2002) 42 ACSR 313
[66] *Swansson* at [25] per

for leave and of the reasons for applying, or alternatively that it is appropriate to grant leave although that provision is not satisfied.[67]

51. A Court may make orders regarding costs of a person who applied for was granted leave to bring a derivative action.[68] The order may be that the applicant pay the costs of the proceeding so as to protect the company's financial resources.[69]

52. If such a notice was given and the company does not itself bring proceedings, this will suggest that it is probable that the company would not take such proceedings, which in turn will assist the applicant to satisfy the first of the requirements for the grant of leave. A decision to dispense with the requirements for notification of the company under section 237(2)(e) would be justified only where it was clear to the Court that the company was already aware of the relevant matters or whether there was good reason to allow the applicant to represent the company despite it not being so aware.[70]

INJUNCTIONS

53. The breakdown in relationship may be such that valuable property is being used without your consent or authority. You may need to consider seeking an injunction from the Court.

Principles of law

General principles – injunctive relief

54. The general principles governing the grant of injunctive relief are clear; namely a pre-existing cause of action which the Court has jurisdiction to determine; a serious question to be tried; whether the applicant will suffer irreparable harm for which damages will not be an adequate remedy; the balance of convenience favours the grant of injunctive relief and an appropriate undertaking is given as to damages.[71]

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[67] *RTP Holdings Pty Ltd v Roberts* (2000) 36 ACSR 170 at [25]
[68] S.242
[69] *Roach v Winnote Pty Ltd* (2006) 227 ALR 758 cf *Wood v Links Golf Tasmania Pty Ltd* [2010] FCA 570 at [8]-[12] per Finkelstein J
[70] *Isak Constructions* at [21]
[71] See *ABC v O'Neill* (2006) 227 CLR 57 at [65]-[72], Gummow and Hayne JJ, at [19] per Gleeson CJ and Crennan J agreeing; at [136]-[138] per Kirby J; *Sigma Pharmaceuticals (Aust) Pty Ltd v Wyeth* [2009] FCA 595 per Sundberg J.

"Quia Timet" injunctions

55. The Court will enjoin an act if that act has commenced. The Court will also enjoin threatened conduct in the exercise of its discretion, provided that its imminence is sufficiently clearly established so as to justify intervention in all the circumstances.

56. The Court will do so pm the same general equitable principles as are applied whether or not there has already been a breach of the rights in question.[72]

57. The subject matter will vary, but I will set out an overview of breach of confidence, breach of copyright and restrictive covenant.

Restrictive covenants

58. An employer is entitled to enforce a restraint clause to protect legitimate interests that are in the nature of proprietary interests including (amongst other things) trade secrets[73] and confidential information.[74] What employees are not entitled to do is to steal any documents belonging to the employer, or to use, for their own purposes, information which is in fact confidential and which was ascertained in the course of the employment. Further they are not entitled to copy any information onto scraps of paper and take them away for their own business.[75]

59. There are a number of issues to be considered in assessing the reasonableness of the restraint which generally interact with each other: (a) the protection sought to be covered; (b) the geographical area covered by the restraint clause; (c) the duration of the restraint; and (d) the acts covered by the restraint.

60. An employer cannot prevent competition per se but can protect his trade secrets or his confidential information from being passed to a rival[76] However sometimes the only practical way to protect this legitimate interest is to get the employee to take a covenant to not work for a rival in trade. In *Littlewoods Organisation Ltd v Harris*, Lord Denning said:

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[72] *Spry Equitable Remedies* 6th Ed. at 377-382 esp at 378.
[73] *Wright v Gasweld Pty Ltd* (1991) 22 NSWLR 317; *Woolsworth Ltd v Olson* [2004] NSWCA 372; *Cactus Imaging Pty Ltd v Peters* [2006] NSWSC 717.
[74] Ibid.
[75] *Hartley Ltd v Martin [2002] VSC 301,* which cites *Sir Donald Nichollas VC in Universal Thermosensors Ltd v Hibbin* [1992] 1 WLR 840 at 850
[76] *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688

> *But experience has shown that it is not satisfactory to have simply a covenant against disclosing confidential information. The reason is because it is so difficult to draw the line between information which is confidential and information which is not: and it is very difficult to prove a breach when the information is of such a character that a servant can carry it away in his head. The difficulties are such that the only practical solution is to take a covenant from the servant by which he is not to go to work for a rival in trade.*[77]

61. The following propositions can be summarised:

(a) words must be given their plain, natural or common meaning;[78]

(b) evidence of surrounding circumstances (factual matrix) is admissible to assist in determining the plain or natural meaning of the words used;[79]

(c) where a clause is ambiguous, a construction which will make it valid is preferred to one which will make the clause void;[80]

(d) if there is evident ambiguity in the restraint clause, a reading down of the literal terms may be justified resulting with the clause being valid. Mere generality does not constitute ambiguity;[81]

(e) the correct approach[82] to construe the meaning of a restraint clause is by reference to documentary context and surrounding circumstances;

(f) where a restraint clause is, according to its literal terms, wider than is needed to protect the legitimate interests of the employer, a construction of the clause *"in context"* might narrow its meaning and save it from invalidity.[83]

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[77] At 1479. This passage was referred to with approval by Brereton J in *Cactus Imaging Pty Ltd v Peters* [2006] NSWSC 717 and by WA Court of Appeal in *Smith v Nomad Modular Building Pty Ltd*[2007] WASC 169; see also *Kone Elevators Pty Ltd v Mcnay* (1997) 19 APR 41-564 at 43.722;, *Woolsworth Limited v Olsen* [2004] NSWCA 372, *Lindner v Murdocks Garage* (1950) 83 CLR 628, *Portal Software Pty Ltd v Bodsworth* [2005] NSWSC 631

[78] *Codelfa Construction Pty Ltd v State Authority of NSW* (1982) 149 CL 337 at 347.

[79] *Codelfa Construction Pty Ltd* at *352*

[80] *Mills v Dunham [1891] 1 CH 576 at 589-90.*

[81] *IF Asia Pacific v Galbally (2003) 59 IPR 43* at [103.]

[82] *Butt v Long* (1953) 88 CLR 476; *IF Asia Pacific* [103]

[83] *IF Asia Pacific v Galbally (2003) 59 IPR 43 at [105].*

Breach of confidence

62. The equitable obligations of confidence imposed on a present or former employee are clear. What such a person is not entitled to do is to steal documents belonging to the employer or to use for their own purposes information which can be sensibly be regarded as confidential information. Nor are they entitled to copy such information onto scraps of paper and take these away and then use the information in their own business.[84] As to contractual obligations of confidence, it is clear that parties are bound by the terms of a contract, and if they are certain and unambiguous, the terms would be enforced by a Court. If parties for valuable consideration contracted a particular thing shall not be done, all a Court of equity has to do, is to say, by way of an injunction, that which the parties have already said by way of covenant, that the thing shall not be done.[85]

63. The relevant legal propositions are well settled:

(a) the law provides a remedy for the unauthorised use or disclosure of information communicated in confidence;[86]

(b) the requirements for establishing a claim for breach of confidence are that[87] the plaintiff's information has the necessary quality of confidence; the information was imparted to the defendant in circumstances importing an obligation of confidence; and the respondent used the information without the authority of the plaintiff;[88]

(c) information will possess the necessary quality of confidence notwithstanding it is not inventive or novel in the manner required to secure a valid patent.[89] Consequently, a very wide range of technical and commercially valuable information may be protected. The principal requirement is simply that the information be relevantly confidential;[90]

(d) in assessing whether a particular body of information possesses requisite quality of confidence, the courts distinguish between the component parts of that body of

[84] *Universal Thermosensors Limited v Hibben* [1992] 1 WLR 840 at 850 per Nichols L J; *Hartleys Limited v Martin* [2002] VSC 301 at [79] – [81] per Gillard J
[85] *Hartleys* at [81] – [82] per Gillard J
[86] *Moorgate Tobacco Co Ltd v Philip Morris Ltd* (1984) 156 CLR 414 at 438 per Deane J
[87] *Coco v AN Clark (Engineers) Ltd* [1968] FSR 415 at 419 per Megarry J
[88] Ibid at 419-420
[89] *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage* (2008) 78 IPR 262 at [89]
[90] *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203 (CA);

information and the information assembled as a discrete entity separate from its component parts. In other words, whether information is considered to be confidential is to be determined by assessing the relative inaccessibility of the assembled body of information, not its constituent parts. Something that has been constructed solely from materials in the public domain may possess the necessary quality of confidentiality: for something new and confidential may have been brought into being by the application of the skill and ingenuity of the human brain. Novelty depends on the thing itself, and not upon the quality of its constituent parts;[91]

(e) complexity is not a pre-requisite to the right to protection;

(f) the information has been communicated in circumstances importing an obligation of confidence;[92]

(g) the information has been used or disclosed for a purpose other than the limited purpose for which the information was provided;[93]

(h) it need not be established that every element of the body of Confidential Information upon which it relies has been misused by the Defendants. It is enough if a material part of the information has been used;[94]and

(i) the plaintiff must be able to identify with specificity, and not merely in global terms, that which is said to be the information which attracts the equitable obligation of confidence.[95]

Breach of copyright

64. Section 10(1) of the *Copyright Act* 1968 (Cth) (**"the Act"**) defines *"literary work"* to include a table or compilation, expressed in words, figures or symbols; and a computer program or compilation of computer programs. Accordingly, irrespective of their literary

[91] *Coco v AN Clark (Engineers) Ltd* [1968] FSR 415 per Megarry J. See also *Saltman Engineering Co Ltd v Campbell Engineering Co.* (1948) 65 RPC 203 per Lord Greene at 215.
[92] *Coco v A.N. Clark* [1968] FSR 415 at 420 per Megarry J; See also *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 at 193 per Fullager J
[93] *Saltman Engineering* at 213
[94] *Amber Size and Chemical Co Ltd v Menzel* [1913] 2 Ch 239 at 246 - 248
[95] *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Department of Community Services & Health* (1990) 22 FCR 73 at 87 (Gummow J).

quality, copyright can subsist in commercial documents, client lists and compilations of information as literary works.

65. Copyright in a literary work is infringed by a person who, not being the owner of the copyright and without the licence of the owner of the copyright, does in Australia or authorises the doing in Australia of any "act comprised in the copyright".[96] Copyright in relation to a literary work is the exclusive right to reproduce the work in a material form.[97] A reference to *"an act comprised in the copyright"* in a work is a reference to *"any act that under [the Act] the owner of the copyright has the exclusive right to do"*.[98] The doing of any act in relation to a work includes a reference to the doing of that act in relation to a substantial part of the work.[99]

66. Copyright protects against the copying of a work. It does not confer monopoly rights in the subject matter of a work. It is not an infringement of copyright in a work to create a work which bears an objective resemblance to the copyright work provided the latter work is created independently. If the existence of the copyright work has no causal connection with the production of the alleged infringing work, even though the latter be identical to the former, there is no infringement of copyright;[100]

67. If it established that a part of the copyright work has been taken, it is then necessary to ask whether that part is a substantial part of the copyright work. The question is not whether there has been infringement of a part of the work but rather whether there has been infringement of the work as a whole by the taking of a substantial part of the work.

17 March 2016

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[96] Section 36(1) of the Act.
[97] Section 31(1)(b)(i) of the Act.
[98] Section 13(1) of the Act.
[99] Section 14(1) of the Act.
[100] *Francis Day & Hunter v Bron* (1963) 1A IPR 331 at 343 per Diplock J.