

Maggbury Pty Ltd v Hafele Australia Pty Ltd [2001] HCA 70 (Gleeson CJ, Gummow, Kirby, Hayne and Callinan JJ, 13 December 2001)

Apart from the first instance decision of his Honour Byrne J., where Maggbury was granted an injunction and damages, the inventor's campaign has ended unsuccessfully in the High Court.

Background

The appeal was from the decision of the Court of Appeal in Queensland. In general terms, the case involved the enforcement of certain provisions contained in two "confidentiality agreements" between an inventor and a prospective manufacturer of the claimed invention.

The appellants were associated entities. The first appellant, was the applicant for two standard patents and the second appellant had made an international application under the Patents Cooperation Treaty. I shall refer to both appellants as 'Maggbury'.

The applications related to a foldaway ironing board assembly and an invention stated to relate to a pivotal support assembly useful for, but not limited to, folding furniture, kitchen units, foldaway household items and the like, respectively (jointly the 'products').

The first respondent ('Hafele'), was the Australian subsidiary of a German commercial partnership. Maggbury and Hafele were interested in holding discussions to consider commercialisation of the products.

Deeds Of Confidentiality

Maggbury required the execution by Hafele of an agreement entitled "DEED OF CONFIDENTIALITY" before they would allow inspection of three prototypes of the foldaway ironing board. Although there was a subsequent agreement, the relevant terms were substantially the same.

The deed relevantly provided : -

- "2.1 The Inventor (Maggbury) wishes to commercially exploit the Product.
- 2.2 The Inventor and Hafele [Australia] wish to hold discussions to consider mutually advantageous ways of commercially exploiting the Product (the 'Purpose').
- 2.3 In the course of these discussions the Inventor or his representatives may disclose information about the Product to Hafele [Australia].
- 2.4 The Inventor and Hafele [Australia] have entered into this Deed so as to set out the terms and conditions governing any disclosure by the Inventor about the Product.

2.5 Hafele [Australia] has agreed to enter into this Deed to acknowledge the right title and interest of the Inventor in the Product and to scrupulously observe a strict code of confidentiality in relation to the Product."

The expression "Product" was defined to include "the product identified by patent application no [PN4147]"; "all future patent applications"; "secrets and know how"; and "the invention created by the Inventor being a foldaway ironing board assembly and in particular a folding ironing board mounted to a support structure such as a wall, kitchen unit, cupboard bench support, mobile cabinet or drawer".

Provisions of particular significance stated: -

"5.1 Hafele [Australia] shall treat the Information as private and confidential.

5.2 Hafele [Australia] shall not use the information, or any part thereof, for any purpose other than to fairly and properly assess proposals canvassed with the Inventor in relation to the Purpose.

5.3 Hafele [Australia] shall take all reasonable steps to ensure that the Information is made known only to [particular officers or employees of Hafele Australia identified as the 'Permitted Persons'].

...

*5.6 Hafele [Australia] shall not **at any time hereafter** use the Information for any purpose whatsoever except with the Inventor's informed prior written consent." (emphasis added)*

Clause 11 headed "DURATION" provided: -

*"It is a condition of this agreement that Hafele [Australia] will **forever** observe the obligations of confidence set out in this Agreement, unless released from such obligations in writing by the Inventor. Without limiting the generality of this condition, Hafele [Australia] agrees to continue to observe its obligations as to confidentiality:*

- (a) upon the signing of this agreement;*
- (b) while the Purpose is being carried out;*
- (c) after the Information is returned; or*
- (d) after Hafele [Australia] becomes liable to return the Information." (emphasis added)*

The term "Information" was defined in the following terms: -

"'Information' means each and every record of information whatsoever disclosed, shown or provided to Hafele [Australia] by the Inventor in relation to the Product and, without limiting the generality thereof, includes any writing, sketches, diagrams, models, film, video tape, plans, designs, drawings, manufactured prototypes, layouts, schedules or photographs."

Negotiations between the parties eventually broke down and no agreement was entered into for the commercial exploitation of the ironing boards.

In October 1997, Hafele began distributing a wall mounted foldaway ironing board. The litigation turned upon the nature, extent and validity of the restraints.

The Primary Judge

The primary judge, Byrne J, accepted evidence that there were common features between the component parts between the Hafele wall mounted board and the information supplied by Maggbury. As a consequence the injunction granted was limited to wall mounted boards. An award of damages of \$25,000.00 was made.

Byrne J emphasised that the agreements constrained the defendants from using information derived from a designated source, but could not restrict the use of information obtained from a source other than Maggbury, for example, information available in the public domain or from Hafele's own information base.

These conclusions however, were based on an assumption that the restraints applied to Hafele even at a time when the information had become publicly available, through the activities of the Maggbury themselves.

Court of Appeal - Queensland

Hafele successfully appealed to the Queensland Court of Appeal. The court replaced the award of damages with an award of \$5,000.00 and otherwise set aside the orders made by Byrne J.

Their Honours did not find ground to differ from the findings of fact of the primary judge, but rather with the effect in law of the provisions contained in the agreements.

The court concluded that the restraints were unenforceable as they had no time limit and further covered indiscriminately all information, whether it was already public or not.

In addition, the court considered that no injunction should be granted under the general law, because the information was made public in the published specification. The court observed that it would be surprising if a patent specification intended to protect the claimed invention, would fail to set out all aspects of the invention thought by the inventor to be of value.

High Court

In the High Court of Australia, Maggbury sought in essence the restoration of the orders made by Byrne J.

The source of the rights Maggbury sought to enforce, were founded in contract, in particular the contractual obligation of the Hafele companies to *treat* or deal with the information as having the quality of confidence.

In relation to the proper construction of the contractual restraints, the Court considered three provisions in the agreements particularly in point: -

- Clause 5.1 obliged Hafele to “treat” the Information as “confidential”;
- Clause 5.6 which forbade the use of the Information without consent “for any purpose” and “at any time” thereafter; and
- Clause 11.1 which sought to preserve the obligations such as those in clause 5.1 “forever”.

Maggbury argued that the common law doctrine of restraint of trade (applicable in Queensland), did not apply to the contractual provisions as:

- Hafele was able to carry on their trade, through recourse to publicly known information and their own previously acquired experience;
- the doctrine had no application because the parties could be said to have bargained the terms freely.

The Court was dissuaded by these arguments. The result was that the doctrine applied to the restraints and rendered them invalid. Further, the Court stated that whatever could be said about the proprietary nature of confidential information, that analysis could not be sustained where the information was made publicly available as a result of disclosures by the party seeking to assert the quality of confidence.

The appeal was dismissed. There was no cross-appeal in relation to the award of \$5,000 damages by the Court of Appeal.

Summary

This decision provides practitioners with an opportunity to review their agreements in the light of the findings of the High Court. As a general observation, the inventor seeks to preserve confidentiality in respect of every aspect in the disclosure process and potential licensees resist such restraint.

The decisions show that the agreements should be commercial and limited to those aspects of the proposed dealings, which have the quality of confidence. One may wonder at the effect of a provision that anticipates some future publication, as in a complete specification, yet is accepted by the covenantor, in terms that the restraint shall continue to operate notwithstanding its subsequent publication.