

MAGGBURY PTY LTD v HAFELE AUSTRALIA PTY LTD

[2000] QCA 172

12 May 2000

Introduction

This is an extremely helpful decision for practitioners and clients involved in the commercial exploitation of intellectual property. The decision involves the validity of certain confidentiality agreements entered into between a patentee and prospective manufacturers of the patented products.

More specifically, the decision deals with the contractual obligations to maintain confidentiality in respect of information, which is publicly available.

Background

Maggbury was the inventor of a product involving domestic ironing boards made to fold conveniently against a wall, and ironing boards designed to fold into a drawer (the “Products”).

The appellants, the defendants in the proceedings, were respectively the Australian subsidiary and its German principal (jointly “Hafele”).

Prudently, Maggbury entered into two separate agreements with each of the appellants in July and November 1995, which for the purposes of the litigation were in substantially the same terms.

Construction of Agreements

The agreements relevantly provided:

“2.0 RECITALS

...

- 2.2 The Inventor and Hafele 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.
- 2.4 The Inventor and Hafele 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 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.

3.0 DEFINITIONS AND INTERPRETATION

- 3.1 In this Agreement the following terms shall have the meaning ascribed to them below unless the context otherwise requires: -
- (a) ‘Information’ means each and every record of information whatsoever disclosed, shown or provided to Hafele 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.

...

- (e) “Product” means:
- (1) 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.

5.0 THE INFORMATION

- 5.1 Hafele shall treat the Information as private and confidential.
- 5.2 Hafele 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 shall take all reasonable steps to ensure that the information is made known only to ...(the “permitted persons”).
- ...
- 5.6 Hafele shall not at any time hereafter use the Information for any purpose whatsoever except with the Inventor’s informed prior written consent”.

The appellants argued that notwithstanding the covenants there were an implied term to exclude information, which was in the public domain. The Court however considered that although this construction would not directly contradict anything in the agreements, the inclusion of such an implied term was an unlikely construction particularly as the agreements sought to give a wide protection to any information Maggbury disclosed. In support of this construction, the Court considered that clause

5.1 required that the information be treated as “private and confidential” whether or not in truth it was.

Enforcement

The two main objections to the enforceability of the agreements were that they:

- (1) purported to restrain disclosure of any information whether it was confidential or not; and
- (2) operated without any time limit.

The Court recognised Maggbury’s right to protect itself against the use of some of the information supplied to the appellants. The questions were however whether the adequate protection of Maggbury’s interests required the appellants from using information even after it had been disclosed to the world? And was it entitled to this protection indefinitely?

Publication

The evidence showed that the substance of the invention was made public. The general philosophy of patent law that the patentee is granted a period of monopoly in exchange for its public disclosure of the invention operated to expect that the essential features of the invention were disclosed to the public. One would expect that Maggbury would include in the patent specifications any features it wanted to protect.

The Court supported the notion that protection of commercial information, which the covenantee has made public, went beyond what the legitimate interests of the covenantee required.

The need for confidentiality was to protect Maggbury from others reproducing its Products. If the information was publicly disclosed the agreements operated for some purpose other than the preservation of secrets.

As to time restraints the Court considered that in a commercial context a time limit of some sort must be fixed.¹

In considering the interpretation of the covenants the Court referred to the application of the “flexible approach”.² This involves firstly reading restraint clauses down by rejecting words that are too wide and secondly leaving improbable events out of consideration. . The Court could not find a precedent of the High Court to support such a policy of reading down. However a South Australian decision was referred to by the Court in which Matheson J read down the relevant covenant by consideration of what was “aimed at”.³

Notwithstanding this approach the Court could not stretch those principles to validate the express obligations in the agreements. The Court determined that to read down the covenants would not give effect to the parties true intention, which was to make all the information confidential notwithstanding its publication. The relevant covenants were held to be invalid.

¹ *Plume v Federal Airports Corporation* (1997) 19 ATPR 41-589 at 44,136. See also *O Mustad & Son v S Allcock & Co Ltd* [1963] 3 All ER 416 at 418f.

² R Dean, “The Law of Trade Secrets” (LBC, Sydney, 1990).

³ *Rentokil Pty Ltd v Lee* (1995) 66 SASR 301 at p326.

Invention publicised

The primary judge found that the patent protection emanated from a combination of features that were worthy of protection. Maggbury acknowledged that most of the features of the ironing board would have been disclosed by the publication of the patent specification in 1997. It argued however that a number of features involving the specific design detail were not disclosed.

The Court observed that all the features except one were in the published specification. It then took a wider view and said that if the feature were of value to the inventor it would be included in the specification. It followed that if the patent failed to disclose any information about the invention, it was likely to have been commonplace or insignificant.

The Court also considered other publications such as trade fairs. Maggbury agreed that the Products were available for inspection at trade fairs. Further Maggbury said that an inspection at such a trade fair would reveal all the essential integers of the invention.

The Injunction

The primary judge had granted an injunction after finding that the information disclosed had been used by the appellants in the design of their ironing board. The Court of Appeal was of the view that if an injunction was granted, in circumstances where the Court was in error about the invalidity of the agreements, that the injunction should be confined to information not publicly available.

Summary

This is a helpful decision in assisting those practitioners instructed to prepare confidentiality agreements in anticipation of disclosures to potential manufacturers of intellectual property based products.

Certainly, inventors are rewarded with a period of monopoly in exchange for their public disclosure on the invention. The disclosure assists others to find improvements, which may involve an inventive step for the benefit of the public, at large. It would seem unreasonable to penalise a party from using information which is available to the public because of an agreement which seeks to make confidential everything that is told to the recipient of the information.

Further, there may be aspects of an invention, which are confidential in their nature. For example, the research and development of the inventor may have lead to the use of a particular substance. The substance may be disclosed in the patent specification but not necessarily the reasons or benefits behind the selection of that particular substance. The difficulty of course is to prove that these additional “secrets” were disclosed.

Appeal

It is understood that the respondents shall be seeking leave to appeal this decision some time in November 2000.

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