

9 October 2019

Stephen Hubicki
Department of Industry, Innovation and Science
GPO Box 2013
Canberra, ACT, 2601

By email: Stephen.Hubicki@industry.gov.au

Dear Mr Hubicki,

**Draft Response to Request Made By the Department of Industry, Innovation and Science
Concerning the Proposed Protection of Trade Secrets in the Australia-EU Free Trade Agreement**

Introduction and summary

1. The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (the **Committee**) welcomes the opportunity to comment upon the request made on 20 September 2019 by the Department of Industry, Innovation and Science to comment upon Articles X.43 and X.44 of the draft Intellectual Property chapter of the proposed Australia-EU Free Trade Agreement, which concern the protection of trade secrets. The Committee note that there are recent examples of EU free trade agreements which do not include trade secrets protection (notably Canada and Singapore), but understand that the Committee's comments are sought in order to ascertain whether and the extent to which Australia may be prepared to include the proposed protection, which is similar to the content of the EU-Japan agreement.
2. In the time available, it has not been possible to conduct a detailed review, and accordingly this paper is limited to some short comments on matters the Committee think might be of most immediate assistance. In particular, the Committee seek to identify any conspicuous areas in which Articles X.43 and X.44 might be thought to diverge from the existing Australian law, to comment upon those areas of difference in particular from a practical perspective, and to indicate some possible ways of addressing them.
3. In summary, there are in particular two potential areas in which Articles Art X.43 and Art X.44 may require a change to Australian law.
4. The first is the prohibition of unauthorised acquisition of trade secrets, as distinct from the unauthorised use or disclosure of them. In this respect, it should not be assumed that any such change would be undesirable. In the Committee's experience, there may be good practical reasons for making such a change and few practical reasons for resisting it.
5. The second is the restrictions upon the use or disclosure of alleged trade secrets disclosed in the course of litigation conducted to protect them. There may be scope for proposing amendments to ensure that those obligations are not unnecessarily excessive.
6. The Committee also make some other suggestions and observations as set out below.

Australian law

7. The following provides a useful touchstone to bear in mind when considering Articles X.43 and X.44 against Australian law.
8. Trade secrets are protected most commonly under Australian law by the equitable action for breach of confidence and the action for breach of contract. In the case of the equitable cause of action, the necessary elements which must be established are:

- a. the information, being information capable of precise definition, has the necessary quality of confidence;
 - b. the circumstances in which the information was disclosed or otherwise obtained were such as to impose an obligation of confidentiality on the defendant.
 - c. there is an actual or threatened use or disclosure of the information.
9. The Committee note that this is essentially a matter for State law, and accordingly, any changes which may be required in this field would need to take account issues of Commonwealth and State legislative competence.
10. As a matter of litigation practice, when a party takes action to protect its trade secret, it is typically necessary to disclose aspects of the trade secret to the Court and to the other party or its legal representatives. The disclosure of this evidence can be restricted by means of inter parties undertakings, undertakings to the Court or suppression or non-publication orders made by the Court, such as under the Federal Court Act, Part VAA.

Acts of breach – acquisition

11. In addition to the traditional categories of unauthorised use and disclosure contrary to honest commercial practices, Art X.43(3)(a) prohibits the act of “acquisition”, and in particular:

the acquisition of a trade secret without the consent of the trade secret holder, whenever carried out by unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced.

12. Though individual contracts may well contain prohibitions on unauthorised acquisition, it is doubtful whether acquisition per se, without a demonstrable threat to use or disclose it, is sufficient to constitute a breach of confidence more generally under Australian law. Accordingly compliance with Article X.43 in this respect may well require a change in Australian law.
13. From a practical perspective, the Committee can see reasons why such a change may be desirable. In the Committee’s experience, it may often be the case that a business can establish that an employee or former employee has had unauthorised access to confidential information, but cannot establish use or disclosure or an identifiable threat to use or disclose. Mere suspicion is considered insufficient; that may be so even in a case where a former employee downloads an unusually large volume of material, leaves her or his employment to commence work with a competitor, and is less than candid or even disingenuous about those matters: *Australian Administration Services Pty Ltd v Korchinski* [2007] FCA 12. In those circumstances, it may be necessary to commence proceedings for preliminary discovery, which may be costly and time consuming, and even then it may not be possible to establish use or disclosure or a relevant threat.
14. Further, there is no immediately apparent reason for resisting the proposition that unauthorised acquisition of information of the kind set out in Art X.43 ought to be prohibited. Unauthorised acquisition of that kind appears properly to be characterised as contrary to honest commercial conduct. Further, it carries an inherent risk of unauthorised use or disclosure, whether a specific threat can be demonstrated or not, and requiring a trade secrets holder to wait until a threat has materialised or become evident may well jeopardise the protection of the trade secret.
15. Other than “acquisition”, the conduct identified in Art X.43(3) appears to be broadly consistent with Australian law, namely unauthorised use or disclosure, or, in the case of a third party recipient, use or disclosure with actual or constructive knowledge.

Acts of breach – contrary to honest commercial conduct more generally

16. The question arises whether Art X.43 requires Australia to prohibit conduct (including, but not limited to acquisitions of the kind just addressed) which is “contrary to honest commercial conduct” in a manner which travels beyond X.43(3). The use of the words “at least” in that sub-section appears to

indicate that it does not. That is, Australia's minimum obligation is to prohibit the conduct specified in Art X.43(3), not conduct "contrary to honest commercial conduct" more generally. This also appears to be consistent with TRIPS Art 39(2), footnote 10. The Committee would, for the avoidance of doubt, discourage entering into any minimum obligation to prohibit conduct which is "contrary to honest commercial conduct" at large, as that may well travel beyond existing Australian law and likely be unacceptably uncertain in scope.

The subject matter protected

17. Trade secrets are defined in Art X.43(2)(a) consistently with TRIPS Art 39. Accordingly, in this respect Art X.43 does not travel beyond Australia's existing international obligations. Though the language used in that definition, such as the requirement to take reasonable steps to keep the information secret, is not precisely the same as the language typically used in the Australian authorities to identify the requirements of confidential information, as summarised above, the Committee take it that the approaches have hitherto been considered sufficiently similar in substance not to require any change in Australian law.
18. However, one aspect of the definition is worth mentioning in light of Article X.43 more broadly. The protected subject matter is restricted to information that, among other requirements "has commercial value because it is secret". The equitable action for breach of confidence is not limited to commercially valuable information and may extend to other kinds of confidential information, and in that respect travels beyond what is required by X.43. That does not necessarily present a difficulty, but if it is considered necessary to make changes to Australian law to comply with Art X.43 and X.44 (for example, to prohibit unauthorised acquisition as addressed above), consideration would need to be given to whether to apply such changes only to trade secrets on the one hand or generally to the kinds of confidential information protected under Australian law on the other.

Exceptions

19. Art X.43(4) appears to be broadly consistent with Australian law, noting that it does not purport to set out an exclusive list of circumstances constituting honest commercial practices. (For example, it does not prohibit Australia from extending employees' protection under para (d) to independent contractors or from providing for whistle-blowers' protection.)
20. Art X.43(5) contains a carve-out for "freedom of expression and information, including media freedom as protected in the jurisdiction of each of the Parties". As the Committee understand it, the phrase "as protected in the jurisdiction of each of the Parties" is intended to qualify "freedom of expression and information" generally, as well as "media freedom" in particular. To make that clear, the Committee would suggest adding a comma as follows: "freedom of expression and information, including media freedom, as protected in the jurisdiction of each of the Parties."
21. On that basis, it is clear that no change to domestic law concerning those freedoms is intended.

Remedies – obligations concerning information disclosed in legal proceedings

22. Art X.44(1) states:
Each party shall ensure that any person participating in the civil judicial proceedings referred to in Article X.43(scope of protection of trade secrets) or who has access to documents which form part of those legal proceedings, is not permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential and of which they have become aware as a result of such participation or access.
23. The words "alleged trade secret" appear to admit of the possibility that it may be intended that an obligation not to disclose or use information be imposed even where the information has not been, and never is, found by the Court to be a trade secret. The requirement that judicial authorities "identify" the information as confidential following a reasoned application also appears to stop short of

requiring a determination of confidentiality or an order prohibiting use or disclosure. The obligation appears intended to be perpetual, and to cover parties, witnesses and lawyers alike.

24. There must of course, be mechanisms in place to protect the confidentiality of trade secrets pending the determination of proceedings to protect them, as well as thereafter, if the proceedings are successful.
25. As identified above, in the practice of Australian litigation, the mechanisms used are typically inter parties undertakings, undertakings to the Court and, where material would otherwise be made public, non-publication or suppression orders. Significantly, such orders are typically limited in duration and require the party seeking them to establish that it is appropriate to make the order sought. In the Committee's experience, these mechanisms work well in the sense that parties wishing to enforce trade secrets are not dissuaded from doing so by the prospect of commercial harm arising from disclosure as part of the litigation process. By contrast, to impose an apparently general and perpetual obligation not to use or disclose information merely "identified" by a court as confidential, and not necessarily the subject of a court order, appears to travel too far.
26. Accordingly, in order to confirm that Art X.44(1) does not travel beyond the mechanisms used under Australian law, and in particular does not do so in an undesirable or unnecessary manner, the Committee would suggest consideration be given to an amendment along the following lines:

Each party shall ensure that any person participating in the civil judicial proceedings referred to in Article X.43(scope of protection of trade secrets) or who has access to documents which form part of those legal proceedings, is not permitted, contrary to an order of the competent judicial authorities, to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential and of which they have become aware as a result of such participation or access.

27. Otherwise, Article X.44 appears to us to be broadly consistent with Australian law.

Please contact John Collins, Chair of the Intellectual Property Committee (jcollins@claytonutz.com or 02 9353 4119) in the first instance, if you require further information or clarification.

Yours sincerely



Rebecca Maslen-Stannage
Chair, Business Law Section