SUPREME COURT OF QUEENSLAND

CITATION:	*Cedar Hill Flowers & Foliage P/L & Anor v Spierenburg & Ors* [2002] QCA 348
PARTIES:	**CEDAR HILL FLOWERS & FOLIAGE PTY LTD** ACN 010 925 256 (first plaintiff/first respondent) **AUSTRALIAN FLORA CORPORATION PTY LTD** ACN 075 010 347 (second plaintiff/second respondent) **v** **WILFRIDUS NICOLAAS SPIERENBURG** (defendant/appellant) **BRIAN PETER LOADER** (second defendant) **NORMA ANNE LOADER** (third defendant) **ANTHONY JOHN MANDALL** (fourth defendant)
FILE NO/S:	Appeal No 978 of 2002 SC No 10741 of 2001
DIVISION:	Court of Appeal
PROCEEDING:	General Civil Appeal
ORIGINATING COURT:	Supreme Court at Brisbane
DELIVERED ON:	6 September 2002
DELIVERED AT:	Brisbane
HEARING DATE:	1 August 2002
JUDGES:	McMurdo P, Williams JA and Wilson J Separate reasons for judgment of each member of the Court, each concurring as to the orders made
ORDERS:	**1. Appeal allowed** **2. Set aside the orders in paragraphs 1, 2 and 4 of the order of 4 January 2002** **3. Order that there be a retrial with respect to the relief claimed in paragraphs 1(a) and (b) and 3 (a), (b) and (c) of the Statement of Claim** **4. Order that:**

i) The costs of and incidental to the proceeding up to the first day of the first trial should be reserved to the judge presiding at the retrial;
ii) Each party should bear his or its own costs of the first trial;
iii) The respondents should pay the appellant's costs of and incidental to the appeal to be assessed.

CATCHWORDS: TRADE AND COMMERCE – RESTRAINT OF TRADE – RESTRAINT BY AGREEMENT – VALIDITY AND REASONABLENESS – REASONABLENESS – where appeal from decision of learned trial judge granting former employer/respondents injunctive relief and common law damages against the former employee/appellant for misuse of confidential information and breach of restraint of trade covenants in his employment contract - whether the covenants are enforceable and if so whether the appellant was in breach thereof

TRADE AND COMMERCE – RESTRAINT OF TRADE – RESTRAINT BY AGREEMENT – VALIDITY AND REASONABLENESS – IN PARTICULAR CASES - IN CONTRACT FOR SERVICE – GENERAL PRINCIPLES – where business carried on in competition by respondent was unlicensed and therefore illegal - whether the validity of the restraint provisions were determinable by whether the appellant had an unlawful or illegitimate competing business – whether learned trial judge erred by not applying the *Nordenfelt* test at the time the contract was entered into before the issue of the subsequent conduct of the appellant

TRADE AND COMMERCE – RESTRAINT OF TRADE – RESTRAINT BY AGREEMENT – ENFORCEMENT OF AGREEMENT – REMEDIES FOR BREACH OF AGREEMENT – where common law damages awarded at first instance for breach of contract – where on appeal retrial ordered on question of validity of covenants – where injunction ordered at first instance but no equitable damages ordered for breach of confidential information – whether damages assessable on appeal

Attwood v Lamont [1920] 3 KB 571, followed
Buckley v Tutty (1971) 125 CLR 353, followed
Esso Petroleum Co Ltd v Harpers Garage (Stourport) [1968] AC 269, considered
Gledhow Auto Parts Ltd v Delaney [1965] 1 WLR 1366, followed
Howard F Hudson Pty Limited v Ronayne (1971) 126 CLR 449, considered
Lindner v Murdock's Garage (1950) 83 CLR 628, followed
Mason v Provident Clothing and Supply Company Limited [1913] AC 724, followed

Morris v Saxelby [1916] 1 AC 688, followed
Nordenfelt v Maxim Nordenfelt Guns and Ammunition Company [1894] AC 535, followed
Peters (WA) Ltd v Petersville Ltd (2001) 75 ALJR 1385, followed
Putsman v Taylor [1927] 1 KB 637, followed
Wright v Gasweld Pty Ltd (1991) 22 NSWLR 317, considered

COUNSEL: M D Martin for the appellant
H J H Morris QC, with A C Barlow, for the respondents

SOLICITORS: Garland Waddington for the appellant
Kimballs Lawyers for the respondents

[1] **McMURDO P:** I agree with the reasons for judgment of Williams JA.

[2] The restraint of trade doctrine is based on considerations of public policy.[1] There is therefore some initial appeal in the respondent's contention, accepted by the primary judge, that the doctrine cannot be relied upon by an appellant carrying on an unlawful business, something inherently contrary to public policy. But a contractual clause (or part of a clause) which is both in restraint of trade and unreasonable[2] is either void[3] or at least unenforceable[4] from the outset. The appellant's subsequent illegal conduct cannot entitle the respondents to rely upon a clause in their contract which has always been and remains unenforceable. To resolve the dispute between the parties, it is necessary to determine at trial the essential question of whether the restraint clause, or part of it, was reasonable.

[3] I agree with the orders proposed by Williams JA.

[4] **WILLIAMS JA:** This is an appeal from a judgment of a judge of the Trial Division granting the respondents Cedar Hill Flowers & Foliage Pty Ltd (Cedar Hill) and Australian Flora Corporation Pty Ltd (AFC) injunctive relief and damages against the appellant on the basis that he had misused confidential information and breached covenants in restraint of trade which formed part of his contract of employment with AFC. The principal argument advanced by counsel for the appellant was that the covenants in restraint of trade were void or unenforceable and therefore the judgment, at least in its present form, could not stand.

[5] Cedar Hill had a business of growing, harvesting and processing Australian native flora, particularly foliage. AFC is an associated company; it and Cedar Hill have the same shareholders and directors. In practical terms the two companies operated the one business. The great bulk of processed foliage was sold into Europe by AFC.

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1 *Buckley v Tutty* (1971) 125 CLR 353, 380; *Wright v Gasweld Pty Ltd* (1991) 22 NSWLR 317, 329.

2 *Nordenfelt v Maxim Nordenfelt Guns & Ammunition Company* [1894] AC 535, 564-566, referred to with approval in *Peters (WA) Ltd v Petersville Ltd* (2001) 75 ALJR 1385 [27] and [37].

3 *Gledhow Autoparts Ltd v Delaney* [1965] 1 WLR 1366, 1377 but of the observations of Lord Atkinson in *Thompson v British Medical Association (New South Wales Branch)* [1924] AC 764, 769.

4 *Buckley v Tutty* (1971) 125 CLR 353, 379-380.

[6] The appellant once worked as a salesman and purchaser for an AFC customer in the Netherlands. There he met the chief executive officer of the respondent companies. As the appellant was married to an Australian he made the decision to come to Australia to live, and in mid 1998 contacted the chief executive of the respondents seeking employment.

[7] In about July 1998 the appellant accepted the offer of a position as "export manager of the plaintiffs' business". Initially in about September 1998 he entered into a written contract of employment with Cedar Hill, but as his responsibilities were more referrable to the particular activity of AFC the Cedar Hill employment contract was formally terminated and replaced by one with AFC executed in November 1998.

[8] That contract provided that either party could terminate the agreement by one month's notice in writing. In July 2001 the appellant gave notice effectively terminating his employment as and from 31 August 2001.

[9] The relevant clauses in the employment contract between the appellant and AFC are as follows:

> "5 **Termination of Relationship – Restraint**
>
> 5.1 **Protection of Goodwill**. For the purpose of protecting the Employer in respect of the goodwill of the Employer's business and in consideration of the material benefits to be derived by the Employee by entering into this Agreement the Employee undertakes to and covenants with the Employer that neither the Employee nor any Related Body Corporate of the Employee (within the meaning of the term 'Related Body Corporate' as defined in the Corporations Law) for as long as the Employee remains in the employ of the Employer, and upon termination of the Employee's employment for any reason for the Base Restraint Period, do any one or more of the following (unless otherwise expressly agreed to by the Employer in writing):-
>
> 5.1.1 be directly or indirectly engaged, concerned or interested whether on his own account or as a member, partner, director, shareholder, consultant, adviser, agent, employee, beneficiary, trustee or otherwise in any enterprise, partnership, corporation, firm, trust, joint venture or syndicate which is engaged, concerned or interested in or carrying on (or is in the process of planning or preparing to carry on) any business the same as or substantially similar to or in competition with the Employer's business;
>
> 5.1.2 on his own account or for or by means of any person, enterprise, corporation, firm, trust, joint venture or syndicate entice away from the Employer any customer or supplier of the Employer's business;
>
> 5.1.3 on his own account or for or by means of any person, enterprise, partnership, corporation,

firm, trust, joint venture or syndicate entice away from the Employer any employee of the Employer's business; or

5.1.4 personally or by his employees or agents or by circulars, letter or advertisements whether on his own account or for or by means of any other person, enterprise, firm, trust, joint venture or syndicate interfere with the Employer's business or use the trading name or names (or product trade marks or other names) commonly associated with or used in connection with the Employer's business;

5.1.5 personally or by his employees or agents or by circulars, letter or advertisements whether on his own account or for or by means of any other person, enterprise, firm, trust, joint venture or syndicate divulge to any person any information concerning the Employer's business or any of their respective dealings, transactions, systems or affairs, including but not limited to details of the customer, supplier, product or product source lists of the Employer's business or any other such information which is not common knowledge amongst the Employer's business's competitors;

5.1.6 personally or by his employees or agents or by circulars, letter or advertisements whether on his own account or for or by means of any other person, enterprise, firm, trust, joint venture or syndicate divulge to any person any information (particularly confidential information) in relation to the business, dealings, products, finances, computer information systems, marketing practices, technologies, or any other systems of the Employer and any trade secrets or confidential information or other information which is not common knowledge amongst the Employer's business's competitors.

5.2 **Base Restraint**: The Employee and the Employer have considered their respective positions and hereby agree with each other that it is fair and reasonable that the Employee shall not without the prior written consent of the Employer (which consent the Employer may withhold in its absolute and unfettered discretion) whether directly or indirectly by himself or jointly with or on behalf of any other person or corporation or trust on any account or pretext by any means whatsoever or through an agent or independent contractor:

5.2.1 do any of the things referred to in clause 5.1 for a period of one (1) year ('the Base

Restraint period') within the Commonwealth of Australia ('the Restraint Area');

5.2.2 **Risk clause May Be Ineffective**: The Employee and the Employer are aware that whilst each of them consider the restraint of trade imposed in the preceding clause to be fair and reasonable, a Court or other tribunal may determine otherwise and hold that restraint to be void or otherwise of limited effect.

5.3 **Need for Several Clauses and Protection**: Having regard to clause 5.1, the Employee hereby agrees with the Employer and declares that:

5.3.1 The Employer should have the benefit of each and every combination of the restraints of trade covenant set forth in clause 5.4 each of which the Employee and the Employer consider to be fair and reasonable; and

5.3.2 If any one or more of the combinations of the restraint of trade covenants referred to in clause 5.4 is held to be void or unenforceable for any reason whatsoever, that will not in any way affect the enforceability of the remaining combinations.

5.4 **Several Restraint Combinations**: In consideration of the Employer entering into this Agreement and to reasonably protect the Information and the goodwill of the business property of the Employer the Employee agrees with the Employer that:

5.4.1 This clause shall have the effect as if it were several covenants consisting of:

5.4.1.1 each covenant set out in clause 5.1; combined with

5.4.1.2 each separate period of time set out in clause 5.4.2; combined with each separate area set out in clause 5.4.3.

5.4.2 The periods of time referred to in clause 5.4.1 are:

5.4.2.1 During the period of one (1) year from and after the date hereof;

5.4.2.2 During the period of eleven (11) months from and after the date hereof;

5.4.2.3 During the period of ten (10) months from and after the date hereof;

5.4.2.4 During the period of nine (9) months from and after the date hereof; and

5.4.2.5 During the period of eight (8) months from and after the date hereof;

5.4.3 The areas referred to in clause 5.4.1 are:

5.4.3.1 The territorial limits of the Commonwealth of Australia;

5.4.3.2 The territorial limits of the States of Queensland, New South Wales, Western Australia, Victoria, South Australia and Tasmania.

5.4.3.3 The territorial limits of the States of Queensland, New South Wales, Western Australia, Victoria and South Australia;

5.4.3.4 The territorial limits of the States of Queensland, New South Wales, Western Australia, Victoria;

5.4.3.5 The territorial limits of the States of Queensland, New South Wales, Western Australia and Victoria.

5.5 **Transferability of Restraint** The Employee acknowledges that the covenants in clause 5.1 are given by the employee for the benefit of the goodwill of the business property of the Employer and may be transferred therewith.

5.6 **Assignment of Restraint** The Employee further acknowledges that the Employer may assign the benefit of any covenants or agreements in clauses 5.1 and 5.2 given or made by the Employee.

5.7 **Power of Attorney** In further consideration of the Employer entering into this Agreement the Employee hereby irrevocably appoints the employer as its attorney for the purpose of assigning the benefit of clauses 5.1 to 5.2 inclusive to any purchaser of the goodwill of the business property of the Employer."

[10] The learned trial judge made findings with respect to the conduct of the appellant asserted by the respondents to be in breach of the foregoing provisions of the contract of employment:

> "By the end of July 2001, Mr Spierenburg had put in place arrangements to compete with AFC's foliage export business. . . . This was to be for the harvesting and exporting of Queensland native foliage. . . . Mr Spierenburg candidly admitted to important breaches of his obligations of fidelity to AFC which were necessarily involved in his secretly setting up in competition with his employer's business. . . . As it happens, no relief is sought in respect of that established misconduct. Rather, the plaintiffs' present claims are for injunctive relief and damages for breach of the post-employment covenant against competition contained in the AFC employment

> agreement, and for injunctive relief to restrain the misuse of confidential information of both Cedar Hill and AFC.
>
> While he worked for Cedar Hill and later for AFC, Mr Spierenburg acquired a deal of commercially sensitive information concerning the affairs of both plaintiffs."

[11] In the Statement of Claim the respondents claimed relief under several headings. Particulars were alleged of breach of confidence and breach of fiduciary duty with respect to which a claim was made for an injunction restraining breach of fiduciary duty and misuse of confidential information and equitable compensation for breach of fiduciary duty and misuse of confidential information. The Statement of Claim also alleged breach of clause 5 quoted above and sought relief in the form of injunctions restraining the continuance of such breach and damages for breach of contract.

[12] It would appear that as the trial progressed the respondents (and probably also the appellant) concentrated attention on common law damages probably because such damages were more readily calculable and some losses could probably be recoverable either by way of common law damages or compensation in equity.

[13] The learned trial judge did say in "considering the application of the principles of equity" that, provided "the necessary quality of confidentiality is identified", the use by the appellant "of confidential information ought to be restrained on the application of ordinary equitable principles". After observing that the terms of such injunctive relief were a matter of detail he turned to the issue relating to restraint of trade. The injunction in paragraph 3 of the formal order restrains the use of confidential information by the appellant.

[14] The learned trial judge found that the business carried on by the appellant after August 2001 was "in direct competition with AFC's business". He then said that it was "not in contest that Mr Spierenburg's participation in that partnership venture involved contravention of the terms of his anti-competitive promise". The appellant's defence was that "the relevant promises are in unlawful restraint of trade".

[15] It is now necessary to refer to some further findings of fact made by the learned trial judge:

> "The partnership venture involved harvesting, and (in some cases at least) treating, and exporting the product. Permissions or licences were required pursuant to State and Federal legislation to enter upon State Crown land from which it was intended to harvest at least some of the products, to harvest the products themselves, to deal in the foliage, and to export the goods. The business was, in all its essential respects, and as Mr Spierenburg believed, illegal in the absence of permission for the harvesting, dealing and exporting mentioned.
>
> Nevertheless Mr Spierenburg intended to conduct his business unlawfully. The case is, therefore, not one in which some incidental infringement of a statutory provision might have been involved in the venture. It was one where the only significant aspects of the venture

> – the harvesting and the export – were, as Mr Spierenburg believed, prohibited by statute in the absence of appropriate permissions or licences.
>
> . . .
> . . . Mr Spierenburg has made it plain that he has no present intention of obtaining such licences or permits as may be required to enable him to carry on any competitive business lawfully."

[16] His Honour noted that, in response to the appellant's submission that the relevant promises were unenforceable, AFC contended "that the doctrine exists to serve public interests which cannot have been put in jeopardy" by the business being carried on by the appellant. His Honour referred to passages in *Wright v Gasweld Pty Ltd* (1991) 22 NSWLR 317 at 329 and *Esso Petroleum Co Ltd v Harpers Garage (Stourport)* [1968] AC 269 at 298 in support of the proposition that the "former employee may, for his own and for the public benefit, use skill experience and know how acquired in the service of the employer in legitimate competition"; it was deduced from that that where the business was not "legitimate" the restraint of trade doctrine could not be invoked. The conclusion reached by the learned trial judge was that the "restraint of trade doctrine, therefore, cannot be invoked by Mr Spierenburg: his activities were not, and were not intended to be, conducted in a lawful way."

[17] That resulted in the learned trial judge granting injunctive relief and assessing damages for breach of the restraint provisions without the necessity of considering their enforceability. In that regard he said:

> "It is unnecessary for present purposes to consider whether the restraint in clause 5.1.1 and 5.1.2 is wider than is necessary to protect AFC from lawful competitive activity. I may have been inclined to the view that the restraint in clause 5.1.2 – essentially the anti-solicitation provision – might well have been justifiable having regard to the nature and extent of contacts with customers that were anticipated when Mr Spierenburg entered into the AFC employment contract in view of the responsibilities he was to assume under that agreement. But it is unnecessary to decide whether the broader covenant in clause 5.1.1 provides no more than adequate protection to those interests of AFC deserving of protection: customer connection and confidential information relating to it."

[18] In consequence his Honour granted injunctive relief and assessed damages for breach of contract in the sum of $106,334. The injunctions in paragraphs 1 and 2 of the formal order (which operate Australia wide until 31 August 2002) are based on the covenants in restraint of trade.

[19] With a qualification as to terminology which will be referred to later, the High Court has recognised, in cases such as *Lindner v Murdock's Garage* (1950) 83 CLR 628, *Buckley v Tutty* (1971) 125 CLR 353 and *Peters (WA) Ltd v Petersville Ltd* (2001) 75 ALJR 1385, that the law with respect to the validity and enforceability of clauses in restraint of trade is as stated by Lord Macnaghten in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Company* [1894] AC 535 at 565, where it was said:

> "The public have an interest in every person's carrying on his trade freely; so has the individual. All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. This is the general rule. But there are exceptions: restraints of trade and interference with individual liberty of action may be justified by the special circumstances of a particular case. It is a sufficient justification, and indeed it is the only justification, if the restriction is reasonable – reasonable, that is, in reference to the interests of the parties concerned and reasonable in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour it is imposed, while at the same time it is in no way injurious to the public."

[20] As was recognised by the High Court in *Lindner*, following cases such as *Mason v Provident Clothing and Supply Company Limited* [1913] AC 724, *Morris v Saxelby* [1916] 1 AC 688 and *Attwood v Lamont* [1920] 3 KB 571, a restraint is more easily upheld when included in an agreement for the sale of a business than where the restraint is included in an agreement between employer and employee.

[21] It is also clear that the test of reasonableness derived from *Nordenfelt* is to be applied at the time the contract in question was made. Salter J in *Putsman v Taylor* [1927] 1 KB 637 at 643 said:

> "The question is whether the covenant was a reasonable one for the parties to agree to at the outset of the service on the best estimate which they could then make of the future."

That passage was quoted with approval in *Lindner*. There Latham CJ said at 638:

> "The validity of the covenant must be determinable at the time when the contract is made."

[22] McTiernan J at 641 considered the validity of the clause in the light of facts which existed "at the time this agreement was made" (641). Webb J at 647 said, referring to *Putsman v Taylor*:

> "But the effect of the agreement when it was made was that the appellant could be restrained as to a part in which he was not employed by the respondent and its legality is to be tested as at the date it was made."

[23] Finally Kitto J at 653 said, again referring to *Putsman v Taylor*:

> "The validity of the restraint must be decided as at the date of the agreement imposing it."

[24] The consequence of the question having to be answered at that time was spelt out by Diplock LJ in *Gledhow Auto Parts Ltd v Delaney* [1965] 1 WLR 1366 at 1377 where he said:

> "But the question of the validity of a covenant in restraint of trade has to be determined at the date at which the agreement was entered into and has to be determined in the light of what may happen under the agreement, although what may happen may cover many possibilities which in the result did not happen. A covenant of this kind is invalid ab initio or valid ab initio. There cannot come a

> moment at which it passes from the class of invalid into that of valid covenants."

[25] Another consequence of the test of reasonableness being considered at the time the contract is made is that subsequent conduct of the employee asserted to be in breach of the covenant is irrelevant to the determination of that issue. In the present case the validity of the restraint provisions was not to be determined, or affected by, whether the appellant had appropriate licences to carry on his competing business after August 2001.

[26] In the proceeding the appellant raised the issue of the enforceability of the covenants in restraint of trade by asserting that they were unreasonable. The onus was then on the respondents of satisfying the court that the covenants in question were reasonable applying the *Nordenfelt* test. If the respondents failed to satisfy the court that the covenants were reasonable at the time the contract was entered into there was no foundation for granting in favour of the respondents injunctive relief and damages simply because some subsequent conduct of the appellant was tainted with illegality. The appellant was not seeking any equitable relief that might be dependent upon his hands being clean.

[27] Conversely, if the covenants in restraint of trade were valid and enforceable the respondents would not have been disentitled to relief because the appellant's conduct was tainted with illegality.

[28] This case is not concerned with any power in the respondents to exercise some private right to restrain the appellant from carrying on an unlawful business. The judgment in question is solely concerned with the enforceability of the covenants in restraint of trade and if they are enforceable whether the appellant was in breach thereof thus entitling the respondents to injunctive relief and damages.

[29] Senior counsel for the respondents submitted that finding the covenants to be unreasonable was not the end of the matter. To quote his submission from the transcript of argument:

> "If it's an unreasonable restraint it is nullified. Its effect is taken away as a restraint on legitimate competition. But the fact that it's unreasonable, if that's assumed, doesn't . . . remove the clause entirely from the contract. It leaves the clause there for any other purposes it may have and one of the purposes is to prevent in this case unlawful competition. . . . The point is genuinely res integra. It has never come up before."

[30] His submission was that if the clause failed the *Nordenfelt* test it was "only nullified to the extent that it restricts lawful or legitimate competition". In other words the covenant remained as a clause in the contract of employment which could have effect if the employee was engaged in unlawful or illegitimate competition; by that I assume counsel meant competition which was unlawful or illegitimate for reasons other than that it breached the covenant in restraint of trade. It was in that context that counsel for the respondents referred the learned trial judge to *Wright v Gasweld* and *Esso Petroleum v Harper's Garage*. Counsel also sought comfort from an observation in *Peters (WA) Ltd v Petersville Ltd*. There Gleeson CJ, Gummow, Kirby and Hayne JJ at 1389 in dealing with the common law doctrine of restraint of trade identified a number of "threshold or preliminary questions requiring

resolution". The third was "whether the restraint in question is one to which the doctrine applies so that, if the answer is in the negative, there is no occasion to go on to consider the question of reasonableness". There is then a footnote reference to Heydon *The Restraint of Trade Doctrine* (2nd edition 1999) at 49 where the author discusses a number of possible threshold issues derived from a number of decisions of high authority. But nothing therein would support the submission of counsel for the respondents herein.

[31] It is true that in *Wright v Gasweld* Gleeson CJ said at 329, in the context of an agreement between employer and employee containing a restraint clause:

> "An employer is not entitled to protect himself against mere competition by a former employee, and the corollary of that is that the employee is entitled to use skill, experience and know-how acquired in the service of the former employer in legitimate competition."

[32] But I cannot see, as contended for by counsel for the respondents, that that passage supports the proposition that an otherwise unreasonable covenant in restraint of trade can provide the basis for injunctive and other relief where the employee's conduct after the termination of the contract of employment can be classified as illegitimate. Nor is the statement by Lord Reid in *Esso Petroleum v Harper's Garage* at 298 of assistance to the respondents; there it was said:

> "In the present case the respondents before they made this agreement were entitled to use this land in any lawful way they chose, and by making this agreement, they agreed to restrict their right by giving up their right to sell there petrol not supplied by the appellants."

[33] The use of the term "lawful" in that passage does not support the proposition that an otherwise unreasonable covenant in restraint of trade may afford the basis for relief where the ex-employee's conduct is classified as unlawful.

[34] I observed previously that the High Court had qualified to some extent the terminology of the *Nordenfelt* test. Therein Lord Macnaghten stated the general rule that covenants in restraint of trade were contrary to public policy and therefore "void". The court in *Buckley v Tutty* noted at 379 that the "terminology used by courts of high authority to describe the consequence of holding that a contract is in unreasonable restraint of trade has not always been uniform and precise". It was noted that terms such as "illegal", "void", and "unenforceable" had been used in a number of cases. One gets the impression that, at least for purposes of that case, the High Court preferred "unenforceable", but the matter was not finally decided. A few months later the court delivered judgment in *Howard F Hudson Pty Limited v Ronayne* (1971) 126 CLR 449, and therein one finds the judges variously using the terms "void", "illegal" and "unenforceable". Barwick CJ at 452 used both the terms "void" and "unenforceable" as if they meant the same thing. Menzies J (at 455 and 458) used the terms "void" and "illegal" to describe the consequence of the clause being an unreasonable restraint of trade, and Walsh J at 463 used the term "unenforceable".

[35] But whatever term is used the consequence seems to be that a covenant held to be an unreasonable restraint of trade has no legal (contractual) effect. It is as if the clause was not in the contract. Sometimes the covenant may take down other clauses which are dependent upon it. That was a real issue in *Hudson v Ronayne*.

However, provided the other clauses of the contract are meaningful they can be enforced; the whole contract is not struck down unless there is no substance left once the restraint covenants are ignored.

[36] If in this case the covenants in restraint of trade were held to be wholly void or unenforceable the respondents cannot have recourse to those covenants for any purpose; it is as if those covenants were never included in the contract. There is no basis for concluding that the respondents could rely on those covenants, after they were held to be unreasonable, in order to assert rights against the appellant on the ground that the appellant was conducting an unlawful or illegitimate business.

[37] It follows that the learned trial judge was not entitled to reach the conclusion which he did. He was obliged, given the way the case was conducted, to determine whether or not the clauses in question were wholly or partially void at the time the contract was made applying the *Nordenfelt* test.

[38] Counsel for the respondents submitted that if this court reached that position it should hold that, at least, clause 5.1.2 was reasonable. In making that submission counsel relied heavily on the statement by the learned trial judge that he "may have been inclined to the view that the restraint in clause 5.1.2 – essentially the anti-solicitation provision – might well have been justifiable . . .". But the learned trial judge gave no indication as to whether that remark applied to the "base restraint" or some limited restraint relying on clause 5.4. Indeed no findings were made as to facts relevant to that issue. For example, no findings were made which would enable this court to determine whether the restraint defined in clause 5.1.2 should apply to the whole of the Commonwealth of Australia or to one of the lesser areas defined in clause 5.4.3. In order to answer that question findings would have to be made with respect to the scope of the business of the respondents and whether it was reasonable given that scope to limit the restraint to a particular area.

[39] There are far too many variables involved depending on findings of fact not made by the trial judge to enable this court to determine which of the possible restraints might be reasonable. However, it must be said that ordinarily, with appropriate limitations as to time and area, a clause such as 5.1.2 would be held to be reasonable.

[40] Until such time as the reasonableness of the restraint covenants is determined there is no basis for granting injunctive relief or damages based on those contractual provisions.

[41] It follows that the injunctions in paragraphs 1 and 2 of the formal order must be set aside. The restraint provided for by clause 5 of the contract could only be for a maximum of one year following termination of the appellant's employment with the respondents. That period would end on 31 August 2002, and in consequence there would be no point in the respondents seeking at a retrial injunctive relief pursuant to clause 5.

[42] But the validity of clause 5 is of critical importance with respect to the award of damages. It is clear that the award of damages, namely $106,334.00, was based solely on breach of clause 5, and therefore the assessment was dependent upon clause 5 being valid. As that issue has not been determined that assessment cannot stand.

[43] On a retrial it would be for the court to determine whether clause 5 was wholly or only partially enforceable. The court in the light of its finding on that issue would have to identify the conduct (if any) of the appellant which constituted breach of the enforceable covenant and then assess the consequential damages.

[44] It was conceded by counsel for the appellant that the injunction in paragraph 3 of the formal order would stand because it was based on breach of confidential information. As already noted the learned trial judge assessed damages solely with respect to breach of the covenant in restraint of trade, and made no attempt to assess equitable compensation for breach of fiduciary duty and misuse of confidential information. It may well be that if clause 5 is held to be wholly or partially void there would be scope for assessing compensation in equity. It is not possible for this court to evaluate that situation.

[45] It follows that the appeal should be allowed, paragraphs 1, 2 and 4 of the formal order of the learned trial judge set aside, and that there should be a retrial with respect to the claim of the respondents for that relief.

[46] The problem then arises as to what orders should be made with respect to costs. Clearly the appellant is entitled to costs of the appeal. The respondents were partially successful in that they obtained the injunction in paragraph 3 of the formal order restraining misuse of confidential information. But it would appear that there was no real contest at the trial with respect to that relief. Counsel for the appellant submitted that such relief was not really opposed at trial because the appellant denied any past misuse of confidential information and disavowed any intention to do so in the future. Nevertheless findings were made by the learned trial judge on that issue and the injunction granted. It would appear the respondents had to go to trial to obtain that relief. The retrial is brought about primarily because the learned trial judge accepted a submission by counsel for the respondents which led him into error.

[47] In my view the appropriate orders to be made in the circumstances with respect to costs are the following:

(1) costs of and incidental to the proceeding up to the first day of the first trial should be reserved to the judge presiding at the retrial;
(2) Each party should bear his or its own costs of the first trial;
(3) The respondents should pay the appellant's costs of and incidental to the appeal to be assessed.

[48] The orders of the court should therefore be:

(1) Appeal allowed
(2) Set aside the orders in paragraphs 1, 2 and 4 of the order of 4 January 2002.
(3) Order that there be a retrial with respect to the relief claimed in paragraphs 1(a) and (b) and 3 (a), (b) and (c) of the Statement of Claim.

[49] Order that:

(a) The costs of and incidental to the proceeding up to the first day of the first trial should be reserved to the judge presiding at the retrial;

(b) Each party should bear his or its own costs of the first trial;
(c) The respondents should pay the appellant's costs of and incidental to the appeal to be assessed.

[50] **WILSON J**: I agree with the reasons for judgment of Williams JA and with the orders he proposes.