

expert update

Uncovering the latest Expert Witness news with Ferrier Hodgson

A little knowledge is a dangerous thing

When the other side's expert is also a trade rival, can you withhold commercially sensitive information?

Gebauer Nominees Pty Ltd v Cole [2008] WASCA 38

Chaina & Ors v The Presbyterian Church (NSW) Property Trust & Ors [2008] NSWSC 290 and [2008] (No 2) NSWSC 1056

Two recent cases have considered under what circumstances confidential information must be disclosed to an expert. Both these cases concerned plaintiffs who claimed possession of unique technology which, they insisted, must remain completely confidential from the other side's experts who may have been trade rivals.

The first case involved a long-running dispute between Gebauer and Hotrox¹. Gebauer owned premises which were leased to Hotrox. Hotrox intended to use the premises for the manufacture of specialist briquettes. Rainwater entered the premises, rendering them unfit and damaging the plant and equipment that Hotrox had installed.

An arbitrator found that Gebauer was liable for damages. The only outstanding issue was the amount. This turned on whether Hotrox had unique technology to produce briquettes without the use of a synthetic binder or ignition aid.

Determining this required highly specialised expert evidence. Gebauer proposed using Dr F as its expert. Dr F asserted that, to assess the unique technology, he required access to Hotrox's production facilities and confidential information.

Notwithstanding his willingness to sign a confidentiality agreement, Hotrox objected. Hotrox produced evidence that Dr F had been closely involved with previous unsuccessful attempts to produce briquettes with no synthetic binding – the very technology that Hotrox claimed to have, and what Dr F described in evidence as the "Holy Grail" of the industry.

At first instance², Master Sanderson ruled that the risk that the relevant information would not remain confidential was 'slight'. However, this was overturned on appeal by the Full Court³, which said:

¹ This case is listed as *Gebauer v Cole*. Cole is the trustee for Hotrox Charcoal Company.

² *Gebauer Nominees Pty Ltd v Hotrox Charcoal Company* [2002] WASC 55.

³ *Hotrox Charcoal Company v Gebauer Nominees Pty Ltd* [2002] WASCA 293.



Because of his professional interest [in briquette manufacture], Dr F would be most unlikely ever to forget or put aside what he learnt. It would remain forever as part of his professional know-how.

The Full Court ordered that Dr F could not be given access to the confidential information. However, this created another issue: whether there was another suitable expert to give evidence on such a specialist issue.

Gebauer had claimed that Dr F was the only person it could retain with the relevant expertise. Subsequently, Prof Z was identified as a suitable expert. However, Gebauer still objected to the order that Dr F be refused access to the information because it had already incurred significant costs for Dr F and, it said, Prof Z's rates were higher.

Gebauer's objection was dismissed. The court ruled that Hotrox had objected to Dr F from the outset (with the implicit assumption, therefore, that Gebauer should not have incurred Dr F's costs until this issue had been resolved). It ruled that Prof Z's rates were "reasonable in the circumstances".

The Chaina case followed the tragic death of a schoolboy on a camping trip. The parents and brothers of the boy claimed damages for nervous shock. Two family companies also claimed that, because of the inability of the parents to function effectively, they lost forever the opportunity to develop and market certain cleaning products. It was claimed that these cleaning products would have had special characteristics and would have been successful in both the domestic and industrial markets.

The special characteristics included the use of stabilised enzymes in liquid form – a highly confidential technology. The plaintiffs claimed to have lost between \$100 million and \$300 million.

Central to the quantification of damages was whether the products actually had these special characteristics. The judgment on 7 April 2008 (the "First Judgment") dealt with the issue of how these special characteristics could be tested and whether confidential information should be disclosed to experts.

The defendants requested that the plaintiffs produce the formulae and methodology of manufacture of the products. The plaintiffs refused to provide this information.

Three experts provided differing evidence. Dr W was engaged by the defendants. He testified that, without the access to the methodology and method of manufacture, many of the special characteristics could not be tested.



Prof P and Dr C (engaged by the plaintiffs) claimed that this was not necessary and, in any event, “reverse engineering” of the samples provided could identify the formulae.⁴

Dr W contended that reverse engineering would be “expensive, difficult, time consuming and could never be guaranteed to be one hundred percent accurate.” He estimated a cost of \$15,000 per product. As there were about 100 products, this would be very expensive. He also stated that this would take months or even years.

Justice Hoeben ruled that the defendants had demonstrated a need to obtain the formulae and manufacturing process. He explained two main reasons for this.

First, attempting to test the special characteristics without reference to the formulae and methodology of manufacture was unduly onerous on the defendants. He said:

I find it an extraordinary proposition that they [the defendants] should be required to analyse and reverse engineer up to 100 products when there is no guarantee that such a process will be successful and when it is generally acknowledged that such a process will be time consuming and very expensive. This is particularly so when the formulae and method of manufacture information is in the hands of the company plaintiffs and can be readily provided to the defendants.

Justice Hoeben stated that the conduct of litigation should not be seen as a card game and that all available relevant facts should be disclosed to all parties to prevent confusion over what the issues were. The huge effect on the cost of the litigation of not disclosing the information was contrary to the philosophy of the Civil Procedure Act 2005 that proceedings should be disposed of in a “just, quick and cheap” manner.

Second, he found that the plaintiffs’ claim that Dr W’s participation in the chemical cleaning industry would mean that the disclosure to him of the confidential information would reduce the value of the confidential information was unfounded. There was no basis, he said, for suggesting that the integrity of Dr W could not be relied upon. It was usual for the court to deal with confidential information between parties in competition provided a suitable confidentiality regime was agreed.

The First Judgment concluded with a request for the parties to make submissions as to the confidentiality regime to be put in place. The subsequent judgment resulted from a lack of agreement or co-operation regarding this regime. In their

⁴ The idea of reverse engineering the product in *Hotrox* was not considered, as neither party believed that this could lead to any useful outcome.



submission, the plaintiffs again claimed that Dr W should be denied access to the confidential information.

Evidence established that Dr W had advised a separate company regarding a cleaning product. The plaintiffs claimed that Dr W might learn their trade secrets which could be inadvertently disclosed to trade rivals. The plaintiffs sought to rely on the decision in the *Hotrox* case to justify withholding the relevant information.

Justice Hoeben rejected this submission. He discussed a number of significant differences between the *Chaina* and *Hotrox* cases. In particular, Dr W had advised on only one of the products that the Plaintiffs claimed could have been produced, whereas, in *Hotrox*, there was one central issue that the expert was potentially commercially interested in.

Concluding that Dr W should be given access to the confidential information, His Honour said:

The concerns of Hotrox were with the possible use of confidential information by existing trade rivals. In this case there are no existing trade rivals nor will there ever be, because on their case the ability of the plaintiff companies to develop and market these products has been forever lost.

Significance

By its very nature, litigation frequently requires the disclosure of confidential information to other parties who are competitors. A suitable confidentiality regime is regularly required.

However, these cases contain the unusual circumstance that the experts were said to be trade rivals of the parties. It appears that the court will prevent disclosure of confidential information, but only in very specific circumstances when there is a compelling reason to do so. These factors may make the choice of an expert suitable to all parties a crucial one that should be made early in proceedings.



Alex Bell
Senior Manager, Sydney
phone: 02 9286 9999
email: alex.bell@fh.com.au

For more information about our forensic services, please contact:

Sydney: Andrew Ross
+61 2 9286 9906
andrew.ross@fh.com.au

George Kompos
+61 3 9604 5150
george.kompos@fh.com.au

Brisbane: Tim Michael
+61 7 3831 4833
tmichael@qld.fh.com.au

John Temple-Cole
+61 2 9286 9919
john.temple-cole@fh.com.au

Adelaide: Peter Holmes
+61 8 8100 7600
p.holmes@sa.fh.com.au

Hong Kong: John Tudorovic
+852 2820 5610
jtudorovic@fh.com.hk

Melbourne: Greg Meredith
+61 3 9604 5118
greg.meredith@fh.com.au

Jean-Pierre du Plessis
+61 8 8100 7600
jduplessis@sa.fh.com.au

Singapore: Tim Reid
+65 6416 1400
tim.reid@fh.com.sg

FORENSIC ACCOUNTING

FINANCIAL INVESTIGATIONS & FRAUD

BUSINESS VALUATION

FORENSIC IT

