Considering International Non-Compete Clauses Within Employment Contracts

With young tech lawyers increasingly chasing professional opportunities overseas, Kate Simpson, a Senior Associate at Hentys Lawyers, discusses international non-compete clauses in employment contracts.

An increasing number of Australian employees are travelling overseas to pursue opportunities, including within the technology and media industry. Non-compete clauses are commonly found within the employment contracts of this mobile workforce, and employers increasingly seek to extend the reach of restraints – even to jurisdictions in which they are not registered and have no formal business operation.

Such restraints have traditionally been considered unenforceable. However, employees have been left wondering about their level of exposure, following the Supreme Court of Western Australia's unusual decision in *Naiad Dynamics US Ink v Vidakovic* [2017] WASC 109 (***Naiad***).

Enforcing a domestic non-compete clause in Australia

The modern doctrine of restraint is a balancing act between the individual's right to work and the former employer's right to protect its legitimate business interests. Non-compete clauses are considered prima facie void and are notoriously difficult and costly to enforce.

A breach of restraint can cause irreparable damage to a business very quickly. Given the time sensitive nature of the issue, employers generally apply to the Court to seek an interlocutory injunction prior to the matter proceeding to trial.

The principles to be considered by the Court when determining whether an interlocutory injunction should be granted are well established,[1] and include whether:

a) there has been a timely application for interlocutory relief;

b) there is evidence of breach of the restraints by the former employee;

c) the case has reasonable prospects of success;

d) the balance of convenience lies in favour of granting the injunction to the employer; and

e) damages are an adequate alternative remedy to the granting of an injunction.

The employer bears the onus of proof in establishing the above.

Enforcing an international non-compete clause in Australia – the *Naiad* example

Justice Rene Le Miere considered the enforceability of international non-compete clauses in *Naiad*, in a decision that likely caused concern to employees of businesses which operate internationally.

The Facts

Naiad Dynamics US Ink (**the Company**) was incorporated in Connecticut, USA. Its business was the design, engineering, manufacture, installation and sale of maritime stabilisation, manoeuvre and ride control systems in the global luxury yacht, commercial shipping and military shipping markets.

In 2009, Dr Vidakovic commenced employment as Global Sales Director subject to an employment contract with the Company and any affiliate companies. The contract was executed in, and subject to, the laws of Connecticut. Dr Vidakovic was required to work in various international locations, but spent substantial time in Connecticut. Along with various other restraint provisions, by way of a non-compete clause, Dr Vidakovic agreed that he would not work with a competitor for a period of 24 months from his termination date. The non-compete clause extended to specific US states and other countries including Australia.

In 2017, Dr Vidakovic's employment ceased and he returned to work in Perth at Veem Limited, a competitor of the Company.

Having been granted an interim injunction in March 2017,[2] the Company sought an interlocutory injunction in the Supreme Court of Western Australia, to prevent Dr Vidakovic breaching the terms of the restraint provisions.

Why was the matter heard in Australia?

It was common ground between the parties that the law of Connecticut governed the employment contract and should be applied to decide the enforceability of the non-compete clause. Ordinarily, the employer would have sought to enforce the clause first in Connecticut and later seek an order for enforcement in Australia.

It was apparently by agreement that the matter was heard in Australia. There were likely practical reasons for Dr Vidakovic to consent to this, specifically the difficulties and costs associated with defending the matter in Connecticut.

1 *Beecham Group Limited v Bristol Laboratories Pty Ltd* (1968) 118 CLR 618; *Australian Broadcasting Corporation v O'Neill* (2006) 227 CLR 57.

2 *Naiad Dynamics US Inc v Vidakovic* [2017] WASC 109.

How did the Connecticut and Australian laws interact?

The restraint provisions needed to be considered in light of Connecticut law, and were assessed for reasonableness in that regard. A foreign expert in the laws of Connecticut was consulted by the Court.

The decision regarding the granting of an injunction was made in accordance with the laws of Western Australia.

Was the restraint clause reasonable?

The Connecticut legal principles applied by the Court in determining that the non-compete clause was reasonable included the following:

a) the Company's business and order cycles extended across a 24 month period;

b) the Company's customer base, which included Australians with whom Dr Vidakovic had interaction during his employment;

c) Dr Vidakovic's knowledge of the Company's customer list; and

d) Dr Vidakovic's broad range of skills, which would enable him to obtain other employment if an interlocutory injunction was granted.

Dr Vidakovic defended the action by arguing that the non-compete clause was unreasonable, and that the non-solicitation clause within the contract was enough to protect the Company's legitimate business interests. Furthermore, Dr Vidakovic submitted that granting the injunction would cause harm to him that would outweigh the benefit to the Company's legitimate business interests served by the injunction.

Reasons for granting an interlocutory injunction

Justice Le Miere balanced the interests of justice to the parties. He commented that the damage to the Company would likely be irreparable if the injunction was not granted, but the Company succeeded at trial. On the other hand, the grant of an injunction would cause loss to Dr Vidakovic, who would be required to terminate his employment with Veem Limited.

Ultimately, Le Miere J granted an interlocutory injunction, ordering mediation ahead of a trial. This was partly due to Dr Vidakovic's agreement to the restraint clause at the commencement of his employment, to which Le Miere J reasoned that he should be held "unless and until it is determined at trial that the restraint is unenforceable".

Looking forward

It is surprising that the Western Australia court accepted the jurisdiction of the contract, given that it was executed and subject to the laws of Connecticut. Employees should rest assured that there is no automatic right for the laws of other jurisdictions to be applied in Australia when considering non-compete clauses, despite the Court's decision in *Naiada*. Any challenge to the application of these laws at trial, had the matter proceeded, would likely have been successful.

Nonetheless, the apparent readiness of Australian courts to consider and provide injunctive relief in restraint matters is cause for concern for employees. This approach should be contrasted with that of the Californian system, which considers all non-compete clauses to be against the public interest and thus unenforceable. Evidently, it is this entrenched belief that has encouraged employee movement and collaboration, and which has contributed to Silicon Valley's status as the nation's capital for high-tech innovation.

Tips for employees of international businesses

Prior to signing a restraint clause, seek multi-jurisdictional legal advice if necessary.

When agreeing to a restraint clause with an employer, have regard to the employer's reputation for enforcing restraints. For example, Amazon Web Services is considered selective in its enforcement of restraints and did not seek to enforce non-compete clauses against several executives who resigned to take up employment with competitors, over recent years.

Where Australian employees have contracts with major companies such as Facebook and Google, these are generally with the Australian subsidiaries of those companies and subject to local laws.

At the time of ceasing employment, sit down with your employer and discuss the application of, and negotiate the terms of, any restraint. In practice, an employer is often satisfied to avoid litigation and instead receive an undertaking from the employee in relation to involvement with key clients, and/or the use of confidential information and intellectual property.

Where an employer attempts to enforce an international restraint clause, do not agree to accept application of the clause in an Australian court unless there are practical reasons for doing so.

Finally, even if there are legal doubts as to the enforceability of a non-compete clause, if an employer wishes to pursue it, the effect for an employee will be unchanged.