COMMERCIAL CONFIDENTIALITY - MOVING FORWARD

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INTRODUCTION

Confidential information

1 In *Coco v A.N. Clark (Engineers) Ltd*\(^1\) ("Coco"), Megarry J summarised the criteria required for an action in breach of confidence as follows:

“First, the information itself … must “have the necessary quality of confidence about it”. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it.”

2 This conventional test was unanimously approved by the House of Lords in *Douglas & Ors v Hello! Ltd & Ors*\(^2\) ("Douglas v Hello!"). However, the majority (Lord Hoffman, Baroness Hale and Lord Brown) moved matters forward by re-defining the nature of confidential information by reference to the simple commercial value of the information in question\(^3\).

“…. The information in this case was capable of being protected, not because it concerned the Douglasses’ image any more than because it concerned their private life, but simply because it was information of commercial value over which the Douglasses had sufficient control to enable them to impose an obligation of confidence.

…… The fact that the information happens to have been about the personal life of Douglasses is irrelevant. It would have been information about anything that a newspaper was willing to pay for. What matters is that the Douglasses, by the way they arranged their wedding, were in a position to impose an obligation of confidence. They were in control of the information.\(^4\)

…… Provided that one keeps one’s eye firmly on the money and why it was paid, the case is …., quite straightforward.\(^5\)

…… it is simply information of commercial value.\(^6\)"

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1 [1969] RPC 41 @ 47
2 [2007] UKHL 21 @ [307]
3 Ibid [124]. This is to be contrasted with the position of the minority summarised by their conclusions that the "case on breach of confidence must stand or fall on the ground of a right to short-term confidentiality for a trade secret" and "the confidentiality of any information must depend on its nature, not on its market value"; ibid [295], [299]. The majority did not recognise a distinction between “nature” and “market value” and concluded that the latter informed the former.
4 Ibid [118]
5 Ibid [117]
6 Ibid [120]
Whilst in this area of the law money clearly talks, or more accurately can prevent talk, there are of course established and developing legal issues to be considered in any case involving the misuse or threatened misuse of commercial confidential information.

**Scope of this presentation and paper**

The title to this paper is taken from a phrase in the speech of Baroness Hale of Richmond in *Douglas v Hello!* where she described the law of commercial confidentiality as “moving forward rather than drawing back”.

This paper focuses on the legal principles applicable to disputes concerning the misuse of commercial confidential information and the ways in which they have moved forward in recent years.

In an economy increasingly based on information and knowledge, the importance and profile of this area of law can only increase with the passage of time. It is submitted that recent House of Lords’ decisions in *Campbell v Mirror Group Newspapers Ltd (Campbell v MGN)* and *Douglas v Hello!* have recognised that (a) the categories of confidential information are “open-ended” (e.g. including visual images) and (b) the inherent commercial value of confidential information may justify legal protection.

For reasons of time and space this presentation and paper excludes a range of disputes involving issues of confidentiality; e.g. claims and disputes involving:

1. The misuse of private or personal information;
2. Breach of privacy and the Data Protection Act 1998;

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Ibid [119]
(3) Principles of freedom of expression where special rules apply as to balancing competing Convention rights (e.g. Arts 8 and 10 esp. in relation to injunctions\(^9\));

(4) Public/state bodies where the principles of the Human Rights Act 1998 are directly in play;

(5) Specific professional relationships such as employment, medical practitioners, legal professionals and bankers;

(6) Legal professional privilege and arbitration confidentiality;


**THE CAUSE OF ACTION**

8 The cause of action is breach of confidence. The traditional approach has been to distinguish between cases where the duty, and therefore the remedy, is based in (a) contract and (b) equity.

9 In cases of contract, the duty of confidence may be express or implied and its scope may therefore vary according to the terms of the relevant contract.

10 In cases in equity, the scope of the duty may vary according to the relationship between the parties; e.g. trustee or fiduciary.

11 In the commercial sector, examples of a contractual relationship include joint venture agreements and principal and agent whilst examples of an equitable relationship include that between companies and their directors.

12 This approach was applicable for so long as the cause of action was restricted to claims arising from a pre-existing relationship of confidence.

13 However, in *Campbell v MGN*\(^{10}\) matters were moved forward when it was said that the cause of action for breach of confidence no longer required a

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9 *Cream Holdings Ltd v Banerjee* [2004] UKHL 44

10 Ibid @ [13-14]:
pre-existing confidential relationship and should now be categorised as a
tort, which may (or may also) be described as “misuse of private
information” or “misuse of confidential information”\textsuperscript{11}.

14 In \textit{Douglas v Hello!} the House of Lords was dealing with a case where
there was no pre-existing confidential relationship between the parties (c.f.
between the Douglases and the competitor magazine OK!). For that reason
the cause of action was in tort. That said, the majority approved the
conventional test in \textit{Coco} (see para 1 above) and none of their Lordships
took the opportunity to address or explain the existence of different causes
of action (contract, equity and tort) under the description of “breach of
confidence” or whether and, if so, how there were material differences
between such causes of action; e.g. as to limitation and remedies.

15 The view of the current edition of the leading textbook in this area,
\textit{Confidentiality} by Toulson & Phipps, is that, following \textit{Campbell v MGN},
there are now “significantly different types of cause of action” under the
label of breach of confidence\textsuperscript{12}.

\textsuperscript{11} At various points in \textit{Douglas v Hello!} the House of Lords used each of these terms.
\textsuperscript{12} 2nd Ed [2006] @ 2-006 – published before the House of Lords decision in \textit{Douglas v Hello!}
WHAT MUST BE PROVED

16 A party claiming in breach of confidence must establish the following:

(1) The confidential nature and quality of the information;
(2) The imposition of a duty of confidentiality in respect of that information;
(3) The unauthorised use of that information;
(4) Loss/detriment to the person claiming confidentiality.

The information

17 The information in question must be specific and capable of clear identification. This is of particular importance in cases where an injunction is sought.

18 The courts apply an objective test as to whether information is confidential and merits protection by law; see e.g. Coco\textsuperscript{13}.

19 In commercial cases it is not possible to summarise the application of the reasonable man test comprehensively. It is fact specific. It is clear from Douglas v Hello! that the commercial value of the information is a necessary, and potentially a sufficient, factor\textsuperscript{14}.

20 In Thomas Marshall Ltd v Guinle\textsuperscript{15} Sir Robert Megarry V-C set out a number of important relevant features:

(1) Information in the public domain is not confidential; Saltman Engineering Co. Ltd v Campbell Engineering Co. Ltd\textsuperscript{16};
(2) Information (e.g. spreadsheets and reports) may be confidential even if the individual constituents (e.g. raw data) are not;
(3) Publication of the information would, in the reasonable opinion of the person claiming confidentiality, cause loss to that person or gain to at least one of his competitors;

\textsuperscript{13} Supra. It follows that “trivial” information will not be protected.
\textsuperscript{14} In the Douglas v Hello! case OK! had made an unsuccessful bid for an exclusive to publish the same information for the same sum; see [323].
\textsuperscript{15} [1979] 1 Ch 227 @ 248
\textsuperscript{16} (1948) 68 R.P.C. 203 @ 215
The information must, where relevant, be judged in the light of the usage and practices of the particular business or industry in question;

By way of example, costs, prices, supplier lists, customer lists, manufacturing processes and marketing strategies which are not generally well-known are all likely to constitute confidential information; see e.g. (prices) *Herbert Morris Ltd v Saxelby*\(^\text{17}\), (pricing structure and manufacturing costs) *Take Ltd v BSM Marketing Ltd*\(^\text{18}\), (suppliers, customers, discounts) *Crowson Fabrics Ltd v Rider & Ors*\(^\text{19}\).

Information may lose its confidentiality over the passage of time; e.g. after becoming “old news”\(^\text{20}\) or when similar information enters the public domain.

In contract cases, the parties may of course provide expressly that scheduled information is deemed confidential\(^\text{21}\). In a commercial contract it is unlikely that public policy considerations would apply to negate or restrict the operation of such a clause, unless there were relevant issues of fraud.

**The duty of confidentiality**

The person claiming confidentiality must establish that the defendant had notice of the fact that he received the information subject to a duty of confidentiality. He must show that the defendant had “notice of confidentiality”.

Different principles apply between cases where the defendant is/was (a) in a direct relationship with the person claiming confidentiality and (b) a third party recipient.

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17 [1916] 1 A.C. 688 @ 705
18 [2006] EWHC 1085 (QB)
19 [2007] EWHC 2942 (CH)
20 *Take* (Supra) @ [225] – a list of customers
21 *Attorney-General v Blake* [2001] 1 A.C. 268
Direct relationship – objective test

Absence an applicable contractual provision, a claimant may satisfy this requirement by showing that a reasonable person in the defendant’s position would regard the information as confidential.

“…… if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence. In particular, where information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture or the manufacture of articles by one party for the other, I would regard the recipient as carrying a heavy burden if he seeks to repel a contention that he was bound by an obligation of confidence……”

Third party recipient – subjective test

The person claiming confidentiality must prove that the third party recipient knew that the information was confidential. He must show that the recipient either knew that the information was confidential or was deliberately blind to the likelihood that it was confidential. It is not enough to show only that the third party knew that the confidentiality had been or was being asserted.

In some cases there will be evidence as to the circumstances in which the third party recipient came into possession of the confidential information. The nature and extent of the third party’s knowledge on this point may well inform the court on the question of whether it knew or deliberately closed its eyes to the fact that the information was disclosed in breach of confidence. At one end of the spectrum is unsolicited receipt of information that may or may not be confidential. At the other end, is knowledge of the theft of obviously confidential information.

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22 Coco (supra) @ [48]
24 Fraser v Thames Television [1984] 1 Q.B. 44 @ 65
25 See e.g. Douglas v Hello! (supra) @ [114], [323]
Unauthorised use

An assessment of whether a party has misused confidential information or used it in an unauthorised manner cannot be made in the abstract and therefore an answer to the question cannot be given in general terms. In each case, the question depends on whether the person claiming confidentiality has authorised some use and, if so, the scope of that use. In cases where all use is restricted, the question is more easily answered.

There remains the question of whether the person claiming confidentiality is required to prove deliberate misuse. Is it enough that the defendant has used the confidential information negligently or even accidentally?

In this respect it is important to restate that the duty to respect confidentiality is not the same as a (higher) duty to ensure, or to take reasonable care to ensure, that confidential information does not fall into the hands of third parties. To establish a duty in tort of the latter kind will require additional proof of issues relating to voluntary assumption of liability and proximity. In the absence of judicial guidance on the point, it is submitted that a claim in breach of confidence requires proof that the defendant deliberately used the confidential information in question and that proof of negligent or accidental use is not sufficient for liability.

This conclusion would also be consistent with the equitable basis of the cause of action in that it operates on the conscience of the defendant.

Loss/detriment

As a tort, this requirement is logically required. In order to obtain an injunction or monetary compensation, the person claiming confidentiality is required to prove loss – actual or threatened. The position is less clear in equity as the cause of action fixes on the conscience of the defendant. Disclosure of the information in question may conceivably not cause commercial loss but the person claiming confidentiality may wish to act to

26 See the speeches of Lord Goff and Lord Griffiths in Spycatcher (supra)
protect the confidence or discourage others from acting in a similar way that may cause loss.

In commercial, as opposed to personal, information cases it is inherently more likely that disclosure of objectively established confidential information will cause the claimant loss. The issue of the nature of the information and loss are invariably closely connected. It is submitted that the safer view is that proof of detriment, or potential detriment, to the person claiming confidentiality must be established in a claim in breach of confidence between private parties but in practice the burden is a light one.

**REMEDIES**

The remedies available to a party include (a) interim and permanent orders and (b) money and non-money orders. A number of non-money remedies may be sought as either interim or permanent orders; e.g. injunctions and orders for delivery up of documentation.

This paper will consider the remedy of an injunction and money orders.

**Injunction**

**Interim**

In commercial cases, not involving freedom of expression issues, the relevant test is set out in *American Cyanamid v Ethicon*\(^\text{27}\) - the so-called “balance of convenience” test.

This is often not an easy test to apply in practice and can result in a lengthy hearing involving analysis of detailed factual evidence. In the recent decision in *Sectrack NV v Satamatics Ltd & Anr*\(^\text{28}\), the analysis required a two day hearing and a judgment running to 104 paragraphs.

\(^{27}\) [1975] A.C. 396 (c.f. for freedom of expression cases *Cream Holdings Ltd v Banerjee* [2004] UKHL 44)

\(^{28}\) Supra
Clearly, the grant of an interim injunction is likely to have significant commercial implications for the parties and, in many cases, causes an end to the dispute. In other cases, however, it can act to retrench the parties’ positions and cause parties to litigate matters to a final conclusion, in particular if there are issues as to whether or not the interim injunction should have been obtained in the first place.

A successful applicant will invariably be required to support an order by a cross-undertaking as to damages on which the defendant can rely if and when it is later found that the interim injunction ought not to have been granted29.

A point to consider in such cases is whether the dispute properly merits an order for an expedited trial so that the duration of the interim injunction (and time period for potential exposure under the cross-undertaking) is correspondingly limited.

*Permanent*

At trial, the court will, amongst other matters, consider (a) whether the person claiming confidentiality has proved its case in law/equity, (b) whether by the time of trial an injunction is required and (c) whether it should exercise its discretion in accordance with general equitable principles to order a final injunction in permanent terms (or possibly one of specified duration).

A court may, for example, consider that, by the time of the trial, some categories of confidential information (e.g. a list of customers) to that date protected by interim injunction no longer require protection due to other disclosures or developments in the general knowledge of the market/competitors whilst other information (e.g. a list of manufacturing costs and supply prices to customers) does merit continued protection30.

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29 See e.g. *Universal Thermosensor v Hibben* [1992] 1 W.L.R. 840
30 See e.g. *Take Ltd v BSM Marketing* (supra) @ [225] – [232]
43 An enjoined defendant should therefore ensure that it retains an express order for liberty to apply to discharge a permanent injunction in the event that circumstances change.

**Money orders**

44 In theory the nature of the compensation depends on the nature of the underlying cause of action in breach of confidence; viz, contract, equity or tort\(^{31}\).

45 It is submitted that in practice the court will order the remedy it considers most accurately reflects the justice of the situation and can be established forensically on the facts as found.

**Damages**

46 This remedy was ordered by the House of Lords in tort - misuse of private information - \((Campbell v MGN^{32} \text{ and Douglas v Hello!}^{33})\) with no discussion as to the legal basis of the damages. It remains the usual monetary remedy.

47 In general terms, where confidential information of a commercial nature has been misused, damages will be assessed by reference to its commercial value at the time it was misused\(^{34}\).

48 In cases involving the appropriation of confidential information from a business, it is important to distinguish between valuation of (a) the confidential information and (b) the business. It \(\text{Gorne v Scales}^{35}\) it was said:

\[^{31}\text{For a useful academic analysis, see Remedi al Responses to Breach of Confidence: the Question of Damages by Linda Clarke in Civil Justice Quarterly, Sweet & Maxwell (2005)}\]
\[^{32}\text{Supra} \]
\[^{33}\text{Supra @ [115], [127]}\]
\[^{34}\text{Seagar v Copydex (No.2) [1969] 1 W.L.R. 809 @ 813: “the value of the information that the defen dant took… “} \]
\[^{35}\text{Gorne v Scales & Ors [2006] EWCA Civ. 311 @ [10], [34], [74] “Once damages are assessed and paid, the confidential information belongs to the defendant”}, \]
The correct measure of damages in a case like this is the market value of the confidential information on a sale between a willing seller and a willing buyer”.

An analysis of the commercial use to which the information was applied after appropriation (including any profit thereby generated by the defendant) is not normally relevant in an assessment of damages, as opposed to an account of profits$^{36}$.

**Account of profits**

This remedy was ordered by the House of Lords in equity (Spycatcher$^{37}$) and in contract (Attorney-General v Blake$^{38}$). In Spycatcher, Lord Keith said (p262):

“In cases where the information is of a commercial character an account of profits may provide some compensation to the claimant for loss which he has suffered through the disclosure, but damages are the main remedy for such loss.”

This conclusion is consistent with the later decisions in Campbell and Douglas v Hello! describing breach of confidence as a tort.

**Constructive trust**

This is not a remedy currently available in English law against the user or recipient of confidential information. Those in the majority of the House of Lords in Douglas v Hello! restored the trial judge’s award of damages (£1m+) and gave no hint that any other remedy would have been appropriate.

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$^{36}$ Conceptually, the future profit earning potential of confidential information can affect its value at the time of appropriation if it is shown that information as to such potential then available would have influenced the price offered by a purchaser.

$^{37}$ Supra

$^{38}$ Supra @ 287
FURTHER AREAS OF FORWARD MOVEMENT

53 This section set out briefly some areas of uncertainty in the current law where the courts may move further forward. It is not possible in a paper of this length to address these areas in any detail but they merit careful consideration when arising.

Contractual duties – a higher duty?

54 It has been suggested judicially that an obligation of confidence expressly accepted under a contract may carry more weight than a duty implied by law or equity or, by parity of reasoning, imposed by the law of tort.

55 Whether this is correct remains to be seen but, if so, it would have the potential to create material differences in the scope and the standard of the duty applicable to (a) contracting parties and (b) third party recipients as well as between (c) parties subject to contractual duties of confidence and (d) those subject to equitable or tortious duties of confidence.

Repudiatory breach of contract

56 The question here is whether a party may defend a contractual claim in breach of confidence on the ground that the person claiming confidentiality has repudiated the contract by its own breach which repudiation that party has accepted thereby discharging the contract.

57 This issue was considered in Campbell v Frisbee where on appeal no certain answer was given. The best that can be said at present is that the issue is likely to turn on the court’s construction of the parties’ intentions in respect of the underlying contract. If the parties by the nature and terms of the contract are found to have intended that the duty of confidentiality should continue after termination, discharge by acceptance of repudiatory breach should not constitute a defence to the claim for breach of confidence, although it may, of course, constitute a cross-claim.

39 Campbell v Frisbee [2002] EWCA Civ. 1374 @ [22]
40 Ibid @ [22]
Equitable defences - the purchaser for value in good faith

In relation to remedies other than injunctions, is the court required to give effect to general equitable defences such as (a) delay (laches), (b) conduct of the person claiming confidentiality (clean hands) and (c) actual or potential injustice to a defendant who has acted to his detriment in good faith? Does the position differ for cases brought under the equitable basis of breach of confidence as opposed to the contractual or tortious basis?

In respect of a case where a third party has acted innocently to his detriment by paying for the supply of confidential information (e.g. a customer list from a fraudster or a dishonest company director or employee) it has been argued, by analogy to the law of restitution\(^{41}\), that this fact should not automatically permit him the right to use that information after discovering the truth but should be regarded as a form of detrimental change of position. In such a case, it should be for the court to decide in all the circumstances by balancing the respective justices and injustices between two innocent parties whether relief should be granted and, if so, on what terms\(^{42}\).

Public interest in disclosure - the “defence of iniquity”

It has been said\(^{43}\) that:

“… there is no confidence as to the disclosure of iniquity. You cannot make me the confidant of a crime or a fraud, and be entitled to close my lips upon any secret which you have had the audacity to disclose to me relating to any fraudulent intention on your part; such a confidence cannot exist.”

It is clear that a duty of confidentiality between private parties may be negated or qualified by public policy\(^{44}\). There remain potentially difficult questions as to how and where the line is to be drawn. For example, does the principle permit the person claiming confidentiality to prevent disclosure of commercial confidential information which tends to

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\(^{41}\) Lipkin Gorman v Karpnale Ltd [1991] 2 A.C. 548 @ 577-580
\(^{42}\) Toulmin & Phipps para 3-062
\(^{43}\) Gartside v Outram (1857) 26 L.J. Ch (N.S.) 113
\(^{44}\) Spycatcher (supra), Northern Rock plc v Financial Times Ltd & Anr [2007] EWHC 2677 (QB) @ [19] (a commercial case with freedom of expression issues)
incriminate him, in either this or a foreign jurisdiction, in unlawful or unlicensed trading (such as money lending) or in regulatory proceedings?

**International cases – jurisdiction and applicable law**

62 In *Ashton Investments Ltd & Anr v OJSC Russian Aluminium & Ors*\(^{45}\) it was alleged that a breach of confidence took place in London when the defendants, who were based in Russia, hacked into the Claimant’s computer system and obtained confidential information. The initial issue was whether the English court had jurisdiction to permit the claim to be made in this jurisdiction.

63 The court had no difficulty on these presumed facts in concluding that damage occurred in London and the action was justiciable in this jurisdiction. The information was located in London and some part of the damage took place there\(^{46}\).

64 However, does this mean that, in an action in breach of confidence, jurisdiction will be determined by the physical location of the confidential information? Is a party required to proceed by various actions in different jurisdictions if it claims confidentiality against a party obtaining its information from documents or servers located in different places? Is that party also entitled to proceed by one action against the defendant in its (or his) jurisdiction relying on misuse in other jurisdictions?

65 In *Ashton Investments* the court went on to make a provisional conclusion that the location of the tort and the alleged damage indicated that the applicable law was English law\(^{47}\). In multi-jurisdictional cases difficult questions will inevitably arise in relation to the applicable law or laws.

\(^{45}\) [2006] EWHC 2545 (Comm)

\(^{46}\) “If a thief steals a confidential letter in London but does not read it until he is abroad, damage surely occurs in London. It should not make a difference that in a digital age of almost instantaneous communication, the documents are stored in digital form rather than hard copy and information is transmitted electronically abroad where it is read.”

\(^{47}\) Ibid [84(iii)]
CONCLUDING REMARKS

66 The digital age means not only that more commercially confidential information is stored by parties but also that unauthorised disclosure of that information may be made easily, quickly and across legal jurisdictions.

67 The courts have moved forward in their protection of confidential information. The most significant steps have been to dispense with the requirement of pre-existing confidential relationship between the parties and to establish at law a direct link between the objective commercial value of the information and the likelihood of protection or compensation by court order.

68 The rights as between contracting parties are well-established, although they will vary according to the express or implied terms governing their relationship. The more important developing areas in practice include those where a party claims confidentiality in information disclosed without authority to a third party recipient, in particular where (a) it is difficult to prove that the third party solicited the information or knew that it was disclosed without authority; (b) the third party paid for the information in good faith; (c) the disclosure crosses legal jurisdictions.

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