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Accessory liability for breach of confidence: the Supreme Court's decision in *Vestergaard v Bestnet*

The Hon. Mr Justice Richard Arnold

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The elements of an equitable claim for breach of confidence

Coco v A.N. Clark (Engineers) Ltd [1969] RPC 41 at 47 (Megarry J):

> "First, the information itself ... must 'have the necessary quality of confidence about it'.
>
> Secondly, that information must have been communicated in circumstances importing an obligation of confidence.
>
> Thirdly, there must have been an unauthorised use of the information to the detriment of the party communicating it."

Circumstances importing an obligation of confidence

Coco v Clark at 48:

> "It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would realise that upon reasonable grounds the information was being given to him in confidence, then this would suffice to impose on him the equitable obligation of confidence."

Attorney-General v Guardian Newspapers Ltd (No. 2) [1990] 1 AC 109 at 281 (Lord Goff of Chieveley):

> "I start with the broad general principle (which I do not intend in any way to be definitive) that a duty of confidence arises when confidential information comes to the knowledge of a person (the confidant) in circumstances where he has notice, or is held to have agreed, that the information is confidential, with the effect that it would be just in all the circumstances that he should be precluded from disclosing the information to others."

Campbell v MGN Ltd [2004] UKHL 22, [2004] 2 AC 457 at [14] (Lord Nicholls of Birkenhead):

> "Now the law imposes a 'duty of confidence' whenever a person receives information he knows or ought to know is fairly and reasonably to be regarded as confidential."

See also Lord Hoffmann at [44]-48], Lord Hope of Craighead at [85] and Baroness Hale of Richmond at [134].

Imerman v Tchenguiz [2010] EWCA Civ 908, [2011] Fam 116 at [69] (Lord Neuberger of Abbotsbury MR):

> "In our view, it would be a breach of confidence for a defendant, without the authority of the claimant, to examine, or to make, retain, or supply copies to a third party of, a document whose contents are, and were (or ought to have been) appreciated by the defendant to be, confidential to the claimant. …"

Vestergaard Frandsen A/S v Bestnet Europe Ltd [2013] UKSC 31, [2013] 1 WLR 1556 at [23] (Lord Neuberger PSC):

> "The classic case of breach of confidence involves the claimant's confidential information, such as a trade secret, being used inconsistently with its confidential nature by a defendant, who received it in circumstances where she had agreed, or ought to have appreciated, that it was confidential: see eg per Lord Goff of Chieveley in *Attorney General v Guardian Newspapers Ltd (No 2)* [1990] 1 AC 109, 281. Thus, in order for the conscience of the recipient to be affected, she must have agreed, or must know, that the information is confidential."

See also [39].

Unauthorised use

Vestergaard v Bestnet at [24]:

> "The decision in *Seager v Copydex Ltd* [1967] 1 WLR 923 … was an entirely orthodox application of this approach. The plaintiff passed on to the defendants a trade secret about his new design of carpet grip, and although the defendants realised that the secret was imparted in confidence, they went on to use that information to design a new form of carpet grip, which they marketed. What rendered the case unusual was that the defendants (i) did not realise that they had used the information, as they had done so unconsciously, and (ii) believed that the law solely precluded them from infringing the plaintiff's patent. However, neither of those facts enabled them to avoid liability, as, once it was found that they had received the information in confidence, their state of mind when using the information was irrelevant to the question of whether they had abused the confidence."

Accessory liability: cases prior to *Vestergaard v Bestnet*

Lancashire Fires Ltd v S.A. Lyons & Co Ltd [1996] FSR 629 (Carnwath J): participation in a common design founds joint liability.

Thomas v Pearce [2000] FSR 718 (Court of Appeal): accessory liability requires dishonesty.

Campbell v MGN [2002] EWCA Civ 1373, [2003] QB 633 (Court of Appeal): liability for publication of private personal information does not require dishonesty.

The facts in *Vestergaard v Bestnet*

Vestergaard was engaged in the development, manufacture and sale of long-lasting insecticidal mosquito nets ("LLINs"), and in particular LLINs made from Extruded polyethylene incorporating insecticide and various chemical additives.

Dr Skovmand, a consultant engaged by Vestergaard, had carried out research into the effects of different combinations of additives, the results of which were stored in an electronic database referred to as the "Fence" database.

Mr Larsen and Mrs Sig were employed by Vestergaard as Head of Production and as a regional sales manager respectively. Mr Larsen was aware of the contents of the Fence database, but Mrs Sig was not.

In Spring 2004 Mr Larsen and Mr Sig decided set up a new business to compete with Vestergaard, and engaged Dr Skovmand to devise a formulation for a polyethylene LLIN which was subsequently marketed under the name Netprotect.

In June and July 2004 Mrs Sig and Mr Larsen resigned from Vestergaard. In August 2004 they set up a company called Intection of which Mrs Sig was the sole director.

In October 2004 Dr Skovmand and Mr Larsen started trials of some initial formulations for Netprotect which Dr Skovmand had devised using information from the Fence database. Subsequently the formulation of Netprotect was refined.

In October 2005 Intection ceased trading and Mr Larsen and Mrs Sig set up Bestnet in its place, again with Mrs Sig as the sole director. At around the same time, Netprotect was launched.

The Supreme Court's decision in *Vestergaard v Bestnet*

Vestergaard's first argument: Mrs Sig had acted in breach of an express obligation of confidence in her contract of employment (as had been decided at first instance).

The Supreme Court dismissed this (at [30]) on the ground that the term in question restricted use of information relating to her employment and knowledge gained in the course of her employment, but the information misused by Dr Skovmand to develop Netprotect was neither of these: it was knowledge gained by Dr Skovmand during the course of his consultancy work.

Lord Neuberger added (at [31]) that it would not be proper to imply a term to the effect that Mrs Sig would not assist another person to misuse Vestergaard's trade secrets in circumstances where she did not know the trade secrets and was unaware that they were being misused.

Vestergaard's third argument: Mrs Sig had "blind-eye" knowledge that Dr Skovmand was misusing Vestergaard's trade secrets or was at least reckless as to whether that was the case.

The Supreme Court dismissed this (at [40]-[43]) on the grounds that no finding of blind-eye knowledge had been made against Mrs Sig and taking a risk was insufficient for liability.

Vestergaard's second argument: Mrs Sig was liable for participation in a common design with Dr Skovmand and Mr Larsen to design, manufacture and market Netprotect LLINs i.e. as an accessory.

Lord Neuberger dismissed this for the following reasons:

"33. I accept that common design can, in principle, be invoked against a defendant in a claim based on misuse of confidential information; …. However, I cannot see how Mrs Sig could be so liable, in the light of her state of mind as summarised in para 22 above.

34. As Lord Sumption JSC pointed out in argument, in order for a defendant to be party to a common design, she must share with the other party, or parties, to the design, each of the features of the design which make it wrongful. If, and only if, all those features are shared, the fact that some parties to the common design did only some of the relevant acts, while others did only some other relevant acts, will not stop them all from being jointly liable. In this case, Mrs Sig neither had the trade secrets nor knew that they were being misused, and therefore she did not share one of the features of the design which rendered it wrongful, namely the necessary state of knowledge or state of mind. Accordingly, although she was party to the activities which may have rendered other parties liable for misuse of confidential information, she cannot be liable under common design."

Problems

Is dishonesty required?

Why should dishonesty be required for a finding of accessory liability when primary liability for breach of an equitable obligation of confidence does not require knowledge (let alone dishonesty)?

Dr Skovmand was found liable for breach of a *contractual* obligation of confidentiality, not an *equitable* obligation. To be liable for inducing breach of contract, an accessory must know that he is inducing a breach of contract. It is not enough that he knows he is procuring an act which, as a matter of law or construction of the contract, is a breach. He must actually realise that it will have that effect: see *OBG Ltd v Allan* [2007] UKHL 21, [2008] AC 1 at [39]-[41] (Lord Hoffmann). Should the test for accessory liability be the same or different for breach of an equitable obligation?