CONFIDENTIAL INFORMATION — A NEW PROPRIETARY INTEREST? PART I

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[*This article is to be published in two parts. In Part I, the author discusses the weaknesses inherent in some of the analyses so far advanced in respect of the true basis of actions for breach of confidence. In Part II, it will be argued that a better solution is achieved by treating confidential information as a form of equitable property.*]

INTRODUCTION

One of the more interesting legal developments of recent years has been the emergence of a jurisdiction which protects secrets, namely the action for breach of confidence. In simplest terms, this enables one party who imparts information in confidence to another to restrain that other from using or disclosing it to third parties without his permission.[1] The type of information which may be protected in this way varies enormously and ranges from ideas of a highly commercial and technical nature (often called 'trade secrets' or 'know-how')[2] to items of an extremely personal and intimate character.[3] If the recipient of such information uses it in an unauthorized manner, the person who disclosed it to him may obtain an injunction preventing such use as well as other equitable relief and/or damages.[4] Furthermore, third parties receiving confidential information may find themselves held liable, even though they may not have been involved in the original breach of confidence (in the sense of aiding or

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1 *Prince Albert v. Strange* (1849) 2 DeG. & Sm. 652, 64 E.R. 293 (Knight Bruce V-C); (1849) 1 H. & Tw. 1; 47 E.R. 302 (on appeal, Lord Cottenham L.C.); *Morison v. Moat* (1851) 9 Hare 241; 68 E.R. 492; *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203; [1963] 3 All E.R. 413 n; *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37; *Fraser v. Evans* [1969] 1 All E.R. 8.

2 For instance, *Terrapin Ltd v. Builder's Supply Co. (Hayes) Ltd* (1967) R.P.C. 375 (design for portable buildings); *Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 784 (a die for making nylon plugs); *Yates Circuit Foil Co. v. Electrofoils Ltd* (1976) F.S.R. 345 (copper foil for printed circuits).

3 *Prince Albert v. Strange* (1849) 1 H. & Tw. 1 (the private etchings of Queen Victoria and Prince Albert); *Argyll v. Argyll* [1965] 1 All E.R. 611 (matrimonial secrets); *Foster v. Mountford* (1977) 14 A.L.R. 71 (Aboriginal tribal secrets).

4 For instance, *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203 (injunction); *Seager v. Copydex* (No. 1) [1967] 2 All E.R. 415 (damages); *Peter Pan Manufacturing Corporation v. Corsets Silhouette Ltd* [1963] 3 All E.R. 402 (account of profits); *Industrial Furnaces Ltd v. Reaves* (1970) R.P.C. 605 (order for delivery up).

inducing another party to reveal information entrusted to him in confidence).[5] As a corollary to this, it now appears that there can be liability for the unconscious use of another's information and that this may also apply to third party recipients.[6]

The above paragraph, however, only provides the briefest sketch of the jurisdiction in confidence. Difficult problems arise in ascribing a clear basis to it. Is there a common principle linking the multiplicity of cases where protection has been granted? Judges have been deeply divided on this point and a number of different theories have been advanced from time to time: property, contract, trust, fiduciary relationship and good faith, only to mention a few. Indeed, as one writer has remarked, some judges have 'indiscriminately intermingled all these concepts'.[7]

Academic commentators have likewise been divided, but several major schools of thought can be discerned among both judges and writers. The first, and least satisfactory, bases liability on contract, postulating breach of an implied contractual obligation of confidence wherever possible.[8] This does not explain, however, those cases where liability has been imposed in the absence of any contractual relationship between the parties. A second approach, therefore, has been to treat confidential information as a species of property, but to do this raises a number of questions which at present remain largely unanalysed. Is it a legal or equitable proprietary interest? One writer, for instance, has argued that breach of confidence actions are analogous to conversion or trespass and that liability sounds in common law damages as of right, with the superadded possibility of equitable relief.[9] Even if this problem can be satisfactorily resolved, there still remain the questions of whether the interest is limited in time and against whom it is enforceable? Also, what is its relation to other forms of industrial and intellectual property such as patents and copyright?

A final approach has sought to avoid the difficulties of the contractual and proprietary analyses by basing liability upon an equitable obligation of good faith. According to this, a person will only be guilty of a breach of confidence when he disregards his duty of good faith in relation to confidential information which another has entrusted to him.[10] This theory has a number of obvious attractions, but, like the others, raises several unsolved problems, not the least of these being the liability imposed upon an unconscious user of confidential information.[11]

[5] *Nicrotherm Electrical Co. Ltd v. Percy* (1956) R.P.C. 272, 281 (*per* Harman J.); *Printers and Finishers Ltd v. Holloway* (1965) R.P.C. 239, 253 (*per Cross* J.).

[6] *Seager v. Copydex* (No. 1) [1967] 2 All E.R. 415.

[7] Gareth Jones 'The Restitution of Benefits acquired in Breach of Another's Confidence' (1970) 86 *Law Quarterly Review* 463.

[8] See, for example, A. M. Turner *The Law of Trade Secrets* London 1962.

[9] P. M. North 'Breach of Confidence: Is there a new tort?' *Journal of Society of Public Teachers of Law* (1971) 149.

[10] Gareth Jones 'The Restitution of Benefits acquired in Breach of Another's Confidence' (1970) 86 *Law Quarterly Review* 463; see also Lord Denning M.R. in *Fraser v. Evans* [1969] 1 All E.R. 8, 11.

[11] As in *Seager v. Copydex* (No. 1) (1967) 2 All E.R. 415.

The purpose of this article is to evaluate these various theories of liability and to argue that what has happened in the case law has been the *de facto* creation of a new class of equitable proprietary interest. Our first inquiry, therefore, will be to consider briefly the categories of information that the courts have so far treated as confidential and the limits, if any, they place on these. Secondly, the nature and extent of the protection granted will be examined, together with a consideration of the factors which courts take into account in awarding such protection. Finally, the implications of recognizing a new proprietary interest will be discussed, particularly in relation to other forms of industrial and intellectual property rights.

WHAT IS CONFIDENTIAL INFORMATION?

The term can cover almost any fact that is imparted in confidence. In many cases, the information will already have protection, actual or potential, under the various industrial property regimes. Thus, much technical information could be covered by the law of patents, provided that it met the strict requirements for procedure to grant. The law of copyright also gives protection, at least in relation to the form in which unpublished information, such as a manuscript or plan, exists. There is obviously a potential area of overlap here, particularly in the case of patents and this problem will be discussed further below.[12]

As confidential information is not restricted by the sort of requirements that pertain to patents or copyright, a very wide range of technical and commercially valuable information has been brought within its ambit. Such information need be neither inventive nor novel (as with a patent),[13] nor is the protection granted limited to the form in which it is expressed (as with copyright).[14] The prime requirement is simply that it be secret, but this may mean no more than 'relatively secret'. Accordingly, courts have still protected information which has had a limited circulation, but which has not been revealed to the world in general.[15] The only limits set are that it must not be mere trivial 'tittle-tattle'[16] or against the public interest that it be kept secret.[17] A good example of the latter is provided

[12] See the second part of this article, to be published in (1978) 11 *M.U.L.R.* The term 'trade secret' is often used to describe information of a technical and industrial nature, particularly in American jurisdictions: see generally A. M. Turner *The Law of Trade Secrets* London 1962. In Anglo-Australian courts, it seems that the more general 'confidential information' is preferred and there is no special usage of 'trade secret': see *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries* [1967] V.R. 37 and *Saltman Engineering Co. Ltd v. Campbell Engineering Co.* (1948) 65 R.P.C. 203.

[13] Patents Act 1952-1969 (Commonwealth) ss. 59(1)(g), 100(1)(e).

[14] Copyright Act 1968-1973 (Commonwealth) s. 31.

[15] As, for instance, among the employees of a reasonably large company: see *Underwater Welders & Repairers Ltd v. Longthorne* (1968) R.P.C. 498 or *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37.

[16] *Coco v. A.N. Clark (Eng.) Ltd* (1969) R.P.C. 41 (*per* Megarry J.).

[17] *Gartside v. Outram* (1857) 26 L.J. Rep. (N.S.) Eq. 113; *Fraser v. Evans* (1969) 1 All E.R. 8; *Hubbard v. Vosper* [1972] 1 All E.R. 1023.

in one case where a Court permitted disclosure of a marketing agreement that offended against trade practices legislation.[18]

Protection has thus been given to a very wide variety of commercial and technical information, ranging from distinctive and patentable inventions[19] to industrial processes,[20] formulae and recipes,[21] customer lists,[22] designs and tables,[23] marketing procedures and accounting techniques.[24] It has also been given to items which are more accurately described as literary information (with a strong commercial flavour), such as unpublished manuscripts,[25] plots of plays,[26] lectures,[27] news items and sports results,[28] reports and surveys,[29] questionnaires[30] and stock exchange quotations.[31] In all these cases, the protection granted has been quite distinct from that afforded by the patent or copyright systems.

It is also clear that, in order to qualify for protection, the confidential information need not have physical expression, as in a document or completed device, but may still only be in the recipient's mind.[32] Furthermore, it appears that a protectable trade secret may be no more than a successful collation of certain well-known steps, none of which on its own is confidential, but which in total represents the application of effort and skill by the collator, even though this falls far short of the level of inventiveness required by patent law.[33] Lord Greene M.R., in *Saltman*

[18] *Initial Services Ltd v. Putterill* (1968) 1 Q.B. 396.

[19] As in *Seager v. Copydex* (No. 1) [1967] 2 All E.R. 415 (a novel type of carpet clamp).

[20] *Underwater Welders & Repairers Ltd v. Street & Longthorne* (1968) R.P.C. 498 (process for cleaning ships); *Cranleigh Precision Engineering Ltd v. Bryant* [1964] 3 All E.R. 289 (process for making swimming pools).

[21] *Morison v. Moat* (1851) 9 Hare 241 (recipe for medicine); *Alperton Rubber Co. v. Manning* (1917) 86 L.J. Ch. 377 (book of chemical formulae for making rubber compounds).

[22] *Robb v. Green* [1895] 2 Q.B. 315.

[23] *Merryweather v. Moore* (1892) 2 Ch. 518 (table of dimensions); *Lamb v. Evans* [1893] 1 Ch. 218 (trading directory).

[24] *Stephenson, Jordan & Harrison Ltd v. MacDonald & Evans* (1951) 68 R.P.C. 190 (business consultancy techniques — these were, however, held to be not sufficiently confidential on appeal); *Amway Corporation v. Eurway International Ltd* (1974) R.P.C. 82 (direct selling techniques, but here protection was denied as the plaintiffs had not imparted the information in confidence).

[25] *Duke of Queensberry v. Shebbeare* (1758) 2 Eden 329; 28 E.R. 924 (unpublished manuscript); *Pope v. Curl* (1741) 2 Atk. 342; 26 E.R. 608 (unpublished letters).

[26] *Macklin v. Richardson* (1770) Amb. 694; 27 E.R. 451; *Gilbert v. Star Newspaper Co. (Limited)* (1894) 11 T.L.R. 4; *Fraser v. Edwards* (1905-10) MacG. Cop. Cas. 10.

[27] *Caird v. Sime* (1887) 12 A.C. 326.

[28] *Exchange Telegraph Co. Ltd v. Central News* [1897] 2 Ch. 48 (race results); *Exchange Telegraph Co. Ltd v. Howard & Manchester Press Agency Ltd* (1906) 22 T.L.R. 375 (cricket scores); *Press Association Ltd v. Northern & Midland Reporting Agency* (1905-11) MacG. Cop. Cas. 306 (election results); *cf. Reuters Telegraph Co. Ltd v. Byron* (1874) 43 L.J. Ch. 661.

[29] *Surveys & Mining Ltd v. Morison* (1969) Qd.R. 470.

[30] *Interfirm Comparisons (Australia) Ltd v. Law Society of N.S.W.* (1975) 5 A.L.R. 527.

[31] *Exchange Telegraph Co. Ltd v. Gregory* (1896) 1 Q.B. 147.

[32] *Printers & Finishers Ltd v. Holloway* (1965) R.P.C. 239, 255 (*per* Cross J.); see also *Mediterranean Bakery Pty Ltd v. Vardakis* (1976) A.C.L.D. 649.

[33] *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203; *Cranleigh Precision Engineering Ltd v. Bryant* [1964] 3 All E.R. 289.

Engineering Co. Ltd v. Campbell Engineering Co. Ltd., remarked in this regard:

> The information, to be confidential, must I apprehend, apart from contract, have the necessary quality of confidence about it, namely, it must not be something which is public property and public knowledge. On the other hand, it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch or something of that kind, which is the result of work done by the maker upon materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process.[34]

Of this passage, a judge in a later case has commented:

> . . . the reference to 'a document' is adventitious. There could equally have been a reference to 'a completed device'.[35]

Because secrecy is the hall-mark of confidential information, it ceases obviously to have protection after it is published to the world. Thus, if it is published in a patent specification, there is no longer any confidence attaching to it.[36] But, as Gowans J. in the Victorian Supreme Court has observed, just because the information is embodied in a completed device, which can be inspected and copied by any member of the public, does not mean that protection is thereby lost. Any competitor who does not go through the same process as the originator of the confidential method or technique will be restrained from using this as a springboard or short cut for his own benefit.[37] Similarly, publication abroad by a third party may not destroy the original confidence, because secrecy is a relative matter and provided that the information is withheld from those immediately interested in it, then equity will give its protection.[38] In the same way, publication to a limited audience, such as a private lecture, does not give the members thereof or any other person the right to reproduce the lecture to the world.[39] Thus, information may be conveyed for certain limited purposes and any use which is made of it beyond that which is authorised may be restrained. In many cases, the very nature of the information will indicate the legitimate purposes for which it may be

[34] *Op. cit.* 215. See more recently, to the same effect: *Yates Circuits Foil Co. v. Electrofoils Ltd* (1976) F.S.R. 345.

[35] *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37, 44 (*per* Gowans J.).

[36] *Mustad v. Allcock & Dosen* [1963] 3 All E.R. 416 n.

[37] *Terrapin Ltd v. Builder's Supply Co. (Hayes) Ltd* (1967) R.P.C. 375, 392 (*per* Roxburgh J.); *Ansell Rubber Co. Pty Ltd* [1967] V.R. 37, 49 (*per* Gowans J.); *Seager v. Copydex* [1967] 2 All E.R. 415, 417 (*per* Lord Denning M.R.); *Yates Circuit Foil Company and Another v. Electrofoils Ltd and Another* (1976) F.S.R. 345, 387 (*per* Whitford J.); *cf.* the recent comments by Megarry J. in *Coco v. A.N. Clark (Engineers) Ltd* (1969) R.P.C. 41, 48 and Lord Denning M.R. in *Potters-Ballotoni Ltd v. Weston-Baker & Ors.* (1977) R.P.C. 202, 205 suggesting possible limits to the springboard doctrine.

[38] *Cranleigh Precision Engineering Ltd v. Bryant* [1964] 3 All E.R. 289; *cf. B.O. Morris v. Gilman, BST Ltd & Ors.* (1943) 60 R.P.C. 21; *Franchi v. Franchi* (1967) R.P.C. 149.

[39] *Abernethy v. Hutchinson* (1824) 1 H. & Tw. 28; 47 E.R. 1313; *Caird v. Sime* (1887) 12 A.C. 326; *Nicols v. Pitman* (1884) 26 Ch. D. 374.

used, as, for example, with a private letter which may be meant for a close circle of family and friends, but not for the whole world.[40] A useful summary of the factors involved in determining whether, in relation to trade secrets, any given body of information will be protected, is given in the American Restatement of Torts.[41] This has been accepted by several Australian courts and the same factors apply, with appropriate qualifications, to other types of confidential information.

They are as follows:

(1) The extent to which the information is known outside his [the owner's] business;

(2) the extent to which it is known by employees and others involved in his business;

(3) the extent of measures taken by him to guard the secrecy of the information;

(4) the value of the information to him and his competitors;

(5) the amount of effort or money expended by him in developing the information;

(6) the ease or difficulty with which the information could be properly acquired or duplicated by others [*i.e.* by their independent endeavours].[42]

This list of factors emphasizes that whether or not protection is granted in any particular case depends largely on the self-help measures adopted by the owner of the information to ensure that it remains confidential. If the 'owner' has done little to prevent his information being made public, it will be harder for him to show that a breach of confidence has occurred. On the other hand, a Court will be readier to intervene where the 'owner' has taken security measures and has only imparted his secret in circumstances of extreme confidence.

In addition, reference must be made to a category of information whose value is not solely monetary in the sense that competitors in the field will bid for it. This is information of a personal or intimate kind and the person complaining of breach of confidence here is not so much concerned with pecuniary loss, as with the need to avoid injury to feelings or to maintain a public image. Such information is frequently of high interest to the public and of value in the sense that the media will 'pay for a story'. Nonetheless, it is not readily assessible in money terms. On

[40] *Philip v. Pennel* [1907] 2 Ch. 577.

[41] Art. 757, American Restatement of Torts.

[42] *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37, 49-50; *Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 784, 796. Also see the recent judgment of Fullager J. in *Deta Nominees Pty Ltd v. Viscount Plastic Products Pty Ltd* where his Honour makes the point that these factors are not to be considered as exclusive (unreported, December, 1976; to be reported [1977] V.R.).

occasions, the Courts have been asked to protect such confidences and celebrated cases have included the private etchings of Queen Victoria and Prince Albert,[43] the matrimonial secrets of well-known spouses[44] and the confidential sources of a Wesminster lobby correspondent.[45] Although protection has not always been granted in such cases, where it has, the law has come close to recognizing a right of privacy. While such a right only extends to personal secrets and not to the broader aspects that are involved in an individual's desire for privacy, it is nonetheless a significant addition to our jurisprudence.[46] This area of breach of confidence will not be treated in detail in the present article and it may be that liability here should be on a different basis to that suggested for more commercial categories of information.

Before moving on, it should be noted that protection of the types of information discussed above raises distinct policy questions which will require resolution at some stage. With respect to personal confidences, there are far-reaching implications for freedom of speech and the public's 'right to know'.[47] In relation to commercial information (by far the largest category), protection here may discourage innovation and the free flow of information which is so important for research and further investment.[48] In addition, unhealthy restraints may also be imposed on competition. A tentative resolution of some of these problems is provided by the availability of a defence allowing disclosure if it is in the public interest.[49] Other difficulties may be avoided by the adoption of a more flexible approach to the award of relief.[50] These questions will be considered below, but first we must examine more closely the theoretical basis for protection in breach of confidence cases.

[43] *Prince Albert v. Strange* (1849) 2 DeG. & Sm. 652 (Knight Bruce, V-C); (1849) 1 H. & Tw. 1 (on appeal, *per* Lord Cottenham L.C.).

[44] *Argyll v. Argyll* [1965] 1 All E.R. 611.

[45] *Beloff v. Pressdram* (1973) R.P.C. 765, [1973] 1 All E.R. 241. See also *Pollard v. Photographic Co.* (1889) 40 Ch. D. 345, where North J. restrained the unauthorised reproduction of a photographic negative of the plaintiff, although this case is readily explained on a contractual basis, *i.e.* an implied term not to deal with the negative in that way. See also *Foster v. Mountford* (1977) 14 A.L.R. 71.

[46] See the pioneering article in this area by Warren and Brandeis which based its argument for a general right of privacy in United States law on such early English cases as *Prince Albert v. Strange*: S. Warren and L. Brandeis 'The Right to Privacy' (1890) 4 *Harvard Law Review* 193. There is an extensive literature on the subject of which the following provide a good outline of the issues involved: Walter F. Pratt, 'The Warren and Brandeis Argument for a Right of Privacy'; (1975) *Pub. Law* 161; H. Storey, 'Infringement of Privacy and its Remedies' (1973) 47 *A.L.J.* 498; R. Wacks, 'Breach of Confidence and the Protection of Privacy' (1977) *New L.J.* 328. See also *Report of the Committee on Privacy* (1972) Cmnd. 5012 ('The Younger Committee'); *The Law Reform Commission (Aust.) Discussion Paper* No. 2, 'Privacy and Publication — Proposals for Protection', 1977.

[47] See the discussion on this point by the *U.K. Law Reform Commission* in its Working Paper No. 58 'Breach of Confidence' H.M.S.O. 1974, especially paras. 91-93.

[48] See the second part of this article to be published in (1978) 11 *M.U.L.R.*

[49] *Ibid.*

[50] *Ibid.*

THE DIFFERENT THEORIES OF LIABILITY

(a) *Contractual*

As to the first suggested basis of liability, namely contract, it is clear that this fails to provide a sufficient explanation of all the cases in which liability has been imposed. In the majority, however, a solution is usually relatively easy by means of a contractual obligation of confidence. The most typical situation where a possessor of confidential information wishes to protect himself is where he imparts it to someone already in contractual relations with him, as with employer and employee or principal and agent or licensor and licensee. The most effective means of preventing the recipient from disclosing or using the information for his own purposes is an express term to this effect, but courts are not slow to spell out an implied term in the absence of an express one.[51] In a typical contractual relationship, the implication of such an obligation will be borne out by proof of such things as are mentioned above in the American Restatement of Torts,[52] even though the obligation so imposed is often the last thing intended by the parties (or one of them) at the time of entering the contract.[53] Once the term and breach thereof are established, however, there is no obstacle to the court awarding damages as well as equitable relief, such as an injunction. Similarly, a third party who induces a person receiving confidential information to break his contractual obligation of confidence will be liable for damages in tort and may also be restrained.[54] A further advantage of contractual protection is that specific terms can make confidential that which is really quite trivial or even common knowledge: freedom of contract will allow the parties to agree to what they want (although this is not quite true of contracts of employment).

It should be noted, however, that courts have often adopted proprietary language when determining the extent of the recipient's contractual obligation of confidence. This takes the form of asking whether or not the information used by the latter can be characterized as the 'property' of the party seeking to enforce the obligation and is most often used in the case of contracts of employment. Here, courts will impose liability for breach of confidence by holding that an employee is under an implied obligation of good faith not to use his employer's confidential information

[51] As, for instance, in *Robb v. Green* (1895) 2 Q.B. 315 (ex employee using list of former employer's customers); *Gilbert v. Star Newspaper Co. Ltd* (1894) 11 T.L.R. 4 (this involved the premature publication in a newspaper of the plot of a new play: the Court joined the manager of the theatre as a party on the basis that the plaintiff author did not have a contract with any of the theatre's employees from whom, it was alleged, information concerning the play had come); *Ormonoid Roofing and Asphalts Ltd v. Bitumenoids Ltd* (1930) 31 S.R. (N.S.W.) 347 (former employee using secret process of employer); *Amber Syze & Chemical Co. Ltd v. Menzel* (1913) 2 Ch. 239 (likewise).

[52] See n. 41 *supra*.

[53] This is what Professor Julius Stone calls a 'legal category of concealed circular reference': J. Stone *Legal System and Lawyers' Reasoning* (1964) 260-1.

[54] *British Industrial Plastics Ltd v. Ferguson* [1940] 1 All E.R. 479.

without permission.[55] Such a duty appears similar to that imposed on fiduciaries in respect of information received by them during the course of discharging their fiduciary functions.[56] In fact, there seems to be no reason, in principle, why employees cannot also be treated as fiduciaries.[57] At the same time, considerations of public policy usually cause courts rigorously to examine any contract of employment where confidential information is involved.[58] During his employment, an employee will normally acquire a lot of 'know-how', knowledge which is inseparable from his own accumulated stock of skill and training. On the other hand, much of what he learns may be a specific trade secret of his employer, such as a secret process or special technique, built up through time by the application of effort and research, and known to very few other persons. The distinction between knowledge which becomes part of the employee's professional equipment and knowledge which continues to belong to his employer is not always easy to draw. Nonetheless, courts are reluctant to place restrictions on individuals selling their skill and labour. On occasion, therefore they will strike down express covenants forbidding an employee to use information acquired during the course of his employment as being too wide and in restraint of trade.[59] All the same, as one judge recently said:

> If the information in question can fairly be regarded as a separate part of the employee's stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of his old employer, and not his own to do as he likes with, then the court, if it thinks that there is a danger of the information being used or disclosed by the ex-employee to the detriment of the old employer, will do what it can to prevent that result by granting an injunction.[60]

Therefore a distinction is to be drawn between 'subjective knowledge' (which becomes part of an employee's attributes) and 'objective knowledge' (which the employer can restrain the former from using). In this context, it is of interest to note that courts have often used the term 'property' to describe information of the second type. This point will be developed below as part of the wider question of whether it is meaningful to treat confidential information generally as a proprietary interest. At this stage, it is simply worth noting the use made of the concept as a

[55] As in *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37.

[56] See, for instance, *Boardman v. Phipps* [1967] 2 A.C. 46; see also pp. 237 ff. *infra*.

[57] Thus, in many cases it is not clear whether the court is basing the duty to be of good faith on an implied contractual obligation or on a fiduciary relationship: see, *e.g.*, *Triplex Safety Glass Co. Ltd v. Scorah* (1938) 55 R.P.C. 21; *Industrial Development Consultants Ltd v. Cooley* [1972] 2 All E.R. 86.

[58] See, generally, E. I. Sykes and H. J. Glasbeek, *Labour Law in Australia* (1972) 55-63.

[59] *Triplex Safety Glass Co. Ltd v. Scorah* (1938) 55 R.P.C. 21; *Herbert Morris v. Saxelby* (1916) 1 A.C. 688.

[60] See, *Printers & Finishers Ltd v. Holloway* (1965) R.P.C. 239, 255. See also Farwell J. in *Triplex Safety Glass Co. Ltd v. Scorah* (1938) 55 R.P.C. 21; Gowans J. in *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37, 41 and Fullager J. in *Deta Nominees Pty Ltd v. Viscount Plastic Products Pty Ltd & Ors* (unreported December 1976 — to be reported [1977] V.R.).

means of defining the extent of an employee's obligation of good faith in respect of information.[61]

Contractual protection against breach of confidence, however, does not extend to parties outside the contract into whose hands confidential information may come. While such parties may be liable in tort for inducing breach of contract, it seems that this must be done intentionally.[62] It is therefore hard to explain those cases where liability has been imposed on third parties receiving information without any knowledge of its derivation from a breach of contractual confidence or who only later find this out. Moreover, it does not provide any reason for the imposition of liability in non-contractual situations. A classic instance of the latter is where parties are negotiating prior to entering a contract and one imparts confidential information to another, perhaps as an inducement: subsequently, however, the negotiations are aborted and the recipient uses the information to his own advantage.[63] In these cases, the basis of liability must be sought elsewhere.

(b) *Equitable*

There is now widespread acceptance of the fact that in these non-contractual situations the basis of judicial intervention is to be found in equity.[64] A much quoted statement is that of Lord Greene M.R. in *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd*[65] where he adopted a proposition advanced by the plaintiff's counsel in argument:

> If a defendant is proved to have used confidential information, directly or indirectly obtained from a plaintiff, without the consent, express or implied, of the plaintiff, he will be guilty of an infringement of the plaintiff's rights.[66]

Lord Denning M.R., in a later case, has described the jurisdiction as being based upon:

> . . . the broad principle of equity that he who has received information in confidence shall not take unfair advantage of it. He must not make use of it to the prejudice of him who gave it without obtaining his consent.[67]

At this point, however, conceptual confusion arises. Does equity intervene in order to protect a proprietary interest which the plaintiff has

[61] In many cases, particularly more recently, Courts have imposed liability for breach of confidence as a separate head of liability apart from contract: see, for instance, *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203; *Ackroyds (London) Ltd v. Islington Plastics Ltd* (1962) R.P.C. 97; *Underwater Welders & Repairers Ltd v. Street & Longthorne* (1968) R.P.C. 498.

[62] *British Industrial Plastics Ltd v. Ferguson* [1940] 1 All E.R. 479.

[63] Another such situation is where personal confidences are involved, as in the matrimonial relationship: *Argyll v. Argyll* [1965] 1 All E.R. 611.

[64] See, *e.g.*, Meagher, Gummow and Lehane, *Equity: Doctrines and Principles* (1975) 713-22; R. K. Fullagar, (now Fullagar J. of the Supreme Court of Victoria) 'Confidential Information and Trade Secrets', unpublished paper presented to a conference on Industrial Property Law, Monash University, 1972.

[65] (1948) 65 R.P.C. 203.

[66] *Ibid.* 213.

[67] *Seager v. Copydex* (No. 1) [1967] 2 All E.R. 415, 417.

in his information? Lord Greene M.R.'s proposition above implies that this might be the case and a number of judicial references to information as a form of intangible property can be found.[68] Thus, it can be sold,[69] bequeathed,[70] made subject to a trust,[71] licensed out[72] or form part of a bankrupt's estate.[73]

On the other hand, it can be argued that the basis of the equitable jurisdiction is to be found in the fact that equity respects the confidential nature of such communications and acts to restrain unfair or unconscionable behaviour by one party in relation to another. This notion seems implicit in the statement of Lord Denning M.R. above. It can also be seen as an extention of equity's historic jurisdiction over any relationship in which parties have assumed a position of trust or confidence towards each other.[74] The essence of this is summed up in the old couplet attributed to Sir Thomas More:

> Three things are to be helpt in Conscience:
> Fraud, Accident and Things of Confidence.[75]

I COMMON LAW RIGHTS OF PROPERTY IN UNPUBLISHED WORKS

The range of authority, as might be expected, is both enormous and conflicting. Some of it is also very ancient. One early line of cases, for instance, would suggest that there is a property basis to the jurisdiction. Thus, in the eighteenth and nineteenth century, the Court of Chancery would restrain the unauthorized use or publication of unpublished literary or artistic works.[76] Such materials were clearly confidential, but the grant of relief was based on the notion of a so-called 'common law right of

[68] See, *e.g., Butler v. Board of Trade* [1971] Ch. 680, 690-1 (*per* Goff J.); *Yates Circuit Foil Company & Anor. v. Electrofoils Ltd* (1976) F.S.R. 345, 384 (*per* Whitford J.). References to 'property 'in older cases can be found in *Dean v. MacDowell* (1878) 8 Ch. D. 345, 354 (*per* Cotton L.J.); *Crowder v. Hilton* (1902) S.A.L.R. 83, 85 (*per* Bundey J.); *Lindsey v. Le Sueur* (1913) 11 D.L.R. 411, 413 (*per* Britten J.); *Gartside v. Outrim* (1857) 26 L.J. Rep. (N.S.) Eq. 113.

[69] *Morison v. Moat* (1851) 9 Hare 241, 263 (*per* Turner V-C); *De Beer v. Graham* (1891) 12 N.S.W.R. (Eq.) 144.

[70] *Green v. Folgham* (1823) 1 Sim. & St. 398, 57 E.R. 159.

[71] *Boardman v. Phipps* [1967] 2 A.C. 46; also see *Green v. Folgham* (1823) 1 Sim. & St. 398.

[72] *Accumulator Industries Ltd v. C.A. Vandervell & Co.* (1912) 29 R.P.C. 391; *Torrington Manufacturing Co. v. Smith & Sons (England) Ltd* (1966) R.P.C. 285.

[73] In *re Keene* [1922] 2 Ch. 475, (chemical formulae). *Cf. Rolls Royce Ltd v. Jeffrey* [1962] 1 All E.R., 801 where it was held that receipts from the sale of 'know-how' were not capital receipts for income tax purposes. See also *F.C.T. v. United Aircraft Corporation* (1944) 68 C.L.R. 525, 534-5 (*per* Latham C.J.).

[74] For an excellent analysis of the origins of this jurisdiction see L. S. Sealy 'Fiduciary Relationships' (1962), *Cambridge Law Journal* 69.

[75] Quoted by Megarry J., in *Coco v. A.N. Clark (Engineering) Ltd* (1969) R.P.C. 41, 46. A similar statement is quoted in Maitland *Equity* (2nd edition, Brunyate 1932), 7 n: 'These three give place in court of conscience, Fraud, Accident, and Breach of Confidence'. See also Sealy *op. cit.* 69.

[76] *Prince Albert v. Strange* (1849) 1 H. & Tw. 1; 2 DeG. & Sm. 652 (etchings); *Duke of Queensberry v. Shebbeare* (1758) 2 Eden. 329 (manuscript).

property' which was said to exist in such works.[77] Accordingly, in cases where a party proposed to reproduce for the public the private letters of a distinguished person[78] or to publish the plot of a play which the author only permitted to be performed in front of a limited audience[79] or where a pupil proposed to publish a professor's lectures[80] or a conveyancing master's precedents,[81] equity would restrain such unauthorized publication. Essentially, what was protected here was information communicated on a secret or restricted basis. It did not matter whether the defendant used a copy entrusted to him by the author or simply took his own notes of the latter's oral utterances.[82] The only significant difference between this and other types of confidential information was the requirement that it exist, originally, in a tangible form. It was therefore akin to copyright, but it should be noted that, at the time, copyright protection did not extend to unpublished works: it only came into effect upon publication and subsequent registration.[83]

Indeed, it is clear that this 'common law right of property' went further than statutory copyright does even today (although the latter now covers unpublished works).[84] Thus, in one celebrated case, *Prince Albert v. Strange*,[85] it was applied in such a way as to prevent the publication of any information whatsoever concerning the plaintiff's unpublished works, namely a series of etchings made by Prince Albert and Queen Victoria for their own private enjoyment. In the words of Lord Cottenham L.C.:

> The property in an author or composer of any work, whether of literature, art or science, such work being unpublished and kept for his private use or pleasure cannot be disputed, after the many decisions in which that proposition has been affirmed or assumed. I say 'assumed', because, in most of the cases which have been decided, the question was not as to the original right of the author, but whether what had taken place did not amount to a waiver of such right: as, in the case of letters, how far the sending of the letters; in the case of dramatic composition, how far the permitting performance; and, in the case of Abernethy's Lectures, how far the oral delivery of the lecture had deprived the author of any part of his original right and property. . . .

[77] See generally *Copinger & Skone James on Copyright* (1971) 11th ed., 3-34; Fullager *op. cit.* 9-10; J. Lahore, *Copyright and the Arts in Australia* (1974) 4-9.

[78] *Pope v. Curl* (1741) 2 Ack. 342; *Gee v. Pritchard* (1818) 2 Swans, 402; 36 E.R. 670; *Lord & Lady Perceval v. Phipps* (1813) 2 V. & B. 19, 35 E.R. 225; *Philip v. Pennell* [1907] 2 Ch. 577.

[79] *Macklin v. Richardson* (1770) Amb. 694. In a number of cases the courts restrained persons pilfering plots from unpublished plays: *Moore v. Edwards* (1901-1904) MacG. Cop. Cas. 44; *Fraser v. Edwardes* (1905-1910) MacG. Cop. Cas. 10.

[80] *Caird v. Sime* (1887) 12 App. Cas. 326; *Nicols v. Pitman* (1884) 26 Ch. 374.

[81] *Webb v. Rose* (1732) quoted by Willes J. in *Millar v. Taylor* (1769) 4 Burr. 2302, 2330; 98 E.R. 201, 216.

[82] As in *Caird v. Sime* (1887) 12 App. Cas. 326.

[83] 8 Anne, c. 19 (books); 8 Geo. c. 13 (engravings); see Copinger *op. cit.* 11-16. It was not until the landmark cases of *Millar v. Taylor* (1769) 4 Burr. 2303, *Donaldson v. Beckett* (1774) 2 Bro. P.C. 129; 1 E.R. 837 and *Jeffrey v. Boosey* (1855) 4 H.L.C. 815; 10 E.R. 681 that it was decided that this common law right was extinguished on publication and that the only right remaining thereafter was statutory.

[84] The range of acts which a modern copyright owner may do in relation to his work are quite wide, for instance, broadcasting, adapting it or reproducing it: s. 31 Copyright Act 1968-1973 (Cth).

[85] (1849) 1 H. & Tw. 1; 47 E.R. 1303.

It being admitted that the Defendant could not publish a copy — that is, an impression — of the etchings, how in principle does a catalogue, list or description differ? A copy or impression of the etchings could only be a means of communicating knowledge and information of the original; and does not a list and description do the same? The means are different, but the object and effect are similar; for in both the object and effect is to make known to the public, more or less, the unpublished works and compositions of the author, which he is entitled to keep wholly for his private use and pleasure, and to withhold altogether, or so far as he may please, from the knowledge of others.

Cases of abridgements, translations, extracts, and criticisms of published works, have no reference whatever to the present question. They all depend on the extent and right, under the Acts, with respect to copyright, and have no analogy to the exclusive right of the author in unpublished compositions, which depend entirely on the common law right of property.[86]

It is clear, therefore, that this early equitable jurisdiction had as much in common with breach of confidence as with copyright. Furthermore, equity's intervention was not in aid of a 'common law right' at all, because this right was never recognized or protected but by proceedings in equity. In the opinion of one learned commentator, the reason why it was referred to as a 'common law right of property' was simply to conceal from the common law judges that equity was extending its jurisdiction in this area.[87] Nonetheless, it seems clear that the Chancery judges regarded the rights of authors in their unwritten works as proprietary in nature, albeit only enforceable in equity.

Although this line of cases finishes with the enactment of modern copyright legislation,[88] it is unlikely that they are now redundant, at least in so far as they relate to confidential information rather than copyright. This is because these Acts provide that nothing therein shall affect the operation of any rule of equity applying to breach of trust or confidence.[89] They therefore provide some basis for arguing that equitable intervention today in respect of written confidences has a proprietary basis. It is a logical extension to argue from this that a similar principle applies to unwritten confidences.

II THE DEFENDANT'S UNCONSCIONABLE BEHAVIOUR

Against this line of authority must be contrasted a large number of more recent cases where it seems clear that courts have fixed on the defendant's unconscionable behaviour as the basis of their intervention. One early instance is provided by *Abernethy v. Hutchinson*[90] where Lord Eldon L.C. granted an injunction preventing the unauthorized reproduction of lectures delivered by an eminent surgeon at St. Bartholomew's Hospital to a limited audience. At first, he desired to base it upon a common law right of property in the unpublished lectures (see above),

[86] *Ibid.* 21-3.

[87] Ashburner's *Principles of Equity* (1933) 372-5.

[88] Copyright Act 1911 (U.K.); see now Copyright Act 1956 (U.K.); Copyright Act 1968-1973 (Cth).

[89] S. 9(3), Copyright Act 1968-1973 (Cth).

[90] (1824) 1 H. & Tw. 28; 47 E.R. 1313; see also *Yovatt v. Winyard* (1820) 1 Jac. & W. 394; 37 E.R. 425 for a similar approach.

but felt unable to do so because it did not appear that Mr Abernethy had delivered them from prepared notes. Furthermore, although Lord Eldon L.C. regarded the relationship between lecturer and pupil as contractual, the intending publisher was a third party with whom there was no contractual nexus. Nevertheless, in the circumstances, he was prepared to restrain even a third party, because:

> . . . although there was not sufficient to establish an implied contract as between the Plaintiff and the Defendants, yet it must be decided, that, as the lectures must have been procured in an undue manner from those who were under a contract not to publish for profit, there was sufficient to authorise the Court to say, the Defendants shall not publish.[91]

Similarly, in *Prince Albert v. Strange*,[92] Lord Cottenham L.C. gave breach of trust or confidence as another ground of judgment besides infringement of a common law right of property in an unpublished work. He said:

> . . . this Court exercises an original and independent jurisdiction, not for the protection of a merely legal right, but to prevent what this Court considers and treats as a wrong, whether arising from violation of unquestioned right or from breach of trust, confidence or contract, as in the present case and in the case of Mr Abernethy's Lectures.[93]

Two years later, in *Morison v. Moat*,[94] Turner V-C described the equitable obligation of trust or confidence as follows (although he expressed no firm view as to what he thought was the true basis of the jurisdiction):

> . . . In some cases it has been referred to property, in others to contract, and in others, again . . . as founded upon trust or confidence, meaning, as I conceive, that the Court fastens the obligation on the conscience of the party, and it enforces it against him in the same manner as it enforces against a party to whom a benefit is given the obligation of performing a promise on the faith of which the benefit has been conferred . . .[95]

This indicates that such obligations will be enforced as strictly as those arising under a contract at common law. But how is unconscionable behaviour best described in order that we may postulate those situations in which liability will be imposed? A number of judges have suggested that the fundamental requirement is one of good faith. In a famous *dictum*, Holmes J. of the U.S. Supreme Court once said:

> The word 'property' as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be . . .[96]

More recently, Lord Denning M.R. has expanded on this notion by saying that:

[91] (1824) 1 H. & Tw. 28, 40.
[92] (1849) 1 H. & Tw. 1.
[93] *Ibid.* 1, 25-6.
[94] (1851) 9 Hare 241.
[95] *Ibid.* 241, 255.
[96] *E. I. Du Pont De Nemours Powder Co. v. Masland* (1917) 244 U.S. 100, 102.

> The jurisdiction is based, not so much on property or on contract, but rather on the duty to be of good faith. No person is permitted to divulge to the world information which he has received in confidence, unless he has just cause or excuse for doing so. Even if he comes by it innocently, nevertheless, once he gets to know that it was originally given in confidence, he can be restrained from breaking that confidence. But the party complaining . . . must be a person to whom the duty of good faith is owed.[97]

In determining whether or not such a duty arises in a particular set of circumstances, Megarry J. has suggested that a reasonable man test be employed:

> It may be that that hard-worked creature, the reasonable man, may be pressed into service once more; for I do not see why he should not labour in equity as well as at law. 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 have realised that 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.[98]

Gareth Jones, in a highly persuasive article, has built upon these statements to argue that the whole basis of actions in breach of confidence is an equitable principle of good faith, and

> . . . that this principle is wide enough to protect the plaintiff who imparts, in confidence, any confidential information whatever its substance.[99]

Such a principle may help explain liability where a party who is in a fiduciary relationship with another misuses information either entrusted to or received by him in the course of acting in such a capacity. Whether or not it explains the imposition of liability in those situations where parties are not fiduciaries is more doubtful and requires closer examination. Whilst the definition of fiduciary is not a precise one, the origins of the concept are to be found in the jurisdiction which equity historically assumed over relationships of trust or confidence.[1] Thus, where one person placed trust or confidence in another, for instance, in relation to the management of property or the discharge of some particular function, equity would impose duties on the latter so as to prevent any abuse of the relationship[2] In this context, 'trust' was not used in its strict sense of trustee and beneficiary, but covered a wide range of confidential relationships, such as those of company directors to their shareholders and fellow directors,[3] professional persons to their clients[4] and agents to their principals.[5] The obligations imposed by equity upon fiduciaries obviously vary according to the type of relationship in question, but the earliest rule enunciated in the cases was that they should not

[97] *Fraser v. Evans* (1969) 1 All E.R. 8, 11.
[98] *Coco v. A.N. Clark (Engineers) Ltd* (1969) R.P.C. 41, 48.
[99] Jones *op. cit.* 466.
[1] See generally, Sealy *op. cit.*; R. Goff and G. Jones *The Law of Restitution* (1966) Chap. 35; Meagher, Gummow and Lehane *op. cit.* Ch. 5.
[2] Meagher, Gummow and Lehane *op. cit.* 107; Sealy *op. cit.* 74-9. See also Asquith L.J. in *Reading v. A.-G.* [1949] 2 K.B. 232, 236.
[3] *Regal (Hastings) Ltd v. Gulliver* [1942] 1 All E.R. 378.
[4] *Boardman v. Phipps* [1967] 2 A.C. 46; *Sanders v. Parry* [1967] 2 All E.R. 803.
[5] *Boston Deep Sea Fishing & Ice Co. v. Ansell* [1888] 39 Ch. 339.

retain a 'profit made in the course of or by means of their office'.[6] Linked to this is the more general notion that a fiduciary should be loyal and of good faith in all his dealings towards, and on behalf of, his principal or beneficiary. In the past, these requirements have been imposed by way of deterrence, as strict penal rules to prevent conflicts between interest and duty,[7] although more recently there have been signs of a less rigid approach by some judges.[8] Particular manifestations of the general obligation can be seen in special rules against competing with one's beneficiaries[9] or accepting secret commissions from third parties.[10] In relation to confidential information, a similar prohibition applies and fiduciaries will be held liable for any unauthorized use they made of information received by them either directly from their beneficiary or principal or on the latters' behalf in the course of carrying out their fiduciary duties.[11] Past cases have involved company directors,[12] agents and those acting in a professional capacity, such as lawyers and accountants.[13] Liability has even been imposed when the fiduciary was acting in the best interest of his beneficiary and there was no way in which the latter could have used the information himself.[14] The form of relief granted in such cases is also interesting: in some, injunctive relief restraining the proposed use of the information will suffice,[15] but in others a constructive trust as to any profits received from such use will be imposed on the basis that the information is a species of trust property.[16]

It is therefore easy to conclude that fiduciary relationships are to be regarded as a special class and that the intervention of equity here has

[6] *Boardman v. Phipps* [1964] 1 W.L.R. 993, 1010 (*per* Wilberforce J.).

[7] *Keech v. Sandford* (1726) Sel. Cas. T. King 61, 25 E.R. 223 (*per* King L.C.); *Bray v. Ford* [1896] A.C. 44, 51-2 (*per* Lord Herschell L.C.).

[8] *Boardman v. Phipps* [1967] 2 A.C. 46, 92 (*per* Viscount Dilhorne, dissenting), 123-6 (*per* Lord Upjohn, dissenting); *Industrial Development Consultants Ltd v. Cooley* [1972] 2 All E.R. 162, 173 (*per* Roskill J.); *North & South Trust Co. v. Berkeley* [1971] 1 W.L.R. 470, 482-3 (*per* Donaldson J.).

[9] *Re Thompson* [1930] 1 Ch. 203.

[10] *Williams v. Barton* [1927] 2 Ch. 9; *Lister v. Stubbs* (1890) 45 Ch. D. 1.

[11] See generally G. Jones 'Unjust Enrichment and the Fiduciary's Duty of Loyalty' (1968) 84 *Law Quarterly Review* 472.

[12] *Regal (Hastings) Ltd v. Gulliver* [1942] 1 All E.R. 378; *Industrial Development Consultants Ltd v. Cooley* [1972] 2 All E.R. 162.

[13] *Beer v. Ward* (1821) Jacob 77; 37 E.R. 779; *Evitt v. Price* (1827) 1 Sim. 483; 57 E.R. 659; *Russell v. Jackson* (1851) 9 Hare 387; 68 E.R. 558 (barristers and solicitors); *Chantry Martin (a firm) v. Martin* [1953] 2 Q.B. 286 (accountants). Cases dealing with the use of confidential information by other professionals include *Surveys & Mining Ltd v. Morrison* (1969) Qd. R. 470 (consultant geologist); *Tournier v. National Provincial & Union Bank of England* [1924] 1 K.B. 461 (bankers); *Es-me Pty Ltd v. Parker* (1972) W.A.R. 52 (engineer). In the case of employees, as mentioned above, it often seems that courts will treat them as fiduciaries: see *Gartside v. Outram* (1857) 26 L.J. Rep. (N.S.) Eq. 113; *Tipping v. Clark* (1847) 8 L.T. (O.S.) 554; *Robb v. Green* [1895] 2 Q.B. 315; *Triplex Safety Glass Co. Ltd v. Scorah* (1937) 55 R.P.C. 21; *British Celanese Ltd v. Thorncrieff* (1948) 65 R.P.C. 47.

[14] *Boardman v. Phipps* [1967] 2 A.C. 46.

[15] As in *Cranleigh Precision Engineering Ltd v. Bryant & Ors* [1964] 3 All E.R. 289.

[16] As in *Triplex Safety Glass Co. v. Scorah* (1937) 55 R.P.C. 21 (former employee who employed for patent in information held it on a constructive trust); see also *Boardman v. Phipps* [1967] 2 A.C. 46.

been predicated upon the need to protect and maintain the unique nature of such relationships. Within this framework, liability for breach of confidence is readily explicable as being a particular application of the general fiduciary obligation of good faith. Is Jones right, then, in arguing that a similar principle governs those situations where persons in non-fiduciary relationships have been held liable?[17] Good examples are where parties are negotiating towards a contract or where a third party receives and uses confidential information belonging to another. In such situations, Jones' argument is that equity intervenes because the conscious receipt of information under such circumstances places the recipient under a duty of good faith in relation to it.[18]

It is submitted, however, that there is a marked difference between fiduciaries and non-fiduciaries in relation to liability for breach of confidence.[19] In the former case, as stated above, the obligation of good faith is a general one which exists in respect of a wide range of matters that may arise in the course of the relationship: it is not simply confined to confidences. Thus, even in a *Boardman v. Phipps*[20] situation, it is irrelevant that the fiduciary has acted quite innocently in his use of the beneficiary's information, because he is still in breach of his general obligation of good faith. This is because it can be said that he consciously accepted the continuing burden of such an obligation at the time he first entered into the fiduciary relationship.

With non-fiduciaries, it is otherwise. Here the only point at which a duty of good faith can be imposed is the stage at which the recipient recognizes that the information was imparted in confidence. In order to explain the various situations where liability has been imposed on persons who are not fiduciaries, Jones proposes a number of extensions to this basic proposition (although it will be argued below that these are still not enough). Firstly, it should not matter when the recipient's realization occurs:[21] it may be at the time the information is originally imparted or at some later stage, perhaps even a considerable time after the parties have ceased to have any dealings with each other. Secondly, it follows from this that it is unnecessary for the parties to be in any direct relationship at all: a third party recipient will be affected if and when he realizes that the information derives from a breach of confidence.[22] Thirdly, constructive or implied knowledge, as well as actual knowledge,

[17] Jones *op. cit.* 467, 473.

[18] Jones *op. cit.* 473. In support of this he quotes a dictum of Lord Upjohn in *Boardman v. Phipps* [1967] 2 A.C. 46, 127-8 that 'equity will restrain the transmission of information to another if in breach of some confidential relationship'.

[19] Meagher, Gummow and Lehane, for instance, argue that confidential relationships in general should be treated quite separately from the traditional categories of fiduciary relationships and therefore should be regarded as sui generis, *op. cit.* 130.

[20] [1967] 2 A.C. 46.

[21] Jones *op. cit.* 477; see also Lord Denning M.R. in *Fraser v. Evans* [1969] 1 All E.R. 8, 11.

[22] Jones *op. cit.* 476.

should suffice for the imposition of liability.[23] As Jones puts it, whether or not the recipient is an immediate confidant or a third party

> . . . a defendant who has acted reasonably in believing that he was not breaching the plaintiff's confidence in acting as he did should owe the plaintiff no duty conversely an equitable obligation of confidence should be imposed upon him if his belief was unreasonable.[24]

These modifications, however, still leave a number of problems unresolved in relation to persons who are not fiduciaries. In essence, there always remains the need to show that the recipient (be he direct or indirect) realized (or ought to have realized) that he was breaching another's confidence.

But the recipient who, for instance, only later realizes this finds himself in a curious position: how exactly is he to fulfil his obligation of good faith in these circumstances? Again, in several recent cases,[25] courts have held liable persons who made unconscious use of information imparted to them confidentially, even though such use was not in any sense unreasonable and an application of Jones' good faith principle would have indicated a contrary result. A similar liability has also been imposed on innocent third party recipients.[26] Finally, the balance of authority suggests that the defence of *bona fide* purchaser is available to a third party who has given value for information without any notice of the fact that it derives from a breach of confidence.[27] Such a defence is obviously hard to reconcile with Jones' analysis which would require the purchaser to be bound at the time he found out the truth.

We must now examine these problems in more detail.

(a) *Later Knowledge of a Breach of Confidence*

The first of these relates to the anomalous position of the person who receives information quite unaware of the fact that it is confidential and without any reason to suspect that it is. It follows from Jones' approach that once he realizes that it is confidential, he cannot, as a matter of good faith, make any further use of it.[28] Up to this stage, however, he is quite free to use it as he wishes and cannot be held liable for this by the original owner. But all the latter has to do is to inform him that the information is confidential and he must thereupon stop his use or face equitable intervention. This gives the original owner a curious sort of right: he has no standing to do anything as long as the innocent recipient remains in ignorance, but he (the original owner) can remedy this by simply starting an action in breach of confidence against the former as this would be the

[23] *Ibid.* See also Megarry J. in *Coco v. A.N. Clark (Engineers) Ltd* (1969) R.P.C. 41, 48.
[24] *Ibid.*
[25] *Seager v. Copydex* (No. 1) [1967] 2 All E.R. 415; see further below p. 242.
[26] See *infra* 243.
[27] See *infra* 244.
[28] Jones *op. cit.* 477; see also Lord Denning M.R. in *Fraser v. Evans* [1969] 1 All E.R. 8, 11.

easiest way to fix him with knowledge. In other words, the original owner has no right of action against an innocent recipient but can give himself this right by simply starting an action against the former, who, if he does not cease his use of the information, can be restrained as being in breach of good faith!

Other difficulties also arise here. If the recipient obtains knowledge of the confidentiality of the information some time after the event, he may well have every reason for refusing to believe this. This could easily happen whether or not it is the original owner who gives him this knowledge, because it may appear to be a 'fishing expedition' in relation to information which he now fairly regards as his own.[29] Presumably, in such instances the original owner's chances of success will depend upon the reasonableness of the innocent recipient's belief. On the other hand, if confidential information is regarded as a form of property, the belief or otherwise of the recipient would be irrelevant.

The result of adopting Jones' argument, therefore, is that an innocent recipient of information may never be sure that it is free from 'taint'. This may be so even when he has given value for it and is not merely a volunteer: he should not be relieved from his obligation of good faith once he realizes that the information derives from a breach of confidence.[30] The only possible defence might be that he has irreversibly changed his position, for instance, by installing new plant or equipment.[31] But the acceptance of such a defence is highly problematic in Anglo-Australian jurisdictions and it will always be difficult to establish that a change of position is indeed irreversible.[32]

It is submitted, therefore, that Jones' suggested principle of good faith does not provide a satisfactory answer to the question as to which party is to bear the loss in the situations outlined above. One possible solution, suggested by Megarry J. in *Coco v. A.N. Clark (Engineers) Ltd* is that in such cases the recipient should simply be under an obligation to pay compensation to the owner for his past and future use of the information.[33] In other words, a forced sale of the information would occur and the recipient would not face the greater sanction of being restrained by an injunction. This would be a sensible solution, although it should be noted that in subsequent cases the courts have not always restricted the grant of relief in the way suggested by Megarry J.[34] Nevertheless, it does

[29] As in *John Zink Co. Ltd v. Lloyds Bank Ltd & Airoil Burner Co. (G.B.) Ltd* (1975) R.P.C. 385 (plaintiff engaging in speculative action constituting an abuse of court).

[30] Jones *op. cit.* 478-9.

[31] Jones *op. cit.* 477, 478. See also the discussion *infra* at pp. 244-5.

[32] *Ibid.* Jones concedes that even in the United States where such a defence is accepted, there are very few examples of its successful application. See *Vulcan Detinning Co. v. American Can Co.* 67 A. 339, 344 (*per* Garrison J.).

[33] (1969) R.P.C. 41, 51.

[34] See, *e.g.*, *Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 783; *Talbot v. General Television Corporation Pty Ltd* (unreported, May 1977, Supreme Court of Victoria), where injunctions were also granted.

suggest that a more suitable analysis can be made in terms of a proprietary interest which can be bought and sold rather than in terms of Jones' suggested principle of good faith. The implications of adopting a proprietary approach will be examined in more detail below.[35]

(b) *The Liability of the Unconscious User*

A further difficulty with Jones' approach is that it fails to take account of a number of decisions where courts have held innocent users of confidential information liable without any reference at all to a duty of good faith. The most important case here is *Seager v. Copydex* (No. 1),[36] where the plaintiff had invented a new type of carpet clamp. During the course of negotiations with the defendants (manufacturers and marketers) in relation to another carpet clamp, he quite gratuitously revealed to them his new idea. Eventually, the negotiations were aborted and sometime later the defendants began to produce a carpet clamp similar to that of the plaintiff. The Court accepted that the defendants had used the plaintiff's idea and that there was no intended breach of confidence; they were, nonetheless, held liable in damages although the plaintiff was denied an injunction. In imposing liability, none of the three judges for a moment doubted the defendants' innocence or that they had acted other than reasonably. To take the judgment of Salmon L.J., for instance:

> I certainly acquit them [the defendants] of any conscious plagiarism . . . I do not think that they consciously went through any such process of thought as 'That old man, difficult though he is, has a very inventive turn of mind. I wonder if, after all he may have been right last March in what he claimed for his V-shaped doomed prong which has not been patented. No one has succeeded in producing an effective V-Shaped prong before, but perhaps his will work. Let us try and remember what he told us about it.' Nevertheless the germ of the idea and the broad principle of the doomed V-shaped prong was I am certain implanted in their minds by the plaintiff at the interview of March 13, 1962, and afterwards subconsciously reproduced and used, if only as a springboard, to forestall the plaintiff with 'Invisigrip'. This is no reflection on their honesty, but it infringes the plaintiff's rights.[37]

The effect of this decision, therefore, is to give the holder of confidential information something very much like a proprietary interest in his information: this is, at least, one possible explanation of the liability imposed here upon an unconscious user. In so holding, none of the judges considered whether or not he had acted in breach of an obligation of good faith. Their emphasis, rather, was on the rights of the plaintiff in his information.

The response of Jones to this decision is to say that the Court asked the wrong question and should have asked whether the defendant company's servants could or could not reasonably have believed that they

[35] See, generally, the second part of this article to be published in (1978) 11 *M.U.L.R.*

[36] [1967] 2 All E.R. 415.

[37] *Ibid.* 418. See also Lord Denning M.R. at 418 and Winn L.J. at 418-9 to the same effect.

were breaching the plaintiff's confidence in acting as they did.[38] In other words, knowledge and good faith (following Megarry J.'s suggested reasonable man test) should be interpreted to embrace constructive and imputed knowledge as well as actual knowledge.[39] The very language and decision of the judges in *Seager's* case, however, goes directly against such an argument. Nowhere did any of them refer to any unreasonableness on the part of the defendant; on the contrary, throughout their judgments they stressed the innocence of the defendant's behaviour and made no suggestion that the latter should have been more careful. Furthermore, Lord Denning M.R.'s later assertion of a good faith principle in *Fraser v. Evans*[40] cannot stand against this, because it was only by way of *obiter dictum*.[41]

More generally, Jones' argument overlooks the fact that in the past courts have frequently restrained innocent third party recipients of confidential information, even where such persons had no reason to suspect that the information was 'tainted'. Lord Greene M.R. obviously had this in mind in the statement quoted above where he referred to the liability of indirect recipients.[42] More specific authority may be found in the facts of *Prince Albert v. Strange*[43] and more recently in *Printers and Finishers Ltd v. Holloway*,[44] where Cross J. said:

> If authority is needed for the grant of an injunction against someone who has acquired — or may have acquired — information to which he was not entitled without notice of any breach of duty on the part of the man who imparted it to him but who cannot claim to be a purchaser for value, I think that it can be found in the case of *Prince Albert v. Strange* (1850) 1 MacN. & G. 25. There the court granted an injunction against a defendant who was not — or at all events was assumed by the court not to have been — implicated in the breach of confidence in question.[45]

Similarly, in *Nicrotherm Electrical Co. Pty Ltd v. Percy*,[46] Harman J. held an indirect recipient liable for breach of confidence, even though 'no moral turpitude' was attributable to it and its breach was therefore

[38] *Op. cit.* 477.
[39] *Ibid.* 476.
[40] [1969] 1 All E.R. 8.
[41] *Ibid.* Here the Court of Appeal held that the plaintiff had no right of action as he had sold his secret report to the Greek government and thus had no further rights over it. An identical approach to *Seager's* case has recently been taken by Harris J. in an unreported case in the Supreme Court of Victoria. This involved the possible subconscious copying by television executives of a suggested plan for a series of programmes on millionaires which had been submitted in confidence to them by the plaintiff. There was no contractual relationship at this stage and again it is hard to characterize it as a fiduciary one in the traditional sense. The defendants argued that they had conceived the programme concept themselves quite independently of the plaintiff. Harris J. held that they may have copied subconsciously as a result of the idea having been 'planted' by the plaintiff's proposal and they could be restrained from showing the series. At the time of writing, it was not clear if there would be an appeal against the decision: *Talbot v. General Television Corporation Pty Ltd.* Unreported No. 1998 of 1977 (Sup. Ct. of Vic.).
[42] *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203, 213.
[43] (1849) 1 H. & Tw. 1.
[44] (1965) R.P.C. 239.
[45] *Ibid.* 253.
[46] (1956) R.P.C. 272.

innocent.[47] Such cases are clearly not readily explicable in terms of a good faith principle: on the contrary, they bear a close resemblance to other areas where equity intervenes against third parties to protect proprietary rights, such as with a restrictive covenant or an estate contract.

(c) *The defence of bona fide purchaser*

The defence of *bona fide* purchaser for value without notice is a recognized defence to an equitable proprietary claim.[48] In relation to breach of confidence actions there is no decision directly on this point, but the majority of *dicta* are in favour of allowing such a defence (as is implied in the statement of Cross J. above).[49] The recommendations of several law reform bodies are also in favour of it.[50] Gareth Jones, following his principle of conscious good faith through to its logical conclusion, argues that the defence should not apply when the innocent purchaser subsequently finds out about the breach of confidence.[51] Some support for his stance is derived from a *dictum* of Evershed M.R. in the case of *Stephenson, Jordan & Harrison Ltd v. MacDonald & Evans*,[52] where he said of such a purchaser:

> . . . it would be, to my mind somewhat shocking if reputable publishers, who discovered that there was in some work which they had acquired a gross breach of faith, publication of which would involve the ruin of some business, yet nevertheless could say, having discovered that fact before they had published or incurred any substantial expense, that they were entitled to insist on going on with their publication. . .[53]

It is not, however, entirely clear in this case whether the defendant was a *bona fide* purchaser in the sense of having given value for the unpublished manuscript in respect of which breach of confidence was claimed. In the

[47] *Ibid.* 281. See also *Butler v. Board of Trade* [1971] Ch. 680 (*per* Goff J.); *Rex Company & Rex Research Corporation v. C.H. Muirhead & H.M. Comptroller — General of Patents* (1926) 44 R.P.C. 38, 46 (*per* Clausen J.). *Cf.* the unreported case of *Alliluewa v. Flegon* (1967) Times 18 August, where it appears that Geoffrey Lane J. had doubts as to whether an innocent recipient could be restrained: referred to by P. M. North 'Breach of Confidence: Is there a new tort?' *Journal of Society of Public Teachers of Law* (1971).

[48] Goff and Jones, *The Law of Restitution* (1966) Ch. 43.

[49] *Dicta* supporting the availability of such a defence may be found in *Green v. Folgham* (1823) 1 Sim. & St. 398 (*per* Leach V-C); *Morison v. Moat* (1851) 9 Hare 241, 263 (*per* Turner V-C); *Printers & Finishers Ltd v. Holloway* (1965) R.P.C. 239, 253 (*per* Cross J.); *De Beer v. Graham* (1891) 12 N.S.W. (Eq.) 144.

[50] The American Restatement of Torts proposes such a defence: art. 758; as does the *U.K. Law Commission's* Working Paper No. 58 on Breach of Confidence, paras. 83-112.

[51] Jones *op. cit.* 478. Jones, in fact, concedes here that the weight of authority is in favour of such a defence and says it would be a good defence if the plaintiff's action was based on the defendant's infringement of the plaintiff's equitable property in the particular information.

[52] (1952) 69 R.P.C. 10. See also (1951) 68 R.P.C. 190 for the first instance judgment of Lloyd-Jacob J. who held that the defence of *bona fide* purchaser would not apply where the defendants had not yet published the information. On appeal, the Court of Appeal held the information was not confidential in the first place, so Evershed M.R.'s comments are *dicta* only: (1952) 69 R.P.C. 10, 16.

[53] (1952) 69 R.P.C. 10, 16.

context of ordinary commercial dealings, moreover, the adoption of Jones' position would cause great uncertainty. In any case, he modifies his stance by postulating that there would have to be a strong (though rebuttable) presumption that a *bona fide* purchaser is deemed to have changed his position to his detriment, in which case later knowledge of the breach of confidence would not affect him.[54] It is not going much further, therefore, to admit the defence of *bona fide* purchaser completely and a recent paper by Mark Weinberg and Marcia Neave has argued persuasively that on principle and authority this is the case.[55] If this is so, then it would add further weight to the argument that equitable intervention in this area is in aid of a proprietary right subsisting in information that is imparted in confidence.[56]

[54] Jones *op. cit.* 478, 479.

[55] M. Weinberg and M. Neave, 'The Function of the Equity', a paper presented to *Canberra Law Workshop I*: 'Conference on the New Property', May 27-8, 1977, as yet unpublished. This provides a very clear analysis of Jones' argument on *bona fide* purchaser and gives an excellent review of the authorities in the area. For other discussions of *bona fide* purchasers see Meagher, Gummow and Lehane *op. cit.* 720-1; North *op. cit.* 165.

[56] It should be noted here that we are only dealing with commercially useful information. In the case of personal confidences, it may be inappropriate to have a defence of *bona fide* purchaser. This raises questions of analysis outside the scope of this article.