CONFIDENTIAL INFORMATION — A NEW PROPRIETARY INTEREST? PART II

BY SAM RICKETSON*

[*Having in the First Part of his article subjected to critical scrutiny the traditional analyses of the theoretical basis for the action for breach of confidence, Mr Ricketson proceeds in this concluding part to outline what he argues to be a more satisfactory explanation of the liability imposed in this area, namely that the courts are intervening to protect a new species of proprietary interest. In the course of his discussion he examines the various remedies which are available for breach of confidence and which play a crucial part in his characterization of confidential information as equitable property. Not only does the proprietary analysis best accommodate the authorities within the one coherent theoretical framework, it provides a basis for resolving current and future problem areas in breach of confidence, notably in relation to questions of privileged information, and for extending the protection which the law gives to trade secrets in the field of industrial espionage.*]

We now come to the central thesis of this article, namely, that the action for breach of confidence is best understood in terms of an action for the enforcement of a proprietary interest. So far, we have seen that more traditional analyses based on contract (both express and implied) or breach of a general equitable obligation of good faith are not sufficient for all purposes.[1] For instance, liability may arise where there is no hint of a contractual relationship between the parties.[2] Again, a party may be held liable for his unconscious use of information imparted to him in confidence, although there is no suggestion of bad faith on his part in so doing.[3] Furthermore, a third party who receives information in ignorance of the fact that the person giving it to him is thereby breaching another's confidence may also be held liable.[4] In all these cases courts have been prepared to grant plaintiffs relief of one kind or another.

What evidence is there for the argument that judicial intervention in these cases has been based on plaintiffs' proprietary rights in their information rather than any of the other theories that have been advanced? There are two alternative approaches here which we must consider in turn. Firstly, it can be argued that the action for breach of confidence is analogous to those of conversion or trespass in providing relief in damages

* The author would like to acknowledge the advice and help given by Marcia Neave, Mark Weinberg and Ian Hardingham in the preparation of this part.

[1] See the first part of this article in (1977) 11 *M.U.L.R.* 223.

[2] *Ibid.* 230. See also *Seager v. Copydex* (No. 1) [1967] 1 W.L.R. 923.

[3] *Ibid.* 242. See also *Seager, supra, Talbot v. General Television Corporation Pty Ltd* (Unreported, Vic. 13 May 1977 *per* Harris J.); *Conveyor Co. of Australia Pty Ltd v. Cameron Bros Engineering Co. Ltd* [1973] 2 N.Z.L.R. 38.

[4] *Ibid.* 243. See also *Printers & Finishers Ltd v. Holloway* (1965) R.P.C. 239; *Nichrotherm Electrical Co. Pty Ltd v. Percy* (1956) R.P.C. 272.

as of right for the invasion of a proprietary interest together with the possibility of equitable relief such as an injunction. This involves certain assumptions which will be examined in detail below. The second approach is to say that there is an equitable proprietary interest in confidential information which is closely akin to such loosely defined interests as the equity of acquiescence or the now defunct deserted wife's equity.[5] As such, it does not readily fit into any of the established categories of proprietary interest nor does it mean that a plaintiff is automatically entitled to a remedy. On the other hand, it does allow for flexibility, enabling a court to tailor the relief it grants to the circumstances of each case. Before proceeding any further however, it is first necessary to spend a little time reviewing the range of relief available in breach of confidence cases, as some knowledge of this is essential for a proper understanding of the different approaches outlined above.[6]

III REMEDIES FOR BREACH OF CONFIDENCE

In the first place, a prospective plaintiff will most commonly desire an injunction restraining the further use or publication of his information. In the case of threatened publication, which will usually arise where personal confidences or items of a literary nature (such as news stories and plots of plays) are concerned, such applications will need to be made swiftly as the whole value of such information frequently depends on the timing of its first publication and, once published, it is quite beyond recall.[7] On the other hand, where commercially valuable trade secrets are concerned, the same need for haste may not be present as the defendant

[5] For detailed descriptions of the development of these interests, see Jackson, D., *Principles of Property Law* (1967), 67-77, and Neave, M. and Weinberg, M., 'The Nature and Function of Equities' (unpublished paper presented to the Canberra Law Workshop I: Conference on the New Property, May 1977).

[6] Other summaries of the relief available for breach of confidence are to be found in most of the literature on the subject. See, for instance, Jones, G., 'The Restitution of Benefits Acquired in Breach of Another's Confidence' (1970) 86 *Law Quarterly Review* 463; Forrai G., 'Confidential Information — A General Survey' (1971) 6 *Sydney Law Review* 382; Cornish, W. R., 'The Protection of Confidential Information in English Law' (1975) 6 *International Review of Industrial Property and Copyright Law* 43; Brown, A. S., 'Damages and Account of Profits in Trademark, Trade Secrets, Copyright and Patent Law' (1977) 3 *Auckland University Law Review* 188, 193-196; U.K. Law Reform Commission, Working Paper No. 58 'Breach of Confidence' (H.M.S.O. 1974) 3-34. Finn, P. D., *Fiduciary Obligations* (1977) 163-168, also deals with the question of remedies. The writer regrets that this book only became available after this article had gone to press and it was therefore impossible to discuss the substance of Dr Finn's chapter on 'The Duty of Confidence'.

[7] See, for example, *Argyll v. Argyll* [1965] 1 All E.R. 611; *Hubbard v. Vosper* [1972] 1 All E.R. 1023; *Fraser v. Evans* [1969] 1 All E.R. 8. The most interesting recent case in Australia is *Foster v. Mountford* (1977) 14 A.L.R. 71 where a judge granted an injunction restraining the publication of a book on aboriginal tribal lore on the basis that it also contained details of tribal secrets which had been communicated in confidence to the author many years previously by tribal elders. For another recent English case see *Woodward v. Hutchins* [1977] 1 W.L.R. 760, where a rather prudish Court of Appeal (headed as usual by Lord Denning M.R.) refused an interlocutory injunction to restrain publication of newspaper articles containing detailed disclosures of the secrets of a group of pop stars by their former press agent.

will not have any motive to publish as he also wishes to keep the information to himself.[8] All the same, in both types of case the plaintiff's primary concern is to stop the other party using his information and the appropriate means of achieving this is by injunction.

It should be noted, however, that the award of injunctive relief is always a matter within the court's discretion and no plaintiff can demand it as of right. In exercising their discretion in breach of confidence cases courts are generally guided by the usual factors which influence the granting of any equitable relief. They will therefore look carefully at such things as the conduct of the parties,[9] the amount of loss suffered or likely to occur,[10] the adequacy of substituting monetary relief[11] and so on. In particular, they have been concerned to ensure that the information to be protected is clearly defined[12] and to avoid speculative actions made in wide terms so as to hinder competition.[13] A further bar to equitable relief has been the gradual development of a doctrine of public interest, the ambits of which are presently unclear. At its narrowest, it appears that equity will not protect confidences which relate to 'iniquities', *i.e.*, crimes and other

[8] As, *e.g.*, in such cases as *Peter Pan Manufacturing Corporation v. Corsets Silhouette Ltd* [1963] 3 All E.R. 402; *Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 784; *Ansell Rubber Co. Pty Ltd v. Allied Rubber Industries Pty Ltd* [1967] V.R. 37.

[9] *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); see also *Amway Corporation v. Eurway International Ltd* [1974] R.P.C. 82 (plaintiff had not taken sufficient care to keep information confidential).

[10] See *Brian D. Collins (Engineers) Ltd v. Charles Roberts & Co. Ltd & Son* [1965] R.P.C. 429, 433 (here the court granted an injunction to prevent the use of commercial information as damages would be an insufficient remedy); *Bostitch Inc. v. McGarry & Cole Ltd* [1964] R.P.C. 173, (injunction refused because of the great damages that would be caused to the defendant, although there was a clear breach of confidence); *Auto Securities Ltd v. Standard Telephones & Cables Ltd* [1965] R.P.C. 92 (interlocutory injunction refused because the plaintiffs were unable to give a cross-undertaking as to damages); *Potters-Ballotini v. Weston-Baker and Others* [1977] R.P.C. 202 (interlocutory injunction refused by the Court of Appeal because to grant it would mean that the defendant would have to close down his factory).

[11] See n. 4 *supra*; see also *Interfirm Comparison (Australia) Pty Ltd v. Law Society of New South Wales* (1975) 5 A.L.R. 527 (damages were a sufficient remedy rather than an injunction) and *Hubbard v. Vosper* [1972] 1 All E.R. 1023.

[12] *Electronic Applications (Commercial) Ltd v. Toubkin & Anor.* [1962] R.P.C. 225; *Suhner & Co. A.G. v. Transradio Ltd* [1967] R.P.C. 329, *Diamond Stylus Company Ltd v. Bauden Precision Diamonds & Ors.* [1973] R.P.C. 675; *P.A. Thomas & Co. & Ors. v. Mould & Ors.* [1968] 1 All E.R. 963 (all cases where injunctions were refused because the plaintiff had not specified clearly enough what information he wanted protected) *cf. Under Water Welders & Repairers Ltd v. Street & Longthorne* [1968] R.P.C. 498; *Proctor Industries Ltd v. Norris Bros Ltd* [1964] R.P.C. 179 (where the plaintiffs were given the benefit of the doubt, although they did not particularise the secret processes they wanted to be protected). More recently, see *Potters-Ballotini Ltd v. Weston-Baker and Others* [1977] R.P.C. 202 (the injunction sought was too wide to let the defendants know what they could do).

[13] *John Zink Co. Ltd v. Lloyds Bank Ltd & Airoil Burner Co. (G.B.) Ltd* [1975] R.P.C. 385. In the granting of interlocutory injunctions, it now appears that courts, in the U.K. at least, will follow the House of Lords decision in *American Cyanamid Co. v. Ethicon Ltd* [1975] R.P.C. 513: see *Potters-Ballotini Ltd v. Weston-Baker & Ors* [1977] R.P.C. 202. It also appears that courts will not be inclined to grant interlocutory relief in respect of a threatened breach of confidence: *Concrete Industries (Monier) Ltd v. Gardner Bros* (unreported Supreme Court of Victoria, 18 August 1977 *per* Fullagar J.).

serious wrongdoings.[14] How much further this extends is uncertain: it has been held that disclosure of the secrets of Scientologists can be justified,[15] but an early case held that the doctrine did not apply to private torts[16] and it seems clear that courts will not look favourably on arguments that seek to justify disclosure on the basis of public interest alone without some attendant circumstances of wrongdoing.[17] On the other hand, it does not appear that equity will usually intervene to protect confidential information from court-ordered discovery.[18] All these possible bars to the issue of an injunction, however, are no more than relevant factors which influence the court in the exercise of its discretion.

In addition, the court has at its disposal a range of other remedies which it may award in addition to an injunction and, in the case of damages, by way of substitution. Thus, a plaintiff may seek an account of profits, although this is not so common as it is usually a long and protracted procedure.[19] It may, however, have advantages over an award of damages: the latter go only to compensate a plaintiff for the loss he has sustained, while the former restores to him the profits made by the defendant as a result of his (the defendant's) wrongful conduct.[20] Other

[14] *Southey v. Sherwood* (1817) 2 Mer. 435; *Gartside v. Outram* (1857) 26 L.J. Rep. (n.s.) Eq. 113.

[15] *Hubbard v. Vosper* [1972] 1 All E.R. 1023; *Church of Scientology of California v. Kaufman* [1973] R.P.C. 627, 635.

[16] *Weld Blundell v. Stephens* [1919] 1 K.B. 520; *cf. Initial Services Ltd v. Putterill* [1968] 1 Q.B. 396 where it was held that disclosure was justified in the case of a breach of statutory duty under the Restrictive Trade Practices Act 1956 (U.K.).

[17] *Beloff v. Pressdram* [1973] 1 All E.R. 241 (journalists' sources); see also *McGuiness v. Attorney-General of Victoria* (1940) 63 C.L.R. 73; *Attorney-General v. Mullholland; Attorney-General v. Foster* [1963] 1 All E.R. 767. *Cf. Fraser v. Evans* [1969] 1 All E.R. 8 where Lord Denning M.R. stated the doctrine of public interest in wide terms, but nonetheless said that it would not apply in the facts of that case (a secret public relations report to the Greek Junta); see also *Distillers Co. (Biochemicals) Ltd v. Times Newspapers Ltd* [1974] 3 W.L.R. 728 where the defendant was restrained from publishing articles based on information derived from confidential documents which had been disclosed during the course of court ordered discovery proceedings: disclosure was only authorized for the purposes of the court action and not for any other. *Cf. Woodward v. Hutchins* [1977] 1 W.L.R. 760 where the Court of Appeal seemed to accept that disclosures of confidential information relating to persons who sought publicity for themselves could not be restrained (in this case, a group of pop stars). See also R. G. Hammond, 'Superstars and Confidence' (1977) *New Zealand Law Journal*, 464.

[18] *R. v. Lewes Justices; Ex parte Secretary of State for the Home Department* [1972] 1 All E.R. 1126; *Alfred Crompton Amusement Machines Ltd v. Commissioners of Customs & Excise* (No. 2) [1973] 2 All E.R. 1169; *Norwich Pharmacal & Others v. Commissioners of Customs & Excise* [1973] 2 All E.R. 943; *N.S.P.C.C. v. D.* [1977] 2 W.L.R. 201. *Cf. Ashburton v. Pape* [1913] 2 Ch. 475, where the Court of Appeal restrained one party from using in pending litigation confidential documents obtained by a trick from the plaintiff. This case is implicitly supported by Goff J. in *Butler v. Board of Trade* [1971] 1 Ch. 680, although that was a criminal case and disclosure was allowed on the ground that the public interest in prosecuting offenders under the Companies Act prevailed over private rights in confidential information.

[19] The classic case in breach of confidence where this remedy was granted is *Peter Pan Manufacturing Corporation v. Corsets Silhouette Ltd* [1963] 3 All E.R. 402. An account was also requested in *Ansell Rubber, op. cit.*, but ultimately damages were granted.

[20] The distinction is clearly explained by Windeyer J. in his judgment in *Colbeam Palmer v. Stock Affiliates Pty Ltd* (1968) 122 C.L.R. 25.

equitable relief which may be awarded at the court's discretion includes an order for delivery up and destruction of any confidential matter in the defendant's possession, such as a formula or plan, or the products manufactured by the wrongful use of the plaintiff's information.[21] In recent years a novel form of relief has been developed in the Chancery Division of the High Court in the United Kingdom, although so far Australian courts do not seem to have availed themselves of it. This is to grant *ex parte* applications for orders for permission for the plaintiff's representatives to enter the defendant's premises to inspect and remove confidential material.[22] These disguised 'search warrants' have now received the approval of the Court of Appeal, although subject to certain strict safeguards.[23] They are only justified in the 'most exceptional circumstances' where the plaintiff has a very strong *prima facie* case, the actual or potential damage to him is very serious and there is clear evidence that the defendant possesses vital material which he may destroy or dispose of before any *inter partes* application can be made.[24] It now also appears that an order may be made even where the defendant is wholly ignorant of the fact that he is using the plaintiff's material.[24a] Whether Australian courts will adopt such a remedy is not yet clear. Obviously, certain dangers exist if it becomes too readily available; on the other hand, it gives a deserving plaintiff a fighting chance to preserve the evidence of his defendant's breach of confidence.

Wide ranging as the above remedies are, a plaintiff also has the option of seeking damages (though not concurrently with an account of profits). Under the modern equivalent of Lord Cairns' Act,[25] where a Victorian Court has jurisdiction to entertain an application for an injunction it may award damages either in addition to this or in lieu thereof. The provision, in full, reads as follows:

> In all cases in which the Court entertains an application for an injunction against a breach of any covenant contract or agreement or against the commission or continuance of any wrongful act or for the specific performance of any covenant contract or agreement the Court may if it thinks fit award damages to the party injured either in addition to or in substitution for such injunction or specific performance and such damages may be assessed in such manner as the Court directs.

This power has been regularly exercised in breach of confidence cases: in many, damages have been awarded in addition to an injunction[26] and,

[21] *Industrial Furnaces Ltd v. Reaves* (1970) R.P.C. 605; *N.Z. Needle Manufacturers Ltd v. Taylor* (1975) 2 N.Z.L.R. 33.

[22] None of these cases prior to 1976 have been reported except for *E.M.I. Ltd v. Pandit* [1975] 1 W.L.R. 302.

[23] *Anton Piller Kg. v. Manufacturing Processes Ltd* [1976] 2 W.L.R. 162.

[24] *Ibid.* 165-166, *per* Lord Denning M.R. More recent cases where such orders have been granted include *Vapormatic Co. Ltd v. Sparex* (1976) F.S.R. 451 and *Universal Studios Inc. v. Mukhtar Ltd* (1976) F.S.R. 251.

[24a] *Universal Studios, supra.* See also P. Russell, 'Ex Parte Inspection Orders' (1977) *New Law Journal* 753; W. R. Cornish, (1976) *Journal of Business Law* 277.

[25] Supreme Court Act 1958, s. 62(3) derived from 21 & 22 Vict. c. 27 s. 2.

[26] As in *Nichrotherm Electrical Co. Ltd v. Percy* [1956] R.P.C. 272; (1957) R.P.C. 207.

in others, they have sometimes been awarded in substitution.[27] However, there have been some criticisms of this particular exercise of jurisdiction. One, which is embodied in the first of the proprietary analyses outlined above, argues that the grant of damages in breach of confidence cases is best viewed as an award of damages pursuant to an action in tort in respect of a tortious interference with the plaintiff's proprietary rights in his information. If this is so, then the courts in awarding damages in such cases, whether in addition to or in lieu of an injunction, cannot, despite appearances to the contrary, be exercising a jurisdiction under Lord Cairns' Act since damages under that Act are a purely equitable remedy. Subject to what defences to the new tort are recognised therefore, once a breach of confidence is proved there must be an automatic right to damages. Equitable relief, presumably, would continue to be available through equity acting in its auxiliary jurisdiction.

We will examine this argument in greater detail below, but, before doing so, let us look briefly at the second of the criticisms which have been levelled against the award of damages in these cases. It has been recently argued by the authors of a book on equity that damages for breach of confidence cannot be awarded under Lord Cairns' Act.[28] This is not because they regard such damages as tortious, but rather because they see the action as being concerned with purely equitable rights. Therefore, as Lord Cairns' Act refers only to 'wrongful acts' and breaches of 'any covenant contract or agreement', this cannot comprehend breaches of fiduciary duty or other interferences with equitable rights. To hold otherwise, in their view, is to introduce a fusion between law and equity which was never intended by the original Judicature Acts. On this point, therefore, in cases like *Seager v. Copydex* where courts have awarded damages for breach of confidence, they have misconceived their jurisdiction under Lord Cairns' Act.[29]

It is submitted, however, that this argument should not be followed, both in light of the authorities and as a matter of principle. In the century since its enactment courts have not hesitated to award damages under Lord Cairns' Act in aid of purely equitable rights. The example of restrictive covenants is particularly pertinent and damages are often awarded in such cases where courts feel that injunctive relief would impose too severe a burden upon a defendant.[30] In doing so, they have not adverted to the question of whether this is achieving an unwarranted

[27] As in *Seager v. Copydex* (No. 2) [1976] 2 All E.R. 415 and *Interfirm Comparison (Australia) Pty Ltd v. Law Society of N.S.W.* (1975) 5 A.L.R. 527.

[28] Meagher, R. R., Gummow, W. M. C. and Lehane, J. R. F., *Equity: Doctrines and Remedies* (1975) para. 2317.

[29] *Ibid.* para. 4108. This argument is also made by R. G. Hammond in his recent article, 'Developments in the Equitable Doctrine of Confidence' (1976) *New Zealand Law Journal* 278, 282-3.

[30] *Eastwood v. Lever* (1863) 4 De J. & S. 114; *Elliston v. Reacher* [1908] 2 Ch. 374, 395; *Baxter v. Four Oaks Properties Ltd* [1965] 1 All E.R. 906, 916; *Wrotham Park Estate Co. Ltd v. Parkside Homes Ltd* [1974] 1 W.L.R. 798.

fusion between law and equity. On the contrary, the availability of damages under Lord Cairns' Act has provided a convenient means of achieving justice between the parties and it is not unreasonable to assume that this was the intention of the legislature.[31] In the same way, in a case involving company directors the Court of Appeal assumed that damages would lie against them for breach of their fiduciary duties as distinct from damages in deceit.[32] Accordingly, the award of damages in breach of confidence cases appears consistent with the practice of the courts in these other areas.

Furthermore, is there any sound reason, as a matter of general principle, to confine the term 'wrongful act' to torts? This question has not received any direct judicial consideration in relation to breach of confidence except for a comment by Harris J. in a recent unreported case in the Supreme Court of Victoria:

> For my part, I find the description 'wrongful act' an entirely appropriate one to describe an act which is the unauthorized use of confidential information. I can see no reason, in history or otherwise, why the expression should be given a restricted meaning and I am satisfied that the words are wide enough to cover this case.[33]

Brief though this is, it is submitted that it sufficiently articulates the unspoken assumption of judges in other cases where damages have been awarded under Lord Cairns' Act. While a more restrictive approach may satisfy purist logic, in the writer's opinion present judicial policy in this area has been both wise and sensible. To hold otherwise is to countenance grave injustices: the person entitled to a restrictive covenant, for instance, would be without any remedy at all in the event of a court refusing an injunction, as would a person in the position of Mr Seager. If it is accepted that such persons still have some interest worth protecting, it is clear that in this respect Lord Cairns' Act has effected a limited fusion between law and equity which allows damages as an alternative (or additional) form of relief where there is an interference with a purely equitable right.[34] It should be noted, moreover, that such damages are to be contrasted with those awarded at common law, in that they are assessed up to the date of trial and may also be awarded, prospectively (as obviously is the case where they are awarded in substitution of an injunction).[35] We must now turn to the first of the proprietary analyses of the action of breach of confidence suggested above.

[31] See generally on this point the excellent analysis of Lord Cairns' Act by J. A. Jolowicz, in which he argues that the Act has indeed effected a limited fusion of law and equity: 'Damages in Equity — A Study of Lord Cairns' Act (1975) 34 *Cambridge Law Journal* 224.

[32] *Re Leeds & Harley Theatre of Varieties* [1902] 2 Ch. 809.

[33] *Talbot v. General Television Corporation Pty Ltd, supra.*

[34] See, generally, Jolowicz, *op. cit.*

[35] *Leeds Industrial Co-Operative Society Ltd v. Slack* [1924] A.C. 851, 857-8, *per* Viscount Finlay.

IV DAMAGES IN TORT FOR BREACH OF CONFIDENCE

The principal proponent of tortious liability for breach of confidence is P.M. North who has advanced it in an article published in 1972.[36] The crux of his argument is that when courts have awarded damages for breach of confidence, they have usually done so without referring to Lord Cairns' Act. If this is so, it is then reasonable to ask upon what other basis they might have acted. As breach of confidence is not dependent upon the existence of a contractual relationship between the parties, they cannot be damages for breach of contract (although obviously this would be the simplest explanation where in fact there is such a contract). North therefore suggests that in non-contractual cases the damages must have a tortious basis, either for breach of some duty akin to the duty of care in negligence or else for an interference with a proprietary interest subsisting in the information. Given the liability imposed upon an unconscious user of information or an innocent third party recipient, the analogy to the tort of conversion becomes compelling.

North supports his thesis by reference to a number of cases, both old and new. On closer examination, however, they do not really bear out his argument. The first (and most dubious authority) is an old South Australian case, *Crowder v. Hilton*.[37] The plaintiff, who was employed by a manufacturer of cordials, had acquired by gift from his father a book containing various recipes compiled by the latter. To these the plaintiff had added some of his own. The defendant, a fellow employee, surreptitiously obtained possession of the book and, without the plaintiff's knowledge or authority, made and sold copies of the recipes. There was no contractual relationship between the parties upon which the court could base liability, but Bundey J. said:

> The cases cited establish the proposition that, whatever property of a valuable character one person has obtained by the gift of another (and especially when he has increased its value by adding to it or subtracting from it) he can hold against the world. In this case the plaintiff got most of his recipes from his father, but his right in them is not thereby destroyed. A wrongful interference with the property which a person has in such a collection is to be regarded in the light of the same principles as apply to trespass.[38]

Bundey J. then awarded the plaintiff £50 damages and an injunction restraining the defendant from using the recipes and selling the copies.

[36] North, P. M., 'Breach of Confidence: Is There a New Tort?' (1972) 12 *Journal of the Society of Public Teachers of Law* 149; see also North, P. M., 'Disclosure of Confidential Information' [1965] *Journal of Business Law* 307; *ibid.* [1966] 31; 'Further Disclosures of Confidential Information' *ibid.* [1968] 32. In our discussion here we shall be dealing only with the article in the *Journal of the Society of Public Teachers of Law*, as this represents the culmination of North's writings. It may be that subsequently North's views on the nature of the action of breach of confidence have changed: he served as an adviser to The U.K. Law Commission in the preparation of its Working Paper (No. 58) 'Breach of Confidence' which reported in 1974. This Paper proposed that the action be cast as one in tort, but on the basis of a duty to observe confidences somewhat akin to the duty of care in negligence and quite different from the tortious analysis put forward by North in his articles. It does not appear that any action has been taken in relation to the Working Paper as yet.

[37] [1902] S.A.S.R. 82.

[38] *Ibid.* 85.

In assessing damages for wrongful use, he did so in accordance with the principles applying to trespass, apparently regarding the defendant's conduct as tortious and involving an unlawful interference with another's property. Furthermore, his comments were directed to the defendant's use of the information contained in the book of recipes rather than his invasion of the plaintiff's property in the book as a physical object. The case, however, must remain of doubtful authority: Bundey J.'s judgment was brief and cited no cases. Those cases which were brought to the court's attention by counsel included *Morison v. Moat, Prince Albert v. Strange* and *Caird v. Sime*.[39] But while such cases may be consistent with treating confidential information as a form of property, none of them refer in any way to the principles of trespass. Furthermore, although Bundey J. did not refer to the South Australian equivalent of Lord Cairns' Act, his award of damages can simply be seen as an award in addition to an injunction under that Act. Accordingly, his use of the analogy of trespass in relation to the wrongful use of confidential information must be regarded with some suspicion.

A more definite case in North's favour is *Nichrotherm Electrical Co. Ltd v. Percy*.[40] Here the plaintiffs claimed that they had invented a machine for rearing pigs and asked for an injunction to prevent the first defendant applying for a patent in it. The plaintiffs were also applying for a patent themselves and claimed that they had informed in confidence the first defendant of the details of their invention. They further alleged that they had given their production drawings to the second defendant in confidence and that the latter had given copies of these to the first defendant. Harman J. found that the latter was liable to the plaintiffs for both breach of confidence and infringement of copyright. He also held the second defendant liable for breach of confidence, even though no 'moral turpitude' was attributable to it and their breach was therefore innocent.[41] The plaintiffs were then granted an inquiry as to damages for both breach of confidence and infringement of copyright against the first defendant and an inquiry under the first head against the second defendant. Harman J. said:

> That the Plaintiffs have suffered any damage I am not convinced, but they have suffered a legal wrong, and in my judgment they are entitled to an inquiry against both the Defendants into the damages, if any, caused by the breach of confidence by them in the use of their plans.[42]

In addition, he gave leave to the plaintiffs to apply for injunctions. From his judgment it appears possible that he contemplated the award of damages independently of Lord Cairns' Act and his reference to 'legal wrong' reinforces this suspicion. This is, at least, how the Court of Appeal chose to interpret his orders. On appeal by the first defendant, that Court upheld Harman J.'s judgment, but also held that the plaintiffs must elect

[39] *Ibid.* 82, 83.
[40] [1956] R.P.C. 272.
[41] *Ibid.* 280-1.
[42] *Ibid.* 281.

whether they would claim damages for breach of confidence or infringement of copyright.[43] Concerning the question whether, in the absence of a contract, breach of confidence could give rise to an action for damages other than under Lord Cairns' Act, Evershed M.R. made the following comments:

> The first question [is] . . . what is the proper foundation for a claim based on breach of confidence? More particularly, is the remedy in such a case as the present to be found at common law or in equity, or, possibly, both? If the confidence, breach of which is alleged or proved, is imposed by or arises out of contract, express or implied, then the remedy would, I assume, be by way of damages at law as upon a breach of contract. If, on the other hand, the confidence infringed is one imposed by the rules of equity, then the remedy would be, *prima facie*, by way of injunction or damages in lieu of an injunction under Lord Cairns' Act.[44]

Here, however, Harman J. had not based liability for breach of confidence upon an implied contract and,

> [It] does not appear that the learned Judge, in holding that the plaintiffs were entitled to such inquiry [as to damages] was invoking Lord Cairns' Act.[45]

Evershed M.R., nonetheless, upheld Harman J.'s decision as to damages by spelling out a breach of an implied contractual term of confidence and

> [In] the circumstances, we are, in my judgment relieved from further consideration of the basis of the enquiry as to damages based on breach of confidence.[46]

While these comments are only *dicta*, it is obvious that Evershed M.R. was doubtful that damages could be granted, in the absence of contract, independently of Lord Cairns' Act. It is also possible that Harman J. did not intend to give the contrary impression and simply did not choose his language carefully enough when talking about the award of damages. In any event, the case does not supply unequivocal support for North's approach.

The latter cites two other cases as instances of damages being awarded other than under Lord Cairns' Act. On closer analysis, however, neither substantiates his position. In the first *Ackroyd's (London) Ltd v. Islington Plastics Ltd*,[47] the plaintiffs alleged breach of an implied contractual term of confidence as well as breach of confidence, both breaches relating to different periods of time. Havers J. held that liability was proved under both heads and ordered an inquiry as to damages for both breach of contract and breach of confidence. He also granted injunctions restraining the defendants from making further use of the defendant's confidential information. In awarding damages for breach of confidence he made no reference to Lord Cairns' Act and North suggests that this means that they were granted independently of that Act. Under that Act, however, the court has a discretion to award damages in addition to, as well as in substitution for, an injunction, so that could easily have been

[43] [1957] R.P.C. 207.
[44] *Ibid.* 213.
[45] *Ibid.* 214.
[46] *Ibid.*
[47] [1962] R.P.C. 97.

the case here.[48] On the other hand, it can be argued that the jurisdiction conferred by the Act relates only to damages in the future in the same way as injunctions relate to the future. Common law damages, by contrast, refer to the past, providing compensation only up to the date of issue of the writ and recurring damage is not covered thereby. In the instant case, therefore, it can be argued that Havers J. could not have had Lord Cairns' Act in mind at all, because his grant of damages was to be seen as covering loss resulting from the defendant's past use of the plaintiff's information (which could only arise at common law), whilst any future loss was to be prevented by the grant of an injunction. There is, however, high authority to the effect that damages under Lord Cairns' Act relate to the past as well as the future.

> The power given is to award damages to the party injured, either in addition or in substitution for an injunction. If the damages are given in addition to the injunction they are to compensate for the injury which has been done and the injunction will prevent its continuance or repetition. But if damages are given in substitution for an injunction they must necessarily cover not only injury already sustained but also injury that would be inflicted in the future by the commission of the act already threatened. If no injury has yet been sustained the damages will be solely in respect of the damage to be sustained in the future by injuries which the injunction, if granted, would have prevented.[49]

Accordingly, the damages awarded by Havers J. could just as easily have been equitable as common law and, in the author's view, they are much more likely to have been the former. The second case quoted by North, *Industrial Furnaces Ltd v. Reaves,*[50] does not take matters much further. Here the plaintiff sought to restrain the first defendant from using confidential information acquired during his employment with the plaintiff. The Court awarded both injunctive relief and damages, but it is unclear whether they did so specifically for breach of confidence or for the defendant's breach of an implied term of his contract of employment. Quite obviously, the case can be explained on the latter ground and, in any case, the same comments made above in relation to the *Ackroyd* case apply with equal force.[51]

The main support for North's approach, however, is not to be found in these isolated cases but in the two recent cases of *Seager v. Copydex* (No. 1)[52] and (No. 2).[53] As explained above, in (No. 1) the Court of Appeal found the defendant liable for a non-contractual breach of confidence

[48] *Supra.*

[49] *Leeds Industrial Co-Operative Society Ltd v. Slack* [1924] A.C. 851, 857, *per* Viscount Finlay.

[50] [1970] R.P.C. 605.

[51] There are many other cases where damages have been granted in addition to an injunction. Some of these, like *Industrial Furnaces v. Reaves* can be explained on the basis of breach of an implied contractual term of confidence, as well as on equitable grounds; see also *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd* [1948] 65 R.P.C. 203; *Terrapin Ltd v. Builder's Supply Co. (Hayes) Ltd* [1967] R.P.C. 375; *Under Water Welders & Repairers Ltd v. Street & Longthorne* [1968] R.P.C. 498; *Franchi v. Franchi* [1967] R.P.C. 149; *Printers & Finishers Ltd v. Holloway* [1965] R.P.C. 239; *National Broach & Machine Co. v. Churchill Gear Machines Ltd* [1965] R.P.C. 61.

[52] [1967] 2 All E.R. 415.

[53] [1969] 2 All E.R. 718.

but awarded damages instead of an injunction. Accordingly, the defendants were confirmed in their possession of the plaintiff's confidential information (including the right to apply for a patent), on the payment of compensation to the latter. Up to this point, it is easy to argue that the Court was simply awarding damages in lieu of an injunction under Lord Cairns' Act. Lord Denning M.R. said:

> He [the defendant] should not get a start over others by using the information which he received in confidence. At any rate, he should not get a start without paying for it. It may not be a case for injunction but only for damages, depending on the worth of the confidential information to him in saving him time and trouble.[54]

It is curious, however, that neither Lord Denning nor any other member of the Court elaborated on their reasons for refusing an injunction. It may be that they were influenced by the guidelines suggested by A. L. Smith L.J. in *Shelfer v. City of London Electric Lighting Co. Ltd*[55] as to the award of damages in lieu of an injunction:

> In my opinion, it may be stated as a good working rule that —
> (1) if the injury to the plaintiff's legal rights is small,
> (2) And is one which is capable of being estimated in money,
> (3) And is one which can be adequately compensated by a small money payment,
> (4) And the case is one in which it would be oppressive to the defendant to grant an injunction:
> then damages in substitution for an injunction may be given.[56]

These factors are sometimes stated as being exclusive, but obviously other matters are important in influencing the exercise of a court's discretion, for instance, the plaintiff's acquiescence in a state of affairs or bad faith on his part.[56a] Nevertheless, it is unclear just what the Court of Appeal in *Seager's* case had in mind when refusing an injunction, although the following seem to have been relevant:

(1) the defendants' innocence;

(2) the fact that the latter had expended time and effort on developing a carpet clamp using the plaintiff's idea;

(3) the fact that the plaintiff had somewhat gratuitously imparted the idea to them;

(4) the time and money saved by the defendants as a result of their unauthorized use of the plaintiff's idea.

To this point, nonetheless, what the Court of Appeal had said was perfectly consistent with an award of damages under Lord Cairns' Act, although that piece of legislation was nowhere referred to in any of the judgments. It is, however, with *Seager v. Copydex* (No. 2)[57] that difficulty arises. Here the question of assessment of damages came back

[54] [1967] 2 All E.R. 417.
[55] [1895] 1 Ch. 287.
[56] *Ibid.* 322-3.
[56a] As A. L. Smith L.J. acknowledges later on in the same paragraph.
[57] [1969] 1 W.L.R. 809, 813.

to the Court (which was constituted the same way as on the previous occasion). Lord Denning M.R. said as to this:

> They are to be assessed, as we said, at the value of the information which the defendants took. If I may use an analogy, it is like damages for conversion. Damages for conversion are the value of the goods. Once the damages are paid, the goods become the property of the defendant. A satisfied judgment in trover transfers the property in the goods. So here, once the damages are assessed and paid, the confidential information belongs to the defendant.
> . . . The value of the confidential information depends on the nature of it. If there was nothing very special about it, that is, if it involved no particular inventive step, but was the sort of information which could be obtained by employing any competent consultant, then the value of it was the fee a consultant could charge for it: because in that case the defendants by taking the information, would only have saved themselves the time and trouble of employing a consultant. But, on the other hand, if the information was something special, as, for instance, if it involved an inventive step or something so unusual that it could not be obtained by just going to a consultant, then the value of it is much higher. It is not merely a consultant's fee, but the price which a willing buyer — desirous of obtaining it — would pay for it. It is the value as between a willing buyer and a willing seller.[58]

Here the defendant claimed the information to be of special value:

> . . . then it may well be right for the value to be assessed on the footing that in the usual way it would be remunerated by a royalty. The court, of course, cannot give a royalty by way of damages. But it could give an equivalent by a calculation based on a capitalisation of a royalty. Thus it could arrive at a lump sum. Once a lump sum is assessed and paid, then the confidential information would belong to the defendants in the same way as if they had bought and paid for it by an agreement of sale. The property, so far as there is property in it, would vest in them. They would have the right to use that confidential information for the manufacture of carpet grips and selling of them. If it is patentable, they would be entitled to the benefit of the patent as if they had bought it. In other words, it would be regarded as a real outright purchase of the confidential information. The value should, therefore, be assessed on that basis: and damages awarded accordingly.[59]

The other two Lords Justices agreed with Denning M.R., and Winn L.J., in addition, referred explicitly to the basis on which damages were to be awarded as tortious.[60] At first sight, then, it appears that the Court did not base its award of damages on Lord Cairns' Act at all and this is a major prop for North's argument that damages for breach of confidence are to be assessed on a common law basis.

The analogy with conversion, however, is obviously open to criticism. First of all, it is simply an 'analogy': it is not expressly stated by any of the judges that the principles governing conversion are to be applied wholesale to breach of confidence. Furthermore, the Court strictly was only dealing with the problem of assessing damages, not the question of liability. Finally, the analogy itself is inapt as regards subject matter, in that confidential information differs radically from chattels. On one hand, it may be no more than a service (as might be provided by a competent consultant); on the other hand, it may be a highly saleable item in the sense of being a special body of information containing patentable ideas. Other problems follow from this: with goods, one can also sue in detinue

[58] *Ibid.*
[59] *Ibid.*
[60] *Ibid.* 814, 815.

and on occasion obtain specific restitution. While some information is in tangible form, such as written documents, which can readily be the subject of an order for delivery up, much is in the mind alone: the only way to control such information is by an injunction restraining use or disclosure. In relation to this Professor Cornish has commented that such analogies are not always useful, particularly as the cases have evolved a series of specialised rules for actions in conversion and detinue.[61] Nevertheless, despite these difficulties, the Court of Appeal in *Seager's* case saw nothing amiss in using the language of conversion when discussing the assessment of damages. We are therefore faced with the following question: did the Court intend to hold that henceforth there is only to be tortious liability in damages for breach of confidence?

This possibility has caused some judicial reaction, particularly by Megarry J. In *Coco v. A.N. Clark (Eng.) Ltd*[62] he pointed out the onerous burden that injunctive relief can impose upon a defendant who is a competitor in the same field as the plaintiff. Whilst not adopting the conversion analogy used by the Court of Appeal in *Seager's* case, he nevertheless suggested that in future cases involving commercially valuable information damages alone should issue, although injunctive relief might still be appropriate in the case of personal confidences. To support this approach he drew a distinction between a duty not to use another's confidential information without paying and a duty not to use at all, the duty in each case depending on the nature of the information:

> If the duty is a duty not to use the information without consent, then it may be the proper subject for an injunction restraining its use, even if there is an offer to pay a reasonable sum for that use. If, on the other hand, the duty is merely a duty not to use the information without paying a reasonable sum for it, then no such injunction should be granted . . . But I do feel considerable hesitation in expressing a doctrine of equity in terms that include a duty which law-abiding citizens cannot reasonably be expected to perform. In other words, the essence of the duty seems more likely to be that of not using without paying, rather than that of not using at all. It may be that in fields other than industry and commerce (and I have in mind the *Argyll* case) the duty may exist in the more stringent form; but in the circumstances present in this case I think the less stringent form is the more reasonable.[63]

This approach has received approval in several recent cases[64] and can readily be taken as lending support to North's notion of a tortious liability in damages akin to conversion. Nonetheless, as Megarry J. was directing his comments to a 'doctrine of equity' it would seem wrong to interpret them in this way. They are better understood as simply being concerned with the way in which the equitable discretion to grant injunctive relief should be exercised in respect of certain classes of information,

[61] Cornish, W. R., *ibid.* [1970] *Journal of Business Law,* 44; see also Diplock L.J.'s summary of the law of detinue in *General Finance Facilities Ltd v. Cooks Cars (Romford) Ltd* [1963] 2 All E.R. 314, 319.

[62] [1969] R.P.C. 41, 49.

[63] *Ibid.* 50.

[64] *E.g., Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 784, 804, *per* McInerney J.

particularly in view of the alternative relief available under Lord Cairns' Act. In any case, it does not appear that subsequent courts have been influenced to refuse injunctions in cases of non-personal confidences. In appropriate cases they have continued to grant them and in doing so, have paid attention to the usual factors which influence the exercise of an equitable discretion rather than the nature of the information involved. Thus, in one recent case,[65] a judge was prepared to restrain a newspaper publishing a series of articles on thalidomide children based on documents belonging to the plaintiff company (Distillers Ltd). These documents had been sold to the newspaper by another party who had received them in the course of litigation while he was acting as an expert witness. The court held that while it was permissible for him to use them for purposes connected with the litigation, he could not use them for any other. Consequently, the newspaper which received these documents as a third party was likewise guilty of a breach of confidence and could be restrained. Another recent Victorian case also makes the same point. In *Deta Nominees Pty Ltd v. Viscount Plastics Pty Ltd*[66] Fullagar J. was prepared to grant an injunction against the defendant for using confidential information communicated to it by the plaintiff relating to the manufacture of injection-moulded plastic drawers.[67]

The fact that courts since *Seager v. Copydex* have continued to award injunctive relief in the cases of commercial confidences does not necessarily affect North's basic argument in any way: it could always be said that where it is given it is simply a case of equity acting in its auxilliary jurisdiction. North, however, suggests another way of approaching these different cases.[68] There are, he says, two distinct levels of liability for breach of confidence. With the first, as happened in *Seager's* case, courts will hold defendants liable for using another's confidential information whether or not this is directly or indirectly received. Liability on this level does not depend on the recipient's actual or constructive knowledge of whether the information was confidential, but because of this sounds only in damages which are awarded by way of compensation for a tortious interference with a property right and not under Lord Cairns' Act.[69] On the second level, courts continue to exercise an inherent equitable jurisdiction to restrain the use or disclosure of information in breach of a relationship of trust or confidence. The basis of such a jurisdiction, North suggests, could be similar to the broad principle of good faith advocated

[65] *Distillers Co. (Biochemicals) Ltd v. Times Newspapers Ltd* [1974] 3 W.L.R. 728.

[66] Unreported, Supreme Court of Victoria, December 1976, *per* Fullagar J. To be reported [1978] V.R.

[67] Other similar cases include *Under Water Welders & Repairers Ltd v. Street & Longthorne* [1968] R.P.C. 498; *Mense & Ampere Electrical Manufacturing Co. Pty Ltd v. Milenkovic* [1973] V.R. 784 (injunction and account of profits); *Talbot v. General Television Corporation Pty Ltd, supra* (injunction and damages).

[68] *Op. cit.* 160 ff.

[69] *Ibid.* 160-1.

by Gareth Jones.[70] In the absence of equitable intervention, however, confidential information is like any other form of tangible personal property which may be converted and ownership transferred by forced sale. This interpretation of the cases also has the effect of reconciling the seemingly contradictory positions of Lord Denning M.R. in *Fraser v. Evans*[71] (where he spoke of 'good faith') and *Seager v. Copydex* (No. 2)[72] (where he used the conversion analogy). It is, indeed, quite logical if the latter case is seen as dealing with liability outside the ambit of Lord Cairns' Act.

It is submitted, however, that this approach is fundamentally at variance with the cases. A good starting point for our critique is Evershed M.R.'s dictum referred to above.[73] There, the learned Master of the Rolls was dubious whether or not damages could be awarded outside Lord Cairns' Act, save where there was a breach of an express or implied contractual term of confidence. The other cases cited by North are ambiguous on this point. On the whole, they are more consistent with awards of damages in addition to an injunction. What, then of the two *Seager* cases? It is arguable that our attention has been too easily diverted by the Court of Appeal's discussion of the way in which damages were to be assessed. In the first place, however, they did refuse an injunction, although the grounds for their decision are not clearly stated. Is there any reason to suppose that in granting damages they were in fact stepping from their equitable jurisdiction to North's supposed common law one? Unless the argument that damages cannot be awarded in support of purely equitable rights is accepted,[74] the Court in *Seager's* case still had the option of granting damages in lieu of the injunction they had just refused. To argue that they decided not to do this, and that they had then moved on to the separate question of common law damages, involves a tortuous and quite unnecessary step. It is simpler to say that their award of damages was still within the ambit of Lord Cairns' Act and the possible reasons for this particular exercise of discretion have been outlined above. There is nothing in the two cases to prevent such an interpretation, except for the fact that an innocent user was held liable. This does not mean, however, that a common law right to damages was thereby recognized: all it does is to cast doubt on Gareth Jones' suggested principle of good faith and to confirm that equity will intervene wherever appropriate to protect rights in confidential information.

Further, the adoption of such reasoning does not rule out the possibility of proprietary rights existing in confidential information. All it does is to

[70] *Ibid.* 162-4. Some support for North's approach may be found in the brief judgment of Stephenson L.J. in *Hubbard v. Vosper* [1972] 1 All E.R. 1023, 1033 where the learned Lord Justice appears to say that damages would still be awarded to the plaintiff although public interest was against granting him an injunction.

[71] [1969] 1 All E.R. 8.

[72] [1969] 1 W.L.R. 809.

[73] *Nichrotherm Electrical Co. Ltd v. Percy* [1957] R.P.C. 213-14.

[74] See *supra.*

indicate that these rights are equitable and not recognized at common law. In this regard, the language used by the Court of Appeal in *Seager v. Copydex* (No. 2) can only be seen as unfortunate and misleading. But this is less so, perhaps, when it is remembered that Lord Denning M.R. said that he used the language of conversion as an 'analogy'. Indeed it is not uncommon for courts to refer to common law principles when assessing equitable damages,[75] and here the main purpose of the Court in *Seager* (No. 2) should not be forgotten: to provide the plaintiff with an appropriate pecuniary equivalent to the loss sustained by him in failing to obtain an injunction.

Finally, as a matter of history, it would be odd, to say the least, if breach of confidence was to be regarded as a tort. Ever since the old cases on common law rights of property in unpublished works it has been a creature of the courts of equity and thus its origins owe nothing to common law principles.[76] Furthermore, if the sole authorities for regarding it as a tort are the somewhat ambiguous *dicta* of a small number of judges, then its foundations are very weak. As the next section will show, there are definite conceptual and practical advantages in continuing to treat it as an action in equity.

V EQUITABLE PROPRIETARY RIGHTS IN CONFIDENTIAL INFORMATION

We now come to the second of the proprietary analyses proposed above, namely, that which conceives of confidential information as an equitable proprietary interest. This is a novel approach and much of what is argued below is only tentative. Nevertheless, it is suggested that it reflects the reality of judicial decision-making in this area and, on a more general level, is in accordance with the way in which our conceptions of property have been widening in recent years.

It is not the purpose of this article to formulate a watertight definition of property as no one definition can really adequately cope with the complex ways in which this concept has expanded over time. Rather, what is intended is to point out certain advantages which flow from analyzing breach of confidence in proprietary terms. To start with, certain characteristics of property should be noted. A traditional approach was to say that in order for property to subsist in a given subject-matter, the alleged owner should possess the power to exclude others from it.[77] Obviously,

[75] See Spry, I. C. F., *Equitable Remedies* (1971) 554 ff.

[76] See here Ashburner, W., *Principles of Equity* (1933) 372-5.

[77] See, for instance, the judgments of Holmes and Brandeis JJ. in *International News Service v. Associated Press* (1918) 248 U.S. 215 and again the more ancient comment of an eighteenth century judge:

> Here, the maxim occurs which I mentioned before, that nothing can be an object of property, which is not capable of a sole and exclusive enjoyment. For, property, as Pufendorf observes, implies a right of excluding others from it. For without that power, the right will be insignificant: it will be in vain to contend that "that is your own", which you cannot prevent others from sharing in.
>
> *Per* Yates J., *Millar v. Taylor* (1769) 4 Burr. 2303, 2362, 98 E.R. 201, 233.

such an approach requires drastic modification given the advent of the modern welfare state and the increase in government intervention with private property rights. Moreover, English law has always recognized a wide range of proprietary interests limited both in time and the persons against whom they are enforceable.[78] Perhaps the only thing in common between such different rights is that, unlike rights arising by virtue of a contract, they are enforceable against parties not in privity.[79] From this central fact a number of consequences may flow, the most important being an ability to deal with the particular subject-matter in one or several of a number of ways, such as by voluntary alienation, bequest or the grant of lesser rights in relation to it. It is also of little significance that the subject-matter is invisible: from a relatively early time both common law and equity were prepared to acknowledge that property could subsist in intangible things like a patent or copyright. Indeed, as was seen in the first part of this article, equity at a very early stage gave protection to authors in respect of unauthorized usages that were made of their unpublished works.[80] Such protection was not necessarily limited to manuscripts either, as was made clear by Knight Bruce V.C. in *Prince Albert v. Strange*:

> [T]he produce of mental labour, thoughts and sentiments recorded and preserved by writing, became . . . a kind of property impossible to disregard . . .
> Such then being . . . the nature and foundation of the common law as to manuscripts . . . its operation cannot of necessity be confined to literary subjects. That would be to limit the rule by the example. Wherever the produce of labour is liable to invasion in an analogous manner there must be . . . a title to analogous protection or redress.[81]

But, if what is protected is the end product of a person's mental or physical labour, it must necessarily be reasonably distinguishable so that third parties can refrain from interfering with it and know the limits within which their own activities will be lawful. In some cases the vagueness of the subject-matter may cause a court to hold that a proprietary interest cannot subsist in it. For instance, in *National Provincial Bank Ltd v. Ainsworth*[82] the House of Lords denied that a deserted wife had any proprietary interest in the matrimonial home enforceable against any person other than her husband. In doing so the House overruled earlier authority to the contrary. Lord Wilberforce put his objections this way:

> [T]he wife's rights, as regards the occupation of her husband's property, are essentially of a personal kind; personal in the sense that a decision can only be: reached on the basis of considerations essentially dependent on the mutual claims of husband and wife as spouses and as the result of a broad weighing of circumstances and merit. Moreover, these rights are at no time definitive, they are provisional and subject to review at any time according as changes take place in the material circumstances and conduct of the parties.

[78] See Megarry, R. M., Wade, H. W. R., *The Law of Real Property* (4th ed. 1975) ch. 3.
[79] But note, Property Law Act 1958, s. 56.
[80] (1977) 11 *M.U.L.R.* 223, 233.
[81] (1849) 2 DeG. & Sm. 652, 695-6; 64 E.R. 293, 311-12.
[82] [1965] A.C. 1175.

> In any division, then, which is to be made between property rights on the one hand, and personal rights on the other hand, however broad or penumbral the separating band between these two kinds of rights may be, there can be little doubt where the wife's rights fall. Before a right or an interest can be admitted into the category of property, or of a right affecting property, it must be definable, identifiable by third parties, capable in its nature of assumption by third parties, and have some degree of permanence or stability. The wife's right has none of these qualities, it is characterized by the reverse of them.[83]

These criteria, however, need not be decisive of whether a proprietary interest is recognized in any particular situation. Basically, that decision must always remain one of policy and just because an interest is not recognized in one case does not mean that it should be refused in another.

Confidential information, certainly, does not satisfy all of Lord Wilberforce's criteria for the recognition of a proprietary interest. Because of its very nature it is often difficult for third parties to identify what is claimed and by whom. Moreover, the permanence of any given body of information cannot be taken for granted as this depends very much upon the self-help measures taken by its owner to ensure that it remains secret. On the other hand, there is definitely a 'proprietary' flavour about information, at least that of the commercial type. It can be sold,[84] bequeathed[85] or licensed out like other forms of property.[86] On occasion it has been held to constitute trust property[87] and in one instance was included in a bankrupt's estate.[88] Furthermore, as was seen in the first part of this article, judges have frequently found it useful to refer to confidential information as 'property'. An early example of this is in the line of cases dealing with the rights of authors in their unpublished works.[89] Another instance is to be found in those cases where breach of confidence arises in the context of contractual or fiduciary relationships:[90] here, the defendant's obligation to respect confidences has often been expressed as a duty not to deal inconsistently with the property of his employer or beneficiary.

Nevertheless, to call information 'property' does not prove that it is 'property' and there are many judicial statements denying this is so.[91] We must, therefore, inquire what other characteristics are needed before it is meaningful to call confidential information 'property'. Professor Jackson, for instance, has argued that in order for something to be 'proprietary' it need not always be precisely identifiable or permanent by nature. In his

[83] *Ibid.* 1247-8.
[84] *Morison v. Moat* (1851) 9 Hare 241, 263; 68 E.R. 492 (*per* Turner V-C).
[85] *Green v. Folgham* (1823) 1 Sim. & St. 298; 57 E.R. 159; *Queensberry (Duke) v. Shebbeare* (1758) 2 Eden 329; 28 E.R. 924.
[86] *Weston v. Hemmons* (1876) II V.L.R. 121 (E); *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.
[87] *Phipps v. Boardman* [1967] 2 A.C. 46.
[88] *In Re Keene* [1922] 2 Ch. 475 (secret chemical formulae).
[89] (1977) 11 *M.U.L.R.* 233-5.
[90] *Ibid.* 231.
[91] See, for instance, *Du Pont de Nemours Powder Co. v. Masland* (1917) 24 U.S. 100, 102, *per* Holmes J.; *F.C.T. v. United Aircraft Corporation* (1944) 68 C.L.R. 525, 534, *per* Latham C.J.; *Phipps v. Boardman* [1967] 2 A.C. 46, 127, *per* Lord Upjohn; *North & South Trust Co. v. Berkeley* [1971] 1 W.L.R. 471, 485, *per* Goff J.

view, the test of 'propertiness' is simply whether or not in relation to some subject-matter (regardless of what it is) there is a right enforceable against a party not in contractual relations with the party seeking to rely on it.[92] 'Enforceability', however, does not mean the same as 'exclusivity' but only that a remedy is available. In some cases this may mean recovery *in specie,* but it also covers injunctive and declaratory relief as well as simple monetary compensation by way of damages or an account of profits.[93] This is a sensible (and necessary) reinterpretation of powers of exclusion because it is clear that it reflects the courts' approach to certain types of subject-matter which are normally called 'property'. Thus, with chattels, a plaintiff's remedy is usually in damages for conversion rather than specific restitution. Again, with a restrictive covenant, a court of equity may refuse injunctive relief and instead award damages.

In Jackson's view, therefore, it is the availability of a remedy of one kind or another against a party not in privity which determines whether or not something can be characterized as property.[94] This may even be so when a remedy is only available against a limited number of persons or perhaps just one other person. Accordingly, proprietary interests can be ranged in order of descending importance, according to the number of parties against whom a remedy is available.[95] Where an interest lies at the very bottom of this hierarchy, in that it is only enforceable against a small class of persons and then, perhaps, only in certain situations, it is nonetheless proprietary. Jackson uses the term 'equity' to describe such cases where the courts

> have acted to create a proprietary interest, but which has not as yet reached the stage when it can be said to a plaintiff, "Bring yourself within that category and you will be protected". Instead, all that can be said is that "the remedies are available for protection. Prove that yours is a situation where they should be employed". But this does not mean that the "interest", once recognized as an equity, is any the less a proprietary interest of a sort.[96]

It is hard to deny that rights in confidential information form a proprietary interest in this minimal sense and it is, indeed, possible to argue that they are something more, closely approaching one of the fixed categories to which Jackson refers. Breach of confidence actions lie against a considerable number of persons not in privity with, or in a fiduciary relationship towards, the plaintiff. While it may be difficult in some cases to delimit the information over which a plaintiff seeks to enforce his rights, it is not impossible to do so. Furthermore, once a plaintiff demonstrates that he possesses an identifiable body of information, there are clear principles governing his obtaining of a remedy, namely:

[92] Jackson, D., *Principles of Property Law* (1967) 23 ff.
[93] *Ibid.* 42-3.
[94] *Ibid.*
[95] *Ibid.* 43-4.
[96] *Ibid.* 69.

(i) a requirement that he has kept his information confidential and that it is not otherwise common knowledge

(ii) that there has been an unauthorized use of it by someone, it not being necessary for the plaintiff to show that this is a person to whom he himself has imparted the information in confidence

(iii) that he has not in some way disentitled himself from obtaining equitable relief.

Establishing these things, however, does not automatically entitle him to relief because this always remains in the final discretion of the court. Nevertheless, in appropriate cases, a remedy (or remedies) will be granted where liability cannot be based upon any of the traditional categories such as contract or fiduciary relationship. In such cases, as we have seen, courts frequently appear unsure of what they are doing and reluctant to articulate their reasons. That this is so is understandable, as they find themselves in a position where they have to decide whether or not to act creatively. On one hand, they can deny the plaintiff a remedy altogether, which would be a clear admission that liability can only exist within the established categories. On the other hand, they can give him what he wants or a near equivalent. If they take the latter course, they can in turn do one of two things: they can either break new ground or else extend existing categories to meet the new situations. Taking the first course is obviously the more innovative but makes a judge vulnerable particularly on a later appeal. It also goes against the more cautious Anglo-Australian tradition, although there is ample precedent in North American jurisdictions upon which to draw. Thus, a general doctrine of unjust enrichment, applied without regard to personal or property rights, might be enunciated as the true basis of liability in breach of confidence actions.[97] On the other hand, it can be just as convenient, and perhaps more economical, to extrapolate from established principle which provides a 'logical form' to explain past cases and to guide future decision-making.[98] In relation to information, 'property' is the most obvious category upon which to draw. Indeed, the hard cases in this area can be readily resolved by asking the question posed by Fullagar J. in a recent Victorian case, namely

> whether a reasonable man in all the circumstances would recognize the information in question as being the property of the plaintiff.[99]

[97] Jackson, *op. cit.* 77-8; Goff, R., Jones, G., *The Law of Restitution* (1966) 11-26; *American Restatement of Restitution*, para. 1.

[98] Weinberg and Neave in their illuminating paper have suggested that the equity, and in particular the 'equity of confidence', is a form of Professor Stone's categories of illusory reference. Indeed they argue that it is a paradigm example of a 'legal category of concealed circular reference': Weinberg and Neave, *op. cit.* 38, 39; Stone, J., *Legal System and Legal Reasoning* (1964) Ch. VII.

[99] *Deta Nominees Pty Ltd v. Viscount Plastics Pty Ltd* (Unreported, Supreme Court of Victoria, December 1976), *per* Fullagar J. To be reported [1978] V.R.

So far, however, judges have usually not made it clear what they are doing in these cases, particularly when holding liable unconscious users of information and innocent third party recipients. To characterize confidential information as property, therefore, provides a meaningful framework in which to place their decisions. Furthermore, such an approach is not without its own creative aspect. In other areas of law in recent years we have witnessed the uneven development of new proprietary interests which are perhaps best described as 'undefined equities'.[1] One has been the equity of acquiescence,[2] another is the now defunct deserted wife's equity.[3] At the present their status is uncertain and all that can be said is that they have gradually found their way to the bottom of the proprietary ladder as something more than purely personal rights. Nevertheless, as a conceptual device they offer courts great scope in providing relief in situations not covered by any other category.[4]

The term 'equity' has not so far been used in breach of confidence cases and the reasons for this may be that it is still a relatively undeveloped and unfamiliar concept.[5] It is submitted, however, that this is the type of proprietary interest which courts have been recognizing either consciously or unconsciously in these cases. A number of obvious advantages flow from adopting such an analysis. Firstly, it would no longer be necessary to strive to solve non-contractual or non-fiduciary situations by artificial extensions of a good faith principle or by the introduction of a new liability based on tort which is quite alien to the equitable origins of the action. In a cognitive sense, therefore, it would help clarify those cases which were previously difficult to resolve on any other ground.

Secondly, such an analysis allows the court to proceed with a high degree of flexibility. In any particular case, a court is not confined to one remedy or set of remedies. It has at its disposal a wide range of relief and it may adjust this according to the circumstances of each case. Furthermore, as relief is discretionary it enables a court to take into account a large number of different factors which it could not do so if, say, the action was based on a tortious right to damages. Thus, the conduct of the parties or the harm to the defendant's interests may be taken into account in deciding whether to award relief and in what form. Unlike a principle of liability such as good faith which focusses solely on the conduct and awareness of the parties, an unconscious user or an innocent third party

[1] This is the term used by Neave and Weinberg, *op. cit.* 4-5.

[2] As in *Inwards v. Baker* [1965] 2 Q.B. 29; *Ward v. Kirkland* [1967] 1 Ch. 194; *Raffaele v. Raffaele* (1962) W.A.R. 29. See also the discussion in Neave and Weinberg *op. cit.* 8 ff.

[3] As in *Bendall v. McWhirter* [1952] 2 Q.B. 466 and *Westminster Bank v. Lee* [1956] Ch. 7. It was rejected by the House of Lords in *National Provincial Bank Ltd v. Ainsworth* (1965) A.C. 1175. It was never accepted in Australia: *Brennan v. Thomas* (1953) V.L.R. 11; *Dickson v. McWhinnie* (1958) 58 S.R. (N.S.W.) 179. See also the discussion in Neave and Weinberg, *op. cit.* 15 ff.

[4] As is demonstrated by Neave and Weinberg, *op. cit.* 8, 9.

[5] *Ibid.* 20-1.

can still be held liable. While all this may make the 'equity of confidence' a rather loosely defined form of proprietary interest, it nevertheless equips courts with a highly flexible conceptual tool with which to approach these cases.

A third advantage should also be noted here. An emphasis on good faith and the sanctity of consciously undertaken obligations of confidence may lead to unfortunate results in other areas of law as is instanced by a number of recent cases on privilege. In these the question has arisen as to whether a court should order the disclosure of documents and other information in which are required for the purposes of litigation and which the owner claims were given to him in confidence. In other words, does a privilege of confidentiality exist? In *Alfred Crompton Amusement Machines Ltd v. The Commissioner for Customs and Excise,*[6] the plaintiffs manufactured amusement machines upon which the defendant Commissioners levied purchase tax on the basis of a valuation of certain machines supplied by the plaintiffs. The latter objected to the Commissioners' assessment of the wholesale value of their machines and the dispute was referred to arbitration. The Commissioners claimed Crown privilege in respect of a number of documents, some of which contained information supplied to them in confidence by third parties. This was upheld by the trial judge but was rejected by the Court of Appeal. Lord Denning M.R., however, took the opportunity to formulate an 'alternative ground of privilege' which he held did apply in this case. It was not a privilege peculiar to the Crown, but

> a privilege available to all litigants. It comes down to us from the Chancery courts. It is this: a party to litigation is not obliged to produce documents, or copies of documents which do not belong to him, but which have been entrusted to his custody by a third party in confidence.[7]

On appeal, this formulation was rejected by the House of Lords. Lord Cross of Chelsea, for instance, described it as

> combining, if not confusing, two quite different considerations — the property in the document and the confidential nature of its contents — and I do not believe that it exists.[8]

Lord Denning M.R., however, has reiterated his views in almost identical terms in two subsequent cases, *Norwich Pharmacal Co. v. Commissioners of Customs and Excise*[9] and *D. v. N.S.P.C.C.*[10] In both he has argued that courts should not compel parties to break their confidences, except where this is clearly required by the public interest. This is because:

> in the converse case where the recipient of confidential information himself threatens to disclose it to others, the courts have repeatedly restrained him from breaking the confidence . . . If the court thus *restrain* a breach of confidence,

[6] [1972] 2 All E.R. 353 (Court of Appeal); [1973] 2 All E.R. 1169 (House of Lords).
[7] [1972] 2 All E.R. 353, 380.
[8] [1973] 2 All E.R. 1169, 1180.
[9] [1972] 3 All E.R. 813, 818.
[10] [1976] 3 W.L.R. 124, 132.

> surely they should not themselves *compel* a breach save when the public interest requires.[11]

Both cases, however, went on appeal and in each instance the so-called 'privilege of confidence' was rejected by the House of Lords.[12] Thus, in *D. v. N.S.P.C.C.* Lord Diplock said:

> The fact that information has been communicated by one person to another in confidence, however, is not of itself a sufficient ground for protecting from disclosure in a court of law the nature of the information . . . The private promise of confidentiality must yield to the general public interest that in the administration of justice truth will out, unless by reason of the character of the information or the relationship of the recipient of the information to the informant a more important public interest is served by protecting the information . . .[13]

While the Denning doctrine of an equitable privilege of confidence has probably now been finally laid to rest, it is submitted that all this litigation might have been avoided had the action of breach of confidence been viewed in proprietary terms. If this had been done, there would have been no difficulty in ordering the discovery of confidential information in the same way as is done with items of tangible property such as non-confidential documents or memoranda. In such cases, if the evidence sought is relevant to the action in hand, the subsistence of proprietary rights therein provides no bar to its admission, save where one of the established categories of privilege applies (such as that of professional legal advisers or the public interest). To emphasise, as Lord Denning M.R. did, the sanctity of the confidential obligation involved, gravely distorts the character of adversary court proceedings and limits the capacity of the parties to come closer to a resolution of the issues between them.

Another advantage of treating confidential information as an equitable proprietary interest is the guide that this might offer for future developments, particularly when there is no breach of confidence as such but nonetheless an unauthorized use of information has occurred. The term 'industrial espionage' has obtained a certain currency in recent years and it is submitted that, quite apart from any possible criminal sanctions, courts should be ready to grant relief in situations where information has been obtained without an actual communication in the first place but nevertheless without the permission of its owner. The fact situation of *Crowder v. Hilton*[14] is a good example of this and a number of commentators have suggested that the action of breach of confidence should be extended to deal with such cases.[15] As such an unauthorized taking is tantamount to theft, it is submitted that the property analysis proposed above would provide the easiest means of doing this. In the context of the criminal

[11] *Ibid.*
[12] [1973] 2 All E.R. 943 (*Norwich*); [1977] 2 W.L.R. 201 (*D. v. N.S.P.C.C.*).
[13] [1977] 2 W.L.R. 201, 207.
[14] [1902] S.A.S.R. 82.
[15] Cornish, W. R., 'Protection of Confidential Information in English Law', *op. cit.* 59; Jones, G., 'The Restitution of Benefits Acquired in Breach of Another's Confidence', *op. cit.* 482; U.K. Law Reform Commission, Working Paper No. 58, 'Breach of Confidence', *op. cit.*

law it is interesting to note the expanded definition of 'property' in the recent Victorian Theft Act[16] which includes 'things in action and other intangible property'.[17] If it is therefore now possible to steal or obtain by deception such things as debts or copyrights,[18] there is no reason why this should not also be the case with confidential information. Indeed, a recent Queensland case has led the way here by ordering delivery up in a situation where there had been no actual confidential communication by the plaintiff but the defendant had 'stolen' the plaintiff's trade secret (a unique type of nectarine budwood).[19] The detailed implications of all this, however, are beyond the scope of the present article and it may be that other changes in the present law are required in order to impose effective civil and criminal liability for the unauthorized taking of information.

There is one final consequence of treating confidential information as property which should be noted. It has already been said that in relation to third parties the balance of authority is in favour of the recognition of a defence of *bona fide* purchase for value without notice.[20] As a purely practical matter, such a defence would make for increased certainty in commercial dealings. The confidence of any genuine purchaser would be severely undermined if he faced the risk that it might subsequently emerge that his information belonged to someone else and that he might have to lose what he had paid for or have to pay for it again. In some industries where technology develops at a fast rate[21] and such development depends on the unimpeded transfer of information and knowhow, the absence of such a defence could have demoralising effects. One result might be that businesses would be afraid to invest unless they first secured full patent or contractual protection. In addition, as Neave and Weinberg comment

> as between the innocent plaintiff and the innocent defendant it is arguable that the plaintiff is more to blame for what has transpired. He has imparted confidential information without taking proper steps to safeguard his interests. Assuming the nature of the information was such that it could have been patented, he has failed to take out a patent. He could have been more careful about what he disclosed and to whom he disclosed it. He could have protected himself by express contractual arrangements.[22]

The acceptance of a defence of *bona fide* purchase also lends support to the notion that the action for breach of confidence is a proprietary one, as opposed to one based on a Jonesian principle of equitable good faith. On the other hand, if a proprietary approach is adopted but the defence is not accepted this would lead to the odd result that the plaintiff's

[16] (1972) amending the Crimes Act 1958.
[17] *Ibid.* s. 71(1).
[18] Weinberg, M. S. and Williams, C. R., *The Australian Law of Theft* (1977) 67.
[19] *Franklin v. Giddins* (1978) Q.D.R. 72. See also *R. v. Withers* [1974] 2 W.L.R. 26 (conspiracy to defraud whereby the defendants deceived public officials in order to obtain confidential information).
[20] (1977) 11 *M.U.L.R.* 223, 244-5.
[21] Such as in the chemical industry.
[22] *Op. cit.* 32.

proprietary interest is a legal one. If this was the case, as Neave and Weinberg comment, there would be no incentive for inventive persons to make use of the patent system.[23] Given that the Court of Appeal in *Seager v. Copydex* (No. 2)[24] was prepared to grant the plaintiff damages to the full amount of the capitalized value of his information had it been patented, there would be a great danger that persons would keep their original ideas to themselves and not disclose them through the patent system.[25]

There is, however, one problem which may arise if confidential information is regarded as a proprietary interest of the undefined equity type. Unlike most other types of proprietary interests which are carved out of some greater whole, it is hard to visualize greater or lesser interests subsisting in confidential information. In the case of a conflict between the original owner of information and a subsequent good faith recipient who has given value for it, both parties will be claiming the same interest. Because there is no clear priority rule governing such a conflict between competing equities, it could be argued that the *bona fide* purchaser rule should not apply and that the conflict should be resolved by the same rules that apply as between other equitable claimants, namely the first in time should take.[26] As both commercial certainty and the present balance of authority in breach of confidence cases favour the defence of *bona fide* purchase, it is submitted that there should be some legislative action here to confirm that this is so.

VI CONCLUSIONS

The purpose of these articles has been to examine some of the theories put forward in explanation of the action of breach of confidence and to suggest that a desirable basis to the action lies in the adoption of a proprietary analysis. Thus, in the first part, we saw that contract does not adequately cover many situations in which liability has been imposed. Again, there are many weaknesses in the principle of good faith advocated by Gareth Jones, not the least being the liability of an unconscious user of information and an innocent third party recipient.

[23] *Ibid.* 33.

[24] [1969] 2 All E.R. 718.

[25] I have not dealt in any detail with the protection of personal confidences in this present article. It may be that the proprietary analysis proposed above would be unsuitable and a better approach would be to subsume these actions into a general action for infringement of privacy: see here the recent Discussion Paper (No. 3) by the Law Reform Commission on Defamation and Publication 'Privacy — A Draft Uniform Bill' (1977). Furthermore, the defence of *bona fide* purchase may be quite inappropriate in the case of personal confidences, particularly as the interests affected seem closer to injury of feelings rather than the misappropriation of proprietary rights. The author hopes to investigate these issues more fully in a later article.

[26] As long as the 'merits are equal': *per* Kitto J. in *Latec Investments Ltd v. Hotel Terrigal Pty Ltd* (1965) 113 C.L.R. 265, 276. Meagher, Gummow and Lehane, *op. cit.* 195 ff. lists ten possible exceptions to this priority rule in which it may be displaced because the merits are 'unequal'; for example, the negligence of the owner of the prior equity.

In the second part, we looked at a possible proprietary analysis proposed by P. M. North who argues that the action for breach of confidence is best viewed as a tortious action for damages akin to conversion of goods. This would make confidential information equivalent to a form of legal proprietary interest and the result of a successful action would be that a defendant is, upon payment, confirmed in his usurpation of the plaintiff's information (unless equity acting in its auxilliary jurisdiction restrains the defendant). As we have seen, however, the basis for this tortious approach is a weak one and proceeds on a faulty view of the effect of Lord Cairns' Act.

This leaves us with another proprietary analysis, one which, in the author's submission, provides the clearest explanation of the different cases. This conceives of rights in confidential information as constituting a loose sort of proprietary interest perhaps best described as an 'undefined equity'. This interest is solely a creation of equity and provides a valuable conceptual tool for courts in their approach to these cases. It allows relief to be flexible and readily tailored to the circumstances of each case. While it does not carry with it the normal indicia of a fixed proprietary interest — comply with the following conditions and you will gain a remedy — it nonetheless can be easily invoked to explain the imposition of liability in cases where the established categories such as contract or good faith do not apply. It therefore provides an acceptable theoretical framework to explain past cases and to guide future decision-making. It also means that a defence of *bona fide* purchase can be adopted with the increased certainty that this implies for commercial dealings and the development of inventive and useful ideas. Other advantages, such as in the area of privilege and court-ordered discovery, have also been noted above.

Breach of confidence is an action which is growing steadily in importance, as the number of cases before the courts testifies. To analyse it in terms of an equitable proprietary claim is not the only possible alternative, but it is suggested that it is consistent with the development of Anglo-Australian law in other areas, reflecting our changing notions of the concept of property.