CONFIDENTIAL INFORMATION — A GENERAL SURVEY

Whilst it is often possible to obtain protection against an unauthorized use of inventions, processes and trade names, pursuant to the Copyright, Patents, Trade Marks or Designs Acts, it is not always possible to obtain protection for ideas, information and techniques under these specific legislative provisions.[1] However, the Courts have afforded a measure of protection for trade secrets, know-how, and other confidential information by applying rules evolved by them from general equitable principles.[2] The great importance to the commercial community of the protection derived from the law of confidential information is apparent from *American Flange & Manufacturing Co. Inc.* v. *Rheem Australia Pty. Ltd.*[3] before Myers, J.—which has been described as "the longest in Australian legal history".[4] It indicates the significance today of "judge-made law".[5]

1. WHAT IS CONFIDENTIAL INFORMATION?

"It may be information of any sort" says the leading English text on the subject.[6] This statement is subject to numerous qualifications. Thus, Megarry, J. has stated that the information must have "the necessary quality of confidence".[7] By this, his Lordship meant that the information must not be a matter of public knowledge[8] nor must it be something trivial; and, furthermore, the information must have been imparted in circumstances importing an obligation of confidence for example, during business negotiations.[9] Clearly, novelty and originality are not needed and this illustrates the main distinction between the nature of the information protected by the Patent or Designs Acts, and by the law of trade secrets.[10] It is not clear

[1] It is not clear whether ss.156-7 of the N.S.W. Crimes Act apply to protect trade secrets. This depends on the meaning of "property" in the Crimes Act. See A. E. Turner, *The Law of Trade Secrets* (1962) 12.

[2] J. R. Peden "Legal Protection for Trade Secrets, Know-How & Confidential Information" Commercial Law Association, Bulletin No. 7, Article No. 13 at 1. See also Gareth Jones, "Restitution of Benefits Obtained in Breach of Another's Confidence" (1970) 86 *L.Q.R.* 463.

[3] Not yet reported (judgment delivered 10/2/70). On 19th March, 1970, the N.S.W. Court of Appeal ordered, *inter alia*, "That until the determination of an appeal to the Privy Council, no sale distribution or disclosure shall be made by any officer of the Supreme Court of New South Wales employed in the office of the Master in Equity or in the Registry of the Court of Appeal" of any of the specified passages in the Judgment describing the alleged trade secrets of the plaintiff, except to the parties or to the Registrar of the Judicial Committee for the purposes of the Appeal. Accordingly, the writer has had access only to the portions of the Judgment not the subject of this Order.

[4] *The Sun* (10/2/70) at 4.

[5] Perhaps a reference to this area of the law could be usefully added in a Supplement to Chapter 7 of Stone's, *Legal System and Lawyer's Reasoning* (1964) Maitland Publications.

[6] Turner, *op. cit. supra* n. 1 at 4.

[7] See *Coco* v. *A. N. Clark (Engineers) Ltd.* 1969 R.P.C. 41; 1968 F.S.R. 415 at 419, followed in *Surveys and Mining Ltd.* v. *Morrison* 1969 Qd. R470.

[8] E.g. by being patented; *Mustad* v. *Allcock & Dosen* 1963 R.P.C. 41. Followed in the *American Flange Case supra* n. 3.

[9] The same approach can be seen in *Ansell Rubber Co. Pty. Ltd.* v. *Allied Rubber Industries Pty. Ltd.* (1967) V.R. 37 *per* Gowans, J.

[10] Peden *supra* n. 2 at 2.

whether "the necessary quality of confidence" requires an element of commercial value. *Obiter dicta* in the case of *Argyll* v. *Argyll*[11] suggest that this is not necessary. But it is difficult to see what damages would be suffered, if this is the correct legal position, in cases where the information has no commercial value whatsoever.[12]

It is well-established that the information in question need not be "secret"; it may be "imperfectly secret";[13] but some element of secrecy of the information is necessary.[14] The factors to be considered in determining whether information is secret were discussed in the *Ansell Rubber Case*[15] (quoting the American Restatement) and included (a) the extent to which information is known outside the business of the "owner" of the information; (b) extent of measures taken to guard the secret by its "owner"; (c) value of the information to the "owner" and his competitors;[16] (d) ease with which others could acquire or duplicate the information. Thus, the information is still "secret" although a competitor could have easily discovered it from a close examination of the plaintiff's goods sold on the open market where by trade custom no such close examination was ever carried out by competitors.[17] Imperfectly secret information can also be protected, as in the case of a news item which was no doubt known to a large number of people but a great many more were ignorant of it. "By the expenditure of labour and money the plantiffs acquired this information and in their hands it was valuable property . . . that is, that those who did not know it were willing to pay to find out about it".[18] All that can be safely stated, therefore, is that the degree of secrecy required by the courts in these cases will depend on the nature of the information and the circumstances of the case;[19] and that the secrecy of the information must continue to exist up to the time when relief is granted.[20]

2. HOW TO SUE

It has only recently become clear whether the proper course of action for a plaintiff (in the absence of an express contract with the defendant) who wants to sue the defendant for disclosing the plaintiff's trade secret or other confidential information is to proceed for breach of an implied contract or for breach of an equitable obligation.[21]

The old cases which are generally accepted as "originating" this remedy[22] are not clear on the point. In *Abernathy* v. *Hutchinson*,[23] where a lecturer obtained an injunction against medical students restraining them from selling notes taken at his lectures, Lord Eldon referred to the possibility of there being a relationship of trust only, but he finally rested judgment on the basis

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[11] (1967) Ch. 302.

[12] The writer is here assuming that the passing of the information is not a breach of copyright, nor defamatory.

[13] Turner, *op. cit. supra* n. 1 at 81ff.

[14] *American Flange Case supra* n. 3.

[15] *Supra* n. 9 at 49.

[16] Which again seems to support the view that commercial value is needed. See n. 10.

[17] *Cranleigh (Precision) Engineering* v. *Bryant* (1966) R.P.C. 81.

[18] *Exchange Telegraph* v. *Central News* (1897) 2 Ch. 48 at 53.

[19] E.g. whether the disclosure was on a business-like basis or volunteered at a social function.

[20] *American Flange Case supra* n. 3.

[21] For a discussion, see Sydney University Law School *Jurisprudence Seminar Paper* No. 7 1969, "The Public Interest in Public Relations" by the writer. Also see A. E. Turner's *First Supplement to The Law of Trade Secrets* (Sweet & Maxwell) 1968 at 31 where the contractual view still appears to be favoured.

[22] I take it for granted that from a jurisprudential point of view, courts do "originate or create law in certain instances" (e.g., *per* Barwick, C.J. in *M.L.C. Assurance Co. Ltd.* v. *Evatt* (1968) 42 A.L.J.R. 316, at 318-19) as distinct from merely "declaring" the common law as it has always "existed".

[23] (1825) 1 H. & Tw. 28.

of (implied) contract. In *Williams* v. *Williams*,[24] the same learned judge rested his decision on a treaty between the parties. The cases of *Queensberry* v. *Shebbeare*[25] and *Tipping* v. *Clarke*[26] both rested on contract. The decision in *Prince Albert* v. *Strange*[27] spoke of breach of contract and trust, without isolating the latter, and of copyright in the engravings in question. *Morison* v. *Moat*[28] (a secret formula case) referred to the possibility of a trust but was finally decided on the basis that a contractual relationship existed.[29]

At the next stage of development in this area of the law, one finds cases such as *Amber Size & Chemical Co. Ltd.* v. *Menzel*,[30] the *Nichrotherm Case*[31] and the *Terrapin Case*[32] where although the judgments still rested on the basis of contractual relationship between the parties, the *dicta* all acknowledged the possibility of a separate action for breach of confidence even if a contractual relationship could not be proved. This approach appeared again recently in *Surveys & Mining Ltd.* v. *Morrison*[33] where the Supreme Court of Queensland held that the geologist of a mining company under his contract of employment was bound to treat mining information as confidential matter. Furthermore, the court said, "the relationship between a consulting geologist and the mining company which employs him must necessarily be one of complete confidence . . . so that if he uses knowledge he has learnt in this capacity from his principal to acquire assets for himself he holds such assets as trustee for his principal".[34]

The third stage in the development of the law in this area began with the decision in the *Saltman Engineering Case*[35] where the facts speak for themselves to indicate the absence of a contractual relationship between the parties; yet the court without hesitation held the defendant liable for breach of confidence. In this case, M. and C. were in a contractual relationship, but S. and C. were not. M. disclosed confidential information to C. S. sued C. for breach of confidence, and succeeded. Since there was no contractual relationship between S. and C., the only possible ground for the decision was an equitable obligation of C. As Turner[36] says, the court was greatly impressed by the close business relationship between all three parties, so that the case must be applied with care. In *Argyll* v. *Argyll*[37] the court fixed the duty of confidence on the relationship of husband and wife. But since this alleged equitable principle was largely based on the common law principles considered in Viscount Radcliffe's dissenting speech in *Rumping* v. *D.P.P.*[38] the basis in equity of this case is questionable. In *Seager* v. *Copydex Ltd. (No. 1)*[39] the inventor of a carpet-grip voluntarily and without being so requested by the defendant disclosed some other information on a different subject during negotiations for a contract with the defendant. The negotiations fell through. Later, the defendant made use of the other information. Lord Denning (with whom the rest of the Court of Appeal agreed) said: "The law on this subject does not depend on any implied contract.

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[24] (1817) 3 Mer. 157; *cf. Yovatt* v. *Winyard* (1820) 1 J. & W. 394.
[25] (1758) 2 Eden 329.
[26] (1842) 2 Hare 383.
[27] (1849) 1 Mac. & G. 24.
[28] (1852) 21 L.J. Ch. 248.
[29] See generally Turner, *op. cit. supra* n. 1 at 193ff.
[30] (1913) 30 R.P.C. 433.
[31] *Nichrotherm Electrical Co. Ltd.* v. *Percy* (1957) R.P.C. 207.
[32] *Terrapin Ltd.* v. *Builder's Supply Co. (Hayes) Ltd.* (1960) R.P.C. 128.
[33] (1969) Qd. R. 470.
[34] *Id.* at 473.
[35] *Saltman Engineering Co. Ltd.* v. *Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203.
[36] *Op. cit. supra* n. 1 at 224ff.
[37] (1967) Ch. 302.
[38] (1964) A.C. 814.
[39] (1967) 1 W.L.R. 923; (1967) R.P.C. 349.

It depends on broad principle of equity. . . ."[40] Finally, in *Coco* v. *A. N. Clark (Engineers) Ltd.*[41] where, as in *Seager* v. *Copydex Ltd.*, no contract ever came into existence, it was held that an obligation of confidence may exist without a contract. In Australia, this approach is best illustrated by the *Ansell Rubber Case*[42] where of the three defendants, one was restrained on the ground that he was an employee of the plaintiff; another on the ground that he was an ex-employee of the plaintiff; while the third defendant was restrained despite the absence of any contractual relationship with the plaintiff.

The question whether an action for breach of confidential information (in the absence of a contractual relationship) is an equitable one or not is not merely of intellectual interest. For once it has been established that such an action is an equitable one, numerous equitable defences can be raised by a defendant. Two of these were raised successfully in the *American Flange Case*[43] first, the clean hands doctrine, and second the rule that, as it has a discretion, the court may refuse relief to a plaintiff who has attempted to deceive it in a material matter.[44]

These latest cases show a certain confusion on fairly important matters of law—such as whether the court should look to the motives of both parties in deciding that a confidential aura existed between them (as was suggested in the *Saltman Engineering Case*[45]), or only to one party's motive (as was suggested by Lord Denning in *Seager* v. *Copydex Ltd.*[46]) or even, in certain circumstances, to what would have been the motives of the reasonable man (as was suggested in *Coco* v. *Clark*[47]). Nevertheless, it appears clearly from all of them that the liability for a breach of confidence is not only contractual but may be equitable.[48] It is this latter type of situation that will be discussed in this article.

3. WHAT IS A CONFIDENTIAL RELATIONSHIP?

Judge Palmer in *U.S. Lift Slab Corp.* v. *C. D. Wailes Co.*[49] attempted a definition of this concept, which, like the first concept dealt with in this article, is undefinable. He said in that case:

> I hold that a confidential relationship as required by the principle evoked by plaintiffs, must have three ingredients. No one of them needs to be expressly stated by the parties or proved by direct evidence. But all must be present, and their existence must be at least reasonably inferable. For simplicity of statement in defining those elements, I omit elaboration on the possibility of reciprocation, sometimes, of course, an actuality.
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> 1. A must trust B, not necessarily to do or not to do a specific thing, but in a real and positive way related to B's conduct insofar as it may affect A. The most common and perhaps the most extreme example is the relationship of husband and wife, wherein each trusts the other, nearly always silently, to be loyal, honest, and solicitous of the other's well-being.
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> 2. B must know of that trust, or the circumstances must be such as to make reasonably inexcusable a lack of such knowledge, and he must accept the trust, if not expressly, then by acquiescence or conduct reasonably justifying

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[40] (1967) 1 W.L.R. at 931; (1967) R.P.C. at 368.
[41] (1969) R.P.C. 41.
[42] *Supra* n. 9.
[43] *Supra* n. 3.
[44] See *Armstrong* v. *Sheppard & Short Ltd.* (1959) 2 Q.B. 384 *per* Lord Evershed, M.R.
[45] *Supra* n. 35.
[46] *Supra* n. 39.
[47] *Supra* n. 41.
[48] For the latest *dicta* in point see *Fraser* v. *Evans* (1969) 1 All E.R. 8.
[49] 113 *U.S. Patent Qrtly.* 228, (Cal. Sup. Ct. 1956).

A in believing that B knows of A's trust in him and that B accepts or has accepted the ethical responsibility of that trust.

3. Out of the synchronism of intent, interests, and motive thus established, and all the enveloping and involved facts, a duty of loyalty must be begotten to rest on B, a duty which may be too broad or general for specific definition but which, nevertheless, must be determinable in relation to any specific conduct or act of omission.[50]

The question was referred to more recently by Megarry, J., who said:

A confidential relationship can arise in numerous ways, by or without the force of a contract, expressly or by implication, orally or by written consent. For the purposes of a commercial negotiation, it is sufficient to note that "if information of a commercial or industrial value is given on a business-like basis, there is a heavy onus on the recipient to show that it is not confidential".[51]

4. DETRIMENT

It is clear that if an action for negligence is instituted, "damage" to the plaintiff is an essential element of the cause of action. That is, no damage, no action for damages for negligence. Is it so with respect to an action for breach of confidential information? Some *dicta* support the view that it is.[52] However, the writer respectfully submits that "detriment" is not an element of the cause of action under discussion.

The basis of this submission is two fold:—

(i) In New South Wales, so long as law and equity are divided, a cause of action for breach of confidential information (being a cause of action for breach of an equitable obligation, without the need to establish a contractual relationship)[53] is brought in a Court of Equity acting in its exclusive jurisdiction, not in its auxiliary jurisdiction. This means that the plaintiff in such an action who sought an injunction (or damages in lieu thereof)[54] need not prove any proprietary interest that has been damaged, nor any probable loss for which damages *per se* would be inadequate, nor that his interest was non-trivial, nor balance of convenience on his side.

(ii) As A. E. Turner[55] points out in his text, and as shown in the above,[56] the basis of the whole action is a fiduciary relationship which is broken. The breach of this "duty of faith" *is the damage* for which the plaintiff sues. The *amount* of the *damages* will of course vary with the facts.[57]

5. REMEDIES

Mr. Peden in his article[58] states that the remedies available for breach of confidential information are (a) injunction (b) damages or (c) an account of profits. One could add (d) the remedy of delivering up for

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[50] *Id.* at 229.

[51] *Coco* v. *A. N. Clark (Engineering) Ltd.* (1968) F.S.R. 415 at 421.

[52] *Coco* v. *A. N. Clark (Engineering) Ltd. supra* n. 51 at 419.

[53] *Supra.*

[54] S. 9 of the Equity Act (1901-68). The Supreme Court Bill of 1970 is a procedural Act and presumably does not affect the substantive law as stated in this article.

[55] *Supra* n. 1 at 204f.

[56] S. 2 *supra.*

[57] The requirement that the information which is disclosed in breach of the duty of confidence must have commercial value does not detract from the above argument. That fact goes to the *amount* of the damages.

[58] *Supra* n. 2. This writer is not concerned with the cases where the relationship of confidence between the parties is contractual.

destruction and (e) action for inducing a breach of confidential relationship.[59]

(i) *Injunction*

The remedy by way of injunction has already been discussed.[60] The only further point worthy of note is that if an injunction is sought by a plaintiff to prevent any further breach of confidential information by the defendant the plaintiff must be the person to whom the duty of confidence is directly owed by the defendant. This was clearly stated in the recent case of *Fraser* v. *Evans*[61] but seems to be in conflict with the earlier *Saltman Engineering Case.*[62] In the latter case C owed a duty of confidence directly to M which was a related company to S. The court held C liable to S although C had had no direct dealings at all with S. The only plausible explanation is that the court was influenced by the close business contact between *all* the parties.

(ii) *Damages*

The remedy by way of damages was originally unknown to the Court of Chancery. Later, it became a remedy which by Statute could be administered in equity in addition to or in substitution for a remedy by way of injunction or specific performance.[63] The problem in this area is whether damages are available only if the suit involves protection of a *legal* right obtainable at common law *or* whether damages are available also where a mere *equitable* right is being vindicated. If the latter view were correct, then in case of a breach of trust, where traditionally the only remedies were injunctions, restoration of property or account of profits, the injured beneficiary could sue the trustee for damages. This was indeed suggested as a possibility in *Elliston* v. *Reacher*[64] but the statement, although having the authority of any pronouncement of Lord Parker, was only an *obiter dictum.* Yet in *Seager* v. *Copydex Ltd. (No. 1)*[65] Lord Denning[66] held that although it may not have been a case for an injunction, damages should be granted to the plaintiff.[67]

Assuming damages to be a correct remedy in such cases,[68] the problem is: what is the correct measure of damages? The measure of damages is the cost that the *defendant* would have incurred to get the information by his own efforts.[69] This is, of course, quite strange. It is not what the common law understood by "damages"; for at common law, "damages" refers to the loss suffered or incurred by the plaintiff. Nor is it an account of profits—for that is assessed on the amount of profit wrongfully made by the defendant's use of the confidential information.

This confusion is taken up in the judgment of Megarry, J. when he states[70] that "the duty (of the defendant) may be not to use the information

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[59] See under heading "Remedies" *post,* especially (iv), as to the remedy against a third party to whom confidential information has been disclosed.

[60] *Supra* p. 386.

[61] (1969) 1 All E.R. 8 at 11 *per* Lord Denning.

[62] *Saltman Engineering Co. Ltd.* v. *Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203.

[63] See now Equity Act (1901-68) s. 9.

[64] *Per* Lord Parker (1908) 2 Ch. 374. See also *Eastwood* v. *Lever* (1864) 4 De G. J. & s. 114.

[65] (1967) 1 W.L.R. 923.

[66] *Id.* at 932.

[67] Equity Act (N.S.W.) (1901-68) s. 9 would probably make this proposition of law inapplicable in N.S.W.

[68] E.g. under Equity Act (N.S.W.) (1901-68) s. 9.

[69] *Seager* v. *Copydex Ltd.* (No. 1) *supra* n. 39 at 932; *Seager* v. *Copydex Ltd.* (No. 2) (1969) 1. W.L.R. 809 at 813.

[70] *Coco* v. *A. N. Clark (Engineering) Ltd. supra* n. 51 at 423.

without paying a reasonable sum for it." It sounds as if the motorist has a duty not to run pedestrians down without paying a reasonable sum for it.

One hoped that *Seager* v. *Copydex Ltd. (No. 2)*[71] would clarify the situation. The only issue in that case was the assessment of damages, the court having held in favour of the plaintiff in *Seager* v. *Copydex Ltd. (No. 1)*.[72] Of that case,[73] Mr. R. Baxt wrote: "The enunciation of (the) principles of assessment of damages by the Court of Appeal is a valuable contribution to the English law in relation to remedies for breaches of trade secrets."[74] The writer cannot agree. For the Court of Appeal, consisting of three learned judges perhaps of greater experience in the field of common law than equity, has created great confusion in the law of damages in this field. Firstly, they stated that the remedy by way of damages was analogous to damages for conversion.[75] It followed, therefore, that "damages for conversion are the value of the goods. Once the damages are paid, the goods become the property of the Defendant. . . . So here, once the damages are assessed and paid, the confidential information belongs to the defendants."[76] It is submitted that their Lordships had completely ignored that the jurisdiction they were exercising was designed to protect not legal but equitable rights. Thus the analogy with conversion is inapposite.

From this invalid analogy followed (logically) the conclusion stated above that once the damages are paid by the defendant the confidential information becomes his property. This conclusion is untenable. Equity acts to vindicate a plaintiff's equitable title, not strip him of it.[77] That is, equity is concerned to stop a defendant profiting from his wrongful act.[78] Even, at common law in New South Wales, the plaintiff has a choice of suing in detinue (not trover) in order to *keep* his property if he so desires. This is the result of certain developments in legal history coupled with statutory intervention. As Professor Fleming has pointed out,[79] at common law, a claimant bent on recovering his chattel would always sue in detinue; but the common law left the defendant with a choice as to redelivering the chattels or paying damages; so, the plaintiff had to resort to Chancery to obtain specific restitution. Later the common law courts were also empowered by statute to order the return of detained chattels.[80] Mr. Seager was not given such a choice by the Court of Appeal. Finally, the logical conclusion of this approach, that the defendant may obtain a grant of letters patent for the information such as to enable him to sue the plaintiff should the latter use the information in infringement of the patent,[81] is grossly unjust and inequitable.[82]

When it came to the assessment of the damages, the Court of Appeal expressed itself with no greater clarity. Their Lordships held that the measure of damages must vary with the nature of the confidential information. They went on to say that the nature of such information may be either:
(a) simple (that is "the sort of information which could be obtained by employing any competent consultant").[83]

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[71] *Supra* n. 69.
[72] *Supra* n. 39.
[73] I.e. *Seager* v. *Copydex Ltd.* (No. 2) (1969) 1. W.L.R. 809.
[74] 43 *A.L.J.* 583.
[75] (1969) 1. W.L.R. 809 at 813 *per* Lord Denning, M.R.
[76] *Ibid.*
[77] *Phipps* v. *Boardman* (1967) 2 AC 46; (1966) 3. W.L.R. 1009 at 1056 *per* Lord Hodson.
[78] *Ibid.*
[79] J. G. Fleming, *The Law of Torts* (3 ed.) at 75.
[80] See s. 136 of Common Law Procedure Act (1899-1968) and the discussion by Hope, J. in *Doulton Potteries Pty. Ltd.* v. *Bronotte* (unreported, 29th April, 1970).
[81] (1969) 1. W.L.R. 809 at 813 *per* Lord Denning, M.R.
[82] *Cf.* the Commonwealth Patent Act s. 34. Does the defendant here fall within the section?
[83] *Supra* n. 81.

(b) special (that is "it involved an inventive step or something so unusual that it could not be obtained by just going to a consultant").[84]
(c) "very special."[85] Though left undefined, their Lordships, it is submitted, meant that the information has the elements of (b) above coupled with some other facts rendering the situation for the plaintiff even more drastic than in (b) above, such as the fact that Mr. Seager had another type of carpet grip the value of which would be diminished by the defendant's patenting of the confidentially obtained details of the first carpet grip.[86]

Having arbitrarily[87] selected these three categories of the nature of a confidential information the Court of Appeal defined the quantum of damages obtainable in each type of case. If the situation involved information of type (a), the measure of damages equals "the fee which a consultant would charge".[88] If the situations involved type (b) information; then the quantum of damages equals "the price which a willing buyer . . . would pay for it".[89] Finally, if type (c) information is involved, the measure of damages equals "a calculation based on a capitalization of a royalty".[90] It is difficult to see whether type (a) damages have anything to do with trade secrets at all. If the information involved is such that "any competent consultant"[91] could furnish, then in fact the information involved is not a trade secret, and so the law of confidential information has no relevance.[92] The analogy used with type (b) damages, is clearly to cases of resumption of property (for example by State authorities) and is not a true one, because the plaintiff, far from being a willing seller, is an *unwilling* one—and so he is entitled to *more* damages than this formula would allow. The analogy attempted with type (c) damages is with patent cases. Letters patent are granted for sixteen years under the Commonwealth Patents Act[93] and so if a capitalization of royalty is involved, one knows that the royalty payable should be capitalized for a period of sixteen years. But there is no similar time limit for confidential information. Thus, we do not know for *how long* the capitalization of royalty should continue.

As if to admit the difficulty in ready application of the tests provided, their Lordships remitted the calculation of the damages in this case to a patents judge.[94] The Court of Appeal would not indicate which type of information was in their Lordship's view involved in this case.[95] For these reasons, it is submitted, the statement of their Lordships in this recent case, is of little help to a lawyer who is trying to advise a client. Indeed, the whole approach of their Lordships is against the current trend in this area of law.

One of the basic concepts applied in deciding whether to grant relief against a defendant who wrongfully disclosed the plaintiff's trade secrets has been contained in the so-called "springboard doctrine".[96] This states that even if confidential information which the defendant has acquired, becomes public knowledge through disclosure by an independent third party or by the

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[84] *Ibid.*
[85] *Ibid.*
[86] *Ibid.*
[87] Just as type (c) is a more refined version of type (b), perhaps a fourth type (d) could be more refined a version of type (a).
[88] (1969) 1. W.L.R. 809 at 813.
[89] *Ibid.*
[90] *Ibid.*
[91] *Supra* n. 83.
[92] *Supra* s. 1 of this Comment.
[93] S. 68 (with the possibility of extension of the term under Part IX of the Act).
[94] The grounds for doing this were stated by Lord Denning, M.R. at 814 in *Seager* v. *Copydex (No. 2) supra* n. 73. These grounds are, it is submitted, specious, as his Lordship seems to admit.
[95] Though Lord Denning hinted that it was type (c) (1969) 1 W.L.R. 809 at 813.
[96] For full discussion of this doctrine, see Fisher "From Secrecy To Plagiarism" (1968) *Univ. of Qld. L.J.* 60.

defendant (but not by the plaintiff[97]) the defendant's equitable obligation continues so as to prevent him from getting a head start over the rest of the public in catching up with the plaintiff. This whole doctrine tends away from the idea propounded in *Seager* v. *Copydex (No. 2)*[98] that through his *wrongful* act the defendant may acquire the *property* in question and use it for his own advantage immediately on his paying damages. The two propositions of law, it is submitted, are inconsistent and the recent criticisms[99] of "the springboard doctrine" may have influenced the Court of Appeal in its new approach to this area of the law.

(iii) *Account of Profits*

A Plaintiff in an Equity suit, "can choose between damages or an account of profits. He cannot have both. They are alternative remedies".[100] Windeyer, J. has explained that "the distinction between an account of profits and damages is that by the former the infringer is required to give up his ill-gotten gains to the party whose rights he has infringed: by the latter he is required to compensate the party wronged for the loss he has suffered. The two computations can obviously yield different results. . . ."[101] This clear statement of the law shows not only the way Equity has used the remedy of account of profits, but also shows the nature of damages. It throws into relief the Court of Appeal's analysis discussed above. Their Lordships there treated a claim for damages in such a way as to be neither remedy described by Windeyer, J.

The remedy of an account of profits is "auxiliary to an injunction"[102] or to specific performance. It is only used against a defendant who acted "dishonestly",[103] not innocently. In *Colbeam Palmer*, a case of trade mark infringement, though Windeyer, J. recognized that an account of profits is an auxiliary remedy,[104] he granted a remedy by way of account without granting the injunction asked for by the plaintiff. His reason for this unusual course was the special facts of the case.

His Honour then dealt with the complicated question of apportionment. Since the defendant's profit may not be entirely referable to his wrongful act for which he is being sued, he will not be accountable for all the profits he made, only that portion of it which he made by use of the property or information obtained wrongfully by him. Thus, where the article could be made only by use of some confidential information, the defendant will be liable to account for all his profits derived from sale of that article;[105] but if the article was made partly from confidential information and partly from information of a public nature, the account will be taken only for that part of the defendant's profit which is attributable to his use of the confidential information.[106] Since such a calculation is very complicated, the general utility of the remedy is questionable. His Honour in fact recognized that though

[97] *Mustad* v. *Allcock & Dosen* (1963) R.P.C. 41 (Plaintiff published by patenting).
[98] *Supra* n. 73.
[99] *Per* Megarry, J. in *Coco* v. *A. N. Clark (Engineering) Ltd.* supra n. 51 at 421ff.
[100] Windeyer, J. in *Coalbeam Palmer Ltd. & Anor.* v. *Stock Affiliates Pty. Limited* 42 A.L.J.R. 209 at 212; *Neilson* v. *Betts* (1871) L.R. 5 H.L. 1 at 22; *De Vitre* v. *Betts* (1873) L.R. 6 H.L. at 321.
[101] *Id.*
[102] *Id.*
[103] *Id.*
[104] See *Re Price's Patent Candle* 70 E.R. 302; *Parrott* v. *Palmer* 40 E.R. 244.
[105] *Peter Pan Manufacturing Corporation* v. *Corsets Silhouette Ltd.* (1964) 1. W.L.R. 96.
[106] *Seager* v. *Copydex Ltd.* (No. 1) *supra* n. 39; *Coco* v. *A. N. Clark (Engineering) Ltd. supra* n. 51.

"the court cannot press parties to a compromise"[107] this is usually how such cases end.

(iv) *Delivery up for Destruction*

Not only can Equity order a defendant to hand back to the plaintiff certain property belonging beneficially to the plaintiff, but it can also order him to deliver up to the court for destruction by an officer of the court property owned by the defendant, but the manufacture of which involved some breach of the rights of the plaintiff. The origins of this remedy lie back in the days of the first copyright legislation which vested statutory powers of destruction in common law courts. In time, Equity arrogated this power to itself in fields other than copyright. It is clearly recognised as a proper equitable remedy in *Hale* v. *Bradbury*.[108]

An unusual order was made in the case of *Ansell Rubber Co. Pty. Ltd.* v. *Allied Rubber Industrial Pty. Ltd.*[109] Gillard, J., in that case ordered property of the defendant (which had been manufactured by use of confidential information belonging to the plaintiff) to be delivered up for destruction *to the plaintiff* rather than an officer of the court. The writer finds this a most unusual (though by no means unprecedented) order.[110]

Before dealing with the fifth remedy referred to above, a discussion of the liability of third parties under this area of the law seems to be warranted. All the above remedies are available for a plaintiff against a third party who wrongfully uses or discloses confidential information which he knows belongs to the plaintiff since an equitable obligation attaching to a property as between A and B continues to attach to the property in the hands of C. The only problem is whether this rule applies where C is a *bona fide* purchaser for value without notice?

In the early cases[111] in this area of the law, the courts considered the defendants either were not *bona fide* or were not without notice.[112] Later, in the *Saltman Engineering Case*,[113] an often quoted dictum of Lord Greene was pronounced, namely that "if a defendant is proved to have used confidential information, directly or indirectly obtained from a plaintiff, he will be guilty of an infringement of the plaintiff's rights".[114] This means the *bona fide* purchaser doctrine has no application in this area of the law. Lloyd-Jacob, J., in the most important case on this point,[115] stated:

> The original and independent jurisdiction of this court to prevent by the grant of an injunction *any person*[116] availing himself of a title which arises out of a violation of a right or a breach of confidence is so well established as a cardinal principle that only a binding authority to the contrary should prevent its application by this court.[117]

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[107] *Per* Windeyer, J. in *Coalbeam Palmer Ltd. & Anor.* v. *Stock Affiliates Pty. Limited* 42 A.L.J.R. 209 at 213

[108] (1879) 12 Ch. D. at 903 *per* Fry, J. The contrary case of *Colburn* v. *Simms* (1843) 67 E.R. 224 at 229 is a much earlier case and was not referred to in *Hale* v. *Bradbury*.

[109] (1967) V.R. 37.

[110] See *Kelly* v. *Hodge* cited in H. W. Seton, *Forms of Decrees Judgments and Orders* (4 ed.) Vol. 1 p. 244.

[111] *Abernathy* v. *Hutchinson* (1825) 1. H. & Tw. 28; *Morrison* v. *Moat* (1852) 21 L.J. Ch. 248; *Prince Albert* v. *Strange* (1849) 1 Mac & G. 24.

[112] For full discussion of early cases see A. E. Turner *op. cit. supra* n. 1 at 406ff.

[113] *Saltman Engineering Co. Ltd.* v. *Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203.

[114] *Id.* at 213.

[115] *Stevenson, Jordan & Harrison Ltd.* v. *MacDonald & Evans* (1951) 68 R.P.C. 190.

[116] Italics supplied.

[117] *Stevenson Jordan & Harrison Ltd.* v. *Evans & MacDonald supra* n. 115 at 195.

This statement of the law again comes down in favour of the view that the "*bona fide* purchaser" doctrine has no application here.

But how authoritative is this decision on this point? Technically, the statement of law above referred to is merely an *obiter dictum* of a single judge since, on appeal, the decision of Lloyd-Jacob, J. at first instance was reversed on the ground that the information in question did not warrant any protection by the law.[118] Furthermore, in this case the defendant had acquired the information without notice of its confidential nature, but, at the time of publishing it, he had the necessary notice. His Lordship held that the relevant time was the day of publishing not of receiving the information. This has been criticised since.[119] Thirdly, the dismissal by his Lordship of the applicability of the earlier decision of Kekewich, J. in *Philip* v. *Pennell*[120] has also been criticised by A. E. Turner[121] who quotes *dicta* from that case which clearly supports a view contrary to the holding in the *Stevenson Jordan Case*. Finally, *dicta* in recent cases have suggested that the *Stevenson Jordan Case* has stated the law incorrectly. Thus, in *Paul (K.S.) Ltd.* v. *Southern Instruments Ltd.*[122] Edmund Davies, J. made an interlocutory order the wording of which clearly suggested that he thought the "bona fide purchaser" doctrine applied in this area of the law. Similarly, certain *obiter dicta* in the *American Flange Case*[123] support this view.

Despite the above criticisms, Lloyd-Jacobs, J.'s view has been supported in many *dicta*.[124] Even the most recent cases support his view,[125] and so the law, uncertain as it may be now, appears to be that the "*bona fide* purchaser" doctrine has no application within this area of the law.

(v) *Inducing Breach of an Equitable Obligation—a Tort?*

This remedy has application only with respect to third party recipients of confidential information. The first four remedies apply to both the situation where the defendant directly breaches a duty of confidence he owes the plaintiff *and* to the situation where the defendant is a third party who received the confidential information from another who in turn had breached his duty of confidence owed to the plaintiff. The action in tort for inducing breach of contract is well established in our law.[126] But, as is stated by Dixon, J., "the principle is now wide enough to include within its protection civil rights which exist independently of contract".[127] For example, a person who knowingly procures a common carrier to refuse, in breach of his duty, goods tendered to him for carriage would commit an actionable wrong.[128]

The question arises whether the *dicta* in *James* v. *The Commonwealth*[129] in referring to "civil rights", are wide enough to encompass equitable rights/duties such as the (equitable) duty of non-disclosure of information received in confidence. It is submitted that the *dicta* do not warrant such a wide interpretation. Thus, Dixon, J. relied on the statement of law in *Quinn* v.

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[118] (1952) 69 R.P.C. 10.
[119] E.g. Turner *op. cit. supra* n. 1 at 401-407.
[120] (1907) 2 Ch. 577.
[121] *Supra* n. 1 at 403.
[122] (1964) R.P.C. 118 at 121ff. See also A. E. Turner, *op. cit. supra* n. 21 at 50.
[123] *Supra*, n 3.
[124] E.g. *Nichrotherm Electrical Company Ltd. & Others* v. *Percy* (1954) R.P.C. 207 at 215. *Liquid Veneer Company Ltd.* v. *Scott & Others* 29 R.P.C. 639 at 644.
[125] *Fraser* v. *Evans* (1969) 1 All. E.R. 8 at 13 *per* Lord Denning, M.R. All the defendants had notice of the confidential nature of the information in the *Ansell Rubber Case supra* n. 9
[126] See *Lumley* v. *Gye* 2 E.I. & Bl. 216; *Quinn* v. *Leathem* (1901) A.C. 495; *Stratford* v. *Lindley* (1964) 3 W.L.R. 541; *Rookes* v. *Barnard* (1964) 2 W.L.R. 269.
[127] *James* v. *The Commonwealth* (1939) 62 C.L.R. 339 at 370.
[128] Fleming, *op. cit. supra* n. 79 at 652.
[129] *Supra* n. 127.

Leathem[130] where Lord Macnaghten placed the rule in *Lumley* v. *Gye*[131] upon "the ground that a violation of *legal*[132] right committed knowingly is the cause of action". This clearly excludes from the compass of this action any inducement to breach an equitable, as distinct from a legal, relationship. Nevertheless, it is interesting to note that such an action is recognized in the U.S.A.[133] However, for at least so long as law and equity are separated in New South Wales, it is impossible to follow the U.S. example since the equitable right simply would not exist—like the interest of a beneficiary.

6. CONCLUSIONS

This area of the law is a most fascinating one for, although its broad outlines are today fairly well defined, there are still numerous questions that need to be answered: for example, whether information lacking any commercial value may be protected as a "trade secret"; or whether detriment is a necessary element to an action for breach of confidential information; or whether the court should look to the motive of both parties in deciding that a confidential aura existed between them or only to the motive of one of them (or maybe to the motive of the reasonable man). And there are still areas where the broad outlines need to be narrowed (for example, while the implication of a confidence is based on a "special relationship"[134] the nature of the relationship is still vague).

In the area of remedies, the Court of Appeal's latest pronouncement on the question of damages has, it is submitted, helped to confuse rather than to clarify this area of the law whilst the remedy of delivering up for destruction is, it is submitted, anachronistic and "inequitable". Furthermore, the remedy of account of profits often involves, in this area of the law, such a complicated mathematical process as to render compromise between the parties preferable to a plaintiff who wishes to save lengthy litigation. It is still not clear whether the doctrine of *bona fide* purchaser for value without notice does, and should, apply in this field of law; whilst the tort of inducing breach of contract, though a useful remedy,[135] probably has no application in this field in Australia.

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[130] *Supra* n. 126 at 510.

[131] *Supra* n. 126.

[132] Italics supplied. Query whether his Lordship was really directing himself to the distinction between law and equity or merely speaking generally.

[133] Turner, *op. cit. supra* n. 1 at 440ff. especially at 443ff. Also see *Conmar Products Corporation* v. *Universal Slide Fastener Co. Inc.* 80 U.S.P.Q. 108 at 113.

[134] *American Flange Case supra* n. 3.

[135] "Useful" because it is easier to prove as against a third party and, being an action at law, the damages to be claimed would be easier to assess—being the loss suffered by the Plaintiff.

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