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Vestergaard – guarding trade secrets

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The Supreme Court has ruled, in the final stage of this case, that an ex-employee could not have misused confidential information if she did not know about (i) the confidential information; and (ii) the fact of its misuse.

Crucially, her "conscience" needed to be affected for a breach of confidence to have been committed.

这个判断的主要意义是提醒企业, 如果他们认为自己的机密信息被滥用了, 他们需要仔细考虑该追究谁的责任

The main take-away point of the judgement is to remind businesses that if they think their confidential information has been misused, they need to think carefully about whom to pursue for this misuse. Ex-employees who do not know that information was confidential, or did not themselves use the confidential information, will not be found liable for breach of confidence, even if they were somehow "mixed up" in the activities that related to misuse of the confidential information.

不知道信息是机密的前雇员或自己没有使用机密信息, 将不会被认定为违反机密的责任, 即使他们以某种方式"混在"与滥用机密信息有关的活动中

Background Facts

The Claimant, Vestergaard, had a business which involved the development, manufacture and marketing of mosquito nets. Vestergaard had developed special techniques which ensured that their nets retained their insecticidal properties after washing. These special techniques were recorded in the so-called "Fence database", which was maintained by Vestergaard and amounted to a trade secret. 关键点: 这个商业机密商家自己保存

The case revolved around two ex-employees (Mr Larsen and Mrs Sig), and an ex-consultant of Vestergaard (Dr Skovmand). Both Mr Larsen and Dr Skovmand were involved in developing the confidential techniques while working at Vestergaard. Mrs Sig was involved in sales and marketing, and did not have access to the "Fence database" while working at Vestergaard.

In 2004, Mr Larsen and Mrs Sig decided to set up a business in competition with Vestergaard. Dr Skovmand agreed to work with them, and began developing a product, which was in due course manufactured and put on the market under the name "Netprotect".

The Netprotect product was produced and marketed through an English company, Bestnet and Mrs Sig was sole director.

Supreme Court Decision

In early 2007, Vestergaard launched UK proceedings for misuse of their confidential information, against parties including Bestnet, Mr Larsen, and Mrs Sig.

The requirements for a breach of confidence have long been established (*Coco v A N Clark*) and are as follows: (i) information is confidential in nature (ie it is not publically available); (ii) that information is disclosed to the recipient in circumstances of confidentiality; and (iii) the information is used by the recipient to the detriment of the discloser.

Arnold J at first instance established that Dr Skovmand had used Vestergaard trade secrets to develop the Netprotect product. He referred to *Faccenda Chicken Ltd v Fowler* [1987] Ch 177, the key confidential information case concerning employees, and concluded that a duty of confidentiality attached to Dr Skovmand, even after he had stopped working with Vestergaard. It followed that using the Fence database to develop the Netprotect product was a breach of that confidentiality. Arnold J further held that although Mrs Sig could also be liable for breach of confidence because of her involvement in selling the Netprotect products. The Court of Appeal reversed that finding and confirmed that Mrs Sig was not so liable.

The Supreme Court agreed with the Court of Appeal, confirming that Mrs Sig could not be liable for breach of confidence because (i) Mrs Sig did not ever acquire the confidential information herself, either while she was working at Vestergaard or afterwards; and (ii) at all relevant times, Mrs Sig was unaware that Vestergaard's trade secrets had been used in the development of the Netprotect product.

The Supreme Court commented that a breach of confidence is ultimately based on conscience. Mrs Sig would need to have known that the information was confidential in order for her conscience to be affected. This was not the case. Crucially by comparison, in the leading case of *Seager v Copidex* the defendants had been made aware that the relevant information was confidential when they acquired it, and so were under an obligation to protect that information. The fact that they used it unconsciously became irrelevant in light of this.

The Supreme Court added that the express terms of Mrs Sig's employment contract would not render Mrs Sig liable, and nor was it fair to imply a punitive term imposing strict liability into her contract.

Finally, to have a common design with Mr Larsen and Dr Skovmand to misuse the confidential information, Mrs Sig would have needed to know that Vestergaard's trade secrets were being used (which she did not). Again, this meant that her own conscience remained unaffected, and she could not be liable for breach of confidence, either directly or by way of joint tortfeasorship or common design.

Comment

This decision confirms that breach of confidence is not a strict liability offence. While not a surprising conclusion, the decision reminds us that a classic case of breach of confidence involves confidential information being misused in some way, by a recipient of that information who knows, or ought to have appreciated, that the information was confidential.

Crucially, the conscience of the person who misuses the information must be affected, and for this to happen, knowledge (whether actual knowledge, or that implied by "turning a blind eye") is necessary.

The Supreme Court commented that a balance must be struck between the competing interests of protection of intellectual property rights and the ability of individuals to compete with their ex-employers. Imposing a strict liability burden on the use of information (whether by contract or otherwise), would arguably have the effect of unduly stifling competition in the marketplace.

Authors