

THE DUTY OF CONFIDENCE REVISITED: THE PROTECTION OF CONFIDENTIAL INFORMATION

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This article re-examines the duty of confidence and seeks to show its transformation with the recognition of third party liability and liability for accidental confidences. It argues that the latter development clarifies the principle of confidentiality and confirms the essential unity in the law of confidence. It demonstrates that the unitary principle of confidentiality protects confidential information, effectively, per se. As a consequence, buyers of confidential information are protected without the need for an ownership-model of confidential information or some notion of transferable but not assignable confidential information.

I INTRODUCTION

Australian jurisprudence on the law of confidence has long favoured the language of conscience. The duty of confidence is explained as one ‘of conscience arising from the circumstances in or through which the information was communicated or obtained’.¹ Third parties are also routinely said to be bound in conscience. In one view, the principle of confidentiality is best developed by reference to what unconscionable behaviour demands.² However, opinions remain divided on the utility of broad principles of conscience. Thus, some argue that they give the law ‘moral purpose’³ while others deny that they

“In memory of PJ who loved the law”

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¹ *Moorgate Tobacco Co Ltd v Phillip Morris Ltd (No 2)* (1984) 156 CLR 414, 438 (Deane J); *Breen v Williams* (1996) 186 CLR 71, 81, 90, 111-12, 128-9; *Australian Medic-Care Co Ltd v Hamilton Pharmaceutical Pty Ltd* (2009) 261 ALR 501; *Darley Stud Management Co Ltd v Darley* (2009) 84 IPR 603 cf *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 281 (Goff LJ) where this ‘fundamental question’ was deliberately avoided.

² *Smith Kline & French Laboratories (Australia) Ltd & Alpha Pharm Pty Ltd v Department of Community Services* (1990) 95 ALR 87, 125 (Gummow J) and confirmed on appeal in *Smith Kline & French Laboratories (Australia) Ltd & Alpha Pharm Pty Ltd v Department of Community Services* [1991] 99 ALR 679; *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199, 271-2; (2001) 185 ALR 1, 50 (Kirby J).

³ See, eg, P Finn, ‘Equitable Doctrine and Discretion in Remedies’ in W R Cornish, R Noland and J O’Sullivan (eds), *Restitution, Past, Present and Future* (Oxford: Hart, 1998) 251, 260.

provide any meaningful guidance to a solution.⁴

The law of confidence that has evolved in this culture leaves us without a clear understanding of the juristic basis of the duty of confidence. Meanwhile, the law has transformed, inconspicuously, with the extension of liability to third parties and, more notably, to those who accidentally chance upon confidential information. These changes have led to the view that the law of confidence ceased to be unitary. For example, the authors of *Gurry on Breach of Confidence* explain the transformation by arguing that, not one but, different policies operate in the range of situations in which a duty of confidence can arise:

[I]n restraining third parties who have received confidential information, the courts are seeking to reinforce the confidential relationship between the confider and confidant. In other words, it is the reposing of confidence that is regarded as important. [However, where confidential information is obtained surreptitiously and innocently without knowledge that it is confidential, the law] 'serves the policy of protecting confidential information'.⁵

This article revisits the duty of confidence and submits to the contrary. It argues that the recognition of liability for accidental confidences confirms the unity of the law of confidence. Specifically, a duty of confidence now arises in a person who has confidential information of another with knowledge only that the information is confidential and the duty is owed to the person who can properly deny access to the confidential information. The same policy, of protecting confidential information, applies irrespective of how the information is obtained or if it is a third party who receives or comes into it. Liability is never secondary or derivative. Thus, subject only to countervailing interests that justify disclosure, confidential information is protected effectively, or virtually, *per se*, independent of unconscientious behaviour, knowledge of wrongdoing, detriment,⁶ relationships of trust and confidence and, indeed, any pre-existing relationship at all. An immediate consequence of this argument is that buyers of confidential information are better off even without an ownership-model of confidential information. As the duty is owed to the

⁴ See, eg, A M Gleeson, 'Individualised Justice – The Holy Grail' (1995) 69 *Australian Law Journal* 421, 431.

⁵ T Aplin et al, *Gurry on Breach of Confidence* (Oxford: Oxford University Press, 2nd ed, 2012) 98-9.

⁶ Presently, economic detriment is not required: R Meagher, D Heydon and M Leeming (eds), *Meagher Gummow and Lehane's Equity: Doctrines and Remedies* (Butterworths LexisNexis, 4th ed, 2002) 1120-3.

person who can properly deny access to the confidential information, it is possible to explain why confidential information can be passed to another vesting in the other the right to take action to protect the information even though information is not property and cannot, generally, be assigned.

II THE DUTY OF CONFIDENCE: THE ENIGMA OF THE THIRD PARTY'S DUTY

The orthodox law of confidence can be sketched easily. The classic duty of confidence, according to *Coco v AN Clark (Engineers) Ltd* arises in circumstances where a person entrusts confidential information to a confidant, typically, for his knowledge or for some limited use. We say routinely that there are three requirements for the cause of action (i) the information must have the necessary quality of confidence, (ii) the information must be imparted in circumstances importing a duty of confidence, and (iii) there must be actual or threatened breach. The duty of confidence is extended to a person who obtains confidential information surreptitiously or improperly.⁷ In England, it is settled that there is a duty on even one who chances upon another's confidential information accidentally. In Australia, the accidental 'confidant' is arguably under a similar duty.⁸

To appreciate the inconspicuous transformation of the duty of confidence and the principle of confidentiality in its contemporary milieu, we need to begin with the third party's *duty* of confidence or of conscience.⁹ It is here that the law is unclear and has confused attempts to explain the duty. When a third party is enjoined he is sometimes thought to be simply or unavoidably involved in the court's response to another's wrong.¹⁰ This is not the case. In *Attorney-General v Guardian Newspapers Ltd*, Lord Keith explains that '[i]t is a general rule of law that a third party who comes into possession of confidential

⁷ *Lord Ashburton v Pape* [1913] 2 Ch 469, 475 (Swinfen Eady LJ); *Commonwealth v John Fairfax & Sons Ltd* (1980) 147 CLR 39, 50 (Mason J); *Franklin v Giddins* [1978] Qd R 72; *Sullivan v Sclanders* (2000) 77 SASR 419.

⁸ *Earl of Spencer v United Kingdom* (1998) 25 EHRR CD 105; *A v B plc* [2003] QB 195; *Campbell v Mirror Group of Newspapers Ltd (No 2)* (2004) 2 AC 457; *Trevorrow v South Australia* (2006) 94 SASR 64, 80-1.

⁹ See, eg, *Retractable Technologies v Occupational and Medical Innovations* (2007) 72 IPR 58, 77 [70] (Greenwood J); *Australian Broadcasting Corporation v Lenah Game Meats* (2001) 208 CLR 199, 271-2; (2001) 185 ALR 1, 50 (Kirby J). Meagher, Heydon and Leeming, above n 6, 1132: a 'trend in decisions of the High Court of Australia supporting the accountability of third parties in abuse of confidence cases'.

¹⁰ See, eg, R Dean, *The Law of Trade Secrets and Personal Secrets* (Sydney: Law Book Co, 2002) ch 3, 11.

information which he knows to be such may come under a *duty* not to pass it on to anyone else.¹¹ This aligns with the view in *Australian Broadcasting Corporation v Lenah Game Meats*.¹² A majority of the High Court in the case held that the court's power to grant an interim injunction is 'not at large'.¹³ Unless it is granted to protect the court's own processes:

[I]t is axiomatic that it can only issue to protect an equitable or legal right or, which is often the same thing, to prevent an equitable or legal wrong. So to say, is simply to emphasise that the function of courts is to do justice according to law.¹⁴

Accordingly in that case, the ABC could not be enjoined 'if, without more, it had formed the opinion that the ABC, by receiving and proposing to broadcast non-confidential information obtained by trespass, had behaved or threatened to behave in a manner which, to it, appeared unconscionable'.¹⁵

That said, the basis for a third party's duty of confidence which renders him liable to be restrained from using or disclosing the confidential information is an enigma. In *Johns v Australian Securities Commission*, Gaudron J acknowledged that the law 'has not comprehensively or definitively identified matters that would determine if a duty devolved on the third party'.¹⁶

There are various suggestions as to when a third party comes under a duty and why he may be restrained. One is that a third party is restrained from unconscientious conduct.¹⁷ Another tries to justify it on the basis of equitable rights over property in confidential information.¹⁸ In *Breen v Williams*, Gummow J suggested that the third party's duty arises in the 'circumstances of disclosure'.¹⁹ Such circumstances have certainly determined the duty of the

¹¹ [1990] 1 AC 109, 260 (emphasis added).

¹² (2001) 208 CLR 199.

¹³ The Austinian view is apparent: J Austin in R Campbell (eds), *Lectures on Jurisprudence* (John Murray, 3rd ed, 1869) 788 as cited in P Birks, 'Right, Wrongs and Remedies' (2000) 20 *Oxford Journal of Legal Studies* 1, 1.

¹⁴ *Australian Broadcasting Corporation v Lenah Game Meats* (2001) 208 CLR 199, 231-3 (Gaudron J) cf 269-73 (Kirby J).

¹⁵ *Ibid* 244 (Gummow and Hayne JJ).

¹⁶ (1993) 178 CLR 408, 460 (Gaudron J).

¹⁷ *Australian Broadcasting Corporation v Lenah Game Meats* (2001) 208 CLR 199; *Campbell v Mirror Group of Newspapers Ltd (No 2)* (2004) 2 AC 457, 464 (Nicholls LJ).

¹⁸ *Attorney-General v Guardian Newspapers Ltd* (1987) 3 All ER 316, 327-8 (Browne-Wilkinson V-C). Goff J in *Butler v Board of Trade* [1971] Ch 680, 691 spoke of the 'property right to restrain' a breach of the equitable duty of confidence cf *Wheatley v Bell* [1982] 2 NSWLR 544, 549 where it was stated that there is no property right associated with the equity to restrain.

¹⁹ (1996) 186 CLR 71, 127-9 (Gummow J).

original confidant who is routinely said to be honour-bound to keep the confidence. The circumstances of disclosure converge on a relationship between the confider and confidant from which the trust reposed is inferred. This is typical in the earlier cases.²⁰ *Coco v AN Clark (Engineers) Ltd*²¹ itself has been taken to limit the duty in this relational way when it required the confidential information to be imparted in circumstances importing a duty of confidence. However, a plaintiff does not confide in a third party in any meaningful sense of the word. A third party may innocently receive confidential information through ‘interconnections’ in commercial relationships. In such cases, it is unclear what it is about the ‘circumstances of disclosure’ that may justify the third party’s duty.

There are conflicting judicial views too. For example, in *British Sky Broadcasting Group plc v Digital Satellite Warranty Cover Ltd (In liquidation)* Sir William Blackburn entertained the idea that a third party is bound in conscience through sufficient knowledge of the wrong.²² On the other hand, it has also been said that there is ‘no doubt’ that even an innocent third party acting bona fide ‘and thus without notice’ may be enjoined in an action by the confider (P) against the original confidant (D) for apprehended or continued breach of confidence, there being an ‘obligation of conscience’ on the third party.²³ At times, the basis is simply unclear.²⁴

One explanation that has some traction turns on the complicity of the third party. It is discernible in the views of those who advocate the fiduciary analogue for the future development of third party liability for breach of confidence.²⁵ ‘Knowing assistance’ in fiduciary law is said to be a congener. That is to say, the third party is implicated as a conspirator or accessory in the misuse of confidential information by the confidant. It is reflected in a group of cases in which the third party’s liability is said to be secondary or derivative. For

²⁰ See, eg, *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203, 211, 215; *Seager v Copydex* [1967] RPC 349.

²¹ [1969] RPC 41, 47; *Corrs Pavey Whiting & Byrne v Collector of Customs (Vic)* (1987) 14 FCR 434, 443; *A-G (UK) v Heinemann Publishers Australia Pty Ltd* (1987) 8 NSWLR 341; *Commonwealth v John Fairfax & Sons Ltd* (1980) 147 CLR 39, 51.

²² [2012] EWHC 2642 (Ch) (1 October 2012) [64].

²³ *Retractable Technologies v Occupational and Medical Innovations* (2007) 72 IPR 58, 77 [70]-[71] (Greenwood J).

²⁴ See, eg, *Butler v Board of Trade* [1971] Ch 686.

²⁵ See, eg, Meagher, Heydon and Leeming, above n 6, 1116, 1131; *Retractable Technologies v Occupational and Medical Innovations* (2007) 72 IPR 58.

example, in *Able Tours Pty Ltd v Mann*,²⁶ the plaintiff's confidential information was misused by the defendant employee who was also a fiduciary, to assess the plaintiff's production capability which then allowed the defendant to compete successfully against the plaintiff for the business of the plaintiff's potential customer. The defendant thereby engaged in a 'dishonest and fraudulent design' offending both the so-called conflicts rule and the secret profits rule. The third party was a company incorporated to carry out the business of manufacturing and supplying buses of the kind made by the plaintiff; or, one might say, to further, literally, the dishonest and fraudulent design. The third party was knowingly implicated in the first defendant's breach under the second limb of the rule in *Barnes v Addy*.²⁷ An account of profits and an inquiry were ordered.

The outcome of *Able Tours Pty Ltd v Mann* would have been the same without the overlay of fiduciary duty. This is clear in *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd*.²⁸ The original confidants were employees but not fiduciaries, of the plaintiff. In breach of their contracts, they set up a competing business by misusing the plaintiff's confidential information to build the necessary machinery. The third parties were a company and a natural person who, in collaboration with the original confidants, set up the company to take over the competing business. They were complicit in the breach of confidence and restrained from continuing to use the confidential information. They were ordered to dismantle the machines and an account of the company's profits was taken for the plaintiff.²⁹

The seeds of this explanation centering on 'complicity' are in the cases. In *Ansell Rubber v Allied Rubber Industries*³⁰ itself, the judge thought that the 'starting point' is the equitable doctrine laid down in *Keech v Sanford*. In *Vivid Entertainment LLC v Digital Sinema Australia Pty Ltd (No 3)*,³¹ Mr K, the sole director, secretary and shareholder of the two respondent companies was found to be a 'knowing participant' in the company's breach of confidence and copyright infringements of adult films. In both instances, the third party's liability was understood to be secondary, predicated on a preceding primary

²⁶ [2009] WASC 192 (28 July 2009).

²⁷ (1874) LR 9 Ch App 244.

²⁸ [1967] VR 37.

²⁹ Equitable remedies were ordered although the suit was in contract.

³⁰ *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37, 40.

³¹ [2007] FMCA 748 (24 August 2007).

wrong. Similarly, in *Attorney-General v Guardian Newspapers Ltd*,³² Sir Nicholas Browne-Wilkinson VC contemplated *Barnes v Addy* as a basis for restraining a third party who had knowingly participated in the original confidant's breach of confidence even where the confidential information entered the public domain as a result of the breach.

Supporters of the fiduciary analogue might argue that a third party's complicity is not limited to these more obvious instances of conspiratorial or accessorial involvement. Perhaps it can include cases in which equity intervened to end the continuing breach of confidence in which the third party is already embroiled, albeit innocently. *Franklin v Giddins*,³³ offers an example. It can be understood as follows: when Mrs Giddins subsequently became aware of her husband's trespass and raid on Franklin's nectarine budwood, she came under a duty then, even though she was already innocently embroiled in her husband's breach by grafting the stolen budwood onto their own trees. Upon the duty arising, she could not be allowed to perpetrate her husband's breach because the status quo would be tantamount to actual implication or complicity not unlike that in *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd*,³⁴ and *Able Tours Pty Ltd v Mann*.³⁵

Nevertheless, 'complicity', is not meaningful in cases like *Wheatley v Bell*.³⁶ In that case, the third parties had innocently paid various sums of money to the first defendant to buy licences or franchises to sell advertising opportunities according to locality, in Sydney. Unbeknown to them, the idea and the resulting scheme were in fact devised by the plaintiff and disclosed to the first defendant in confidence in pre-contractual negotiations which were unfruitful. The first defendant fraudulently copied the scheme and marketed it in Sydney before the plaintiff's initiatives reached Sydney. The third parties, who dealt with the first defendant at arms' length, became aware of the first defendant's alleged breach when suit was brought for an interim injunction to restrain the first defendant and themselves. In the circumstances, the third parties' contractual entitlement under the copy-cat scheme can hardly be tainted.

In the end, accessorial liability for wrongdoing simply cannot account for

³² *Attorney-General v Guardian Newspapers Ltd* (1987) 3 All ER 316, 328.

³³ [1978] Qd R 72; *Stephen v Avery* [1988] Ch 449; *Foster v Mountford & Rigby* (1976) 29 FLR 233.

³⁴ *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37.

³⁵ *Able Tours Pty Ltd v Mann* [2009] WASC 192 (28 July 2009).

³⁶ (1982) 2 NSWLR 544.

the liability of all innocent recipients of confidential information.³⁷ ‘Complicity’, actual or anticipated, and even loosely defined, breaks down completely in accidental confidences where a person who chanced on confidential information is under a duty not to (mis)use it. Faced with some of these difficulties, John Glover, explains the liability of innocent recipients, exceptionally, as liability for primary wrongs involving the receipt and misuse of confidential information.³⁸ This then involves two ‘tiers’ of third party liability: the derivative liability of one who participates in the breach of confidence of a primary wrongdoer, and the primary liability of an innocent recipient of confidential information. The belief seems to be that the cases are incapable of a unitary explanation. Even on Glover’s terms it is unclear when and why the duty of confidence arises, or what turns an innocent receipt or dealing with confidential information into unauthorised disclosure or misuse.

The resort to analogy with knowing receipt and knowing assistance under the rule in *Barnes v Addy* has its own difficulties, not least because the bases for liability under the rule continue to attract disagreement. For instance, the High Court of Australia in *Farah Constructions Pty Ltd v Say-Dee Pty Ltd*³⁹ kept to fault-based liability eschewing alternative liability in unjust enrichment. More recently, Mitchell and Watterson,⁴⁰ have argued that liability for knowing receipt is based on breach of trust. According to them, on acquiring knowledge that the asset is conveyed in breach of trust, an innocent recipient comes under a trust obligation to restore the trust assets and can be liable for breach of trust. On this take, there are no particularly useful comparisons to be drawn between the liability of an innocent recipient of confidential information and liability for knowing receipt. Confidential information once known cannot be restored. Would a third party then be personally liable for receiving confidential information with knowledge that it was conveyed in breach of trust/confidence or only if he discloses or uses it? We are no more enlightened.

³⁷ Even the analogy with accessorial liability in fiduciary law is not tight in the first instance. See, P Loughlan, ‘Liability for Assistance in a Breach of Fiduciary Duty’ (1989) 9(2) *Oxford Journal of Legal Studies* 260: knowing assistance aims to ‘prevent both collusion of third parties with corrupt fiduciaries and the manipulations of innocent fiduciaries.’

³⁸ J. Glover, *Equity, Restitution and Fraud* (LexisNexis Butterworths, 2004) 456.

³⁹ (2007) 230 CLR 89.

⁴⁰ C Mitchell and S Watterson, ‘Remedies for Knowing Receipt’ in C Mitchell (ed), *Constructive and Resulting Trusts* (Oxford: Hart, 2010) 115-58.

III ACCIDENTAL CONFIDENCES: A UNITARY PRINCIPLE OF CONFIDENTIALITY

The orthodoxy associated with the leading case of *Coco v AN Clark (Engineers) Ltd*,⁴¹ is that confidential information must be *imparted in circumstances that import a duty* of confidence. This requirement was sensibly compromised by the recognition of a duty where confidential information is obtained surreptitiously. However, it is not sufficiently malleable to accommodate accidental confidences. It is not surprising then that an accidental ‘confidant’s duty is said, in one way or another, to be justified by a different policy.⁴²

Although the law of confidence has outgrown the orthodoxy in *Coco v AN Clark (Engineers) Ltd*, it is not on the path of disaggregation. On the contrary, with the recognition of liability for accidental confidences, it is possible to distil from the cases one universal basis for the duty of confidence, irrespective of how the confidential information comes into the ‘hands’ of the defendant. It is this - a duty of confidence arises, without more, when the defendant *knows that there are restrictions to his use of the confidential information* in question. This is true whether the confidential information is imparted, obtained surreptitiously or chanced upon accidentally. The knowledge that there are restrictions to one’s use of the confidential information is at once the common denominator in the whole range of intended and unintended confidences and the basis of the duty of confidence.⁴³

This common denominator explains the liability for the accidental confidences illustrated by Lord Goff in *Attorney-General v Guardian Newspapers (No 2)*.⁴⁴ Thus, a person who chances on an ‘obviously confidential document’, for instance, ‘wafted by an electric fan out of a window into a crowded street’ comes under a duty not to use it because he knows it is restricted information not intended for him. Similarly, ‘where an obviously confidential document, such as a private diary, is dropped in a public place, and is then picked up by a passer-by’, he may not use it. In other words, the duties

⁴¹ *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41.

⁴² See, eg, instances of disaggregation post Human Rights Act in T Aplin, ‘Commercial confidences after the Human Rights Act’ (2007) 29(10) *European Intellectual Property Review* 411.

⁴³ Lord Goff came very close to it in *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 281: ‘A duty of confidence arises when confidential information comes to the knowledge of a person ...in circumstances where he has notice, or is held to have agreed, that the information is confidential, with the effect that it would be just in all the circumstances that he should be precluded from disclosing the information to others.’

⁴⁴ *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 281.

of intended and unintended 'confidants', including the accidental ones, arise for the same reason, namely that the information is known to them to be 'out of bounds', albeit to different degrees. The recipient of confidential information for a limited purpose knows that use or disclosure by him is prohibited beyond the limited purpose. The competitor who steals the plaintiff's budwood for the closely guarded secret genetic information is the ultimate self-anointed (unintended) 'confidant'. The industrious eavesdropper is kindred spirit.⁴⁵ Even the person who chances upon confidential information accidentally knows that the information is not for his use or disclosure. Thus in *Tchenguiz v Imerman*⁴⁶ it was contemplated that examining documents which one knows to be confidential is a breach of confidence, in much the same way as knowingly accessing another's confidential information is a breach. Conversely, where it is not known that the information disclosed in pre-contractual negotiations is confidential, a duty does not arise.⁴⁷

Crucially, a defendant's knowledge that there are restrictions to *his* (i.e. the defendant's) use underpins the duty of confidence irrespective of whether the defendant is the original confidant or a subsequent actor in the story, and irrespective of how the confidential information came to him. As confidential information is widely, if not universally, understood to be restricted information, one who receives or comes into confidential information knowing that it is confidential will probably know that there are restrictions to *his* use.⁴⁸ Notice or knowledge of the specific restrictions or their details is immaterial. He is bound to respect that the confidential information is not intended for his use. Similarly, if he is a third or subsequent party, *it is his knowledge of the existence of restrictions to his access or use, not knowledge of preceding breach or of any preceding relationship of confidence, that gives rise to his duty*. This is the principle of confidentiality that it is in the public interest to protect.

The term 'third party' will foreseeably linger in the vernacular of confidentiality but it has no *legal* significance. That is to say, the order in which the defendants encounter the confidential information does not matter. Liability is never derivative. What a party, that is, any party, does before a duty of confidence arises, if *bona fide* and without notice, is relevant to the exercise

⁴⁵ *Coco v Newnham* (1990) 97 ALR 419.

⁴⁶ [2010] 2 FLR 814 *cf* T Aplin et al, above n 5, [15.21]-[15.22].

⁴⁷ See, eg, *Fractionated Cane Technology Ltd v Ruiz-Avila* (1988) 2 Qd R 610; *Carflow Products (UK) Ltd v Linwood Securities (Birmingham) Ltd* [1996] FSR 424.

⁴⁸ See discussion on page 281.

of the court's discretion in fashioning the appropriate remedies. Consistently with general equitable principles, proper consideration is given to a party who innocently expends money and time in relation to the confidential information. Equity's position has always been that, in a suitable case, the court may require the plaintiff to give financial or other allowances to the defendant for his outlay.⁴⁹

In every case then, we see what it is that confidentiality really protects, namely, the secrecy of the information. A defendant who will always have actual knowledge of the fact that the information is confidential, at the latest, when injunctive relief is sought against him. Indeed, knowledge is a 'given' where injunctive relief is sought. This is reinforced by the overwhelming importance of interlocutory injunctive relief⁵⁰ in the protection of confidential information. It is in this real sense that the law of confidence *effectively* protects the confidential information virtually *per se*.

Clearly a person who discloses confidential information without knowing that it is confidential, can be restrained from further disclosure, provided the disclosure does not destroy the information's confidential quality. Of course, he is not liable for breach of a duty which has not arisen at the time of disclosure without knowledge. On the other hand if he discloses the information, knowing that it is confidential, he breaches his duty of confidence irrespective of whether he causes the information to enter the public domain. If the information becomes public by his disclosure and its restraint no longer purposeful for its protection,⁵¹ the miscreant may still be liable to account for profits made or

⁴⁹ Meagher, Heydon and Leeming, above n 6, 1131-1132. In commercial confidences, high financial stakes are noted. For example in *Wheatley v Bell*, the judgment is replete with references to the value of the idea, the plaintiff's considerable time, effort and expenditure invested in materialising it and the threat to its viability by the defendant's breach. In *Douglas v Hello! Ltd (No 6)* [2006] QB 12 the breach of confidence is said to provide 'equitable protection of opportunities to profit from valuable information'; *Australia Pty Ltd v Brevini Australia Pty Ltd* (2009) 263 ALR 1.

⁵⁰ Even if subject to countervailing public interests which favour disclosure. Where government secrets are concerned, there is a competing public interest in the workings of government remaining transparent: *Commonwealth v John Fairfax Ltd* (1980) 147 CLR 39, 51-3 (Mason CJ); *Attorney-General v Jonathan Cape Ltd* [1976] QB 752, 770 (Widgery CJ). *A v Hayden (No 2)* (1984) 156 CLR 532: the defence of 'iniquity'; *AG Australia Holdings Ltd v Burton* (2002) 58 NSWLR 464, 518-9: the public interest in allowing a confidant/employee to use general knowledge and acquired skills.

⁵¹ *Speed Seal Products Ltd v Paddington* (1985) 1 WLR 1327, 1332-3 cf *A-G (UK) v Heinemann Publishers Australia Pty Ltd* (1987) 8 NSWLR 341, 374: Powell J thought that the information loses its confidentiality on entering the public domain, citing *Commonwealth v John Fairfax & Sons Ltd* (1980) 147 CLR 39 and *Commonwealth v Walsh* (1980) 147 CLR 61. However, none of the three cases discussed the issue. In *Attorney-General v Observer Ltd* [1990] 1 AC 109; [1988] 3 All ER 545, Griffiths, Jauncey and Brightman LJ thought that a third party involved in the disclosure that caused the information to enter the public domain may still be restrained from further publication, at 278,

have equitable compensation assessed against him and in that context, restrained from obtaining further benefits from his breach, consistently with the general principle that a person in breach of confidence must answer for his default in accordance to his gain.⁵² The injunctive relief contemplated in such a case is not aimed at protecting the confidential information but at preventing the defaulting party from continuing to gain from its breach or involvement in the unlawful disclosure in the first place.

IV KNOWLEDGE THAT INFORMATION IS CONFIDENTIAL

It is in cases where a plaintiff seeks to recover for breach that knowledge is a focal issue because until the duty arises there can be no breach. What degree of knowledge is needed for the *duty* to arise? If a defendant understands that confidential information is restricted information to him, he has sufficient knowledge. A child, however, may not appreciate that. Will knowledge that there is a distinct possibility that the information is confidential suffice? Guidance on the requisite knowledge can be gleaned from several quarters.

First, there are numerous cases and instances of judicial comment which favour actual knowledge. However, duty and breach are often considered in the same breath. These cases are also often focused by their respective facts on knowledge of *preceding breach* at the time the third party receives the confidential information.⁵³ *Attorney-General v Guardian Newspapers (No 2)* is one case which seems to, but does not unequivocally, favour actual knowledge. There, the newspapers were third parties who had not been involved in any way in Wright's breach of confidence. They were not restrained from publishing extracts and adaptations of Wright's published book because the desired

293-4, 267 respectively. Lord Goff refused an injunction because the information was in the public domain, at 290; Keith, Griffiths and Jauncey LJ refused it because it was of little use in the circumstances, at 293 and 654.

⁵² *United States Surgical Corp v Hospital Products International Pty Ltd* (1983) 2 NSWLR 157, 233 which was reversed on other grounds in *Hospital Products Ltd v United States Surgical Corp* (1984) 156 CLR 41; *Seager v Copydex* [1967] RPC 349.

⁵³ See, eg, *Prince Albert v Strange* (1849) 1 Mac & G 25, 41 ER 1171, 1 H & Tw 1, 47 ER 1302: third party publisher taken to have known that the information came to him through breach of the duty of confidence; *Lord Ashburton v Pape* [1913] 2 Ch 469: privileged letters and therefore confidential information obtained by collusion; *Duchess of Argyll v Duke of Argyll* [1967] Ch 302 implicitly required actual knowledge that information was received in breach of confidence; *Fraser v Evans* (1969) 1 QB 349, 361 (Lord Denning MR) a third party who knows that the confidential information was originally given in confidence can be restrained; *Talbot v General Television Corporation* [1980] VR 224, 239-40; *Franklin v Giddins* [1978] Qd R 72; *G v Day* (1982) 1 NSWLR 24; *Johns v Australian Securities Commission* (1993) 178 CLR 408, 460.

injunctions were futile and the confidential information had ceased to be confidential upon entering the public domain. Lord Goff expressly avoided the question of the extent to which actual knowledge is necessary for breach on the part of the third parties.⁵⁴ Lord Griffiths reiterated that a duty is usually imposed on 'a third party who is in possession of information which he knows is subject to an obligation of confidence' citing as authority cases in which the third party knew that the confidential information was received in breach. While his lordship seems to have in mind actual knowledge, it is actual knowledge of breach that is contemplated in context,⁵⁵ not actual knowledge of the fact that the information is confidential. Scholarly discussions too are not secure. For instance, the authors of *Confidentiality* say that the defendant must have the same knowledge as an accessory to breaches of trust.⁵⁶ Their discussion also slides between knowledge that the information is confidential and knowledge of breach.⁵⁷ For these reasons, their relevance to the issue of knowledge of the fact that information is confidential is, strictly speaking, untested.

Secondly, constructive and imputed knowledge have been contemplated. For instance, the established view that information relating to national security is 'of its very nature, prima facie confidential'⁵⁸ implies that a reasonable person ought to know and is taken to have known. Even where national security is not relevant, in *Interfirm Comparison (Australia) Pty Ltd v Law Society of New South Wales*, it was held that a reasonable person in the defendant's circumstances ought to have known that relatively inaccessible information communicated in pre-contractual negotiations for the purpose of procuring a contract of service is confidential even if there is no express statement as to its confidentiality.⁵⁹

Thirdly, the jurisprudence on accidental confidences shows that the key issue is whether the information is 'obviously' confidential. The meaning of 'obviously' is ambiguous. It is compatible with actual knowledge if 'actual knowledge' includes wilful abstention from enquiry or wilful disregard of the

⁵⁴ *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 281.

⁵⁵ *Ibid* 268. The third party who knowingly receives confidential information in breach is 'tainted': 272. Keith LJ too speaks of a third party who 'knows': 260.

⁵⁶ Toulson and Phipps, *Confidentiality* (London: Sweet & Maxwell, 2nd ed., 2006) 79.

⁵⁷ *Ibid* 78-81; T Aplin et al, above n 5, 293 [7.120].

⁵⁸ *Ibid*.

⁵⁹ (1975) 2 NSWLR 104; *O'Brien v Komesaroff* (1982) 150 CLR 310, 326; *Coulthard v South Australia* (1995) 63 SASR 531, 534.

facts for fear that further enquiry may uncover the truth. In the latter instances, a person who behaves in these inexcusable ways is taken to have actual knowledge. It is also consistent with the partly intellectual construct, that is, the reasonable person in the defendant's circumstances. A defendant is taken to know what the reasonable person in his circumstances would know. The subjective element precludes the application of constructive notice. Thus one who receives private photographs by mistake, or information addressed to another and marked 'Private and Confidential', knows, as a reasonable person would in those circumstances, that it is not for his access and comes under a duty of confidence. In *English & American Insurance v Herbert Smith*,⁶⁰ solicitors who received in good faith papers subject to legal professional privilege mistakenly sent to them had realised the mistake and came under a duty of confidence.

*Seager v Copydex*⁶¹ took a reasonably hard line on the matter. In that case, the defendant knew that the information was confidential but had forgotten it when they misused it subconsciously. Judges can of course respond to the quality of wrongdoing appropriately with the monetary remedies at its disposal.⁶² Thus, Gareth Jones showed the restitution of benefits obtained in breach of confidence is justifiable by knowing breach which extends to constructive and imputed knowledge.⁶³ Ultimately, the minimum knowledge required could be determined by the law's disapproval of wrongdoing rather than the importance of protecting confidential information. This is because confidential information is best protected by injunctive relief for which there is always actual knowledge.

⁶⁰ [1988] FSR 232.

⁶¹ [1967] RPC 349.

⁶² See 'Exceptional measures of damages: a search for principles' in P Birks (ed) *Wrongs and Remedies in the Twenty First Century* (Oxford: Clarendon Press, 1996) 301. Until 2003, there is no known case of equitable compensation awarded for breach of confidence: A Burrows in 'Limitations on Compensation' in A Burrows and E Peel (eds), *Commercial Remedies* (Oxford University Press, 2003) 27, 44. In Australia, equitable compensation was awarded for the misuse of confidential information in addition to equitable compensation or an account of profits for a breach of fiduciary duty in *Digital Pulse v Harris* (2002) 166 FLR 421. It is routinely assumed that equitable compensation is available for breaches of confidence: *Elecon Australia Pty Ltd v Brevini Australia Pty Ltd* (2009) 263 ALR 1, [35]; *TS & B Retail Systems Pty Ltd* (2007) 239 ALR 117, [72]–[77]. Damages under Lord Cairns' Act is more contentious: *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 286 (Lord Goff); *Talbot v General Television Corp Pty Ltd* [1980] VR 224 cf Meagher, Heydon and Leeming, above n 6, 1141.

⁶³ Gareth Jones, 'Restitution of benefits obtained in breach of another's confidence' (1970) 86 *Law Quarterly Review* 463.

V PROTECTING BUYERS OF CONFIDENTIAL INFORMATION

The main difficulty in the way of protecting the buyer of confidential information is the value we place on the free exchange of information, hence the reluctance to recognise general property in information.⁶⁴ The 'right' to information is only exceptionally subordinated to the limited private property rights of copyright, trademark, patent and design. Even these concessions to creativity, the acquisition of information and the enhancement of knowledge are ultimately intended to secure the freedom of information. Generally, information is only 'protected' incidentally in the protection of other assorted interests.⁶⁵

Nevertheless, the debate continues over whether confidential information is or should be the subject of property.⁶⁶ It is not even always clear what is meant by confidential information as property. Meanings have slipped between legal and equitable property, special property, metaphorical property and economic value.⁶⁷ In *Fairstar Heavy Transport N.V. v Phillip J. Adkins, Claranet Ltd*⁶⁸ it was re-confirmed, after a review of the authorities, that confidential information is still not the subject of property. Judicial opinions on this 'fundamental question' in the House of Lords are not quite so clear. Lord Goff expressly avoided it to leave the matter open in *Attorney-General v Guardian Newspapers (No 2)*.⁶⁹ In a differently constituted House, Sir Nicholas Browne-

⁶⁴ *AC Television v Commonwealth of Australia* (1992) 177 CLR 106; *Victoria Park Racing and Recreation Grounds Co Ltd v Taylor* (1937) 58 CLR 479; *Douglas v Hello! Ltd (No 6)* [2006] QB 12; *Boardman v Phipps* [1967] 2 AC 46.

⁶⁵ See, eg, passing-off, breach of fiduciary duty, conversion of records of information, contractual duties of good faith and fidelity, contractual duties of confidence and the tort of inducing breach of contract.

⁶⁶ Meagher, Heydon and Leeming, above n 6, 1126-1130: the law in Australia is beyond doubt after *Moorgate Tobacco Co Ltd v Phillip Morris Ltd (No 2)*; P Finn, *Fiduciary Obligations*, (Sydney: Lawbook Co, 1977) [295]-[296]: it is 'meaningless to give a property basis to the jurisdiction relieving against misuse of information'. The objections to property rights in confidential information based on 'precedent, conceptual analysis and logical consequence' are collected in Toulson and Phipps, above n 34, 29-39. See also Dean, n 10 above, 54-57 cf F Gurry considers it 'desirable': *Breach of Confidence*, (Oxford: Clarendon Press, 1984), 46-56 cf T Aplin et al, above n 5, [4.108] considers its desirability 'seriously' questionable; S Ricketson argues for a transmissible form of equitable property in 'commercially useful information': S Ricketson 'Confidential Information - a New Proprietary Interest? Part I' (1977) 11 *Melbourne University Law Review* 223, 233; and Part II (1978) 11 *Melbourne University Law Review* 289; A Weinrib, 'Information and Property' (1988) 38 *University of Toronto Law Journal* 117.

⁶⁷ See, eg, *Lamb v Evans* (1893) 1 Ch 280, 229 (Bowen LJ); *Victoria Park Racing and Recreation Grounds Co Ltd v Taylor* (1937) 58 CLR 479, 518 (Evatt J).

⁶⁸ [2012] EWHC 2952 (TCC) (1 November 2012).

⁶⁹ *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 281.

Wilkinson VC thought that the enforcement of equitable property rights was the basis of rights against third parties.⁷⁰ The High Court of Australia is rather more committed. Sir John Latham in *Federal Commissioner of Taxation v United Aircraft Corporation* seemed aghast at the proposition that ‘the fact that knowledge is secret in some way creates a proprietary right in that knowledge’.⁷¹ Dawson and Toohey JJ were sure in *Breen v Williams*,⁷² as was Lord Walker in *Douglas v Hello! Ltd*⁷³ and the majority of the House of Lords in *Boardman v Phipps*, that there can be no property in information.⁷⁴ Similarly, *Wheatley v Bell*⁷⁵ thought that the defence of *bona fide* buyer without notice, rooted in property, could not avail third parties who were variously called ‘buyers’ and ‘licensees’. Nevertheless, the High Court of Australia conceded that the protection already afforded to confidential information gives it a ‘proprietary character’.⁷⁶

The law on the voluntary assignability of confidential information is also unclear. The authors of *Gurry on Breach of Confidence*, observe that here ‘the law struggles to reconcile legal principle with what apparently occurs in practice.’⁷⁷ The authors offer six propositions of different persuasions that are discernible from the cases. Their own ‘preferred view’ is a combination of two of them. Briefly, they maintain that confidential information can be transferred and the cases show that ‘courts will do their best to give effect to the intention of the parties.’⁷⁸ With respect, this does not take the matter any further.

Presently, the buyer, who has no proprietary right in the confidential information, has only a contractual right to its exclusive use and commercial exploitation. The orthodox position is that contracts to grant exclusive rights to goods with a market are not specifically enforced in equity’s auxiliary

⁷⁰ (1987) 3 All ER 316, 327-8.

⁷¹ *Federal Commissioner of Taxation v United Aircraft Corporation* (1944) 68 CLR 525, 534-6; *Dais Studio Pty Ltd v Bullet Creative Pty Ltd* (2007) 165 FCR 92 (Jessup J); *Boardman v Phipps*, [1967] 2 AC 46, 127-8 (Upjohn LJ).

⁷² (1996) 186 CLR 71, 90.

⁷³ [2008] 1 AC 1, [275].

⁷⁴ [1967] 2 AC 46, 127-8 (Upjohn LJ), 89 (Dilhorne LJ), 102 (Cohen LJ) cf 107 (Hodson LJ) and 115 (Guest LJ).

⁷⁵ (1982) 2 NSWLR 544 cf *Attorney General v Guardian Newspapers (No 2)* [1990] 1 AC 109, 177 (Donaldson MR).

⁷⁶ *Farah Constructions v Say-Dee Pty Ltd* (2007) 236 ALR 209, 246; *Smith Kline & French Laboratories (Australia) Ltd & Alpha Pharm Pty Ltd v Department of Community Services* (1990) 95 ALR 87, 135 (Gummow J); *Dais Studio Pty Ltd v Bullet Creative Pty Ltd* (2007) 165 FCR 92, [96].

⁷⁷ T Aplin et al, *Gurry on Breach of Confidence* (Oxford: Oxford University Press, 2nd ed, 2012) 324.

⁷⁸ T Aplin et al, *Gurry on Breach of Confidence* (Oxford: Oxford University Press, 2nd ed, 2012) 340-341.

jurisdiction because damages for compensation for expectation loss are considered adequate. Traditionally, equity would not assist in the enforcement of legal rights unless they affected property.⁷⁹

A contractual promise to grant exclusive rights to confidential information is demonstrably different. The value of the information is in its exclusivity, inaccessibility or confidentiality. It is in this real sense not replaceable or readily replaceable in the 'market', even if there is one. Its value, innate in its fragile exclusivity, can be greatly enhanced by able and imaginative exploitation, or conversely, rendered dormant or unrealised by the 'buyer's' choice. It can be disposed of and indeed destroyed by both the 'buyer' and the 'seller'. Nevertheless, there is little to suggest that a court will specifically enforce the seller's contractual obligation to grant the right to exclusive use by restraining him from putting it in the public domain or re-selling it to another unsuspecting 'buyer'. A money remedy for provable loss may be all that the buyer can expect if *Douglas v Hello! Ltd (No 1)* is any indication. In that case, the interim injunction granted to restrain the rival publisher was withdrawn on appeal because the Douglases had after all 'sold' their confidential information and privacy. On the balance of convenience, a money remedy was thought sufficient. The High Court of Australia seemed to agree.⁸⁰

The buyer's position is considerably better under the unitary principle of confidentiality following from the recognition of liability for accidental confidences. As we have seen, a person who has the confidential information of another with knowledge that it is confidential, comes under a duty of confidence because he knows that there are restrictions to his access or use. His duty of confidence is owed to the person who can *properly deny access to that information*. Thus in *Douglas v Hello! Ltd (No 3)*, Lord Phillips said in context that only a person 'who has at his disposal information which he has created ... can properly deny access to a third party and sue for breach of confidence'.⁸¹ This is important. The creator of the confidential information who sells it exclusively to the buyer no longer has the information at his disposal. The buyer has that right. He is the one who can legitimately put it in the public

⁷⁹ *Rigby v Conol* (1880) 14 Ch D 482, 487 (Jessel MR).

⁸⁰ *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199–251 (Gummow and Hayne JJ). On the other hand, a critical Court of Appeal (Civil Division) thought the interim injunction was the only satisfactory protection of the claimants' rights: (2006) QB 125. Compare also one who has an exclusive licence to take and publish photographs: *Douglas v Hello! Ltd (No.3)* [2004] 4 All ER 128.

⁸¹ *Ibid* [118].

domain or maintain its relative inaccessibility. Thus the buyer can sue, consistently with the principle that the person to whom the duty of confidence is owed has the standing to sue.⁸²

This explanation allows us to make sense of the line of cases that support the transferability of confidential information which is not assignable in the strict sense. In *TS & B Retail Systems Pty Ltd*,⁸³ Finkelstein J concluded that a 'buyer' of confidential information is entitled to equity's protection including an injunction and equitable compensation. His Honour was unclear why that is so.⁸⁴ It is, quite simply, the law:

Although confidential information is not property and hence is not capable of being assigned, it now seems to be accepted that confidential information can be passed on by one person to another, and the person to whom it has been imparted can take action to protect the information.⁸⁵

TS & B Retail Systems Pty Ltd was followed in *Elecon Australia Pty Ltd v Brevini Australia Pty Ltd*,⁸⁶ where it was held that the party to whom technical know-how and confidential information were transferred could succeed in breach of confidence. In that case, pursuant to a 'know-how' contract, Elecon Engineering was granted a limited licence to use technical know-how and confidential information for seven years. The contract provided that all relevant information was to be treated as secret during and after the life of the contract. The licensor subsequently entered into insolvency administration and all its intellectual property, know-how and confidential information was assigned to the assignee. The licensee lawfully terminated the 'know-how' contract but continued to misuse the confidential information. Suit was brought, successfully, by the assignee against the licensee. The decision was upheld on appeal.⁸⁷ This was in spite of the fact that both *TS & B Retail Systems Pty Ltd*⁸⁸ and *Norman v FTC*⁸⁹ confirm that confidential information, other than trade

⁸² *Finnane v Australian Consolidated Press Ltd* (1978) 2 NSWLR 435; *Fraser v Evans* (1969) 1 QB 349.

⁸³ (2007) 239 ALR 117.

⁸⁴ Citing *Douglas v Hello! Ltd (No 6)* [2006] QB 12; *O'Mustad & Son v S Allcock & Co Ltd* (1964) 1 WLR 109.

⁸⁵ *TS & B Retail Systems Pty Ltd* (2007) 239 ALR 117, 135.

⁸⁶ (2009) 263 ALR 1.

⁸⁷ *Elecon Australia Pty Ltd v PIV Drives GmbH* (2010) 93 IPR 174.

⁸⁸ *TS & B Retail Systems Pty Ltd* (2007) 239 ALR 117.

⁸⁹ (1963) 109 CLR 9, 26.

secrets, cannot be assigned.⁹⁰

The assignee or transferee in each of these two cases is the person who at all material times has the right to deny access to the (confidential) information in question. Suppose, in *Elecon Australia Pty Ltd v Brevini Australia Pty Ltd* that during the subsistence of the licence, the confidential information is surreptitiously obtained by X. Who can sue for breach of confidence? The so-called assignor before any 'assignment', or the 'assignee' after; that is, whoever has that right to restrict access to the confidential information at the relevant time. The right can of course be held by more than one person under contract. The licensee does not qualify even though he has the right to use the information. Suppose, next, that during the subsistence of the limited licence, the licensor puts the information in the public domain. The breach of contractual duty to the licensee is clear but can the licensee sue for breach of confidence in equity? He cannot. The 'licensor/assignor' is contractually obliged to keep the information secret and may not even use the information but he is not under a duty of confidence to the licensee in equity because it is he who can properly deny access to the information. Put differently, he is the person for whose benefit the principle of confidentiality exists. It is for the same reason that a confider who puts the confidential information in the public domain brings to an end the confidant's duty to him but is not himself liable in equity to the confidant. There is no duty owed in this situation by the confider to the confidant.

Crucially, the explanation has nothing to do with ownership or the assignability of confidential information *per se* or the transfer of confidential information or the assignability of the benefit of an obligation of confidence.⁹¹ What can be transferred is the right to deny access to confidential information; the right to control, manage and determine the fate of confidential information, as it were. Its transfer determines who can sue for breach of confidence. It does not necessarily determine who comes under a duty of confidence. The duty arises whenever a person comes into confidential information he knows is restricted to him. The duty may be facilitated by the person who has the right to 'control' the confidentiality of the information, for instance, by confiding in him or licensing it to him. That is all. That is why, under existing law, it is

⁹⁰ Certain types of confidential information are 'transferred, held in trust and charged': *Farah Constructions Pty Ltd v Say-Dee* (2007) 236 ALR 209, 246.

⁹¹ R Hammond, 'Breach of Confidence: Assignability of Rights' (1986) 1 *International Property Journal* 247.

immaterial that the plaintiff cannot identify the person who disclosed the information to the defendant.

There is one lingering uncertainty resulting from the jurisdictional ‘divide’ between common law and equity. Arguably, a seller of confidential information is under an implied contractual duty of confidence as well. What remedy is available to the buyer if he breaches his contractual and equitable duties? It is unclear how contractual and equitable duties of confidence co-exist and relate.

One view is that there is no room for an equitable duty where the contractual duty covers the field.⁹² Another maintains the contractual duty has been assimilated into the equitable one⁹³ or has become ‘parasitic upon [it]’.⁹⁴ Thus in *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd*, Gordon J thought it ‘strictly unnecessary’⁹⁵ to decide if there was a contractual duty to keep confidential any of the confidential information provided once the equitable duty has been resolved. At times, the plaintiff can elect between contractual damages and an account of profits, as happened in *Optus Networks Ltd v Telstra Corporation Ltd (No 2)*⁹⁶ where the equitable duty was not excluded by manifest intention. Similarly, *Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd*,⁹⁷ is said to be authority for the proposition that the equitable duty may be an alternative to a contractual one. In *Labelmakers Group Pty Ltd v LLForce Pty Ltd*⁹⁸ there were, inter alia, breaches of contractual and equitable duties of confidence. The duties were said to be ‘closely related’.

There are two ways to deal with this mix of sentiments. One is to treat the co-existence of contractual and equitable duties as an apt case to reach over into

⁹² See, eg, *Del Casale v Artedomus (Aust) Pty Ltd* [2007] NSWCA 172 (18 July 2007), [118] (Campbell JA) citing *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41. *Coles Supermarkets Australia Pty Ltd v FKP Ltd* [2008] FCA 1915, [63]-[64]: the contractual duty and equitable duty cannot co-exist and it is also a ‘matter of logic and basic principles’ that one cannot elect between the two because it would ‘defeat the efficient theory of breach’. The High Court in *Tabcorp Holdings Ltd v Bowen Investments Pty Ltd* (2009) 236 CLR 272 was unimpressed by the ‘theory’ of efficient breach cf Dean, n 10 above, [2.55].

⁹³ Glover, above n 40, 305–6.

⁹⁴ *Australian Medic-Care Co Ltd v Hamilton Pharmaceutical Pty Ltd* (2009) 261 ALR 501, 638 (Finn J): an account of profits was taken.

⁹⁵ (2008) 78 IPR 262, 288 [110].

⁹⁶ (2010) 265 ALR 281 cf *Vercoe and Pratt v Rutland Fund Management Ltd* [2010] EWHC 424 (Ch) (5 March 2010) where an account of profits ‘was not appropriate’ and damages were assessed as for breach of contract.

⁹⁷ (1964) 1 WLR 96.

⁹⁸ [2012] FCA 512 (18 May 2012) [103].

equity for appropriate relief.⁹⁹ The better approach is to say that the duty is the same, that is, not to misuse confidential information, whether it originates in contract or in some sui generis source in equity.

VI INFORMATION WITH THE NECESSARY QUALITY OF CONFIDENCE

While confidential information is protected, virtually *per se*, independent of relationships of trust or confidence, there is no by-passing the need for the information to be confidential at law. A particular problem arises with technical confidential information that is routinely put to gainful and profitable use in the form of products on the market. Such information is integral to the product and the information is often encrypted to protect its relative secrecy. Indeed the utility, value and safety of the product can be entirely dependent on the encrypted information remaining secret. On any reasonable interpretation, the purpose of encryption is to protect secret information. Yet the few cases take the position that reverse engineering is permissible as a means of independent discovery.¹⁰⁰

In the English case of *Mars v Teknowledge Ltd*¹⁰¹ the issue is framed in terms of the confidential quality of the encrypted information when the product is on the market. In that case, a coin receiving and changing mechanism used a discriminator, called the Cashflow, to determine the authenticity and denomination of coins fed into the machine. The discriminator could be reprogrammed for new coin data. This facility was protected against fraud by a protocol and encryption system which was kept confidential by Mars. Mars used service companies to update the discriminator by hiring to them a decryption tool for the purpose. One of the service companies, Teknowledge, successfully reverse engineered the Cashflow to access the encrypted information. The High Court held that Teknowledge's reverse engineering was not a breach of confidence. This was essentially because the Cashflow was on the market for anyone to buy and therefore the encrypted information did not have the necessary quality of confidence. Besides, the buyer of the Cashflow was an intended recipient and it was a 'pure matter of common sense' that the buyer could do as he pleased with the machine.

⁹⁹ See *AG v Blake, Jonathan Cape Ltd* [1998] Ch D 439, 456–9 cf *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167, 191; *Faccenda Chicken Ltd v Fowler* (1986) 1 All ER 617, 625–7.

¹⁰⁰ If unconstrained by any relationship of trust and confidence that prohibits it: *Estcourt v Estcourt Hop Essence Co* (1874–75) LR 10 Ch App 276, 279.

¹⁰¹ [2000] FSR 138.

The resort to ‘common sense’ is unhelpful. The decision also does not sit comfortably with *Lucasfilm v Ainsworth* which explained (obiter) that confidential information embodied in an object does not necessarily lose its quality of confidence as soon as the object is available to the public but only when the confidential information enters the public domain.¹⁰² There is often a time lag between the two. Similarly, in *RLA Polymers Pty Ltd v Nexus Adhesives Pty Ltd*¹⁰³ it was observed that the difficulty of reverse engineering is relevant to the issue of whether the information in the manufactured product is in the public domain. These observations could mean that a duty of confidence can arise with respect to the confidential information until it enters the public domain. In contrast, the difficulty of decryption in *Mars* did not seem to delay the loss of the information’s quality of confidence. The encrypted information ceased to be confidential when the Cashflow was on the market.

By casting the issue as it did, *Mars* effectively prevented a duty of confidence from arising even though reverse engineering is discussed in the language of breach. If confidential information no matter how securely concealed/encrypted ceases to be confidential as soon as the embodiment or ‘vehicle’ of the information is on the market or in public, there can be no duty of confidence to breach. It would appear that a factual inquiry into ‘relative inaccessibility’ was turned into a normative one. Perhaps, it is better to say that the right to deny access to the confidential information is relinquished in the eyes of the law. The analogy is with consent. After all the law of confidence protects the interest of the person who has the right to deny access to confidential information. Accordingly, the licensee of computer software would not be able to reverse engineer it to access the source code without breaching its equitable obligation of confidence and its contractual obligation not to do so. This was flagged in *CA Inc v Independent Systems Integrators Pty Ltd*,¹⁰⁴ which involved an application for preliminary discovery. The licensing arrangement in *CA Inc v Independent Systems Integrators Pty Ltd* clearly retained in the licensor the right to deny access. The right of course cannot outlive the genuine loss of the necessary quality of confidence.

*Volkswagen v Garcia*¹⁰⁵ raises a similar issue in more complicated

¹⁰² [2010] FSR 270.

¹⁰³ (2011) 280 ALR 125, 135-9 [42]-[52] (Ryan J).

¹⁰⁴ [2009] FCA 900 (18 August 2009).

¹⁰⁵ *Volkswagen Aktiengesellschaft v Flavio D Garcia, University of Birmingham, Roel Verdult, Baris Ege, Stichting Katholieke Universiteit* [2013] EWHC 1832 (25 June 2013).

circumstances. In that case, the Megamos Crypto chip is used in immobilisers by a number of car manufacturers in millions of cars. The critical algorithm encrypted in the chip was obtained, probably illegitimately, by a party not involved in the litigation to produce the Tango Programmer. The defendants were academics who purchased the Tango Programmer, apparently with notice that its origin is at best 'murky'. Through reverse engineering of the Tango Programmer, they determined the algorithm and disclosed it in a critical paper intended for a conference. Volkswagen conceded that *Mars* applied and sought, successfully, an interim injunction to restrain its publication. Birss J was much influenced by the defendants' 'reckless attitude to the probity of the source of the information' they wished to publish.¹⁰⁶ In the end, academic free speech was subordinated to the security of millions of Volkswagen cars.

There are fundamental and competing values at play in *Volkswagen v Garcia* which cannot be divorced from the issue of the quality of the information. For present purposes, we can speculate a little on the latter. Following *Mars* then, the alleged confidential information in *Volkswagen v Garcia* would have ceased to be confidential. Since millions of cars with the Megamos Crypto chip have been sold and are on the market for anyone to buy the encrypted algorithm would appear to be in the public domain as was the material information in *Mars*. It would follow from *Mars* that the defendants could have bought a car with the immobiliser and be at total liberty to reverse engineer it and do as they wish with the information they discover. It is unclear if the dictates of common sense will accommodate concerns that criminal gangs might use the information to threaten the safety of millions of cars. The defendants, however, did not do that. Instead, they reverse engineered the Tango Programmer which used, but did not describe, the algorithm, to discover the information. Even if the algorithm had been obtained illegitimately by those responsible for the Tango Programmer, would the encrypted algorithm not have lost its quality of confidence when the Tango Programmer was proffered for sale on the internet for anyone to buy? It is hard to imagine in what circumstances it might have remained confidential in one context and not in the other.

The challenge of encrypted secret information in the public domain does not detract from the unitary principle of confidentiality as has been clarified. Instead it raises issues of policy which must at the end of the day guide the

¹⁰⁶ The court thought that the case would be very different if the defendants had obtained the Tango Programmer from a legitimate source: *Ibid* [36]-[38].

extent to which the law will protect confidential information in particular circumstances.

VII CONCLUSION

If historical legitimacy is desirable for the unitary principle of confidentiality, one can go back to *Ashburton v Pape*.¹⁰⁷ The principle stated by Swinfen Eady LJ in that case has been extended over time to confidential information obtained by mistake and, eventually, to accidental confidences. One might say that there was latent support for accidental confidences. In that support lay the nascent unitary principle of confidentiality. Over the years, the principle of confidentiality has become obscured by the relational emphasis in cases involving relationships pursuant to which confidential information is imparted. The poorly understood basis of a third party's liability did not help. The misconception that the liability of the original confidant is different from and 'devolved' to a third party, reinforced by the designation of the original confidant's liability as primary and the third party's as secondary, diverted attention elsewhere. So did appeals to third party liability in fiduciary law as a congener and the inclination to disaggregation.

The statement of breach of confidence which emerges from the recognition of liability for accidental confidences simplifies the law considerably. It identifies the common and crucial denominator in the range of circumstances in which a duty of confidence arises. It is that a duty of confidence arises from the knowledge that the information one has is confidential and 'out of bounds'. There is always that knowledge where injunctive relief is sought. The duty arises, at the latest, when suit is brought to prevent any anticipated wrongdoing. There is no distinction between the duty of an immediate and a remoter party and it is owed to the person with the right to deny access to the confidential information. These fundamentals, once clarified, help to explain the law where it is opaque and unclear with respect to the buyer of confidential information.

¹⁰⁷ Toulson and Phipps, above n 56, 71-4.