Introduction

The UK Supreme Court’s Lord Neuberger in Vestergaard Frandsen A/S (now called MVF 3 ApS) and others v Bestnet Europe Limited and others [2013] UKSC 31 (“Vestergaard v Bestnet”) noted that “the protection of intellectual property, including trade secrets, is one of the vital contributions of the law” to the commercial world. Indeed, the wrongful actions of former employees who misuse their former employer’s trade secrets could severely destabilise a company’s operations and business. In such circumstances, the company may seek redress by bringing an action for breach of confidence.

However, what about the liability of a former employee when he or she is not directly involved in the misuse of trade secrets? This issue was recently considered by the UK Supreme Court in Vestergaard v Bestnet. This case signifies a return to doctrinal roots that an action in breach of confidence “is based ultimately on conscience.”

Vestergaard v Bestnet

Vestergaard, a company that develops techniques for the manufacture and sale of long-lasting insecticidal bednets claimed against two of its former employees and a Dr Skovmand, who worked as a consultant to Vestergaard, for damages relating to the misuse of confidential information garnered during the course of their employment and consultancy. Two of the defendants, Mrs Sig and Mr Larsen, had signed employment contracts containing provisions requiring them to respect Vestergaard’s confidential information. In 2004, Mrs Sig and Mr Larsen set up a competing company employing Dr Skovmand. The new company launched a competing product.

Vestergaard brought proceedings in England seeking damages and other relief for misuse of Vestergaard’s confidential information. In two judgments at first instance, Arnold J found that Vestergaard’s techniques constituted confidential information in the form of trade secrets. He found the defendants, including Mrs Sig, who was Vestergaard’s regional sales manager, liable for breach of confidence despite the fact that Mrs Sig did not herself
ever acquire the confidential information in question, and that until some point during the court proceedings, she was unaware that the new company competing with Vestergaard, which she had helped form, had used Vestergaard’s trade secrets.

The Court of Appeal upheld the decision of the first instance judge on all points, save for the finding that Mrs Sig was liable to Vestergaard for breach of confidence. Vestergaard appealed to the Supreme Court.

On appeal, Vestergaard sought to argue that Mrs Sig was liable for breach of confidence on three different bases: (i) under her employment contract, either pursuant to its express terms or to an implied term; (ii) for being party to a common design which involved Vestergaard’s trade secrets being misused; (iii) for being party to a breach of confidence, as she had worked for Vestergaard, and then formed and worked for the companies which were responsible for the breaches of confidence. According to Lord Neuberger (with whom all the other Supreme Court Judges agreed), each of these arguments failed because of the combination of two crucial facts.

(i) Mrs Sig did not herself ever acquire the confidential information in question, whether during the time of her employment with Vestergaard or afterwards; and

(ii) Until some point during the currency of the proceedings (possibly not until the first judgment), Mrs Sig was honestly unaware that the competing product had been developed using Vestergaard’s trade secrets.

The UK Supreme Court thus unanimously dismissed the appeal.

Breach of Confidence

It is well established that a duty of confidence can arise from a contractual agreement, such as an employment contract containing a confidentiality clause. If there is no contractual agreement, the duty can still arise if the following three elements are established:

(i) The information to be protected must have the necessary quality of confidence about it;

(ii) That information must have been imparted in circumstances importing an obligation of confidence; and
(iii) There must be an unauthorised use of the information to the detriment of the party who originally communicated it.

In Vestergaard, the UK Supreme Court returned to the doctrinal roots of the tort that “[a]n action for breach of confidence is based ultimately on conscience.” As Megarry J observed in Coco v A N Clark (Engineers) Ltd [1969] RPC 41, 46, “[t]he equitable jurisdiction in cases of breach of confidence is ancient; confidence is the cousin of trust”. In order for the conscience of the recipient to be affected:

(i) The party must have information for which she has agreed or which she knows is confidential; or

(ii) The party must have been privy to some action which she knows involves the misuse of confidential information.

Given that Mrs Sig knew neither of the identity of Vestergaard’s trade secrets, nor that they were being, or had been, used, let alone misused, it follows that Mrs Sig should not be liable for breaching Vestergaard’s rights of confidence.

While a recipient of confidential information may be said to be primarily liable in a case of its misuse, it is still possible for a defendant who has not actually used confidential information to be liable for breach of confidence in a secondary sense if he or she assists in the misuse. In such cases however, the defendant “would normally have to know that the recipient was abusing confidential information. Knowledge in this context would of course not be limited to her actual knowledge, and it would include what is sometimes called ‘blind-eye’ knowledge”.

In considering what blind-eye knowledge involves, the UK Supreme Court referred to the well-known House of Lords decision in Royal Brunei Airlines Sdn Bhd v Tan [1995] 2 AC 378 as setting the relevant standard as to the requisite degree of knowledge. Lord Nicholls in Royal Brunei had approved the notion of “commercially unacceptable conduct in the particular context involved”, and suggested that “[a]cting in reckless disregard of others’ rights or possible rights can be a tell-tale sign of dishonesty”. As Hugh Tomlinson QC commented in the UK Supreme Court’s blog, no reference was made to other authorities on this point but it was clear that the Supreme Court agreed that “more is required than merely careless, naïve or stupid behaviour” (see Valeo Vision SA v Flexible Lamps [1995] RPC 205).
The Singapore Position

The classic three elements required to establish a tortious claim for breach of confidence has been adopted in the seminal Singapore case of *X Pte Ltd Ltd and another v CDE* [1992] 2 SLR(R) 575. This has been followed in the Singapore High Court case of *Vestwin Trading Pte Ltd and another v Obegi Melissa and others* [2006] 3 SLR(R) 73 and the requirement for the three elements has further been affirmed by the Singapore Court of Appeal in *Obegi Melissa and others v Vestwin Trading Pte Ltd and another* [2008] 2 SLR(R) 540.

However, in the UK, the tort of breach of confidence has been expanded to encompass the protection of privacy rights, such that courts protect information for which a claimant has a reasonable expectation of privacy. This is in line with the UK’s enactment of the Human Rights Act 1998, a development that arose due to the UK’s obligation under the European Convention on Human Rights. In contrast, Singapore courts have not followed suit in expanding breach of confidence in this manner, perhaps due to the fact that Singapore is not bound by the European Convention on Human Rights and Parliament has not passed legislation that specifically addresses the right of privacy.

An argument can be made though that the current law on breach of confidence in Singapore already adequately protects many types of confidential information. This can be seen in the Singapore High Court decision in *QB Net Co Ltd v Earnson Management (S) Pte Ltd and others* [2007] SLR(R) 1, where two former employees were held to owe no duty of confidentiality because of a lack of direct evidence that they were aware that the information and documents were of a confidential nature. Similar to *Vestergaard v Bestnet*, this case emphasises the importance of a party’s knowledge that information is confidential before determining whether or not that party is in breach of confidence.

Therefore, were the same factual matrix in *Vestergaard v Bestnet* to arise in Singapore, it would be reasonable to assume that a similar result would be arrived at.

Concluding Words

*Vestergaard* is a compelling restatement on the importance of the equitable doctrine of “conscience” in breach of confidence cases. Breach of confidence is an important cause of action against the misuse of trade secrets and the UK Supreme Court has rightly emphasised the requirement of knowledge to succeed in such an action. This is in line with the Court’s comments on the need “to maintain a realistic and fair balance between effectively protection trade secrets … and not unreasonably inhibiting the competition in the market place.”
A company cannot recover damages from a former employee who does not have knowledge that the information is confidential. Companies should thus ensure that all confidential information or information which they wish to be protected, is specified as such in their employment contracts. Alternatively, confidential information disseminated to employees in the course of employment should be clearly labeled in order to highlight the protected nature of the information.