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BREACH OF CONFIDENCE, DOWNSTREAM LOSSES, GAINS AND REMEDIES

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One of the tricky issues that has arisen rather frequently in recent years concerns attempts by intellectual property right owners to expand their rights and remedies so as to cover activities which are said to have been caused by the infringement but which lie downstream of the actual infringement. Are such activities within the scope of the exclusive rights conferred so as to enable the right owner to sue the individual carrying out the downstream activity? Alternatively, might the right owner litigate against the immediate infringer on the basis that his infringement was the "cause" of the downstream activity such as to support a claim for damages in respect of the downstream losses? This article starts with a brief discussion of the reach of process patents into downstream products and then moves into a detailed discussion of the position at common law under the action to protect confidential information.

I. Introduction

Notwithstanding its "ancient roots", the action for breach of confidence remains an enigma in the common law world. It is, therefore, not surprising to find that a plethora of labels is still used to describe the action. These include: "The Law of Confidential Information", "Breach of Confidence" and simply "Confidentiality". A Shakespearean response might well be found in the words of Juliet: "What's in a name? That which we call a rose by any other name would smell as sweet." This may well be true, from a certain perspective, of the tragic hero, Romeo. But is it also true of the legal action that is the subject-matter of this article? The choice of title for any cause of action sheds light on the perceived focus or centre of gravity of the principle of law involved. Is the primary concern to protect confidential information or is it a relationship or obligation of confidentiality (a relational interest) that is the main concern of the law? Put another way, is the label—confidence—being used to describe the qualities of the information, the connection between the parties, or both?[1] The purpose of this article is to examine one area where problems are likely to

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[1] See generally *Campbell v. MGN Ltd.* [2004] UKHL 22 [*MGN Ltd. (H.L.)*] where Lord Nicholls explains at para. 13 that "the common law or more precisely, courts of equity have long afforded protection to the wrongful use of private information by means of a cause of action which became known as breach of confidence". Lord Nicholls continues that the cause of action has now shaken off the need for an

arise. This concerns the extent to which a claimant is able to recover losses (in some cases gains) suffered or acquired downstream of the initial breach of confidence.[2] It is suggested that there are two possible approaches that may be taken. The first is to attack the downstream loss-causing activities by directly asserting rights against the individuals responsible for those activities. The second will be to litigate against the defendant whose initial breach of confidence led to the downstream activities and to seek recovery of those downstream losses on the basis that they are recoverable losses connected to the initial breach.

II. The Setting of the Action for Breach of Confidence

The labelling uncertainty alluded to above is in no small way connected with the ongoing uncertainty over the conceptual basis for the cause of action. This is an area that has been well explored in cases and legal literature. The enigma has many faces. Sometimes it wears the face of contract: Contractual obligations, express or implied, often times can be the anchoring point for an obligation of confidentiality. In such cases, the law intervenes to support and protect a relational interest founded on the phenomenon of agreement. In other cases, it might wear the face of property/tort: In the area of industrial espionage (as distinct from intrusions into personal privacy), a property-based approach provides an easy solution to the problem of a lack of any pre-existing obligation of confidentiality between the spy and his target. Still in other cases, the enigma might wear the face of tort: for in the area of personal information, it is often said that what is at stake is privacy rather than confidentiality and that it is high time for the law to recognise privacy, if not as a high level principle protectable in its own right, then as an important factor that shapes the development and application of the enigma in the area of personal confidences. Indeed, has the time come to develop a distinct cause of action to protect privacy outside of the law of confidence with the latter being confined to commercial, business and trade secrets? Yet, there are still other cases where fiduciary or fidelity obligations come to the fore, as where a fiduciary duty is broken because of some misuse of confidential information, for example, by the director of a company. And, this is not the only claim of equity. For there still lies the claim of "lesser" equitable obligations: those that are simply

initial confidential relationship and that the law imposes a duty of confidence whenever a person receives information he knows or ought to know is fairly and reasonably to be regarded as confidential. At least in the area of privacy, Lord Nicholls also felt that even this formulation was not entirely accurate as the real question was whether the information was private (rather than confidential). This led Lord Nicholls to the view that the "essence of the *tort*" (emphasis added) was now "better encapsulated as misuse of private information". Lord Hoffmann, however, at para. 43, explains that the *equitable* action for breach of confidence was capable of protecting privacy. In this way perhaps the best description of the action for breach of confidence is that it is a *sui generis* equitable tort. This case concerned disclosure of the fact that a famous model was undergoing treatment for drug addiction (in the context of past public assertions by the claimant that she was not taking drugs), together with related details. Given that it was accepted that disclosure of the claimant's drug addiction was covered by public interest, the question concerned the extent to which the defendants could publish the related details. The minority (Lords Nicholls and Hoffmann), on the facts, felt that the details published were justified whereas the majority (Lords Hope, Carswell and Baroness Hale) felt that publication of the details was not supported.

2 Note that in some cases, what will be in issue is recovery of downstream gains in respect of downstream activities.

concerned with protecting relationships of confidence as a matter of conscience and good faith outside of fiduciary relationships.[3] Then again, perhaps, there is much to be said for the view that the action, outside of contract, whilst essentially equitable in origin, has acquired a distinct *sui generis* overlay: thereby allowing for flexibility in developing the action both in terms of the elements of liability and available exceptions as well as providing a basis for a measure of remedial discretion.[4]

Given the continuing uncertainty over the conceptual foundations of the action, it should come as no surprise to find that there are many details concerning the structure and elements of the cause of action that still admit of no easy answer. The basic elements are said to be well understood and accepted.[5] These are the need to show that the information is confidential, that the defendant is caught by an obligation or duty of confidentiality and that there has been unauthorised use (including disclosures) resulting in detriment to the plaintiff.[6] And yet, significant questions remain. To what extent do subjective considerations come into play in deciding whether the information is confidential? Does the attitude of the claimant and defendant as to whether the information is confidential matter or should it simply be a question of proof that the information was not (objectively) readily available to the public? Is the test as to whether the defendant owes an obligation of confidentiality to be assessed objectively and if so by the standards of the reasonable man (drawn from tort law) or his cousin, the officious bystander (drawn from contract law)? It is tempting here to argue that where the action is asserted in a near-contract situation such as that typified by failed contractual negotiations, a contractual-type test by way of analogy is appropriate to test conscience in equity. After all, there are those who might argue that it is the reluctance of the common law to recognise implied contracts to cover contractual negotiations that often lies at the root of the problem. But then, why should the failure of contract law or the common law in general, to

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3 See generally the helpful discussion of the distinction between fiduciary duties and breach of confidence by John Glover, "Is Breach of Confidence a Fiduciary Wrong? Preserving the Reach of Judge Made Law", (2001) 21 L.S. 594.

4 Different theories have been advanced to explain liability for breach of confidence. In some cases, contract may be the basis for liability. In other cases, theories ranging from tort, property and equity have been put forward. The *sui generis* theory tends to the view that the elements of the action (including defences) are derived from a mixture of contract, property, tort and equity. The better view is that the outside of contract cases, the action is rooted in equitable principles of good faith and that the action is *sui generis* to the extent that remedies are to be tailored to meet the facts (remedial discretion) rather than on the basis of strict doctrinal considerations. Views as to whether remedial discretion is always a good thing, especially where discretion might have an impact on established distinctions between causes of action so as to engender uncertainty (especially in commercial relationships) vary quite considerably. See generally: J.D Davies, "Duties of Confidentiality and Loyalty" [1990] L.M.C.L.Q. 4 [Davies, "Confidentiality and Loyalty"], Peter Birks, "The Remedies for Abuse of Confidential Information" [1990] L.M.C.L.Q. 460 [Birks, "Remedies"], Peter Birks, "The Law of Unjust Enrichment: A Millennial Resolution" [1999] Sing. J.L.S. 318 [Birks, "Unjust Enrichment"]; Darryn M. Jensen, "The Rights and Wrongs of Discretionary Remedialism" [2003] Sing. J.L.S. 178 and David Wright, "Wrong and Remedy" [2001] Sing. J.L.S. 300.

5 *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.* [1963] 3 All E.R. 414 [*Saltman*].

6 Whilst there have been some doubts over whether consequential detriment must be proven, it is now widely accepted that loss (actual or threatened) of confidentiality is sufficient to justify the grant of injunctive relief, possibly on a *quia timet* basis.

deal satisfactorily with failed contractual negotiations, drive forward and dictate the elements of a non-contractual action in equity?[7]

Alternatively, should the test take account of subjective considerations? Did the defendant know that he was being subjected to a duty of confidentiality and if he did not have actual knowledge, is it necessary to show an element of recklessness or dishonesty before a duty can be imposed? Or, is it enough that a reasonable man in his position would have regarded himself as being subjected to a duty of confidence? Does the test (of duty) depend on whether the defendant was in a direct relationship with the claimant as contrasted with a remoter or indirect recipient with higher standards of knowledge required in the latter case? And, with respect to unauthorised use, whilst this is a question of fact, there are underlying legal issues to be resolved. Does unauthorised use require proof that it leads to some unfair advantage or is it enough that there has objectively been a use of the confidential information that was not in fact authorised?[8] Is liability strict or dependent on some degree of culpability and knowledge or dishonesty? Does this depend on whether the action is to protect commercial confidential information or personal confidences such that in the latter case, the use complained of must be one which reasonable persons will find offensive and objectionable? And why should there be a higher standard for private confidences? Is it because the use of privacy as a touchstone of liability (imposition of duty of confidence by reference to an invasion of privacy) may lead to such an expansion of liability scenarios that counterbalances are necessary, such as proof that the unauthorised use was one that reasonable persons would find offensive and inappropriate?[9] If so, does this mean that in actions to protect private confidences, factors that would otherwise be taken account of in respect of the public interest defence now become factors that might influence the court on whether there has been an unauthorised use? If in the case of commercial confidential information (including trade secrets), unauthorised use is simply factual and divorced from any need to show knowledge or culpability as where the misuse is subconscious and hence "innocent", does this mean that the cause of action proceeds on a strict liability basis

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7 But see *Thomas Marshall v. Guinle* [1978] 3 All E.R. 193 for a case that can be explained either on the basis of a generous application of the law on implied contractual terms or on the basis that equitable fiduciary principles were able to step into the breach and to provide the claimant with a remedy.

8 See Lord Denning M.R. in *Seager v. Copydex Ltd. (No. 1)* [1967] 2 All E.R. 415 [*Seager (No. 1)*] at 417 that liability "depends on the broad principle of equity that he who has received information in confidence shall not take an unfair advantage of it." Compare Lord Greene M.R. in *Saltman*, *supra* note 5 that "if a defendant is proved to have used confidential information, directly or indirectly obtained from the plaintiff, he will be guilty of an infringement of the plaintiff's rights."

9 See *MGN Ltd. (H.L.)*, *supra* note 1, for an observation by Lord Nicholls, at para. 22, that use of the phrase "highly offensive" as a touchstone to decide whether information is private could be "a recipe for confusion". Lord Nicholls felt that the phrase introduced considerations which went more properly to the issue of proportionality (degree of intrusion and the extent to which publication was a matter of public concern) into the question as to whether the information was private. See also Lord Hoffmann, at para. 51, who was of the view that the centre of gravity had shifted, at least in the area of private information, and that the cause of action being based upon the duty of good faith applicable to confidential personal information and trade secrets alike, focuses on the protection of "human autonomy and dignity". Lord Hope, at para. 86, however, doubted that the centre of gravity had shifted. Instead, the well established balancing exercise (for and against protection in the context of the public interest issues) had merely become more carefully focused and penetrating. See also Baroness Hale, at para. 135, who held that the "highly offensive" test was not the only test (as to protectablity of private information), especially where the information was obviously private.

and if so what impact might this hold on the question of recovery of downstream losses (causation and remoteness rules)?[10]

Other issues concerning the scope of available defences or exceptions also remain. The public interest defence, whilst well established, still leaves open the question as to whether public interest factors might also operate at the level of proving offensiveness if the latter is required to prove unauthorised use in the case of private confidences. Then again, there are lingering questions as to whether *bona fide* "purchase" for value and without notice of the confidentiality of the information is a complete defence in that it prevents the subsequent imposition of an equitable duty of confidence on receipt of knowledge. If it is not a defence to liability, then might this be a factor that can be used to fend off injunctive relief and accounting of profits? Similar questions arise in respect of change of position.

Finally, there are problems concerning the scope of available remedies.[11] Aside from questions over discretionary factors that might hold off grant of injunctive relief (or to support grant of relief on terms), significant questions remain on whether in the absence of trust property or breach of fiduciary duty, a remedial constructive trust can be imposed in appropriate cases involving breach of confidence. Questions also remain over the (alternative) financial remedies that are available: accounting of profits, equitable compensation and damages in addition to or in lieu of injunctive relief. For example, to what extent are these financial remedies affected by principles of causation, remoteness (causation in law) and a duty to mitigate losses? What analogies, if any, might be drawn from the common law of torts? Answers to some of these questions will have an important impact on recoverability for downstream consequential losses.

III. Products and Processes Derived from an Unauthorised Use of Confidential Information

A. *An Analogy from Patent Law*

The question of asserting rights against downstream products and processes is by no means new. It is a problem that recurs frequently in intellectual property law. Before

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10 There have been a number of cases, accepting liability for subconscious unauthorized use of confidential information in a commercial context. See *Seager (No. 1).* (C.A.), *supra* note 8, and *Talbot v. General Television Corp. Pty. Ltd.* [1981] R.P.C. 1 (Vic. S.C.) [*Talbot*]. In *Seager (No. 1)*, Lord Denning M.R. found that the defendant honestly believed that the infringing grip was their own idea—but that the coincidences left the court with no alternative but to find that they must have unconsciously made use of the information that had been given to them. Even though there was an express finding that the defendant was "quite innocent of any intention to take advantage of him", they were still liable as "they were not aware of the law as to confidential information". See also Salmon L.J. holding that the subconscious use was no reflection on their honesty—nevertheless it infringed the plaintiff's rights.

11 Much has been written on the question of remedies for breach of confidence in contract and equity. This includes the vexed question as to whether account of profits are awardable where the claim is for a contractual breach of confidence. See, *e.g.*, Ter Kah Leng & Susanna Leong, "Contractual Protection of Business Confidence" [2002] J. Bus. L. 513 and the reply by David Campbell, "Hamlet without the Prince: How Leng and Leong use Restitution to Extinguish Equity" [2003] J. Bus. L. 131. For another Singapore view supporting restitutionary damages in contract but subject to the development of limitations by rules of remoteness and causation, see Wan Wai Yee, "Restitution for Wrongs" [1998] Sing. J.L.S. 299.

examining the position in an action for breach of confidence, it may be helpful to briefly set out the position in patent law for comparative purposes. A patentee, for example, may have acquired patent rights in a particular manufacturing process for a product which is already in the public domain. Whilst the process patent rights will be infringed by any unauthorised use of the process, the process patentee will also be keen on acquiring rights over derived products. There are a number of ways that he might try and achieve this result. He might try and claim a patent over the product produced by the patented process on the basis that a claim limited in that way is novel, as no rights are being sought over the same product produced by other processes.[12] The new process might be argued to confer novelty on the product where the product is defined as the product of the particular process in question. In other cases, the inventor might be able to argue that the product is new in its own right. The reference in the patent specification and claims to the process whereby that new product is obtained is simply there to comply with disclosure requirements in circumstances where direct characterisation of the product is not possible. Still yet another possibility will be to argue that the downstream product (or process) falls within the scope of the claimed invention.[13] Interpretation of the scope of the patented invention has been a fruitful source of patent litigation. The scope of the protected invention might not be limited to the precise description used in the literal words of the claim, for the words may be interpreted purposively or by reference to function so as to open the door to a range of equivalents (within the language of the claims). Nevertheless, however important functionality of claimed elements of the invention may be as a means to assess the patentee's intention, the question ultimately remains one of construing the language of the claims to determine the intention of the patentee.[14]

All of the above arguments and more have been asserted with greater or less success in a variety of jurisdictions. One common solution has been to statutorily extend the scope of patent rights granted to a process by extending the rights to products produced directly by means of the patented process.[15] Thus, if a patent is granted over a process to produce an antibiotic, a defendant who makes unauthorised use of an antibiotic that is a direct product of that patented process will be

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[12] See generally the discussion of this in *Kirin-Amgen Inc. v. Transkaryotic Therapies Inc. (No. 2)* [2002] EWCA 1096, [2003] R.P.C. 3 and the House of Lords decision at [2004] UKHL 46. The question of liability for downstream products and uses is especially acute in the case of genetic engineering patents over gene sequences. Whilst such claims might not be construed as claims over the modified living organism *per se*, downstream uses involving the living organism with the gene sequence might well amount to infringement. For the position in Canada, see generally *Schmeiser v. Monsanto* [2004] S.C.C. 34.

[13] A related point deals with the legitimacy of the so called "reach through" claims. See generally Vicky Clark, "Reach Through Infringement: What are the Limits" [2000/2001] 6 B.S.L.R. 249 and Dennis Schertenleib, "The Patentability and Protection of DNA based Inventions" [2003] Eur. I.P. Rev. 125.

[14] See *Kirin-Amgen Inc. v. Transkaryotic Therapies Inc. (No. 2)* [2004] UKHL 46 for a recent House of Lords decision which stresses that the mere fact that D's variant is a functional equivalent does not mean that he has infringed the claimed invention. The question is what the skilled man in the art, on a proper construction of the claims, would have understood the patentee to be claiming protection for.

[15] See, *e.g.*, *Patents Act 1977* (U.K.), c. 37, s. 60(1)(c) which provides that where an invention is a process, the disposal, use or importation of a product obtained directly by means of the patented process without the patentee's consent is an infringing act. Similar provisions can be found in *Convention on the Grant of European Patents*, 5 October 1973, 1065 U.N.T.S. 199 [*European Patent Convention 1973*] art. 64(2) and *Patents Act* (Cap. 221, 2002 Rev. Ed. Sing.), s. 66(1)(c).

liable for infringement. Not surprisingly, considerable discussion has arisen over the meaning of "direct". The process patentee wanting to extend his reach against downstream products will seek a broad interpretation that relies heavily on causation. Downstream users will beg to differ and will argue that directness imports more than factual causation and require some closeness of identity or proximity. Thus, downstream users would argue that a cold remedy made from the antibiotic, aspirin and herbs would not be a direct product of the patented process for the antibiotic *per se*. Case law in Europe and the United Kingdom well illustrates the policy issues that underlie the interpretation of the provision. Is there a fair balancing of the rights and interests of the patentee and the rights and interests of users? If patent law is seen as serving the wider goal of encouraging technical innovation, is there a danger that overly extensive rights might in fact unreasonably impede downstream research and product development? Is there a danger that the patentee, through the back door of liberal interpretation of the scope of the claimed invention and accompanying rights, acquire protection in markets (products and processes) that are far removed from the market in which control is acquired? Competition issues might also be found lurking in the background.

In *Pioneer Electronics v. Warner Music Manufacturing Europe GmbH*,[16] the United Kingdom Court of Appeal interpreted "directly" as meaning "without an intermediary". Tricky questions can arise where some further procedure or process (distinct from the patented process) is applied to the first (immediate) product of the patented process. The Court of Appeal took the view that whether the further processed product remained a direct product depended on whether it retained the essential characteristics of that direct product.[17] Inevitably, essentiality will have to be viewed from the perspective of the patent claims and a commonsense appraisal of the actual facts.[18]

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16 [1995] R.P.C. 487 (Patents Court) and [1997] R.P.C. 757 (C.A.).

17 The Court of Appeal took the view that whilst the previous law under the *Patents Act 1949* (U.K.), c. 87, might have covered cases where the derived product involved a substantial use of the patented process, the position was different under *Patents Act 1977* (U.K.), c. 37. Since the latter was passed to comply with U.K. obligations under the *European Patent Convention 1973*, *supra* note 15, the English court paid regard to the fact that art. 64(2) originated from German patent law. German authorities had consistently taken the narrow interpretation. The direct product was the product which was obtained when the patented process ended. If further processing occurred, the question was whether this led to a change in the identity of that product. The position was said to be similar in Netherlands, Switzerland, Denmark and Austria. Nourse L.J. concluded that "the question whether the product with which the patented process ends retains its essential characteristics or not being one of fact and degree, there will often be difficulty in applying the test to facts of particular cases".

18 Note that attempts may also be made to recover downstream losses connected to a proven case of patent infringement by asserting a remedy against such losses. For example, are damages recoverable for such losses on the basis that they are caused by the breach and are not too remote as a matter of law? Particularly thorny patent problems can also arise where the patented subject-matter is or is incorporated into a living organism (such as transgenic life forms). Will a defendant infringe if he uses second generation organisms that retain the transgenes? Where the patent covers the transgene, the fact that the organism (carrying the transgene) is a second generation progeny is arguably irrelevant. In any case in Europe, EC, *Council Directive 98/44 of 6 July 1998 on the legal protection of biotechnical inventions*, [1998] O.J. L. 213/13 [*European Directive*], art. 8 sets out special provisions catching derived biological material (in identical or divergent form) so long as it possesses the same characteristics of the patented original. Special defences (exhaustion of rights) can also be found in art. 10 of the *European Directive*.

If the European and English courts have taken a relatively conservative approach under their patent laws, the same appears to hold true for the patent law of the United States of America. There, not only have the courts restricted "process" to processes of manufacture (thereby excluding screening methods), there are also express statutory provisions which exclude liability where the product (of the process) has been materially changed by a subsequent process or where the product has become a trivial and non-essential component of some other product.[19]

B. *The Position in an Action for Breach of Confidence: Liability of Downstream Users*

What then might the position be in an action for breach of confidence? Suppose that an inventor develops a new recombinant genetic engineering process that is especially suitable for creating hybrid fruit with transgenes. Fifty percent of the genes from the mango are replaced with genes from the apple thereby resulting in a hybrid tree that produces fruits which express characteristics of both fruits.[20] The hybrid fruit is named the "Manpple" and its genetic constitution is unique being a hybrid of genes from the mango plant and the genes of the apple tree. The inventor may not be able to describe the genetic make-up of the fruit but he is able to explain the new process that he developed to create the hybrid. He decides not to secure patent protection (or plant breeders' rights as relevant) over the process and the Manpple tree. Instead, he hopes to secure protection through obligations of confidentiality on the basis that it will be hard for any third party to reverse engineer the new process through examination of the Manpple fruit. Suppose that the first defendant steals budwood from the inventor's orchard and through a process of grafting onto root stock, produces an orchard full of trees bearing Manpple fruits. The fruits are harvested and sold to a fruiterer who resells to customers.[21] A jam manufacturer purchases a quantity of Manpple fruit from the thief and produces a Manpple bread-spread for sale. The inventor complains that the sale of the illicit fruit to the customers has given rise to consequential losses/gains. To what extent, if at all, will some or all of these downstream uses subject the users to liability for breach of confidence?

A cursory examination will show that a complex range of issues are thrown up by these examples.[22] To begin with, what actually is the confidential information whose unauthorised use is in question? Whilst the confidential information that is the

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19 See *Patents Act,* 35 U.S.C. § 105 (2003), s. 271(g)(i) & (ii) and *Bayer AG v. Housey Pharmaceuticals* 169 F.Supp. 2d 328, aff'd 340 F.3d 1367 (Fed. Cir. 2003). See *also Biotechnology Gen Corp. v. Genetech Inc.* 80 F.3d 1553 and *Eli Lilly & Co. v. American Cyanamid Co.* 82 F.3d 1568.

20 This example is of course entirely hypothetical. Whether genetic engineering can develop to the point where wholesale swapping of large sections of a life form's genome with those of another becomes possible remains to be seen.

21 In this hypothetical it is assumed that the Manpple fruits are themselves sterile so that a customer who buys the inventor's fruits will be unable to grow the plant from the fruit. It is also assumed that it is possible to use budwood grafting to produce the new hybrid fruit.

22 I am grateful to my colleague, Assistant Professor Tang Hang Wu, for pointing out that aside from the law of confidence, the property rights in the original budwood might, on Roman law principles, result in second generation property rights in the natural produce of living things. The budwood, when still attached to the claimant's trees, has no separate identity from the land. Once severed, the property in the budwood belongs to the claimant as the owner of the land. The natural produce of the budwood might then be said to belong to the owner of the land on analogy with the principle *partus sequitur*

new process may be capable of definition and description, what about the Manpple fruit itself? It may be said that the fruit itself, as a new product, is confidential information. That may well be so but that information will rapidly enter the public domain and lose its quality of confidentiality once the fruits are marketed. What then of the genetic make-up of the fruit? This may well constitute information—but does it matter that the inventor himself (unless he has decoded the genome) will be unable to describe that genetic make-up with objective certainty? At best, he will only be able to describe how the hybrid was produced and the characteristics of the fruit (look, appearance, size, taste, smell, etc) but will surely be stumped when asked for the actual genetic make-up of the fruit. If the confidential information is the "formula" for the product such as the ingredients that are used to produce a new soft drink, that formula may well be information which is capable of possessing the necessary quality of confidentiality. But, if the information in question is said to reside in the genetic make-up of a new hybrid fruit, can the information, in those terms, possess the necessary quality of confidence when the inventor is himself unable to give a full description of that genetic make-up? Patent law, by way of analogy, allows, albeit, not without a little controversy, new products to be disclosed by means of a method of production or (more controversial) through use of functional descriptions where a direct description is not possible. A similar approach may be taken in the action for breach of confidentiality. Quality of confidentiality requires the information to be a product of brain labour[23] and whilst there is no requirement that it must be reduced to a material form, there is consensus that the information must be sufficiently well developed.[24] This is largely a matter of fact and degree: has the information been developed to the point where it possesses some commercial attractiveness? Then again, if the information is essentially an idea, has it been developed to the point where it may be possible to carry it out—in other words that the idea is realisable in actuality? Looked at in this way, the genetic information for the Manpple fruit is a product of human brain labour and ingenuity, it has been developed to the point where it is realisable in actuality and where it possesses commercial attractiveness. The problem is that the inventor may not be able to describe in written terms what that genetic information comprises save in terms of the phenotype characteristics of the hybrid. Is this enough? An affirmative answer is likely. What is being

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ventrum. See Professor William Swadling, "General Principles of Property" in Peter Birks, ed., *English Private Law* (Oxford: Oxford University Press, 2000). Professor Swadling, at 350, citing Sir William Blackstone, *Commentaries on the Laws of England* Book II at 390-1, states that a farmer who owns a cow will also own her calf, the wool taken from the back of a sheep or the milk taken from a cow. But, even so, what of the products of downstream manufacture such as the Manpple jam? Swaddling (at 351) explains that in the case of manufacture (as opposed to reproduction), Roman law accords ownership to the maker unless the "new thing could be reduced to its original materials". This, of course, is without prejudice to the rights of the owner of the original material to bring a personal claim against the maker. That claim may lie in trespass or some other common law or equitable wrong. Professor Swadling also points out that Bracton and Blackstone gave the ownership in manufactured articles to the maker in English law. But, again, this leaves open the possibility of some other basis for a claim against the downstream user/makers. It also leaves open the question as to whether a remedial constructive trust can be imposed. In the case of the defendant who steals the budwood and grafts onto his own root stock so as to produce Manpple-bearing trees, query in any case whether this is akin to natural reproduction or whether there is so much technical intervention that it really amounts to a process of manufacture for the purpose of determining ownership of property rights.

23 *Coco v. AN Clark (Engineers) Ltd.* [1969] R.P.C. 41 [*Coco*].

24 *Fraser v. Thames Television Ltd.* [1984] 1 Q.B. 44 and *Talbot, supra* note 10 (Vic. S.C.).

protected as confidential are not the phenotype characteristics which may already be publicly available knowledge but the genotype information that gives rise to the phenotype. The claimant must of course be able to describe that information with sufficient objective certainty so that third parties will know what it is that protection is being asserted over.[25] Failing this, defendants would not be able to meet the claimant's case. On this basis, a claimant who is unable to set out the genome of a hybrid plant should still be able to establish that the genetic information is confidential as it is not in the public domain, it is sufficiently well developed and it is capable of objective ascertainment such that third parties should know what it is that rights are being asserted over.[26]

Even if the information is held to possess the necessary quality of confidence, there is the need to show that the defendants owed a duty of confidentiality in respect of that information. In the example set out above, the thief is a surreptitious taker of the budwood (and the encapsulated genetic information). The fact that the thief used illegal and/or reprehensible (improper) means to acquire the budwood will provide equity with the basis to impose an equitable obligation on the thief.[27] But what of the downstream remoter recipients of what has become "the fruits of the poisoned tree"? As innocent recipients, it will first be necessary to show that they have the

25 *Ocular Sciences Ltd. v. Aspect Vision Care Ltd.* [1997] R.P.C. 289 [*Ocular Sciences Ltd.*] at 359 per Laddie J. that "it is well recognized that breach of confidence actions can be used to oppress and harass competitors and ex-employees" and that "unless the confidential information is properly identified an injunction in such terms is of uncertain scope and may be difficult to enforce" and that "the defendant must know what he has to meet…His ability to defend himself will be compromised if the plaintiff can rely on matters of which no proper warning was given …" See also *Inline Logistics Ltd. v. UCI Logistics Ltd.* [2002] R.P.C. 32 at 620 per Mummery J. that "in confidential information cases it is important to identify with some precision the information claimed to be confidential and to have been misused without permission … The definition of the information in every case must be reasonably specific for the purposes of not only determining whether it is confidential but also whether it has been communicated and whether what has been communicated as confidential has been the subject of unauthorized use". See also *John Fink & Co. Ltd. v. Lloyds Bank Ltd.* [1975] R.P.C. 385 (C.A.), *Searle v. Celltech Ltd.* [1982] F.S.R. 92 (C.A.), *Chiarupurk Jack v. Haw Par Brothers International Ltd.* [1993] 3 S.L.R. 285 (H.C.) and *CMI-Centers for Medical Innovation GmbH v. Phytopharm plc* [1999] F.S.R. 235 (Malaysia H.C.).

26 For an Australian case in point, see *Franklin v. Giddins* [1978] Qd. R. 72 [*Franklin*]. See also similar issues in patent law over the novelty requirement and genes and their proteins. If the public domain teaches the existence of a protein, does this mean that the gene encoding for that gene is also in the public domain? Can a researcher who first identifies and characterizes the gene (at least in cDNA form) assert that the gene is new? Favorable answers have been given. See *Howard Florey/Relaxin Patent Application* [1995] E.P.O.R. 541 (European Patent Office), aff'd T 0272/95 - 3.3.4 in Technical Board of Appeal. In *re Bell* 26 U.S.P.Q.2d 1529 (Fed. Cir. 1993). See also the useful discussion by Schertenleib, *supra* note 13.

27 See *Franklin*, *ibid.*, and generally, Megan Richardson, "Breach of Confidence, Surreptitiously or Accidentally Obtained Information and Privacy: Theory Versus Law" (1994) 19 Melbourne U.L. Rev. 673 and George Wei, "Surreptitious Takings of Confidential Information" (1992) 12 L.S. 302. Note that asserting tangible property rights in the stolen budwood would not give the inventor the remedy which he needs against the trees grown by the thief. Return of the stolen budwood being impossible, the inventor in a conversion action will have to be content with damages. Conversion damages once paid constitutes an involuntary sale of the budwood to the defendant. What the inventor needs is to assert confidentiality or some other intellectual property right in the invention which manifests itself in the cells of the budwood (and fruits). See also *supra* note 22 for brief reference to Roman law property principle that the products of natural reproduction belong to the owner of the land or animal as relevant. Arguably in cases like *Franklin*, *ibid.*, the technical intervention (grafting budwood onto root stock) is more like manufacture than reproduction for the purposes of determining property rights.

requisite knowledge of the unauthorised use of the confidential information by the thief. Although this is largely a question of fact, lingering uncertainty remains over the degree of knowledge that is required as a matter of law. Is it enough that the remoter recipients have reasonable grounds for knowing the facts or for being put on inquiry? Is carelessness as to knowledge enough or must there be an element of recklessness or dishonesty before equity can intervene against remoter recipients? Whilst there have been recent cases that support the higher standard of recklessness or dishonesty, it is submitted that the better view is that reasonableness offers the correct approach at least in cases involving commercial confidences. After all, if the seminal decision in *Coco v. AN Clark (Engineers) Ltd.*[28] puts forward the reasonable man as a possible touchstone for liability in equity for direct recipients—why should the position be any different simply because the defendant is now a remoter recipient?[29] If the reasonable man's conscience is the appropriate standard, what then is the sort of knowledge that he must possess? It has been said that knowledge of a bald unparticularised claim is insufficient.[30] It is submitted that this is the right position. The reasonable man must at least have some reasonable grounds for thinking that there is a serious (not frivolous) assertion of breach of confidence by the direct recipient/acquirer. Whether he has such grounds will depend very much on the facts of each case. Where the remoter recipients have no reason to suspect the *bona fides* of the direct acquirer/thief, there can be no question of their being subject to an equitable duty of confidentiality. Even if they are found to have misused the information in some way, that misuse will not be actionable as there is no duty of confidentiality binding the conscience of these remoter recipients. But, what if subsequently the inventor gives written notice to the remoter recipients such that they now do have the requisite degree of knowledge—they may well, from that point of time on, be subject to a duty of confidentiality that will catch any further acts of unauthorised use.[31]

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28 *Supra* note 23.

29 Megarry V.C. did however also proffer the alternative test of the officious bystander of contract law. Whilst there may be something to be said for this given that confidence actions are often brought in connection with failed contractual negotiations (near-contract cases), it does not follow that equity's intervention should be seen as merely plugging a gap in contract. See generally *Campbell v. MGN Ltd.* [2003] 2 W.L.R. 80 [*MGN Ltd. (C.A.)*] and *Thomas (Susan) v. Pearce* [2000] F.S.R. 718. In *MGN Ltd. (C.A.)*, the Court of Appeal sets out discussion of the extent to which the conduct of the defendant has to be offensive in actions for breach of confidence—at least where the action concerned an invasion of privacy. The House of Lords in *MGN Ltd. (H.L.)*, *supra* note 1, allowed the appeal holding that the trial judge had been right to find a duty of confidence in circumstances where the defendant had secretly photographed and published information about a famous model's attendance at drug treatment therapy sessions. In such cases, liability for breach of confidence does not arise out of a near-contract situation. See also the remarks of Lord Goff of Chieveley in *Attorney-General v. Guardian Newspapers Ltd. (No. 2)* [1990] 1 A.C. 109 [*Guardian Newspapers (No. 2)*] and *Carflow Products (UK) Ltd. v. Linwood Securities* [1996] F.S.R. 424. In the latter case, whilst Jacob J. preferred a subjective basis, he also used an objective test based on the bystander. Curiously, shades of the reasonable man of tort law crept into the application of the bystander test! See also Richard Arnold, "Circumstances Importing an Obligation of Confidence", (2003) 119 Law Q. Rev. 193 at 198 where it is argued that "a correct statement of the law is that an obligation of confidence arises whenever confidential information is received or acquired by a person with notice that the information is confidential, and whether a person has notice is to be objectively assessed by reference to the reasonable person standing in the position of the recipient."

30 See *Union Carbide Corp. v. Naturin Ltd.* [1987] F.S.R. 538 [*Naturin*] per Slade L.J.

31 See *Guardian Newspapers (No. 2), supra* note 29, and *Talbot, supra* note 10. Query whether the remoter recipients can successfully fend off equity's intervention (based on subsequently acquired knowledge)

Assuming that a basis is found for imposing equitable duties of confidentiality on the downstream users,[32] there remains the problem of what constitutes an infringing use of confidential information. One view is that the defendant will be liable if he has in fact made an unauthorised use (including disclosure) of the confidential information.[33] A different view, favoured by Lord Denning M.R., noted earlier, is that liability depends on an unauthorised use that results in the taking of an *unfair* advantage of the confidential information.[34] Two points arise. To begin with, unlike copyright actions which depend on proof that the defendant has copied a substantial part of the copyright work, the action for breach of confidence does not require substantiality as such. Instead, what is needed is proof that that there has been an unauthorised use of the confidential information. Care must of course be taken in identifying the information that is said to be confidential. In some cases, it may be a specific piece of information such as a new chemical compound that is used in a manufacturing process. In other cases, the information in question may be much more subtle such as where the confidentiality resides in a complex information package as a whole: a collection made up of individual items in the public domain where what is significant is the way in which those elements interact so as to produce something as a whole which is qualitatively different from the individual parts.[35] In the latter case, the fact that the defendant has used or taken some of the component parts will not amount to unauthorised use.[36] What then if the defendant has made an unauthorised use of only part of the confidential information disclosed to him? In principle, it is suggested that the position must depend on whether the part misused actually has the quality of confidentiality in its own right. If it does, the fact that the defendant did not misuse other parts of the information package, should not affect liability although it may have an impact on remedies. But, what if the misuse relates to a component piece of information that whilst not confidential in its own right, forms an important part of the jigsaw puzzle that results in the information package as a whole being treated as confidential? It has been said that where only part of the information has been misused, the question is whether that part is a material part.[37]

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through assertion of change of position and/or bona fide purchase of the information. This remains a controversial issue although it has been suggested from time to time that the conscience of the defendant recipient should be protected where he is equivalent to a bona fide purchaser. See, *e.g.*, *Morrison v. Moat* [1851] 9 Hare. 241 and *Guardian Newspapers (No. 2), supra* note 29 at 596, per Donaldson M.R.'s dicta. In any case, in the scenario at hand, the remoter recipients of the Manpple fruits did not purport to acquire rights in the genetic information as such other than title to the actual fruits as tangible property rights. Arguably, the remoter recipients could not be said to have been dealing with the rights in the information as opposed to rights in the tangibles.

32 For example, because the thief is held to owe a duty of confidence because of the illegality and /or improper means used to acquire the budwood and because the inventor has given express notice to the downstream recipients/users that the fruits were produced by the thief in breach of confidence.

33 See *Saltman*, *supra* note 8.

34 See *supra* note 8.

35 See generally *Coco, supra* note 23, *Saltman*, *supra* note 5 and *De Maudsley v. Palumbo* [1996] F.S.R. 447. In *Cranleigh v. Bryant* [1966] R.P.C. 81, the information said to be confidential in respect of certain technology already patented by a third party, was the effect of the patent on the plaintiff's business given that the plaintiff's new business venture might result in an infringement of that patent.

36 See *Ocular Sciences Ltd.*, *supra* note 25 at 368, per Laddie J., that "a whole package claim could not be used to bestow confidentiality on the individual contents when, by themselves, they were not protectable …."

37 *Amber Size Limited v. Menzel* [1913] 2 Ch. 239 [*Amber Size*].

How is this to be determined—solely as a question of fact? Of course, questions of degree are unavoidable, but, what is the reference point? Is it simply a matter of deciding whether what has been taken is in fact confidential—or does it depend on a finding that the misuse led to an "unfair advantage" being gained?

In *Amber Size Limited v. Menzel*[38] ('*Amber Size*') the claimant's confidential information concerned a secret process for the making of amber size. This comprised a secret mixture that was added to rosin size at a critical moment in the manufacturing process. From the facts it appeared that the materials, proportions and density of the mixture were all important parts of the process (as well as the timing). The defendant who was an employee was given information as to when to add the mixture to rosin size. He was not told the composition of the mixture. During the course of employment, the defendant discovered the ingredients but not the proportions or density. The defendant was aware that the density was important as the claimant's used a specially constructed hydrometer to evaluate the density. After leaving employment, the defendant joined a rival manufacturer and set about making identical amber size. The court accepted that whilst he did not know the exact density of the claimant's mixture, he knew what the materials were and that the solution used was a strong solution. On this basis, Astbury J. found that the defendant had acquired knowledge as to the whole or a very material portion of the secret process. His lack of knowledge of the actual density was said to be within "small limits".

That the defendant was liable in the *Amber Size* case is readily understandable. Even though he did not know the entire secret process, he had acquired information relating to the composition of the materials used and the fact that the solution was a strong one. Not only was this information "material" in that it formed a substantial part of the secret process, it would appear that the information was confidential in its own right. It is submitted that what this case shows is that just because the process as a whole is said to be confidential, that this does not mean that individual components cannot also be said to possess the necessary quality of confidence. A person who has received or acquired confidential information that is part of a wider package of confidential information still has in his possession confidential information in respect of that part. In this way, the unfair advantage that the defendant gained flowed from the misuse of his knowledge of what the materials were. That knowledge (imperfect though it may have been) was material and relevant.[39]

In the case of the thief and the Manpple budwood, it is easy to see how he would be liable for a misuse of the confidential information (genetic make-up of the Manpple

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[38] *Ibid*.

[39] See also *R. v. Department of Health ex parte Source Informatics* [2001] F.S.R. 74, where the Court of Appeal held that the confidant will be liable for breach of his duty if he only uses part of the confidential information which has been disclosed to him provided the misuse relates to a material part. In that case confidential information concerned drug prescription information which pharmacists had disclosed to pharmaceutical companies. The information was anonymised by removing identifiers of the actual patients. The value of the anonymised information lay in use to help pharmaceutical companies refine marketing strategies. From the perspective of patient confidentiality, there was no unauthorized use since the identities of the patients were not disclosed. The material part of the information from a patient's perspective is his identity as the subject of the treatment. Use of the prescription information without information as to identity was not use of a material part. Indeed, it probably would not be use of information which on its own would be confidential in the hands of individual patients.

fruit) that he had acquired. By grafting the budwood onto his trees and producing his own orchard of trees bearing Manpple fruits, he is making an unauthorised use of the confidential genetic information. Each and every cell in the fruit and engrafted budstock would contain that genetic information and can be considered as the infringing products of the unauthorised use. Indeed, this was the key point that arose in *Franklin v. Giddins*[40] ('*Franklin*') in Australia. In that case, the first defendant stole budwood of a variety of nectarine from the plaintiff's orchard. The budwood was grafted onto the defendants' own trees (root stocks) and the resulting fruits sold in competition with the plaintiff. The remedy for conversion damages being plainly inadequate, the plaintiff sought an order for delivery up of the defendant's productive budwood for destruction. The new variety of nectarine had been developed through a lengthy process of selective cross-breeding from 1946 to 1961. The fruit variety produced possessed unique characteristics. Dunn J. accepted that "as a matter of practical genetics—it [was] impossible to repeat the cross-breeding programme…." Of even greater significance was his observation that:

> The parent tree may be likened to a safe within which there are locked up a number of copies of a formula for making a nectarine tree with special characteristics which make it specially valuable; when a twig of budwood is taken from the tree, it is as though a copy of the formula is taken out of the safe; the budding procedure may be likened to the manufacture of a tree which corresponds exactly with the formula.[41]

This observation was critical as it enabled the plaintiff to effectively follow his trade secret into the defendants' budwood. As Dunn J. puts it:

> [W]hen the [first defendant] stole budwood from the plaintiff's orchard, what he got was a trade secret. The secret was the technique of propagating [the new variety of] nectarines using budwood from the plaintiff's orchard. The technique of budding was no secret, but the budwood existed only in the plaintiff's orchard … The information which the genetic structure of the wood represented was of substantial commercial value, much time and effort had been expended by the male plaintiff in evolving it and it could not be duplicated by anybody else.[42]

The end result was that Dunn J. ordered the delivery up to the plaintiff for destruction all the productive budwood of the defendants' trees minus the root stocks. The root stocks were regarded as belonging to the defendants and that whilst the defendants had done work in producing the trees, their work had been rewarded by sales of fruits produced from the engrafted budwood. Both defendants were found liable in this case even though the second defendant was initially unaware that the first defendant had stolen the original budwood. The liability of the second defendant was based on the fact that she subsequently acquired knowledge of the theft and that the nectarines produced were "the produce of a stolen trade secret." For this reason it was now also unconscionable for her to derive any benefit from the trees.[43]

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40 *Supra* note 26.

41 *Ibid.* at 74.

42 *Ibid.* at 80.

43 The liability of the second defendant would date from the time when she acquired the necessary knowledge of the theft by the first defendant. See generally *Talbot, supra* note 10.

More difficult in the hypothetical scenario under consideration is the position of the remoter recipients of the Manpple fruits. What is the position of the fruiterer and the customer? In the absence of sufficient knowledge of the theft that led to the production of the fruits, there would be no question of liability in an equitable action. But, what if the inventor was able to give notice such that they are held to have the requisite degree of knowledge for their consciences to be affected in equity? At first blush, it may seem inappropriate that there should be liability or that the remoter defendants be required to hand over the illicit fruit that is in their possession. But closer legal analysis will show that the position is not so simple. In the first place, whilst an attempt may be made to argue that *bona fide* purchase without notice of the illicit provenance of the Manpple fruits constitutes a complete defence, the law in this area is far from clear—especially so since the remoter defendants were not purporting to buy trade secrets. They merely entered into a sale/purchase transaction for the fruits as tangible property. But, even if equity is able to impose an obligation of confidentiality on the remoter recipients, there remains the question as to whether there is in fact any unauthorised use of the genetic information by the remoter recipients. In the *Franklin* case the second defendant could be said to have made use of the information as she evidently helped the first defendant conduct the business of their orchard. But in the hypothetical scenario at hand, neither the fruiterer nor customers could be said to have taken any part in the business of the thief. Even if they had become aware of the provenance of the Manpple fruit in their possession, could it be said that by re-selling or consuming the fruit that they have made an unauthorised use of the confidential information? Certainly the customer by consuming the fruit does not make any use of the confidential information. What then is the position of the fruiterer? Ordinarily, use of confidential information will include use to manufacture articles and also disclosure to third parties. A defendant who without permission sells confidential information to a third party will also be acting in breach of the obligation of confidentiality. But, in the scenario at hand, it might be said that the fruiterer is not selling confidential information as such—he is merely selling the fruits as tangible property. He is not disclosing any confidential information to the consumer—at most he might be giving the consumer the means by which the consumer might grow his own Manpple tree from the seeds of the fruit.[44] To use the approach of Lord Denning, can this be said to amount to a use resulting in an "unfair advantage"? Could it be maintained that the fruiterer did not derive any financial gain that is specifically attributable to the confidential information (the genotype information) as such? True, the fruits could not have been produced by the thief without use of the confidential information in the budwood, but it might be pointed out that that was an activity that the fruiterer himself was not connected with. There is, however, *dicta* to the effect that equity may still be able to intervene in such scenarios on the basis that the remoter recipient is still in possession of the

[44] This assumes that the fruit is in fact capable of generating new plants. This might not be so as in the case of seedless grapes. If they were so capable, query whether this might result in liability on the basis of knowing assistance. More problematic would be the position of customers who buy the fruit direct from the inventor. If these were capable of generation, the customers would doubtless assert that unless they were contractually restricted, that they acquired an unfettered right to use the fruits as they deemed fit: including planting! If the inventor wanted to prevent this, he should have applied for patent or plant breeder's rights.

confidential information and that equity may order the handing over (delivery up) of the tangible manifestations of that information.[45]

Still other problems arise where the Manpple fruits are further processed into jam. That there is a causal connection between the jam and the Manpple fruits and the original theft may be hard to deny but that alone does not mean that the jam can in law still be regarded as embodying the confidential information. In *Ocular Sciences Ltd. v. Aspect Vision Care Ltd.*,[46] Laddie J. rightly points out that the matter turns not on whether the defendant is dealing with downstream products or processes that may be some steps removed from the confidential information but whether the defendant's exploitation of those products can be considered to be "continued use of the information employed in their creation or development."[47] This is different from the question as to whether the defendant is receiving a benefit from his downstream activities that can be traced back to the breach—it is, as Laddie J. puts it, a question of determining whether the continuing activity amounts to a continuation of the breach of confidence.[48] Laddie J. in making this point was dealing with the position where information that was originally confidential at the time of breach, subsequently enters the public domain. Even though this may have been the result of the defendant's own breach, it is hard to see how the original obligation of confidentiality can continue in such a case so as to support the grant of final injunctive relief.[49] But, this does not mean that the plaintiff is left without remedies in respect of the original breach. Financial remedies, whether equitable compensation or account of profits, may reach into the continuing activity and unfair benefit. After all, in assessing compensation, the court will have regard to the severity of the breach and the impact on the confidentiality of the information. Similarly, when assessing an account of profits, the court will have regards to the defendant's profits that are properly attributable to the proven breach. In other cases, property remedies such as a constructive trust may also be available.[50] If continued use of the information by the direct recipient is no longer a breach of confidence, because the information is no longer confidential, it follows that any remoter recipient or

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45 See *Naturin, supra* note 30, *infra* note 53. The author is grateful to an anonymous reviewer for raising the query, however, as to whether delivery up against an "innocent" third party should be on terms: should the claimant have to offer restitution as a condition of the order, carrying the amount over against the thief as damages? Or should it be left to the third party to sue her supplier for breach of the implied condition as to title or warranty of quiet possession? See also generally Gareth Jones, "Restitution of Benefits Obtained in Breach of Confidence" (1970) 86 Law Q. Rev. 463 [Jones, "Restitution"] for a suggestion that as against innocent bona fide purchaser of confidential information, equity may be able to grant injunctive relief on terms that include payment to the third party recipient.

46 *Supra* note 25.

47 *Ibid.* at 396.

48 *Ibid.* at 401 that "If a continuing activity of the defendant does not constitute a breach of confidence then it ought not to be injuncted even if it produces an unfair benefit to the defendant."

49 This is an issue where some uncertainty remains. In *Speed Seal v. Paddington* [1986] 1 All E.R. 91 the Court of Appeal granted the injunction where the defendant put the information into the public domain partly on the basis of a continuing obligation of confidence and partly on the basis that equity could intervene by injunctive relief to prevent the defendant from benefiting from his wrongdoing. See also *Guardian Newspapers (No. 2), supra* note 29. A number of judgments (*dicta*) were in favour of final injunctive relief against a defendant whose breach places information into the public domain, Lord Goff, however, was sceptical of the basis for the grant of an injunction in such circumstances.

50 *LAC Minerals Ltd. v. International Corona Resource Services Ltd.* [1990] F.S.R. 441, (1989) 61 D.L.R. (4th) 14 (S.C.) [*LAC Minerals* cited to F.S.R.].

downstream user to whom the information is passed will not be liable for breach of confidence even if he makes a use of the now publicly available information.

Slightly different issues arise where the information, whilst remaining confidential, concerns a downstream use of an infringing product that involves a change to the character of the infringing product. The question is not whether the original abused information remains confidential but whether, even if the remoter recipient is caught by an obligation of confidentiality, there has been a relevant misuse by him. Is it a misuse to take the flesh of the Manpple fruit and to turn it into jam for sale? The jam may be a derived product and doubtless the remoter recipient can be said to derive a benefit from the earlier breach—but this does not mean that he has misused the confidential information. Thus Laddie J. explains that:

> If the derivative products or process are regarded merely as illicit benefits flowing from misuse of confidential information, then … I do not think that is a basis which would justify the court in granting an injunction. On the other hand it may be possible to argue that the continued use or exploitation of the derived product is to be regarded as continued use or exploitation of the confidential information which was utilised for their creation.[51]

Laddie J. later continued:

> It is not every derived product, process or business which should be treated as a camouflaged embodiment of the confidential information and not all on-going exploitation of such products, processes or business should be treated as continued use of the information.[52]

How then does a court of equity determine whether the derived product or process amounts to continued use of the confidential information? It may be tempting to answer this by reference to general concepts of "unfair advantage" but as Laddie J. points out:

> [A] broad principle that courts of equity should grant injunctions to prevent wrongdoers from "getting away with it" has a tabloid appeal. However, it seems to me that the statement … must be treated with the same care as Lord Goff treated the somewhat similar broad statement "a man shall not be allowed to profit from his own wrong." I cannot believe that the use of any title which has arisen in some way, whether direct or indirect, substantial or insubstantial, proximate or remote from a breach of a right or contract will always be stopped by the court. The broad field covered by that statement of principle must contain areas into which it would be inappropriate for the arm of equity to reach.[53]

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[51] *Ibid.* at 401.

[52] *Ibid.* at 404.

[53] *Ibid.* at 403. Laddie J. appears to be responding to certain remarks of Slade L.J. in *Naturin, supra* note 30. That case concerned a confidential process for the manufacture of sausage casings. The first defendant used the process and produced the casings overseas. These were imported into UK by the second defendant. Examination of the casings would not reveal the confidential process used. Nevertheless, Slade L.J., in an interlocutory decision, found that there was an arguable case, holding that: "by marketing the casings … they are availing themselves of a title derived from a breach of confidence and are thus to be treated as making use of the confidential information itself … I am not persuaded that a plaintiff whose confidential know-how has been stolen and used by the thief to manufacture a product would necessarily be left without rights or remedies, at least against a third party who was in possession

Thus, it is submitted that whether the derived product or process can be regarded as still embodying the original confidential information so as to open up a claim for misuse must depend on a commonsensical view of the facts. Relevant factors will include, at the very least: the degree of proximity between the derived downstream use and the original proven case of breach, the extent to which the confidential information in question is ascertainable from the downstream use and the extent to which the breach of confidence may be said to be an essential or substantial pre-requisite to the development of the downstream use. In looking at these factors, it is important not to confuse the fact that the downstream user can be loosely said to have benefited from the original breach with proof that the downstream activity is itself a further act of unauthorized use. Otherwise, the law applied will be nothing more than a broad application of causation on a simple "but for" basis that will open the floodgates to litigation. Inevitably, equity must balance the interests of the plaintiff against those of the downstream users who are not responsible for the original breach and the development of the direct infringing product.

The point has been made earlier that similar problems have arisen elsewhere in intellectual property rights. Thus, Laddie J. referred to the old patent decision in *Wilderman v. FW Berk & Co. Ltd.*[54] In that case, an argument was made that once it was shown that an apparatus or material in which patent right subsisted had been used to manufacture an imported article, that however unimportant or trifling the use, the importation of the manufactured article also amounted to patent infringement. This was rejected by Tomlin J. who remarked: "I cannot think, for example, that the employment of a patented cutting blow-pipe or a patented hammer in the manufacture of some part of a locomotive would necessarily render the importation of the locomotive an infringement."[55]

The position in respect of process patents and derived products is now regulated in many jurisdictions by statute law with liability centered on proof that the derived product is a "direct" product of the patented process. The position here has been summarized already. Patent law (at least in Europe and the United States) can best be described as having adopted a relatively cautious and restrained position. Liability for products developed downstream of the first "literal" direct product of the patented process depends on whether that product has retained the essential characteristics of the direct product (Europe) or that the derived product has not been materially changed by a subsequent process or that the product has not become a trivial and non-essential component of some other product (United States). Of course, in many cases, the inventor will also hold a patent over the product (as opposed to a process) in which event he will enjoy an exclusive right of use that may follow the product into succeeding hands and into derivative variants. The much-discussed doctrine of equivalents or purposive construction approach to interpretation of patent claims increases the possibility that derivative inventions will fall within the penumbra of the patent claims. In the case of the law of confidence, however, what is necessary is to show that any further or continued use of the product in question amounts to use of

of the product and at all material times had full knowledge of all the circumstances in which the product had come into existence. I am not yet convinced that the arm of the law or of equity would necessarily be too short to reach the third party in such a case."

54 [1925] 1 Ch. 116.

55 *Ibid.* at 127.

the confidential information. Thus, the fruiterer who buys and sells Manpple fruits (with the necessary knowledge of the breach of confidence by the thief) might well be said to be making use of the confidential information. After all, in the *Franklin* case, the nectarine budwood was treated as containing the genetic information that was said to be confidential. Similarly, the *Union Carbide Corp. v. Naturin Ltd.*[56] ('*Naturin*') decision, whilst interlocutory, also supports liability in such a case. The customer who merely buys and consumes the fruit will not be liable as he has not in any real sense made any use of the confidential information. The jam maker who turns Manpple fruit into jam is unlikely to be liable since the jam is a product to which independent skill and effort has been applied resulting in a derived product that is distinct and qualitatively so different that it is unlikely to be held to still constitute or represent a use of the confidential information. But even here, the position is complex. Even though the Manpple jam itself might not be regarded as representing or encapsulating the confidential information, the use of the Manpple fruit (with the requisite knowledge) to produce the jam might be said, on one point of view, to amount to unauthorised use of confidential information.

IV. Downstream Losses/Gains from a Proven Breach: Causation, Remoteness and the Equitable Action for Breach of Confidence

Aside from suits against downstream users, the claimant might try to recover the downstream losses from the defendant whose unauthorised use of confidential information led to the downstream activities. In the earlier hypothetical, if the action against the thief for breach of confidence succeeds, what remedies might be available? Leaving aside financial remedies, the claimant might seek an order for delivery up of the "illicit" Manpple fruits and budwood for destruction. The thief would find it hard to resist this order since, following *Naturin* and *Franklin*, the thief's derived Manpple fruits and budwood will be seen in the eyes of equity as the embodiment of the confidential information: namely the confidential process as well as the genetic make-up of the new hybrid fruit tree. Any further use by the thief of the illicit fruits and budwood will amount to further misuse of the confidential information. The delivery-up order in this context will be a personal remedy against the thief in support of injunctive relief. Where the Manpple fruits have passed into the hands of downstream users (the fruiterer, customer and jam maker), the issue is complex and has been examined earlier.

A. *Availability of Property Based Remedies*

The question of property remedies might also arise. The claimant inventor may attempt to assert a remedial constructive trust over the illicit Manpple fruits and trees in the same way that a constructive trust remedy was obtained over the gold mine developed from the unauthorised use of confidential information in *LAC Minerals Ltd. v. International Corona Resources*[57] ('*LAC Minerals*'). The grant of a remedial

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56 *Supra* note 30.

57 *Supra* note 50. See also generally *Cadbury Schweppes Inc. v. FBI Foods Ltd.* [2000] F.S.R. 491 [*Cadbury Schweppes*].

constructive trust in actions for breach of confidence, whilst established in Canada, is still uncertain in other common law jurisdictions. Traditionally, such a remedy was limited to cases involving interference with property rights or breaches of fiduciary duties. The obvious difficulty is that not all breaches of confidence can be categorised as breaches of fiduciary obligations. Indeed, in the first place, not all breaches by a fiduciary will even be treated as breaches of fiduciary obligations and second, not all confidential relationships amount to fiduciary relationships. As has often been said, a fiduciary relationship is one where trust has been reposed by one party in another such that the other party undertakes to put aside his own interests and to work for the interest of the first party. Whether such a relationship arises, especially outside of established categories, will necessarily depend on the circumstances of the case. Important factors will include whether a relationship of trust or confidence has developed such that there is a bond whereby "one party could reasonably expect the other to act or refrain from acting against the interests [of the other party]".[58] Industry practice and vulnerability of the beneficiary are also important if not always decisive factors.[59] Individuals who are in the process of negotiating a joint-venture contract may well owe obligations of confidentiality to each other, but, given the essentially adversarial nature of the negotiations, it cannot be assumed that the negotiations will always result in the recognition of a fiduciary relationship.[60]

Second, whilst property labels have been used in connection with confidential information, in most cases, these have been used as labels of convenience so as to indicate legal recognition of the strength of the claim for control over the information rather than as a description of the actual basis of liability. For example, in the vexed area of industrial espionage, where the claimant cannot rely on any pre-existing relationship or obligation of confidentiality, the language of property is sometimes still used in the course of imposition of liability.[61] But, even here, alternative basis

[58] La Forest J. in *LAC Minerals*, *ibid.* at 460. See also Glover, *supra* note 3, where he stresses that an action for breach of confidence is different from an action for breach of fiduciary duty. Even though both actions may arise on the same facts, Glover stresses that the actions are distinct. In particular, Glover notes at 595 that less stringent remedies are normally available against defaulting recipients of confidential information than against defaulting fiduciaries.

[59] See generally La Forest and Wilson J.J. in *LAC Minerals, supra* note 50. Sopinka J. in the same case stated at 484 that "when confronted with a relationship that does not fall within one of the traditional categories, it is essential that the court consider what are the essential ingredients of a fiduciary relationship and are they present. While no ironclad formula supplies the answer to this question, certain common characteristics are so frequently present in relationships that have been held to be fiduciary that they serve as a rough and ready guide." The rough and ready guide Sopinka J. referred to included: that the fiduciary has scope for exercise of some discretion or power, that the fiduciary can unilaterally exercise the power or discretion so as to affect the beneficiary's legal or practical interests and that the beneficiary is peculiarly vulnerable to or at the mercy of the fiduciary holding the discretion or power. See also Millett L.J. in *Bristol and West Building Society v. Mothew* [1997] 2 W.L.R. 436 that the distinguishing feature of a fiduciary is the obligation of single-minded loyalty.

[60] See, *e.g.*, *LAC Minerals, supra* note 50, where a majority of the Canadian Supreme Court (McIntyre, Lamer and Sopinka J.J.) found the defendant to be a confidant without being a fiduciary. Sopinka J. pointed out that if Corona had placed itself in a vulnerable position by passing confidential information to LAC, then the dependency that followed was one that had been gratuitously incurred. There was nothing that would have prevented Corona from exacting an undertaking from LAC that it would not unilaterally acquire the property where the gold deposits were to be found. Note, however, that two members of the Supreme Court (La Forest and Wilson J.J.) were prepared to find that the defendant had breached a fiduciary duty.

[61] See, *e.g.*, Bokhary J. in *Linda Chih Ling Koo v. Lam Tai Hing* [1992] 23 I.P.R. 607 (Sup. Ct. H.K.) [*Linda Chih*].

of liability (imposition of duties of confidentiality) are not far away. These range from use of illegal means through to improper or reprehensible conduct as tested against a range of factors including whether the claimant had taken reasonable steps to protect the confidential information from espionage.[62]

Assuming then that the action for breach of confidence lies in equity in circumstances where it does not amount to a breach of a fiduciary obligation, is there a power to grant a property remedy by way of a constructive trust? Whilst traditional views argue against this, the *sui generis* nature of the action to protect confidential information might suggest otherwise. The point is that whilst the action may be rooted in equitable principles of good faith and conscience, this has not prevented the action from acquiring a *sui generis* flavour in terms of available remedies. In some respects, this might be regarded as demonstration of the further blurring of the boundaries between common law and equitable remedies that were formerly so closely tied to forms of action. If equity borrows from the common law, the common law also occasionally, if not a little controversially, borrows from equity. For example, the common law of contract in England has of late in *Attorney-General v. Blake*[63] ('*Blake*') taken on board the power to award an accounting of profits (avoiding the unhappy term restitutionary damages) in exceptional cases.[64] Whilst it might be said

[62] These include: *Malone v. MPC* [1979] Ch. 344 (H.C.), *Francome v. Mirror Group Newspapers* [1984] 1 W.L.R. 892 (C.A.), *E.I. duPont deNemours & Co. v. Rolfe Christopher* 431 F.2d. 1012 (5th Cir. 1970) [*Rolfe Christopher*] and *X v. CDE* [1992] 2 S.L.R. 996 (H.C.).

[63] [2001] A.C. 268 [*Blake*]. See also the Court of Appeal in *Experience Hendrix LLC v. PPX Enterprises Inc.* [2003] F.S.R. 46, explaining that *Blake* was exceptional as it involved the security and intelligence service (secrecy being the lifeblood), the breaches were deliberate and repeated and, whilst the action was framed in contract, the contractual undertaking was closely akin to a fiduciary obligation where account of profits is a standard remedy. Like the House of Lords, the Court of Appeal in *Blake* also placed some emphasis on the question of whether the claimant had any legitimate interest in wanting to prevent the defendant's profit making activity. See also Birks, "Unjust Enrichment", *supra* note 4, where he argues for the development of a law on unjust enrichment with restitution (surrender of benefits either in the sense of a giving back or giving up of a gain) as the remedial response. At 326, he acknowledges the initial discomfort with the idea of contractual restitution but nevertheless argues that "once one is prepared to define restitution independently of its cause, its multi-causality becomes readily acceptable." For a response, see Wright, *supra* note 4, arguing for a new flexible law on remedies. Similarly, Wan, *supra* note 11 at 300, argues that "restitutionary damages as a relief should be available but, at the same time, we need to develop coherent principles of remoteness and causation as limiting principles to the measure of damages. We have to specify the criteria for causation or a sufficient connection between the civil wrong and profit derived or asset held …"

[64] See Wan, *supra* note 11, that restitutionary damages is different from compensation because it is a response which requires the defendant to give up to the plaintiff an enrichment received at his expense. See also Ter & Leong, *supra* note 11, who argue that in commercial cases, restitution through account of profits is available for *contractual* breaches of confidence where there is a gain to the defendant in circumstances where the plaintiff has suffered no substantial loss (or provable loss). Nevertheless, *Blake* remains controversial as the conventional view is that restitutionary remedies for breach of contract will lead to uncertainty for commercial contracts where predictability in terms of liability and remedies is said to be of paramount importance. Is it a sufficient response to say that the remedy is exceptional and to be confined to those special circumstances identified by the House of Lords? In any case, as Ter & Leong point out, obligations of confidentiality can arise in equity independently of the contract. If the claimant has a ready parallel action in equity where account of profits is an available remedy, should this be taken into consideration? Ter & Leong argue that if confidential information is divulged in breach of an agreement, it would be nothing short of sophistry to say that an account of profits would be awarded in respect of the equitable wrong but not in respect of the breach of contract. Ter & Leong support the greater flexibility inherent in *Blake* arguing that restitution can be an appropriate response to breach of contract. This approach has been criticised by Campbell, *supra* note 11. Campbell points out that the availability of a remedy in restitution for contractual breach of confidence cases should be

that the *Blake* case was in substance one where the award of an accounting of profits was at its heart concerned with punishment and exemplary financial relief,[65] there is little point doubting that the decision of the House of Lords puts to the test the distinction between common law and equitable actions in terms of available remedies. After all, one of the goals of remedies for interference with equitable obligations based on duties of good faith and conscience is surely deterrence.[66] To be sure, deterrence and punishment are not necessarily the same; nevertheless overlaps can occur.

Similarly, there is the question of awards of financial compensation in actions in equity. Whether a distinction can be drawn between equitable compensation and damages, it has been said, with force, that the distinction is often one without any difference![67] Some courts have gone so far as to embrace the view that it is no longer

examined in the light and context of the other available remedies for breach of equitable obligations of confidence. Injunctive relief will usually be the main remedy sought together with an account of profits up to the date of judgment. Where the final injunction is refused, the claimant may be left with a claim for damages in lieu of the injunctive relief (under *Lord Cairn's Act*) which effects a "sale of a permission for the breach to occur". These will be assessed on disgorgement principles subject to the need for some apportionment (so as not to render the refusal of injunctive relief illusory). Campbell's criticism of Ter & Leong's argument that restitution may be resorted to so as to effect disgorgement of profits in a breach of contractual confidence case, is that what is being sought is "complete disgorgement". This, it was said, would ignore the competing interests relevant to equity's decision to refuse final injunctive relief.

65 This is difficult since exemplary damages are not awardable for breaches of contract in England. See *Addis v. Gramophone Co. Ltd.* [1909] A.C. 488 and Jack Beatson, *Anson's Law of Contract*, 28th ed. (Oxford: Oxford University Press, 2002) [Beatson, *Anson's Law of Contract*] at 592. The position in other jurisdictions as to the award of exemplary damages for breach of contract may be different. Note also that outside of contract, recent English cases suggest a more flexible approach to award of exemplary damages that no longer requires proof that the cause of action was one which allowed such awards prior to the decision of the House of Lords in *Rookes v. Barnard* [1964] A.C. 1129. See *Kuddus v. Chief Constable of Leicestershire Constabulary* [2002] A.C. 122 [*Kuddus*]. Note also that in *Douglas v. Hello! Ltd. (No. 5)* [2003] E.M.L.R. 31, Lindsay J. was prepared to accept (but without deciding) that exemplary damages or equity's equivalent was available in respect of breach of confidence. Applying *Kuddus*, the claimant would have to demonstrate that the behavior complained of gave rise to a sense of outrage and that ordinary compensatory damages would not be sufficient to do justice. On the facts, Lindsay J. declined to award exemplary damages as the breach did not give rise to outrage and it was not shown that ordinary compensatory damages would be less than the profits made by the defendant.

66 This is especially so in cases of breach of fiduciary duty. See Glover, *supra* note 3 at 602. Glover explains that against a defaulting fiduciary, equity's rules have two objects. The first is to strip the fiduciary of all profit or benefit whether gained at the expense of the persons to whom fiduciary duties are owed or otherwise and the second, deterrence by removing opportunities for making wrongful gains.

67 See *Canson Enterprises Ltd. v. Boughton & Co.* 61 B.C.L.R. (2d) 1, [1991] 3 S.C.R. 534 (S.C.C.) [*Canson* cited to S.C.R.] on breach of fiduciary duty. See especially La Forest J. (Sopinka, Gonthier and Cory J.J. concurring) at para. 39: "There can be little doubt that damages come within the province of the common law … although some early transgressions appear to have taken place where equity awarded damages … Damages are a monetary payment awarded for the invasion of a right at common law. Equity aimed at restoring a person to whom a duty was owed to the position in which he or she would have been had the duty not been breached. This it did through a variety of remedies, including compensation … But while the same approach of restitution or compensation applied in the case of simple compensation not involving the restoration of property, the difference in practical result between compensation and damages is by no means clear … On this matter I fully agree with Cooke P. in *Day v. Mead* … that 'in many cases it is a difference without a distinction"'. See also *Day v. Mead* [1987] 2 N.Z.L.R. 443. Compare, however, views of McLachlin J. (Lamer C.J. and L'Heureux-Dube J. concurring) in *Canson* at para. 61 that the majority's holding that damages for breach of fiduciary duty should be assessed by analogy with tort and contract (save where the breach concerns property) and overlooked the "unique foundation and goals of equity" in protecting fiduciary interests.

necessary today to limit the power of equity to award damages to those cases where statutory provisions such as those found in *Lord Cairn's Act* apply.[68] Thus, Binnie J. (for the Supreme Court of Canada) in *Cadbury Schweppes Inc. v. FBI Foods Ltd.*,[69] ('*Cadbury Schweppes*') a case involving misuse of confidential information, whilst accepting that the concept of damages is a creature of common law, concluded at paragraph 60 that:

> Equity, like the common law, is capable of ongoing growth and development … In my view, therefore, having regard to the evolution of equitable principles apparent in the case law, we should clearly affirm that, in this country, the authority to award financial compensation is inherent in the exercise of general equitable jurisdiction and does not depend on the niceties of Lord Cairns' Act or its statutory successors.[70]

If equity has acquired the inherent jurisdiction to award damages, then, given the *sui generis* nature of the action for breach of confidence, it will be even more pointless and sterile to deny the power to award damages in actions for breach of confidence. The *sui generis* nature of the action carries with it, at the very least, a degree of remedial discretion that is much in keeping with the objectives underlying the development of the cause of action. It was this very point that led Binnie J. to the conclusion that:

> The objective in a breach of confidence case is to put the confider in as good a position as it would have been in but for the breach. To that end, the Court has ample jurisdiction to fashion appropriate relief out of the full gamut of available remedies, including appropriate financial compensation.[71]

Does this remedial discretion extend so far as to allow the imposition of a remedial constructive trust, in appropriate cases, in the absence of a breach of a fiduciary obligation of confidentiality? The Supreme Court of Canada in the *LAC Minerals* and *Cadbury Schweppes* cases has answered that question in the affirmative (at least for Canada) even if its answer is somewhat tentative.[72] Binnie J. in *Cadbury Schweppes*

[68] *Lord Cairns' Act 1858* (U.K.) conferred on Courts of Equity the jurisdiction to award damages in addition to or in lieu of an injunction or other specified equitable relief.

[69] *Supra* note 57.

[70] Binnie J. explained, at para. 57, that "the practical implication of resting compensation on Lord Cairns' Act" was two-fold. First, it allowed substitution of monetary compensation for injunctive restraint but not necessarily for those losses arising pre-application for the injunction. Second, jurisdictional problems would arise where there was no continuing basis for the grant of injunctive relief. The latter implication of damages under *Lord Cairns' Act* is especially important where the confidential information has since lost the quality of confidentiality, whether as a result of the defendant's own breach or for other reasons. See also *Aquaculture Corp. v. New Zealand Green Mussel* [1990] 3 N.Z.L.R. 299 [*Aquaculture Corp.*] and Jack Beatson, "Damages for Breach of Confidence" (1991) 107 Law Q. Rev. 209. In Singapore, see *Shiffon Creations v. Tang Lee* [1988] 1 M.L.J. 363 and Soh Kee Bun, "Jurisdiction to Award Equitable Damages in Singapore" (1988) 30 Mal. L. Rev. 79 and also Soh Kee Bun, "Powers of Supreme Court in Awarding Damages and Interest" [1994] Sing. J.L.S. 91.

[71] *Supra* note 57 at para. 61.

[72] *LAC Minerals* is hard to interpret on the issue of whether a remedial constructive trust is available in actions for breach of confidence (in the absence of a breach of a fiduciary duty). As noted above, the majority found against the existence of a fiduciary duty. The minority (La Forest and Wilson J.J.) found that such a duty did exist and was broken. Fiduciary principles of disgorgement justified imposition of a constructive trust on the goldmine in favour of Corona. La Forest J. however also stated that a

commented that:

> Reference to anything as '*sui generis*' tends to create a frisson of apprehension or uncertainty amongst lawyers until the jurisprudence about a particular subject matter is further developed. I do not think such apprehension would be justified here. The *sui generis* concept was adopted to recognise the flexibility that has been shown by courts in the past to uphold confidentiality and in crafting remedies for its protection.[73]

Moving away from the Canadian position, the question as to whether a property remedy such as a remedial constructive trust is available in actions for breach of confidence (in the absence of a fiduciary relationship or property interest) is still unclear in many common law jurisdictions. In Singapore, the Court of Appeal, in *Ching Mun Fong v. Liu Cho Chit* has considered the possibility of a remedial constructive trust in cases involving mistaken payment of monies.[74] The Court of Appeal explained that such trusts arise where the court imposes a constructive trust *de novo* on assets which are not subject to any pre-existing trust as a means of granting equitable relief in a case considered just for restitution. In the case of mistaken payment this involves showing that the payee's conscience was affected while the

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constructive trust could be imposed whatever was the basis of liability and that it was not necessary to establish a property right before a constructive trust was appropriate. Further, whilst holding that there was no breach of a fiduciary duty, Lamer J. agreed that a constructive trust should be imposed.

73 *Cadbury Schweppes, supra* note 57 at para. 28. Earlier at para. 24 Binnie J. states that "The result of *LAC Minerals* is to confirm the jurisdiction in the courts in a breach of confidence action to grant a remedy dictated by the facts of the case rather than strict jurisdictional or doctrinal considerations." Binnie J. also cited the views expressed in Davies, "Confidentiality and Loyalty", *supra* note 4 at 5 that "there is much to be said for the majority view [in LAC Minerals] that, if a ground of liability is established, then the remedy that follows should be one that is most appropriate on the facts of the case rather than one derived from history or over-categorization." Davies continued that "while considerable certainty is undeniably to be required in establishing an initial liability, predictability of remedy need not be accorded so high a priority. The majority of the judges in the case who came to the conclusion that the remedy *in rem* was appropriate are, therefore, to be congratulated on awarding it on and because of the facts themselves." The Court of Appeal of New Zealand has also taken a similarly robust view on the question of remedial discretion in *Aquaculture Corp., supra* note 70. The latter case did not, however, deal specifically with the question of a remedy *in rem* although Cooke P. did recognize the possibility of awards of exemplary damages. There has been strong criticism of the call for remedial discretion. See Birks, "Remedies", *supra* note 4, who states that "the advantages gained by certainty as to liability are nullified if the courts assert a free discretion as to remedy." Compare Wright*, supra* note 4, where a law on remedies, based on a loose and dynamic federation of remedies, is proposed. Wright citing the Canadian Supreme Court in *LAC Minerals* and *Cadbury Schweppes* (remedial issue seen as the search for the appropriate remedy), notes the trend towards separation of legal wrong and remedy. Cases cited in support include: from New Zealand, *Butler v. Countrywide Finance Ltd.* [1993] 3 N.Z.L.R. 623; *Brown v. Poura* [1995] 1 N.Z.L.R. 352 and *Dickie v. Torbay Pharmacy (1986) Ltd.* [1995] 3 N.Z.L.R. 429 and from Australia, *Maguire v. Makaronios* (1998) 188 C.L.R. 449; *Bathurst City Council v. PWC Developments* (1998) 157 A.L.R. 414; *Bridgewater v. Leahy* (1998) 158 A.L.R. 66 and *Giumelli v. Giumelli* (1999) 161 A.L.R. 473. Wright concludes that the middle ground between complete congruence of wrong and remedy (monists) and complete separation of rights and remedies (dualists) is the best position to take. This middle ground argues that "there is a permeable wall between rights and remedies" and that "rights and remedies are inter-related" and that the court has to consider the legal obligation breached when awarding a remedy. The wrong does not "mechanically determine the remedy, nor are they completely separate." Once the breach of the legal obligation has been identified, Wright concludes at 323 that "it is relatively easy to say that the court should search for the most appropriate remedy."

74 [2001] 3 S.L.R. 10 [*Ching Mun Fong*].

monies were still in his hands. If, the payee learns of the mistake only after the monies are spent or mixed with other funds, no constructive trust on the monies could arise. Two points arise from this. First, it might be said that the decision supports the view that a remedial constructive trust is only available when the claimant has a specific interest in the property at the time when the event giving rise to liability occurs.[75] Second, whilst the decision does not deal with the question of remedial constructive trusts over assets acquired by a defendant in breach of confidence, it suggests that the claimant must show some property interest existing at the time when liability arises on the part of the defendant. If confidential information is not properly to be regarded as a property right, will a mere expectation that a property right (land) is to be acquired through use of the confidential information, as in the *LAC Minerals* case, be enough to justify the grant of a remedial constructive trust against the defaulting confidant?

In England, there are some indications that a constructive trust might be available at least for serious deliberate breaches of confidentiality where deterrence and punishment are required. After all, in *Attorney-General v. Guardian Newspapers (No.2)*,[76] Scott J.,[77] Dillon L.J.,[78] Lord Keith[79] , Lord Brightman[80] and Lord Griffiths,[81] in the English High Court, Court of Appeal and House of Lords respectively, in *dicta*, supported the view that the Crown was the equitable owner of the copyright in a book that had been written in breach of confidence, fidelity and the obligation of secrecy that was owed by the author to the Crown.[82] There are,

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75 See Jensen, *infra* note 82.

76 *Supra* note 29.

77 *Ibid.* at 139. Strong argument that the Crown would be the owner of the copyright in equity if the work was written in breach of a continuing obligation of confidence and fidelity. Scott J. also stated at 173 that actions for breach of confidence have no firm proprietary existence and cannot be supported by proprietary remedies once the duty of confidence had gone.

78 *Ibid.* at 211. Strong argument that copyright held on a constructive trust for the Crown given that the work was written in breach of the duty of secrecy.

79 *Ibid.* at 263. Crown might well have succeeded in a claim that was in equity the owner of the work.

80 *Ibid.* at 266.

81 *Ibid.* at 275.

82 See Lord Goff of Chieveley & Gareth Jones, *The Law of Restitution*, 5th ed. (London: Sweet and Maxwell, 1998) at 763 that the historic division between law and equity should not impede the grant of the appropriate remedy and that there is English *dicta* that might persuade an English court to follow the *LAC Minerals* decision—especially if the court is prepared in this context to treat the information as property and where the defendant has consciously broken confidence. See also Gerard McMeel, *The Modern Law of Restitution* (London : Blackstone Press, 2000) at 322 noting that English courts might grant a property remedy where deterrence or punishment requires it in respect of an unjust enrichment by wrongdoing. See also Jensen, *supra* note 4 at 198. Jensen stresses that notwithstanding *dicta* (of Lord Browne-Wilkinson) in *Westdeustche Landesbank Girozentrale v. Islington London Borough Council* [1996] 2 W.L.R. 802 [*Westdeustche Landesbank*]supporting remedial constructive trust in English law, the Court of Appeal in *Re Polly Peck International plc* [1998] 3 All E.R. 812 rejected the concept. A property based remedy would confer priority on the claimant in the event of the insolvency of the defendant in a way that might upset the statutory scheme of rights. Such a remedy, it was argued, could only be supported where the claimant enjoyed a *pre-existing* property right. Where third party rights are involved, Jensen argues that the claimant's ability to assert property rights must depend on whether the claimant's moral claim is superior to the claims of third parties including unsecured creditors. Similarly, Jensen explains that in Singapore, the decision of the Court of Appeal in *Ching Mun Fong* is to be viewed as a case where no constructive trust was imposed because at the time liability was incurred, there was no specific property over which the claimant could be said to have an interest. See also Wan, *supra* note 11, (based on the *dicta* in *Westdeustche Landesbank*) who argues that a remedial constructive trust

however, two difficulties with the *Guardian Newspapers (No. 2)* decision on this point. First, the Crown did not advance any claim to be the equitable owner under a constructive trust. Second, the *dicta* whilst supporting the view that a constructive trust remedy is available for breaches of confidence might be restricted to cases where the confidant owed obligations of secrecy in circumstances such as to elevate the obligation to one that is analogous with fiduciary obligations.

Even if the constructive trust remedy is available as a remedy for breaches of confidence (in the absence of a fiduciary duty), it is likely that the remedy will be regarded as exceptional and not often awarded. In the *LAC Minerals* case, La Forest J. whilst holding that a constructive trust remedy, as a proprietary claim, was available when it was just to grant the claimant the additional benefits that flowed from the recognition of a right of property, did not go so far as to support the view that "justice" could be approached on a case by case basis. That would, La Forest J. argued, "leave the determination of proprietary rights 'to some mix of judicial discretion … subjective views about which party ought to win and the formless void of individual moral opinion." '[83] The solution according to La Forest J. was to raise the question of appropriate remedy only in those cases where a valid restitutionary claim had been made out. Thus, where the claimant's claim could be met by a personal monetary award, a constructive trust should only be awarded if there were other reasons to grant the claimant the additional rights flowing from a right of property. One such consideration might be to accord the claimant priority in a bankruptcy. Another, found to be important in the *LAC Minerals* case, was to enable changes in value accrue to the claimant's account rather than the account of the wrongdoer. Still yet another factor was whether the defendant had intercepted and frustrated the claimant's efforts to obtain a specific and unique property that he would have otherwise acquired. In such a case, La Forest J. notes that the recognition of a constructive trust simply redirects the title to its original course. In this way, the *LAC Minerals* case did involve exceptional facts. The confidential information was said to be "very special": information that was highly specific, highly confidential and which related to a potential asset that was unique in nature. An award of account of profits against LAC Minerals, whilst forcing disgorgement or equitable compensation would have been problematic. Whilst difficulties in assessing the defendant's gains (account of profits) or the claimant's losses (damages) are not in themselves reasons to avoid awarding these remedies, such difficulties can be important factors when deciding whether other remedies are more appropriate. Thus the Canadian Supreme Court noted that the lower courts faced considerable problems in assessing the damage caused to Corona. The profitability of the mine depended on the ore reserves, the future price of gold, exchange rates, inflation and a "myriad other matters."[84] This

differs from an institutional constructive trust in that the former is discretionary whilst the latter arises by operation of law. Hence, the exercise of discretion to impose a remedial constructive trust must take close account of the rights and interests of other innocent third parties, especially where defendant insolvency looms. Wan argues that the remedial constructive trust as a restitutionary proprietary remedy should be limited to bribery or corruption cases where the plaintiff can demonstrate a legitimate interest to have his expectations protected. Outside of this category, Wan argues that the adoption of the remedial constructive trust leads to too much uncertainty.

83 *LAC Minerals, supra* note 50 at 474 citing Deane J. in *Muschinski v. Dodds* (1985) 160 C.L.R. 583.

84 The Court of Appeal in *LAC Minerals* had held that if compensatory damages were awarded those damages had to equal the value of the property. See *LAC Minerals, supra* note 50 at 471. But what

led La Forest J. to the view that "to award a monetary remedy in such circumstances when an alternative remedy is both available and appropriate would … be unfair and unjust."[85]

In contrast, in the *Cadbury Schweppes* case, the confidential information was about the recipe for a drink. The defendant who had been a licensee (and thus given access to related confidential information about the recipe and method of manufacture) was able to use this knowledge to develop a competing product which whilst chemically different (certain ingredients being left out), replicated the look, smell, texture and taste of the drink. The lower courts found that whilst the claimants drink possessed a certain identity of taste and texture (uniqueness), that considerable changes could be made to the ingredients and the process without the product identity being changed. It was for this reason that "the precision of a few degrees temperature here or a few pounds of pressure there, and other details imparted in confidence … were found to be nothing very special."[86] A remedial constructive trust on the derived infringing product would not have been appropriate. For this reason, whilst the claimant's drink was a unique product, its uniqueness was found not to be a condition of exploiting (nor an assurance of defending) the commercial opportunity.[87] The information about the likely gold deposits in the *LAC Minerals* case was rather different. The information concerned a particular piece of land. In this way, the commercial opportunity clearly arose from the uniqueness of the information. The asset (land) when acquired by the defendant though a misuse of this unique information was subject to a constructive trust as there was a high level of identity between the information and the asset that had been acquired.[88] The same could not be said of the competing drink in the *Cadbury Schweppes* case. At best, the competing drink was a derived product that lay downstream of the protected information and whose identity was not the same as

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about a personal restitutionary claim for an account of profits—would this have been as hard to quantify? See Birks, "Remedies", *supra* note 4 at 461, where Birks argues that in the *LAC Minerals* case, personal restitution was pushed out of the window and that remedial compensation was artificially presented as between a proprietary claim and compensatory damages. Birks notes that "the deterrent function—backing up good faith in bargaining—could have been served by an account, without invoking the constructive trust." See Tang Hang Wu, "Confidence and the Constructive Trust" (2003) 23 L.S. 135. Whilst the decision to grant a remedy *in rem* should include the suitability and availability of the remedy of an accounting of profits, it is respectfully submitted that this does not mean that an *in rem* remedy should be unavailable as a matter of law. Two questions arise. Is a remedial constructive trust available as a possible discretionary remedy in an action for breach of confidence where the defendant has acquired property in breach of confidence? If so, what are the principles that guide the exercise of the discretion? Remedial discretion should take note of the galaxy of remedies available. But, where there are substantial difficulties in taking or quantifying the account, then subject to recognized guidelines, is there any reason for denying the possibility of a property remedy by way of a constructive trust? After all, on the facts of *LAC Minerals* what would have been the claimant's position if the constructive trust remedy had not been granted? Could the claimant have obtained a final indefinite injunction over the information given that the information was now public knowledge? If not and the claimant was limited to damages, the difficulties in assessing the value of the mine would come to the fore. If the claimant had instead sought an account of profits arising from the breach, similar problems would arise coupled with the result that the defendant would effectively be working for the claimant.

85 *LAC Minerals, supra* note 50 at 473.

86 *Cadbury Schweppes, supra* note 57 at para. 72.

87 *Ibid.* at para. 72.

88 See La Forest J. in *LAC Minerals*, *supra* note 50 at 469 that there was no doubt that but for the actions of LAC Minerals in misusing confidential information and thereby acquiring the Williams property (where the gold deposits were found), that property would have been acquired by Corona.

the claimant's product in terms of its recipe. The fact that the products looked and tasted the same was in that sense irrelevant—after all, that information would have been in the public domain. What the claimant's product had done was to open up a market for a type of drink with a certain look, taste and texture. They could not have asserted protection for that market *per se*.

On the basis that a constructive trust remedy is available in actions for breach of confidence where the breach is not translatable into a breach of fiduciary duty or an interference with a property right, will the claimant in the Manpple scenario be able to obtain such a remedy? As in the *Cadbury Schweppes* decision, the confidential information is not the external perceivable/observable characteristics of the new hybrid fruit (the characteristics of the drink in *Cadbury Schweppes*), instead it is the new genetic engineering process that lead to the creation of the hybrid and the genetic characteristics of the hybrid fruit (the genotype as opposed to the phenotype). The thief by stealing the budwood may be caught by equitable bars of confidentiality in two ways. First, the budwood may be said to encapsulate the confidential process in the *Naturin* sense as the direct and immediate product of the confidential process. Thus, even though the thief may be unable to discern the confidential process from an examination of the fruit, nevertheless, in the eyes of equity, he may be said to have made an unauthorised use of the confidential information. Second, even if this is not the case, there remains the distinct parcel of confidential information which consists of the genotype of the new hybrid tree. The budwood would contain that information and the process of unauthorised grafting and production of new trees and fruit would amount to unauthorised use of that information. The manifest bad faith and use of improper and illegal means (theft) to acquire the budwood should enable equity to impose a duty of confidentiality. Indeed, it may even be possible that some common law jurisdictions will regard the information as proprietary in nature at least where surreptitious means have been used.[89] Assuming that duty and breach are proven, the inventor may obtain a final injunction against the thief to restrain any further misuse of the confidential information as, for example, by harvesting more Manpple fruits for sale. But, so long as the thief retains the illicit orchard intact, the temptation to exploit the forbidden fruit will remain. The inventor may be able to obtain an order for the delivery up or destruction of the illicit trees or at least their budwood and flowering parts. This is a personal remedy intended to reinforce the injunctive relief.[90] Can the inventor, as an alternative, obtain a constructive trust over the illicit trees and their fruit? This will be difficult notwithstanding that the Manpple fruit represents a new and unique commercial product. The fruit is unique in that even though the phenotype is known (by the inventor's own commercialisation of the product), it will still be very hard for anyone to produce a competing fruit with those same characteristics without a use of the same genotype information embodied in the inventor's new hybrid plant. Further, it could be said that even though the action for breach of confidence is not rooted in property, that in the circumstances a quasi-property type interest may be said to exist which generates the liability in respect of the "theft" of the information at least for the purposes of civil liability. Notwithstanding this, it is felt that a constructive trust remedy is unlikely. Financial

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89 *Linda Chih, supra* note 61.

90 On orders for delivery-up, it has been said that the court will be reluctant to grant such an order if the end result is socially wasteful. See generally *Saltman*, *supra* note 5.

remedies coupled with a final injunction and order for delivery up and destruction should provide sufficient safeguard for the inventor's rights. Once financial remedies are obtained and the remaining illicit trees/budwood destroyed, it is hard to see what further special reason there might be for granting the inventor the advantages of a property remedy.[91] Indeed, the point might be taken that even if the inventor had chosen to obtain patent protection or plant breeder's rights over the hybrid fruit, the statutory remedies available do not expressly include the property remedy of a constructive trust over the infringing products.[92]

V. Financial Remedies and Downstream Activities

A. *Account of Profits*

This brings the discussion to the question of financial remedies. A successful plaintiff will be entitled to seek the remedy of damages (compensation in equity) or alternatively an account of profits. An account of profits is a personal restitutionary remedy. The goal is to force disgorgement of the profits attributable to the breach and thereby protect the interests of the plaintiff, prevent unjust enrichment and deter further breaches.[93] As a discretionary equitable remedy, a range of factors may be relevant to pushing off a claim for an accounting of profits. Obvious factors include: whether the defendant's breach was deliberate and conscious or innocent and subconscious,[94] whether the defendant has irrevocably changed his position to

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[91] Davies, "Confidentiality and Loyalty", *supra* note 4 at 5, points out that in the *LAC Minerals* case, the constructive trust remedy was especially appropriate because of problems in assessing monetary compensation leading to the view that the remedy *in rem* provided a better safeguard for the claimant's rights and was a better deterrent than compensation to a defendant minded to break a confidence to his own advantage rather than pursue negotiations in good faith to the advantage of himself with another.

[92] But, since a patent is a type of personal property right (chose in action), it is clear that general principles of personal property law, including trusts of the rights, should be applicable. But, whilst a patent can be made the subject-matter of a trust, it does not necessarily follow that a constructive trust by way of a remedy for patent infringement is also available. Note that the United Kingdom had in the *Copyright Act 1911* and *Copyright Act 1956* a draconian conversion damage remedy, the essence of which was that the copyright owner was to be treated as the owner of the infringing copies and hence entitled to remedies for their conversion! See Hugh Laddie, Peter Prescott & Mary Vitoria, *The Modern Law of Copyright and Designs* (London: Butterworths, 1980) at pages 418 *et seq* for a discussion of the conversion damage remedy. The copyright conversion damage remedy has not been retained by the current *Copyright, Designs and Patents Act 1988* (U.K.), c. 48. Singapore does not provide a conversion damage remedy in its copyright legislation. It is believed that the position is the same in most other common law jurisdictions. Given that U.K. has removed the statutory conversion damage remedy for copyright, it may be questioned as to whether a remedial constructive trust is available in actions for copyright infringement. Thus, Birks in "Remedies", *supra* note 4 at 462, argues that it "would be extremely surprising if any court were to assert a free discretion to impose a constructive trust on, and thus create property rights in, the proceeds of an infringement of a patent …" and that "a conclusion which is not possible for those wrongs should be unarguable for breach of confidence".

[93] *Guardian Newspapers (No. 2), supra* note 29. Scott J., at 161, held that account of profits serves to compensate the owner of the information, that the profit in equity belongs to the owner and that there is also "a strong deterrent effect provided by the remedy." Also, Lord Keith, at 262, held that an account flows from the principle that no one should be permitted to gain from his own wrongdoing.

[94] *Seager (No. 1)*, *supra* note 8. In that case, the defendant was found liable for subconscious use of confidential information which, whilst unsolicited as such, had been communicated during the course of negotiations over another invention of the plaintiff. The misuse was in this sense honest. Nevertheless,

his detriment,[95] whether the proven breach has substantially contributed to the profits earned,[96] and whether the plaintiff has unreasonably delayed action. As has been sometimes been said, the plaintiff "should not be allowed to stand by and permit the confidant to make his profits for him."[97]

Furthermore, causation in the sense that the profits must be properly attributable to the breach of confidence is naturally an important factor in the taking of an account. In principle, if the court is satisfied that the confidential information can be likened to the key that opens the door to the warehouse, in other words, that all the profits made by the defendant are due to the breach, then the entirety of the defendant's profits may be subject to the account.[98] If only some of the profits are so attributable, then an apportionment will be necessary: indeed the difficulty in establishing the apportionment is one reason why the remedy is relatively rarely sought.[99] How is causation in the context of an account of profits to be addressed? Whilst a "but for" approach may be a good starting point, as with the common law damages, it must be tempered by common sense. The court will have to examine the nature of the confidential information, the actual misuse that was made of the information and the extent to which the information contributed towards the defendant's business activity whose profits are the subject of the account. Thus, if the thief in the Manpple example had sold the illicit fruit together with special fruit plates (to hold the Manpple fruit), whilst the profits earned from the sale of the fruit may be attributable to the breach—the position of the profits earned from sale of the special fruit plates is, arguably, much less clear. A purely mathematical approach will clearly not be possible and the issue of attributability must in the end be a question of judgement and degree. If an account setting out precise figures was required, the remedy is likely to be rather unattractive in the vast majority of cases. Given that the defendant is in breach of an obligation of confidentiality (and especially so where the breach is deliberate as

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he was found liable for breach of confidence. An account of profits was not awarded and the plaintiff limited to a claim for damages. Another possible factor that may be relevant in pushing off an account is whether the confidential information was solicited in the first place. Goff & Jones, *supra* note 82 at 758, however, argue that there is no hard and fast rule on the point and that in some cases an account of profits may be appropriate even against a defendant who did not consciously break confidence. Note also that innocence is made a statutory defence to the claim for an account of profits in some patents legislation. See *e.g. Patents Act 1977* (U.K.), c.37, s. 62 and *Patents Act, supra* note 15 at s. 69. Curiously, innocence has not been made a statutory defence to account of profits in copyright legislation although it is a defence to a claim for damages. See, *e.g.*, *Copyright, Designs and Patents Act 1988* (U.K.), c. 48, s. 97 and *Copyright Act* (Cap. 63, 1999 Rev. Ed. Sing.), s. 119(3).

95 Change of position and/or bona fide purchase whilst these may not be defences to liability may provide a defence to equitable restitutionary claims. See Goff & Jones, *supra* note 82 at 758 and also Jones, "Restitution", *supra* note 45 at 478, that any change of position even if not irrevocable may persuade the court to limit the character and quality of the claimant's remedies.

96 Although this is also relevant in quantifying the amount to be awarded, the point is that if the bulk of the profits are attributable to the defendant's own (non-infringing) inputs, the court may decide to leave the plaintiff with his claim for damages.

97 Goff & Jones, *supra* note 82 at 759.

98 *Peter Pan Manufacturing Corp. v. Corsets Silhouette Ltd.* [1964] 1 W.L.R. 96. See generally, Wan, *supra* note 11, especially at 315-317.

99 On the need for apportionment where only some of the profits are attributable to the breach, see *My Kinda Town Ltd. v. Soll* [1982] F.S.R. 147 [*My Kinda Town Ltd.*], *Colbeam Palmer v. Stock Affiliates Pty. Ltd.* (1968) 122 C.L.R. 25 and *Siddell v. Vickers* (1892) 9 R.P.C. 152. Note that it has been said that the burden should be on the confidant to prove what profits are due to non-infringing factors. See Goff & Jones, *supra* note 82 at 759.

it is in most cases where an account is ordered), there is much to be said for the view that "it is better to be roughly right than precisely wrong."[100] In some cases where the contribution made by the breach to the defendant's business activities is slight, the court may even move to the view that damages will be a more appropriate remedy—especially if the breach was an innocent one.[101]

Aside from problems associated with determining what profits are properly attributable to the breach, legal questions may also arise as to the scope of allowable deductions. In *Peter Pan Manufacturing Corp. v. Corsets Silhouette,*[102] the court held that the task was to assess the defendant's expenditure in manufacturing the goods against the price received on sale. The difference represents the profits. But, whilst net profits are the target, disputes are certain to arise as to what sums many be deducted as the costs incurred to earn the profit. Especially problematic is the question whether the defendant is entitled to deduct a sum to represent meritorious work that he put in to engender sales. There are cases involving breach of fiduciary duty where allowances were made for the value of exceptional work put in by the defaulting, but "honest" fiduciary.[103] Apart from the problems arising from the assessment of the account, the remedy of account will not reach profits earned by downstream users. These downstream profits are not the profits of the defendant (the thief in the Manpple example) and to the extent that the downstream activities have caused a loss to the inventor, a monetary claim for these, against the first defendant in the chain, will have to proceed on the basis of compensation and damages for losses incurred.[104]

B. *Equitable Compensation and Damages*

Turning to the question of compensation for losses (equitable compensation and/or damages), a number of significant issues arise. In the first place there is the question as to whether there is a power to award damages independently of statutory provisions such as those set out in *Lord Cairns' Act*. Many common law jurisdictions, including New Zealand and Canada, have rightly, it is submitted, answered this in

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[100] See Slade J. in *My Kinda Town Ltd., ibid.* at 159 that the court in ordering an account is trying to achieve a "fair apportionment" and that what "will be required … will not be mathematical exactness but only a reasonable approximation". The statement "it is better to be roughly right than precisely wrong" is attributable to the economist, John Maynard Keynes.

[101] Other problems in taking the account concern the calculation of the profits. What expenses are deductible and to what extent can the defendant claim an allowance for meritorious work that helped earn the profits which are attributable to the breach?

[102] *Supra* note 98.

[103] See *Boardman v. Phipps* [1967] 2 A.C. 46, but see also *Guinness plc v. Saunders* [1990] 2 A.C. 663. If such allowances may be awarded in exceptional cases involving breach of fiduciary duty, the same must also follow for the action for breach of confidence. Regarding the *LAC Minerals* case, Birks in "Remedies", *supra* note 4 at 465, argues that since the defendant was not innocent, if an account of profits had been ordered, any claim for a "Boardman allowance for input and reasonable profit" might not have been granted since the Boardman facts were special. See also Wan, *supra* note 11 at 312, arguing that the duty in equity imposed on a defaulting fiduciary to account is prophylactic—deterrence, and that from this perspective, the strict duty is only mitigated by an order to make an allowance for the trustee's skill and work done where the fiduciary has acted honestly.

[104] Of course, in some cases, the downstream users may also be liable for breach of confidence. If so, an account of profits for those established downstream breaches might be relevant in appropriate cases.

the affirmative.[105] Second, there are issues that relate to principles of causation, remoteness (as a legal limit on the scope of recoverable losses) and mitigation. Do these principles, well established in the common law, apply in actions in equity and if so what are the applicable rules? Third, there is the question of the measure of damages. What is the date on which the measure is to be assessed by reference to and what approach is to be taken in assessing the losses? Inherent in these issues is the hard question of whether compensation in equity may proceed on a more favourable basis than in the common law.

At least part of the difficulty arises from the fact that, as in the case of the common law, so too equity has evolved a number of principles or causes of action on which liability may be based. Whilst the action for breach of confidence may be treated as *sui generis* for the purpose of remedies, different rules on remoteness etc. may apply depending on the nature of the liability regime. In some cases, the obligation of confidence will be supported by a common law contract. Where the complaint is that a contractual duty of confidentiality (or fidelity as in the case of employment contracts) is broken, then well-established contractual rules on causation, remoteness, mitigation and quantification apply.[106] In other cases, the misuse of confidential information may result in breach of some statutory duty for which a civil cause of action is conferred. In such cases, the action in tort for breach of statutory duty will be subject to the usual tort rules on causation, remoteness, mitigation and assessment.[107] Then again in some cases, the misuse of confidential information may (but not always) result in breach of a fiduciary obligation in equity.[108] Given the high regard shown for fiduciary duties and the importance of compensating and deterring breaches of fiduciary duties, it may be thought that rules more generous to the

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105 Birks, "Remedies", *supra* note 4, supports this approach although it is said at 464 that "as between personal remedies, uncertainty is not to be encouraged".

106 Damages in contract generally serve the goal of putting the claimant into the position he would have been in had the contract been performed. In some cases reliance damages may be recovered as the measure of the recoverable loss. The loss must be caused by the breach as a matter of commonsense and must not be too remote as a matter of law. A loss will generally be considered not too remote if it fairly and reasonably arises according to the usual course of things or if it was reasonably within the contemplation of the parties at the time the contract was made. The claimant is also under a duty to take reasonable steps to mitigate the loss. See generally the discussion in Beatson, *Anson's Law of Contract*, *supra* note 65 at Chapter 17.

107 Ordinary causation rules apply to actions for breach of statutory duty. See *McWilliams v. Sir William Arrol & Co. Ltd.* [1962] 1 W.L.R. 295. As for remoteness, Michael A. Jones in *Textbook on Torts*, 7th ed. (New York: Oxford University Press, 2000) at 251 [Jones, *Textbook on Torts*] used *Gorris v. Scott* (1874) 9 L.R. Ex. 125 as an example states that problems of remoteness are rare in actions for breach of statutory duty "because the nature of the action limits claims to damages which is of a kind that the statute was intended to prevent by claimants within the class that the statute was intended to protect" with the result that unforeseeable harm will be excluded. See also W.V.H. Rogers, *Winfield and Jolowicz on Tort*, 16th ed. (London: Sweet & Maxwell, 2002) at para.7.12-7.14.

108 McDougall, however, argues that the expansion of fiduciary law means that any doctrinal distinctions between laws relating to confidences and to fiduciaries should fall away and that the equitable action to protect confidential information be treated as an analogue if not an integral part of fiduciary law. See John McDougall QC, "The Relationship of Confidence" in D.W.M. Waters, ed., *Equity, Fiduciaries and Trusts* (Scarborough: Carswell, 1993) at 157. But, see *LAC Minerals*, *supra* note 50, where the majority of the Canadian Supreme Court found that the confidant was not in breach of a fiduciary obligation. But see Glover, *supra* note 3 at 595, where he argues that breach of confidence is distinct from breach of fiduciary duty. The two actions are affected by different policies and different objectives such that doctrinal differences arise and give rise to unequal application in hard cases.

claimant should apply at least to the question of remoteness and method of assessment. But, often times, the misuse of confidential information might not involve a breach of any fiduciary duty: indeed the confider and confidant may not be in any fiduciary relationship at all as will often be the case where they are parties to failed contractual joint venture negotiations.[109] Liability here is for breach of the equitable duty of confidentiality. Once the confidant is caught by an equitable duty of confidence, liability for misuse is generally strict as it is not a defence (at least not in the cases of commercial confidences) to assert that the misuse was subconscious, innocent and unintentional. That there is a public interest in protecting confidential relationships is obvious: good faith and conscience demands as much[110]—but does it follow that the same rules of remoteness etc. applicable for breach of fiduciary duty or trust apply to actions in equity unsupported by trust or fiduciary obligations? In this last case, in the name of remedial discretion and awarding remedies commensurate with the wrong, is it possible that equity can apply different rules on remoteness etc. depending on whether the breach of confidence was innocent, careless or deliberate? These are clearly important questions which raise many issues that go beyond the scope of this article. Nevertheless, because equitable compensation forms the backdrop, some discussion of the topic is necessary to highlight the issues and concerns that arise in awarding compensation for breach of confidence.

C. *Applicable Rules of Causation, Remoteness and Claims for Equitable Compensation*

In Canada, remoteness and breaches of fiduciary duty were examined at length by the Supreme Court in *Canson Enterprises Ltd. v. Boughton and Co.*[111] ('*Canson*'). Briefly, the defendant was a solicitor acting for a buyer of a piece of land intended for commercial development as a warehouse. The defendant failed to disclose that a secret profit was made by an intermediary/buyer and re-seller of the land. It was accepted that if the buyer had known of this, that they would not have purchased the land. After purchase, a warehouse was built but due to the negligence of the buyer's soil engineers the foundations were defective. The buyer was unable to recover the loss in full from the soil engineers and thus sought to recover the loss from the defendant. The trial judge found the defendant to be liable for breach of fiduciary duty and that the measure of damages was not confined to the amount of the secret profit. Instead, the buyer was entitled to all consequential damages unless caught by intervening factors. On this basis, this was assessed as the difference between the value of the land and the purchase price (which amounted to the secret profit) as well as unspecified consequential damages represented by expenses incurred on the warehouse up to the wrongful acts of the engineers and pile drivers (the intervening acts). The Court of Appeal in dismissing the appeal took the view that prior case

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[109] J.D. Davies in "Equitable Compensation: Causation, Foreseeability and Remoteness" in D.W.M. Waters, *ibid.* at 298 [Davies, "Equitable Compensation"] points out that the term fiduciary relationship is often nothing more than a description of a particular obligation that has arisen. This is significant as the fiduciary concept is no longer restricted to established categories.

[110] *Coco*, *supra* note 23.

[111] *Supra* note 67. For a discussion of the English position, see generally Steven B. Elliot, "Remoteness Criteria in Equity" (2002) 65 Mod. L. Rev. 588.

law had established that where the claim against a fiduciary concerned trust property, the measure of damages would not be affected by considerations of foreseeability or remoteness.[112] On the other hand, where the claim did not involve trust property, as in the case itself, remoteness rules applied to the breach of fiduciary duty. Of especial significance was the view of Lambert J.A. that the rule of remoteness that applied to consequential losses was to be determined by a commonsense view of the strength of causation and not by considerations of foreseeability (tort) or what the parties contemplated (contract). On the facts, the intervening negligence of the soil engineers broke the chain of causation. When the case reached the Canadian Supreme Court, the buyer's case rested on the argument that equitable compensation is about restoring the claimant to the position he was in before the breach. Since it was accepted that the buyer would not have purchased the property if the facts had been disclosed, it was argued that the buyer should be entitled to all the losses that resulted on the basis that concepts of causation, intervening cause, remoteness and mitigation were irrelevant to claims in equity. The majority[113] robustly rejected this argument holding that the "policies underlying concepts like remoteness and mitigation might have developed from an equitable perspective"[114] and that in equity,

> [I]ts flexible remedies such as constructive trusts, account, tracing and compensation must continue to be moulded to meet the requirements of fairness and justice in specific situations … but … equity cannot be rigidly applied. Its doctrines must be attuned to different circumstances. Quite obviously not all fiduciary obligations are the same. It would be wholly inappropriate to interpret equitable doctrines so technically as to displace common law rules that achieve substantial justice in areas of common concern, thereby leading to harsh and inequitable results.[115]

On this basis, the majority were prepared to develop a causation and remoteness rule for breaches of fiduciary duty and to award damages equivalent to those obtainable in the tort of deceit. In that tort, foreseeability and reasonable contemplation are irrelevant and the remoteness rule that is applied is essentially one of causation or directness given that it is an intentional tort.[116] The minority (McLachlin J., Lamer C.J. and L'Heureux-Dube J.) also dismissed the appeal but used different reasoning. The minority were unhappy with determining equitable compensation through the simple expediency of resort to tort. Instead, they preferred to start with the position in trust law which is concerned with effecting restitution to the estate. Where restitution *in specie* was not possible, equitable compensation would be concerned

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112 *Guerin v. R.* [1984] 2 S.C.R. 335.

113 La Forest, Sopinka, Gonthier and Cory J.J.

114 *Canson*, *supra* note 67 at para. 46. See also Davies, "Equitable Compensation", *supra* note 109 at 303, where it is persuasively argued that with the expansion of the range of fiduciaries, the common law technique of separating issues of causation, remoteness and measure was the best way to proceed. Davies also argues that the traditional equity approach of moving straight from breach to restitution (complete restoration of claimant to his pre-breach position) sits less comfortably with a fiduciary law that includes a remoteness rule. In terms of causation, Davies at 305 argues that whilst this is largely a matter of applying the "but for" test, in some cases, presumptions may operate against the defendant.

115 *Canson*, *supra* note 67 at para. 55. See Jones, *Textbook on Torts, supra* note 107 at para. 4.3.6, and also W.V.H. Rogers, *supra* note 107 at 379, that an intentional wrongdoer is not entitled to the benefit of the reasonable foreseeability test of remoteness but has to pay for actual loss flowing directly from the tort.

116 *Ibid.*

with restoring to the estate what was lost through the breach. Whilst the approaches were different, the minority accepted that even though foreseeability did not enter into the calculation of compensation for breach of fiduciary duty, that the liability was not unlimited.[117] Equitable compensation had to be limited to the loss flowing from the trustee's acts in relation to the interest that he undertook to protect and that considerations applicable to breach of fiduciary duty were more analogous to deceit than negligence in breach of contract.[118] The minority also accepted that mitigation could be a relevant factor but that the duty to mitigate might not be as stringent as in the case of tort or contract since a fiduciary was under a duty to act in the interests of the beneficiary. The losses caused by the negligence of the soil engineers were not recoverable since there was no link between the breach and those losses. The defendant solicitor's duty had come to an end once the buyer took control of the property.[119]

Canson well demonstrates that tricky questions of causation and remoteness might also arise where a proven breach of a fiduciary duty involves a misuse of confidential information and results in a claim for remote losses. If damages are to be awarded on a basis similar to that for the tort of deceit, issues of foreseeability of the loss will not be relevant. Instead, recoverability will turn on the question of directness and in some cases whether there is an intervening cause that breaks the chain of causation. Alternatively, as has been suggested by one commentator, the remoteness rule that applies might be tailored to meet the nature of the fiduciary obligation and the manner of the breach. Did the scope and ambit of the defendant's obligations and the manner of the breach indicate that the defendant should bear responsibility for the losses in question?[120]

Yet another commentator points out that equitable compensation has to take account of the differences between reparative compensation and substitutive compensation. In the case of custodial trustees/fiduciaries, the obligation of the defaulting trustee (on breach) is to make restitution to the estate. Where restoration of the

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117 *Canson*, *supra* note 67 at para. 76.

118 *Canson*, *supra* note 67 at para. 79.

119 Davies, "Equitable Compensation", *supra* note 109 at 308-310, argues that neither approaches were entirely satisfactory. The analogy with the tort of deceit ignored the fact that breaches of fiduciary duty might be innocent as well as deliberate. Further, the underlying policies were different. The concern of fiduciary law being loyalty and deceit, falsehood. Neither does Davies support the view that appealing to trust law provides clear guidance as to the remoteness rule to be applied. Instead, Davies argues forcefully that the rule of remoteness to be applied has to be found from within fiduciary law itself. The width of the fiduciary's obligations, the manner in which they were acquired and breached would provide the touchstones as to the appropriate rule to be applied. Trust rules, contract rules and tort rules (by way of analogy) could be appropriate depending on the nature of the fiduciary obligation. The manner of breach (innocent, negligent or deliberate) would also be relevant. It is submitted that there is much to be said for this view that the policy governing remoteness needs to reflect the particular obligations and breaches that have occurred. See also Elliot, *supra* note 111.

120 See Davies, "Equitable Compensation", *ibid.*, and *supra* note 109 at 331. See also Elliot, *ibid.*, who after a review of the English, Australian and New Zealand cases, argues that whereas remoteness criteria do not apply where the claim is essentially for performance of a duty in equity (even if that performance is to be effected in money), they do apply where the claim is for compensation for loss incurred by the misconduct. Following the New Zealand case of *Bank of New Zealand v. New Zealand Guardian Trust Co. Ltd.* [1999] 1 N.Z.L.R. 213, Elliot argues that where the breach is unintentional and judicious, a test of reasonable foreseeability should be applied. But, where the breach is intentional, unforeseeable losses are recoverable provided these are the direct result of the breach.

assets *in specie* is not possible, monetary compensation payable in lieu of restoration is assessed at date of restoration and not date of the deprivation. In such cases, it has been held that considerations of causation, foreseeability and remoteness are inapplicable and the matter is largely one of determining whether the loss in question would have occurred if there was no breach.[121] Reparative compensation, which is essentially concerned with consequential losses, on the other hand, it has been said, might not be governed by the same principles.[122]

If there is lingering uncertainty over the position of equitable compensation and breach of fiduciary duties, be these custodial or non-custodial in nature, there is still another point, which has already been alluded to, namely that not all duties owed by a fiduciary are necessarily to be cast as fiduciary duties. For example, in *Bristol and West Building Society v. Mothew*,[123] the defendants/solicitors failed to inform the claimants/client who was financing a property purchase, that the buyers had a small outstanding existing loan. The defendants accepted that whilst there was no bad faith or deliberate concealment, that this was a breach of their instructions. When the buyer subsequently defaulted on the loan and the property sold at a loss, the claimants sought to recover the net loss from the defendants. The defendants' position was that since the claimants would have proceeded with the loan even if they knew of the full facts, it would have in any case suffered exactly the same loss. In the lower courts, it was common ground that damages were not recoverable in tort or contract unless the claimants could show that it would not have proceeded if it knew the true position. The claimants however, contended that the position was different for equitable claims and that common law rules of causation and remoteness did not apply. In dealing

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121 See generally Charles Rickett, "Equitable Compensation: Towards a Blueprint" (2003) 25 Sydney L. Rev. 31, referring to *Re Dawson* [1966] 2 N.S.W.L.R. 211. Rickett states at 37 that in the case of custodial trustees and trust funds, the fiduciary duty to account for the trust fund "is a claim to performance … It is the way in which a custodial fiduciary is required to execute his or her personal obligation of accountability in respect of the trust property. If the fiduciary no longer has the original property … the claim will be that he or she must perform by payment of a monetary equivalent. The vindication claim is not a claim for damages caused by the equitable wrongdoing …. The monetary equivalent or compensation is measured by the objective value of the property lost as determined after the account is taken. The subjective position of the individual claimant is not relevant … nor is consequential loss to be considered …"

122 See Rickett, *ibid.*, that *Re Dawson* was a case concerned with substitutive compensation and not reparative compensation. Rickett also argues at 42 that the English House of Lords' decision in *Target Holdings Ltd. v. Redferns* [1996] 1 A.C. 421 [*Target Holdings*], whilst decided on the basis of reparative compensation, was in fact a claim for substitutive compensation. In that case, Lord Browne-Wilkinson drew a distinction between traditional trusts and bare trusts. The former deals with contingent/indeterminate beneficial interests whilst the latter are trusts where the beneficiaries are absolutely entitled. Bare trusts were said to include bare commercial trusts as where monies are held by a solicitor prior to disposition in a mortgage transaction. In the case of traditional trusts, the defaulting trustee is required to restore the assets *in specie* or pay compensation for the loss, (an example of what Rickett terms substitutive compensation). That compensation looks to restoring the trust to the position it would have been in but for the breach. In the case of bare trusts, Lord Browne-Wilkinson was of the view that the rules applicable to traditional trusts were inappropriate and that two principles applied. First, that the defendant's wrong must have caused the damage complained of, and second, that the plaintiff is to be put into the same position that he would have been in had he not sustained the wrong for which he is to receive compensation or reparation. Thus, where the cause of the loss was not in fact the breach in question, compensation would not be payable for that loss. For discussion and criticism, see Rickett, *ibid.* See also Elliot, *supra* note 111.

123 [1997] 2 W.L.R. 436.

with this point, Millett L.J. held that not all breaches of duties by fiduciaries were breaches of fiduciary duties and that it was not proper to apply the label fiduciary duty to the obligation of a trustee or fiduciary to use proper care and skill.[124] In such cases, Millett L.J. held that whilst the remedy which equity made available for breach of the equitable duty of skill and care was compensation (as opposed to damages), that this difference in labels was a product of history and was a distinction without a difference. Equitable compensation, it was said, resembled common law damages in that it too was concerned with compensation for loss. It followed that there was no reason in principle why common law rules of causation, remoteness and measure of damages could not be applied by analogy.[125] In Millett L.J.'s view, since breach of fiduciary obligation connotes disloyalty or infidelity, mere incompetence would not be sufficient to amount to a fiduciary breach and that whilst it was not necessary that the breach be dishonest, it was at the very least necessary to show that the breach was intentional.[126] Having decided that common law rules on causation and remoteness were applicable to cases involving a non-fiduciary breach of the duty of care and skill, the question remains as to which common law rules apply. Whilst tort law will in most cases provide the most apt analogy, the uncertainty that arises flows from the fact that different remoteness rules have been developed depending on whether the tort is founded on intentional or unintentional conduct. Some have argued, and rightly so, that the position should be the same in equity.[127]

Where then does this leave claims for equitable compensation (damages) for breach of an equitable obligation of confidence? If the courts are moving towards a principle that applicable remoteness rules where the defendant is a fiduciary, depends

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124 Other cases to the same effect relied on by Millett L.J. include: *Giradet v. Crease & Co.* (1987) 11 B.C.L.R. (2d) 361, *LAC Minerals, supra* note 50, *Henderson v. Merrett Syndicates Ltd.* [1995] 2 A.C. 145 and *Permanent Building Society v. Wheeler* (1994) 14 A.C.S.R. 109.

125 Following Rickett, *supra* note 121, Millett L.J. was dealing with the position of reparative compensation for a non-fiduciary breach. Millett L.J. stressed that such claims should not be confused with equitable compensation for breach of fiduciary duty which may be awarded in lieu of rescission or specific restitution (substitutive compensation).

126 See also the New Zealand case, *Bank of New Zealand v. New Zealand Guardian Trust Co. Ltd.* [1999] 1 N.Z.L.R. 213 (H.C.) and [1999] 1 N.Z.L.R. 664 (C.A.), where Fisher J. held that non-restitutionary claims for a negligent breach of trust was to be governed by a "close nexus" rule requiring reasonable foreseeability and substantial causation. See also Elliot, *supra* note 111 at 594, that "compensation for breach of an equitable duty of skill and care is limited by foreseeability and may be precluded by operation of intervening causes vindicates two principles". The first is that "compelling reasons would be needed for applying different criteria to the recovery of compensation for equitable negligence than those which apply where recovery is founded on negligence sounding at law … The common law has settled on the idea that compensation for unintentional torts be limited to losses of a foreseeable kind and there is no convincing reason why a different rule should condition recovery for unintentional conduct sounding in equity". Second, that "there is good sense in allowing a wider net of recovery where the fiduciary has acted with patent disloyalty … The considerations of deterrence and morality that may motivate the courts to allow a wider net of recovery against fraudsters apply with full force against faithless fiduciaries". But, see also Davies, "Equitable Compensation", *supra* note 119.

127 See Elliot, *supra* note 111, that claims arising from unintentional and judicious breaches of trust are to be governed by the reasonable foreseeability test (negligence analogy) whilst in the case of claims arising from intentional disloyalty, unforeseeable losses are recoverable so long as they are the direct result of the breach (deceit analogy). Elliot takes pains to stress that his stated view only applies to claims for reparative compensation and that tougher pro-claimant rules apply where the beneficiary chooses to overlook the breach and to enforce performance of primary duties of a trustee (substitutive compensation). See also Davies, "Equitable Compensation", *supra* note 109 at 310, that it is necessary to examine how the fiduciary's obligations were acquired and breached.

at least in part on the nature and character of the breach (bearing in mind that not all breaches will be fiduciary breaches), a similar position must hold true for the equitable obligation of confidentiality. A number of points arise. First, will a court of equity be prepared to hold that at least for the purpose of determining equitable compensation, that confidential information can be likened to a property right that is effectively held on trust by the confidant for the confider (to use the analogy of a custodial trustee)? It is suggested that whilst this may be possible, that it might not be that helpful. As noted earlier, Lord Browne-Wilkinson in the *Target Holdings* case[128] drew a distinction between "traditional" and "bare" trusts. The latter concerned cases where the beneficiary was absolutely entitled and included bare commercial trusts. Whilst Lord Browne-Wilkinson accepted that in the former case the defaulting trustee is obligated to either restore or pay compensation to put the estate into the position that it would have been in if the breach had not occurred,[129] the position was different in the case of bare trusts. In the case of bare commercial trusts, it was pointed out that the trust often arises in the context of a wider commercial transaction and that once the transaction was completed it would be artificial to import into such a trust an obligation to restore the trust fund in respect of a breach that had occurred. Lord Browne-Wilkinson reasoned that the obligation to reconstitute the trust fund in the case of traditional trusts arose from the fact that no one beneficiary was entitled to the trust property and the need to compensate all the beneficiaries for the breach. If this distinction drawn between traditional and bare trusts is valid, then even if confidential information can be regarded as property for these purposes, it does not follow that the more pro-claimant rules, that apply where substitutive compensation in traditional custodial trust cases is sought, should be applied.

Second, where the confidant is a fiduciary and is through the commission of intentional acts in breach of a fiduciary obligation of confidentiality, the more pro-claimant rules that hold true (driven by need for deterrence and policy) generally in fiduciary/trust law should be applicable. The common law analogy applicable here should be the tort of deceit: unforeseeable losses are recoverable provided these are the direct result of the breach.[130] Third, if the confidant is a fiduciary but has made a careless or subconscious misuse of the information, he should following the *Bank of New Zealand* case,[131] not be held to be in breach of a fiduciary duty—at

[128] *Supra* note 122. Note also that in *Seager v. Copydex Ltd. (No. 2)* [1969] R.P.C. 250, Lord Denning M.R. suggested that in determining the measure of damages, the court was to have regard to the market value of the information. This carries with it strong proprietary overtones at least by way of an analogy. Francis Gurry, *Breach of Confidence* (Oxford: Clarendon Press, 1984) at 451, however, argues that on a market value approach, that value is to be assessed by reference to the value at date of breach unless this measure gives rise to injustice (as where the market value has risen substantially between breach and hearing). Note that the market value approach has been criticized and a subsequent Court of Appeal in *Dowson & Mason Ltd. v. Potter* [1986] 2 All E.R. 418 held that the object of damages for breach of confidence was to place the injured party in the same position he would have been in had the wrong not been committed.

[129] This was so even if the immediate cause of the loss is the dishonesty or failure of a third party as common law rules of causation and remoteness do not apply. All that is needed is to show that the loss would not have occurred but for the breach.

[130] See also Robert Dean, *The Law of Trade Secrets and Personal Secrets*, 2d ed. (Sydney: Lawbook Co., 2002) at 327 that in Australia, where the obligation of confidentiality arises out of a fiduciary relationship the question is not causation but simply would the loss have occurred but for the breach.

[131] [1999] 1 N.Z.L.R. 213 (H.C.)

least not for the purposes of applying a more pro-claimant approach to assessing equitable compensation. It is at least arguable that in such cases, negligence rules of substantive causation, remoteness and mitigation apply. Fourth, if the confidant is not in breach of a fiduciary duty because he is not in a fiduciary relationship or because although he is, the breach is not a fiduciary breach, a good case can be made out for applying tort rules of causation and remoteness. After all, if tort rules apply by analogy where the defendant is a fiduciary who has carelessly broken the duty of care and skill, tort rules should also apply by analogy where there is no fiduciary relationship to start with.

There does of course remain the question of which tort remoteness rules are to apply. Torts can be broadly classified into three classes, fault-based torts that require intention, fault-based torts that are based on carelessness or negligence and strict liability torts. In the case of the intentional torts, as noted already, a pro-claimant rule on remoteness is applied as with the tort of deceit.[132] In the case of negligence, substantial causation must be shown and the loss must also be of a type that was reasonably foreseeable.[133] In the case of strict liability torts, the position, at least in England, used to be that these were treated in the same way as the intentional torts. The reasoning for this appears to be based on the view that since liability is strict, the policy behind imposition of strict liability supports a more pro-claimant approach to remoteness and causation. There has, however, been some movement away from the pro-claimant approach for strict liability torts. At least for the tort of *Rylands v. Fletcher*,[134] the House of Lords has held that reasonable foreseeability is now the touchstone of the remoteness rule.[135] Whether the same will hold true for other strict liability torts remains to be seen. Certainly, in the area of the statutory intellectual property rights, English cases, of late, have applied the reasonable foreseeability criteria to copyright and patent infringement—both of which impose strict liability for primary infringement.[136] Leaving aside cases involving a breach of a fiduciary duty of confidentiality, will a court of equity treat the action for breach of confidence as analogous with strict liability torts for the purpose of developing a remoteness rule? This is not an easy question to answer. Once the defendant is subject to an equitable duty of confidentiality, liability for breach is generally strict as is demonstrated by the cases on subconscious copying. But, in order for the obligation to attach in the first place, there has to be a degree of culpability for equity to intervene. If the defendant is a direct recipient, he must at least have reasonable grounds to suppose that the communication is protected by a bar of confidence. If he

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132 The defendant is liable for all direct losses even those that were not foreseeable. Elliot, *supra* note 111 at 589, explains that directness is a matter of showing that the breach factually caused the loss excluding acts properly attributable to another cause such as where *novus actus interveniens* applies.

133 Whilst the initial test for causation in negligence is the "but for" test, this is only helpful in eliminating irrelevant causes. Once these have been eliminated, which of the causes that remain is the real or substantive cause is a matter of commonsense bearing in mind the possibility of contributory negligence. Intervening acts might in appropriate cases lead to a break in the chain of causation. For discussion, see Jones, *Textbook on Torts*, *supra* note 107 at para.4.2 *et seq.* On the reasonable foreseeability test for remoteness, see *Overseas Tankship (U.K.) Ltd. v. Morts Dock & Engineering Co. (The Wagon Mound)* [1961] A.C. 388.

134 (1868) 3 L.R.H.L. 330.

135 *Cambridge Water Co. v. Eastern Counties Leather Co.* [1994] 2 A.C. 264.

136 See *Gerber Garment Technology Inc. v. Lectra Systems Ltd.* [1995] R.P.C. 383, [1997] R.P.C. 443 (C.A.) and *Claydon Architectural Metalwork Ltd. v. DJ Higgins & Sons Ltd.* [1997] F.S.R. 475.

is a remoter recipient he must have sufficient knowledge of the breach of confidence by the direct recipient. And if he is a taker by way of espionage, the means used, at the very least, must be such as to be capable of being classified as "improper" and "reprehensible". It might also be argued that the equitable duty of confidence is at heart a fiduciary duty—if so, stricter pro-claimant rules will come to the fore. On the other hand, even though the duty of confidence is based on good faith, this does not necessarily make it a fiduciary duty. Even though it might be possible to impose a fiduciary duty on a person who was not in a pre-existing fiduciary relationship, the fact that there was no such fiduciary relationship (as in the case of many aborted joint venture negotiations) to begin with, must tend to militate against such a holding.[137] In any event, it may be suggested that the rule of causation and remoteness to be applied should depend on how the equitable obligation was acquired and broken. Where the breach was unintentional and judicious, is there any reason of policy or principle as to why a substantial causation and reasonable foreseeability rule should not be applied? Is there any overriding principle of deterrence or morality that demands a more pro-claimant approach? If the answer is no, if the breach is deliberate and intentional, might there be sufficient remedial discretion for equity to apply a different rule of remoteness—that of directness as in the case of the tort of deceit? It may be said that this bi-polar approach trades certainty for flexibility: the cause of action is the same and yet different remoteness rules apply depending on whether the breach is intentional or innocent. Remedial discretion argues that the court should have before it the whole galaxy of remedies (legal and equitable) so that it can best meet the proven wrong. The historical divide between common law wrongs and equitable wrongs should no longer dominate the landscape as greater coherence and flexibility is sought in the law's remedial response.[138] The question now is whether remedial discretion can push the envelope even further by allowing a flexible remoteness rule to be applied within a single cause of action such as the equitable action for breach of confidence. If, in the name of certainty, there has to be one

[137] See Rickett, *supra* note 121 at 34, who argues that that equitable duties not to breach confidence whilst sometimes referred to as fiduciary duties are distinguishable. *Contra McDougall*, *supra* note 108 who argues that the equitable jurisdiction to protect confidential information is at least an analogue of fiduciary law.

[138] See also *supra* note 73. Note that as Wright, *supra* note 4, points out, this does not mean that the nature of the wrong is irrelevant to the question of remedy. That there can and should be a dynamic relationship between the wrong and the remedy seems hard to deny. Equally, a complete merger of available remedies with the wrong goes against the trend towards remedial discretion. Remedial discretion can of course be taken at a number of levels. At one level there is the question as to the range and scope of remedies that might be available for a given wrong. For example, is the remedy of an account of profits available for breach of contract or is there a remedial constructive remedy available in actions for breach of confidence (in the absence of any fiduciary breach)? This is not so much a question of discretion as one which relates to the range of remedies available for a given wrong. At another level, there is the question of choice as between the galaxy of remedies that are available for any given wrong. See the extensive discussion by Jensen, *supra* note 4 at 180, who shares "Birks' concern about the capacity of discretionary remedialism to undermine the rule of law and to create a condition of rightlessness". Jensen stresses the importance of an approach to remedial choice that maintains the balance between remedial plurality and predictability of adjudicative outcomes. Unfettered discretion will of course lead to uncertainty and less coherence. Supporters of remedial discretion accept that the choice of remedy is constrained by legal standards and principles. Thus, Wright argues that the nature of the obligation breached will provide guidance on the remedy. Further, courts should exercise the discretion according to standards applied in previous cases.

remoteness rule for actions for breach of an equitable obligation of confidence, then aside from cases where fiduciary law comes into play, that remoteness rule should be based on reasonable foreseeability (supported by substantial causation, absence of intervening causes and the duty to mitigate losses).

A few reasons can be given to support this view. To begin with, even though the equitable duty of confidentiality is based on notions of good faith and conscience, the substantive elements of the cause of action do not easily lend themselves to the argument for a more pro-claimant causation and remoteness regime. This is critical, particularly for remoteness rules, since the latter reflect a legal limit to the scope of allowable recovery that is especially relevant to claims for reparative compensation. The range of information that may be protected by the equitable action is not limited to trade secrets and their equivalents. Much more can be protected including business and commercial confidential information, know-how, all the way through to personal information. In some cases the confidential information can be identified with a high degree of particularity, but in many other cases, the confidentiality may reside in the information package as a whole and be somewhat less clear in scope. What is needed is proof that the information is not readily available to the public, is a product of some amount of brain labour and that it is not trivia.[139] These are not significant hurdles and the amount of information that any company or business can claim as confidential is vast. Indeed, the scope of what can be protected under the general equitable obligation is so broad that the law has had to cut down the range of confidential information that can be protected by an employer against a *former* employee.[140] If the law did not do this, there would be a risk that the duty of confidentiality would quickly turn the contract of employment into one of bondage. Does it make sense to apply the more pro-claimant tort/deceit rules given the broad range of material in respect of which liability might arise?

Then, there is the need to show that the defendant owed a duty of confidentiality. That duty may arise from a relationship of confidentiality that might be found to exist between the claimant and the defendant as, for example, where the parties dealt with each other in joint venture negotiations that ultimately failed.[141] Whilst it is true that there have been cases which support the view that an obligation of confidence should not be imposed on a careless or naïve recipient, the weight of the authorities and opinion supports the use of a reasonable man test.[142] Such an approach when coupled with the broad range of material that may be treated as confidential, already gives rise to a danger that over-zealous claimants will be tempted to use the action as an instrument of oppression or to restrain competition. Would the danger be

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[139] Contrast fiduciary duties which may be broken by use of publicly available information.

[140] *Faccenda Chicken Ltd. v. Fowler* [1987] Ch. 117 held that as against an ex-employee, the equitable duty was cut back to trade secrets and their equivalent. There remains uncertainty as to the extent to which restrictive covenant clauses can be used to protect information such as customer connections, which, whilst confidential, are not trade secrets.

[141] See *e.g.* the facts of *Coco*, *supra* note 23. In this case, Megarry V.C. applied a reasonable man test (alongside an officious bystander test) to determine whether a duty of confidentiality could be implied be equity.

[142] See *e.g. De Maudsley v. Palumbo* [1996] F.S.R. 447, *Carflow Products (U.K.) Ltd. v. Linwood Securities (Birmingham) Ltd.* [1996] F.S.R. 424, *Thomas v. Pearce* [2000] F.S.R. 718 and also generally *MGN Ltd. (C.A.)* and *MGN Ltd. (H.L.)*. See also Arnold, *supra* note 29. Query, however, whether a distinction can be drawn between direct and remoter indirect recipients such that greater knowledge is required for the latter to be subjected to a duty of confidence.

even greater, and unacceptably so, if pro-claimant rules on causation and remoteness were adopted for the equitable action? Further, there is also the matter of proof of unauthorized use and detriment. As noted already, unauthorized use, at least for commercial confidences, does not import any notion of culpability or intention. Further, consequential detriment is not a necessary element as the threatened loss of confidentiality is recognised as sufficient detriment to found the award of injunctive relief.[143]

In these circumstances, if a single remoteness and causation rule is to be developed for the action in equity to protect confidential information, there seems to be no reason not to borrow from tort rules of reasonable foreseeability. After all, reasonable foreseeability is already an oft-cited test for the imposition of a duty of confidence and if the reasonable man is to labour in equity over duty creation, it will not be a severe imposition to ask him to labour again over the question of remoteness.[144] Indeed, just such an approach appears to have been taken by Lindsay J. in *Douglas v. Hello! Ltd. (No. 6).*[145] In that case, the first two claimants (C1/2), who were well-known celebrities, granted an exclusive licence to the third claimant (C3) to publish authorized photographs of their wedding. C1/2 were contractually obliged and did in fact take numerous steps to protect the confidentiality (privacy) of the wedding. Nevertheless, a paparazzo managed to sneak in and take a number of unauthorized photographs, a number of which were eventually sold to Hello! Ltd. Whilst an interlocutory injunction was initially obtained, this was later discharged by the Court of Appeal on the balance of convenience. Hello! Ltd. published the unauthorized photographs. Numerous tabloid papers were also able to republish the unauthorized photographs since Hello! Ltd. did not take effective action *early* enough to stop this. In addition, the dispute between the parties gave rise to adverse comments in the press, which adverse comments was also said to have depressed the sales of the issue of C3's magazine in which the authorized photographs appeared. In awarding compensatory damages for the losses suffered by C3 (essentially lost sales), Lindsay J. awarded damages on the basis that not only were these caused by the breach on a "but for" basis but also because they were sufficiently consequential upon the breach (presumably on a commonsensical view of causation) and sufficiently foreseeable to make Hello! Ltd. liable for them in the ordinary way. In the case of losses arising from the newspaper (tabloid press) publications of the unauthorized pictures, Lindsay J. found that this was not so remote a consequence of Hello! Ltd.'s publication as not to be laid at Hello! Ltd.'s door. Causation was satisfied as the judge found that the newspaper publications would not have occurred but for Hello! Ltd.'s own publication of the unauthorized photographs. However, in the case of losses attributable to the "downbeat" publicity in the press, Lindsay J. doubted that this was "reasonably foreseeable." For this reason, the judge adjusted

[143] *X v. Y* [1988] 2 All E.R. 648.

[144] One area where disquiet may be felt over the rejection of a more pro-claimant remoteness/causation liability regime concerns cases where the defendant uses improper/illegal means to spy on the claimant and to "steal" valuable trade secrets. In such cases, the duty of confidentiality arises not out of a relationship of confidentiality but is imposed by equity to ensure higher standards of commercial morality. See the American case *Rolfe Christopher*, *supra* note 62. A possible approach will be to treat this as an exceptional area where more pro-claimant remoteness and causation rules can be applied on the basis that the confidential information so acquired is to be treated as property in such circumstances.

[145] [2004] E.M.L.R. 2.

the losses by £28,000 in what was said to be an attempt not to inflict Hello! Ltd. with the consequences of events too remote from its own activity.[146]

VI. Conclusion

Where a claimant suffers sequential losses that arise from misuse of confidential information, he may first try and recover the losses arising from downstream uses of the confidential information by an action against the remoter recipients. Whether he can succeed depends in part on whether the information was still confidential at the time of the unauthorized downstream use, whether the downstream user is caught by an equitable obligation of confidentiality and whether in respect of the confidential information the downstream user has in fact made an unauthorized use or disclosure. The latter point is especially important where the downstream user has made changes to the information or where he has only used part of the confidential information. As an alternative, the claimant may try and recover the consequential losses (reparative compensation) from the defendant whose initial misuse set the chain of events in motion. Thus, in the Manpple fruits hypothetical, the direct defendant, the thief, by using improper (and illegal) means to acquire the budwood set in motion a sequence of events that ended with the downstream losses. The extent to which the remoter losses are recoverable reveal a tricky set of problems touching on the difference between substitutive compensation and reparative compensation and between custodial trustee/fiduciary duties, non-custodial fiduciary duties and equitable duties that are not fiduciary in nature. Within the case law discussion and writings, a number of helpful themes, though not universally accepted, have started to emerge. First, remedial discretion, if within limits, is to be welcomed as enabling the court to tailor the remedy to meet the wrong. Second, whilst differences between equitable and common law actions are to be borne in mind, there is a building view that it is right that the historic divide between common law and equitable causes of action should no longer dictate modern developments in law and equity.[147] Third, some jurisdictions have recognised that equity has the power to grant damages (reparative compensation) independent of statutory provisions. Fourth, whilst there is dispute over whether it is appropriate to draw analogies with tort and contract law, equity is not incapable of developing rules of remoteness and causation by reference to factors which also weigh heavily in common law actions. Fifth, the pro-claimant rules applied in cases of what has been termed substitutive compensation do not necessarily apply to cases of reparative compensation for consequential loss. Sixth, in deciding what causation and remoteness rules apply to reparative compensation for breach of an equitable duty of confidence, a number of points arise for consideration including: whether confidential information can be treated for this purpose as

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146 Lindsay J. also awarded sums to compensate for the extra costs incurred by the claimants to rush out an edition with the authorised pictures so that this could compete with Hello! Ltd.'s unauthorised publication should the interlocutory injunction be discharged. These costs were said to be incurred by way of reasonable mitigation (or prospective mitigation) of the losses that the claimants might suffer.

147 See Rickett, *supra* note 121, who describes as "purists" those who argue that equity should be maintained in a state unsullied by common law and as "modernists" those who tend to focus on the need for coherence within a single united system.

property and the defendant equivalent therefore to a custodial trustee, whether there is any relevant fiduciary duty and whether the breach is deliberate or accidental or entirely innocent. These themes are timely and whilst they may give rise to some uncertainty, the flexibility that they engender are much to be welcomed as the new millennium approaches the half-way mark of its first decade.