

## An Overview of the Law of Confidentiality & Trade Secrets

When information is categorised as confidential, its disclosure or use by a confidant is regulated by certain principles. The law of confidentiality provides a remedy for the unauthorised disclosure or use of information which is confidential in nature and which has been entrusted to a person in circumstances which either expressly or implicitly impose an obligation of confidence. Before an action can be commenced for breach of confidence three criteria must be satisfied:

- The information must be confidential
- The disclosure of the information must have been in circumstances which give rise to an obligation of confidence, and
- There must be an actual or anticipated unauthorised use or disclosure of the information  
(Megarry J in *Coco v A N Clark [Engineers] Ltd* [1969] RPC 41)

An action for breach of confidence is based on the law of confidentiality. The purpose of such an action is to prevent the use of information which is confidential. It is intended to make sure that a person in possession of confidential information only uses it for purposes for which it was transmitted to him in the first place. The law of confidence can - as opposed to copyright, which is only concerned with the protection of the form in which information, idea or thought is expressed - protect the content of the information, idea or thought.

However, there are practical limitations:

- Can you afford to take necessary legal action?
- Your opponent may be a major corporation that could use its huge resources to fund lengthy, costly court battles

### The Function of Confidence

The main function of the law of confidentiality, or an action for breach of confidence, is the prevention of the illegitimate use of confidential information by a recipient of information. A good conceptual springboard to the understanding of the justification for the protection extended to those items which fall within the ambit of confidence, is the notion that something which people are prepared to pay for must be worth protecting and therefore ought to be protected. However, the courts will only enforce properly identified rights that fall within recognised categories known to law. Some of the items

that are protected under the law of confidence are those which do not consist of any specific intellectual property rights under patent, design, copyright or even trade marks law. Traditionally, this has been classified into personal information, governmental secrets and trade secrets.

### What is “Information”?

The information that is protected by the law of confidentiality does not have to be embodied in any document or reduced to any material form, as in the case of copyright, although for practical purposes it is easier to identify information if it is contained in a document. This does create its own problems, for - before the court can extend protection under the confidence doctrine - the information must be traceable to an identifiable source. The court will not protect information which has been fused with other information in a person's mind that cannot be separated, or be seen as anything other than an amalgam of information. To be protected the information must be relatively secret, although it need not be novel or inventive. Accordingly, it becomes impossible to protect information which is given not only to the recipient, but which is also readily and generally available.

Some organisations (e.g. venture capitalists) refuse to sign confidentiality agreements (also known as “non-disclosure agreements” or ‘NDA’) in case they limit them or put them in difficulty if another similar proposal is put to them. Moreover, your opponent may have no assets and not be worth suing for compensation but it may still be worth while, if costly, in order to obtain an injunction to prevent disclosure.

## What is “Confidential Information”?

Obviously, the information, in order to receive the protection of the law, must be confidential. To be such, it must not be something which is public property or knowledge. Therefore, information which is in the public domain cannot be confidential. However confidential the circumstances of communication, there can be no breach of confidence in revealing to others something which is already common knowledge. For example, an employer cannot restrain his ex-employee from revealing a secret process to his new employer if that secret process has already been patented by the employer prior to the revelation by the ex-employee, for it is by then already in the public domain (Mustad v Dosen [1963] RPC 41).

All that is required, however, is relative, and not absolute (as in the case of a patent specification, where novelty is required) secrecy. The information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals and others. The owner must believe the information is confidential or secret, i.e. not already in the public domain. The owner's belief must be reasonable. The information must be judged in the light of the usage and practices of the particular industry concerned.

On the other hand, it is equally clear that the mere fact of the publication of information does not detract from its confidentiality, if it is only circulated among a limited number of persons. As to what quantum of disclosure would render the information no longer confidential, it must be a question of degree depending on the particular case, but if relative secrecy remains, it could still be confidential information.

Simplicity of an idea does not disqualify it from being confidential information. However, it must transcend what can legitimately be classified as ‘trivial tittle tattle’.

Confidential information is sometimes referred to as know how or trade secrets, although confidentiality is a broader concept.

## The Obligation of Confidentiality

In order to be actionable, it is necessary that the information be communicated to a confidant in circumstances which impose an obligation of confidence. Such circumstances arise, for example, when information is divulged for limited purposes like employment. Further,

where discussions expressly require one or both parties to treat information as confidential, the obligation of confidentiality is clearly imposed. However, such an obligation can arise by implication alone. That would be the case if an appropriate business character can be established in circumstances of the disclosure. However, it would be wise to establish this expressly in writing by way of a confidentiality agreement and the limited purpose for which the confidential information was disclosed. Furthermore, any written, electronic or other physical form of confidential information or verbal statement should be preceded by an appropriate confidentiality warning where possible.

The obligation of confidentiality will arise whenever confidential information is imparted by a confider to a confidant for a limited purpose. Often in these situations it becomes abundantly clear that the information is expected to be treated as confidential. It arises whenever the confidant either knew or ought to have known that confidential information was disclosed to him for a limited purpose.

The duty not to disclose confidential information may be imposed by “equity” (i.e. by the courts in the interest of fairness) or under the terms of an express contractual relationship or by law as a result of the parties being in fiduciary relationship (e.g. employer-employee or consultant-client).

## Employer & Employee

Farwell J put it well in *Triplex Safety Glass Co v Scorah* (1938) 55 RPC 21 when he observed:

*‘Whether bound by express contract or not, no employee is entitled to filch his employer's property, in whatever form that property may be, whether it is in the form of a secret process or goodwill or in some other form. Whatever is the property of the employer must not be wrongfully used by the employee in any way, but remains the property of the employer.’*

This is because an employee's obligation in relation to information which he receives in the course of his employment arises from the indisputable proposition that an employee owes a duty of confidentiality to his employer.

However, this does not mean that an employer can prevent his employee from using the skill or knowledge in his trade or profession which he has learnt in the course of his employment by means of direction or instruction from the employer. He is entitled to use that skill and knowledge which he acquired as a result of having such admirable instruction for his benefit and the benefit of others. In other words, an employee is entitled to use his normal skills and knowledge in any future employment and can only be restrained from using special knowledge and secrets of his former employer. The duty of an employee comes to an end when the contract of employment ends unless the terms of employment expressly provide otherwise.

### **Illegitimate Disclosure of Information**

Confidence is breached by the unauthorised use or disclosure of confidential information. The anticipation of such breach is itself sufficient to found an action in breach of confidence. Once a confidant has obtained confidential information which was communicated to him in circumstances that import a duty of confidentiality, he is under an obligation not to disclose it or use it without the consent of the person who provided that information. It involves proof that the confidant of the information has disclosed (or is about to disclose) it illegitimately. Once there has been such disclosure, it is immaterial that it was done unconsciously, foolishly, inadvertently, without malice or without a view of financial gain.

### **Frustrating the “Springboard”**

If information is used without further disclosure it can, under certain circumstances, nevertheless be restrained. Thus, if, for example, an employee gathers certain trade secrets from his employer and uses it for his own unauthorised purposes, the employer may - not only prevent the employee from using it in such a manner whilst that information remains a secret - also prevent the employee from using his information as a “springboard” for obtaining an otherwise early benefit once that information goes into the public domain and ceases to be a secret.

In one case an employee was an inventor for his employers in respect of their business of manufacturing above-ground swimming pools. Prior to ending his employment, he was informed, in the course of his employment, of a newly patented design of a swimming pool. He did not inform his employers. He left and set up a business in competition and bought the patent. He

used the patent together with the features of his ex-employers’ pools. The ex-employers sought an injunction to prevent him from doing so. It was held by the court that an injunction would be granted on the basis that, although the patent was already in the public domain, his position had placed him at an unfair advantage. The information acquired as an employee meant that he could “springboard” when setting up his own business.

Accordingly, a ‘person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public’. This is a type of common law “insider dealing” law.

### **Actions Against Third Parties**

Because confidence is an equitable doctrine, it can only provide limited protection against third parties who deal with confidential information, without notice of it. Where the third party who deals with confidential information is wholly innocent and is a purchaser for value (paid money for it), nothing can be done. However, even if the third party comes by the confidential information innocently, nevertheless once he gets to know that it was originally given in confidence, he can be restrained from breaching that confidence.

### **Defences Available to Third Parties**

There are at least two defences available to third party defendants to breach of confidence actions. First, there is the rule of disclosures in the public interest. Second, there is the de minimis rule (i.e. de minimis non curat lex : the law is not concerned with trivialities) which, as mentioned before, excludes “trivial tittle tattle”. In other words, if the disclosure is not substantial it will not be actionable and restrained.

### **Remedies**

The principle remedy for breach of confidence is an injunction restraining the confidant from disclosing or using the confidential information. Damages, assessed on the basis of the equal market value of the confidential information wrongly acquired or disclosed, are also available. In appropriate circumstances, orders to account of profits and delivery up may also be granted. Usually such an order would also provide for reimbursement of the claimant’s legal costs.

## **NEED TO KNOW MORE?**

For further information on trade mark protection, contact Maitland Kalton. Should you prefer to telephone, call us on +44 (0)207 278 1817.

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