WHEN IT COMES TO CONFIDENTIAL INFORMATION, WHAT YOU DON'T KNOW CAN'T HURT YOU

HOGARTH CHAMBERS

LATEST NEWS 28 May 2013

Vestergaard Frandsen A/S (now called MVF 3 ApS) and others (Appellants) v Bestnet Europe Limited and others (Respondents)

The Supreme Court has decided that an ex-employee cannot be liable for breach of confidence where she did not know, and there was no reason why she ought to have known, that a product developed by a competing business she had helped set up incorporated a former employer's trade secrets.

The judgment can be accessed at:
http://www.supremecourt.gov.uk/decided-cases/docs/UKSC_2011_0144_Judgment.pdf

Background

This case concerned two ex-employees and a former consultant of Vestergaard, respectively Mrs Sig, Mr Larsen and Dr Skovmand, who left in order to set up a competing company to sell rival insecticidal mosquito nets. Dr Skovmand and Mr Larsen had been involved in product development at Vestergaard. However, Mrs Sig was only involved in sales and had no access to the information in dispute.

Vestergaard complained that Bestnet's nets were developed using their confidential information.

At first instance, Arnold J, having found that Dr Skovmand had misused Vestergaard's trade secrets to devise Bestnet's nets and was therefore liable in breach of confidence, concluded that Mrs Sig was also liable for breach of confidence. This was so even though she had not appreciated until the commencement of litigation that such confidential information had been used and therefore did not know that what she was doing amounted to breach of confidence.

The finding on this issue was reversed by the Court of Appeal and Vestergaard appealed to the Supreme Court.

The decision

The Supreme Court unanimously dismissed all three of Vestergaard's grounds of appeal:

(1) Mrs Sig was not liable for breach of contract as implication of a term into her contract of employment such that she would not assist another to abuse trade secrets owned by Vestergaard in circumstances where she did not know the trade secrets and was unaware that they were being misused would be "wrong in principle".

(2) Mrs Sig was not secondarily liable on the basis of common design, as in order to be party to a common design a person must share with the other parties "each of the features of the design which make it wrongful". Consequently, it had to be shown that Mrs Sig had the necessary state of knowledge. Since Mrs Sig never acquired the confidential information herself and was unaware that such information was being or had been used, let alone misused, she could not be liable.

(3) Mrs Sig did not have "blind-eye knowledge" as there was no finding of dishonesty on her part. She could not therefore be held liable for merely taking a risk or "playing with fire".

Impact of the decision

The Supreme Court took the unsurprising decision to confirm that breach of confidence is not a strict liability offence and requires that a recipient's conscience is affected, i.e. the recipient must be aware that the information is confidential. In doing so, the Court expressly balanced the competing interests of the protection of intellectual property rights and fair competition. However, once an innocent recipient appreciates the confidential nature of the information, an injunction can be obtained to prevent the employee making further use of it.

The successful Respondents were represented by **Alistair Wilson QC** of **Hogarth Chambers.**