22 May 2013

PRESS SUMMARY

Vestergaard Frandsen A/S (now called mvf3 Apps) and others (Appellants) v Bestnet Europe Limited and others (Respondents) [2013] UKSC 31

On appeal from [2011] EWCA Civ 424

JUSTICES: Lord Neuberger (President), Lord Clarke, Lord Sumption, Lord Reed, Lord Carnwath

BACKGROUND TO THE APPEAL

Three companies (which can be conveniently referred to as "Vestergaard") developed techniques ("the techniques") which enabled them to manufacture and sell long-lasting insecticidal nets. The purpose of a long-lasting insecticidal net ("LLIN") is to prevent the sleeper from being bitten by mosquitoes, and also to reduce the mosquito population. From 2000 to 2004, Mrs Trine Sig and Mr Torben Larsen were employed by Vestergaard. Their employment contracts contained provisions requiring them to respect the confidentiality of Vestergaard's trade secrets. In 2004, Mrs Sig and Mr Larsen resigned from Vestergaard. They formed a Danish company, Intection, which started to carry on a business in competition with Vestergaard, manufacturing and selling new LLINs under the name Netprotect. Dr Ole Skovmand, who worked as a consultant to Vestergaard from 1998 to 2005, and played a major role in developing the techniques, agreed to assist Mrs Sig and Mr Larsen to manufacture Netprotect. Eventually, tests proved sufficiently successful for Intection to arrange a launch for the new product.

Vestergaard issued proceedings in Denmark against Intection to stop the testing and future marketing of Netprotect. The day before proceedings were due to be heard, Mrs Sig resigned as a director of Intection, which then ceased to trade. A new English company, Bestnet Europe Ltd ("Bestnet"), was immediately formed, with Mrs Sig as the sole director, and Dr Skovmand as one of the shareholders. Mrs Sig and Mr Larsen provided their services to Bestnet through another English company, 3T Europe Ltd ("3T"). Dr Skovmand worked directly for Bestnet in connection with the testing, development, and projected manufacturing and marketing of Netprotect. From 2006, Netprotect LLINs were manufactured for and marketed by Bestnet.

Vestergaard brought proceedings in England against Bestnet, 3T, Mr Larsen, and Mrs Sig, seeking damages and other relief for misuse of Vestergaard's confidential information. In two judgments, Arnold J found that the techniques constituted confidential information in the form of trade secrets owned by Vestergaard, and that Dr Skovmand, Mr Larsen, Mrs Sig, Bestnet, and 3T, were liable for breach of confidence to Vestergaard. A number of the aspects of the two judgments were appealed. The Court of Appeal, in a judgment given by Jacob LJ (with which Jackson LJ and Sir John Chadwick agreed), upheld Arnold J on all points, save one, which is the subject of this appeal. That point was Arnold J's finding that Mrs Sig was liable to Vestergaard for breach of confidence, which the Court of Appeal reversed.

Before the Supreme Court, Vestergaard argued that Mrs Sig is liable for breach of confidence on three different bases: (i) under her employment contract, either pursuant to its express terms or to an implied term; (ii) for being party to a common design which involved Vestergaard's trade secrets being misused; (iii) for being party to a breach of confidence, as she had worked for Vestergaard, and then

formed and worked for the companies which were responsible for the design, manufacture and marketing of Netprotect.

JUDGMENT

The Supreme Court unanimously dismisses the appeal. Lord Neuberger gives the judgment of the Court.

REASONS FOR THE JUDGMENT

Vestergaard's arguments fail because of the combination of two crucial facts: (i) Mrs Sig did not herself ever acquire the confidential information in question; and (ii) until some point during these proceedings, Mrs Sig was unaware that Netprotect had been developed using Vestergaard's trade secrets **[21]**. An action for breach of confidence is based ultimately on conscience. In order for the conscience of the recipient to be affected, she must have information which she has agreed, or knows, is confidential, or she must be party to some action which she knows involves the misuse of confidential information **[23]**. Given that Mrs Sig knew neither of the identity of Vestergaard's trade secrets, nor that they were being, or had been, used, it would seem to follow that Mrs Sig should not be liable for breaching Vestergaard's rights of confidence **[22]**.

More broadly, the law has to maintain a realistic and fair balance between (i) effectively protecting trade secrets and other intellectual property rights, and (ii) not unreasonably inhibiting competition in the market place. The protection of intellectual property, including trade secrets, is a vital contribution of the law to research and development. However, the law should not discourage former employees from benefitting society and advancing themselves by imposing unfair potential difficulties on their honest attempts to compete with their former employers **[44]**, and it would be inconsistent with maintaining that balance to hold Mrs Sig liable to Vestergaard **[45]**.

Mrs Sig is not liable for breach of confidence under any of the three alleged bases. (i) The express provisions of Mrs Sig's employment contract are of no assistance to Vestergaard's case **[30]**, and it is not seriously arguable that a term can properly be implied into the contract which would render her liable in the circumstances of this case **[31]**. (ii) Mrs Sig cannot be liable under common design. Although she was party to the activities which may have rendered other parties liable for misuse of confidential information, she neither had the trade secrets nor knew that they were being misused **[34]-[35]**. Vestergaard cannot be entitled to damages from Mrs Sig in respect of losses suffered from misuse of their trade secrets at a time when she was honestly unaware of the fact that there had been any misuse of their trade secrets. A defendant can only be liable under common design if she shares with others the essential elements which renders the design unlawful **[34],[39]**. (iii) To find that Mrs Sig was wilfully blind to the fact that Dr Skovmand was using Vestergaard's trade secrets would require a finding against Mrs Sig of dishonesty. The judge did not make any such finding, and there was no basis for making any such finding **[42]**. It is not enough to render a defendant secondarily liable for misuse of trade secrets by another to establish merely that she took a risk in acting as she did **[43]**.

References in square brackets are to paragraphs in the judgment