CONFIDENTIALITY AGREEMENTS IN A COMMERCIAL SETTING: ARE THEY NECESSARY?

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Confidentiality agreements as a type of restraint of trade represent one of the more common commercial contractual agreements, particularly in the mining and resource industry. However, in many commercial settings protection of confidential information under contract may be self-defeating and limiting, in part because of the application of the restraint of trade doctrine which prima facie invalidates a contract restraining trade, and also due to the limitations of contractual remedies to compensation for loss. Further, in light of the current situation under Australian law which does not recognise gain-based damages for breach of contract, this article argues that confidential information is best protected in equity. Under the breach of confidence doctrine remedial awards are wider allowing a plaintiff access to gain-based damages following breach, which in a commercial setting may be more favourable than compensation for loss.

INTRODUCTION

Confidentiality agreements are a common commercial contractual promise that typically includes a promise not to divulge certain information, together with a promise not to trade for a period of time within a specific geographical area in relation to the confidential information. These two key components of confidentiality agreements, confidence and restraint of trade, refer to two of the oldest doctrines of equity and common law.

The relationship between the equitable duty of confidence and the duty of confidence bargained for by parties on an equal commercial basis is reviewed. The discussion centres around two key issues. The first is the tension between the restraint of trade doctrine and the principle of freedom of contract. Confidentiality agreements, being negative covenants to trade, are a type of restraint of trade and are, therefore, inherently invalid. As the law currently stands, the onus of proof rests with the confider who is relying on the covenants to prove otherwise.

The second issue is the remedial response to each action. Equitable and express duties of confidence are different actionable wrongs, and unfortunately have different remedial responses. Arguably, the result that not all wrongs are treated the same is anomalous and it is argued that remedies available under the express duty should be no different than those available under the equitable duty.

A short examination of the interaction between the two duties is presented, where it is concluded that the supremacy of the written word is illusory because it is coupled with legal and remedial restrictions that ultimately defeat the misconceived protectional basis of the covenants. With this in mind the final discussion outlines ways in which a confider may best protect confidential information under the current law.

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1. THE EQUITABLE DUTY OF CONFIDENCE

The equitable duty of confidence derives from a general duty of trust and confidence[1] which is the cornerstone of fiduciary obligations under equity's exclusive jurisdiction. An obligation of confidence is imposed on parties by virtue of their circumstance of confidence arising from the transfer of confidential information by a confider to a confidant on the implied understanding that the information will only be used for a specific purpose. An action for breach of confidence is only triggered by one party breaching this trust through failure to uphold the unwritten promise and an interesting aspect of the doctrine is the liability of third parties who obtain confidential information from a confidant.[2]

Before recognising relationships of confidence the courts throughout the years followed several important guidelines. The most important guideline is that information sought to be protected has to be confidential in fact.[3] Therefore, any information in the public domain will not give rise to a duty of confidence.[4] Generally speaking, the threshold limits are low[5] provided that the information was communicated in circumstances importing an obligation of confidence and there was unauthorised use of the information.[6]

Information may be transferred in either physical or oral form. Actual breach of confidence occurs when the information is passed on to a third party without the confider's consent or knowledge. However, a breach manifests by the conduct of the person actually or threatening unauthorised use of the confidential information. The result is that an action for breach of confidence is not

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1 E Peden, "Policy Concerns Behind Implication of Terms in Law" (2001) 117 LQR 459.

2 *Green v Folgham* (1823) 57 ER 159; *Abernethy v Hutchinson* (1825) 3 LJ Ch 209; *Prince Albert v Strange* (1849) 18 LJ Ch 120; *Morison v Moat* (1851) 68 ER 492; *Fraser v Evans* [1969] 1 QB 349; *Wheatley v Bell* [1982] 2 NSWLR 544.

3 For various tests proposed for identifying whether information is confidential or not see *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 per Gowans J at 47-50; *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 per Fullagar J at 191 for the reasonable man test; *Thomas Marshall Ltd v Guinle* [1979] 1 Ch 227 per Megarry VC at 248.

4 *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPD 203 per Lord Greene at 215: "information to be confidential must, apart from contract, have the necessary quality of confidence about it, namely, it must not be something which is public property and public knowledge"; see also *Mustad (O) & Son v S Allcock & Co Ltd and Dosen* [1963] 3 All ER 416 where the House of Lords held that information once published in a patent application was no longer a secret and could not, therefore, be protected. Recently, this also proved problematic for an Australian inventor in *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

5 The confidential information must be "relatively secret" to be protected: *Franchi v Fanchi* [1967] RPC 149 per Corss J at 153; *Wiggington v Brisbane TV Ltd* (1992) 25 IPR 58 per White J at 64; A Penk and C Tripp, "Contractual Protection of Information" [2002] NZLJ 275 at 277.

6 *Coco v AN Clark (Engineers) Ltd* [1969] 2 RPC 41 per Megarry J at 47-48. In *Corrs Pavey Whiting & Byrne v Collector of Customs (Vic)* (1987) 14 FCR 434 at 443 and in *Smith Kline & French Laboratories (Aust) Ltd v Secretary Department of Community Services and Health* (1990) 22 FCR 73 at 87 Gummow J identified a fourth element of the action namely that the information must be able to be identified with specificity and not merely in global terms. For additional criteria in relation to a commercial setting see also *Dunford and Elliot Ltd v Johnson & Firth Brown Ltd* [1978] FSR 143 per Lord Denning MR at 147-149; G Jones, "Restitution of Benefits Obtained in Breach of Another's Confidence" (1970) 86 LQR 463 at 466-470.

necessarily to protect actual information per se but ultimately to protect unconscionable use or threatened use of information that contradicts the legitimate expectations of the confider who provided it to a confidant under circumstances of confidence.

In order for there to be unauthorised use of information there must be some form of information that requires protection of confidentiality. The protection of information is covered under the "springboard doctrine"[7] which defines time limits during which information may reasonably be expected to remain confidential. Under the doctrine, time limits are set by the court. The court objectively assesses what it considers is a reasonable time that it would take to go through the "original process of mind which produced the information".[8] This "head-start principle" takes into consideration the inaccessibility of information to the public[9] because once information is in the public domain it is no longer legally protected. But the application of the springboard doctrine links back to the "use" question because confidential information may be publicly available in whole or in part, but any process underpinning some innovative use of the publicly available information may remain protected as confidential.[10] The duration of the protection is then measured by determining objectively the time frame that it would take a reasonable person to undergo the same innovative process.

1.1 Breach of Confidence

The analysis of breach of confidence is focused on the defendant once the plaintiff has established circumstances of confidence. "The obligation of conscience is to respect the confidence, not merely to refrain from causing detriment to the plaintiff."[11] Although the plaintiff may suffer detriment, particularly in a commercial setting, it is not a requirement under the equitable duty that detriment be shown.[12] Detriment is not a conscience-based analysis. The issue of detriment only becomes important in assessing the remedy after breach is established. By not requiring the confider to prove detriment the defendant-focused analysis, by default, effectively looks at benefits gained by the defendant as evidenced by unauthorised or threatened use of confidential information. Such a gain-based analysis has remedial implications as discussed below.

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7 The term "springboard" was coined by Roxburgh J in *Terrapin Ltd v Builders Supply Co (Hayes) Ltd* [1967] 84 RPC 375 at 391.

8 F Gurry, *Breach of Confidence* (Clarendon Press, 1984) p 247; see also *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPD 203 per Lord Greene at 215 "what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process".

9 Gurry ibid; P Lavery, "Secrecy, Springboards and the Public Domain" [1998] 20(3) EIPR 93.

10 *Ammon v Consolidated Minerals Ltd [No 3]* [2007] WASC 232 per Martin CJ at [290].

11 *Smith Kline & French Laboratories (Aust) Ltd v Secretary Department of Community Services and Health* (1990) 22 FCR 73 per Gummow J at 112.

12 *Attorney-General v Observer Ltd* [1990] 1 AC 109 per Lord Keith at 255-256 and Lord Goff at 281-282 both of whom stated that detriment to the plaintiff need not be shown or is necessary; *NP Generations Pty Ltd v Feneley* (2001) 80 SASR 151 per full court at 157; *National Roads and Motorists' Association Ltd v Geeson* (2001) 40 ACSR 1 per full court at 10-11; *Ammon v Consolidated Minerals Ltd [No 3]* [2007] WASC 232 per Martin CJ at [310]; See also academic discussions by: F Gurry, *Breach of Confidence* (Clarendon Press, 1984) pp 407-408; R Meagher, D Heydon and M Leeming, *Equity Doctrines & Remedies* (4th ed, Butterworths, 2002) p 1120-1122.

2. CONTRACTUAL DUTY OF CONFIDENCE

The core of any arms-length commercial agreement is the principle of freedom of contract which entails the ability of either party to a contract to uphold a promise that was bargained for on an equal footing. Against this backdrop is the conflicting policy of freedom to trade under the common law doctrine of restraint of trade[13] where "it is well established that prima facie all restraints upon trade are invalid".[14] The doctrine intervenes in contract by striking down those terms of an agreement that the courts consider to act as an unreasonable restraint on trade. The traditional test is whether the restraint is reasonable in the interests of both the parties and the public.[15] Generally speaking, restraint is more easily upheld in a commercial agreement than in an employment context.[16]

2.1 Confidentiality Clauses

Prima facie courts will enforce contractual obligations of confidence, whether written[17] or oral,[18] provided the contract itself is valid.[19] The rules of construction involve an objective analysis of the parties' meaning in the context of the parties' background setting.[20] In a commercial relation this generally means that "the court will not readily find that their bargain is unreasonable as between themselves, notwithstanding the well-established policy of the law against restraints of trade".[21] However, "for the restraint to be reasonable between the parties it must afford no more than adequate protection for the party in whose favour it is imposed".[22]

2.2 Confidential Information

An important matter for confidentiality agreements is whether the information has to be confidential in fact (ie not in the public domain). In *Mustad*[23] the House of Lords refused to uphold an express obligation of confidence as the information at the time of breach had been published via a patent application by the plaintiff who was seeking to uphold the confidentiality.

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13 See P S Atiyah, *The Rise and Fall of Freedom of Contract* (Clarendon Press, 1979) p 697-703.

14 *Lindner v Murdock's Garage* (1950) 83 CLR 629 per Latham CJ at 633.

15 *Thorsten Nordenfelt (Pauper) v The Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535; *Lindner v Murdock's Garage* (1950) 83 CLR 629; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

16 *Lindner v Murdock's Garage* (1950) 83 CLR 629 per Latham CJ at 633; see also *Cedar Hill Flowers & Foliage P/L & Anor v Spierenburg* (2003) *Australian Contract Reports* 90 per Williams JA at [20].

17 *Litholite Ltd v Travis and Insulators Ltd* (1913) 30 RPC 266; *Thomas Marshall Ltd v Guinle* [1979] 1 Ch 227; *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 at 202.

18 *Portal v Hine* (1887) 4 TLR 330.

19 See *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 where the contract was invalidated due to unreasonable restraint of trade.

20 *Investors Compensation Scheme Ltd v West Bromwich Building Society* [1998] 1 All ER 98 per Lord Hoffman at 114-115; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per majority at 188; See also: N C Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) p 404-411.

21 *Amoco Australia Pty Ltd v Rocca Bros. Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Menzies J at 294.

22 *Hankinson as executrix of the Estate of Gary William Same v Brookview Holdings Pty Ltd* [2004] WASC 279 per Wheeler J at [17]; See also *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688 per Lord Parker at 707; *Buckley v Tutty* (1971) 125 CLR 353 per curiam at 376-377; *Amoco Australia Pty Ltd v Rocca Bros. Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Walsh J at 306-307.

23 *O Mustad & Son v S Allcock & Co Ltd and Dosen* [1963] 3 All ER 416.

However, recently the House of Lords held that a defendant was in breach of an express obligation of confidence although the information was no longer confidential or damaging to the public.[24]

In Australia, the majority of the High Court in *Maggbury* was uncomfortable with the restraint terms in a confidentiality agreement in part because the information was publicly available at the time of breach.[25] However, the court conceded that the defendant was in breach of contract as the "inescapable terms" clearly expressed "explicit intent" on the parties to treat the information as confidential indefinitely despite the information being in the public domain via the plaintiff's own actions.[26] Therefore, it appears that as long as the parties are clear and explicit in their meaning when entering a contract, a court will not necessarily require as a prerequisite to upholding the validity of the agreement that information be confidential in fact at the time of breach or threatened breach.

2.3 Restraint Clauses

Initial intrusions of the doctrine of freedom of trade into contract relied on the presumption that any restraint of trade was invalid and "against the benefit of the Commonwealth".[27] But, as it became apparent that some restraints are economically beneficial to trade and hence the public, specific restraints "for a time certain and in a place certain" were enforceable, providing there was valid consideration.[28] However, all general restraints were deemed to be monopolies and void with or without consideration.[29]

Confidentiality agreements are in effect a type of restraint of trade and to this extent self-destructive. While all covenants[30] in restraint of trade are prima facie void,[31] notwithstanding the general principle of freedom of contract,[32] the presumption is rebuttable with the onus resting on

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24 *Attorney General v Blake* [2000] 4 All ER 385.

25 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per majority at 198 where they stated "Ordinarily, the obligations relating to the use and disclosure of the information would be construed as limited to subject matter which retained the quality of confidentiality at the time of breach or threatened breach of those obligations".

26 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per majority at 202.

27 See *Colgate v Bacheler* (1601) 78 ER 1097 where a restraint although restricted in space and time was held to be void because it was against the benefit of the Commonwealth.

28 *Rogers v Parrey* (1614) 80 ER 1012 at 1013; see also *Mitchel v Reynolds* (1711) 24 ER 347 per Lord Macclesfield at 349 where it was held that all voluntary restraints by agreement are either general (monopoly) or particular (specific) as to places or persons.

29 See *Mitchel v Reynolds* (1711) 24 ER 347 per Lord Macclesfield at 348 where he noted that "a grant to particular persons for the sole exercise of any known trade, and this is void, because it is a monopoly and against the policy of the common law, and contrary to *Magna Carta*". See also *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1967] 1 All ER 699 per Lord Hodson at 719 who noted that the restraint of doctrine has its origins in Magna Carta.

30 Carter and Harland consider it more accurate to speak in terms of a "covenant" in restraint of trade rather than a "contract" in restraint of trade, see J W Carter and D J Harland, *Contract Law in Australia* (4th ed, Butterworths, 2002) at [1634].

31 *Mitchel v Reynolds* (1711) 24 ER 347; *Thorsten Nordenfelt (Pauper) v The Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535; *Buckley v Tutty* (1971) 125 CLR 353 per curiam at 375; *Amoco Australia Pty Ltd v Rocca Bros. Motor Engineering Co Pty Ltd* (1973) 133 CLR 288; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per majority at 203.

32 *The Bacchus Marsh Concentrated Milk Co Ltd (In Liq) v Joseph Nathan & Co Ltd* (1919) 26 CLR 410; *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688; *Trego v Hunt* [1896] AC 7 per Issacs J at 440;

the person relying on the restraint to justify it.[33] The test laid down by Lord Macnaghten in *Nordenfelt* is that the restraint must be reasonable, "that is, in reference to the interests of the parties concerned and reasonable in reference to the interests of the public".[34] Consideration is no longer essential "though of course the quantum of consideration may enter into the question of the reasonableness of the contract".[35] General restraints are permissible[36] but the courts "long since determined that they would lay down no hard and fast rule either in relation to time or in relation to space".[37] Ultimately, "it is public policy which lies at the root of the rule that agreements in restraint of trade are, prima facie, unenforceable".[38] However, the distinction between valid and unlawful restraints based on *Nordenfelt's* test of reasonableness is currently in debate[39] and in view of there being several new models proposed "it is not entirely clear what is to be the test in Australia".[40]

2.3.1 Reasonableness

In practical terms, the two limbs of Lord Macnaghten's reasonableness test resolve into a single test of public policy. This is because the first limb of "reasonableness between the parties" also "rests on considerations of public policy: it must do so in order to justify releasing the parties from obligations which they have voluntarily accepted".[41] Therefore, reasonableness rests entirely on the court's interpretation of public policy. Further, any contractual provision expressly stating that a restraint is reasonable in the circumstances holds little weight.[42] "The question of reasonableness is a question of law for the decision of the judge."[43]

The High Court of Australia in *Maggbury*[44] applied the restraint of trade doctrine to a commercial confidentiality agreement despite the fact that the parties had agreed to the terms at arm's length, each had legal advice, and the confidant was held to be in breach. The majority in a joint judgment stated that "the fact that the restraint can be said to have freely been bargained for by the

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33 *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688 per Lord Atkinson at 700; *The Bacchus Marsh Concentrated Milk Co Ltd (In Liq) v Joseph Nathan & Co Ltd* (1919) 26 CLR 410 per Issacs J at 441; *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Walsh J at 307.

34 *Thorsten Nordenfelt (Pauper) v The Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535 per Lord Macnaghten at 565.

35 Ibid.

36 *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1967] 1 All ER 699 per Lord Hodson at 720.

37 *Fitch v Dewes* [1921] 2 AC 158 per Lord Birkenhead LC at 166-167 who further noted that the courts "would treat the question alike of time and of space as one of the elements by the light of which they would measure the reasonableness of the restriction taken as a whole".

38 *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Walsh J at 307.

39 See *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1967] 1 All ER 699 where three different tests were identified in an attempt to identify which restraints are permissible under the doctrine and *Peters (WA) Ltd v Petersville Ltd* (2001) 205 CLR 126 where the High Court rejected one of the tests in *Esso*.

40 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per Calinan J in dissent at 216.

41 *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1967] 1 All ER 699 per Lord Wilberforce at 734.

42 *Cream v Bushcolt Pty Ltd* [2004] WASCA 82 per Malcolm CJ at [27].

43 *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Gibbs J at 317; see also *Buckley v Tutty* (1971) 125 CLR 353 per curiam at 377 "It is a question of law whether the circumstances justify the restraint."

44 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

parties to the contract provides no sufficient reason for concluding that the [restraint of trade] doctrine should not apply. All contractual restraints can be said to be of that character".[45]

Lord Macnaghten's test was endorsed as the proper approach. Although the information was in the public domain at the time of breach, the restraint, albeit of unlimited timeframe, did not prevent the defendant from engaging in its principal trade. The majority acknowledged that the defendants were not released from confidentiality due to publication of the confidential information as they considered the matter was one of contract not equity. Therefore, the court held that the contractual obligation of confidence required the confidant to maintain the information as confidential even though much of the information had been made public. However, the High Court took a narrow view on the matter as a whole by invalidating the agreement under the restraint of trade doctrine despite the unanimous agreement by all judges from the first instance decision to final appeal that the confidant was in breach of its contractual covenants of confidence. Since reasonableness was not argued at trial the majority was not prepared to consider the matter any further.

The results of *Maggbury* are disappointing. The lack of reasoning by the majority on the substantial, and currently debated, issues surrounding the application of the restraint doctrine leaves the current situation with respect to confidentiality agreements in question, if only because commercial parties are left without a clear definition of what constitutes reasonableness. Apart from avoiding clauses of unlimited duration, the majority did not provide any substantive guidance on how commercial parties should contract between themselves so as to ultimately respect the public interests at large. As Justice Callinan in dissent states "the current traditional public interest test leaves undefined in what circumstances the public interest should strike down restraints that surmount the hurdle of reasonableness".[46]

The validity of any restraint at common law is decided when the contract is made,[47] but under New South Wales legislation[48] the relevant restraint is ascertained at the time of the alleged breach,[49] which requires a court to focus on "the actual breach before the court, rather than all possible breaches, when determining the validity of restraints".[50] It has been argued,[51] rightly, that had the Act been applicable in *Maggbury* the restraint, subject to the springboard doctrine, might have been enforceable. This is because the Act would have directed the court to consider the issue of reasonableness at the time of breach, which is a fundamental matter of the restraint of trade doctrine that the majority refused to address. It is noteworthy that the two judges in minority who did direct their minds to this point found the restraint reasonable in the circumstances.

2.4 Summary

Contractual agreements provide a means for parties to bargain expressly for their rights and obligations and it is arguable that such agreements provide certainty and clarity to parties as to

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45 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per majority at 203.

46 Ibid, per Callinan J in dissent at 214.

47 *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 per Gibb J at 318; see also summary in *Cedar Hill Flowers & Foliage P/L & Anor v Spierenburg* (2003) *Australian Contract Reports* 90 per Williams JA at [21] to [25].

48 *Restraints of Trade Act 1976* (NSW).

49 J D Heydon, *The Restraint of Trade Doctrine* (Butterworths, 1999) pp 233-236.

50 *Douglass Automated Laboratories & Allied Services Pty Ltd v Sonic Technology Australia Ltd* (1994) ATPR 46-129 per Giles J at 53,623.

51 D J Brennan, "Springboards and Ironing Boards: Confidential Information as a Restraint of Trade" (2005) 21 JCL 71 at 91-92.

their legitimate expectations. The Achilles heel of confidentiality agreements lies in the restraint of trade doctrine which undermines contractual benefits to such an extent that one has to seriously question their relevance, even in commercial settings. It is also suggested that confidentiality agreements might be unlawful pursuant to the *Trade Practices Act*.[52]

3. REMEDIES

The remedial response to any wrongful breach is typically the driving force fuelling a plaintiff's pursuit of a particular cause of action. The enforcement of an obligation under contract to keep confidences will give rise to a right[53] to common law damages or compensation (measured by the plaintiff's loss), and if required, an injunction may be granted, particularly at the interlocutory stage, under equity's auxiliary jurisdiction. In contrast, when considering any pecuniary relief flowing from breach of the equitable duty of confidence, the multi-jurisdictional source of the duty becomes readily apparent.

Breach of the equitable duty gives rise to gain-based damages awards (measured by the defendant's gain) and is typically awarded in the form of an account of profits, albeit only at the court's discretion. Also, courts readily award compensatory damages for breach of the equitable duty which, historically was awarded by courts of equity restating the defendant's equitable liability in contract terms so as to attract compensatory relief. Fortunately, the implied promise has now been rejected as an archaic fiction of the law[54] and replaced with actions arising from either unjust enrichment or a wrongdoing.

The award of remedies in rem for an action in personam is also not foreign to the equitable duty of confidence. Under modern concepts of restitution the constructive trust is emerging as an available proprietary remedy for breach of confidence actions.

3.1 Personal Remedies for Wrongs

Breaches of the equitable and express duties of confidence are considered to be different categories of wrongs[55] (Table 1, below). Wrongs trigger different remedial rights from non-wrongs. A wrong is a breach of duty[56] and a remedial consequence of breaches of duty at common law and equity is that both compensation and gain-based damages are available. This is in contrast to non-wrongs where compensatory awards are not available because claims, for example, in unjust enrichment are not aimed at recouping loss but rather at reversing illegitimate transfers.[57]

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52 *Telephonic Communicators International Pty Ltd v Motor Solutions Australia Pty Ltd* [2004] FCA 942 per Selway J at [48] who noted in obiter that commercial confidentiality agreements may breach ss 45, 45E, 47 and 51(2)(b) of the *Trade Practices Act 1974* (Cth).

53 D Harris, D Campbell and R Halson, *Remedies in Contract and Tort* (2nd ed, Butterworths Lexis Nexis, 2002) p 74 where the authors point out that the entitlement to common law damages is not subject to the exercise of any discretion by the court.

54 K Mason and J W Carter, *Restitution Law in Australia* (Butterworths, 1995) at [116].

55 J Edelman, *Gain-Based Damages* (Hart Publishing, 2002); A Burrows, *The Law of Restitution* (2nd ed, LexisNexis Butterworths, 2002) pp 503-507.

56 J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) p 26; A Burrows, *The Law of Restitution* (2nd ed, LexisNexis Butterworths, 2002) pp 455-458; J Edelman, "Gain-Based Remedies for Wrongdoing" (2000) 74 ALJ 231.

57 J Edelman, "Gain-Based Remedies for Wrongdoing" (2000) 74 ALJ 231 at 241.

Table 1: Damage awards in Australia under the Equitable and Express Duties of Confidence.[58]

	Plaintiff's Loss	**Defendant's Gain**		
Breach of Duty[59]	**Compensation**	**Restitutionary**	**Disgorgement (Deterrence)**	**Punitive (Punishment)**
Performance (Contract)	Yes	Possible/*Debate*[60]	*Debate*[61]	*Debate*[62]
Loyalty & Trust (Equity)	Yes	Possible	Yes	*Debate*[63]

Another feature that helps to distinguish a cause of action as a wrong is the fault of the defendant. The more a court analyses a cause of action in terms of defendant-sided fault, the more clearly the cause of action can be classified as a wrong. The classification of innocent breaches is more difficult and where restitutionary damages are awarded, alternative causes of action following principles of unjust enrichment may also be available.

The issues in debate which are highlighted in Table 1 refer to Canada and England, where gain-based damages have been awarded beyond the traditional areas. This has resulted in an expansion of remedies for both categories of wrongful breach and a more coherent analysis which transcends the division between the common law and equity. However, the concept of treating all breaches as a "wrong" is not without criticism. Some oppose the idea of treating all defendants as

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58 Table categories follow Edelman's proposed classification as outlined in J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) p 38.

59 A third breach of duty not included in this table is that of negligence in tort where theoretically all remedies are potentially available though it was held in *Hospitality Group Pty Ltd v Australian Rugby Union Ltd* (2001) 110 FCR 157 per Hill and Finkelsteinn JJ at 195-197 that disgorgement damages are not available in Australia for tortious claims.

60 This box is in debate to the extent that restitutionary damages are awarded on a gain-based (rather than fictional loss-based) basis, see commentary by J Edelman, "The Compensation Strait-Jacket and the Lost Opportunity to Bargain Fiction" [2001] RLR 104 and J Edelman, "*Attorney-General v Blake* Revisited *Experience Hendrix v PPX Enterprises Esso v Niad*" [2003] RLR 101. See also discussion surrounding category of restitutionary damages for wrongs below.

61 Disgorgement damages for breach of contract have been recognised in the United Kingdom in *Attorney General v Blake* [2000] 4 All ER 385 and *Esso Petroleum Company Ltd v Niad Ltd* [2001] EWHC Ch 458, but the Full Federal Court in *Hospitality Group Pty Ltd v Australian Rugby Union Ltd* (2001) 110 FCR 157 and Full Court of Western Australia in *Dalecoast Pty Ltd v Guardian International Pty Ltd* [2003] WASC 142 have rejected this proposal with the majority in *Hospitality Group* preferring that any expansion into awards of disgorgement damages for breach of contract be initiated from the High Court.

62 Punitive damages for breach of contract were recognised by the Canadian Supreme Court in *Whiten v Pilot Insurance Co* (2002) 209 DLR (4th) 257, but the Australian High Court rejected this proposal in *The Commonwealth of Australia v Amann Aviation Pty Ltd* (1991) 174 CLR 64.

63 As summarised by Heydon J in *Harris v Digital Pulse Pty Ltd* (2003) 197 ALR 626 at [365] to [382] Canada has recognised punitive damages for breach of fiduciary duty in several cases, but recently the majority of the Full NSW Supreme Court in *Harris v Digital Pulse Pty Ltd* (2003) 197 ALR 626 has emphatically rejected the possibility of such an award in Australia.

"wrongdoers" and non-breaching parties as "innocent".[64] The approach overlooks legitimate breaches made in good faith. Certainly the more cynical the breach the more it can be regarded as a wrong and any response to protect the integrity of the law in these circumstances requires a more in-depth defendant-sided analysis, towards more aggressive levels of punishment.[65] In terms of Table 1, an increase in levels of punishment means a progressive shift to the remedies listed on the right.

3.1.1 Terminology

The terminology in response to wrongs and unjust enrichment is fraught with confusing and conflicting vocabulary. The word "damages" is used to mean any money award for wrongs.[66] Compensation, the most common remedy awarded, is based on an assessment and recovery of loss.[67]

Difficulties in terminology arise when looking at remedies based upon gain. Restitutionary damages focus upon the value (or gain) transferred from the claimant to the defendant whereas disgorgement damages focus on the profits actually made by the defendant.[68] One of the rationales for making this distinction is that disgorgement damages act to deter breach whereas restitutionary damages do not.[69] Punitive damages awards are rare, and are not linked to any gains made by the wrongdoer. They, therefore, go beyond the rationale of deterrence to one of punishment. Punitive damages are not discussed in this paper.

The classification is not without its critics[70] and the distinction between "restitution" and "restitutionary damages" may be fictional. Importantly, most restitutionary damages can be reformulated into principles of restitution for unjust enrichments,[71] so why make the distinction in wrongs? If formulation of an action as a wrong becomes important only if the claimant is seeking either compensation or a gain-based award that goes further than reversing a transfer,[72] then the resulting classification for wrongs simplifies into "compensation damages" or "gain-based damages" (Table 2 below). In the simplified view, gain-based damages are not restricted to account of profits, but also incorporate partial account of profits[73] and other remedial assessments

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64 D Harris, D Campbell and R Halson, *Remedies in Contract and Tort* (2nd ed, Butterworths Lexis Nexis, 2002) p 18.

65 See J Edelman, "*Attorney-General v Blake* Revisited *Experience Hendrix v PPX Enterprises Esso v Niad*' [2003] RLR 101 p 107 where the author points out that less restrictive criteria have been applied by the courts when making an award of restitutionary damages in contrast to when they are making an award for disgorgement damages.

66 P Birks, *Unjust Enrichment* (Oxford University Press, 2003) p 159; J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) pp 1-2.

67 J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) p 5.

68 J Edelman, "*Attorney-General v Blake* Revisited *Experience Hendrix v PPX Enterprises Esso v Niad*" [2003] RLR 101 at 107-108.

69 J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) pp 80-86.

70 A Burrows, *The Law of Restitution* (2nd ed, LexisNexis Butterworths, 2002) pp 461-462; P Birks, *Unjust Enrichment* (Oxford University Press, 2003) pp 242-244; M Graham, "Restitutionary Damages: The Anvil Struck" (2004) 120 LQR 26 at 28.

71 A Burrows, *The Law of Restitution* (2nd ed, LexisNexis Butterworths, 2002) pp 461-462.

72 Ibid, p 461.

73 M Graham, "Restitutionary Damages: The Anvil Struck" (2004) 120 LQR 26 at 28.

of gain[74] including the fiction of "compensation" for "lost opportunity to bargain".[75] The classification outlined in Table 2 is adopted in the remainder of this paper.

Table 2: Simplified Classification of Damages Available for Wrongs

Breach of Duty	Compensation Damages	Gain-based Damages
Performance (Contract)	Yes	*Debate*
Loyalty & Trust (Equity)	Yes	Yes

3.1.2 Issues in debate

The general principle is that breach of contract is assessed as compensatory for loss or injury.[76] Non-compensatory damages are generally not available. In contrast, under the equitable duty of confidence, gain-based damages awards are readily accessible though subject to the court's discretion. Compensation awards are also available and have the same aim as in common law. Other remedies available in response to breaches of both duties of confidence include injunction, delivery up and Anton Piller orders.[77]

Australia has yet to adopt the expansionist approach to the law that other jurisdictions have taken.[78] This means that in Australia, when deciding whether confidentiality agreements are necessary from a remedial point of view, the principal distinguishing feature between the contractual and equitable duties of confidence, as highlighted in Table 2, is the availability of gain-based damages for the latter.

3.1.3 Breach of performance

If the basis of any contractual promise is the duty to perform,[79] then remedies, including remedies that work to deter wrongful or cynical breach, should be available to protect a claimant's expectation of performance under contract. Wrongful breach of contract should be treated no differently from any other wrong in the law of obligations such that gain-based damages should be available. Objections are based on the principle that there is no right to performance of a

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74 A Burrows, *The Law of Restitution* (2nd ed, LexisNexis Butterworths, 2002) p 462; J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) pp 73-76.

75 See J Edelman, "The Compensation Strait-Jacket and the Lost Opportunity to Bargain Fiction" [2001] RLR 104 and J Edelman, "*Attorney-General v Blake* Revisited *Experience Hendrix v PPX Enterprises Esso v Niad*" [2003] RLR 101; see also S M Waddams, "Profits Derived from Breach of Contract: Damages or Restitution" (1997) 11 JCL 115.

76 *Robinson v Harman* (1848) 154 ER 363 per Parke B at 365; *The Commonwealth of Australia v Amann Aviation Pty Ltd* (1991) 174 CLR 64 per Mason CJ and Dawson J at 80-81.

77 F Gurry, *Breach of Confidence* (Clarendon Press, 1984) pp 363-365.

78 See Table 1 above and associated footnotes.

79 D Friedmann, "The Performance Interest in Contract Damages" (1995) 111 LQR 628 at 629.

contract.[80] This argument receives support from the existence of situations where a claimant cannot insist upon performance.[81]

If entitlement to compensation by way of performance interest[82] is one of right belonging to the claimant,[83] and specific performance is ordered when compensation is an inadequate remedy,[84] then the nexus between right and remedy must extend to performance. This then leads to a logical conclusion that since "performance belongs to the plaintiff then so too do any profits".[85] Where performance cannot be ordered the remedy lies in a monetary award. Over-compensation is always an issue but surely if a plaintiff is entitled to be restored to the position as if the contract had been performed, then cynical breaches must not by virtue of any perceived "non-right" put a wrongdoer in a better position than performance.

Under confidentiality agreements the performance interest is to keep information confidential. There is typically no obligation with respect to receiving a monetary or commercial profit. The promise is to prevent such an event occurring without the confider's knowledge or consent. Such negative covenants quickly give rise to injunctions whereas positive obligations are typically enforced by specific performance.[86] It is, therefore, by no means insignificant that the House of Lords in *Attorney-General v Blake* found that a claimant, pursuant to an action for breach of a confidentiality agreement, had a "legitimate interest in preventing the defendant's profit-making activity"[87] and ordered the wrongdoer to disgorge his profits.

3.1.4 Legitimate interest to contractual performance

The *Blake* case proposed a two-pronged test for awarding gain-based damages. The test consisted, firstly of determining that other remedies were inadequate, and secondly, that the plaintiff had a legitimate interest in performance. The standard of inadequacy of alternative remedies requires the plaintiff to show that damages, specific performance, and injunction are inadequate to remedy the wrong, and that there is no fiduciary obligation which will trigger an appropriate remedy such as an injunction. The exceptional nature of cases where alternative remedies will be inadequate has led some to consider this remedy as residual and of last resort.[88]

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80 J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) p 162; N C Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) pp 1021-1041.

81 For example breach by an employer under an employment contract; See also J Edelman, *Gain-Based Damages* (Hart Publishing, 2002) p 154 and N C Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) pp 1028-1040.

82 The term "performance interest" is adopted following from D Friedmann, "The Performance Interest in Contract Damages" (1995) 111 LQR 628 and L Smith, "Understanding Specific Performance" in N Cohen and E McKendrick (eds), *Comparative Remedies for Breach of Contract* (Hart Publishing, 2005) p 224 both of whom prefer the term "performance interest" over "expectation interest".

83 D Harris, D Campbell and R Halson, *Remedies in Contract and Tort* (2nd ed, Butterworths Lexis Nexis, 2002) p 74; N C Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) p 973.

84 N C Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) p 1022.

85 See L Smith, "Understanding Specific Performance" in N Cohen and E McKendrick (eds), *Comparative Remedies for Breach of Contract* (Hart Publishing, 2005) p 226.

86 D Harris, D Campbell and R Halson, *Remedies in Contract and Tort* (2nd ed, Butterworths Lexis Nexis, 2002).

87 *Attorney General v Blake* [2000] 4 All ER 385 per Lord Nicholls at 285.

88 E McKendrick, "Breach of Contract, Restitution for Wrongs, and Punishment" in A Burrows and E Peel (eds), *Commercial Remedies: Current Issues and Problems* (Oxford University Press, 2003) p 105.

The second and crucial element of the test was not defined but it was indicated that the courts will have regard to "all the circumstances" in defining legitimate interest to performance. The test is a plaintiff-sided analysis, which requires the court to consider the plaintiff's legitimate interest in preventing the defendant from retaining a profit made from wrongful breach. It is obvious that a claimant, particularly a commercial plaintiff, will have a legitimate interest if they are a party to the contract, though it is suggested in *Blake* that something more is required.

Following *Blake*, Morritt V-C in *Esso*[89] added two new principles for evaluating when gain-based damages should be available. The first is the fundamentality of the contract provisions and the second is the deliberate nature of the breach. The latter is a defendant-sided analysis and looks to the mental state of the wrongdoer. Subsequently, in a third English case concerned with gain-based damages for breach of a negative covenant, Lord Justice Mance made specific reference to the deliberate nature of the breach in question.[90]

What is emerging is that as the "anvil of concrete cases are being hammered out"[91] the courts are progressively taking a defendant-sided analysis when assessing whether to award gain-based damages for breach of contract. Further, the cases are indicating that breaches of negative covenants, including breach of confidentiality agreements and breaches of a commercial nature, will give rise to gain-based damages awards.

While English law is moving ahead with expansion into gain-based damages for breach of contract, suggestion of such an approach in some lower Australian courts amounts to nothing short of blasphemy and heresy.[92] The High Court[93] has also indicated an unwillingness to take a more expansive approach to restitution and restitutionary remedies. However, it must be borne in mind that the defendant in *Maggbury*, as in the three English cases above, also "did the very thing it had contracted not to do".[94] In such cases where it can be shown that the "profit was occasioned directly by the breach"[95] of contract gain-based damages, rather than nominal contractual or equitable compensation damages, should be available.

3.1.5 Remedies clause

In light of the above discussion, it is worthwhile considering whether parties to a confidentiality agreement may expressly contract as to the applicable remedies. If performance is regarded as the essential feature of contract, would express undertakings that the agreement be performed provide a right to performance? Given that an order for specific performance is discretionary, it is unlikely that a court would lose this discretion, though an express clause may sway a court in exercising

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89 *Esso Petroleum Company Ltd v Niad Ltd* [2001] EWHC Ch 458 per Morrit V-C at [63].

90 *Experience Hendrix LLC v PPX Enterprises Inc* [2003] EWCA Civ 323 per Lord Justice Mance at [44].

91 *Attorney General v Blake* [2000] 4 All ER 385 per Lord Steyn at 291.

92 *Harris v Digital Pulse Pty Ltd* (2003) 197 ALR 626 per Heydon J; *Hospitality Group Pty Ltd v Australian Rugby Union Ltd* (2001) 110 FCR 157 per Hill and Finkelstein JJ; *Farah Constructions Pty Ltd v Say-Dee Pty Ltd* (2007) 81 ALJR 1107 at [130] to [188].

93 *Farah Constructions Pty Ltd v Say-Dee Pty Ltd* (2007) 81 ALJR 1107 at [130] to [188].

94 *Experience Hendrix LLC v PPX Enterprises Inc* [2003] EWCA Civ 323 per Lord Justice Mance at [36]; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 per Kirby J in dissent at 206 who stated that the defendant "proceeded, in clear breach of its covenants, to do exactly what it had promised not to do".

95 E McKendrick, "Breach of Contract, Restitution for Wrongs, and Punishment" in A Burrows and E Peel (eds), *Commercial Remedies: Current Issues and Problems* (Oxford University Press, 2003) p 117.

it.[96] In practical terms, the remedy is not available in most commercial transactions and more particularly for breach of negative covenants. But if an express term were to trigger an analysis such as that discussed above, then an argument for gain-based damages awards emerges. This is preferable and would shift the emphasis of contract law from its current focus on compensation for breach to enforcement of promises.[97]

3.1.6 Damages clause

Parties may stipulate the amount payable in the event of breach but such liquidated damages must not operate as a penalty.[98] Any fixed sum, or formula for calculating a fixed sum, must be a genuine pre-estimate of the cost of the breach.[99] In practical terms an action to recover a fixed sum is not an action to recover damages but an action in debt. Benefits for the claimant are that there is no requirement of proof of loss, no duty to mitigate, and issues of causation and remoteness fall away. The onus rests with the defendant to prove any stipulated sum is a penalty.[100] If a sum is held to be a penalty the claimant still has a right to recovery of unliquidated damages. In this situation, the normal hurdles of mitigation, causation and remoteness come into play.

Under a commercial situation of confidence any pre-estimate cost of breach is directly linked to use of information. A damages clause stipulating that any breach would give rise to a claim for, or distribution of, profits, perhaps in the form of a certain percentage, may suffice as a genuine pre-estimate. However, one danger in fixing a percentage early on is that it could limit the negotiating scope for any future commercial contracts. Also, confidentiality agreements are really pre-contractual agreements. In *Maggbury* the loss was nominal but the profits made in breach considerable. A profit-stripping clause may, therefore, be interpreted as a penalty if it is considered "extravagant and unconscionable in amount in comparison with the greatest loss that could conceivably be proved to have followed from the breach"[101] of the confidentiality agreement in question. As liquidated damages are compensatory in character, the greater the monetary difference between the fixed sum and actual loss, the more likely the fixed sum will be deemed a penalty.

3.1.7 Breach of loyalty and trust

Table 2 above indicates that both compensatory and gain-based damages are available for breach of the equitable duty, though more commonly compensatory damages are awarded.[102] In awarding compensation under the equitable duty of confidence there is no requirement to mitigate losses and issues of causation and remoteness are irrelevant. Therefore, compensation damages awards are more easily available under the equitable duty than under the express duty.

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96 N G Seddon and M P Ellinghaus, *Cheshire & Fifoot's Law of Contract* (8th ed, LexisNexis Butterworths, 2002) p 1023.

97 Ibid, pp 1021-1022.

98 H McGregor, *McGregor on Damages* (17th ed, Sweet & Maxwell 2003) at [418].

99 *Dunlop Pneumatic Tyre Co v New Garage and Motor Co*. [1915] AC 79.

100 H McGregor, *McGregor on Damages* (17th ed, Sweet & Maxwell, 2003) at [425].

101 *Dunlop Pneumatic Tyre Co v New Garage and Motor Co*. [1915] AC 79 per Lord Dunedin at 87.

102 J McKeough, A Stewart and P Griffith, *Intellectual Property in Australia* (3rd ed, LexisNexis Butterworths, 2004) p 113.

The paucity of disgorgement awards for breach of confidence[103] appears to reflect the practical difficulty in apportioning profits that directly flow from wrongful use of information.[104] If a claimant can show that the defendant would not have made the profit but for use of the confidential information in question, then the plaintiff is able to claim full profits from the breach.[105]

Difficulties arise when information is partially confidential and when the breach is innocent. In the former case, the difficulty lies in apportioning profits. In the latter, the conscience-based analysis of the duty interferes. Innocent breaches conflict with the deterrent aspect of some forms of gain-based damages. This is borne out in the case of *Seager v Copydex*,[106] where it was held that the breaches were not a case for an account, but only for compensation damages, presumably due to the innocent nature of the breach and the availability of some of the information in the public domain.[107]

3.2 Proprietary Remedies

Remedies in rem have particular importance, for example in the mining and resource industry, because confidentiality agreements are common and breach of confidence under either the express or equitable duty may be manifested in the acquisition of mining property.[108]

A key issue for the award of a constructive trust is whether the parties are in a fiduciary relationship.[109] The award, having its basis in equity, is traditionally a response to breaches of fiduciary duties.[110] In these circumstances the constructive trust arises at the time of breach.[111] The imposition of a constructive trust in non-fiduciary relationships is a creation of the court[112] and in most commercial situations proves a difficult remedy to obtain.[113]

3.2.1 Express duty

When the parties' rights are defined by contract, courts are generally reluctant to impose equitable obligations in commercial relationships. Commonly, constructive trust awards stem from contracts which deal with the sale of property. Judicial considerations of constructive trust awards for breaches of contractual obligations of confidence have to date been unsuccessful.[114] In these

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103 *Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd* (1963) 80 RPC 45; *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37; *Mense & Ampere Electrical Manufacturing Co Pty Ltd v Milenkovic* [1973] VR 784; *A B Consolidated Ltd v Europe Strength Food Co Pty Ltd* [1978] 2 NZLR 515.

104 F Gurry, *Breach of Confidence* (Clarendon Press, 1984) pp 417-427.

105 *Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd* (1963) 80 RPC 45 per Pennycuick J at 60.

106 *Seager v Copydex Ltd* [1967] 1 WLR 923 per Lord Denning at 931-932.

107 F Gurry, *Breach of Confidence* (Clarendon Press, 1984) pp 419-427.

108 See *Surveys & Mining Ltd v Morrison* [1969] Qd R 470; *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14.

109 G E Dal Pont, "Equity's Chameleon - Unmasking the Constructive Trust" (1997) 16 ABR 46.

110 *Hunter Engineering Company Inc v Syncrude Canada Ltd* [1989] 1 SCR 426 per Dickson CJ at 471.

111 G E Dal Pont, "Equity's Chameleon - Unmasking the Constructive Trust" (1997) 16 ABR 46 at 60.

112 Ibid.

113 J Glover, "Trusts and Trustees - Whether in a commercial case the circumstances give rise to a constructive trust - Applicability of doctrine of unjust enrichment" (1990) 64 ALJ 297 at 297.

114 See *Hunter Engineering Company Inc v Syncrude Canada Ltd* [1989] 1 SCR 426; *News Ltd v Australian Rugby Football League Ltd* (1996) 139 ALR 193; *Occular Sciences Ltd v Aspect Vision Care Ltd* [1997] RPC 289.

cases it is acknowledged that constructive trusts over property may be awarded by reason of a breach of contract, but only where damages are inadequate and it would be unconscionable to allow the wrongdoer to retain the property.[115] A further consideration is the practicality of the award. Unless, as in *Lac Minerals*, the property in question is unique, and would not have been acquired but for the breach, the courts will not impose a constructive trust over property, and certainly not over a fraction of a proprietary interest.[116]

3.2.2 Equitable duty

The possibility of awarding a proprietary remedy for a breach of confidence action only emerged following the Canadian Supreme Court decision in *Lac Minerals,*[117] where the majority imposed a constructive trust upon the defendant for wrongful use of confidential information involving the acquisition of a mineralised mining lease.[118] The significance of the decision is that a proprietary interest flowed under the equitable duty of confidence from the use of confidential information which was not proprietary in character. The constructive trust was a proprietary gain-based damages award following the defendant's wrongful and very cynical breach. The remedy was clearly tailored by an analysis of the defendant's mental state.

The case is authority in Canadian law for the proposition that a proprietary base is not a prerequisite for a proprietary remedy for breach of the equitable duty of confidence and that a remedial constructive trust may be awarded for breach of confidence absent a fiduciary relationship.[119] This approach has not yet been adopted in Australia, but there is at least one High Court proponent of the idea that a constructive trust may be imposed for "breach of contractual or other legal or equitable obligations to another".[120] This statement indicates that, should appropriate facts emerge, the Australian High Court may consider a proprietary award absent a fiduciary relationship where either the express or equitable duties of confidence have been breached.[121]

3.3 Summary

During the development of the equitable duty of confidence doctrine, the courts rather than classifying breach of confidence into a specific category have, under their inherent discretionary powers, used all existing categories to enforce duties of confidence.[122] This selective deployment of all available remedies has resulted in a powerful jurisdictional mechanism for enforcing confidence.

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115 *News Ltd v Australian Rugby Football League Ltd* (1996) 139 ALR 193 per curiam at 291-293.

116 *Occular Sciences Ltd v Aspect Vision Care Ltd* [1997] RPC 289 per Laddie J at 416.

117 *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14.

118 D W M Waters, "LAC Minerals Ltd v International Corona Resources Ltd" (1990) 69 *Canadian Bar Review* 455 who noted at 455 that "the remedy was something new".

119 In *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14 a majority of 3 out of 5 judges held that there was no fiduciary relationship between the two commercial parties and a different majority of 3 held that a constructive trust was the appropriate remedy.

120 *Hospital Products Ltd v United States Surgical Corporation* (1984) 156 CLR 41 per Deane J at 125.

121 See discussions in G E Dal Pont and D R C Chalmers, *Equity and Trusts in Australia* (3rd ed, Lawbook Co, 2004) pp 187-189; J McKeough, A Stewart and P Griffith, *Intellectual Property in Australia* (3rd ed, LexisNexis Butterworths, 2004) pp 117-118; R Meagher, D Heydon and M Leeming, *Equity Doctrines & Remedies* (4th ed, Butterworths, 2002) pp 1141-1142.

122 L Tsaknis, "The Jurisdictional Basis Elements, and Remedies in the Action for Breach of Confidence" (1993) 5(1) BLR 18.

It is unfortunate that within this modern framework a limitation exists in the remedial awards available in Australia for breach of contract. When considering whether a confidentiality agreement is necessary in the circumstances, such limitations may be critical as reliance on a confidentiality agreement may be illusory if compensation proves not to be a valid measure of any potential damages that would flow from breach. In commercial settings, the value of wrongful use of confidential information may, in some circumstances, be best measured by the defendant's gain,[123] an award that is not presently accessible in Australia by virtue of a contractual obligation.

4. DO CONFIDENTIALITY AGREEMENTS AFFORD GREATER PROTECTION?

Confidentiality agreements do not always provide greater protection to the confider as they may erode the protection provided by the equitable duty. Recognising that the equitable duty supplements contractual obligations of confidence and may even assist if contracts are struck down for unreasonable restraint of trade,[124] the breach of confidence doctrine first yields to contract[125] as express terms of confidentiality mean that "the matter has passed into the realm of contract"[126]. Obligations imposed by the equitable duty and remedies available for breach are initially sidelined and should a contract become invalid, independent equitable actions such as estoppel will not respond to validate it.[127] However, as shown in *Maggbury*, if the contract is deemed invalid and confidence is breached equity steps in to provide relief in the form of equitable compensation.

Confidential relationships are often referred to as having direct analogies to fiduciary relationships.[128] However, fiduciary relations do not normally arise in arms-lengths commercial settings,[129] though it is recognised that in some commercial relationships, including pre-contractual negotiations,[130] there may be a dual obligation of confidence and fiduciary duty. But despite some overlap the actions are quite distinct.[131] In particular, breach of confidence captures third party recipients who clearly are not fiduciaries.

Gain-based damage awards for breach of contract are restitutionary based and linked to principles of unjust enrichment to which property concepts dominate. Also, actions under the equitable duty against third party recipients of confidential information may be formulated as claims in restitution following the principles of unjust enrichment. Some commentators have advocated that it is the proprietary nature of confidential information that underpins an order for account of profits for

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123 This would appear to have been the case in *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181 where the plaintiffs loss for breach of contract was minimal but the defendants gains by the breach were substantial.

124 *Wessex Dairies Ltd v Smith* [1935] 2 KB 80; *Triplex Safety Glass Co Ltd v Scorah* (1938) 55 RPC 21; *Maggbury Pty Ltd & Anor v Hafele Aust Pty Ltd & Anor* [2000] QCA 172.

125 *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167; *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

126 *Deta Nominees Pty Ltd v Viscount Plastic Products Pty Ltd* [1979] VR 167 per Fullager J at 195.

127 *Cream v Bushcolt Pty Ltd* [2004] WASCA 82 per Malcolm CJ at [3].

128 *Schering Chemicals Ltd v Falkman Ltd* [1981] 2 All ER 321 per Shaw LJ at 337 who referred to the obligation of confidence in a commercial context as imposing a fiduciary obligation on the recipient.

129 *Hospital Products Ltd v United States Surgical Corporation* (1984) 156 CLR 41 per Gibbs CJ at 70; *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14 per La Forest at 34.

130 *United Dominions Corporation Ltd v Brian Proprietary Ltd* (1985) 157 CLR 1 per Mason, Brennan, Deane JJ at 11-12.

131 See J Glover, "Is Breach of Confidence a Fiduciary Wrong? Preserving the Reach of Judge-Made Law" (2001) 21 *Legal Studies* 594; *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14 per La Forest J at 35.

breach of contractual[132] and equitable obligations of confidence. This characterisation is controversial. The key to the remedy for breach of confidence is not the proprietary status of the confidence but the nature of the breach itself.[133] As a category of wrongs, it is the cynical nature of the breach that attracts discretionary gain-based damage awards. The more a court takes a defendant-sided analysis and deliberate wrongdoing as well as remedial inadequacy is shown, then the more likely an order to account will arise. Given the restitutionary basis for gain-based damages and the restrictive approach to restitution and restitutionary remedies recently undertaken by the High Court[134] the likelihood of gain-based damage awards being available in Australia for breach of contract remains slim.

In *Lac Minerals* Justice La Forest noted that "It is clear that a claim for breach of confidence is then available if the information is misused. Why one would then go and enter into a confidentiality agreement simply confirming what each party knows escapes me".[135] "There is no reason to clutter normal business practice by requiring a contract."[136] Most commercial parties are cognisant of other implied duties such as the fiduciary duty and duty of care in negligence. It may not always be intuitively evident when a fiduciary relationship arises yet commercial parties do not seek "fiduciary relationship agreements" to define that relationship.

Confidentiality agreements are not watertight in their protection of confidential information. Apart from the problems discussed above, there are also a number of methods of forcing disclosure under the law.[137] Despite these limitations there are a number of legal writers who feel that the benefits of a confidentiality agreement outweigh the detriments.[138] The common theme is that the express duty can be better defined than the equitable duty thus providing certainty to all involved. Given the inherent remedial restrictions under contract, some potential wrongdoers may find it commercially beneficial to breach a contractual obligation of confidence and pay nominal damages, as was done in *Maggbury*.[139] On the other hand, the same breach under the equitable duty gives rise to a wide range of remedies, thereby removing most if not all commercial incentives for wrongful breach. It is submitted, therefore, that a confider is better off clearly defining the relationship of confidence within the scope of the equitable duty rather than pursuing contractual agreements of express covenants of confidence.

4.1 Protecting Confidential Information

In practical terms many commercial parties are more comfortable with something in writing under the belief that such an agreement will enhance their ability to enforce confidentiality or to seek an

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132 S M Waddams, "Profits Derived from Breach of Contract: Damages or Restitution" (1997) 11 JCL 115.

133 See for example *Cadbury Schweppes Inc v FBI Foods Inc* (1999) 167 DLR (4th) 577; *WWF World Wide Fund for Nature v World Wrestling Federation Entertainment Inc* [2002] FSR 32.

134 *Farah Constructions Pty Ltd & Ors v Say-Dee Pty Ltd* (2007) 81 ALJR 1107.

135 *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14 per La Forest J at 41.

136 Ibid, at 42.

137 See P Riethmuller, "Confidentiality Agreements: How Useful Are They?" [1998] AMPLA Yearbook 118, who pointed out several statutory regimes and public interest policies where disclosure of confidential information will be forced.

138 P Armitage, "Confidentiality Agreements: A Necessary Inconvenience?" [1998] AMPLA Yearbook 100 at pp 115-117; D A McPherson, "Confidentiality and the Public Domain - a Lesson for the Canadian Mining Industry" (1995) 13(2) Jour Energy Natural Resources Law 61; W Kirk, "Resource Contracts-Confidentiality Agreements" [1993] AMPLA Yearbook 194; P W Machin, "Areas of Mutual Interest" [1993] AMPLA Yearbook 221.

139 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

appropriate remedy. Therefore, it is worthwhile to give brief consideration to the potential ways in which confidentiality may be protected under the equitable duty.

4.1.1 Identification of confidential information

Under the equitable duty of confidence the obligation of confidence is triggered upon receipt of confidential information. Breach requires clear identification of the confidential information which a party seeks to protect. For example, in *Ammon*[140] the confider, Mr Ammon, delivered reports "unsolicited and without claim of confidentiality or any realistic means of protecting confidentiality"[141] to potential investors and then later tried to claim breach of confidence for alleged unauthorised use. The claim failed for a large number of reasons, not least of all due to the confider's failure to outline his reasonable expectations of confidence to the other party at the onset. Prior to the alleged misuse of the information the issue of confidentiality apparently was never raised or discussed by either party during the course of their negotiations.

It is clear that the responsibility of identifying confidential information rests principally upon the confider and a simple list of the confidential information provided should address this problem. All material should be individually marked "in confidence" to remove any doubt and the list of confidential information should be dated and signed by the recipient. It may also be prudent to indicate an address for notice and return of documents, and indicate whether any information in lieu of being returned should be destroyed. The latter would cover digital information.

Confidential information may be disclosed orally or by electronic mail. In situations of oral disclosure a diary of the discussion either during or immediately after the conversation should suffice to protect the information disclosed. Electronic disclosure may be printed in hard copy format as evidence of disclosure. Also, electronic storage and receipt mail should provide reliable evidentiary backup.

4.1.2 Use of confidential information

Confidentiality agreements are common practice in the mining and resource industry. Curiously, many writers subsequent to the decision in *LAC Minerals,*[142] in which confidentiality was upheld absent a confidentiality agreement, have expressed the opinion that it is important to clearly define the use of confidential information.[143] Some argue that it is important that the use be defined both positively and negatively.[144] It is submitted that use should not be defined at all, either positively in terms of what can be done or negatively in terms of what is not included.

In terms of positive descriptions of use, if use of confidential information is narrowly defined in a confidentiality agreement then any use outside the express boundaries of mutual trust and confidence may be valid.[145] If use is too broadly defined the agreement may be self-defeating or cause restraint of trade problems, particularly with regard to time and space parameters. The result

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140 *Ammon v Consolidated Minerals Ltd [No 3]* [2007] WASC 232.

141 Ibid, per Martin CJ at [304].

142 *LAC Minerals Ltd v International Corona Resources Ltd* (1989) 61 DLR (4th) 14.

143 P Armitage, "Confidentiality Agreements: A Necessary Inconvenience?" [1998] AMPLA Yearbook 100 at 110; D A McPherson, "Confidentiality and the Public Domain - a Lesson for the Canadian Mining Industry" (1995) 13(2) Jour Energy Natural Resources Law 61 at 73; W Kirk, "Resource Contracts-Confidentiality Agreements" [1993] AMPLA Yearbook 194 at 201.

144 D A McPherson, "Confidentiality and the Public Domain - a Lesson for the Canadian Mining Industry" (1995) 13(2) Jour Energy Natural Resources Law 61 at 73.

145 S McNamara, "Resource Contracts - Confidentiality Agreements: Commentary" [1993] AMPLA Yearbook 212 at 220.

is that, unless a perfect "use" clause is drafted, the very reason for defining use, namely certainty, completely falls away. Prima facie all uses and disclosures are prohibited and the onus falls on the wrongdoer to convince the court otherwise. There will be rare cases where, in a commercial situation, both the nature of the information provided and the circumstances between the parties will not be sufficient to define the general scope of the confidential relationship. Negative definition of use is not required because under both the equitable and express duties of confidence, information in the public domain is not protected unless, as in *Maggbury*,[146] the parties clearly express otherwise.

The circumstances whereby use of confidential information is defined under the equitable duty of confidence is nicely highlighted in the *Ammon* case where Chief Justice Martin compared the *LAC Minerals* case to the *Ammon* facts.[147] In both situations, no confidentiality agreements were executed, and two mining companies were negotiating a joint venture when one of the companies acquired exploration or mining rights on ground adjacent to the ground which was under negotiation. In *LAC Minerals* both companies had discussed their interest in obtaining the adjoining ground, and had discussed the acquisition for the purposes of the joint venture under which they were negotiating. In *Ammon,* the parties never discussed the economic feasibility of any adjoining ground and Mr Ammon never raised the possibility of acquiring any adjoining ground for the purposes of the joint venture. It appears that Mr Ammon only became aware of the economic viability of adjacent ground subsequent to the other company acquiring exploration rights over adjoining property. The facts of these two cases show how the scope of the confidential relationship, and the reasonable expectations of the confider, were defined by the parties conduct and, in *LAC Minerals*, protected by equity. In *Ammon's* case, even if Ammon's reports had the requisite confidentiality attached to them, which they did not, the conduct between the negotiating parties limited any confidential use of the reports to the single exploration tenement which the report referred to.

4.1.3 Time and space

The restraint of trade doctrine requires time and space constraints. The restraint of trade problem is certainly one of the key arguments against relying on confidentiality agreements and any argument based on the premise that the springboard doctrine gives rise to uncertainty in terms of time and space constraints is clearly unfounded in the circumstances. Under both duties, time and space constraints are defined by the court. The consequences of wrongly divining these parameters under contract are usually fatal.

5. CONCLUSION

It is concluded that confidentiality agreements in many circumstances are unnecessary and may not make good business sense. Express covenants are trumped by the ancient restraint of trade doctrine. In terms of remedial response, express covenants are also further undermined by the similarly ancient divide between the common law and equity. As long as the Australian courts remain entrenched in this historical legal quagmire, there is little hope of contractual voluntary restraints in a commercial setting being either legally or practically effective.

Breach of confidence is an ancient action that has yet to be tempered by judicial reasoning or legislative intervention.[148] The doctrine remains a vibrant and robust cause of action and given its

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146 *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2002) 210 CLR 181.

147 *Ammon v Consolidated Minerals Ltd [No 3]* [2007] WASC 232 per Martin CJ at [314].

148 In fact s 4M of the *Trade Practices Act 1974* (Cth) expressly provides that the Act does not affect the operation of the law relating to breaches of confidence or restraint of trade.

entrenched historical roots it is difficult to see the duty being sidelined in the near future. This is important because the remedial responses under this action are quite wide. If commercial confiders are able to define and make clear their reasonable expectations during pre-contractual negotiations, then reliance on the equitable duty may be a more favourable course than reliance on contract. Further, the availability of a wide range of remedies should ultimately have the effect of better deterring breaches.