CONFIDENTIALITY AND RIGHTS TO INTELLECTUAL PROPERTY

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The legal principles relevant to confidential information, the enforcement of fiduciary duties, and the protection of intellectual property are of general application. However the mineral exploration and mining industries expose persons subject to duties of confidence and fidelity to unusual temptations, and it is not surprising therefore that these industries have given rise to some of the leading cases in these areas of law. Recent examples include *Queensland Mines* v. *Hudson* (1978) 18 A.L.R. 1, 52 A.L.J.R. 399 in the Privy Council and *Peso Silver Mines* v. *Cropper* (1966) 58 D.L.R. (2d) 1 in the Supreme Court of Canada.

Although the duty owed by fiduciaries does not feature in the title of this paper, one cannot consider the duty of confidence and confidential information in our area of special interest without reference to this matter of fiduciary duty which really lies at the heart of the topic.

An enforceable duty of preserving confidential information for the benefit of another may arise out of contract, recognised fiduciary relationships, or ad hoc relationships of trust and confidence. In this paper it will only be necessary to refer to such obligations and their incidents when they arise from contract or some fiduciary relationship.

The search for minerals, or fossil fuels on any scale by any company, joint venture or syndicate will require the employment of servants, agents, or independent contractors. Referring to the employment of servants — although not by a mining company — Lord Esher M.R. said in *Robb* v. *Green* (1895) 2 Q.B. 315 (C.A.) at 317:

> "It is impossible to suppose that a master would have put a servant into a confidential position of this kind unless he thought that the servant would be bound to use good faith towards him; or that the servant would not know when he entered into that position that the master would rely on his observance of good faith in the confidential relation between them."

Accordingly prima facie all contracts of service contain an implied term that the employee will serve his employer with good faith and fidelity. *Robb* v. *Green* (above, *Thomas Marshall* v. *Guinle* (1979) Ch. 227 at 244.

It is also well settled that the same term will be implied in contracts between a principal and an agent, *Lamb* v. *Evans* (1893) 1 Ch. 218 (C.A.) at 229, and between an employer and an independent contractor, at least where the contract involves confidential information. Thus in *Saltman Engineering* v. *Campbell Engineeering* (1948) 65 R.P.C. 203 (C.A.) the defendant company was restrained from manufacturing tools for third parties from drawings put into its hands by the third plaintiff for the limited purpose of manufacturing tools for the first plaintiff. See also *Mense* v. *Milenkovic* (1973) V.R. 784 at 789-790, 801.

Accordingly employees or contractors such as geologists, metallurgists, drilling contractors, marine and aerial seismic surveyors and the like will be under implied contractual obligations to observe good faith and to preserve confidentiality in relation to confidential matters disclosed to them or coming to their notice in the course of their employment. These obligations may, of course be excluded by any sufficiently clear express terms of the contract; compare *Sterling*

Engineering v. *Patchett* (1955) A.C. 534 but this is hardly likely to occur in practice.

Equity imposes on servants and agents occupying positions of trust and confidence fiduciary obligations which are identical with the common law implied term of good faith and fidelity. See *Lamb* v. *Evans* (1893) 1 Ch. 218 (C.A.) at 229, *Thomas Marshall* v. *Guinle (1979) Ch. 226 at 245. Equity however gave remedies additional to damages for breach of contract which was the only remedy available at law.*

Pursuant to these implied contractual duties, and these fiduciary obligations employees, agents and independent contractors owe the following specific duties to their employers:

(i) To disclose to their employer all information of value coming to their knowledge in the course of their employment. *Cranleigh Engineering Ltd* v. *Bryant* (1965) 1 W.L.R. 1293 at 1319-1320.

(ii) Not to disclose such information to any third party without the consent of his employer. *Morison* v. *Moat* (1851) 9 Hare 241, *Lamb* v. *Evans* (1893) 1 Ch. 218 at 235, and *Thomas Marshall* v. *Guinle* (1979) Ch. 227 at 247.

(iii) Not to make any use of such information for his own benefit to the detriment of the employer. *Lamb* v. *Evans* (above) at 235, *Coco* v. *A. N. Clark Engineers Ltd* (1969) R.P.C. 41 at 48 and *Thomas Marshall* v. *Guinle* (above) at 247.

Moreover third parties receiving information divulged by a servant or contractor in breach of confidence may be restrained from using such information where they had notice of the breach of duty. *Lamb* v. *Evans* (above) at 235-236. The entitlement to relief against third parties in some cases may be based on the tort of inducing breach of contract, but more generally simply on the receipt of confidential information. Where the third party is aware at the time of the breach of duty the position is clear. *Morison* v. *Moat* (1851) 9 Hare 241, *Ansell Rubber Co.* v. *Allied Rubber Industries* (1967) V.R. 37.

However it also seems that an injunction can be granted against the further use of confidential information by a third party who received it without any notice of a breach of duty on the part of the servant or contractor. *Printers & Finishers Ltd* v. *Holloway* (1965) 1 W.L.R. 1 at 7, *Fraser* v. *Evans* (1969) 1 Q.B. 349 (C.A.) at 362. Damages probably cannot be awarded against an innocent recipient of confidential information for any use made of it prior to receipt of notice that it had been disclosed to him in breach of duty. *Goff & Jones* Restitution 2nd Ed. 1978 at 515, 518.

It is also not clear whether an injunction can be granted against a third party who in good faith pays value for what turns out to be the confidential information "of" another. In *Morison* v. *Moat* (above) at 263 there is a dictum of Turner V.C. to the effect that no injunction can properly be granted in such circumstances, but the correctness of this dictum is doubted by Goff & Jones (above) at 520. Compare *Meagher* Gummow & Lehane "Equity" at 720-721.

So far nothing has been said about the types of information which the Courts will protect as confidential information. In the field of manufacturing industry where no express covenant is taken from an employee there can be considerable difficulty in distinguishing between information which the employee will be entitled to use after he has left his employment and information in the nature of trade secrets which he will never be free to use unless it becomes public knowledge: *Printers & Finishers Ltd.* v. *Holloway* (1965) 1 W.L.R. 1 at 5. However while the

employment continues the employee is not free to make any use of confidential information against the interests of his employer, and he is not free to disclose such information to outsiders. Not all information gained by an employee will be sufficiently confidential to be the subject of this duty of confidence, and not all such information will be protected by injunction. *Coco* v. *A. N. Clark Engineers Ltd* (1969) R.P.C. 41 at 47, 48.

Recently Megarry V.C. in *Thomas Marshall* v. *Guinle* (1979) Ch. 227 at 248 attempted to state the circumstances in which information will be protected by the Court. He said:

> "If one turns from the authorities and looks at the matter as a question of principle I think, and I say this very tentatively . . . that four elements may be discerned which may be of some assistance in identifying confidential information or trade secrets which the Court will protect. I speak of such information or secrets only in an industrial or trade setting. First, I think that the information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals or others. Second, I think the owner must believe that the information is confidential or secret, i.e., that it is not already in the public domain. It may be that some or all of his rivals already have the information: but as long as the owner believes it to be confidential I think he is entitled to try and protect it. Third, I think that the owner's belief under the two previous heads must be reasonable. Fourth, I think that the information must be judged in the light of the usage and practices of the particular industry or trade concerned. It may be that information which does not satisfy all these requirements may be entitled to protection as confidential information or trade secrets: but I think that any information which does satisfy them must be of a type which is entitled to protection."

In practice one would think that there would be no difficulty in recognizing what was and what was not confidential information in the industries which are of special interest to the members of this association.

All these principles of course apply as between the partners in a joint mining venture and with special force as between the partner which is the operating or active partner on the one hand and its less active partners on the other. The principles also apply as between a mining company and its directors.

Accordingly it will be the duty of employees, contractors, managing partners and directors etc. to communicate promptly and in confidence all new information coming to their knowledge as a result of their employment or engagement in the relevant exploration or mining activity. Such persons will also be under a duty not to disclose such information to outsiders.

Thus any promising evidence of the presence of mineralisation or hydrocarbons should be passed on immediately to the person or persons to whom the duty is owed, and to no one else. Disclosure of such information either deliberately or carelessly to others, even if the discloser does not personally profit from the breach of duty, would give rise to a right of action for damages. If the disclosure led to the loss of priority in pegging or otherwise securing adjoining areas of interest, the damages could be very substantial indeed. So much so that in the case of an individual his employer would naturally be more interested in the availability of legal remedies against any third party who profited from the disclosure.

In practice no doubt the real risk is that confidential information will be passed on to an outsider in circumstances where the discloser expects to profit from the disclosure at his principal's expense. This situation, involving as it does a breach of the employee's fiduciary duty to safeguard his employer's interest, and not to prefer his own, gives rise to the possibility of the employer being able to claim

that the outsider is a constructive trustee of any mining titles secured as a result of the fiduciary's breach of duty.

The real problem faced by the principal or employer in such cases is likely to be one of proof. Shortly before the employer is advised of some promising new information some outsider may acquire a mining title which that information would suggest was likely to be of value. It may be a coincidence but it looks suspicious. However we all know that suspicion is not proof. In N.S.W. and South Australia it is now possible to obtain discovery before action ("Discovery before Commencement of Proceedings", Simpson 54 A.L.J. 205); but having regard to the type of people who may be involved such processes are not likely to be fruitful. Another possibility that may be worth trying in an appropriate case is an ex parte application to a Supreme Court for an *Anton Piller* order. See *Anton Piller K.G.* v. *Manufacturing Processes Ltd* (1976) Ch. 55 (C.A.). In that case it was held that in most exceptional circumstances where the plaintiff had a strong prima facie case, the actual or potential damage to the plaintiff was very serious, and there was clear evidence that the defendants possessed vital material which they might destroy or dispose of so as to defeat the ends of justice before any application inter parties could be made, the Court had inherent jurisdiction to order the defendants to permit the plaintiff's representatives to enter the defendant's premises to inspect and remove such material, and such an order could be made on the plaintiff's ex parte application.

Such orders have since been made with some frequency in copyright cases where the ease and cheapness of producing pirated musical and video tapes had led to the emergence of an illegal industry which cannot be suppressed by ordinary legal means. The Fleet Street Patent and Intellectual Property Reports and the Reports of Patent Cases contain reports of many cases where such orders have been made.

In the *Anton Piller* case the plaintiff obtained the evidence to establish its strong prima facie case because two employees of the defendant company informed it of what was going on, and supplied photocopies of some relevant documents.

It is possible that a mining company might obtain the necessary evidence in some way and thus be able through an *Anton Piller* order to obtain access to the offices and exploration sites of the defendant to search for and remove any copies of the plaintiff's confidential mineral, etc. exploration material which may have wrongfully come into its hands.

At this point I should mention that not all breaches of the duty of confidence are actionable. In *Gartside* v. *Outram* (1856) 26 L.J. Ch. 113 at 114 Wood V.C. held "There is no confidence as to the disclosure of iniquity" and this principle was applied in *Initial Services Ltd* v. *Putteril* (1968) 1 Q.B. 396 (C.A.). This exception to the general rule was recently considered by Sheppard J. of the Federal Court in *Allied Mills Industries Pty. Ltd.* v. *Trade Practices Commission* (1981) 34 A.L.R. 105 where it was held that an employee of the plaintiff was justified in disclosing to the Commission evidence of a possible price fixing agreement entered into in breach of s.45 of the Trade Practices Act. In *Initial Services Ltd* v. *Putteril* (above) the Court considered that in a proper case disclosure of otherwise confidential information to the media could be justified on this principle. Accordingly an employee or ex-employee would be justified in disclosing evidence that his employer was engaging in market rigging, was suppressing unfavourable data such as drilling reports, assay results, or feasibility studies, or had wrongfully obtained

and used confidential exploration and mining data rightfully belonging to others.

It is now necessary to consider the remedies available to an employer, partner, etc. in circumstances where an employee or fiduciary agent has committed a breach of fiduciary duty either alone or in association with third parties.

There is no need, in this paper, to consider the rules of equity which govern contracts between a fiduciary agent and his principal, or between the principal and third parties where the fiduciary agent has an interest which conflicts, or which may conflict with that of his principal. Rather we are concerned with those aspects of the duty of fiduciaries which were summarized by Wootten J. in *Queensland Mines* v. *Hudson* in the following passage quoted with approval by the Privy Council (18 A.L.R. at 4).

> "That obligation (i.e. the duty owed by Mr. Hudson as Managing Director to Queensland Mines) was twofold, namely that he should not make a profit or take a benefit through his position as fiduciary without the informed consent of his principal, and that he should not act in a way in which there was a possible conflict between his own interest and that of his principal."

The matters of special importance in our field of special interest relate to the abuse by a fiduciary of corporate or joint venture information or opportunities to make a profit or obtain a benefit at the expense of the Company or joint venture. In *Phipps* v. *Boardman* (1967) 2 A.C. 46 at 102, 103 Lord Cohen said:

> "It does not necessarily follow that because an agent acquired information and opportunity while acting in a fiduciary capacity he is accountable to his principals for any profit that comes his way as the result of the use he makes of that information and opportunity. His liability to account must depend on the facts of the case."

Thus in *Aas* v. *Benham* (1891) 2 Ch. 244 (C.A.) a partner in a firm of shipbrokers was held not to be accountable to the partnership for profits made by him in a ship building partnership as a result of information obtained by him in the course of the ship broking partnership.

In the present context however the qualification to the general rule noted by Lord Cohen and exemplified by *Aas* v. *Benham* (above) does not have any great practical application outside the partnership area. It may be that a mining or exploration manager would not be accountable if he used information he received while acting in that capacity to secure for himself an interest in a licensed hotel in the nearest town. However there can be no doubt what the position would be if he were to attempt to secure a personal interest in any mining or petroleum title. The fact that the manager's duty might be to search for diamonds would not ordinarily mean that he was not accountable for mining titles covering other minerals such as coal or iron ore.

The general question is illuminated by the decision in *Industrial Development* v. *Cooley* (1972) 1 W.L.R. 443 at 451 where Roskill J. said:

> "The first matter which has to be considered is whether or not the defendant was in a fiduciary relationship with his principals the plaintiffs. Mr. Davies argued that he was not because he received this information ... *privately*. With respect I think that argument is wrong. The defendant had one capacity and one capacity only in which he was carrying on business at that time. That capacity was as managing director of the plaintiffs. Information which came to him *while he was managing director and which was of concern to the plaintiffs and was relevant for the plaintiffs to know* was information which it was his duty to pass on to the plaintiffs because between himself and the plaintiffs a fiduciary relationship existed." (emphasis supplied).

However the position as between the members of a partnership or joint venture is different because of the decision in *Aas* v. *Benham* (1891) 2 Ch. 244 (C.A.) which was extensively considered in *Phipps* v. *Boardman* (1967) 2 A.C. 46. Information received by a partner in the course of and as a result of his conduct of the partnership business will only be received in a fiduciary capacity if it was "information the use of which is valuable to them as a partnership" per Bowen L.J. in *Aas* v. *Benham* (above) at 258. It will therefore be advisable to bear this principle in mind when drafting joint venture agreements. The definition of the geographical area and the minerals or fossil fuels the subject of the joint venture will determine whether information received by one of the joint venturers as a result of and in the course of the joint venture is received in a fiduciary capacity. An important consideration will be that the joint venture partners may in fact be in competition with each other outside the areas the subject of the joint venture agreement.

If an employee or fiduciary agent attempts to use for his own benefit or for the benefit of himself and others information or opportunities which came his way because of the fiduciary position which he occupied, then he will be accountable as constructive trustee for any profits or property acquired by him in consequence of the breach of his fiduciary duty. *Timber Engineering* v. *Anderson* (1980) 2 N.S.W.L.R. 488.

Moreover such relief is also available against third parties not themselves in confidential or fiduciary relationships with the principal. See as to injunctions restraining the use of confidential information *Cranleigh Precision Engineering* v. *Bryant* (1965) 1 W.L.R. 1293 where the defendant company was controlled by the fiduciary and *Ashburton* v. *Pope* (1913) 2 Ch 469 (C.A.) and *Printers & Finishers Pty. Ltd.* v. *Holloway* (1965) 1 W.L.R. 1 where independent third parties were restrained.

It is clear that enforceable rights can arise in respect of information imparted by one to another although the parties stand at arm's length and no fiduciary relationship exists between them. *Saltman Engineering* v. *Campbell Engineering* (1948) 65 R.P.C. 203 (C.A.).

However in our area of special interest any wrongful disclosure or use of confidential information will also involve a breach of fiduciary duty on the part of the discloser. The principles on which a third party may be held liable for breaches of fiduciary duty committed by another were recently considered by the High Court in *Consul Development Pty. Ltd.* v. *D.P.C. Estates Pty. Ltd.* (1975) 132 CLR 373. At 397-398 Gibbs J. said:

> "I therefore conclude on principle that a person who *knowingly* participates in a breach of fiduciary duty is liable to account to the person to whom the duty was owed for any benefit he has received as a result of such participation . . . On the other hand it does not seem to me to be necessary to prove that a stranger who participated in a breach of . . . fiduciary duty with knowledge of all the circumstances did so actually knowing that what he was doing was improper." (emphasis supplied)

Stephen J. (whose judgement was concurred in by Barwick C.J.) also held that actual knowledge or calculated abstention from enquiry were necessary in order to render a third party liable as constructive trustee. See at 408, 410, 412.

In certain circumstances a third party may be liable in damages for the tort of inducement of breach of contract, but generally speaking the liability of third parties in equity will be greater, and the principals' remedies in equity more beneficial.

An employee or other fiduciary who has profited from the fiduciary relationship can only retain that profit if he can establish that he has received the informed consent of his principal. Where the fiduciary is not a member of the Board of Directors of the principal the informed consent of the Board will suffice. Thus in *Regal (Hastings) Ltd* v. *Gulliver* (1942) (H.L.) reported (1967) 2 A.C. 134 the solicitor was held not to be accountable for his share of the profit on this basis. In other cases the informed consent of the managing director or other senior executive would suffice. In the case of a director the informed consent of his fellow directors will not normally be sufficient, and only the consent of a general meeting will protect the fiduciary, *Furs Ltd* v. *Tomkies* (1936) 54 C.L.R. 583, even if the rest of the Board have sufficient voting power to control the general meeting. *Regal (Hastings) Ltd v. Gulliver* (above).

However in *Queensland Mines* v. *Hudson* (1978) 18 A.L.R. 1, 52 A.L.J.R. 399 a managing director who had originally acquired mining rights in his own name as trustee for his company was held by the Privy Council not to be accountable for profits because the company, through its Board, had released him from his obligations as trustee for the Company. As Lord Scarman said at 10:

> "... with the fully informed consent of the Queensland Mines Board, Mr. Hudson was left on his own for better or for worse with the Tasmanian licenses."

However there is no clear explanation of the reasons why Hudson was protected in that case by the fully informed consent of the Board. This part of the decision was the subject of some critical comment in 42 Modern Law Review 711. Two explanations may be offered. The first is that since the matter "was widely known and followed in Australian mining circles and in the press", and there was 9 or 10 years' delay before proceedings were commenced an informed acquiescencce by all shareholders could be inferred. The second is that at the time the informed consent was given by the Board there was no certainty or even expectation of profit. Hudson's position was that he was "confronted with immense obligations owed by him personally under the licences to the Tasmanian Government and no resources with which to meet them" (18 A.L.R. at 7). When the Board of Queensland Mines decided to renounce all interest in the licenses and to allow Hudson to take over the venture on his own account they were not intending to do him a favour. Real and substantial risks were involved. In the other cases where it has been held that an informed consent by the Board to some director retaining a profit was no answer to an action for the recovery of the profit, there was at least a high degree of probability, if not certainty that a profit would result, and no risk of loss.

Another case of interest in this context is the decision of the Supreme Court of Canada in *Peso Silver Mines Ltd.* v. *Cropper* (1966) 58 D.L.R. (2d) 1. The respondent was one of 6 directors of the appellant at the relevant times. The appellant was engaged in the search for minerals in the Yukon. Certain mineral claims were offered to the appellant, but the Board decided not to accept the offer. At the time the Company's finances were already strained and there was evidence that while the respondent was a director some 200-300 mineral claims were offered to the Company at the rate of 2 to 3 a week. The respondent and some of his co-directors later joined in a syndicate to acquire these particular claims for their own benefit. The Supreme Court, affirming the decisions of the Court below held that the Company's claim failed. Cartwright J. said at 8:

> "... I find it impossible to say that the respondent obtained the interests by reason of the fact that he was a director of the appellant and in the course of the execution of that

> office. When Dickson at (the consulting geologist's suggestion) offered his claims to the appellant it was the duty of the respondent as director to take part in the decision of the board as to whether that offer should be accepted or rejected. There are affirmative findings of fact that he and his co-directors acted in good faith solely in the interests of the appellant and with sound business reasons in rejecting the offer. There is no suggestion in the evidence that the offer to the appellant was accompanied by any confidential information unavailable to any prospective purchaser or that the respondent as director had access to any such information by reason of his office. When later (the consulting geologist) approached the (respondent) it was not in his capacity as a director of the appellant but as an individual member of the public."

Gower "Modern Company Law" 4th Ed. at 595, 598 suggests that this decision is somewhat unsatisfactory, but I suggest the problem lies in the findings of fact rather than in the legal principles which were applied. A mere 2 months elapsed between the original offer to the Company and the acquisition of the claims by the syndicate. In the later Supreme Court decision in *Canadian Aero Service* v. *O'Malley* (1973) 40 D.L.R. (3d) 371 Laskin C.J. speaking for a unanimous Court referred to and distinguished the *Peso* decision without, in my view, suggesting that it was incorrectly decided on the facts referred to by the Court. He did however refer without comment to criticism in the legal literature that the Supreme Court had overlooked important evidence in the case.

It seems to me that in Queensland Mines v. Hudson (above) the Privy Council have adopted and applied the same legal principle as that applied by the Supreme Court in the *Peso* case. Lord Scarman said in reference to the meeting at which the Board of Queensland Mines renounced all interest in the licences (18 A.L.R. at 10):

> "It can be said that from that date the venture based on the licenses was outside the scope of the trust and outside the scope of the agency created by the relationship of director and company."

There is no Anglo-Australian authority of which I am aware where the Court has considered the exact nature of the constructive trust which arises on a breach of fiduciary duty. Can the fiduciary force the constructive trust, with its attendant liabilities, on the principal? Surely not. In seeking to do so he would be taking advantage of his own wrong. In any event a beneficiary can always disclaim a beneficial interest in trust property. The matter was considered by the Court of Appeals of New York in *Beatty* v. *Guggenheim Exploration Co.* (1919) 122 N.E. 378, 225 N.Y. 380. Cardozo J. speaking for the majority there held that an agent in breach of his fiduciary duty becomes a constructive trustee at the election of the principal. (122 N.E. at 380). In that case no constructive trust was raised because the employee in question had obtained the informed consent of the President and General Manager of the Company, and this constituted a binding election against treating the appellant as a constructive trustee for the company. On principle one would think that as in the *Peso* case it should equally be possible for the principal to disclaim in advance any interest in some corporate opportunity so as to leave it available for beneficial acquisition by a person who would otherwise stand in a fiduciary relationship to the principal. Of course in such a case complete disclosure by the fiduciary of all material facts would be an essential condition to any subsequent beneficial acquisition by him.

It is well established that a delinquent fiduciary cannot defeat a claim that he account for a profit derived from his breach of duty by alleging or even proving that the principal himself could not have, or would not have earned that profit if proper

disclosure had been made. See *Industrial Development* v. *Cooley* (1972) 1 W.L.R. 443 at 453-4 and the cases there cited. It is also well established that a timely resignation will not defeat a claim to account in respect of information communicated to the fiduciary or opportunities coming to his notice prior to the resignation. *Cooley's* case (above) and *Canadian Aero Service* v. *O'Malley* (1973) 40 D.L.R. (3d) 371. It is also well established that a delinquent fiduciary cannot resist a claim to account on the basis that if he had disclosed all material facts he would have obtained an informed consent. *Gray* v. *New Augarita Porcupine Mines* (1952) 3 D.L.R. 1 (P.C.) at 14 per Lord Radcliffe.

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