

**FINANCIAL REMEDIES
FOR BREACH OF CONFIDENCE**

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Available financial remedies

- Contractual damages
- Damages for breach of equitable obligation
- Equitable compensation
- Equitable damages (Lord Cairns' Act)
- Account of profits

Damages or Equitable Compensation

- Jurisdiction to grant generally assumed
e.g. *Seager v Copydex* [1989] RPC 250, 1 WLR 809
- Rarely any practical difference between the two:

“... it seems clear that monetary relief can be awarded to a claimant who has suffered financial loss as a result of the defendant’s breach of an equitable obligation of confidence. The key issue is whether damages or equitable compensation should be assessed on a different basis if the obligation which has been breached is equitable rather than contractual. ... As a matter of principle it seems to me that there is no reason to apply a different approach and every reason to adopt the same approach.”

(Arnold J in *Force India* [2012] RPC 29 at [393]–[394])

Damages: measure

- Jurisdiction generally assumed
- Compensatory:
The measure of damages to compensate an injured party for an economic tort was stated by Lord Wilberforce in *General Tire & Rubber Company v Firestone Tyre & Rubber Company* [1975] 1 WLR 819 (*'General Tire'*) at page 824 to be:
“that sum of money which will put the injured party in the same position as he would have been if he had not sustained the wrong.”

Michael Silverleaf, *(Rose)*, *Vestergaard v Bestnet* [2014] EWHC 3159

(Ch)

Damages: measure

- Close analogy with intellectual property claims. Generally treated as indistinguishable even though they are torts.
- Claimant must prove loss but damages assessed liberally
- Fundamental principles set out by Lord Wilberforce in *General Tire v Firestone* [1975] 1 WLR 819 at 824, [1976] RPC 197. Repeatedly followed and applied.
- Three classes of case
 - (1) claimant manufacturer who has lost sales
 - (2) claimant licenses his rights for royalties
 - (3) no loss but reasonable royalty payable on

Damages: loss of claimant's profits

- Lost sales: one for one
- Lost sales: proportion based upon market share or other factors
- See e.g.

Vestergaard v Bestnet [2014] EWHC 3159 (Ch)

Damages: loss of licence fees

- Claimant's licensing practice
- Terms of notional licence affecting price
- Comparables
- Industry norms
- Capping and double counting

Damages: user principle

- The user principle of assessment where the claimant suffers no actual loss. This is equivalent to the price that could reasonably have been demanded for the right that has been exercised.
- Derived originally from measure of damages in tort, described by Lord Shaw in *Watson, Laidlaw v Potts, Cassels & Williamson* (1914) 31 RPC 104 at 119 as “the principle of price for hire”.

Damages: user principle

- Illustrated by Lord Shaw:

wherever an invasion of property has occurred then there should be a recompense:

“If A, being a liveryman, keeps his horse standing idle in the stable, and B, against his wish and without his knowledge, rides or drives it out, it is no answer to A for B to say: ‘Against what loss do you want to be restored? I restore the horse. There is no loss. The horse is none the worse; it is better for the exercise.’”

Damages: user principle

- *Wrotham Park Estate v Parkside Homes* [1974] 1 WLR 798
User principle damages in contract.

Attorney General v Blake [2001] 1 AC 268 per Lord Nicholls:

“The *Wrotham Park* case, therefore, still shines, rather as a solitary beacon, showing that in contract as well as in tort damages are not always narrowly confined to recoupment of financial loss. In a suitable case damages for breach of contract may be measured by the benefit gained by the wrongdoer from the breach. The Defendant must make a reasonable payment in respect of the benefit he has gained.”

Damages: user principle methods of assessment

- Summary in *Force India* at [386]
- Assume willing purchaser and willing seller
- Determine the price that such persons would have agreed in negotiations between the parties having regard to their respective bargaining positions and the commercial context at the time of the notional negotiations
- Fact that parties would never have agreed in practice is irrelevant *Pell v Bow* [2011] 1 WLR 2370 PC at [49]
- Commercial alternatives to use of information give guide to price which reasonable parties would agree
32Red v William Hill [2013] EWHC 815 (Ch);
Vestergaard v Bestnet [2014] EWHC 3159 (Ch)

Damages: user principle methods of assessment

- Comparables
 - Extent of comparability important: only closely analogous circumstances provide close guidance
 - Differences can be allowed for by making adjustments from the comparable
 - The more different the circumstances the less weight can be given to the comparable
 - The boundary between a comparable of low weight and one of no weight is a matter of fact and degree

Damages: user principle methods of assessment

- Profit apportionment between licensor and licensee

Damages: user principle methods of assessment

- Reasonable consultancy fee
- Generally appropriate where the information is a starting point for further work and it or information of equivalent utility could have been obtained by instructing a competent professional consultant
- See e.g.
Force India
Vestergaard v Bestnet

Equitable damages

- Jurisdiction originates with Lord Cairns' Act
- Now found in section 50 of the Senior Courts Act 1981:

“Where the Court of Appeal or the High Court has jurisdiction to entertain an application for an injunction or specific performance, it may award damages in addition to or in substitution for, an injunction or specific performance.”

Equitable damages

- Purely equitable remedy. Accordingly a matter for the court's discretion
- Unresolved debate whether equitable damages are available where the court would not grant an injunction on the facts – e.g. where the information has already been published
- Better view is that they are available because the court nevertheless has the jurisdiction to “entertain an application” even if it would inevitably be refused in the proper exercise of the court's discretion

Equitable damages in substitution for injunction

- Where the damage flowing from injunction is oppressive to the defendant and substantially outweighs relatively small harm to claimant, the damage to the claimant is capable of being compensated by payment of money, it is inappropriate to enjoin but the courts require defendant to pay instead for the benefit he has obtained by misuse of confidential information

See Shelfer v City of London Electric Lighting
[1895] 1 Ch 287

- Unclear whether the rule is now so strict

Account of profits

- Alternative to damages: cannot claim both
- Equitable remedy in court's discretion
- Obtainable as a matter of course for intellectual property infringement claims
- Will not be granted for breach of confidence where it would be inequitable to award

See e.g.

Seager v Copydex

Vercoe v Rutland Fund [2010] EWHC 424 (Ch),
BusLR D141

Account of profits: assessment

- Defendant required to disgorge all profits made from misuse of information
- Only direct and specific expenses may be deducted
- General overheads may only be deducted where they can properly be apportioned between infringing and non-infringing activity: *Celanese v BP* [1999] RPC 203 (patent)
- Commercial sensitivity of information required to carry out the assessment may give rise to significant issues where parties are competitors

Election between damages and account of profits

- *Island Records v Tring* disclosure
- Purpose to permit informed election
- Only rough and ready disclosure, not fully documentary discovery