**The UK Supreme Court decision in *Vestergaard Fransen S/A (now called MVF3 APS) & others v Bestnet Europe Ltd and five others*** [**[2013] UKSC 31**](http://www.bailii.org/uk/cases/UKSC/2013/31.html)

The Judgment and Press Summary of the Supreme Court are attached below.

Please note that it was an error in the previous blog which stated that Mrs Sig (the Respondent in this appeal) was not a former employee of the Appellant (Vestergaard) – she most certainly was. The appeal of course in large part involved her contractual liability as an employee and the Court was taken to her obligations in clause 8 of her employment contract, and what her obligations would have been in terms of preserving confidences had the facts been different to the present appeal, i.e. had she **actually known of and received** the confidential information and trade secrets of her employers.

The facts are briefly restated as follows: Vestergaard is a manufacture of insecticidal fabrics that were used for mosquito nets. Two former employees, Mrs Sig and Mr Larsen, set up a business (Bestnet) which competed with Vestergaard. Before she left Vestergaard, Mrs Sig -- who was involved in the development of a new product for the new business (Netprotect), had worked with Dr Skovmand, a consultant biologist who was also employed by Vestergaard, but on a consultancy basis.

Vestergaard resisted and litigated at first instance before Justice Arnold, and battled all the way through to the Court of Appeal (before Lord Justice Jacob), considering that the new product was substantially created and achieved by using Vestergaard’s product recipes, by its former employees had been developed using confidential information from a database (the Fence Database) which Mrs Sig had a part in creation. Vestergaard also sued Intection, the company that Mrs Sig and Mr Larsen incorporated in order to carry on their business.  This business was later incorporated in substance as a UK company, Bestnet, in an attempt to avoid the effects of litigation in Denmark and apparently in other jurisdictions including India.

Last Wednesday, the UK Supreme Court dismissed Vestergaard's appeal. Commentators in other blogs have rightly pulled out from the lead judgment the following five interesting issues from Lord Neuberger’s judgment. There are numerable interesting issues from this extraordinary case, but the following are a good shortlist of core issues:

1. Mrs Sig did not acquire the confidential information (in the Fence Database and other trade secrets) **during her employment with Vestergaard**; nor had she acquired it afterwards. It was not until after Vestergaard had commenced proceedings that she had become aware that the new company's product (called ‘Netprotect’), and that it had been developed using Vestergaard's trade secrets.

As Lord Neuberger states at paragraph 21:

1. *In my opinion, each of these three arguments must fail because of the combination of two crucial facts. The first is that Mrs Sig did not herself ever acquire the confidential information in question, whether during the time of her employment with Vestergaard or afterwards. The second crucial fact is that, until some point during the currency of these proceedings (possibly not until Arnold J gave his first judgment), Mrs Sig was unaware that the Netprotect product had been developed using Vestergaard’s trade secrets.*

2. Unless Sig's employment contract with Vestergaard imposed any liability, she could not be primarily liable for misuse of confidential information since she had not received any. As Lord Sumption emphasised during the appeal, on the facts, Mrs Sig appeared to have exploited ‘the product’ but not the confidential information. This was emphasised in spite of sustained submissions on behalf of Vestergaard that there was a blurring in the appeal (and perhaps in the minds of the Court!) of that of ‘Recipe’ and ‘Product’. Is this not a blurring of ‘trade secret’ and that which is commercially exploitable from it? It was the Appellant’s best point that there should perhaps be no distinction in this case. That is why the Appellant’s forcefully argued that actual knowledge of receipt of trade secrets should not be crucial; secondary parties should be liable for developing the fruits of the product, unknowingly or not. The Supreme Court also rejected the argument of secondary liability on her part for misuse of confidential information; there being no cogent evidence that she had known that Dr Skovmund was using, or had used, Vestergaard's confidential information in order to develop the product.

In relation to this point 2, please note Lord Neuberger’s judgment at paragraph 28 as follows:

1. *In this case, subject to considering Vestergaard’s arguments in a little more detail, the position would seem to me to be as follows. First, unless her employment contract with Vestergaard imposed such a liability, Mrs Sig could not be primarily liable for misuse of confidential information, because she received no confidential information, or at least no relevant confidential information. Secondly, subject to the same qualification, she could not be secondarily liable for such misuse, as she did not know that Dr Skovmand was using, or had used, Vestergaard’s confidential information in order to develop the Netprotect product. Thirdly, it was not contended that Mrs Sig could be vicariously liable for any misuse of Vestergaard’s confidential information by Dr Skovmand (perhaps unsurprisingly, as it would seem that Dr Skovmand worked for Intection and then Bestnet, as did Mrs Sig, either as director, or through 3T).*

3. The express provisions in Mrs Sig's employment contract with Vestergaard could not assist Vestergaard in this action since the confidential information which Dr Skovmund used was neither "information relating to her employment", nor was it "knowledge gained in the course of her employment". It was knowledge gained by Dr Skovmund in the course of his consultancy work for Vestergaard. On those facts, it could not be seriously argued that a term could be implied into Mrs Sig's employment contract to the effect that she would not provide aid to another person to abuse Vestergaard's trade secrets in circumstances where (i) she did not know the trade secrets and (ii) was unaware that they were being misused. It would be wrong in principle to impose such strict liability.

Please note clauses 30 to 31 of Lord Neuberger’s judgment in regard to this point 3:

1. *The express provisions of clause 8 of her employment contract are of no assistance to Vestergaard’s case. The confidential information wrongly used by Dr Skovmand to develop the Netprotect product was plainly neither “information relating to [her] employment” nor “knowledge gained in the course of [her] employment”. It was knowledge gained by Dr Skovmand in the course of his consultancy work for Vestergaard.*
2. *It is not seriously arguable that a term can properly be implied into Mrs Sig’s employment contract to the effect that she would not assist another person to abuse trade secrets owned by Vestergaard, in circumstances where she did not know the trade secrets and was unaware that they were being misused. To impose such a strict liability on Mrs Sig appears to me to be wrong in principle as it is (i) inconsistent with the imposition of the more limited express terms of clause 8, (ii) unnecessary in order to give the employment contract commercial effect, and (iii) almost penal in nature, and thus incapable of satisfying either of the well-established tests of obviousness and reasonableness.*

Common design

4. Two or more defendants could as a matter of principle be liable for sharing a "common design" to misuse confidential information. However, in order to be party to a common design, a defendant had to share with the other party each of the features of the design which made it wrongful. This was not the case here, on the facts, since Mrs Sig did not share any such common intention with the other defendants. As Lord Neuberger and the other Justices explored in the appeal, it was necessary for the participants to know of and share the intention ‘to do the unlawful act’; the liability of accessories in tort and in crime were extensively explored in that regard – that ultimately the parties would need effectively to know of and wish to achieve the unlawful act – the actual robbing of the bank!

In relation to this point 4, please note Lord Neuberger’s Judgment at paragraphs 32 to 35:

*The second ground: common design*

1. *I turn, then, to the second, and most strongly advanced, ground upon which Vestergaard’s case rests, namely that Mrs Sig was liable for breach of confidence on the basis of common design. This argument proceeds on the basis that Dr Skovmand, Mr Larsen and Mrs Sig all worked together to design, manufacture and market Netprotect products, and as these products were designed by Dr Skovmand in a way which involved his wrongfully misusing Vestergaard’s trade secrets so as to render him liable for breach of confidence, Mrs Sig and Mr Larsen are liable together with him.*
2. *I accept that common design can, in principle, be invoked against a defendant in a claim based on misuse of confidential information; I am also prepared to assume that, in the light of the findings made by the Judge, Mr Larsen was liable on that ground (as he knew that Dr Skovmand was misusing, and had used, Vestergaard’s trade secrets when designing Netprotect). However, I cannot see how Mrs Sig could be so liable, in the light of her state of mind as summarised in para 22 above.*
3. *As Lord Sumption pointed out in argument, in order for a defendant to be party to a common design, she must share with the other party, or parties, to the design, each of the features of the design which make it wrongful. If, and only if, all those features are shared, the fact that some parties to the common design did only some of the relevant acts, while others did only some other relevant acts, will not stop them all from being jointly liable. In this case, Mrs Sig neither had the trade secrets nor knew that they were being misused, and therefore she did not share one of the features of the design which rendered it wrongful, namely the necessary state of knowledge or state of mind. Accordingly, although she was party to the activities which may have rendered other parties liable for misuse of confidential information, she cannot be liable under common design.*
4. *A driver of the motor car who transports a person to and from a bank to enable him to rob it, would be liable in tort for the robbery under common design or some similar principle, but only if she knew that her passenger intended to rob, or had robbed, the bank. So, in this case, given the ingredients of the wrong of misuse of confidential information, and given that she never had any relevant confidential information, Mrs Sig cannot be held liable in common design for exploiting with others, on behalf of Intection and then Bestnet, a product which, unknown to her, was being and had been developed through the wrongful use of Vestergaard’s trade secrets.*

Turning a blind eye

5. The argument that Mrs Sig had ‘turned a blind eye’ (or in equity, the act of ‘shutting one’s eyes to the obvious’ – a form of constructive knowledge) to the fact that Dr Skovmund was using Vestergaard's trade secrets, could only succeed if a finding of dishonesty were made against her -- which was not the case on the available facts.  The mere fact that she had taken a risk in starting a new business with Larsen and in employing Dr Skovmund as a consultant was not sufficient to render her secondarily liable for the misuse of trade secrets.

In relation to this point 5, please note Lord Neuberger’s Judgment at paragraphs 40 to 43 :

*The third ground: Mrs Sig’s unusual position*

1. *In so far as I understand the third way of putting Vestergaard’s case, (i) it involves saying that Mrs Sig had “blind-eye knowledge” of the fact that Dr Skovmand was using Vestergaard’s trade secrets, or (ii) it amounts to contending that Mrs Sig should be liable for misuse of confidential information, as she must have appreciated that she was, to use a well worn metaphor, playing with fire, when she started up the new business with Mr Larsen, employing Dr Skovmand, in 2004.*
2. *These two alternative ways of presenting Vestergaard’s third ground are quite close in their import, and in a sense they can both be said to involve an attempt to conflate the first and second grounds, albeit in a somewhat incoherent way. In the end they each must fail, essentially because of findings of fact made (or, in many respects, understandably not made) by the Judge.*
3. *So far as argument (i) is concerned, it cannot succeed without a finding against Mrs Sig of dishonesty of the sort characterised by Lord Nicholls in Royal Brunei, as discussed in para 26 above. There is no such finding, and it seems to me clear from the conclusions which the Judge did reach, as summarised in para 15 above, that there was no basis for his making any finding of relevant dishonesty on the part of Mrs Sig.*
4. *As to argument (ii), it is not enough to render a defendant secondarily liable for misuse of trade secrets by another to establish that she took a risk in acting as she did. The fact that she took a risk might often render it easier to hold that she was dishonest, but, by definition, it is not enough on its own. To revert to the metaphor, if one plays with fire, one is more likely to be burnt, but it does not of itself mean that one is burnt.*

The UK Supreme Court judgment can be found at:

<http://www.bailii.org/uk/cases/UKSC/2013/31.pdf>

The UK Supreme Court helpful Press Summary can be found at:

<http://www.supremecourt.gov.uk/decided-cases/docs/UKSC_2011_0144_PressSummary.pdf>

The Short judgment of Lord Neuberger giving judgment can be found on You Tube! at:

<http://www.youtube.com/watch?v=qCSUYUaQqbU>