



Wigley & Company

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**CONFIDENTIAL INFORMATION BREACHES CAN
BE DIFFICULT TO PROVE**

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Norbrook v. Bomac, a 2004 Court of Appeal decision, illustrates that it is not always easy for parties to protect confidential information. Nor is it always easy to reduce competition by way of confidential information clauses. Where there is particular concern, those providing confidential information to others could look at other protection mechanisms such as contractual restraints on the recipient competing in the same market, etc. We outline the problems and some of the solutions, building on our earlier paper on confidential information and restraint of trade clauses.

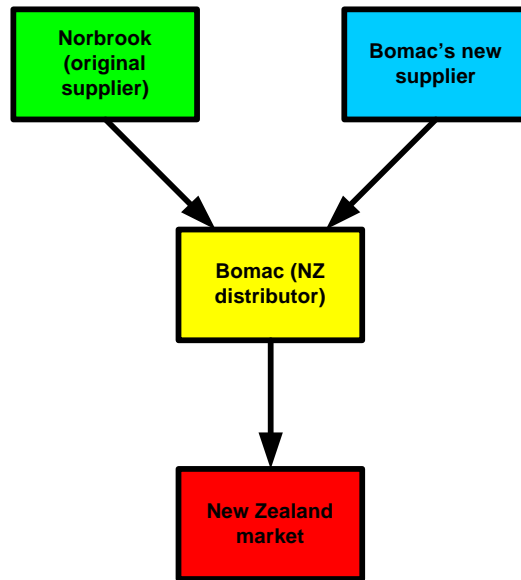
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1 Summary

- 1.1 *Norbrook v. Bomac*, a 2004 Court of Appeal decision¹, illustrates that it is not always easy for parties to protect confidential information. Nor is it always easy to reduce competition by way of confidential information clauses. Where there is particular concern, those providing confidential information to others could look at other protection mechanisms such as contractual restraints on the recipient competing in the same market, etc. We outline the problems and some of the solutions, building on our early paper on confidential information and restraint of trade clauses.

¹ [2004] 3 NZLR 49. See also *Ideal Garages v Independent Construction* (HC, Heath J, Auckland, CIV 2004-404-2865



2 What happened in *Norbrook v. Bomac*?

- 2.1 The case is about veterinary remedies but it is equally applicable to other types of technology, IT, sales and marketing situations, etc. A U.K. supplier, Norbrook, produced a veterinary remedy, which was sold through its NZ distributor, Bomac. The distribution agreement came to an end, but their confidentiality agreement (framed in a typical way) was to continue for 15 years.
- 2.2 Bomac wanted to distribute instead a similar product produced by another overseas manufacturer. To do so it would have to get New Zealand regulatory approval. This would be easier if it put forward for approval a product that was chemically equivalent to Norbrook's product.
- 2.3 The appeal in the case pivoted around:
- 2.3.1 The specific percentage of a particular ingredient in the remedy; and
- 2.3.2 Whether Bomac had misused confidential information that it held in relation to that specific percentage, to piggy back on the existing regulatory approval granted to Norbrook.
- 2.4 The Court of Appeal decided that:
- 2.4.1 It was the new manufacturer that first raised the specific percentage not Bomac (ie: it was not proven by Norbrook that Bomac itself

was the source of the percentage that it included in its regulatory application);

- 2.4.2 Bomac did not check the percentage information closely with its own information; and
- 2.4.3 The specific percentage had “gelled subconsciously” with the relevant person at Bomac and he had taken some comfort from this.

- 2.5 Bomac then made what was said to be a speculative application for approval, which was granted. They were able to enter the market with the new product. Of course they had the existing market as they were the existing New Zealand distributors. This gave them a head start over Norbrook in the marketplace.
- 2.6 Even though Bomac had taken some comfort from the confidential information in its possession, the Court of Appeal decided that there was no breach of the duty of confidentiality. For Norbrook to succeed, it had to show that Bomac had done or omitted to do something based on that comfort, and based on misuse of confidential information.

3 What emerges from the case?

- 3.1 There are several points of significance which show that it will not always be easy for confidential information clauses to work in practice:
 - 3.1.1 Unlike relationships based on closer trust (such as solicitor-client and joint ventures where there is a fiduciary duty component), in commercial relationships such as this, the onus of proof in a confidential information case lies on the party alleging breach. This is important because, in many situations, it will be very difficult to establish whether in fact there has been misuse of confidential information by clear evidence, such as a “*smoking gun*” email. In this case, Norbrook might have been very suspicious about what Bomac did, but they couldn’t prove the case against Bomac.
 - 3.1.2 These types of cases can be messy, and the Courts rely on inferences from various sources of evidence (written and oral). This case is one of those messy situations. Don’t count on relying every time on a confidential information clause.
 - 3.1.3 In the absence of direct evidence, if there are two reasonably possible explanations for the behaviour of the party said to be in breach, it will be a rare case in which the plaintiff can discharge the burden of showing misuse. In drawing inferences, often the

coincidences will have to be too strong to permit any other explanation.

- 3.1.4 One of the reasons for these outcomes is that it is said that any other approach would unduly inhibit competition. The duty of confidentiality is said to be about protecting confidential information, not about inhibiting competition. A later case demonstrates these points and also shows that the Courts will be hesitant before overriding a contract by imposing close fiduciary or related obligations.²
- 3.1.5 The possession of confidential information does not of itself preclude a person from developing a product equivalent to that which is protected, if the confidential information is not misused.
- 3.1.6 If a person is aware when receiving information from an independent source that it conforms with the confidential information, that does not in itself give rise to misuse. Nor does the mere fact that the person takes comfort from the knowledge. It is only if the knowledge or comfort causes the person to do or omit to do something that there is conduct amounting to misuse. Here, Norbrook were able to establish that Bomac had taken some comfort from the coincidence between the confidential information and what it was told by the new supplier. But they couldn't establish anything further (for example, that Bomac took a different course as a consequence of receiving information). As the Court of Appeal said:

“The crucial question is accordingly whether Bomac subconsciously misused the commercial information ... as Norbrook conceded that in the circumstances the misuse can only be a subconscious use rather than a deliberate one.”

4 Reducing risk

- 4.1 There will always be risk in providing confidential information but this case highlights that there are some ways of reducing this. For more background, see our paper on confidential information and restraint of trade at <http://www.wigleylaw.com/ConfidentialityAndRestraintOfTradePracticalIssues.html>
- 4.2 Legal agreements are only a fallback, and the primary concern should be to give confidential information only to those who it is believed can be trusted, and on a “need to know” basis. Where information is particularly sensitive, take even greater care (including for example getting a confidentiality

² *Ideal Garages v Independent Construction* (HC, Heath J, Auckland, CIV 2004-404-2865.

agreement commitment not only from the recipient organisation but from the individuals in the organisation).

- 4.3 Look at additional ways of protecting the situation. For example, if the recipient is a potential competitor (as was the case with Bomac and Norbrook) perhaps add a contractual commitment restraining the recipient from competing in the same area for a certain period. While these clauses also have some difficulties (and are not always accepted by the Courts), they can at least give another possible mechanism for protection.
- 4.4 One option, particularly where there is more concern, is to contractually reverse the onus of proof and state that it is for the recipient to prove that it has not misused the confidential information. We have not seen any confidentiality agreements which do this, but it is an option to consider.

Wigley & Company is a specialist technology (including IT and telecommunications), procurement and marketing law firm founded 11 years ago. With broad experience in acting for both vendors and purchasers, Wigley & Company understands the issues on “both sides of the fence”, and so assists its clients in achieving win-win outcomes.

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The firm is actively involved in professional organisations (for example, Michael is President of the Technology Law Society and Stuart van Rij its secretary).

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