Chapter 14 - Trade Secrets

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1. What is a Trade Secret?

A trade secret is a kind of information that, thanks to its confidentiality, has commercial value and can be protected from misuse or misappropriation under the common law or contract law.

Unlike virtually all other intellectual property rights in Canada which are statute-based (patents, copyright, registered trade-marks, plant breeders rights, industrial designs, integrated circuit topographies), Canada is without a "Trade Secrets Act". However, trade secrets are referenced in a limited manner or in a specific context in a number of Canadian statutes including, for example, the *Access to Information Act*[1] and the *Freedom of Information and Protection of Privacy Act*.[2]

The Supreme Court of Canada, in *Merck Frosst Canada Ltd. v. Canada (Health)*,[3] defined a trade secret as a subset of confidential commercial information as follows:

> "A "trade secret" for the purposes of s. 20(1) of the [*Access to Information*] Act should be understood as being a plan or process, tool, mechanism or compound which possesses each of the four characteristics set out in the Guidelines which I have quoted above. This approach is consistent with the common law definition of "trade secrets" and takes account of the clear legislative intent that a trade secret is something different from the broader category of confidential commercial information which is separately and specifically protected under the Act."[4]

Health Canada's *Access to Information Act - Third Party Information - Operational Guidelines* were:

1. the information must be secret in an absolute or relative sense (i.e. known only by one or a relatively small number of persons);

2. the possessor of the information must demonstrate that he has acted with the intention to treat the information as secret;

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1 R.S.C. 1985, c. A-1, s.20(1)

2 R.S.O. 1990, c. F-13, ss. 17 and 18

3 2012 SCC 3

4 *Ibid*, at para. 109.

3. the information must be capable of industrial or commercial application;

4. the possessor must have an interest (e.g. an economic interest) worthy of legal protection.[5]

While Parliament has not provided a uniform definition of trade secrets, an informative definition is provided in subsection 1(4) of the United States Uniform Trade Secrets Act (with 1985 amendments):

> 1(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> > (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
> >
> > (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Another definition is provided in the *North American Free Trade Agreement* (NAFTA) which states:

> 1. Each Party shall provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:
>
> (a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;
>
> (b) the information has actual or potential commercial value because it is secret; and
>
> (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret. [6]

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[5] *Ibid*, at para. 109.

[6] *North American Free Trade Agreement*, ch. 17, article 1711(1)

Requirements for the protection of trade secrets as intellectual property in Canada can be found in the *TRIPS* agreement with reference to the protections provided for "undisclosed information".[7] The *TRIPS* agreement recognizes that select types of confidential information are worthy of protection:

> 2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
>
> (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
>
> (b) has commercial value because it is secret; and
>
> (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

While aspects of these international definitions of trade secrets have been adopted sporadically by Canadian Courts, we remain without a clearly adopted, uniform definition.

2. The Three Prerequisites for Protection of Confidential Information or Trade Secrets

The test for whether there has been a breach of confidence or misappropriation of trade secrets has three elements:

1 the information conveyed was confidential;

2 the information was communicated in confidence, and;

3 the information was misused by the party to whom it was communicated.[8]

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7 *Agreement on Trade-Related Aspects of Intellectual Property Rights,* April 15, 1994, s*.7, art. 39(2)* (Annex 1C of the *Marrakesh Agreement Establishing the World Trade Organization,* signed in Marrakesh Morocco)

8 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p. 47; quoted with approval by La Forest J. in *Lac Minerals Ltd.* v. *International Corona Resources Ltd* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at p. 101.

The obligation of confidence is not limited to contract,[9] equity or property.

> "The foundation of the action for breach of confidence does not rest solely on one of the traditional bases for action of contract, equity or property. The action is *sui generis* relying on all three to enforce the policy of the law that confidences be respected..."[10]

2.1. Information conveyed was confidential - there must be a Trade Secret

A central requirement for information to be considered a trade secret, or otherwise confidential and protectable under the common law, is that the information is actually secret. Something that is public property and public knowledge cannot provide any foundation for proceedings for breach of confidence.[11]

The right to confidentiality expires when the secret is made public. Or, put another way, a secret is a secret so long as it is a secret:

> "It is trite to state that a secret once disclosed is no longer a secret."[12]

If information is disclosed by its owner, or otherwise with the owner's permission, in such a manner that it becomes available to the public, it is no longer a secret and is no longer protectable as a trade secret.[13] Information even if once confidential, when disclosed by sale, advertising or public promotion, publication in a patent document[14] or otherwise made available, is no longer a trade secret.

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[9] *Saltman Engineering Coy. Ld.* v. *Campbell Engineering Ld.* [1948] 65 R.P.C. 203 at p.211, cited in *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p. 47; quoted with approval by La Forest J. in *Lac Minerals Ltd.* v. *International Corona Resources Ltd* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at p. 101.

[10] *Lac-Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 157.

[11] *Promotivate International* v. *Toronto Star Newspapers* (1986) 8 C.P.R. (3d) 546 (Ont. S.C.) at 549

[12] *R.L. Crain Limited* v. *Ashton* 9 Fox Pat. C. at 209 per Hogg J.A. quoted in *Caristrap Corporation et al.* v. *Cordex Ltd. et al.* 35 Fox Pat. C. (per Moorhouse, J.) at p.6

[13] *Saltman Engineering Co. Ltd.* v. *Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203 (C.A.)

[14] *Belform Insulation Ltd. v. Toleks Insulation Ltd.* (1949) 9 C.P.R. 143; aff'd (1949) 11 C.P.R. 54 (Ont. C.A.).

Unless there is some contractual agreement to the contrary, the duty to maintain confidentiality usually ends when the owner of the trade secret (the person to whom the duty of confidentiality is alleged to be owed) makes public what was the trade secret.[15]

2.1.1. Ownership/Creation

The owner of the confidential information must have either created it or acquired it from someone else.

Despite its potential value, usefulness and uniqueness, whether trade secrets, or more generally confidential information, are considered “property” in Canada remains somewhat unsettled. Whether confidential information or trade secrets will be considered property still requires a contextual analysis, and may be judged on a case by case basis.

Some consider it to be property because it can be bought and sold:

> "This information - this collection together of materials so as to give knowledge of all that has been done on the Stock Exchange - is something that can be sold. It is property, and being sold to the plaintiffs, it was their property. The Defendant has, with intention, invaded their right of property in it, and has done so surreptitiously and meanly."[16]

Others do not:

> "Although confidential information has some of the characteristics of property, its foothold as such is tenuous... I agree in this regard with the statement of Lord Evershed in it *Nichrotherm Electrical Co. Ltd. v. Percy,* [1957] R.P.C. 207 at p. 209 that:
>
> > “... a man who thinks of a mechanical conception and then communicates it to others for the purpose of their working out means of carrying it into effect does not, because the idea was his (assuming that it was), get proprietary rights equivalent to those of a patentee. Apart from such rights as may flow from the fact, for example, of the idea being a secret process communicated in

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15 *Delrina Corp.* v. *Triolet Systems Inc.* (1992), 47 C.P.R. (3d) 1; *Integral Systems Inc.* v. *Peoplesoft Inc.* (1991) U.S. Dist. Lexis 20878; O. Mustad & Son v. S. Allcock & Co. Ltd. [1963] 3 All E.R. 416 (H of L)

16 *Exchange Telegraph Company Limited* v. *Gregory and Co.* [1896] 1 Q.B. 147 (C.A.) per Lord Esher M.R.

> confidence or from some contract of partnership or agency or the like which he may enter into with his collaborator, the originator of the idea gets no proprietary rights out of the mere circumstances that he first thought of it."[17]

In some contexts, confidential information has some of the characteristics of "property". Licence agreements commonly refer to confidential information or trade secrets as the subject matter of the licence which is "owned" by the Licensor. Computer software which constitutes a trade secret is exigible to a writ of seizure and sale.[18]

In *R. v. Stewart*[19] the Supreme Court of Canada held that confidential information is not property which can be stolen contrary to the Canadian *Criminal Code*.[20] Under the *Criminal Code*, for an act to constitute theft there must be a taking of "anything, whether animate or inanimate" to deprive someone of that thing or "to deal with it in such a manner that it cannot be restored in the condition in which it was at the time it was taken or converted".[21] Information, whether confidential or not, is not a "thing" and, therefore, taking names from a confidential computer database is not theft.[22]

Despite holding that confidential information is not property for the purpose of the theft provisions of the Criminal Code, the Court did note that trade secrets may be considered property in some circumstances:

> “Indeed, [confidential information] possesses many of the characteristics of other forms of property: for example, a trade secret, which is a particular kind of confidential information, can be sold, licensed or bequeathed, it can be the subject of a trust or passed to a trustee in bankruptcy. In the commercial field, there are reasons to grant some form of protection to the possessor of confidential information: it is the product of labour, skill and expenditure, and its unauthorized use would undermine productive efforts which ought to be encouraged. As the term

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17 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 158.

18 *Mortil* v *International Phasor Telecom Ltd.* (1988) 20 C.P.R. 277 (B.C.Co.Ct.) where the Court placed certain terms on the sale which required that the purchaser enter into a trust agreement concerning the nondisclosure and prohibition of unauthorized use of the trade secret software.

19 *Regina* v. *Stewart* [1988] 1 S.C.R. 963.

20 *Regina* v. *Stewart* [1988] 1 S.C.R. 963.

21 *Criminal Code*, s. 322

22 *Regina* v. *Offley* (1986) 11 C.P.R. (3d) 231.

> "property" is simply a reference to the cluster of rights assigned to the owner, this protection could be given in the form of proprietary rights.[23]

The burden of proof in cases of allegedly misappropriated trade secrets includes proof that the allegedly secret data is not known to others.[24]

2.1.2. Collections of Public Information

Although pieces of information that are in the public domain cannot individually be protected as confidential information or trade secrets, collections made from publically available information can be confidential and be protected.

A trade secret can be formed from or based on a compilation of public information if a sufficient degree of human skill and ingenuity were used to create something new.

> "First, the information must be of a confidential nature. As Lord Greene said in the *Saltman* case at page 215, "something which is public property and public knowledge" cannot per se provide any foundation for proceedings for breach of confidence. However confidential the circumstances of communication, there can be no breach of confidence in revealing to others something which is already common knowledge. But this must not be taken too far. Something that has been constructed solely from materials in the public domain may possess the necessary quality of confidentiality: for something new and confidential may have been brought into being by the application of the skill and ingenuity of the human brain. Novelty depends on the thing itself, and not upon the quality of its constituent parts. Indeed, often the more striking the novelty, the more commonplace its components. Mr. Mowbray demurs to the concept that some degree of originality is requisite. But whether it is described as originality or novelty or ingenuity or otherwise, I think there must be some product of the human brain which suffices to confer a confidential nature upon the information: and, expressed in those terms, I think that Mr. Mowbray accepts the concept.

The difficulty comes, as Lord Denning, M.R. pointed out in the *Seager* case on page 931, when the information used is partly public and partly private; for then the recipient

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23 *Regina* v. *Stewart* [1988] 1 S.C.R. 963 at 975-75 (Lamer J.).

24 *MAI Systems Corp.* v. *Banwell Computer Services Inc.* (1992), 41 C.P.R. (3d) 57 (O.C.G.D.) at 64.

must somehow segregate the two and, although free to use the former, must take no advantage of the communication of the latter."[25]

> "... what makes [information] 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."[26]

Where the information taken is a mix of public and private, the recipient must be sure only to use the information that is public.

> "When the information is mixed, being partly public and partly private, then the recipient must take special care to use only the material which is in the public domain. He should go to the public source and get it: or, at any rate, not be in a better position than if he had gone to the public source. He should not get a start over others by using the information which he received in confidence. At any rate, he should not get a start without paying for it."[27]

2.1.3. Reverse Engineering

As soon as a trade secret is discovered, either by an examination of the product (reverse engineering), or in any other honest way, the discoverer has the full right of using it.[28] The unrestricted commercial sale of a product of an allegedly proprietary design that can be reverse engineered or otherwise examined by the purchaser of the product will destroy the confidentiality of any design information related to the product. In *R. I. Crain Ltd. v. Ashton*[29] the plaintiff's sale of their machines was found to have made the machines available to the public, who were then free to examine and reverse engineer and/or recreate the machines.

However, if a product cannot be reverse engineered the sale of the product does not necessarily place it within the public domain, and it may retain its protectable, confidential status. In *CPC International Inc. v. Seaforth Creamery Inc.* it was found

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25 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p.47

26 *Saltman Engineering Co. Ltd.* v. *Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203 (C.A.) at p. 205.

27 *Seager* v. *Copydex Ltd.* [1967] 1 W.L.R. 923 (C.A. per Denning M.R.) at p. 931-2; *Lac Minerals Ltd.* v. International Corona Resources Ltd. (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 154.

28 *R.L. Crain Limited* v. *Ashton* [1949] O.R. 303 (S.C.) at 309.

29 *R.L. Crain Limited* v. *Ashton* [1949] O.R. 303 (S.C.) at 309.

that the specific formulation of the plaintiff's mayonnaise could not in fact be determined by a competitor's analysis or examination of the finished product. In essence, the mayonnaise recipe, which was considered to be a trade secret by the plaintiff, remained a secret despite the sale of the mayonnaise product and competitor's attempts at reverse engineering. In this circumstance, the confidentiality of the information was not destroyed by sale and the recipe remained a trade secret.[30] The same would be true for the recipe for Coca-Cola as it is not discernible from the product on the public market.

2.2. Communication under Circumstances of Confidence

Analogous to the requirement that one accused of copyright infringement must have actually copied the plaintiff's work, to be liable for any type of misuse or misappropriation of a trade secret the defendant must have actually acquired the contested information from the plaintiff (directly or indirectly).

There must be a connection between the owner and the recipient of the confidential information that has two characteristics:

1. a legal connection in the form of a legal obligation for the recipient to treat the information as confidential; and

2. a transmission connection in that the trade secret has to have been communicated, directly or indirectly from the owner to the recipient.

Whether the recipient of confidential information has a duty to keep the information secret can depend on the context and circumstances under which the information was communicated. Specifically, a recipient of confidential information will be subject to different obligations, depending on whether the recipient knew the information was communicated in confidence.[31]

If a party does not know that the information he receives was obtained or communicated in breach of trust or confidence, then there can be no breach attributed to him.[32]

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30 *CPC International Inc. v. Seaforth Creamery Inc.* (1996) 69 C.P.R. (3d) 297.

31 *A-G* v *Guardian Newspapers (No. 2)* [1988] 3 All ER 545 at 652 (H.L.)

32 *Bryndon Ventures*, (1989), 31 CPR (3d) 452 (BCSC) at 459 aff'd 37 CPR (3d) 489 (BCCA)

2.2.1. Circumstances or a Relationship of Confidence

There must be circumstances that create a relationship between the parties.

> "It may broadly be stated, as a result of the decision of this Court in *Saltman Engineering Coy Ld.* v. *Campbell Engineering Coy. Ld*. (1948) 65 R.P.C., p.203 that if information be given by one trader to another in circumstances which make that information confidential, then the second trader is disentitled to make use of the confidential information for purposes of trade by way of competition with the first trader."[33]

The circumstances are (in declining gradations of clarity and certainty):

- written contract;
- implied contract;
- fiduciary duty; and
- practice in the trade.

2.2.2. Written Contract

A written agreement in which the parties agree that (a) the identified information is confidential; (b) the information is given and received in confidence; and (c) is to be used only for an expressed purpose, is the best way to protect confidential information. If the terms and scope of the agreement are clear, the parties know precisely what they are and are not to do to comply with it. Likewise, a written contract makes it easier for the Court to recognize that the confidential information was to be treated as confidential by the parties and that an obligation of confidence was created of a certain designated scope.

Written confidentiality agreements can be freestanding, such as in the case of a Confidentiality or Non-Disclosure Agreement of Appendix A which is a precedent of an agreement where the owner of the information wishes the recipient to evaluate the information for the purposes of development or acquisition. Similar confidentiality clauses, such as those in Appendix B, may be included in an Employment Agreement

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[33] *Terrapin Ld.* v. *Builders' Supply Co. (Hayes) Ld. et al.* [1960] R.P.C. 128 at p. 131

so as to bind and employee not to disclose the confidential information of his or her employer (and confidential information of suppliers or customers of the employer).

Where parties, by contract, have defined obligations of confidence, the extent of those obligations, whether they have been breached, and the remedy for any breach, are questions to be determined by reference to the contract.[34]

A written contract does not necessarily replace the common law duty of confidence. That common law duty applies independent of a contract.[35] A party can rely on its common law rights in addition to its contractual rights, so long as (a) the contract does not preclude reliance on a concurrent or alternative liability in tort or (b) the common law duty of care falls short of a specific obligation or duty imposed by the express terms of a contract.[36]

An example of a contract excluding any common law obligation would be a Disclosure Agreement where the parties agreed that the information disclosed was <u>not</u> confidential and that the recipient could use the information disclosure for any purpose. Such agreements are sometimes used in the game, toy and movie industry to protect companies from allegations from those who suggest ideas to them that they misappropriated them.

Where the parties have agreed in a written contract that certain information in certain circumstances should be considered non-confidential, a common law obligation to maintain information in confidence will not exist.[37]

2.2.3. Implied Contract

The obligation of confidence can be an implied term of contract.

> "The main part of the claim is based on breach of confidence, in respect of which a right may be infringed without the necessity of there being any contractual relationship. I will explain what I mean. If two parties make a contract, under which one of them obtains for the purpose of the contract or in connection with it some confidential matter, even though the contract is silent on the matter of confidence the law will imply an obligation to treat

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34 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (Ch. D. per Megarry, J.) at p.47.

35 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (Ch. D. per Megarry, J.) at p.47.

36 *Central Trust Co.* v. *Rafuse* [1986] 2 S.C.R. 147 (S.C.C.)

37 *S.D. & A. Marketing Services* v. *Horn Abbot Limited* (1989), 23 C.I.P.R. 129 (Ont. H.C.) at p. 140.

> that confidential matter in a confidential way, as one of the implied terms of the contract..."[38]

2.2.4. Employee's Implied Obligation

The general rule is that a departing employee is free to compete with his or her former employer. There are limits to the restraint an employer can use against an employee who departs to carry on business elsewhere using his knowledge (which may include general information gained at his last place of employment).

> "Great stress was laid by learned counsel for the defendant upon the fact that a servant having left his master may, unless restrained by contract, lawfully set up in the same line of business as his late master and in the same locality; and that he may, without fear of legal consequences, canvass for the custom of his late master's customers, whose names and addresses he has learned, *bona fide* accidentally, during his period of service. I do not suppose that anybody with any knowledge the law, would seriously contend to the contrary."[39]

It is clear that, where confidential information is not involved, an employee cannot be prevented from using his ordinary skills, experience and knowledge in his or her next employment.

> "This observation of what the plaintiffs by their statement of claim ask is not, I think, altogether immaterial because, as will appear, in my opinion, what the plaintiffs are seeking to do in this action is really to prevent the defendant, not from divulging or communicating confidential information, but from using the skill, experience and knowledge that are his own in the service of anyone else but the plaintiffs."
>
> ...
>
> They [the plaintiffs] are trying to stop the defendant from using after he has left the plaintiffs' service, knowledge, skill and experience which as a result of this service have become his own. None of the cases referred to are cases in which the court has found it is able to grant an injunction

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[38] *Saltman Engineering Coy. Ld.* v. *Campbell Engineering Coy. Ld.* [1948] 65 R.P.C. 203 at p.211.

[39] *Robb* v. *Green* (1895) 2 Q.B. 1 at p. 12, per Hawkins, J.; quoted in *Caristrap Corporation et al* v. *Cordex Ltd et al* 35 Fox Pat. C. (per Moorhouse, J.) at p. 6.

> against the use of that kind of knowledge when the person against whom the injunction is being sought has come by the knowledge honestly."[40]

However, certain information gained by the employee during employment can be recognized as secret and subject to a continuing obligation of confidentiality.

> "The cases on this subject of trade secrets establish that independently of any express covenant or contract, an employee who, in the course of his employment, acquired a knowledge of a secret process belonging to his employer, arising out of the confidential relation between an employer and his employee, is under an implied obligation not to use that knowledge upon leaving his employment."[41]

2.2.5. Fiduciary Duty

A fiduciary duty can form the basis of an obligation under which one party must protect and not misuse the confidential information of another party.

> "There are few legal concepts more frequently invoked but less conceptually certain than that of the fiduciary relationship. In specific circumstances and in specific relationships, courts have no difficulty imposing fiduciary obligations, but at a more fundamental level, the principle on which that obligation is based is unclear. Indeed, the term "fiduciary" has been described as "one of the most ill-defined, if not altogether misleading terms in our law"; see P.D. Finn, *Fiduciary Obligations* (1977), at p. 1. It has been said that the fiduciary relationship is "a concept in search of a principle": see Sir Anthony Mason, "Themes and Prospects" in P.D. Finn, *Essays in Equity* (1985), at p. 246. Some have suggested that the principles governing fiduciary obligations may indeed be undefinable (D.R. Klinck, "The Rise of the 'Remedial' Fiduciary Relationship; A Comment on *International Corona Resources Ltd. v. Lac Minerals Ltd.* " (1988), 33 McGill L. Jo. 600 at p. 603), while others have doubted whether there can be any "universal, all-purpose definition of the fiduciary relationship" (see *Hospital Products Ltd. v. U.S. Surgical Corp.* (1984), 55 A.L.R. 417 at p. 432; R.P. Austin, "Commerce and Equity -- -

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40 *Caristrap Corporation et al* v. *Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at pp. 7, 8.

41 *R. I. Crain* v. *Ashton* 9 Fox Pat. C. 201 at 205; *Caristrap Corporation et al* v. *Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at p.6

> Fiduciary Duty and Constructive Trust" (1986), 6 O.J.L.S. 444 at pp. 445-46). The challenge posed by these criticisms has been taken up by courts and academics convinced of the view that underlying the divergent categories of fiduciary relationships and obligations lies some unifying theme..."[42]

> "... where by statute, agreement, or perhaps by unilateral undertaking, one party has an obligation to act for the benefit of another, and that obligation carries with it a discretionary power, the party thus empowered becomes a fiduciary."[43]

In *Alberta v Elder Advocates* it was said that:

> "for an *ad hoc* fiduciary duty to arise, the claimant must show, in addition to the vulnerability arising from the relationship as described by Wilson J. in *Frame*: (1) an undertaking by the alleged fiduciary to act in the best interests of the alleged beneficiary or beneficiaries; (2) a defined person or class of persons vulnerable to a fiduciary's control (the beneficiary or beneficiaries); and (3) a legal or substantial practical interest of the beneficiary or beneficiaries that stands to be adversely affected by the alleged fiduciary's exercise of discretion or control."[44]

Fiduciary duties can arise in the intra-corporate context. Directors, as well as senior officers of a company (such as a President or Chief Engineer), owe a fiduciary duty to the company not to appropriate business opportunities of their former company.[45]

> "It follows that O'Malley and Zarzycki stood in a fiduciary relationship to Canaero, which in its generality betokens loyalty, good faith and avoidance of a conflict of duty and self-interest. Descending from the generality, the fiduciary relationship goes at least this far: a director or a senior officer like O'Malley or Zarzycki is precluded from obtaining for himself, either secretly or without the approval of the company (which would have to be properly manifested upon full disclosure of the facts), any property or business advantage either belonging to the company or

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42 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest J.) at p. 109.

43 *Guerin* v. *The Queen* (1984), 13 D.L.R. (4th) 321 (S.C.C. per Dickson J.) at p. 339-41; quoted in *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest J.) at p.110.

44 *Alberta v Elder Advocates* 2011 SCC 24 at para 36.

45 *Canadian Aero Services Ltd.* v. *O'Malley*, [1974] S.C.R. 592, per Laskin J.

> for which it has been negotiating; and especially is this so where the director or officer is a participant in the negotiations on behalf of the company.
>
> An examination of the case law in this Court and in the Courts of other like jurisdictions on the fiduciary duties of directors and senior officers shows the pervasiveness of a strict ethic in this area of the law. In my opinion, this ethic disqualifies a director or senior officer from usurping for himself or diverting to another person or company with whom or with which he is associated a maturing business opportunity which his company is actively pursuing; he is also precluded from so acting even after his resignation where the resignation may fairly be said to have been prompted or influenced by a wish to acquire for himself the opportunity sought by the company, or where it was his position with the company rather than a fresh initiative that led him to the opportunity which he later acquired."[46]

A fiduciary duty can also be imposed on "key employees" of the previous business,[47] particularly where the company relied on that employee and was vulnerable to misappropriation.[48] A fiduciary duty will not be imposed on a "mere employee" such as a salesperson.[49]

The most important case dealing with fiduciary duty in the context of trade secrets is *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.). Corona, a junior mining company, provided to Lac, a senior mining company, information relating to the results of core drilling results from property owned by a Mrs. Williams. Corona and Lac came to an informal oral understanding as to how each would conduct itself in anticipation of a joint venture or another business arrangement. Both Corona and Lac placed offers for the Williams property. The Lac offer was accepted by Mrs. Williams. The property became a very lucrative gold mine valued at up to 1.95 billion dollars.

The trial judge of the Supreme Court of Ontario held that Lac was liable to Corona for breach of confidence and breach of fiduciary duty. Lac was ordered to transfer the property to Corona. The Court held that Lac was entitled to compensation for the cost of the improvements it had made to the property ($203,978,000) discounted by

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46 *Canadian Aero Services Ltd.* v. *O'Malley*, [1974] S.C.R. 592, per Laskin J. at pp. 606-607.

47 *W.J. Christie & Co. v. Greer* (1981), 59 C.P.R. (2d) 127 at p. 133.

48 *Tree Savers International Ltd. v. Savoy* (1991), 37 C.P.R. (3d) 455, aff'd 40 C.P.R. (3d) 173 (C.A.)

49 *Barton Insurance Brokers Ltd. v. Irwin*, (1999), 170 D.L.R. (4th) 69

$50,000,000 which Corona would have saved had it, rather than Lac, developed the mine. Corona was also awarded the profits obtained by Lac from the Williams property, with interest. As an alternative remedy, the Court assessed damages at $700,000,000 (If a court on appeal was to decide that damages were a proper remedy instead of a transfer of the property).

The Ontario Court of Appeal affirmed the findings of the trial judge on the issues of fiduciary duty and breach of confidence. The appeal was dismissed with costs.

Sopinka J. (and the majority of the judges) found there to be no fiduciary relationship:

> "Where, however, the essence of the complaint is misuse of confidential information, the appropriate cause of action in favour of the party aggrieved is breach of confidence and not breach of fiduciary duty.
>
> In my opinion, both the trial judge and the Court of Appeal erred in coming to the conclusion that a fiduciary relationship existed between Corona and Lac. In my respectful opinion, both the trial judge and the Court of Appeal erred by not giving sufficient weight to the essential ingredient of dependency or vulnerability and too much weight to other factors."[50]

Since *Lac Minerals*, a fiduciary duty has been recognized between companies in *Sweet Factory Inc*. v. *Hudson's Bay Company*[51] where a confidentiality agreement existed between a company negotiating with Hudson's Bay Company to re-design its candy store and operations.

The liability for breach of a fiduciary duty is not dependent on a finding that the information was confidential.[52]

2.2.6. Where Confidentiality is Understood from the Circumstances

In *Lac. v. Corona*, the plaintiff was awarded the largest judgment awards in Canadian trade-secret law history. The plaintiff in *Lac* succeeded by proving that it was "the practice in the trade" that such communications were considered to be confidential. "practice of the trade" to establish a confidential relationship is the most risky for owners of confidential information and will likely require costly litigation to resolve.

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50 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 147

51 (1998), 85 C.P.R. (3d) 417 (Ont. Ct., Gen. Div.)

52 *Canadian Aero Service Ltd. v. O'Malley* (1973) 11 C.P.R. (2d) 206 at 209.

The question is whether a reasonable person would realize that the information was being communicated in confidence.

> "The second requirement is that the information must have been communicated in circumstances importing an obligation of confidence. However secret and confidential the information, there can be no binding obligation of confidence if that information is blurted out in public or is communicated in other circumstances which negative any duty of holding it confidential. From the authorities cited to me, I have not been able to derive any very precise idea of what test is to be applied in determining whether the circumstances import an obligation of confidence. In the *Argyll* case at page 330, Ungoed-Thomas, J. concluded his discussion of the circumstances in which the publication of marital communications should be restrained as being confidential by saying, "If this was a well-developed jurisdiction doubtless there would be guides and tests to aid in exercising it." In the absence of such guides or tests he then in effect concluded that part of the communications there in question would on any reasonable man, may be pressed into service once more; for I do not see why he should not labour in equity as well as at law. It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence. In particular, where information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture of the manufacture of articles by one party for the other. I would regard the recipient as carrying a heavy burden if he seeks to repel a contention that he was bound by an obligation of confidence: see the *Saltman* case at page 216. On that footing, for reasons that will appear, I do not think I need explore this head further. I merely add that I doubt whether equity would intervene unless the circumstances are of sufficient gravity; equity ought not to be invoked merely to protect trivial tittle-tattle, however confidential."[53]

In one case, the Court appears to have placed the burden on the recipient of the information to disprove an obligation of confidence:

> "In particular, where information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture of the manufacture of articles by one party for the other. I would regard the recipient as carrying a heavy burden if he seeks

[53] *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at pp. 47-48

> to repel a contention that he was bound by an obligation of confidence..."[54]

2.2.7. No Protection where there is no communication in confidence

Trade Secret law does not protect an owner against independent creation.[55]

2.3. Misuse Of The Confidential Information

The third component for an action for breach of confidence is that the confidential information or trade secret has been misused by the recipient.

> "Thirdly, there must be an unauthorized use of the information to the detriment of the person communicating it. Some of the statements of principle in the cases omit any mention of detriment; other include it. At first sight, it seems that detriment ought to be present if equity is to be induced to intervene; but I can conceive of cases where a plaintiff might have substantial motives for seeking the aid of equity and yet suffer nothing which could fairly be called detriment to him as when the confidential information shows him in a favourable light but gravely injures some relation or friend of his whom he wishes to protect. The point does not arise for decision in this case, for detriment to the plaintiff plainly exists. I need therefore say no more than that although for the purposes of this case I have stated the propositions in the stricter form. I wish to keep open the possibility of the true proposition being that in the wider form." [56]

2.3.1. Onus

Mr. Justice La Forest would put the onus on the recipient to show that there was no prohibited use.

> "In establishing a breach of duty of confidence, the relevant question to be asked is what is the confidee entitled to do with the information, and not to what use he is prohibited from putting it. Any use other than a permitted

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[54] *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p. 48; quoted with approval by La Forest J in *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at p. 107-8.

[55] *InMolnar Lithographic Supplies Ltd. V. Sikatory* (1974), 14 C.P.R. (2d) 197

[56] *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p. 48

> use is prohibited and amounts to a breach of duty. When information is provided in confidence, the obligation is on the confidee to show that the use to which he put the information is not a prohibited use."[57]

For example, the use of confidential business information by RIM to advance an unsolicited (or hostile) offer to purchase shares directly from Certicom's shareholders, was enjoined as a misuse of information and provided under a non-disclosure agreement permitted to be used for assessing the desirability of establishing or furthering "some form of business combination between the parties".[58] Had RIM not received and used confidential information to mount a hostile bid, it would have been entitled to do so.

3. Third parties who receive trade secrets

In some cases, the person under an obligation of confidence will disclose the trade secret to a third party. The third party's freedom to use that trade secret will turn on whether he or she knew that it was communicated to the third party in a breach of confidence.

An innocent purchaser of a trade secret for value without notice of any obligation affecting it may be in a position to resist a claim by a plaintiff for an injunction.[59]

Where, however, the third party knows or learns that the information was received in breach of confidence, he or she may be retrained from using it.

> "Equity, as a court of conscience, directs itself to the behaviour of the person who has come into possession of information that is in fact confidential, and was accepted on that basis, either expressly or by implication. Equity will pursue the information into the hands of a third party who receives it with the knowledge that it was communicated in breach of confidence (or afterwards acquires notice of that fact even if innocent at the time of acquisition) and impose its remedies."[60]

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[57] *Lac Minerals Ltd.* v *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest J.) at p. 107.

[58] *Certicom Corp. v. Research In Motion Ltd*., [2009] O.J. No. 252 (Ont. Sup. Ct.); 2009 CanLII 1651 (ON S.C.).

[59] *International Tools* v. *Kollar* [1968] 1 O.R. 669 (C.A.) at 674.

[60] *Cadbury Schweppes Inc*. v. *FBI Foods Ltd*., [1999] 1 S.C.R. 142 at para. 19.

In *Gold Reserve Inc. v. Rusoro Mining Ltd*.,[61] a financial advisor (Endeavour) acting on behalf of one company (Rusoro) in making a hostile take-over bid to acquire another company (Gold Reserve) was found to be in breach of its confidentiality obligations to Gold Reserve having also been previously retained as a financial advisor for Gold Reserve. Rusoro was ordered to stop its hostile take-over bid and Rusoro and Endeavour were ordered to return to Gold Reserve all its confidential information.

Where a third party obtains information without knowledge that the information was once confidential, and the information becomes available to the public, the third party will not be restrained from making use of the information even though he must realize that the information was once held in confidence.[62]

4. Remedies for Misuse of a Trade Secret/ Confidential Information

The appropriation of confidential information is answerable in injunctive relief, damages, profits and restitution.

Equitable remedies may be available to a plaintiff if warranted by the situation. In the *FBI Foods* case, the Supreme Court noted, at paragraphs 19 and 20:

> [19] Equity, as a court of conscience, directs itself to the behaviour of the person who has come into possession of information that is in fact confidential, and was accepted on that basis, either expressly or by implication. Equity will pursue the information into the hands of a third party who receives it with the knowledge that it was communicated in breach of confidence (or afterwards acquires notice of that fact even if innocent at the time of acquisition) and impose its remedies. It is worth emphasizing that this is a case of third party liability. The appellants did not receive the confidence from the respondents, but from the now defunct Caesar Canning. The receipt, however, was burdened with the knowledge that its use was to be confined to the purpose for which the information was provided, namely the manufacture of Clamato under licence.
>
> [20] The equitable doctrine, which is the basis on which the courts below granted relief, potentially runs alongside a number of other causes of action for unauthorised use or disclosure of confidential information, including actions sounding in contract, tort and property law.[63]

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61 *Gold Reserve Inc*. v. *Rusoro Mining Ltd*., [2009] O.J. No. 533 (Ont. Sup. Ct.); 2009 CanLII 4855 (ON S.C.).

62 *A-G* v *Guardian Newspapers (No. 2)* [1988] 3 All ER 545 at 652 (H.L.)

63 *Cadbury Schweppes Inc*. v. *FBI Foods Ltd*., [1999] 1 S.C.R. 142.

4.1. Injunctive Relief

Once a breach of confidence occurs, the confidential information may become public knowledge and lose its confidentiality, permanently and irreparably. It can be critically important therefore, in order to preserve the information as a trade secret, to obtain an injunction to prevent its disclosure.

A Court will prevent a person who had received an idea from disclosing it until that idea becomes general public knowledge.[64]

The idea to be the subject of an injunction must be clearly identifiable and original.[65] The Defendant faced with an injunction must be able to determine what information is confidential and what is not. This is not possible where the injunction sought is broadly worded and the confidential information is not clear.[66] Where a court has difficulty in determining what is confidential, and what is not, an injunction is not an appropriate remedy.[67]

The Courts will include in their considerations as to whether to grant an interlocutory injunction, a clause on a non-disclosure agreement that, upon breach of the agreement, the disclosing party has the right to seek injunctive relief.[68]

4.1.1. Interlocutory Injunction

To be entitled to an interlocutory injunction, the plaintiff must show that i) there is a serious issue to be tried, ii) the plaintiff will suffer irreparable harm which cannot be adequately compensated by damages if the injunction is not granted, and iii) the balance of convenience lies in favour of granting the injunction.[69]

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[64] *Promotivate International* v. *Toronto Star Newspapers*, (1986) 8 C.P.R. (3d) 546 (Ont. S.C.)

[65] *Promotivate International* v. *Toronto Star Newspapers,* (1986) 8 C.P.R. (3d) 546 (Ont. S.C.) at p. 549.

[66] *Suhner & Company* v. *Transradio Limited* [1967] R.P.C. 329 (Ch. D.) at p. 334

[67] *Suhner & Company* v. *Transradio Limited* [1967] R.P.C. 329 (Ch. D.) at p. 334

[68] *Certicom Corp. v. Research In Motion Ltd*., [2009] O.J. No. 252 (Ont. Sup. Ct.); 2009 CanLII 1651 (ON S.C.) at para. 72; *Gold Reserve Inc. v. Rusoro Mining Ltd*., [2009] O.J. No. 533 (Ont. Sup. Ct.); 2009 CanLII 4855 (ON S.C.), paras. 28 & 76.

[69] *R.J.R.-MacDonald Inc. v. Canada (Attorney General)*, (1994) 54 C.P.R. (3d) 114 (S.C.C.) at 130.

Where the grant of an interlocutory injunction will, in effect, dispose of the action by granting the Plaintiff all of the relief it could hope to obtain at trial, the plaintiff must establish a *prima facie* case.[70]

4.1.2. Permanent Injunction

A permanent injunction after a trial is warranted where, and to the extent, that it is required in order to protect the trade secret or to prevent the defendant from misusing the trade secret.

The scope of the injunction must not be broader than what is needed to protect the information or the party.

> "The onus of proof is upon the party supporting the claim, based upon an alleged trade secret, to show that the restraint request in the form of an injunction goes no further than is reasonably necessary to protect the employer." Hogg J. A. in *R.I. Crain* v. *Ashton* (1950) O.R. 62 at p. 68."[71]

The injunction should not give the injured party more protection than he or she realistically needs and, in particular, discourage or prohibit what, in the course of time, becomes legitimate competition.[72]

In the case of former employees, the courts will not enjoin the former employee from competing by using personal skill and knowledge.

> "In fact the reason, and the only reason, for upholding such a restraint on the part of an employee is that the employer has some proprietary right, whether in the nature of the trade connection or in the nature of the trade secrets, for the protection of which such a restraint is - having regard to the duties of the employee - reasonably necessary. Such a restraint has, so far as I know, never been upheld, if directed only to the prevention of competition or against the use of personal skill and knowledge acquired by the employee in his employer's business."[73]

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[70] *Turbo Resources Ltd.* v. *Petro Canada Inc.* (1989), 24 C.P.R. (3d) 1 (F.C.A.) at p. 11,15, and 21

[71] *Caristrap Corporation et al* v. *Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at p.5

[72] *Roger Bullivant* v. *Ellis* [1987] F.S.R. 172 (U.K.C.A.) at 188.

[73] *Caristrap Corporation et al* v. *Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at pp. 5-6

4.1.3. Last until the secret expires

Generally, the duration of an injunction restraining use of a trade secret should not continue beyond the time the plaintiff's trade secret remains a secret exclusively known to the plaintiff or those under an obligation of confidence to the plaintiff.[74]

4.1.4. Last beyond the life of the secret - The Springboard Doctrine

Trade secrets are not to be used as “springboard” or provide a “head start” to obtain a competitive advantage in the marketplace ahead of those who do not have the information. The harm caused by the springboard effect can last beyond the life of the original secret, and the term of an injunction or quantum of damages can be set accordingly.

In *FBI Foods*, Binnie J., citing a UK decision and noting its earlier mention in Canada in *Lac Minerals*, wrote:

> As I understand it, the essence of this branch of law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a spring-board for activities detrimental to the persons who made the confidential communication, and spring-board it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public.[75]

This concept is further endorsed in *Coco v. A. N. Clark (Engineers):*

> ... I must also return to a further point, namely, that where confidential information is communicated in circumstances of confidence the obligation thus created endures, perhaps in a modified form, even after all the information has been published or is ascertainable by the public; for the recipient must not use the communication as a spring-board…[76]

If an injunction is to be granted, it ought only to be granted to cover the period of the alleged "springboard".[77] For example, an employee who was found to owe a fiduciary

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[74] *International Tools* v. *Kollar* [1968] 1 O.R. 669 (C.A.) at 676

[75] *Cadbury Schweppes Inc. et al. v. FBI Foods Ltd. et al*. (1999) 83 C.P.R. (3d) 289 (S.C.C.) at 320, citing Roxburgh J. in *Terrapin Ltd. v. Builders’ Supply Co. (Hayes) Ltd*., [1967 R.P.C. 375 (Ch. D. 1959) at p. 391.

[76] *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p.47-48

[77] *Schauenburg Industries Ltd.* v. *Borowski* (1979) 25 O.R. (2d) 737 (H.C.J.) at 746-7

duty to his former employer was enjoined for working in the same industry for a reasonable period which, in that case, was one year.[78]

4.1.5. Order not to compete

One way of assuring that the confidential information will not be used by a former employee is to exclude him or her from working in the relevant market for a period of time. That will reduce or eliminate the advantage of having or using the confidential information. For example, an employee who was found to owe a fiduciary duty to his former employer was enjoined for working in the same industry for a reasonable period which, in that case, was one year.[79]

4.1.6. Delay

An injunction, being equitable relief, will not be granted where the Plaintiff has delayed, with knowledge of the Defendant's activities, and, in the interim, the Defendant has incurred expenses, taken steps, and made commitments[80] or had a change in circumstances that would result in prejudice to the defendant.[81]

In *FBI Foods v. Cadbury Schweppes*[82], as per Binnie J.:

> …it was considered relevant to the grant of an injunction that the third party sought to be enjoined (as the appellants are in this case) had not been alerted to the alleged breach of confidence "before they had . . . incurred any substantial expense". The plaintiff was left to its claim for financial compensation. In this case, the delay of the respondents, combined with the ongoing investment and commercial activity of the

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78 *Sure-Grip Fasteners Ltd. v. Allgrade Bolt & Chain Inc.*, (1993), 46 C.P.R. (3d) 443, 45 C.C.E.L. 276, 93 C.L.L.C. ¶14,021 (Ont. Div. Ct.),

79 *Sure-Grip Fasteners Ltd. v. Allgrade Bolt & Chain Inc.,* (1993), 46 C.P.R. (3d) 443, 45 C.C.E.L. 276, 93 C.L.L.C. ¶14,021 (Ont. Div. Ct.),

80 *Graham* v. *Delderfield* [1992] F.S.R. 313 (Eng. C.A.); *Li Preti* v. *Chretien* [1993] O.J. No. 2205 (Sept. 21, 1993) (Gen. Div.)

81 *Cadbury Schweppes Inc. et al. v. FBI Foods Ltd. et al*. (1999) 83 C.P.R. (3d) 289 (S.C.C.) at 324-325

82 *Cadbury Schweppes Inc. et al. v. FBI Foods Ltd. et al*. (1999) 83 C.P.R. (3d) 289 (S.C.C.)

> appellants based on Caesar Cocktail in the interim, argued powerfully against the grant of injunctive relief.[83]

However mere delay is not necessarily fatal in an application for equitable relief.[84]

Where other factors appear to be evenly balanced, the prudent approach of the court is to take measures to preserve the *status quo*. Where there has been delay by the Plaintiff in advancing its rights, the *status quo* will be measured at the time of the injunction proceedings.[85]

An applicant for an injunction must come to court with clean hands. A party ought not to obtain equitable relief on a version of the facts which renders its previous sworn version of the facts, or public disclosures required by law to be full, plain and true, to be misrepresentations. In such a case, the "depravity, the dirt in question on the hand, has an immediate and necessary relation to the equity sued for".[86]

4.2. Anton Piller Order

Anton Piller orders are routinely sought in instances where the plaintiff wishes to prevent the destruction of relevant evidence in the defendant's possession. In Canada, Anton Piller orders are often granted in cases of alleged patent, copyright and trade mark infringement (particularly when counterfeit and/or pirated goods are suspected to be in the defendant's possession) and may be sought to in trade secret actions to prevent destruction of documents or other information.

An Anton Piller order is an *ex parte* court order that orders the defendant to hand over evidence to the plaintiff to provide to the court for safekeeping. It is an order to preserve evidence. The defendant is ordered to allow the plaintiff's representatives to enter and search the defendant's premises without prior warning and to seize any relevant evidence located therein (such as documents and chattels).

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83 *Cadbury Schweppes Inc. et al. v. FBI Foods Ltd. et al*. (1999) 83 C.P.R. (3d) 289 (S.C.C.) at 324-325

84 *Lubrizol Corp.* v. *Imperial Oil Ltd.* (1989) 22 C.P.R. (3d) 493 (F.C.T.D.)

85 *Turbo Resources Ltd.* v. *Petro Canada Inc.* (1989), 24 C.P.R. (3d) 1 (F.C.A.); *Syntex Inc.* v. *Novopharm Ltd.* (1991), 36 C.P.R. (3d) 129 (F.C.A.); *Graham* v. *Delderfield* [1992] F.S.R. 313 (Eng. C.A.)

86 *Hong Kong Bank of Canada* v. *Wheeler Holdings Ltd.* [1993] 1 S.C.R. 167 at p. 188

The ability for a plaintiff to enter the defendant's premises and seize property is an extraordinary right which will only be granted if the plaintiff can satisfy three conditions:

> "First, there must be an extremely strong *prima facie* case. Secondly, the damage, potential or actual, must be very serious for the applicant. Thirdly, there must be clear evidence that the defendants have in their possession incriminating documents or things and that there is a real possibility that they may destroy such material before any application *inter partes* can be made."[87]

To protect trade secrets that are about to be misused or disclosed, an Anton Piller Order can be a useful device to enjoin such misuse by having them handed over to the Plaintiff's counsel for safekeeping.

A sample Anton Piller Order of the Federal Court is Appendix E. An order to seize trade secrets would have to be brought in the superior court of the relevant province and not the Federal Court.

4.3. Damages

Damages are available in Ontario for breach of contract and for breach of confidence.[88]

If a Plaintiff suffers damages due to sales by the Defendant, those losses are readily calculable. This is especially so where the sales by the defendant are alleged to be in substitution for the sales which the Plaintiff would have made. Damages in such a case are an adequate remedy and no interlocutory injunction will be granted.[89]

In cases where a party has communicated confidential information in the expectation of receiving compensation, and then alleges that the information is being used without the expected compensation being received, damages are an adequate remedy, and an injunction will not be granted.[90]

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87 *Nintendo of America Inc. v. Coinex Video Games Inc.*, (1982) 69 C.P.R. (2d) 122 (F.C.A.) at 129, citing the Court of Appeal in England in the case of *Anton Piller K.G. v. Manufacturing Processes Ltd. et al*., [1976] 1 Ch. 55.

88 Courts of Justice Act, R.S.O. 1990, c C-43, s. 99.

89 *Imperial Chemical Industries PLC* v. *Apotex Inc.* (1990), 27 C.P.R. (3d) 345 (F.C.A.); *Boots Co.* v. *Approved Prescription Services Ltd.* [1988] F.S.R. 45 at p. 50 (C.A.); *Syntex Inc.* v. *Novopharm Ltd.* (1991), 36 C.P.R. (3d) 129 (F.C.A.)

90 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41

4.4. Accounting of Profits

In *Lac Minerals*, Lamer J. explained that the conventional remedies for breach of confidence are an accounting of profits or damages. A restitutionary remedy is appropriate in cases involving fiduciaries because they are required to disgorge any benefits derived from the breach of trust.[91]

A defendant may be required to disgorge his or her net profits earned from misuse of another's trade secrets so as to prevent the defendant from being unjustly enriched by the misappropriation.[92]

4.5. Constructive Trust

The remedies available for breach of confidence are generally the same as for breach of a fiduciary duty; constructive trust is available to both. The test is twofold: has a claim for unjust enrichment been established, and; in the circumstances is a constructive trust the appropriate remedy to redress that unjust enrichment.[93]

With reference to the purposes and suitable uses of a constructive trust, in *Soulos v. Korkomtzilas*, McLachlin J. held:

> … the constructive trust is an ancient and eclectic institution imposed by law not only to remedy unjust enrichment, but to hold persons in different situations to high standards of trust and probity and prevent them from retaining property which in "good conscience" they should not be permitted to retain.[94]

To establish that a constructive trust is appropriate, the plaintiff must satisfy four conditions:

> (1) The defendant must have been under an equitable obligation, that is, an obligation of the type that courts of equity have enforced, in relation to the activities giving rise to the assets in his hands;

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91 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at 159.

92 *Peter Pan Mfg. Corp. v. Corsets Silhouette Ltd*., [1963] 3 All E.R. 402 (Ch.D.).

93 *Pettkus* v. *Becker*, [1980] 2 S.C.R 834, *Hunter Engineering Co. Inc.* v. *Syncrude Canada Ltd. et al* (1989) 1 S.C.R. 426

94 *Soulos v. Korkontzilas*, [1997] 2 S.C.R. 217 at para. 17

(2) The assets in the hands of the defendant must be shown to have resulted from deemed or actual agency activities of the defendant in breach of his equitable obligation to the plaintiff;

(3) The plaintiff must show a legitimate reason for seeking a proprietary remedy, either personal or related to the need to ensure that others like the defendant remain faithful to their duties and;

(4) There must be no factors which would render imposition of a constructive trust unjust in all the circumstances of the case; e.g., the interests of intervening creditors must be protected.[95]

A constructive trust does not require the existence of a special relationship between the parties, nor does the absence of a fiduciary relationship preclude the finding of a constructive trust.[96] However, while the decision to order a constructive trust is a discretionary one, it has been held that “the requirement of unjust enrichment is fundamental to the use of a constructive trust”.[97]

In the *Lac Minerals*[98] case, both the trial level and Court of Appeal awarded the Williams property to Corona on payment to Lac of the value to Corona of the improvements Lac had made to the property, and an accounting of profits to the date of transfer of the mine. These remedies were based on the finding that, but for Lac's breach, Corona would have acquired the property. A constructive trust is a restitutionary claim; a claim for unjust enrichment. The function of the law of restitution includes restoring to a Plaintiff wealth that would have accrued to his or her benefit.[99]

Precluding Lac from pursuing the Williams property did not impose an unreasonable restriction on Lac. The confidential information led to the acquisition of a specific, unique asset, and there is only one property from which Lac was being excluded.[100] The recognition of a constructive trust simply redirected the title of the Williams property

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95 *Soulos v. Korkontzilas*, [1997] 2 S.C.R. 217 at para. 45, citing *Pettkus v. Becker,* [1980] 2 S.C.R. 834.

96 *Soulos v. Korkontzilas*, [1997] 2 S.C.R. 217 at para. 19

97 *Brissette Estate v. Westbury Life Insurance Co.,* [1992] 3 S.C.R. 87. [1992] 3 S.C.R. 87 at 96

98 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.)

99 *Air Canada et al* v. *A.G.B.C. et al* (1989) 59 D.L.R. (4th) 161.

100 *Coco* v. *A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (Ch.), Megarry J., distinguished

to its original course. Ultimately the Supreme Court refused to utilize the constructive trust in the context of misuse of confidential information, as per Lamer J[101].:

> I do not consider that that decision lays down any principle that makes the remedy of a constructive trust an appropriate remedy for misuse of confidential information except in very special circumstances.

It did leave open the possibility of such a remedy under the right circumstances.[102]

The value of the mine was difficult to assess but could be between $700,000,000 and $1,950,000,000. In situations like this, trade secrets can be very valuable.

5. Limitations, Delay & Laches

5.1. Statute of Limitations

Actions for breach of an express or implied contractual obligation and tort claims are subject to the general statutory limitation period set out in the relevant jurisdiction. A trade secret action rooted in any of these causes of action would be subject to the same limitation period.

In Ontario, s. 45(1)(g) of the *Limitations Act*[103] requires that actions for tort or breach of contract be brought within six years after the cause of action arose.

6. Protective Orders in Court Proceedings

Our courts' proceedings are supposed to be public: open and accessible to all, unless circumstances are such that require the public to be excluded, through some principle that temporarily overrides the principle of "open justice". The principle is inextricably tied to freedom of expression enshrined in s. 2(b) of the Charter:

> "The principle of open courts is inextricably tied to the rights guaranteed by s. 2(b). Openness permits public access to information about the courts, which in turn permits the public to discuss and put forward opinions and criticisms of court practices and proceedings. While the freedom to express ideas and opinions

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101 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at 159.

102 *Lac Minerals Ltd.* v. *International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C.) at 159

103 R.S.O. 1990, c. L-15.

> about the operation of the courts is clearly within the ambit of the freedom guaranteed by s. 2(b), so too is the right of members of the public to obtain information about the courts in the first place."[104]

Public and media access to the courts is the method by which the judicial process is scrutinized and criticized. Because it is essential to the administration of justice that justice is done and is seen to be done, such public scrutiny is fundamental. The open court principle has been described as "the very soul of justice", guaranteeing that justice is administered in a non-arbitrary manner. [105]

One might have thought that the principles of trade secrets law, that require the secret not to be made public in order to preserve the asset at issue itself, would easily override, to the extent necessary for the proceedings, the principle of "open justice". Thanks to the Supreme Court of Canada's judgment in *Sierra Club*[106] in 2002, the preservation of the confidentiality of the information of the parties is not itself sufficient for the court to grant a confidentiality order – there must be some "important commercial interest", not merely specific to the party requesting the order, but rather one which can be expressed in terms of a public interest in confidentiality.

In the *Sierra Club* case, Atomic Energy of Canada Limited ("AECL") sought a confidentiality order to allow it to produce in the litigation, confidential information of a third party, certain Chinese authorities, which information it possessed subject to a confidentiality agreement. If the appellant were to disclose the Confidential Documents, it would be in breach of its contractual obligations and suffer a risk of harm to its competitive position. AECL was bound by its commercial interests and its customer's property rights not to disclose the information, and that such disclosure could harm the appellant's commercial interests.[107]

If the confidentiality order was denied, then AECL would have had to withhold the documents, not rely on that relevant evidence at trial and be hindered in its capacity to make full answer and defence, and present its case. Preventing AECL from disclosing those documents on a confidential basis would have infringed its right to a fair trial. A fair trial generally can be viewed as a fundamental principle of justice and there is a

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[104] *Canadian Broadcasting Corp. v. New Brunswick (Attorney General),* [1996] 3 S.C.R. 480, (S.C.C. per La Forest J.) at para. 23.

[105] *Canadian Broadcasting Corp. v. New Brunswick (Attorney General),* [1996] 3 S.C.R. 480, (S.C.C. per La Forest J.) at para. 22.

[106] *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 (S.C.C. per Iacobucci J.), 2002 SCC 41.

[107] *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 (S.C.C. per Iacobucci J.), 2002 SCC 41 at para. 49.

general public interest in protecting the right to a fair trial. Similarly, courts have an interest in having all relevant evidence before them in order to ensure that justice is done.[108]

In *Sierra Club*, the Supreme Court of Canada held that:

> "A confidentiality order under [Federal Court] Rule 151 should only be granted when:
>
> > (a) such an order is necessary in order to prevent a serious risk to an important interest, including a commercial interest, in the context of litigation because reasonably alternative measures will not prevent the risk; and
> >
> > (b) the salutary effects of the confidentiality order, including the effects on the right of civil litigants to a fair trial, outweigh its deleterious effects, including the effects on the right to free expression, which in this context includes the public interest in open and accessible court proceedings."[109]
>
> [54] As in *Mentuck*, I would add that three important elements are subsumed under the first branch of this test. First, the risk in question must be real and substantial, in that the risk is well grounded in the evidence, and poses a serious threat to the commercial interest in question.
>
> [55] In addition, the phrase "important commercial interest" is in need of some clarification. In order to qualify as an "important commercial interest", the interest in question cannot merely be specific to the party requesting the order; the interest must be one which can be expressed in terms of a public interest in confidentiality. For example, a private company could not argue simply that the existence of a particular contract should not be made public because to do so would cause the company to lose business, thus harming its commercial interests. However, if, as in this case, exposure of information would cause a breach of a confidentiality agreement, then the commercial interest affected can be characterized more broadly as the general commercial interest of

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108 *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 (S.C.C. per Iacobucci J.), 2002 SCC 41 at para. 50.

109 *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 (S.C.C. per Iacobucci J.), 2002 SCC 41 at para. 50.

> preserving confidential information. Simply put, if there is no general principle at stake, there can be no "important commercial interest" for the purposes of this test. Or, in the words of Binnie J. in F.N. (Re), [2000] 1 S.C.R. 880, 2000 SCC 35, at para. 10, the open court rule only yields "where the public interest in confidentiality outweighs the public interest in openness" (emphasis added).
>
> [56] In addition to the above requirement, courts must be cautious in determining what constitutes an "important commercial interest". It must be remembered that a confidentiality order involves an infringement on freedom of expression. Although the balancing of the commercial interest with freedom of expression takes place under the second branch of the test, courts must be alive to the fundamental importance of the open court rule. See generally Muldoon J. in *Eli Lilly and Co. v. Novopharm Ltd*. (1994), 56 C.P.R. (3d) 437 (F.C.T.D.), at p. 439.
>
> [57] Finally, the phrase "reasonably alternative measures" requires the judge to consider not only whether reasonable alternatives to a confidentiality order are available, but also to restrict the order as much as is reasonably possible while preserving the commercial interest in question."[110]

Justice Iacobucci's language in paragraph 55 is troublesome. Would not Coca-Cola's interest in obtaining a confidentiality order to protect its secret recipe be "specific to the party requesting the order" and, according to the *Sierra Club* test, be insufficient to warrant a confidentiality order? Likewise, disclosure of a trade secret, like disclosure of "a particular contract" would also cause the company to lose business, thus harming its commercial interests – again, facts not sufficient to warrant an order. Although these statements are *obiter dicta* (the *Sierra Club* case dealt with the confidential information of third parties that were already subject to a private confidentiality agreement, and a confidentiality order was granted) they do not bode well for the courts to appreciate and protect the trade secrets of litigants.

An unfortunate example is *Fairview Donut Inc. v. TDL Group Corp.*[111] where, Tim Hortons, a famous Canadian donut restaurant chain, attempted to obtain confidentiality or sealing order for their full baking system where donuts and other baked goods were made in each store. They sought to seal from the public, sensitive financial information, relating to costs (including costs of goods), sales and margins of the " Always Fresh"

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110 *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 (S.C.C. per Iacobucci J.), 2002 SCC 41 at paras. 50-57.

111 (2010) O.R. (3d) 510, [2010] O.J. No. 502, Ont. Sup. Ct. per Strathy J.)

conversions that would have competitive value to Tim Horton's competitors, which information had been provided to franchisees (such as the plaintiff class) on a confidential basis. The information also included "confidential product preparation methods and procedures" that were alleged to be trade secrets. The court did not find the information to be, as it described it, "true trade secrets"[112]:

> "Any competitor with the resources to do so would not likely need to know that you must bake a frozen lump of ingredients for a particular length of time at a particular temperature in order to make a muffin." [113]

To protect the confidentiality of documents between the parties in a lawsuit, courts will readily issue confidentiality orders on consent so long as such orders are limited to how the parties themselves handle the information. A sample Confidentiality Order is Appendix C.

A Confidentiality Order – an order sealing certain documents in the court file from public view – must meet the *Sierra Club* test, and is usually limited to certain specified documents and only after the Court is satisfied that the documents should be protected. A sample Confidentiality Order is Appendix D.

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112 *Ibid*, at para. 67.

113 *Ibid*, at para. 66.