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## **Chapter 14 - Trade Secrets**

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## 14.1 Ownership / Creation Of Confidential Information

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

Some consider it to be property:

"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."<sup>1</sup>

Others do not consider it to be property:

"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 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."<sup>2</sup>

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

<sup>2</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 158.

Confidential information is not property which can be stolen contrary to the Canadian *Criminal Code*.<sup>3</sup> 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".<sup>4</sup> Information, whether confidential or not, is not a "thing", therefore taking names from a confidential computer database is not theft.<sup>5</sup>

Nevertheless, in other 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.<sup>6</sup>

Confidential information is either independently created or derived from publicly available information.

The information must be confidential:

- either it is all confidential, or
- it contains publicly available information collected and retained in confidence.

Something that is public property and public knowledge cannot provide any foundation for proceedings for breach of confidence.<sup>7</sup>

Public information may become confidential when skill and ingenuity are added.

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<sup>3</sup> *Regina v. Stewart* [1988] 1 S.C.R. 963.

4 s. 322

<sup>5</sup> *Regina v. Offley* (1986) 11 C.P.R. (3d) 231.

<sup>6</sup> *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 non-disclosure and prohibition of unauthorized use of the trade secret software.

<sup>7</sup> *Promotivate International v. Toronto Star Newspapers* (1986) 8 C.P.R. (3d) 546 (Ont. S.C.) at 549

"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 in partly public and partly private; for then the recipient must somehow segregate the two and, although free to use the former, must take no advantage of the communication of the latter. To this subject I must in due course return."<sup>8</sup>

"... 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."<sup>9</sup>

A secret is a secret so long as it is a secret. The right to confidentiality expires when the secret is made public.

"It is trite to state that a secret once disclosed is no longer a secret."<sup>10</sup>

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<sup>8</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p.47

<sup>9</sup> *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.* (1948) 65 R.P.C. 203 (C.A.) at p. 205.

<sup>10</sup> *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

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As soon as a trade secret is discovered, either by an examination of the product, or in any other honest way, the discoverer has the full right of using it.<sup>11</sup>

Information even if once confidential, is, when disclosed by advertising or public promotion, is no longer a trade secret. The duty to maintain confidentiality 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.<sup>12</sup>

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.<sup>13</sup>

## **14.2 COMMUNICATION TO THE RECIPIENT**

There must be a connection between the owner and the recipient. Trade secrets law does not protect an owner against independent creation (as does patent law).

A recipient of confidential information will be subject to different obligations, depending on whether the recipient knew the information was communicated in confidence.<sup>14</sup>

### **12.2.1 Circumstances or a Relationship of Confidence**

There must be "circumstances which make the information confidential."

"It may broadly be stated, as a result of the decision of this Court in *Saltman Engineering Coy Ltd. v. Campbell Engineering Coy. Ltd.* (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

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<sup>11</sup> *R.L. Crain Limited v. Ashton* [1949] O.R. 303 (S.C.) at 309.

<sup>12</sup> *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)

<sup>13</sup> *Bryndon Ventures*, (1989), 31 CPR (3d) 452 (BCSC) at 459 aff'd 37 CPR (3d) 489 (BCCA)

<sup>14</sup> *A-G v Guardian Newspapers (No. 2)* [1988] 3 All ER 545 at 652 (H.L.)

trader is disentitled to make use of the confidential information for purposes of trade by way of competition with the first trader."<sup>15</sup>

The circumstances are (in gradations of clarity):

- (a) explicit contract
- (b) implicit contract
- (c) fiduciary duty
- (d) practice in the trade

The situation is clear where there is disclosure pursuant to a confidentiality disclosure agreement or where there is an agreement to keep the information confidential. See 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.

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. The common law duty of confidence only applies in the absence of a contract.<sup>16</sup>

But, the nature and scope of tortious liability does not depend on specific obligations or duties created by the express terms of the contract. There is nothing flowing from contractual intention which should preclude reliance on a concurrent or alternative liability in tort. The same is also true of reliance on a common law duty of care that falls short of a specific obligation or duty imposed by the express terms of a contract.<sup>17</sup>

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<sup>15</sup> *Terrapin Ld. v. Builders' Supply Co. (Hayes) Ld. et al.* [1960] R.P.C. 128 at p. 131

<sup>16</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (Ch. D. per Megarry, J.) at p.47.

<sup>17</sup> *Central Trust Co. v. Rafuse* [1986] 2 S.C.R. 147 (S.C.C.)

A common law obligation to maintain information in confidence will not exist if the parties to an agreement have expressly agreed that the information in question will, in certain circumstances, be considered non-confidential.<sup>18</sup>

### **12.2.2      *Implicit Contract***

The obligation 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 that confidential matter in a confidential way, as one of the implied terms of the contract..."<sup>19</sup>

### **12.2.3      *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."<sup>20</sup>

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<sup>18</sup> *S.D. & A. Marketing Services v. Horn Abbot Limited* (1989), 23 C.I.P.R. 129 (Ont. H.C.) at p. 140.

<sup>19</sup> *Saltman Engineering Coy. Ld. v. Campbell Engineering Coy. Ld.* [1948] 65 R.P.C. 203 at p.211.

<sup>20</sup> *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.

It is clear that, where confidential information is not involved, an employee cannot be prevented from using his skills, experience and knowledge for anyone but his former employers.

"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 against the use of that kind of knowledge when the person against whom the injunction is being sought has come by the knowledge honestly."<sup>21</sup>

However, certain information gained by the employee 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."<sup>22</sup>

#### **12.2.4 Non-Contractual Obligations**

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

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<sup>21</sup> *Caristrap Corporation et al v. Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at pp. 7, 8.

<sup>22</sup> *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

"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."<sup>23</sup>

... the obligation to respect confidence is not limited to cases where the parties are in contractual relationship."<sup>24</sup>

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.

"Of the various authorities cited to me, I have found *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd* (1948) 65 R.P.C. 203; *Terrapin Ltd. v. Builders' Supply Co. (Hayes) Ltd.* [1960] R.P.C. 128 and *Seager v. Copydex Ltd.* [1967] 1 W.L.R. 923; [1967] R.P.C. 349 of the most assistance. All are decisions of the Court of Appeal. I think it is quite plain from the *Saltman* case that the obligation of confidence may exist where, as in this case, there is no contractual relationship between the parties. In cases of contract, the primary question is no doubt that of construing the contract and any terms implied in it. Where there is no contract, however, the question must be one of what it is that suffices to bring the obligation into being; and there is the further question of what amounts to a breach of that obligation.

In my judgment, three elements are normally required if, apart from contract, a case of breach of confidence is to succeed. First, the information itself, in the words of Lord Greene, M.R. in the *Saltman* case on page 215, must "have the necessary quality of confidence about it." Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an

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<sup>23</sup> *Lac-Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 157.

<sup>24</sup> *Saltman Engineering Coy. Ltd. v. Campbell Engineering Ltd.* [1948] 65 R.P.C. 203 at p.211

unauthorized use of that information to the detriment of the party uncommunicating it. I must briefly examine each of these requirements in turn."<sup>25</sup>

### 12.2.5 *Fiduciary Duty*

"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 -- - 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..."<sup>26</sup>

"... where by statute, agreement, or perhaps by unilateral undertaking, one party has an obligation to act for the benefit of another, and that obligation

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<sup>25</sup> *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.

<sup>26</sup> *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.

carries with it a discretionary power, the party thus empowered becomes a fiduciary."<sup>27</sup>

The most important recent 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 \$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 was a property remedy instead of 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.

On the issue of fiduciary duty, Wilson J. held that a fiduciary duty existed in the circumstances of this case:

"It is, in other words, my view of the law that there are certain relationships which are almost *per se* fiduciary such as trustee and beneficiary, guardian and ward, principal and agent, and that where such relationships subsist they give rise to fiduciary duties. On the other hand, there are relationships which are not in their essence fiduciary, such as the relationship brought into being by the parties in the present case by virtue

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<sup>27</sup> *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.

of their arm's length negotiations towards a joint venture agreement, but this does not preclude a fiduciary duty from arising out of specific conduct engaged in by them or either of them within the confines of the relationship. This, in my view, is what happened here when Corona disclosed to LAC confidential information concerning the Williams property. LAC became at that point subject to a fiduciary duty *with respect to that information* not to use it for its own use or benefit."<sup>28</sup>

La Forest J. had this to say about a fiduciary relationship:

"... a fiduciary relationship can arise as a matter of fact out of the specific circumstances of a relationship. As such it can arise between parties in a relationship in which fiduciary obligations would not normally be expected. I agree with this comment of Professor Finn in "The Fiduciary Principle", *supra*, at p. 64:

What must be shown, in the writer's view, is that the actual circumstances of a relationship are such that one party is entitled to expect that the other will act in his interests in and for the purposes of the relationship. Ascendancy, influence, vulnerability, trust, confidence or dependence doubtless will be of importance in making this out. But they will be important only to the extent that they evidence a relationship suggesting that entitlement. The critical matter in the end is the role the alleged fiduciary has, or should be taken to have, in the relationship. It must so implicate that party in the other's affairs or so align him with the protection or advancement of that other's interests that foundation exists for the "fiduciary expectation". Such a role may generate an actual expectation that the other's interests are being served. This is commonly so with lawyers and investment advisers. But equally the expectation may be a judicially prescribed one because the law itself ordains it to be that other's entitlement. And this may be so either because that party should, given the actual circumstances of the relationship, be accorded that entitlement irrespective of whether he has adverted to the matter, or because the purpose of

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<sup>28</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Wilson J.) at p. 99.

the relationship itself is perceived to be such that to allow disloyalty in it would be to jeopardize its perceived social utility.<sup>29</sup>

"... the law of confidence and the law relating to fiduciary obligations are not co-extensive. They are not, however, completely distinct. Indeed, while there may be some dispute as to the jurisdictional basis of the law of confidence, it is clear that equity is one source of jurisdiction: see *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.* (1948), 65 R.P.C. 203 (C.A.).

...

I agree with the view of both courts below that the law of confidence and the law of fiduciary obligations, while distinct, are intertwined."

A claim for breach of confidence will only be made out, however, when it is shown that the confidEE has misused the information to the detriment of the confider. Fiduciary law, being concerned with the exaction of a duty of loyalty, does not require that harm in the particular case to be shown to have resulted.

... unlike fiduciary obligations, duties of confidence can arise outside a direct relationship, where for example a third party has received confidential information from a confidEE in breach of the confidEE's obligation to the confider...

Another difference is that breach of confidence also has a jurisdictional base at law, whereas fiduciary obligations are a solely equitable creation. Though this is becoming of less importance, these differences of origin give to the claim for breach of confidence a greater remedial flexibility than is available in fiduciary law. Remedies available from both law and equity are available in the former case, equitable remedies alone are available in the latter."<sup>30</sup>

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<sup>29</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest) at p.112

<sup>30</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest J.) at p. 118-119.

"The courts should not deny the existence of a fiduciary obligation simply because the parties could have by means of a confidentiality agreement regulated their affairs. That, it seems to me, is an unacceptable proposition, particularly on the facts of this case. The concurrent findings below are that Sheehan was aware the information he was receiving was confidential and that it was being received in circumstances of confidence. It is clear that a claim for breach of confidence is then available if the information is misused. Why one would then go and enter into a confidentiality agreement simply confirming what each party knows escapes me."<sup>31</sup>

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."<sup>32</sup>

### **12.2.6 Where Confidentiality is Understood From the Circumstances**

Would a reasonable person 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

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<sup>31</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per La Forest J.) at p. 124.

<sup>32</sup> *Lac Minerals Ltd. v. International Corona Resources Ltd.* (1989) 26 C.P.R. (3d) 97 (S.C.C. per Sopinka J.) at p. 147

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, Ungood-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."<sup>33</sup>

## 14.3 Misuse Of The Confidential Information

If confidential information is imparted under conditions of confidentiality, then a misuse of this information is a breach of confidentiality.

### 12.3.1 *Unauthorized Use*

"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

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<sup>33</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at pp. 47-48

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."<sup>34</sup>

### **12.3.2      *Onus***

"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..."<sup>35</sup>

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 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."<sup>36</sup>

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<sup>34</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p. 48

<sup>35</sup> *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.

<sup>36</sup> *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.

## 14.4 Remedies

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

Once a breach of confidence has occurred the information may have lost its confidentiality and become public knowledge. The aggrieved party will naturally seek compensation for revealing a trade secret to the public. It may be possible to restrain the party before the trade secret becomes public knowledge or before the other party gains by using the secret to the detriment of the owner, through injunctive relief.

The burden of proof in cases of allegedly misappropriated trade secrets includes proof that the allegedly secret data is not known to others.<sup>37</sup>

Whether a breach of confidence in a particular case has a contractual, tortious, proprietary or trust flavour goes to the appropriateness of a particular equitable remedy but does not limit the court's jurisdiction to grant it.<sup>38</sup>

### 12.4.1 *Injunctive Relief*

Injunctive relief is available to restrain the apprehended or continued misuse or disclosure of confidential information.<sup>39</sup>

A Court will prevent a person who had received an idea from disclosing it until that idea becomes general public knowledge.<sup>40</sup>

The idea to be the subject of an injunction must be clearly identifiable and original.<sup>41</sup>

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<sup>37</sup> *MAI Systems Corp. v. Banwell Computer Services Inc.* (1992), 41 C.P.R. (3d) 57 (O.C.G.D.) at 64.

<sup>38</sup> *Cadbury Schweppes v. FBI Foods Ltd.* [1999] 1 S.C.R. 142, January 28, 1999 per Binnie J. [at para. 26.](#)

<sup>39</sup> *Cadbury Schweppes v. FBI Foods Ltd.* [1999] 1 S.C.R. 142, January 28, 1999 per Binnie J. [at para. 78.](#)

<sup>40</sup> *Promotivate International v. Toronto Star Newspapers* (1986) 8 C.P.R. (3d) 546 (Ont. S.C.)

<sup>41</sup> *Promotivate International v. Toronto Star Newspapers* (1986) 8 C.P.R. (3d) 546 (Ont. S.C.) at p. 549.

Where a court has difficulty in determining what is confidential, and what is not, an injunction is not an appropriate remedy.<sup>42</sup>

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.<sup>43</sup>

There is no absolute rule that a third party who receives confidential information will be restrained from using it. 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.<sup>44</sup>

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.<sup>45</sup>

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.<sup>46</sup>

To obtain the exceptional remedy of an interlocutory injunction, a Plaintiff must first establish, depending on the circumstances, either a *prima facie* right to the relief sought in the proceedings, or a serious question to be tried.<sup>47</sup> 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.<sup>48</sup>

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<sup>42</sup> *Suhner & Company v. Transradio Limited* [1967] R.P.C. 329 (Ch. D.) at p. 334

<sup>43</sup> *Suhner & Company v. Transradio Limited* [1967] R.P.C. 329 (Ch. D.) at p. 334

<sup>44</sup> *A-G v Guardian Newspapers (No. 2)* [1988] 3 All ER 545 at 652 (H.L.)

<sup>45</sup> *International Tools v. Kollar* [1968] 1 O.R. 669 (C.A.) at 674.

<sup>46</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41

<sup>47</sup> *Turbo Resources Ltd. v. Petro Canada Inc.* (1989), 24 C.P.R. (3d) 1 (F.C.A.) at p. 15

<sup>48</sup> *Turbo Resources Ltd. v. Petro Canada Inc.* (1989), 24 C.P.R. (3d) 1 (F.C.A.) at p. 11, 15, and 21

In granting injunctions in trade secret cases the Court should be concerned that it does not, in granting such an injunction, give the injured party more protection than he realistically needs and in particular discourage or prohibit what in the course of time becomes legitimate competition.<sup>49</sup>

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 *Crain v. Ashton* (1950) O.R. 62 at p. 68."<sup>50</sup>

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.<sup>51</sup>

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."<sup>52</sup>

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

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<sup>49</sup> *Roger Bullivant v. Ellis* [1987] F.S.R. 172 (U.K.C.A.) at 188.

<sup>50</sup> *Caristrap Corporation et al v. Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at p.5

<sup>51</sup> *International Tools v. Kollar* [1968] 1 O.R. 669 (C.A.) at 676

<sup>52</sup> *Caristrap Corporation et al v. Cordex Ltd. et al* 35 Fox Pat. C. (per Moorhouse, J.) at pp. 5-6

substitution for the sales which the Plaintiff would have made. Damages in such a case are an adequate remedy and no injunction will be granted.<sup>53</sup>

Mere delay is not fatal in an application for equitable relief.<sup>54</sup>

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.<sup>55</sup>

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.<sup>56</sup>

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".<sup>57</sup>

#### **12.4.2 Springboard**

Confidential information is not to be used as springboard to obtain a competitive advantage in the marketplace ahead of those who do not have the information.

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<sup>53</sup> *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.)

<sup>54</sup> *Lubrizol Corp. v. Imperial Oil Ltd.* (1989) 22 C.P.R. (3d) 493 (F.C.T.D.)

<sup>55</sup> *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.)

<sup>56</sup> *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.)

<sup>57</sup> *Hong Kong Bank of Canada v. Wheeler Holdings Ltd.* [1993] 1 S.C.R. 167 at p. 188

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"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..."<sup>58</sup>

The obligation can last beyond the life of the secret to prevent the "springboard advantage".

"... 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 (see the *Seager* case, pages 931 and 933)." <sup>59</sup>

"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." <sup>60</sup>

An injunction ought only to be granted to cover the period of the alleged "springboard", if any. <sup>61</sup>

The injunction can outlive the secret to prevent the springboard advantage.

"Before I turn to the second main head, that of interlocutory relief, I should mention one point on the substantive law that caused me some difficulty during the argument. This is what may be called the "spring board"

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<sup>58</sup> *Eli Lilly Canada Inc. v. Shamrock Chemicals Ltd.* (1985), 4 C.P.R. (3d) 196 (Ont. H.C. per McCart D.C.J.) at p. 391.

<sup>59</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p.47

<sup>60</sup> *Seager v. Copydex Ltd.* [1967] 1 W.L.R. 923 (C.A. per Denning M.R.) at pp. 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.

<sup>61</sup> *Schauenburg Industries Ltd. v. Borowski* (1979) 25 O.R. (2d) 737 (H.C.J.) at 746-7

doctrine. In the *Seager* case at page 931. Lord Denning quoted a sentence from the judgment of Roxburgh, J. in the *Terrapin* case, which was quoted and adopted as correct by Roskill, J. in the *Cranleigh* case. It runs as follows:

"As I understand it, the essence of this branch of the 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 person 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."

Salmon, L.J. in the *Seager* case on page 933 also states: "The law does not allow the use of such information even as a spring-board for activities detrimental to the plaintiff."<sup>62</sup>

In the case of the alleged misuse of confidential information, even if confidential information is obtained, the recipient can use that information if it can be obtained from another source.

"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."<sup>63</sup>

In certain circumstances, when an injunction would not be appropriate, damages have been awarded to give the Plaintiff its lost profits during the term when it otherwise lost the opportunity of not having the defendant on the market.<sup>64</sup>

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<sup>62</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (per Megarry, J.) at p.48

<sup>63</sup> *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.

<sup>64</sup> *Cadbury Schweppes v. FBI Foods Ltd.* [1999] 1 S.C.R. 142, January 28, 1999 per Binnie J [at para 94](#)

### **12.4.3 Constructive Trust**

The remedies available for breach of confidence are 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.<sup>65</sup>

A constructive trust does not require the existence of a special relationship between the parties.

In the *Lac* 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 benefit.<sup>66</sup>

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 is being excluded.<sup>67</sup> The recognition of a constructive trust simply redirects the title of the Williams property to its original course.

The value of the mine was difficult to assess but could be between \$700,000,000 and \$1,950,000,000.

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<sup>65</sup> *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

<sup>66</sup> *Air Canada et al v. A.G.B.C. et al* (1989) 59 D.L.R. (4th) 161.

<sup>67</sup> *Coco v. A.N. Clark (Engineers) Ltd.* [1969] R.P.C. 41 (Ch.), Megarry J., distinguished

## Appendix "A" – Confidentiality Agreement

### THIS AGREEMENT IS EFFECTIVE AS OF (date)

#### 1. The Parties

(a) The parties to this agreement are:

ABC Inc., a corporation having its principle place of business at \_\_\_\_\_ is referred to elsewhere in this agreement as "The Discloser"; and

Mr./Ms. Def, an individual living at \_\_\_\_\_, is referred to elsewhere in this agreement as "The Recipient".

#### 2. Purpose of the Agreement

The Discloser has Confidential Information which [he/she/it] considers to own and have the right to disclose to the Recipient and license its use to others.

The Discloser wishes to disclose to the Recipient the Confidential Information to enable the Recipient to [DEFINE PERMITTED USE OF THE CONFIDENTIAL INFORMATION: use it, evaluate it, etc.]

The purpose of this Agreement is to have the Recipient retain as confidential certain information (the "Confidential Information" defined below) received by the Recipient from the Discloser and to use it only for the purposes specified in this Agreement.

#### 3. Definitions

The parties agree that for the purpose of this Agreement, the following terms have the following meanings:

(a) "Confidential Information" means:

(i) the information contained in Schedule "A" to this Agreement;

- (ii) any and all samples, drawings, specifications, data, and technical and other information in reference to this Agreement, which relate to the Product and which are disclosed by the Discloser to the Disclosee or its employees, agents, or other representatives in writing marked "confidential" and if disclosed orally, confirmed by the Discloser to the Disclosee in writing marked confidential" within 7 days of such disclosure and acknowledged as confidential by the Disclosee by signing that written disclosure and returning a copy to the Discloser; and
- (iii) the written results of the Recipient's, evaluation of such information and material.

and does not include;

- (i) Information which was known to the Recipient prior to this disclosure, as evidenced by satisfactory documentation;
- (ii) Information which is public knowledge prior to or after its disclosure, other than through acts or omissions attributable to the Recipient;
- (iii) Information that is similar to the Confidential Information which is disclosed to the Recipient by a third party after this disclosure, in relation to a product that is accepted for market development, as evidenced by satisfactory documentation;
- (iv) Information which is furnished to a third party by the Discloser without a similar restriction on the third party's rights; and
- (v) Information which is approved for release by written authorization of the Discloser.

#### **4. Consideration**

In consideration for the disclosure of the Confidential Information by the Discloser to the Recipient, the sum of One Dollar and other valuable consideration given by the Discloser to the Recipient, the receipt and adequacy of which are hereby acknowledged, the Discloser and the Recipient agree that the facts in the paragraphs above are true and agree as follows.

**5. Acknowledgements**

The Recipient acknowledges that the Confidential Information is confidential and a trade secret and is owned by the Discloser.

OR

The Recipient does not admit any novelty, priority, originality, or proprietary rights in the Confidential Information. The Recipient assumes no obligations other than those in this Agreement.

**5. Obligations of the Discloser**

The Discloser shall disclose the Confidential Information to the Recipient.

**7. Obligations of the Recipient**

- (a) The Recipient shall not disclose at any time [ OR within (reasonable number) years from the date of this Agreement] any Confidential Information without the prior written authorization of the Discloser.

OR

- (a) The Recipient agrees to handle, preserve, and protect such identified information with the same degree of care which it affords its own confidential information including taking efforts (equivalent to those efforts which it uses to protect its own) to avoid disclosure of such identified information to any other third party at any time during the evaluation and for a period of two years from the date hereof.
- (b) The Recipient is not responsible for any direct or consequential damages resulting from loss or damage to materials provided by the Discloser.

OPTIONAL

- (a) After a period of two years from the date hereof, each party waives all claims against the other for the disclosed Confidential Information, except claims arising under any present or future patents, designs, trademarks, or copyrights.

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- (b) The Recipient agrees not to use such Confidential Information for any purpose other than [DEFINE PERMITTED USE OF THEE CONFIDENTIAL INFORMATION: eg. use, evaluation, etc.]
- (c) The Recipient shall reveal such Confidential Information only to those employees and business associates who, in its good faith judgment, have a need to know such information.
- (d) The Recipient may make appropriate use of the Confidential Information
- (e) submitted for purposes of evaluating the market potential of the Product. The extent and nature of the evaluation of the Product by the Recipient shall be at the Recipient's discretion, acting reasonably. The Recipient shall promptly report the results of its evaluation to the Discloser and the Recipient agrees not to make any publication of the results.
- (f) Any and all Confidential Information shall be returned to the Discloser [STATE WHEN: eg. immediately upon demand, once evaluation had been completed.]

**EXECUTED** at [name of Town/City, Province] this [day] day of [month], [year].

**ABC Inc.**

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By:  
Title:

**EXECUTED** at [name of Town/City, Province] this [day] day of [month], [year].

**ABC Inc.**

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By:  
Title:

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**SCHEDULE "A"**

PRODUCT-RELATED MATERIALS SUBMITTED:

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