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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

no

If not please comment.:

Trade secret protection in the form of breach of confidential information is not considered a form of restraint of trade.

Trade secret protection in the form of overbroad restrictive covenants may be considered a form of restraint of trade in the context of employment and commercial law.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

Confidential information does not include general, "subjective" skills or knowledge acquired during the course of employment.^[1] Such skills and knowledge include aptitude, dexterity or manual and mental ability and will be deemed to be general knowledge distinct from confidential information.^[2] Subjective skill or knowledge which is committed to memory and which does not depend on the employer's

documentation is typically considered general skill or knowledge and not protectable confidential information.^[3] However, information need not be sourced from an employer’s document to be deemed confidential information; committing information to memory may be “tantamount to the physical taking of confidential information”.^[4] For example, with respect to customer lists, “courts protect employees who happen to remember those lists for their own purposes post-employment but will not protect those who are found to have memorized lists for the exclusive purpose of canvassing them for personal business post-employment.”^[5] Objective knowledge such as trade secrets can be considered confidential information, even if only committed to memory.

Footnotes

1. [^ R.L. Crain Ltd. v. R.W. Ashton & Ashton Press Manufacturing Co., 1948 CarswellOnt 94 \(Sup. Ct. Ont.\), aff’d by 1949 CarswellOnt 87 \(ONCA\) \(“Crain”\) at paras 14-16.](#)
2. [^ J. McKeown, Fox on Canadian Law of Copyright and Industrial Designs, 4 ed, Toronto: Thomson Reuters Canada Limited, 2012 at 32:11\(b\) 32-29](#)
3. [^ Ibid at paras 14-16, see also Imperial Sheet Metal v. Landry, 2007 NBCA 51 at para 33. Note that these cases are divided with respect to whether customer lists, if memorized, can be considered general skill or knowledge that the ex-employee may use.](#)
4. [^ GasTOPS Ltd. v. Forsyth, \[2009\] O.J. No. 3969 at para 122 \(“GasTOPS”\).](#)
5. [^ GasTOPS, supra, para 119.](#)

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

All employees owe a duty of good faith to their employer, which includes an implied duty of confidence that restricts the employee from using or disclosing the employer’s confidential information to the detriment of the employer.^[1]

Footnotes

1. [^ Daniel J. Gervais and Elizabeth F. Judge, Intellectual Property: The Law In Canada, 2 ed, Toronto: Thomson Canada Limited, 2011 \(“Gervais & Judge”\) at p 946.](#)

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

The obligation not to disclose the employer’s confidential information continues after the employment relationship ends, but the information that the employee must then not disclose becomes limited to trade secrets and highly confidential information.^[1]

Footnotes

1. [^ Ibid at p 946.](#)

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes

If yes, is there any distinction between the types of knowledge they can use?:

Yes, workers are entitled to use general skills and knowledge in their new employment.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

Senior officers^[1], managers, and directors have much higher obligations of confidentiality/non-use than other employees. These senior employees owe a fiduciary duty to their corporate employer separate and apart from any contractual obligation of confidentiality or implied duty of confidence.^[2] This fiduciary duty, which encompasses the duty of loyalty, good faith, and avoidance of a conflict of interest, imposes a very high duty on senior employees not to misuse the employer’s confidential information.

Title is not determinative, and identifying which employees qualify as senior employees such that they are subject to a higher duty to protect confidential information is fact specific and depends on the employee’s functions and responsibilities.^[3] Some relevant factors in the determination may include: the position or office held, the amount of knowledge possessed, the circumstances in which it was obtained, whether the knowledge was special or private, and the circumstances under which the relationship was terminated (if applicable).^[4]

Footnotes

1. [^] *Canadian Aero Service Ltd. v. O'Malley*, [1974] S.C.R. 592, 1793 CarswellOnt 236 (“*Canadian Aero*”) at paras 22, 24, 48.
2. [^] *Gervais & Judge*, *supra* at p 946.
3. [^] *Ibid* at p 947.
4. [^] *Canadian Aero*, *supra* at para 48.

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

In Canada, the Court has a discretionary power to (i) order that the public be excluded from a hearing (known as *in camera* proceedings)^[1], (ii) impose a publication ban^[2], and (iii) issue a confidentiality/protective order including a sealing order (that the public cannot access documents filed with the Court) or, at most protective, an order that certain documents are for *counsel's eyes only*^[3].

The “open court principle” is well established^[4] and linked to the freedom of expression protected

under section 2(b) of the *Canadian Charter of Rights and Freedoms (Charter)*.^[5] Therefore, all discretionary actions that affect the openness of court proceedings must satisfy the *Dagenais/Mentuck* test:^[6]

- (1) The order must be **necessary** in order to prevent a **serious risk** to the proper administration of justice because reasonably alternative measures will not prevent the risk; **and**
- (2) The salutary effects of the order outweigh the deleterious effects on the rights and interests of the parties and the public, including the effects on the right of free expression, the right of the accused to a fair and public trial, and the efficacy of the administration of justice.^[7]

The “serious risk” referred to in the first branch of the test must be “real and substantial”^[8] and “well-grounded in the evidence”.^[9] The second branch of the test requires that the order be restricted “as far as possible without sacrificing the prevention of the risk”.^[10] The burden lies on the party making the application for the order.^[11]

(i) ***in camera* proceedings**

Ontario and Quebec courts have held that proceedings will only be held *in camera* “the most exceptional circumstances”.^[12] It is not common practice to hear trade secret cases *in camera*;^[13] a party should at least prove that the information is not easily accessible to the public and that its nature shows secretive characteristics hitherto unseen.^[14] In Ontario it has been found that *in camera* proceedings should logically follow sealing orders.^[15] In BC, courts have held that the public may be excluded from a proceeding where their presence would render the administration of justice “impracticable”.^[16]

(ii) **publication ban**

Ontario, BC, and Quebec courts have held that “publication bans are the exception *not the rule*” and should only be imposed where there is a “need to protect social values of superordinate importance”.^[17] Further, the interest jeopardized must have a public component; personal embarrassment, damage to reputation, and potential economic damage cannot justify a non-publication order.^[18]

(iii) **confidentiality/protective order**

The SCC in *Sierra*^[19] adapted the *Dagenais/Mentuck* test to hold that a confidentiality order may be granted where:

- (1) 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**
- (2) 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.

In order to qualify as an “important commercial interest”, the interest must be “a public interest in confidentiality” and not merely specific to the requesting party.^[20] Further, a confidentiality order must be as restricted “as reasonably possible while preserving the commercial interest in question”.^[21] In *Sierra*, the Court granted a confidentiality order taking into consideration that disclosure “would impose a serious risk on an important commercial interest”.^[22]

Ontario and Quebec courts have indicated that, in commercial matters, sealing orders are possible, but rare.^[23] However, Ontario courts have also provided that a confidentiality order may be justified, for example, in “patent and trademark cases, trade secret cases, cases involving extremely

confidential competitive or financial information the disclosure of which would cause serious harm or prejudice to the person or party involved or where the publicity would destroy the very subject matter of the litigation itself".^[24] Consistent with this, Ontario courts have issued confidentiality orders in a number of cases involving proprietary information, including trade secrets and commercially sensitive information.^[25] Furthermore, the Ontario courts have held that where the information at issue is such that the disclosure would allow a competitor to improve its competitive position, it is appropriate that a protective order be issued to guard against such effect.^[26]

BC courts have articulated the test as whether the order will create a "cloud of secrecy".^[27] Confidentiality orders have been granted in relation to a party's commercial interests, such as their bargaining position.^[28]

Footnotes

1. [^] Authority for *in camera* proceedings stem from the Court's common law authority to govern its own process. In Ontario, this authority has been codified in section 135(2) of the Courts of Justice Act, RSO 1990, c C.43. In Quebec, this authority can be found under article 13 of the Code of Civil Procedure, CQLR c C-25.
2. [^] Authority for a non-publication order stems from the Court's common law authority to govern its own process. In Ontario this authority has been codified in sections 135 and 137(2) of the Courts of Justice Act, RSO 1990, c C.43. In Quebec, this authority can be found under article 46 of the Code of Civil Procedure, CQLR c C-25.
3. [^] Authority to issue confidentiality/protective orders stems from the Court's common law authority to govern its own process. In Ontario this authority has been codified in section 137(2) of the Courts of Justice Act, RSO 1990, c C.43 and rule 30.11 of the Rules of Civil Procedure, RRO 1990, Reg 194. In Quebec, this authority can be found under article 46 of the Code of Civil Procedure, CQLR c C-25.
4. [^] *Re Vancouver Sun*, 2004 SCC 43[<https://www.canlii.org/en/ca/scc/doc/2004/2004scc43/2004scc43.html?resultIndex=1>] at paras 23-27 [*"Re Vancouver Sun"*]; *MacIntyre v Nova Scotia (Attorney General)*, [1982] 1 SCR 175[<https://www.canlii.org/en/ca/scc/doc/1982/1982canlii14/1982canlii14.html?resultIndex=2>] at 187; *Canadian Broadcasting Corp. v New Brunswick (Attorney General)*, [1996] 3 SCR 480[<https://www.canlii.org/en/ca/scc/doc/1996/1996canlii184/1996canlii184.html?autocompleteStr=3%20SCR%20480%20&autocompletePos=1>] at paras 21-22 [*"New Brunswick"*]; *Edmonton Journal v Alberta (Attorney General)*, [1989] 2 SCR 1326[<https://www.canlii.org/en/ca/scc/doc/1989/1989canlii20/1989canlii20.html?resultIndex=1>] at 1336.
5. [^] *Re Vancouver Sun*, *ibid* at para 26.
6. [^] *Ibid* at para 31; *R. c Dufour*, 2011 SCC 3[<https://www.canlii.org/en/ca/scc/doc/2011/2011scc3/2011scc3.html?resultIndex=1>] at para 13; *Toronto Star Newspapers Ltd. v Ontario*, 2005 SCC 41[<https://www.canlii.org/en/ca/scc/doc/2005/2005scc41/2005scc41.html?resultIndex=1>] at para 7; *Globe & Mail c Canada (Procureur general)*, 2010 SCC 41[<https://www.canlii.org/en/ca/scc/doc/2010/2010scc41/2010scc41.html?resultIndex=1>] at para 87.
7. [^] *Dagenais v Canada Broadcasting Corp.*, [1994] 3 SCR 835[<https://www.canlii.org/en/ca/scc/doc/1994/1994canlii39/1994canlii39.html?resultIndex=1>] at para 77 [*"Dagenais"*]; *R v Mentuck*, 2001 SCC 76[<https://www.canlii.org/en/ca/scc/doc/2001/2001scc76/2001scc76.html?resultIndex=1>] at para 32 [*"Mentuck"*].
8. [^] *Dagenais*, *ibid* at para 77.
9. [^] *Mentuck*, *supra* at para 34.
10. [^] *Ibid* at para 36.
11. [^] *Re Vancouver Sun*, *supra* at para 31; *New Brunswick*, *supra* at para 71.

12. [^](#) *Ontario (Solicitor General) v Ontario (Assistant Information & Privacy Commissioner) (1993)*, 102 DLR (4th) 602 at para 4 (Div Ct); *McCreadie v Rivard (1995)*, 6 WDCP (2d) 453 (Gen Div); *Montréal (Ville) c. Québec (Juge de la Cour du Québec)*, 2013 QCCS 1667 [<https://www.canlii.org/en/qc/qccs/doc/2013/2013qccs1667/2013qccs1667.html?resultIndex=1>] at para 55 (Cour Superior du Québec); *Marcotte c Banque de Montréal*, 2008 QCCS 3225 [<https://www.canlii.org/fr/qc/qccs/doc/2008/2008qccs3225/2008qccs3225.html?resultIndex=1>] at para 61 ["*Marcotte*"].
13. [^](#) *Amer-Can Development Corp. v Tele Time Saver Inc. (1976)*, 1 CPC 230 at para 3 (Ont HC); *Marcotte*, *ibid* at paras 104-105.
14. [^](#) *Marcotte*, *ibid* at paras 138.
15. [^](#) *Imperial Oil Ltd. v Canada (Director appointed under the Canada Business Corporation Act)*, [1996] OJ No 2380 at para 4 (Ont Gen Div [Commercial list]).
16. [^](#) "*Dr. A.*" v *College of Physicians & Surgeons (British Columbia) (1965)*, 53 DLR (2d) 667 at paras 3-4 (British Columbia Supreme Court Chambers); *G. v College of Teachers (British Columbia)*, 2004 BCSC 626 [<https://www.canlii.org/en/bc/bcsc/doc/2004/2004bcsc626/2004bcsc626.html?resultIndex=1>] at para 32.
17. [^](#) *C. (D.) v 371158 Ontario Ltd.(1994)*, 113 DLR (4th) 150 [<https://www.canlii.org/en/on/onsc/doc/1994/1994canlii7494/1994canlii7494.html?resultIndex=1>] at para 12 (Gen Div); *W. (C.) v M. (L.G.)*, 2004 BCSC 1499 [<https://www.canlii.org/en/bc/bcsc/doc/2004/2004bcsc1499/2004bcsc1499.html?resultIndex=1>] at para 25; *Marcotte*, *supra* at para 61.
18. [^](#) *H. (M.E.) v Williams*, 2012 ONCA 35 [<https://www.canlii.org/en/on/onca/doc/2012/2012onca35/2012onca35.html?resultIndex=1>] at para 25; *Waxman v Waxman (2000)*, 48 CPC (4th) 305 (SCJ); *Mr. R. v College of Teachers (British Columbia)*, 2004 BCSC 1345 [<https://www.canlii.org/en/bc/bcsc/doc/2004/2004bcsc1345/2004bcsc1345.html?resultIndex=1>] at para 22.
19. [^](#) *Sierra Club of Canada v Canada (Minister of Finance)*, 2002 SCC 41 [<https://www.canlii.org/en/ca/scc/doc/2002/2002scc41/2002scc41.html?resultIndex=1>] at para 53.
20. [^](#) *Ibid* at para 55.
21. [^](#) *Ibid* at para 57.
22. [^](#) *Ibid* at para 68.
23. [^](#) *Ethyl Canada Inc. v Canada (Attorney General)*, [1998] OJ No 315 at para 14 (Gen Div) ["*Ethyl*"]; *Towers, Perrin, Forster & Crosby Inc. v Cantin*, [2000] OJ No 3514 [<https://www.canlii.org/en/on/onsc/doc/2000/2000canlii22695/2000canlii22695.html?resultIndex=1>] at para 6 (SCJ) ["*Towers*"]; *Grand River Enterprises v Burnham (2007)*, 54 CPC (6th) 195 at para 2, 4 (SCJ) ["*Grand River*"]; *MDS Health Group Ltd. v Canada (Attorney General)*, [1993] OJ No 2552 [<https://www.canlii.org/en/on/onsc/doc/1993/1993canlii5470/1993canlii5470.html?resultIndex=1>] at para 13 (Gen Div); *Marcotte*, *supra* at para 61.
24. [^](#) *Kaybar Fluid Power Ltd. v Danfoss A/S*, [2000] OJ No 1692 at para 8 (SCJ); *Towers*, *ibid* at para 7; *Ethyl*, *ibid* at para 9.
25. [^](#) *GasTOPS Ltd. v Forsyth*, 2011 ONCA 186 [<https://www.canlii.org/en/on/onca/doc/2011/2011onca186/2011onca186.html?resultIndex=1>] ; *Andersen v St. Jude Medical Inc.*, 2010 ONSC 5191 [<https://www.canlii.org/en/on/onsc/doc/2010/2010onsc5191/2010onsc5191.html?resultIndex=1>] ; *Eisses v CPL Systems Canada Inc. (2008)*, [2008] OJ No 239 (master); *Grand River*, *supra*; *Foss v Foss*, 2013 ONSC 1345 [<https://www.canlii.org/en/on/onsc/doc/2013/2013onsc1345/2013onsc1345.html?resultIndex=1>] ["*Foss*"]; *Haessler-DeWay Ltd. v Color Tech. Inc. (1985)*, 49 CPC 156 (Ont Dist Ct); *BASF Canada Inc. v Max Auto Supply (1986) Inc. (1999)*, 30 CPC (4th) 23 (Master); *ER Squibb & Sons Inc. v Apotex Inc. (1993)*, 47 CPR (3d) 214 (Ont. Master); *Dupont Canada Inc. v Russel Metals*

Inc., [2000] OJ No 2043 (Master).

26. [^ Zellers Inc. v. Venta Investments Ltd. \[1998\] O.J. No. 2118 \(Ont. Gen. Div\), at para 16; BASF Canada Inc. v Max Auto Supply \(1986\) Inc. 1999 CarswellOnt 505, 30 C.P.C. \(4th\) 23, at paras. 16 and 17](#)
27. [^ Blue Line Hockey Acquisition Co v Orca Bay Hockey Limited Partnership, 2007 BCSC 1483\[https://www.canlii.org/en/bc/bcsc/doc/2007/2007bcsc1483/2007bcsc1483.html?autocompleteStr=2007%20BCSC%201483%20&autocompletePos=1\] at para 49; Sahlin v The Nature Trust of B.C., 2010 BCCA 516\[https://www.canlii.org/en/bc/bcca/doc/2010/2010bccca516/2010bccca516.html?resultIndex=1\] at para 8 \["Sahlin"\].](#)
28. [^ Sahlin, ibid; Orr v Sojitz Tungsten Resources Inc., 2009 BCSC 1635\[https://www.canlii.org/en/bc/bcsc/doc/2009/2009bcsc1635/2009bcsc1635.html?resultIndex=1\] .](#)

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

With regard to *counsel's eyes only* orders, although possible^[1], courts in Ontario and BC have indicated that such orders should only be granted in very unusual/rare circumstances as they interfere with the lawyer and client relationship and the administration of justice.^[2] In Quebec, the Court has allowed such orders where the Court found that it was premature to disclose the confidential information in a class action.^[3] Similarly, the Court has also ordered that certain information be revealed only to authorized persons based on prima facie evidence of risk of harm.^[4] However, in another case, the Court commented that *counsel's eyes only* orders serve no purpose for the preparation for trial.^[5]

Footnotes

1. [^ See for example Canplas Industries v McKee, 2012 ONSC 1416\[https://www.canlii.org/en/on/onsc/doc/2012/2012onsc1416/2012onsc1416.html?resultIndex=1\] ; Fuda v Ontario \(Information & Privacy Commissioner\) \(2003\), 65 OR \(3d\) 701 \(Div Ct\)\[https://www.canlii.org/en/on/onscdoc/doc/2003/2003canlii12661/2003canlii12661.html?autocompleteStr=65%20OR%20\(3d\)%20701&autocompletePos=1\] ; Aon Reed Stenhouse Inc. v Radziwill, 2009 BCSC 131\[https://www.canlii.org/en/bc/bcsc/doc/2009/2009bcsc131/2009bcsc131.html?resultIndex=1\] .](#)
2. [^ Boehringer Ingelheim \(Canada\) Ltd. v Bristol-Myers Squibb Canada Inc. \(1998\), 79 CPR \(3d\) 51\[https://www.canlii.org/en/on/onsc/doc/1998/1998canlii14782/1998canlii14782.html?resultIndex=1\] at para 13 \(Div Ct\); I.M.P. Group Ltd. v Skyservice Business Aviation Inc., 2013 ONSC 4956\[https://www.canlii.org/en/on/onsc/doc/2013/2013onsc4956/2013onsc4956.html?resultIndex=1\] at para 22; Foss, supra at para 44; Pet Supplies \(USA\) Inc. v Pet Supplies \(USA\) Inc., 2008 BCSC 1336\[https://www.canlii.org/en/bc/bcsc/doc/2008/2008bcsc1336/2008bcsc1336.html?resultIndex=1\] \["Pet Supplies"\].](#)
3. [^ Jacques c Pétro-Canada, 2009 QCCS 4787\[https://www.canlii.org/fr/qc/qccs/doc/2009/2009qccs4787/2009qccs4787.html?resultIndex=1\] at para 18.](#)
4. [^ Audisoft Technologies inc. c Vizvocus Technologies inc. \(2001\), AZ-50864277 \(Que CA\).](#)
5. [^ Havana Club Holding, s.a. c Bacardi & Co. \(2001\), SOQUIJ AZ-50100981 \(QCCS\) at para 30, aff'd SOQUIJ AZ-02019047 \(Que CA\).](#)

c) non-confidential versions of documents being provided to all except authorised individuals;

The Court may allow for portions of documents to be redacted. In both Ontario and BC, portions of a document may be redacted if

- (1) it is clearly not relevant and will no way serve to resolve the issues **and**
- (2) there will be significant harm to the producing party or there are public interests at stake that deserve protection.^[1]

The onus is on the party seeking the redaction.^[2] Commercially sensitive financial information has been held to satisfy the above test.^[3]

Footnotes

1. [^] *North American Trust Co. v Mercer International Inc.*, [1999] BCJ No 2107[<https://www.canlii.org/en/bc/bcsc/doc/1999/1999canlii4550/1999canlii4550.html?resultIndex=1>] at para 13 (BCSC) [“North American Trust”]; *McGee v London Life Insurance Co.*, 2010 ONSC 1408[<https://www.canlii.org/en/on/onsc/doc/2010/2010onsc1408/2010onsc1408.html?autocompleteStr=2010%20ONSC1408%20&autocompletePos=1>] at para 9 [“McGee”]; *Dupont v Bailey*, 2013 ONSC 1336[<https://www.canlii.org/en/on/onsc/doc/2013/2013onsc1336/2013onsc1336.html?resultIndex=1>] at para 25; 0878357 B.C. Ltd. v Tse, 2012 BCSC 516[<https://www.canlii.org/en/bc/bcsc/doc/2012/2012bcsc516/2012bcsc516.html?resultIndex=1>] at paras 27-28.
2. [^] *McGee*, *ibid* at para 13; *McDermott v Rebeck*, 2008 BCSC 766[<https://www.canlii.org/en/bc/bcsc/doc/2008/2008bcsc766/2008bcsc766.html?resultIndex=1>] at para 15.
3. [^] *McGee*, *ibid* at para 20; *Bouchard Paradis Inc. v Markel Insurance Co. of Canada Ltd.*, [2000] OJ No 5210 at para 4 (Master); *North American Trust*, *supra* at para 14.

d) only non-confidential parts of any judgment / decision publicly available?

Federal Court judgments and court decision are often redacted in cases where confidentiality orders have been put in place. Typically, the court will release reasons first to the litigants and allow a certain period of time for submissions on what parts need to be protected from public disclosure. The problem with this procedure is two-fold: (1) decisions often become incomprehensible because so much has been redacted; and (2) there can be extended delays before a decision is released publicly which can hinder the development of the law. For example, in the recent case of *Janssen Inc. v. Teva Canada Limited*, 2015 FC 247, the court quotes from the cross-examination as follows:

320 Q. So you decided to take bortezomib forward on the basis of [redacted]. What were the [redacted] considerations that dictated that you take bortezomib forward?

A. It was the [redacted] So, for us we had a good molecule that we could easily assemble.

In addition, in this case, the confidential reasons and judgment were rendered on December 10, 2014 but the public version was not released until February 26, 2015.

Canadian provincial courts have rendered decisions that refer to the “trade secrets” without specifying the details of those secrets and thus avoid the need for confidential and public reasons.^[1]

In one Ontario court case, the appendices to the decision that contained the trade secrets in question were sealed.^[2]

Footnotes

1. [^](#) *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, [1999] 1 SCR 142 (on appeal from the B.C.C.A.); *CPC International Inc. v. Seaforth Creamery Inc.* 69 CPR (3d) 297 (Ont. S.C.)
2. [^](#) *International Tools Ltd. v. Kollar et al.* [1966] 2 O.R. 201-213; appeal allowed in part [1968] 1 O.R. 669-676 (Ont. C.A.)

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

The trade secret holder must submit sufficient evidence to convince the court that the information merits protection. However, there are cases where confidentiality is provided for in the legislation, e.g. *Patented Medicines (Notice of Compliance) Regulations* section 6(8) which provides that productions from an Abbreviated New Drug Submission are to be treated confidentially, and as a result the court will accept the confidentiality without need of evidence.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

The common law "implied undertaking rule"/Quebec's implied procedure rule provides that all parties and their counsel will not use the evidence or information, documentary or oral, obtained from the other party during the discovery process for any purpose other than the proceeding in which it was obtained. However, there are a number of exceptions including:

- where evidence/information revealed on discovery is known via another source;
- where the person disclosing the information consents;
- where the evidence has been filed with the court or given or referred to during a hearing;
- where the evidence is used to impeach the testimony of a witness in another proceeding;
- where the evidence is used in a subsequent action involving the same subject matter between the same parties.

The court has a discretionary power to relieve against the implied undertaking if satisfied that the interest of justice outweighs any prejudice that would result to a party who disclosed the evidence.^[1] The onus is on the party requesting relief.^[2]

Ontario case law has clarified that, while the rule controls the use of evidence, it does not control disclosure.^[3] Further, while experts are subject to the rule, voluntary expert's reports are not.^[4] In BC, it has been found that the undertaking extends to third parties receiving productions^[5] and information provided by third parties.^[6]

Consequences of a breach of the undertaking may include a stay or dismissal of the proceeding, striking a defence, and, as a last resort, contempt proceedings.^[7] In Ontario, courts are only likely to strike out or stay new proceedings found solely due to a breach of the undertaking.^[8] In BC, where counsel have proceeded carefully and not acted "in a cavalier manner", the Court may decide not to impose any sanctions.^[9]

Footnotes

1. [^](#) "Deemed Undertaking" under Rule 30.1 of the Rules of Civil Procedure, RRO 1990, Reg 194; *Doucette (Litigation Guardian of) v Wee Watch Day Care Systems Inc.*, 2008 SCC 8 [<https://www.canlii.org/en/ca/scc/doc/2008/2008scc8/2008scc8.html?resultIndex=1>] ["*Doucette*"]; *Lac d'Amiante du Québec Ltée v 2858-0702 Québec Inc.*, 2001 SCC 51 [<https://www.canlii.org/en/ca/scc/doc/2001/2001scc51/2001scc51.html?resultIndex=1>] ["*Lac d'Aminante*"].

2. [↑ Doucette, *ibid* at para 38.](#)
3. [↑ Kitchenham v AXA Insurance \(Canada\) \(2005\), 17 CPC \(6th\) 375 \(Ont SCJ\).](#)
4. [↑ Winkler v Lehndorff Management Ltd. \(1998\), 28 CPC \(4th\) 323 \(Ont Gen Div\); TIT2 Ltd. Partnership v Canada \(Attorney General\) \(1996\), 48 CPC \(3d\) 84 \(Ont Gen Div\).](#)
5. [↑ Chonn v DCFS Canada Corp dba Mercedes-Benz Credit Canada, 2009 BCSC 1474\[https://www.canlii.org/en/bc/bcsc/doc/2009/2009bcsc1474/2009bcsc1474.html?resultIndex=1\] at para 25.](#)
6. [↑ I.C.B.C. v Titanich, 2010 BCSC 403\[https://www.canlii.org/en/bc/bcsc/doc/2010/2010bcsc403/2010bcsc403.html?autocompleteStr=2010%20BCSC%20403&autocompletePos=1\] .](#)
7. [↑ Doucette, *supra* at para 29; Lac d'Amiante, *supra* at para 64; Goodman v Rossi \(1995\), 125 DLR \(4th\) 613\[https://www.canlii.org/en/on/onca/doc/1995/1995canlii1888/1995canlii1888.html?resultIndex=1\] at 624 \(OCA\).](#)
8. [↑ Brome Financial Corp. v Bank of Montreal, 2013 ONSC 6834\[https://www.canlii.org/en/on/onsc/doc/2013/2013onsc6834/2013onsc6834.html?resultIndex=1\] \(Commercial List\).](#)
9. [↑ Pet Supplies, *supra*.](#)

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

In the assessment of damages for the misappropriation of a trade secret, the court is given flexibility on a case-by-case basis to employ a method appropriate to satisfy the underlying principle in damages, which is an attempt to place the plaintiff in the same position as he would have been in if no wrong had occurred.

If a trade secret is unlawfully disclosed to the public, the value that a plaintiff can receive in damages is not diluted. The loss of a trade secret as a result of it being made public is a consideration in quantifying damages. Illustrative of this is the case *Apotex Fermentation Inc. v. Novopharm Ltd.*,^[1] where a research scientist formerly employed by the plaintiff pharmaceutical company (Apotex) took the plaintiff's trade secret to the defendant pharmaceutical company (Novopharm). In the discussion of costs, it was held that the entire cost of Apotex's project utilizing its trade secret, now no longer confidential or a trade secret, should be reimbursed by Novopharm. This is referred to as the cost approach, an alternative to the loss of profits approach. This approach was upheld on appeal, where, in the context of discussing the appropriateness of an injunction or damages remedy, the court stated: "Of greater significance, however, is the fact that Apotex's technology, now in the public domain in an unprotected manner, cannot be returned to it as trade secrets."

Footnotes

1. [↑ Apotex Fermentation Inc. v Novopharm Ltd., 1998 CarswellMan 318.](#)

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

The object of damages in a breach of confidence (disclosure of trade secret) case is to put the plaintiff in as good a position as it would have been, but for the breach. Compensation will depend on the value of the trade secret. For simple or low value trade secrets that could have been developed by someone else, damages are nominal (e.g. equivalent to a consultant fee for acquiring/developing the trade secret). For complex or high value trade secrets, damages may consist of lost profits or a reasonable royalty.

One or a combination of the following can be considered:

- (1) the plaintiff's loss of profit;
- (2) the value of a consultant's fee;
- (3) the depreciation and value of information in consequence of a breach of confidence;
- (4) the development costs incurred in acquiring the information;
- (5) capitalization of an appropriate royalty;

the market value on information as between a willing buyer and a willing seller.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

no
If not please comment.:

We do not have a concept defined as "moral prejudice" in Canada. However, the Supreme Court of Canada has recognised concepts and measures of harm beyond damages or an injunction where the facts of the case show a vulnerability of the holder of the confidential information or trade secret. In cases where there is a sense of vulnerability for the rights holder the Court may recognise a fiduciary duty was owed by the defendant. In such circumstances the Court can award a remedy of an accounting of the profits realised by the wrongdoer, i.e. the wrongdoer is required to pay to the rights holder any profits realised by the wrongdoer as a result of the breach. Alternatively, the Court may create a constructive trust, whereby legal title to any property acquired as a result of the wrongdoing may still be held by the wrongdoer, but any benefit from that property is payable to the wronged party.

d) If so, how is moral prejudice defined and how are such damages quantified?

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

The test for misuse of confidential information arises from common law (jurisprudentially-derived law), not statute. In *Lac Minerals Ltd. v. International Corona Resources Ltd.*, [1989] 2 S.C.R. 574, the Supreme Court of Canada established a three part test for determining if a plaintiff can recover for misuse of confidential information:

- (1) the information must have the necessary quality of confidence about it;
- (2) the information must have been imparted in circumstances in which an obligation of confidence arises; and

(3) there must have been a misuse of that information to the detriment of the confider.

The Court in *Lac Minerals* also held that breach of confidence action is *sui generis* and the court may rely on the three traditional jurisdictional bases for an action: contract, equity, and property.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

Not all confidential information held by a company would be a trade secret. Canadian law provides enough flexibility so that an action arising from the improper use of confidential information can be framed as a misuse of either or both of “trade secrets” or “confidential information”. Courts sometimes use the terms interchangeably in decisions, and they are not treated as a distinct violations. In the employment law context, the England Court of Appeal case *Faccenda Chicken v Fowler*, [1986] 1 All E.R. 617 (CA) created a distinction between trade secret and confidential information in the context of an employment relationship. This case has been applied in Canada.^[1]

Footnotes

1. ¹ *Trophy Foods v Scott* (1995), 123 DLR 4th 509 (NSCA); *Wilson Trophy Co Ltd v Chorney* (1991), 35 CPR 3d 161 (BCSC); *Monarch Messenger Services Ltd v Houlding* (1984), 2 CPR 3d 235 (Alta QB).

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

New employers can potentially be liable for misuse of confidential information by incoming employees in the course of the new job. The doctrine of inevitable disclosure has not been applied in any trade secret or confidential information court decision in Canada.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

In Canada, pre-trial discovery is part of the civil litigation process. Parties are required by statute to participate in discovery and provide all relevant information even if self-incrimination will result.^[1] The discovery process extends to non-parties with relevant information.^[2]

Via a Norwich Order, litigants have rights in limited circumstances to pre-action discovery of non-parties.^[3] Norwich orders can be used to find and preserve assets, identify potential defendants, and confirm whether a cause of action exists.^[4]

The Alberta Queen's Bench in *Leahy* set out the following factors for a Norwich Order:^[5]

- (1) Whether the applicant provided sufficient evidence to raise a valid claim;
- (2) Whether the applicant has shown that the third party was somehow involved in the wrong;
- (3) Whether the third party is the only practicable source of information;
- (4) Whether the third party could be indemnified should any harm come of the order, if granted;

and

(5) Whether the interests of justice favour the disclosure.

Norwich Orders are obtained on motion and are typically sought *ex parte*. The moving party must provide full and frank disclosure of all relevant facts, including those adverse in interest to the moving party. Norwich Orders are intrusive, extraordinary, and must be exercised with caution.

Footnotes

1. [^ Ontario Rules of Civil Procedure r 30.02\(1\) and 31; Federal Courts Rules r 235.](#)
2. [^ Ontario Rules of Civil Procedure r 30.10\(1\); Federal Courts Rules r 233.](#)
3. [^ GEA Group AG v. Ventra Group Co. and Timothy Graham, 2009 ONCA 619.](#)
4. [^ Alberta Treasury Branches v. Leahy, 2000 ABQB 515, aff'd \(2002\), 303 A.R. 63 \(C.A.\), leave to appeal refused \(2002\), 303 N.R. 392 \(note\) \(S.C.C\) \[Leahy\].](#)
5. [^ Ibid.](#)

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

no

15) Does your law provide for any other methods for securing evidence, such as seizures or *ex parte* measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

Securing evidence is done via an Anton Piller Order, which is the most draconian of all injunctions. This type of order allows a plaintiff to access a defendant's premises to inspect and remove items over which the plaintiff asserts a proprietary claim. Anton Piller Orders provide plaintiffs with access to evidence to substantiate its case before the defendant destroys it.

In *Celanese Canada Inc. v. Murray Demolition Corp.*, [2006] 2 S.C.R. 189 at para 35, the SCC established a four-part test for the grant of an Anton Piller Order:

- (1) the plaintiff must demonstrate a strong *prima facie* case;
- (2) the damage to the plaintiff by the defendant's alleged misconduct, potential or actual, must be very serious;
- (3) there must be convincing evidence that the defendant has in its possession incriminating documents or things; and
- (4) it must be shown that there is a real possibility that the defendant may destroy such material before the discovery process can do its work.

Additionally, the Federal Court in *Netbored Inc. v. Avery Holdings Inc.*, 2005 FC 1405 added two more requirements:

- (5) the execution of the order would not harm the defendant or its case; and
- (6) the interests of justice would not be brought into disrepute.

When conducting an Anton Piller Order, protections must be in place to ensure that solicitorâclient privilege is not breached. Additionally, searches must be conducted according to these guidelines per *Celanese*:

- During normal business hours;
- Defendant or responsible employee of the defendant should be present;
- The persons who may conduct the search should be specified and limited in number;
- A copy of the claim should be served on the defendant;
- The defendants have a right to contact their lawyer within a reasonable amount of time;
- A detailed list of evidence should be made;
- Where possible, documents seized should be placed in custody of the supervising lawyer and the defence should have the opportunity to review such documents; and
- Contested evidence should be kept in the supervising lawyer's custody.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Norwich Orders can be used to find and preserve assets, identify potential defendants, and confirm whether a cause of action exists.^[1]

Footnotes

1. [^] *Leahy, supra*.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

Yes, a defendant who becomes aware of a trade secret during the course of litigation should be required **not** to use the trade secret after the proceedings. There are policy reasons for this:

- In order for a trade secret owner to enforce its rights, it needs to be able to resort to the courts without fear that the trade secret will become public in the process or that others will gain access and use the trade secret. Allowing a defendant to use the trade secret would harm the rights of a trade secret owner would defeat the purpose of the litigation and effectively prevent the owner from protecting its rights.
- The whole value of a trade secret requires that it be kept secret. By allowing the use of the secret by another party who is not bound to maintain the secrecy, the whole value could be lost. For example, if a defendant were to publish a paper or file a patent disclosing the trade secret, then the owner would have lost the value in the trade secret.

20)	<p>Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?</p>
	<p>Obligations of confidentiality should not attach to information that the defendant developed independently prior to the date of the trade secret proceedings. Generally speaking, agreements to protect confidentiality and Orders in the court that protect confidentiality of information do not extend to information that is independently developed by one of the parties and can be shown to be so developed. This makes sense since the person who has independently developed information should not be precluded from using it simply because another person has developed the same information. This policy recognizes that the same trade secret can be developed and owned by different parties.</p> <p>However, in a case where the defendant develops the information “independently” after the trade secret proceedings, generally speaking the obligation of confidentiality should still attach to that information. This analysis would be heavily fact-dependent. For example, if a defendant is made aware of a specific process to make a product, it would be difficult for that defendant to “independently” come up with the same process having seen the plaintiff’s process. While not impossible, it would have to be an unusual set of facts where a defendant would be able to say it had developed the trade secret independently of the disclosure in the trade secret proceedings.</p>

Aspect (iii) - Valuation of loss

21)	<p>Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?</p>
	<p>yes</p> <p>If yes please answer the following sub-questions::</p>

a)	<p>only where injunctive relief is not possible?</p>
	<p>no</p> <p>If not please comment.:</p> <p>Damages should be available if the plaintiff can establish a loss, separate and apart from injunctive relief. As with any cause of action, there must be a causative relationship between the impugned act or omission and the loss suffered.</p>

b)	<p>only where injunctive relief is not adequate</p>
	<p>no</p> <p>If not please comment.:</p> <p>See above.</p>

c)	<p>only where injunctive relief is not necessary?</p>
	<p>no</p> <p>If not please comment.:</p> <p>See above.</p>

d)	<p>If by default, why?</p>

See above

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

no

If no, why not?:

No. A former-employee that moves to a competitor will not be presumed to have misused confidential information or divulged it to the competitor. The competitor may nonetheless be liable in some circumstances for the misuse of confidential information by its new employee. The burden of proof of misuse of confidential information is on the plaintiff. If there is evidence that there will be a breach of confidential information by disclosure to the competitor, a complainant has recourse through Norwich Orders.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes. Through Norwich Orders and Anton Piller Orders, evidence can be preserved where there is a high degree of probability that harm will occur. In such circumstances, it is imperative that evidence be preserved to ensure a plaintiff does not suffer harm and / or is able to prove its allegations in court.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes. Through Norwich Orders and Anton Piller Orders, evidence can be seized in order to be preserved where there is a high degree of probability that harm will occur. In such circumstances, it is imperative that evidence be preserved to ensure a plaintiff does not suffer harm and / or is able to prove its allegations in court.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

There are guidelines in place when executing an Anton Piller Order to ensure that the defendant's trade secrets and privileged documents are not included in the search. These measures are taken to ensure the defendant is not prejudiced in such a way.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes. Because commerce is increasingly global in nature, it would be desirable to have similar laws across various jurisdictions for predictability, consistency, and cost effectiveness as entities would not have to deal with dissimilar laws in each jurisdiction in which they do business.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

This is a fact-specific situation, and should be assessed on case by case basis.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

Norwich Orders are available to prevent violation of trade secrets and destruction of relevant evidence.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

An employee should be released from a stricter obligation of confidentiality where the party whose information was used acted inequitably. This is because an action for breach of confidence is an equitable claim, and so requires clean hands.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

Proceedings may take place *in camera*, under a publication ban, or under a sealing order. Depending on the sensitivity of the trade secrets at issue, any one of these types of avenues may be used. *In camera* proceedings occur where the matter at issue shows secretive characteristics hitherto unseen. Publication bans typically require a public interest component, such as damage to reputation. Potential economic damage does not justify a publication ban. The test for a sealing order is satisfied where a sealing order would prevent a serious risk to a party's commercial interests and the beneficial effects of the sealing order outweigh its deleterious effects.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

Express or implied confidentiality agreements between parties should remain in effect, unless declared void by Court order.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

As with proving loss in any cause of action, there must be a causative relationship between the impugned act or omission and the loss suffered.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

Complainants should be able to ensure that evidence is not destroyed and be able to take possession of its confidential information. Parties may apply for Anton Piller Orders and allege spoliation.

34) What restrictions should apply to the use of seized evidence by the claimant?

During a search pursuant to an Anton Piller Order, there are a series of guidelines that must be followed in order to respect solicitor-client privilege and to preserve the rights of a defendant.

Summary

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.