

## Introduction

With the rise of the information age and growth of the knowledge economy, managing and protecting information, as well as enforcing against its misuse, have become increasingly critical to business enterprises. Aside from protecting the intellectual capital of a business through the patent, copyright and trademark registration systems, the law further protects against misuse of confidential information, including trade secrets, to a business that takes the appropriate steps to protect such information.

A business may choose to keep certain business information confidential and to maintain trade secrets rather than seeking statutory protection through patent or copyright laws. Patents and copyright are statutorily protected for a limited time only, and only in the jurisdictions in which protection is applied for and registered. On the other hand, trade secrets and confidential information, if properly protected and managed, can be preserved indefinitely and are not restricted to specific jurisdictions. Furthermore, in many situations, the subject matter of a trade secret might not be suitable or even eligible for patent or copyright protection under the relevant statutes, thus leaving trade secret protection as the only option.

The law relating to confidential information and trade secrets has developed partly to promote certain desirable commercial behaviour. While aiming to enforce good faith behaviour between commercial parties and provide remedies for misuse of confidential information, the law has also evolved to discourage undue restraints on trade, especially in the area of non-competition by former employees.

This paper examines the fundamental concepts in the law regarding confidential information and trade secrets in the context of commercial dealings. Issues relating to confidentiality of personal information, such as under the *Freedom of Information and Protection of Privacy Act*<sup>1</sup> and the *Personal Information Protection and Electronic Documents Act (Canada)*,<sup>2</sup> are not examined in this paper, but it should be noted that these and other statutes can create obligations that should be considered in the formation of an information-management strategy for a Canadian business.

## The Nature of Confidential Information and Trade Secrets

The terms “trade secrets” and “confidential information” have been used somewhat interchangeably by the courts. “Trade secrets” generally refers to information relating to more technical matters such as secret processes or formulas; and “confidential information” relates to non-technical matters such as

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<sup>1</sup> R.S.O. 1990, c. F.31.

<sup>2</sup> S.C. 2000, c. 5.

business plans or pricing information.<sup>3</sup> Although this paper uses the term “confidential information” to encompass trade secrets, note that the courts have not always treated these terms consistently.<sup>4</sup>

## Trade Secrets

The courts have not set out a comprehensive definition for a trade secret. What is clear is that the element of secrecy must be present for a trade secret to exist. That is, once a trade secret enters the public domain, such as through publication in a trade journal or marketing of a readily reverse-engineered product embodying the trade secret, it is no longer a trade secret.<sup>5</sup> Other characteristics of a trade secret were enunciated by the Court in *R.I. Crain Ltd. v. Ashton*.<sup>6</sup> While noting that he had been unable to find a definition for a trade secret under Canadian jurisprudence, Justice Chevrier accepted definitions from U.S. jurisprudence and concluded that trade secrets include the following:

1. a property right that, as soon as discovered, gives the discoverer the full right to use;
2. a plan, process, tool, mechanism or compound known only to its owner and the employees to whom it is necessary to confide it;
3. a secret formula or process not patented, but known only to certain individuals who use it in compounding some article of trade having commercial value; and not merely denoting the privacy with which business is carried on;
4. any secret formula, pattern, process, device or compilation of information used continuously in the operation of the business and that gives the owner an opportunity to obtain an advantage over competitors who do not know or use it.<sup>7</sup>

Draft legislation has also attempted to set out the characteristics of trade secrets. In 1986, the Alberta Institute of Law Research & Reform recommended enactment of legislation to protect trade secrets and define the term “trade secret.” Although this draft legislation never came into force, the proposed definition is nonetheless generally consistent with court decisions and can thus provide guidance in analyzing whether certain information is a trade secret:

Trade secret means information including but not limited to a formula, pattern, compilation, program, method, technique, or process, or information contained or embodied in a product devise or mechanism which:

- (i) is, or may be used in a trade or business,
- (ii) is not generally known in the trade or business,
- (iii) has economic value from not being generally known, and
- (iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>8</sup>

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<sup>3</sup> See M.D. Manson, “What are trade secrets, and how are they different from confidential information and intellectual property?” in R.A. Fashler et al., eds., *Trade Secrets and Confidential Information* (Vancouver: The Continuing Legal Education Society of British Columbia, 2002) 1.1 at 1.1.02 [Manson].

<sup>4</sup> Note also the English case of *Faccenda Chicken Ltd. v. Fowler*, [1986] 1 All E.R. 617 (C.A.) [*Faccenda Chicken*], in which the Court drew a distinction between the terms “trade secrets” and “confidential information.” However, in this case the Court appears to have described confidential information more as “trade knowledge,” as discussed later in this paper.

<sup>5</sup> See *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, [1999] 1 S.C.R. 142 [*Cadbury Schweppes*].

<sup>6</sup> [1949] O.R. 303 (H.C.J.) [*R.I. Crain*]. See also *Reliable Toy Co. v. Collins*, [1950] O.R. 360 (H.C.J.).

<sup>7</sup> *R.I. Crain*, *ibid.* at para. 19.

It has been suggested that in the context of the information technology industry, most technology that is created through the expenditure of time and resources, and that is coupled with the necessary quality of confidence and inaccessibility to competitors, can be protected as a trade secret.<sup>9</sup>

### Confidential Information

As is the case with trade secrets, for any information to qualify as confidential, the element of secrecy must exist. Confidential information can therefore not be public property or in the public knowledge.

A list of factors to consider in determining whether or not information is confidential is set out in *Pharand Ski Corp. v. Alberta*:<sup>10</sup>

1. the extent to which the information is known outside the owner's business;
2. the extent to which it is known by employees and others involved in the owner's business;
3. the extent of measures taken by him to guard the secrecy of the information;
4. the value of the information to him and his competitors;
5. the amount of money or effort expended by him in developing the information;
6. the ease or difficulty with which the information could be properly acquired or duplicated by others (i.e., by their independent endeavours).

In listing these factors, the Court cautioned that this list is not exhaustive and that none of these factors, alone or in combination, should be taken as determinative.<sup>11</sup>

### Trade Secrets as Distinguished from Trade Knowledge

In the employment context, the courts have found that certain information gained by a person during employment may fall within the area of trade knowledge, which is different from trade secrets or confidential information and not protectable as such.<sup>12</sup> An employee is free to take trade knowledge from job to job and any restrictive covenant purporting to stop a departing employee from using this trade knowledge is prima facie an illegal restraint on trade and, therefore, unenforceable.<sup>13</sup>

Trade knowledge is typically distinguished from trade secrets and other confidential information as being the skills, general knowledge and any personal goodwill that an employee obtained in the course of employment.<sup>14</sup> In making this determination, the following factors can be considered:

1. the nature of the employment;
2. the nature of the information;

<sup>8</sup> Institute of Law Research and Reform (Edmonton, Alberta) and A Federal Provincial Working Party, *Trade Secrets*, Report No. 46, July 1986.

<sup>9</sup> Manson, *supra* note 3 at 1.1.03.

<sup>10</sup> (1991), 37 C.P.R. (3d) 288 at 316 (Alta. Q.B.) [*Pharand Ski*], citing with approval *Ansell Rubber Co. Pty Ltd. v. Allied Rubber Industries Pty Ltd.*, [1967] V.R. 37 (S.C.) and *Deta Nominees Pty. Ltd. v. Viscount Plastic Products Ltd.*, [1979] V.R. 167 (S.C.).

<sup>11</sup> *Ibid.* at 316. See also *Ebco Industries Ltd. v. Kaltech Manufacturing Ltd.*, [1999] B.C.J. No. 2350 (S.C.).

<sup>12</sup> See *Pizza Pizza Ltd. v. Gillespie* (1990), 75 O.R. (2d) 225 (Gen. Div.); *Genesta Manufacturing Ltd. v. Babey* (1984), 48 O.R. (2d) 94 (H.C.J.) [*Genesta*].

<sup>13</sup> *Maguire v. Northland Drug Co.*, [1935] S.C.R. 412 [*Maguire*].

<sup>14</sup> See *Berkey Photo (Canada) Ltd. v. Ohlig* (1983), 76 C.P.R. (2d) 121 (H.C.J.); *Herbert Morris Ltd. v. Saxelby*, [1916] 1 AC 688 (H.L.), cited with approval in *Apotex Fermentation Inc. v. Novopharm Ltd.* (1995), 63 C.P.R. (3d) at 146 (Man. Q.B.) [*Apotex Fermentation*].

3. whether the employer impressed on the employee the confidentiality of the information;
4. whether the information can be easily isolated from other information that the employee is free to use or disclose.<sup>15</sup>

### Property in Confidential Information

Characterizing confidential information as property is controversial.<sup>16</sup> For purposes of the theft provisions in the *Criminal Code*,<sup>17</sup> confidential information is not property.<sup>18</sup> The Court in *Cadbury Schweppes* emphasized that actions for breach of confidence are rooted in the relationship of confidence rather than in the characteristics of the information involved.

It can be useful to think of confidential information and trade secrets as being capable of being controlled rather than owned. Use or dissemination of such information can be controlled through contractual means or through other obligations implied by law without necessarily asserting property rights. In the employment context, there is also an implied condition of employment that an employee who learns of an invention or discovery, including a trade secret, becomes a trustee of that discovery for his or her employer even beyond the term of employment.<sup>19</sup>

### Causes of Action Relating to Misuse of Confidential Information

#### The Duty of Confidence

A duty of confidence arises when a person acquires knowledge of confidential information, including trade secrets, under circumstances in which the person has notice or agreed that the information is confidential.<sup>20</sup> A duty of confidence can exist beyond the traditional categories of contractual obligation, fiduciary duty or relationship between the parties and is based on elements of trust and reasonable expectations.<sup>21</sup> The courts have considered an action for breach of confidence to be *sui generis*, with roots in contract, equity and property law.<sup>22</sup>

The test to determine whether a duty of confidence arises is an objective one: whether a reasonable person standing in the shoes of the recipient of the information would have realized that the information was given in confidence.<sup>23</sup>

Industry customs may play a role in the court's determination of whether a duty of confidence arises.<sup>24</sup> The courts have found that evidence with regard to industry customs is relevant in determining the reasonable expectation of confidentiality, even in the absence of an express confidentiality agreement

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<sup>15</sup> *Faccenda Chicken*, *supra* note 4.

<sup>16</sup> *Cadbury Schweppes*, *supra* note 5.

<sup>17</sup> R.S.C. 1985, c. C-46, s.322.

<sup>18</sup> *R. v. Stewart*, [1988] 1 S.C.R. 963.

<sup>19</sup> *Triplex Safety Glass Company v. Scora*, [1937] 4 All E.R. 693 (Ch. D.), cited with approval in *R.I. Crain*, *supra* note 6 at para. 7.

<sup>20</sup> See *Lac Minerals Ltd. v. International Corona Resources Ltd.*, [1989] 2 S.C.R. 574 [*Lac Minerals*] Note that *Lac Minerals* was a split decision in which the Court was unanimous only on the issue of breach of confidence; *Coco v. A.N. Clark (Engineers) Limited*, [1969] R.P.C. 41 (Ch. D.) [*Coco*].

<sup>21</sup> See *Saltman Engineering Co. Ltd. and others v. Campbell Engineering Co., Ltd.*, [1963] 3 All E.R. 413 (C.A.) [*Saltman*]; *Lac Minerals*, *ibid.*

<sup>22</sup> See *Lac Minerals*, *ibid.*; *Cadbury Schweppes*, *supra* note 5.

<sup>23</sup> *Coco*, *supra* note 20.

<sup>24</sup> *Ibid.*

between the parties.<sup>25</sup> In one case, it was also suggested that a conversation “in the field” between two engineers can be regarded as a circumstances of confidence.<sup>26</sup>

Although a relationship need not exist between the parties for a duty of confidence to arise, the courts have recognized several relationships that give rise to confidentiality obligations – for example, a relationship in which confidential information is disclosed for a limited purpose, such as to a manufacturer for the purpose of manufacturing a product;<sup>27</sup> similarly, in a relationship between licensors and licensees, the courts have found that a licensee cannot disclose confidential information that was provided to it for the purposes of a licensing arrangement;<sup>28</sup> in a relationship between partners in a partnership or a joint venture, information disclosed between the partners has been considered to be disclosed in a confidential relationship;<sup>29</sup> in a relationship between employers and employees, it has been held that an employee owes his or her employer a duty of fidelity and good faith upon termination, which encompasses the duty not to retain and use documented client lists and other confidential information received in the course of employment;<sup>30</sup> and finally, when two parties enter into a contract, even if the contact is silent on the matter of confidence, it has been held that the law will imply an obligation to treat as confidential any confidential information passed between the parties for the purposes of the contract.<sup>31</sup>

A duty of confidence has also been held to arise in the context of commercial negotiations<sup>32</sup> even if the negotiations ultimately fail to result in a contract or commercial arrangement,<sup>33</sup> and perhaps especially so if the negotiations were a ruse to gather confidential information.<sup>34</sup> In *Lac Minerals*, a leading case on the obligations that can arise even if a proposed commercial arrangement does not ultimately come to fruition, confidential information regarding a potential property for purchase was disclosed during negotiations for a joint venture.<sup>35</sup> The Court found that the recipient of this information had obligations of confidentiality even after negotiations fell through, and that the recipient was in breach of those obligations when it used the information to acquire the property for itself, to the discloser’s detriment.

### ***Establishing a Claim of Breach of Confidentiality***

Protection of confidential information has roots in the broad equitable principle of good faith: “[He] who received information in confidence shall not take unfair advantage of it.”<sup>36</sup> A duty of confidence does not give rise to a positive obligation, but rather the confidant has a negative obligation: not to misuse the information. In *Lac Minerals*, the Court stated that if a claim for breach of confidentiality has occurred, the burden of proof is on the plaintiff to show three elements:

1. that the information conveyed was confidential;

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<sup>25</sup> *Lac Minerals*, *supra* note 20. See also *Ken Graham Consumer Products Ltd. v. Sunbeam Corp. (Canada) Ltd.* (1989), 25 C.P.R. (3d) 52 (Ont. H.C.J.) [*Ken Graham*].

<sup>26</sup> *Lac Minerals*, *ibid.*

<sup>27</sup> *Ken Graham*, *supra* note 25.

<sup>28</sup> *Cadbury Schweppes*, *supra* note 5. See also *Breeze Corporation v. Hamilton Clamp and Stamping Ltd.* (1961), 37 C.P.R. 153 (Ont. H.C.).

<sup>29</sup> *Ken Graham*, *supra* note 25.

<sup>30</sup> *R.T. Investment Counsel Inc. v. Werry* (1999), 46 B.L.R. (2d) 66 (B.C.S.C.).

<sup>31</sup> *Saltman*, *supra* note 21.

<sup>32</sup> *Seager v. Copydex Ltd.*, [1967] 1 W.L.R. 923 (C.A.) [*Seager*].

<sup>33</sup> *Coco*, *supra* note 20.

<sup>34</sup> *Sweet Factory Inc. v. Hudson’s Bay Co.* (1988), 85 C.P.R. (3d) 417 (Ont. Ct. Gen. Div.) [*Sweet Factory*].

<sup>35</sup> *Supra* note 20.

<sup>36</sup> *Seager*, *supra* note 32.

2. that it was communicated in confidence;
3. that it was misused by the confidant.<sup>37</sup>

The Court held, however, that if information is disclosed in confidence, the recipient is entitled to use it only for the purposes explicitly authorized, and the burden of proof rests with the recipient to show that the use of the information was authorized.<sup>38</sup>

An action for breach of confidence is not limited to that solely against a direct recipient of the information. A third-party recipient may also be liable for unauthorized use of confidential information if he or she had actual, imputed or constructive knowledge that the information was confidential.<sup>39</sup>

### ***Defeating a Claim of Confidentiality Breach***

There are a number of circumstances that the courts have accepted as militating against a finding of a breach of confidentiality.<sup>40</sup>

1. if the parties to the disclosure have expressly agreed that the information will be considered non-confidential;<sup>41</sup>
2. if the recipient had a right to receive the information and use it any way he or she chose;<sup>42</sup>
3. if the recipient has not had an opportunity to reject the attempted disclosure;<sup>43</sup>
4. if the recipient did not know that the information received was obtained or communicated in breach of trust or confidence;<sup>44</sup>
5. if the recipient of the confidential information neither knew nor ought to have known of the alleged limited purpose of the disclosure;<sup>45</sup>
6. if the information that is the subject of a duty of confidence ceases to be confidential;<sup>46</sup>
7. if the information disclosed in circumstances of confidence must be made available to the public by law.<sup>47</sup>

### **The “Springboard” Principle**

One specific type of misuse of confidential information that the courts have prohibited is based on the “springboard” principle. The springboard principle provides that a person who obtained information in confidence is not permitted to use it as a springboard, or an unfair head start, for activities detrimental to the confider, even after the information becomes available to the public.<sup>48</sup> This principle was developed

<sup>37</sup> *Lac Minerals*, *supra* note 20.

<sup>38</sup> *Ibid.*

<sup>39</sup> See *Apotex Fermentation*, *supra* note 14; *Cadbury Schweppes*, *supra* note 5.

<sup>40</sup> See C.L. Slusarchuk and D. Crane, “When Will Confidentiality Obligations Be Imposed by the Common Law?” in R.A. Fashler et al., eds., *Trade Secrets and Confidential Information* (Vancouver: The Continuing Legal Education Society of British Columbia, 2002) 2.1 at 2.1.17 [Slusarchuk].

<sup>41</sup> *S D & A Marketing v. Horn Abbot Ltd.* (1989), 26 C.P.R. (3d) 168 (Ont. H.C.J.).

<sup>42</sup> *Abode Properties Ltd. v. Schickendanz Bros. Ltd.*, [1999] A.J. No. 1407 (Alta. Q.B.).

<sup>43</sup> *Cope Allman (Marrickville) Ltd. v. Farrow* (1984), 3 I.P.R. 567 (N.S.W.S.C.).

<sup>44</sup> *Bryndon Ventures Inc. v. Bragg* (1989), 31 C.P.R. (3d) 452 (B.C.S.C.) aff’d (1991), 37 C.P.R. (3d) 489 (B.C.C.A.).

<sup>45</sup> *Hollinsworth v. BCTV, a division of Westcom TV Group Ltd.* (1999), 59 B.C.L.R. (3d) 121 (C.A.).

<sup>46</sup> *A.-G. v. Guardian Newspapers Ltd. (No. 2)*, [1990] 1 A.C. 109 (H.L.).

<sup>47</sup> *Glaxo Canada Inc. v. Canada (Minister of Health and Welfare)* (1992), 41 C.P.R. (3d) 176 (F.C.T.D.).

<sup>48</sup> *Terrapin Ltd. v. Builders’ Supply Co. (Hayes) Ltd.*, [1960] R.P.C. 128 (C.A.) [*Terrapin*].

partly to provide redress where even though the misappropriated information may be “nothing very special,” the misuse of the information nonetheless permits a recipient of that information to enter the market faster than would otherwise be possible.<sup>49</sup> The English authorities have expressed the reasoning for extending the restriction beyond the time that the information becomes public to account for any unfair head start given to the possessor of the information in comparison to a member of the public.<sup>50</sup> This restriction is to promote equality between a person who possesses the relevant information prior to public disclosure and someone who receives the information through public disclosure and who would generally still have to prepare plans and specifications, construct prototypes and conduct tests in order to enter the market.<sup>51</sup>

In *Cadbury Schweppes*, the leading Canadian case dealing with springboard principle, a licensor revealed to the licensee, under licence, confidential information about a recipe for a tomato cocktail with clam broth. After receiving notice to terminate the licence, the licensee used the confidential information to develop a competing product. Even though it was held that the information was “nothing very special” and a competing drink could have been developed without the use of the confidential information, it was nonetheless found that using the confidential information gave the licensee a head start that would not have otherwise been available but for its misuse of the confidential information. Damages were assessed for the period of time the licensee would reasonably be expected to develop a competing product without using the confidential information, a period that amounted to the springboard period enjoyed by the licensee.<sup>52</sup>

### The Fiduciary Duty

A person who owes a fiduciary duty has a positive obligation to act altruistically for the sole benefit of the beneficiary. A fiduciary relationship co-exists with an obligation of confidence with respect to confidential information<sup>53</sup> and so a fiduciary duty includes a duty of confidence.

Whereas a duty of confidence may arise when a third party acquires the confidential information, a fiduciary duty can arise only between the fiduciary and the beneficiary.<sup>54</sup> The law recognizes certain relationships as fiduciary in nature, including director–corporation, trustee–beneficiary, solicitor–client, partners and principal–agent.<sup>55</sup>

Directors, officers and other senior management are fiduciaries to their employers. Fiduciary obligations include a duty of loyalty and good faith, and an avoidance of a conflict of duty and self-interest.<sup>56</sup> In *Canadian Aero Services Ltd. v. O'Malley*,<sup>57</sup> the Court held that a finding of fiduciary obligations on the directors and senior officials of a company was simply a recognition of the degree of control they have over the operations of the company. It has been noted that generally an employee whose actions require another person's approval will not likely be seen as a fiduciary.<sup>58</sup>

Besides being found in the traditionally recognized relationships, a fiduciary duty may be found to exist if the following characteristics are found in a relationship:

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<sup>49</sup> *Cadbury Schweppes*, *supra* note 5. See also *Saltman*, *supra* note 21.

<sup>50</sup> *Terrapin*, *supra* note 48.

<sup>51</sup> *Ibid.* See also Manson, *supra* note 3 at 1.1.09.

<sup>52</sup> *Cadbury Schweppes*, *supra* note 5.

<sup>53</sup> *Lac Minerals*, *supra* note 20.

<sup>54</sup> *Ibid.*

<sup>55</sup> *Ibid.*

<sup>56</sup> *Canadian Aero Services Ltd. v. O'Malley* (1973), 40 D.L.R. (3d) 371 (S.C.C.) [*Canadian Aero*].

<sup>57</sup> *Ibid.*

<sup>58</sup> Slusarchuk, *supra* note 40 at 2.1.09.

1. The fiduciary has scope for exercise of some power or discretion.
2. The fiduciary can unilaterally exercise that power or discretion to affect the legal or practical interests of the beneficiary.
3. The beneficiary is peculiarly vulnerable to the fiduciary.<sup>59</sup>

The courts are generally reluctant to find fiduciary obligations between arm's-length commercial parties.<sup>60</sup> While the courts accept that disclosure of any confidential information will generally place the confider in some position of vulnerability,<sup>61</sup> in the commercial context this vulnerability is seen as flowing from the terms of a commercial relationship freely entered into by the parties and is not the kind of vulnerability that will serve to elevate the relationship to one that is fiduciary in nature.<sup>62</sup> In this type of relationship, the courts will generally leave the parties to contract for the position that they desire, and supplement that contract with a duty to not misuse confidential information.<sup>63</sup> Despite this, a court has stepped in to find a fiduciary relationship when the vulnerability arises from the inability of a party, despite its best efforts, to prevent an injurious exercise of power or discretion that is combined with a grave inadequacy, or absence, of other legal or practicable remedies to prevent the wrongful exercise of that power or discretion.<sup>64</sup>

### ***Establishing a Claim of Breach of Fiduciary Duty***

Unlike a claim for breach of confidentiality, the plaintiff need not have suffered detriment to establish a claim of breach of fiduciary duty<sup>65</sup> and so actions for breach of confidence often also allege breach of fiduciary duty because of the lower threshold for breach.<sup>66</sup> However, the courts may be reluctant to impose a fiduciary duty where there is also a breach of confidence, perhaps because the remedies available for a breach of confidence are broad and generally at least equivalent to those available for a breach of fiduciary duty.<sup>67</sup>

To establish a claim for breach of fiduciary duty in the context of misuse of confidential information or trade secrets, a plaintiff must show the same elements as in other claims for a breach of fiduciary duty, and must establish that the defendant owed a fiduciary duty to the plaintiff and breached this duty.<sup>68</sup>

### **Remedies**

Both legal and equitable remedies are available for a breach of confidentiality, whereas breach of fiduciary duty may be redressed only through equitable remedies.<sup>69</sup> The array of remedies available in a breach of

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<sup>59</sup> *Lac Minerals*, *supra* note 20.

<sup>60</sup> *Ibid.* See also *Cadbury Schweppes*, *supra* note 5.

<sup>61</sup> *Cadbury Schweppes*, *supra* note 5 at 165.

<sup>62</sup> *Visagie v. TVX Gold Inc.* (2000), 49 O.R. (3d) 198 (C.A.).

<sup>63</sup> *Cadbury Schweppes*, *supra* note 5 at 163-5.

<sup>64</sup> *Sweet Factory*, *supra* note 34.

<sup>65</sup> *Lac Minerals*, *supra* note 20 at para. 42, La Forest J. La Forest J. was in the minority on the Court's finding that a fiduciary duty did not exist in this case but his statements regarding the criteria for breach were not in dispute.

<sup>66</sup> *Slusarchuk*, *supra* note 40 at 2.1.07.

<sup>67</sup> *Ibid.* See also *Cadbury Schweppes*, *supra* note 5.

<sup>68</sup> *Sweet Factory*, *supra* note 34.

<sup>69</sup> *Lac Minerals*, *supra* note 20.

confidence action is vast<sup>70</sup> and the courts have taken a flexible approach to fashion appropriate remedies, given the *sui generis* nature of the action.<sup>71</sup>

## Injunction

The nature of confidential information is such that misuse by a recipient tends to destroy the value of the information by compromising its confidentiality. As the disclosure or continued misuse of confidential information can destroy the very thing a plaintiff is seeking to protect, obtaining a swift interlocutory injunction can be the most important practical remedy available to a plaintiff.<sup>72</sup>

A party seeking an interlocutory injunction must prove that (1) there is a serious issue to be tried; (2) irreparable harm would be suffered by the party seeking the injunction if it is not granted; and (3) the balance of convenience favours granting of the injunction.<sup>73</sup> In an application for interlocutory injunction in the trade secret context, the plaintiff would need to establish that the defendant possessed a trade secret; that the defendant knew it was a trade secret; that the acquisition of the trade secret was improper; and that the balance of convenience favoured granting the injunction.<sup>74</sup> The examination for balance of convenience requires the court to consider whether the injunction would inflict damage on the defendant disproportionate to the legitimate interests of the plaintiff.<sup>75</sup>

A plaintiff who is successful on the merits can also seek a permanent injunction to provide an ongoing prohibition against the misuse of the confidential information beyond the disposition of the case. An injunction that is framed in a manner that includes a restraint on the use of information already in the public domain is too broad.<sup>76</sup> The plaintiff bears the onus of showing that the injunction goes no further than is reasonably necessary to protect his or her interests.<sup>77</sup>

A plaintiff's failure to seek an interlocutory injunction may significantly undermine any claim for a permanent injunction.<sup>78</sup> In *Cadbury Schweppes*, the plaintiff's delay in seeking an injunction, the transitory and peripheral nature of the information sought to be protected and the adequacy of a monetary remedy were all factors the Court considered in deciding against granting a permanent injunction.

The scope of an injunction may be limited by time<sup>79</sup> and place.<sup>80</sup> It may restrict only certain activities<sup>81</sup> and last only until the relevant information is no longer secret.<sup>82</sup>

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<sup>70</sup> *Cadbury Schweppes*, *supra* note 5. See also Francis Gurry, *Breach of Confidence* (Oxford: Clarendon Press, 1984) [Gurry].

<sup>71</sup> *Cadbury Schweppes*, *ibid.*

<sup>72</sup> M. B. Gehlen, "Remedies for Misuse of Confidential Information" in R.A. Fashler et al., eds., *Trade Secrets and Confidential Information*, (Vancouver: The Continuing Legal Education Society of British Columbia, 2002) 3.1 at 3.1.05. See also Gurry, *supra* note 70.

<sup>73</sup> *RJR-MacDonald Inc. v. Canada (A.G.)*, [1994] 1 S.C.R. 311.

<sup>74</sup> *Vapor Canada Ltd. v. MacDonald* (1972), C.P.R. (2d) 204 (F.C.T.D.), *rev'd* on other grounds [1977] 2 S.C.R. 134.

<sup>75</sup> *Cadbury Schweppes*, *supra* note 5. See also *Fibron Machine Corp. v. Sawley* (1999), 86 C.P.R. (3d) 448 (B.C.S.C.).

<sup>76</sup> *United Technologies Corp. v. Platform Computing Corp.* (1998), 83 C.P.R. (3d) 350 (Ont. Ct. J. Gen. Div.).

<sup>77</sup> *R.L. Crain Limited v. Ashton and Ashton Press Manufacturing Company Limited*, [1950] O.R. 62 (C.A.).

<sup>78</sup> *Cadbury Schweppes*, *supra* note 5.

<sup>79</sup> *Bee Chemical Co. v. Plastic Paint & Finish Specialities Ltd.* (1979), 47 C.P.R. (2d) 133 (Ont. C.A.).

<sup>80</sup> *A & W Games Ltd. v. Le Blanc* (1990), 31 C.P.R. (3d) 471 (Ont. D.C.).

<sup>81</sup> *Miss Milly House Cleaning Services Ltd. v. Church* (1997), 77 C.P.R. (3d) 203 at 206 (B.C.S.C.), citing with approval *Busnex Business Exchange Ltd. v. Reimer*, [1996] B.C.J. No. 815 (Van. Reg. No. C961495, April 16, 1996).

<sup>82</sup> *International Tools Ltd. v. Kollar*, [1968] 1 O.R. 669 (C.A.).

The grant of a permanent injunction follows a court's consideration of the full merits of a case. It is a discretionary remedy and the court may decide against granting an injunction if damages are deemed sufficient and appropriate.<sup>83</sup>

## Damages

Damages are awarded to compensate for the loss suffered by the successful plaintiff. In calculating damages, the courts strive to look at what the situation would have been "but for" the activity of the defendant, with a view to avoid overcompensation where the misused confidential information is "nothing very special."<sup>84</sup>

Damages may be assessed on one or more of the following bases:

1. confider's loss of profit;
2. value of consultant's fee that would have been paid to develop the information;
3. depreciation of the value of the information resulting from the breach;
4. development costs in acquiring the information;
5. capitalization of an appropriate royalty;
6. market value of the information.<sup>85</sup>

The court's task is to examine the positions of the plaintiff and the defendant, and to determine the approach that best puts the plaintiff in the position as if no wrong had occurred.<sup>86</sup>

Although an award of damages for loss of actual sales can be made, loss of opportunity to apply profits from lost sales to other markets has been held to be too remote.<sup>87</sup> Likewise, loss of enhancement of reputation has been held to be too remote to result in award of damages.<sup>88</sup>

## Other Remedies

Aside from injunctions and damages, other available remedies include constructive trusts, accounting of profits, equitable liens, tracing orders, fair licence and punitive or exemplary damages.

Constructive trusts may be imposed to ensure that the wealth that would have accrued for the benefit of the plaintiff is restored to the plaintiff.<sup>89</sup> Justice La Forest, in *Lac Minerals*, explains that so long as a valid restitutionary claim has been made out, it is not necessary that confidential information is recognized as property for the remedy of constructive trust to be appropriate; more important is "the right of the [rightful] property holder to have changes in value accrue to his account rather than to the account of the wrongdoer."<sup>90</sup> In *Lac Minerals*, the valuation of the property for assessing damages was found to be "virtually impossible," and so in view of this difficulty, the uniqueness of the property and the fact that the plaintiff would have acquired the property but for the defendant's breaches of duty, Justice La Forest

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<sup>83</sup> *Cadbury Schweppes*, *supra* note 5.

<sup>84</sup> *Ibid.*

<sup>85</sup> *ICAM Technologies v. EBCO Industries* (1991), 36 C.P.R. (3d) 504 (B.C.S.C.).

<sup>86</sup> *Cadbury Schweppes*, *supra* note 5.

<sup>87</sup> *Wil-Can Electronics Can Ltd. v. Ontario (Ministry of the Solicitor-General)*, [1992] O.J. No. 2537 (Gen. Div.).

<sup>88</sup> *Ibid.*

<sup>89</sup> *Lac Minerals*, *supra* note 20.

<sup>90</sup> *Ibid.* at para. 76-78.

found that a constructive trust is the appropriate remedy.<sup>91</sup> However, it was also noted in *Lac Minerals* that constructive trusts would generally not be the appropriate remedy in most cases and “should only be awarded if there is reason to grant to the plaintiff the additional rights that flow from recognition of a right of property.”<sup>92</sup>

An accounting of profits is another available remedy that is meant to deprive the defendant of profits that are improperly made. In light of the *Cadbury Schweppes* decision, accounting of profits is unlikely to be awarded where the information is “nothing very special,” and that only a springboard period is provided by the misuse of confidential information.<sup>93</sup>

Other remedies include declaratory relief and delivery up orders. The court may provide declaratory relief, a discretionary remedy whereby the court issues a declaration as to ownership. Usually ancillary to an injunction, the court may also order delivery up or destruction of the confidential material.<sup>94</sup>

## Protecting Trade Secrets and Confidential Information

Many practical ways are available to protect trade secrets within an organization, often based simply on applying common sense and forethought.

The most commonly used legal tool is the confidentiality agreement, also known as non-disclosure agreement. This type of agreement is used to clarify what constitutes confidential information and the authorized uses of that information. This agreement is typically useful in situations involving prospective employees, departing employees, partners, parties in negotiations, customers and suppliers. Especially for incoming employees, it is also important that the confidentiality agreement includes a covenant prohibiting the employee from using confidential information belonging to third parties, such as a former employer. An employer is vicariously liable for any wrongful acts of employees within their scope of employment,<sup>95</sup> and an employer should be careful that its operation does not inadvertently misuse another party’s confidential information that would lead to liability.

Restrictive covenants, including non-competition provisions, can be used to limit the rights of a party to engage in activity that may be detrimental to or undesired by the company. Common examples of these covenants are non-competition provisions that limit an ex-employee’s ability to compete with the former employer and restrict an ex-employee from soliciting customers or other employees of the former employer. In crafting restrictive covenants, one must bear in mind the presumption that all covenants in restraint of trade are prima facie void, but that this presumption can be rebutted on a showing that the covenant is reasonable and goes no further than is necessary to protect an employer’s interests.<sup>96</sup> If the business of the employer, such as a personnel agency, does not involve trade secrets, a restrictive covenant limiting an employee’s ability to be associated with any other firm engaged in a similar business after termination may be held to be unreasonable and, therefore, void.<sup>97</sup> An employee’s use of personal knowledge gained from employment also should not be restrained.<sup>98</sup> For departing employees, an exit interview in which the confidentiality obligations of the employees are re-emphasized or at which the

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<sup>91</sup> *Ibid.* at para. 78.

<sup>92</sup> *Ibid.*

<sup>93</sup> *Cadbury Schweppes*, *supra* note 5 referred to in *Manson*, *supra* note 3.

<sup>94</sup> See *Gurry*, *supra* note 70 at 411-6.

<sup>95</sup> *Apotex Fermentation v. Novopharm Ltd.* (1998), 80 C.P.R. (3d) 449 (Man. C.A.).

<sup>96</sup> *Maguire*, *supra* note 13.

<sup>97</sup> *Drake International Ltd. v. Mille*, (1975), 61 D.L.R. (3d) 420 (Ont. H.C.J.).

<sup>98</sup> *Genesta*, *supra* note 12.

obligations are set out in a letter to the employee can also be useful to remind the departing employee of his or her obligations.

Another way for a business to protect its trade secrets and confidential information is to set up a management program in which the business's key information, including trade secrets, is identified and then placed under "lock and key." For practical purposes, one of the best ways to keep confidential information secret is to simply limit access to it. For electronic data, files having confidential information can be encrypted and/or stored on a network hard drive requiring authentication to access. Confidential documents, in electronic or paper form, can also be marked as confidential to provide notice to anyone coming across the documents.

Businesses in the software industry can also arrange for employees assigned to sensitive projects to use computers that are disconnected from external networks.

Another important tool for protecting confidential information is to provide training to staff and employees on the handling of confidential information. Confidentiality is compromised at times (1) inadvertently, such as through a casual conversation; (2) through sub-optimal practices, such as not insisting upon a confidentiality agreement before disclosing sensitive information; or (3) through plain carelessness, such as leaving confidential documents unattended at a public location. A training program designed to make employees aware of what a business considers to be its confidential information and to explain the policies on handling the information can greatly reduce unintended "leaks" of confidential information.

## **Conclusion**

Trade secrets and confidential information can be valuable assets to a business enterprise and care should be taken to protect these assets. In the event of any misuse, the law has developed flexible remedies whereby the business can obtain redress. A business should have policies in place to identify and limit access to its confidential information and to ensure that any disclosure of the information is under a duty of confidence. By having safeguards in place to protect its information, a business can also enhance its position in seeking legal redress should any misuse arise.