

THE LAW OF TRADE SECRETS IN QUEBEC AND IN CANADA: A PRAGMATIC APPROACH

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Generally, when we think of trade secrets, those that usually come to mind are world-recognized famous trade secrets such as Coca-Cola Corporation’s legendary formula for its renowned soft drink or KFC’s special 11 spices and herbs recipe for its fried chicken or maybe MacDonaldis’ secret ingredients and preparation for its much appreciated Big Mac sauce. Such well-known trade secrets are often considered the most valuable assets that a company may have.

Sources of threat to a company’s trade secrets can come not only from spying competitors but also and perhaps more frequently from within the company—specifically, from current and former employees. People tend not to realize that secret trades can be extremely important and valuable for enterprises of all sizes and at all stages of development. Thus, enterprises have the utmost responsibility to ensure the protection of their trade secrets and confidential business information, particularly by entering into various forms of covenants, both internally and externally (with key employees as well as with business partners), and by being aware of the various available enforcement measures and legal actions they can undertake to prevent or stop a violation or potential violation of trade secrets.

Paradoxically, the protection conferred by law on trade secret holders appears to be a complex matter in Quebec as well as in Canada. Not only do the governing rules tend to be difficult to define, but the ambit of the protection conferred by such rules and the likelihood of success of the remedies available remains unclear and unpredictable.

The present article is aimed at giving the reader a brief outline of the legislative framework applicable to trade secrets in civil and common law, mainly in the context of employment relationships. We will first discuss the judicial roots and definition of trade secrets. Secondly, we will propose various preventive measures that should be implemented by enterprises cautious about protecting their trade secrets and confidential business information. Finally, we will look at various courses of action and remedies available to a plaintiff whose trade secrets or confidential business information has been either violated or jeopardized. For the purposes of this article, we will use and consider the terms “trade secrets” and “confidential business information” as synonyms.

1. The law of trade secrets in Canada: Legislative sources and scope

A. *Constitutional matters*

The federal government has exclusive power to legislate in most areas of intellectual property such as patents, trademarks and copyrights¹ while the provincial governments have exclusive power to legislate over property and civil rights and matters of local interest.

The Supreme Court of Canada ruled in the *Vapor Canada* case that the federal government did not have the power to enact in its *Trade marks Act*² provisions prohibiting acts or business practices “contrary to honest industrial or commercial usage in Canada”, because such enactment was an attempt to create a tort, which exclusively belongs to provincial jurisdiction.³ Consequently, legislative power over trade secrets is of exclusive provincial jurisdiction.

B. *Definition of Trade Secrets*

As of this date, no province has enacted any trade secret legislation. In Quebec, only a few singular and timid articles of the *Civil Code of Quebec*⁴ (hereinafter “*CCQ*”) govern some aspects of this subject-matter.⁵

Two possible definitions may be retained for trade secrets. The first definition is the one found in the proposed *Uniform Trade Secrets Act* adopted by the 1989 Uniform Law Conference of Canada,⁶ which reads as follows:

"*trade secret*" means any information that:

(a) is, or may be, used in a trade or business,

(b) is not generally known in that trade or business,

(c) has economic value because it is not generally known, and

(d) is the subject of efforts that are reasonable under the circumstances to prevent it from becoming generally known.

(2) For the purposes of the definition trade secret "information" includes information set out, contained or embodied in, but not limited to, a formula,

¹ *Constitutional Act*, 1867 (U.K.), 30 & 31 Vict., c. 3 ss. 91(2), 91(22), 91(23)

² *Trade marks Act*, R.S.C. 1985, c. T-13

³ *MacDonald v. Vapor Canada Ltd.*, [1977] 2 S.C.R. 134 at para. 15; D. Vaver, *Intellectual Property Law*, Irwin Law, Concord (Ontario), 1997, p. 18.; M. Goudreau, *Protecting Ideas*, (1994) 8 *I.P.J.*, p. 190

⁴ *Civil Code of Quebec*, L.Q., 1991, c. 64

⁵ See articles 323, 1314, 1366, 1472, 1612 and 2146 of the *CCQ*

⁶ The proposed *Uniform Trade Secrets Act* can be consulted online: The Uniform Law Conference of Canada <<http://www.ulcc.ca/en/us/index.cfm?sec=1&sub=1t1>>

pattern, plan, compilation, computer program, method, technique, process, product, device or mechanism.

The second definition, which appears to be a bit more stringent, arises from Canadian case law and doctrine and finds its origin in American and English case law:⁷

“[...] Canadian courts have, to date, largely formulated their own criteria for defining confidential business information. Typically, the judiciary has focused its analysis on the nature of the information and the nature of the relationship between the relevant parties, including the specific circumstances which resulted in disclosure.

(...)

The courts have considered a number of factors when evaluating whether certain information should be classed as “confidential”, including to which the extent to which the information:

- (a) is generally known or unknown to others;
- (b) is known to others within the specific industry or trade, i.e., outside the actual business entity;
- (c) is known to others within or connected to the business entity;
- (d) is capable of acquisition elsewhere by those outside the business entity;
- (e) is the subject of measures to ensure that the relative secrecy of the information remains intact; and
- (f) in some minimum or basic way is unique, original or novel.

[citations omitted]

Trade secrets can include a very large array of information and material. The information may be of commercial, financial, industrial, technical or scientific nature. It may be a chemical formula, a special recipe, a client or supplier list, a manufacturing, sales or distributing process or method or a mechanism. It can also be the financial statements of a private company, strategic marketing and publicity methods and related information, customer lists, customer preferences, prospective customers, prices and pricing policies, costs, margins, internal weaknesses, merger and acquisition targets, etc.⁸

⁷ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008, at para. 3: 1200 and 3: 2100

⁸ J. Robinson and S. Jetté, *La protection des secrets commerciaux en dehors de la relation employeur-employé*, in *Développements récents en droit de la propriété intellectuelle*, Service de la formation permanente du Barreau du Québec, Éditions Yvon Blais, Cowansville (Qc), 2003, at p. 4

2. Protecting Trade Secrets in Quebec and in Canada

There are several measures that companies or organizations should implement in order to maximize the protection of their trade secrets and confidential business information.

A. *Protecting Trade Secrets Within The Enterprise: The Implementation of Efficient Safeguard Measures*

Within an organization, trade secrets should always be defined in a material form in order to ease the evidentiary burden of commercialization that a plaintiff may have to demonstrate at trial. In addition, all trade secrets and related material should be placed in a highly secured location to which only a limited number of employees have access. This will facilitate and ensure better control and supervision over the trade secrets. All trade secrets need to be confidential and treated as such.

Other safeguard measures should comprise: restrictive and confidentiality covenants for all employees having access to the trade secrets, safe storage locations for information with locks or limited access; electronic key access to rooms or information; clear marking of confidential information; limited access to computer-stored information and time-changing security passwords; visitor restrictions for certain areas; employee policies on confidential information; routine verification of confidentiality procedures; routine employee reminders of confidentiality policies; and a policy prohibiting the removal of confidential information or goods from company premises.

B. *Trade Secrets in Employment Relationship in Quebec: The Civil Code Protection and Restrictive Covenants*

One of the most common and efficient methods for protecting trade secrets and to prevent potential competitors from unduly acquiring them is through the implementation of restrictive covenants for all employees within the enterprise. In Quebec, restrictive covenants are mainly referred to as non-competition and non-solicitation agreements.

The CCQ contains a specific chapter, entitled “Contract of Employment”, which governs employer-employee relationships. Article 2089 of the CCQ sets out three (3) criteria for a non-competition covenant to be valid and enforceable. Such a covenant should be limited in (i) time, (ii) place (geographical scope) and (iii) content (type of work concerned). Article 2089 reads as follows:

2089. The parties may stipulate in writing and in express terms that, even after the termination of the contract, the employee may neither compete with his employer nor participate in any capacity whatsoever in an enterprise which would then compete with him.

Such a stipulation shall be limited, however, as to time, place and type of employment, to whatever is necessary for the protection of the legitimate interests of the employer.

The burden of proof that the stipulation is valid is on the employer.

As in common law jurisdictions, a non-competition agreement must be limited in time, geographical scope and content. The nature of the tasks at which such agreements are aimed (content) should not have the effect of unduly preventing the employee from earning a living for longer than is necessary to protect the employer from immediate competition. In order to be valid, a non-competition agreement must be “reasonable”. In assessing its “reasonableness”, Quebec courts will seek a balance between the right of the employer to protect its legitimate interests and the right of the employee to earn a living.

It is also well established that every case is fact-specific and that although civil law should not rely on the concept of fiduciary duty such as defined in common law, courts do consider in their validity-assessment test the employee’s position in the company. In this regard, leading case law has maintained the validity of more restrictive non-competition agreements with respect to employees who hold key positions within the enterprise. Finally, there is a principle under which Quebec courts cannot revise or redraft a non-competition agreement, but can only decide whether such an agreement is valid or not.⁹

Another important rule with respect to non-competitive agreements is defined in article 2095 of the CCQ and reads as follows:

2095. An employer may not avail himself of a stipulation of non-competition if he has resiliated the contract without a serious reason or if he has himself given the employee such a reason for resiliating the contract.

Article 2095 is the direct codification of former case law¹⁰ and applies to two specific situations. First, when the employment is terminated without a serious reason (similar to “without cause” in common law jurisdictions), the employer will not have the right to enforce the non-competition agreement, even if such agreement is valid. Second, the employer will be deprived of the same right if the termination of employment is considered to be a constructive dismissal (*congédiement déguisé* in civil law).

Article 2088 of the CCQ is another important provision that is perceived by doctrine and case law as the codification of common law’s fiduciary obligation.¹¹ This obligation is more specifically defined as the employee’s obligation of loyalty, confidentiality and honesty towards its employer and is applicable to all employees, contrary to the common law fiduciary duty which only applies to high-ranking employees. In determining the scope and intensity of the loyalty obligation, Quebec courts will consider various

⁹ *Graphique Matrox Inc. v. nVidia Corp.*, [2001] J.E. 2001-1591 (S.C.) at para. 184

¹⁰ *Farber v. Royal Trust Co.*, [1997] 1 S.C.R. 846 at para 33

¹¹ *Canadian Aero Service Ltd. v. O’Malley*, [1974] S.C.R. 592 at pp. 607-608; *Banque de Montréal v. Kuet Leong Ng*, [1989] 2 S.C.R. 429 at p. 443; A. Baril, *L’obligation de loyauté, de diligence et de discrétion d’un salarié après la cessation de son emploi*, in *Repères*, Éditions Yvon Blais, Cowansville (Qc), 1999 at p.2

elements, including the status, occupation, tasks and level of responsibility of the employee.¹²

2088. The employee is bound not only to carry on his work with prudence and diligence, but also to act faithfully and honestly and not to use any confidential information he may obtain in carrying on or in the course of his work.

These obligations continue for a reasonable time after cessation of the contract, and permanently where the information concerns the reputation and private life of another person.

As clearly stated in the article reproduced above, the obligations of loyalty, confidentiality and honesty apply not only during the duration of the employment but also survive for a reasonable time after the termination of employment. In the absence of restrictive covenants, “reasonable time” will be measured according to all relevant circumstances including the nature and importance of the employment, the duration, etc. Higher-level employment and longer employment duration will of course generate longer survival of the obligations of loyalty and confidentiality.¹³

In the absence of a non-competition agreement, the former employee, though subject to article 2088 of the CCQ, will have less working restrictions after the termination of its employment and will have the right to compete, even directly with its former employer (for example by starting its own business or by working for a direct competitor). Concretely, this means that all the experience and know-how acquired by the employee throughout its employment belongs to it and not to the employer. Such experience and know-how will not be considered as confidential information by the courts. On the other hand, the restrictions set out by article 2088 of the CCQ and the obligations of good faith, loyalty, confidentiality and honesty contained therein means that the employee cannot, either during or after the termination of its employment, use or misappropriate for its own benefit, the trade secrets or confidential business information, which belong exclusively to the employer.¹⁴

C. *Trade Secrets in the Employment Relationship in the Rest of Canada:*

In common law, three (3) legal principles govern the use of confidential business information in the context of an employment relationship: (i) employees are generally free to earn a living without unnecessary restrictions on their ability to compete even when they choose to leave their employment in order to enter into direct competition with their former employer, (ii) the employer must be entitled to protect its legitimate interests

¹² A. Baril, *L'obligation de loyauté, de diligence et de discrétion d'un salarié après la cessation de son emploi*, in *Repères*, Éditions Yvon Blais, Cowansville (Qc), 1999 at pp. 3-4; the governing principles of section 2088 of the CCQ are set out in *Positron Inc. v. Desroches*, [1988] R.J.Q. 1636 (S.C.) at pp. 37-48 and *Improthèque v. St-Gelais*, [1995] R.J.Q. 2469 (S.C.) at pp. 12-22

¹³ *Armanious v. Datex Bar Code*, D.T.E. 2001T-1117 (C.A.) at para. 10-16; *Institut de zoothérapie du Québec Inc. v. Rioux*, [2005] J.E. 2005-831 at para. 31-32, 50

¹⁴ *Grynwald v. Playfair Knitting Mills*, [1959] CS 200 at p. 205; *Montour Ltée. v. Jolicoeur*, [1987] R.J.Q. 2482 (S.C.) at p. 2484

including confidential business information, corporate opportunities and customer connections and (iii) certain employees, as a result of the express terms of their employment contract or the nature of their position and responsibilities within the enterprise, owe to their employer a higher fiduciary duty even following their departure from employment.¹⁵

Again, Canadian courts seek to harmonize the three above-stated legal principles to reach equilibrium between the right of the employer to protect its legitimate interests and the right of the employee to earn a living. Moreover, three (3) different types of employment duties are contemplated in order to achieve such equilibrium: (i) the general good faith duties owed by all employees, (ii) express contractual terms generally referred to as restrictive covenants, which restrain an employee from performing competitive acts and (iii) fiduciary duties owed by higher level employees.¹⁶

The employment relationship is governed by general principles of contract law, which in turn encompass express and implied duties and obligations for the employee. For our purposes, one of the most important obligations of an employee is to act in good faith towards the employer. Canadian case law defines the duty to act in good faith as the obligation for the employee to act in accordance with his employer's best interest.¹⁷ The most obvious example illustrating a breach of this duty is the case where the employee directly competes against his employer during his employment by using the company's confidential business information for his own benefit.

The duty of confidentiality is also very important for the purposes of our discussion. Indeed, this duty finds its roots in the general duty to act in good faith. Another classic example of an emerging conflicting situation is where the employee, either during the course or after the conclusion of his employment, misuses the employer's confidential business information to compete for corporate opportunities¹⁸ or to erode the employer's goodwill.

The post-employment duty of confidentiality may not be as stringent as that which is owed during the course of employment.¹⁹ The employer who seeks protection of its confidential business information against a former employee will have the onus of demonstrating to the court that such information is unique and unknown to the industry.

¹⁵ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008, at para. 4:1000

¹⁶ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 4:1000

¹⁷ *Bee Chemical Co v. Plastic Paint and Finish Specialities Ltd.* [1978], 41 C.P.R. (2d) 175 (Ont. H.C.J.) at p. 180, affirmed in [1979] 47 C.P.R. (2d) 133 (Ont. C.A.); *Alnor Services Ltd. v. Sawyer* [1990], 31 C.C.E.L. 34 (B.C.S.C.)

¹⁸ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008, at para. 4:3000

¹⁹ *Faccenda Chicken Ltd. v. Fowler*, [1986] 1 C.R. 297 (C.A.) at p. 11-12 cited in Canadian case law notably in *ACS Public Sector Solutions Inc. v. Courthouse Technologies Ltd.*, (2005), 140 A.C.W.S. (3d) 736 (B.C.S.C.) at para. 38-39, affirmed in 262 D.L.R. (4th) 512 (C.A.)

The employer will also have to be specific in describing the risks incurred and the reasons why such information should be protected, otherwise it will fail in its claim.²⁰ Most cited cases tend to demonstrate that the evidentiary burden that an employer seeking protection of confidential business information must meet is considerably elevated and simple apprehension of disclosure by the former employee is insufficient.

As in civil law, common law also distinguishes know-how and personal skills from confidential business information. The former is the employee's property and can be used for the benefit of competitors after the conclusion of the employment relationship, whereas only the latter belongs exclusively to the employer.²¹

Finally, non-competition agreements remain the most commonly used contractual method to protect confidential business information or trade secrets. Recent case law has gone even further in asserting that such covenants apply in some circumstances to independent contractors.²² To be valid and enforceable, restrictive covenants, as in civil law, must be limited in matters of time, geographical area and scope of activity. They must also be reasonable with respect to both parties' interests and their validity is determined by the specific facts of each individual case.²³

One interesting difference between civil law and common law is the judicial treatment given by courts to "ladder-type" restrictive covenants (*clause par paliers* in civil law). A ladder-type restrictive covenant is where the drafter makes use of several clauses or sub clauses which outline different restrictions in matters of time, geographical area and scope of prohibited activity. Employers will be tempted to use ladder-type clauses in order to avoid being confronted to the principle by which a court should not revise or redraft a restrictive covenant but only decide on its validity and because it is difficult to determine what courts will consider reasonable.²⁴ It is interesting to note that recent cases stated that a ladder-type restrictive covenant, although it gives rise to a whole array of possible outcomes, does not correlatively make such a covenant unreasonably broad or vague.²⁵ Hence, courts have accepted to read down restrictive covenants in order to make them reasonable and enforceable.²⁶ In contrast, the Superior Court of Quebec and Quebec Court of Appeal invalidated ladder-type restrictive covenants because, *inter alia*, they

²⁰ *Future Shop v. Northwest-Atlantic* (B.C.), [2000] 2 C.P.C. (5th) 358 (B.C.S.C.), at para. 55-56; *Rawlco Communications (Sask.) Ltd. v. Clements*, (2001) 204 Sask. R. 272 (Q.B.) at para. 8; *ATI Technologies v. Henry*, [2000] 5 C.C.E.L. (3d) 101 (Ont S.C.J.) at para 13; *Life Investors Insurance Co. of America v. Tis Management Ltd.*, [2001] 109 A.C.W.S. (3d) 647 (B.C.S.C.) at para. 26-31

²¹ *Genesta Manufacturing Ltd. v. Babey*, [1984] 2 C.P.R. (3d) at p. 49

²² *Community Credit Union Ltd. v. AST*, [2007] 5 W.W.R. 300 (Alta. Q.B.) at para. 41

²³ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008, at para. 4:4000 – 4:4100

²⁴ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008, at para. 4:4300

²⁵ *Community Credit Union Ltd. v. AST*, (2007) 156 A.C.W.S. (3d) 113 (Alta. Q.B.) at para. 51-53

²⁶ *KRG Insurance Brokers (Western) Inc. v. Shafron*, [2007] B.C.L.R. (4th) (B.C.C.A.) at para. 79-80

created a state of uncertainty for the employee until a final ruling was made on their validity.²⁷

D. *Trade Secrets in Business Relationships: The Virtue of Covenants*

In the context of contractual business relationships between commercial partners, again, the holder of a trade secret should always adopt a highly prudent approach. Various forms of business relationships such as licensing agreements, distribution agreements and joint development agreements may give rise to trade secret disputes unless adequate protection is put forward in order to avoid all ambiguities regarding parties' rights and obligations. The trade secret holder can maximize the protection of its trade secret by implementing non-competition, non-solicitation and confidentiality covenants along with a penal clause in order to establish the amount of damages that will be claimed in case of default, and most importantly, to relieve the plaintiff of having to demonstrate the extent of the damages suffered.

During the negotiation phase, whether in view of a contemplated business relationship or before the commencement of a due diligence proceeding in light of a potential enterprise acquisition, confidentiality covenants should also be implemented, particularly in the case of a transfer of technology.²⁸ Although in civil law, the general obligation of good faith, loyalty and confidentiality governs pre-contractual negotiations²⁹ and similarly, in common law jurisdictions, the general rules of tort law apply in cases where a defendant, failing to enter into the projected contractual relationship with the secret trade owner, steals or misappropriates such trade secret,³⁰ as the old saying goes, it's better to be safe than sorry!

Finally, it is worthwhile mentioning that the longer the non-competition and confidentiality covenants survive the termination of the contractual relationship, the better are trade secrets protected. Non-competition agreements must be limited in time as discussed above but a confidentiality agreement does not. Indeed, confidentiality agreements have the virtue of being valid without any constraints in duration and geographical scope, for as long as the confidential business information remains confidential.³¹ Nonetheless, enterprises must be careful and aware of the risks relating to

²⁷ *Drouin v. Surplec Inc.*, [2004] R.J.Q. 1125 (C.A.) at para. 45-46; *Graphique Matrox Inc. v. nVidia Corp.*, [2001] Q.J. No. 3344 (S.C.) at para. 186; *P. Brunet Assurance Inc. v. Lamanque*, [1993] J.E. 93-1655 at pp. 14-15; *Beauté-T Stop Distribution Inc. v. Mailhot*, [2001] R.J.D.T. 1145 at para. 33-34

²⁸ V. Karim, *Les Obligations*, 2nd edition, vol. 1, Wilson & Lafleur, Montréal, p. 461 (art. 1612 CCQ)

²⁹ J.L. Baudouin and P. Deslauriers, *La responsabilité civile*, 7th edition, Éditions Yvon Blais, Cowansville (Qc), 2007 at pp. 46-51, No. 1-64-70; *Anastasiu v. Gestion d'immeubles Belcourt Inc.*, [1999] R.J.Q. 3068 at p. 8-9, reversed only on the amount of damages granted in REJB 2002-34004 (C.A.)

³⁰ *Lac Minerals Ltd. v. International Corona Resources Ltd.*, [1989] 2 S.C.R. 574 at pp. 577-667-668.; J. Robinson and S. Jetté, *La protection des secrets commerciaux en dehors de la relation employeur-employé*, in Développements récents en droit de la propriété intellectuelle, Service de la formation permanente du Barreau du Québec, Éditions Yvon Blais, Cowansville (Qc), 2003, at pp. 20-23

³¹ *Laboratoires Constant Inc. v. Beauchamp*, J.E. 99-1161 (CS) at p. 20; *60630 Manitoba Ltd. v. McCarroll*, [1995] 6 W.W.R. 1 at para. 8

the public use of their trade secrets, the choice of business alliances and the marketing strategies used to promote their merchandise. For example, in *Conception S.N. Vena Inc.*,³² the Superior Court of Quebec held *inter alia* that once a trade secret is revealed or available to the public, it is no longer a secret and in that case nothing precludes someone from reproducing the good that stems from the said trade secret by means of reverse engineering.

3. Enforcement: Choices of Actions and Available Remedies

A. Regulatory framework in Quebec: The Protection of Trade Secrets in Civil Law

The Quebec Court of Appeal decided over four decades ago that those who owned trade secrets (*secrets de commerce*) are entitled to seek protection and that Quebec courts are competent to grant remedies accordingly if the plaintiff can evidence its ownership of such trade secrets.

“Celui qui possède des secrets de commerce a clairement le droit à la protection de ses secrets. Le seul moyen d’assurer cette protection, c’est d’empêcher ceux qui n’y ont pas droit de s’en servir à leur profit ou de les condamner au paiement des dommages causés par leur usurpation. Il est d’ordre public que les tribunaux puissent accorder ces remèdes, mais la partie demanderesse devra d’abord établir quels sont ces secrets qu’elle possède³³.”

In civil law, an action for breach of trade secrets or confidential business information generally arises either from a contractual liability action³⁴ or, in the absence of a contract between parties and in exceptional circumstances, from a civil liability action.³⁵

A contractual liability action can rely upon both the express³⁶ and implied³⁷ terms and provisions of the contract. Moreover, every contract encompasses an obligation of good faith and loyalty, which means that both parties should not adopt trust-abusing behaviour towards the other.³⁸ Good faith and loyalty also presuppose duties of honesty and confidentiality.³⁹

³² *Conception S.N. Vena Inc. v. DIT Équipements Inc.*, [2002] J.E. 2002-1242 (C.S.) at para. 51-53 and 64; See also *Rogers Media v. Marchesseault*, QCCS 5314, par. 57

³³ *Continental Casualty Company v. Combined Insurance Company*, [1967] B.R. 814 at p.819

³⁴ Article 1458 of the C.C.Q.

³⁵ Article 1457 of the CCQ; J.L. Baudouin and P. Deslauriers, *La responsabilité civile*, 7th edition, Éditions Yvon Blais, Cowansville (Qc), 2007 at pp. 46-51, No. 1-64-70; *Anastasiu v. Gestion d'immeubles Belcourt Inc.*, [1999] R.J.Q. 3068 at p. 13, reversed only on the amount of damages granted in REJB 2002-34004 (C.A.)

³⁶ Article 1458 of the CCQ

³⁷ Article 1434 of the CCQ

³⁸ Article 1375 CCQ; J.L. Baudouin, P.G. Jobin & N. Vézina, *Les obligations*, 6th edition, Éditions Yvon Blais, Cowansville (Qc), 2005 at pp. 144, 148, 173, No. 99, 123, 148

³⁹ B. Lefebvre, *La bonne foi dans la formation du contrat*, Éditions Yvon Blais, Cowansville (Qc), 1998 at pp. 133, 136-137; J.L. Baudouin and P. Deslauriers, *La responsabilité civile*, 7th edition, Éditions Yvon Blais, Cowansville (Qc), 2007

In a civil liability action, the plaintiff will have to demonstrate to the court that the defendant's conduct or acts in disclosing or misappropriating the plaintiff's trade secret constituted a fault. As stated above, the civil liability of a party can be triggered during a pre-contractual negotiation between two competing enterprises that foresee a potential business relationship.⁴⁰

The CCQ is somewhat discreet about the notion of trade secret and one reputed author proposes that civil law should rely upon English case law for definition.⁴¹ There are only two articles of the CCQ which deal specifically with trade secrets:

1472. A person may free himself from his liability for injury caused to another as a result of the disclosure of a trade secret by proving that considerations of general interest prevailed over keeping the secret and, particularly, that its disclosure was justified for reasons of public health or safety.

1612. The loss sustained by the owner of a trade secret includes the investment expenses incurred for its acquisition, perfection and use; the profit of which he is deprived may be compensated for through payment of royalties.

According to the Minister of Justice's comments, article 1472 of the CCQ is a means of exoneration that intends to cover two (2) particular situations: (i) cases where a product protected by a trade secret would be available on the market but would cause serious harm to the purchaser and (ii) cases where a miraculous cure for a deadly disease would be discovered.⁴² As of this date, this article has not been yet applied by Quebec courts except in one particular case that was held before an arbitrary tribunal.⁴³

Article 1612 of the CCQ is in our view a complement of the general principle of *restitutio in integrum*.⁴⁴ Indeed, article 1612 of the CCQ seeks to clarify what a court should consider in assessing the "loss sustained" by the trade secret holder.⁴⁵

⁴⁰ J.L. Baudouin and P. Deslauriers, *La responsabilité civile*, 7th edition, Éditions Yvon Blais, Cowansville (Qc), 2007 at pp. 46-51, No. 1-64-70

⁴¹ V. Karim, *Les Obligations*, 2nd edition, vol. 1, Wilson & Lafleur, Montréal, pp. 631-632 (art. 1472 CCQ)

⁴² Institute of Law Research and Reform (Alberta) and a Federal Provincial Working Party, Report on Trade Secrets, Report No. 46 (July 1986) cited in J. Robinson and S. Jetté, *La protection des secrets commerciaux en dehors de la relation employeur-employé*, in *Développements récents en droit de la propriété intellectuelle*, Service de la formation permanente du Barreau du Québec, Éditions Yvon Blais, Cowansville (Qc), 2003 at pp. 18-19; See the Minister's comments under article 1472 of the CCQ in J.L. Baudouin and Y. Renaud, *Code civil du Québec annoté*, 10th Edition, Vol. 2, Wilson & Lafleur, Montreal, 2007, [Art. 1472], p. 1910

⁴³ *St-Romuald (Ville de) and Syndicat des pompiers du Québec, section locale St-Romuald*, D.T.E. 96T-568 at pp. 9-13

⁴⁴ The *restitutio in integrum* principle is consecrated by article 1611 of the CCQ

⁴⁵ J.L. Baudouin and P. Deslauriers, *La responsabilité civile*, 7th edition, Éditions Yvon Blais, Cowansville (Qc) 2007 at pp. 444, 1082, No.1-426, 1-1303; See the Minister's comments under article 1612 of the CCQ in J.L. Baudouin and Y. Renaud, *Code civil du Québec annoté*, 10th Edition, Vol. 2, Wilson & Lafleur, Montreal, 2007, [Art. 1612], p. 2152

B. Regulatory framework in Canada: The Protection of Trade Secrets in Common Law

In common law, there are essentially five (5) types of civil action that a trade secret holder can rely on to seek protection of its trade secrets before a court of justice: (i) breach of contract (express or implied provision), (ii) breach of confidence, (iii) breach of fiduciary duty, (iv) unjust enrichment and (v) wrongful interference with the contractual relations of others.⁴⁶ In *Cadbury Schweppes Inc.*, the Supreme Court of Canada stated that all these types of actions coexist in our judicial system and remain available to the trade secret holder.⁴⁷

The breach of contract is used in the context of an employment relationship, and more specifically in reference to restrictive covenants and to the duties of good faith and confidentiality as discussed above.⁴⁸ The breach of confidence may occur in three (3) types of contractual relationships: (i) relationships where a contract exists between the parties, (ii) relationships that are not purely “contractual” but which contain elements of trust and (iii) relationships where a personal contact or dealing imposes an obligation of trust and confidence. The breach of fiduciary duty (or equitable duty theory) is the most commonly used action and finds its essence in the property right of the confidential business information. Lastly, common law authorizes action brought against third parties on the grounds of unjust enrichment in the following circumstances:

“[...] where the defendant is aware of the value of the information and there was an express or implied request by the defendant for the information. This is true even if the recipient is not aware that the information was improperly obtained and there is no duty of confidence owed by the third party to the plaintiff. However, where the third party had no knowledge that the information was improperly obtained, and the third party paid a reasonable sum for the information, the courts will often refuse to award damages for breach of confidence or unjust enrichment on the grounds that it would be unfair to do so.”⁴⁹

In addition, when a third party is entirely aware of the existence of a duty of confidentiality of a competitor’s employee and despite its awareness, persists in attempting to obtain confidential business information from such employee, an action may be brought by the plaintiff on the grounds of tortious interference with a contractual relationship.⁵⁰

⁴⁶ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 5:1000 and ff.

⁴⁷ *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, [1999] 1 S.C.R.142 at para. 40-48

⁴⁸ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 5:1100

⁴⁹ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 5:1520

⁵⁰ J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 5:1530

C. *Extraordinary Preventive Remedies in Civil and Common Law*

In both civil and common law jurisdictions, a plaintiff may seek various extraordinary preventive remedies to avoid or minimize damages following a breach of confidential business information such as seizure, confidentiality orders, injunctions including *Anton Pillers* orders. We will briefly expose the main legal principles governing these preventive remedies.

In Quebec, the *Tri-Tex case*⁵¹ settles the question of whether confidential information can be seized before judgment. In this case, the Quebec Court of Appeal cited the criminal case of *R. v. Stewart*⁵² and concluded that confidential information is not a “movable property” that may be seized before judgment under article 734 (1) of the *Civil Code of Procedure (“CCP”)*. In common law, leading case law has also failed to acknowledge a property right in confidential business information which would protect the “rightful owner” from theft and leave a question mark on the possibility that, in time, confidential information might be considered as property in civil law.⁵³ To date, no Canadian court has yet accepted an action for damages for wrongful appropriation of trade secrets based on the law of property. In criminal law, case law established that there is no criminal sanction for the wrongful appropriation of confidential information unless the accused has appropriated physical documents which contain confidential information.⁵⁴

A plaintiff may also seek a confidentiality order from the court in order to avoid having to disclose its trade secrets or confidential business information. Such orders are frequently granted by courts of both civil law⁵⁵ and common law jurisdictions.⁵⁶

The injunction remedy is another judicial procedure commonly sought by victims of a breach of confidential business information. In Quebec, such remedy is provided by articles 751 and following of the CCP. There is a three (3) criteria test that a plaintiff must meet in order to obtain an injunction and overall, such a test is very similar to that applied by Courts of common law jurisdictions. In order to be successful, a plaintiff will have to demonstrate: (i) that there is a serious issue to be tried, (ii) that an irreparable

⁵¹ *Tri-Tex Co. Inc. v. Gideon*, [1999] R.J.Q. 2324 (C.A.) at pp. 27-33

⁵² *R. v. Stewart*, [1988] 1 S.C.R. 963

⁵³ *R. v. Stewart*, [1988] 1 S.C.R. 963 at para. 23-25; *Cadbury Schweppes Inc. v. FBI Food Ltd.*, [1999] 1 S.C.R.142 at para. 40-48; J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 7:3110

⁵⁴ *R. v. Stewart*, [1988] 1 S.C.R. 963 at para. 41-42; J. A. Fairbairn and K. G. Thorburn, *Law of Confidential Business Information*, Aurora (Ontario), Canada Law Book, 2008 at para. 7:4000

⁵⁵ *Audisoft Technologies Inc. v. Vizvocus Technologies Inc.*, [2001] J.Q. No. 6212 at para. 1-2, 7; *Lac d’amiante du Quebec v. 2858-0720 Québec Inc.*, [2001] 2 S.C.R. 743 at para. 69, 79 (confirming the existence of an implied rule of confidentiality with respect to examinations on discovery under the CCP)

⁵⁶ *Sierra Club of Canada v. Canada (Minister of Finance)*, [2002] 2 S.C.R. 522 at para. 77, 49

harm will be caused and (iii) the balance of convenience (where the court will ponder the potential consequences for the parties if the injunction is granted).

Although the three criteria test is similar in Quebec and the rest of Canada, in the recent decision from the Superior Court of Quebec of *Rogers Media v. Marchesseault*,⁵⁷ the court indicated that an interlocutory injunction order can be more easily obtained in Quebec than in the rest of Canada because in Quebec, the common law principles governing injunction orders have to be harmonized with civil law principles. Indeed, article 752 of the CCP states that:

“An interlocutory injunction may be granted when the applicant appears to be entitled to it and it is considered to be necessary in order to avoid serious or irreparable injury to him, or a factual or legal situation of such a nature as to render the final judgment ineffectual.”

Consequently, for the Superior Court, a plaintiff’s burden of establishing irreparable harm in a civil law injunction order is not as stringent as in common law provinces because such a plaintiff can establish either that an irreparable or a serious injury will be caused, or that a factual or legal situation will occur for which the final judgment will not provide adequate remedy.

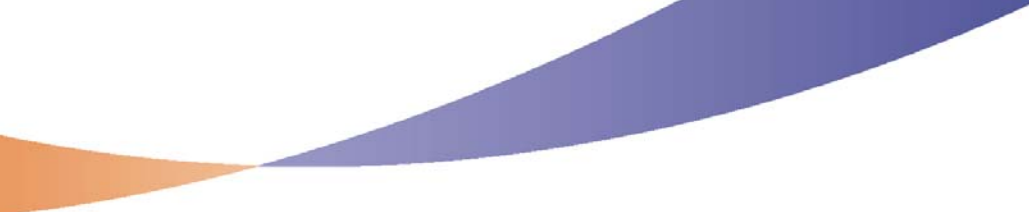
3. Conclusion

Trade secrets are fundamental to all types of businesses, regardless of their size, fields of activity and stage of development. As we have demonstrated above, within the enterprise, it is therefore crucial for trade secret holders to implement extensive safeguard measures to ensure control and supervision over trade secrets and other sensitive information. Moreover, all types of restrictive covenants must be put forward to all employees that may have access to the company’s trade secrets. The confidentiality agreement remains the most efficient protective tool since its validity is not conditional on any time or geographical limitations.

As for non-competition and non-solicitation agreements, they are another important source of contractual protection for trade secrets holders and extreme care should govern their preparation. Indeed, we insist on the fact that such restrictive covenants should be meticulously drafted because the law of restrictive covenants in civil and common law is often black and white, whereas excessive time and geographical scope or a poorly drafted covenant may trigger a complete invalidation, which could in turn have terrible consequences for the trade secret holder. This is even more the case in civil law where the ladder-type restrictive covenant is still to date considered as non-valid and unenforceable.

Finally, in this new era of scientific innovation and technology, entrepreneurs seeking protection for their discoveries are increasingly likely to find trade secrets appealing, for either strategic or pragmatic reasons. Bearing in mind the importance of ensuring that

⁵⁷ *Rogers Media Inc. v. Marchesseault* (2006) QCCS 5314



trade secrets are comprehensible and accessible for inventors and entrepreneurs, critics will argue that even though civil and common law provide minimal and sound protection, it would be preferable for provincial legislatures to adopt specific legislation governing trade secrets, such as that proposed by the 1989 Uniform Law Conference of Canada. This solution would at least have the positive effect of gathering and clarifying all basic judicial notions and/or procedures relating to trade secrets under one corpus instead of having everything widely spread at common law. However, if provincial legislatures choose to maintain the *status quo*, we can certainly hope that the courts will become increasingly aware of and sensitive to the importance of trade secrets in all industries and will maximize the protection conferred thereupon in cases of clear violation.