

TRADE SECRET ENFORCEMENT IN CANADA: HOW RIGHTS HOLDERS CAN SECURE JUSTICE

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Since the value of a company is increasingly made up of intangible assets, including intellectual property such as trade secrets, as opposed to tangible (e.g., bricks and mortar) assets,^[1] protecting and securing those important assets is vital to a company's long-term success. To this end, understanding how trade secrets are enforced will enable companies to proactively prepare their business operations in the event - hopefully, unlikely - they need to engage the legal system to protect company value.

In simple terms, a trade secret is any information of commercial value that an organization or individual does not want revealed to another organization or individual, where reasonable measures have been put in place to keep it a secret. From a high level, trade secret infringement cases often start with the same story. An employer, Company X, operates in a niche market. Its employees have come to understand and retain confidential nuances of Company X's business and the market, whether technical (e.g., software source code) or otherwise (e.g., customer lists).

Some employees decide to leave Company X (or are terminated) and start their own business, Company Y, which competes against Company X. Company X notices this new market entrant that walks and talks like Company X. Company X decides that it needs to take legal action against Company Y.

The next questions for Company X are, "What are my legal rights, and how do I enforce those rights against Company Y?" This article, which addresses those questions from a trade secret perspective, contrasts the Canadian approach with the new Defend Trade

Secrets Act in the United States and then considers how the regime in Canada can potentially be improved.

Trade secret enforcement in Canada

Jurisdiction

There is no Trade Secrets Act or equivalent statute in Canada. Trade secret law is instead based on common-law principles enforced through common-law torts, such as of breach of confidence or breach of fiduciary duties. Additionally or alternatively, trade secrets may be enforced based on a breach of contract claim (e.g., breach of non-disclosure agreement).

An aggrieved trade secret owner can therefore seek relief only in provincial Superior Courts, for alleged misappropriation of trade secrets. Provincial Superior Courts have inherent jurisdiction to hear most civil claims, while Canada's Federal Courts have only statutory jurisdiction. Without a statute granting the Federal Court jurisdiction over breach of confidence or non-disclosure claims, the Federal Court has no jurisdiction to address such claims.

This jurisdictional divide raises strategic considerations before a proceeding is commenced. For example, assume Company X has source code that it believes was stolen by its former employees, now founders of Company Y. Company X may therefore have causes of action for copyright infringement in addition to causes of action for breach of confidence, breach of contract and/or breach of fiduciary duties. Pursuant to the Copyright Act, Company X can bring its copyright infringement claim in the Federal Court and perhaps take advantage of the judiciary's expertise in case managing and hearing intellectual property cases. Company X may also want to take advantage of the Federal Court's commitment to getting complex intellectual property cases to trial within two years. In trade secret cases, where market shares in niche markets can start to erode quickly without Court intervention and where getting a judgment quickly affects what remedies will be available, that two-year trial commitment can be crucial.

However, Company X has a problem. The Federal Court will not entertain the breach of confidence, breach of contract and / or breach of fiduciary duty claims. Its claim in the Federal Court would be limited to copyright infringement. This situation arose in [Netbored](#),^[2] where the Federal Court struck Netbored's claims for "breach of contract, breach of obligation of confidence and breach of fiduciary duty." The Court's analysis was brief and simple:

This is an action for infringement of the plaintiff's copyright. The plaintiff's allegations in the impugned paragraphs of the Statement of Claim relating to breach of contract and breach of fiduciary duty and the like are not advanced for the purpose of establishing infringement. Rather, they are advanced for the purpose of obtaining relief in respect of those breaches themselves. As such, this Court lacks jurisdiction to entertain them.^[3]

If Company X's tort/contractual claims have merit, then Company X will need to commence a proceeding in a provincial Superior Court instead of the Federal Court for those particular claims. Regarding the copyright infringement claim, Company X can bring that claim in Superior Court, but will not have the benefit of the fast time to trial or intellectual property expertise of the Federal Court judiciary. Alternatively, Company X could bring the copyright infringement claim separately in the Federal Court, but this action would mean two separate lawsuits. Thus, under either approach, there are significant downsides.

Knowing the case pre-filing

To proceed effectively and efficiently, trade secret cases require a significant amount of upfront case workup. These cases are unlike other intellectual property cases, such as a patent infringement case where the scope of the right at issue is set out in the claims of a patent to be asserted (subject to claims construction). Instead, Company X may know only that Company Y is emulating its product or business. At the outset, Company X might not know exactly what the founders of Company Y had access to while they were still at Company X. Likewise, Company X may not be able to determine what specific information Company Y used until after at least some discovery occurs. Although reverse engineering in some cases can be useful for identifying instances of infringement, reverse engineering does not work in every case and can sometimes be very costly.

In this example, and before a statement of claim is filed, Company X should perform an internal audit to determine what exactly is claimed to be a trade secret that was misappropriated by the founders of Company Y. The onus will be on Company X to establish the existence of a trade secret.^[4] This assessment is fact-specific. Courts have recognized that "[w]hat constitutes a trade secret is difficult to determine or precisely identify"^[5] and that "[t]he information sought to be protected must be specific in nature."^[6] Assembling the evidence and facts at an early stage to prove the existence, and misappropriation, of a specific trade secret will allow Company X to draft a more streamlined and focused statement of claim, with a well-developed case theory.

The risk of not performing this upfront case workup is that Company X's case can be a moving target, which may cause the case to devolve into a procedural nightmare. Take GasTOPS as an example. That case took six years to get to trial. Trial lasted 295 days over four years. Nearly 3,000 exhibits were adduced at trial. Counsel's submissions were more than 3,000 pages.

This extended period from statement of claim to judgment also affected the remedies available to the successful plaintiff, GasTOPS. In addressing GasTOPS' request for injunctive relief, the Court discussed the "springboard principle," which acknowledges that an offending party is enabled to springboard onto the market as a result of misappropriating trade secrets from the aggrieved party. The Court in GasTOPS stated that "an injunction will normally be granted" in springboard cases.^[7] However, in GasTOPS, the Court stated that injunctive relief was not appropriate, given the passage of time.^[8] This outcome underscores the importance of moving quickly to trial and highlights the attractiveness of a court system that enables parties to reach trial within a short period.

Availability of preliminary injunctions

In a typical trade secret case, the owner of the trade secret needs urgent relief. For example, Company Y may still be in its infancy and not yet on the market, or it has yet to significantly penetrate the market. Company X therefore needs to act quickly to stop Company Y from entering and / or penetrating the market and eroding Company X's market share.

Fortunately, in the right circumstances, preliminary injunctions are available for Company X. Two aspects of trade secret cases discussed above are crucial. From a jurisdictional perspective, provincial Superior Courts have been willing to grant preliminary injunctions in intellectual property disputes, including in trade secret disputes.^[9] The Federal Court, however, has been more reluctant (though there is less reluctance in trademark infringement matters that involve hard-to-quantify damage to goodwill and reputation). If Company X desires urgent injunctive relief, it may therefore be preferable to look to the Superior Courts.

From a pre-filing case workup perspective, Company X will need to have a well-developed case, including appropriate evidence and facts, to be successful on an early motion for a preliminary injunction. The test for a preliminary injunction is well established and requires that three criteria be met: (1) there is a serious issue to be tried; (2) irreparable harm will

be suffered by the applicant if the injunction is not granted; and (3) the balance of convenience favours granting the injunction.^[10]

The first criterion of "serious issue to be tried" requires the moving party to prove that its case has merit. In trade secret cases, which often involve allegations of breach of confidence, breach of contract and breach of fiduciary duties, the plaintiff will be seen as enforcing restrictive covenants against the defendant. In recent years, Courts have stated that where a restrictive covenant is being enforced, the first criterion of the injunction changes to a "strong prima facie case."^[11] This standard has been described as "a substantial likelihood of success in the action that justifies extraordinary relief at the very commencement of the proceeding."^[12]

In Polar Wireless, the plaintiffs were successful in obtaining an early preliminary injunction within mere months of starting the proceeding.^[13] This success was based on a strong case theory with evidence tailored to support this theory, all of which was developed at an early stage. The case arose out of the standard story, where individuals were terminated from the plaintiff company and then attempted to enter the market with a competing firm.

The relevant market in Polar Wireless was devices for SIM cards that allow a wireless customer to seamlessly roam from country to country with the same cell phone number. The plaintiff described three pillars of the market, including having "an established network of international carrier partnerships" and "a developed network of international distributors."^[14] The evidence on the motion was tailored to demonstrate how the defendants breached fiduciary duties and obligations of confidence by relying on their experience and relationships developed at Polar to springboard onto the market with a competing company.

Ultimately, a Court that can quickly hear and decide a motion for a preliminary injunction will be attractive to a rights holder looking to urgently enforce trade secret rights. This timing is especially important given that part of the preliminary injunction analysis involves assessing the status quo. If too much time elapses and the status quo changes, an injunction may no longer be available.

The US approach: The *Uniform Trade Secrets Act* and the *Defend Trade Secrets Act*

The trade secret regime in the United States is different from the one in Canada, with two important statutes governing substantive and procedural trade secret laws in the former.

The Uniform Trade Secrets Act (UTSA), released in 1979 and amended in 1985, was a codification of the common-law tort of misappropriation of trade secrets. As trade secret law was within state jurisdiction (similar to provincial jurisdiction in Canada), the UTSA was released for adoption by state legislatures. As of March 2018, it has been adopted by 48 states, as well as the District of Columbia and the US Virgin Islands,^[15] although the language of some provisions varies from jurisdiction to jurisdiction.

The policy behind the release of the UTSA is stated in the prefatory note, namely, the concern that state trade secret law had not developed satisfactorily, notwithstanding the importance of this law on interstate business. Some states had well-developed trade secret laws, while others had no trade secret laws. For states with well-developed trade secret laws, the parameters for protection and remedies for misappropriation were not consistent across states.

The UTSA was intended to harmonize the subject matter and remedies of trade secret laws. For example, the terms "trade secret" and "misappropriation" are defined.^[16] There are also provisions relating to injunctive relief and damages.^[17]

In contrast to the UTSA, the Defend Trade Secrets Act (DTSA), enacted in 2016, is a federal law that governs cross-state trade secret laws. Most notably, the DTSA allows a trade secret case to be brought in federal court where "the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce."^[18] This interstate commerce requirement has been applied strictly, with cases being struck at the pleadings stage if a plaintiff does not allege a nexus between the trade secrets and interstate or foreign commerce.^[19]

The substantive provisions relating to subject matter and misappropriation were designed to align with the UTSA and maintain the consistency in laws that the UTSA sought to achieve. It has been commented that, "[t]o a large extent, courts have interpreted the DTSA as a federal analogue of state-enacted variants of the [UTSA]."^[20]

However, there remain some issues where state laws are not aligned, and where the language of the DTSA is not conclusive. For example, the doctrine of inevitable disclosure holds that a "plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."^[21] While some jurisdictions (e.g., Illinois) have adopted this doctrine, others have not.^[22] Whether the doctrine applies under the DTSA appears to be an open question.

Should the Canadian regime change?

As noted, unlike in the United States there is no statute in Canada governing trade secret law.^[23] Canadian trade secret law is based entirely on common-law principles. The two jurisdictions provide an interesting contrast.

In terms of cross-province trade secret laws, Canada is not (at least not yet) at a point where interprovincial trade secret laws vary to a substantial degree. There are nuances that need to be considered depending on the provincial court. For example, if the allegation of misappropriation of a trade secret relies in some way on an oral agreement, then the Statute of Frauds in applicable provinces will need to be considered. However, for torts of breach of fiduciary duty or breach of confidence, provincial courts still look to other provincial courts for consideration of how trade secret laws ought to be applied.

For this reason, it seems unlikely that Canada has the same need for a statute similar to the UTSA. Reliance on common-law principles allows Courts flexibility to adapt trade secret laws to current and future technologies and realities. It could be argued that such flexibility may be lost with the rigidity of a statute.

The DTSA is more interesting to consider for Canada. As noted, the Federal Court does not currently have jurisdiction to entertain trade secret cases. This limitation puts trade secret plaintiffs on the horns of a dilemma where other intellectual property rights, such as patents or copyright, may be asserted against a defendant. Does the plaintiff pursue the intellectual property rights in the Federal Court and forgo the trade secret claims? Or does the plaintiff bring all claims in the provincial Court and forgo the Federal Court's experience with intellectual property claims and commitment to trial within two years? Or, perhaps, does it bring two cases, one in each Court? Moreover, if relief is obtained in one provincial Court but trade secret misappropriation is occurring across provincial boundaries, what is the most efficient way for the rights holder to assert its rights, and efficiently obtain effective remedies, in all relevant jurisdictions?

A statute similar to the DTSA would allow the trade secret plaintiff to go to the Federal Court with the trade secret claim and obtain Canada-wide remedies. Even if the "interstate or foreign commerce" requirement were carried into a Canadian equivalent statute, it seems likely that this requirement would be met in most cases today, especially in view of the prevalence of online commerce. In addition, pursuing trade secret claims in the Federal Court would enable parties to get to trial quickly, which is important for securing a permanent injunction and crucial for protecting what may be a fragile market share. Because a plaintiff's case may tend to get weaker the longer a case takes to get

to judgment, the time-to-trial duration is a crucial factor for any rights holder.

Notwithstanding the foregoing, if the Federal Court ever were to become a jurisdiction where trade secret rights holders could bring claims, any enabling statute would preferably and pre-emptively address or provide guidance on the circumstances in which preliminary injunctions may be granted. The objective would be to avoid a situation where the standard for obtaining an injunction remains undesirably high. Preliminary injunctions must be achievable. Otherwise, litigants may continue to opt for provincial court enforcement in certain cases.

[1] <http://www.oceantomo.com/intangible-asset-market-value-study/>.

[2] *Netbored Inc v Avery Holdings Inc*, 2005 FC 490.

[3] *Netbored Inc v Avery Holdings Inc*, 2005 FC 490 at para.24.

[4] *GasTOPS Ltd v Forsyth*, 2009 CanLII 66153 (ONSC) at para.124.

[5] *GasTOPS Ltd v Forsyth*, 2009 CanLII 66153 (ONSC) at para.117.

[6] *GasTOPS Ltd v Forsyth*, 2009 CanLII 66153 (ONSC) at para.128.

[7] *GasTOPS Ltd v Forsyth*, 2009 CanLII 66153 (ONSC) at para.1453.

[8] *GasTOPS Ltd v Forsyth*, 2009 CanLII 66153 (ONSC) at para.1459.

[9] *Polar Wireless Corporation v Roberts*, 2012 ONSC 6482.

[10] *RJR-MacDonald Inc v Canada (Attorney General)*, [1994] 1 SCR 311 at para.43.

[11] *Polar Wireless Corporation v Roberts*, 2012 ONSC 6482 at paras.21-25.

[12] *Benson Kearley & Associates Insurance Brokers Ltd v Jeffrey Valerio*, 2016 ONSC 4290 at para.21, citing *Factor Gas Liquids Inc v Jean*, 2010 ONSC 2454 at para.42.

[13] One of the individual defendants was terminated from the plaintiff company in late June 2012. The Statement of Claim was filed in the Ontario Superior Court shortly after. The Order granting the preliminary injunction issued on November 16, 2012.

[14] *Polar Wireless Corporation v Roberts*, 2012 ONSC 6482 at para.7.

[15] <http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act>.

[16] Uniform Trade Secrets Act at §1.

[17] Uniform Trade Secrets Act at §2 and 3.

[18] 18 U.S. Code § 1836(b)(1).

[19] See commentary from K&L Gates LLP (by Tara C. Clancy, April Boyer, Michael R. Creta) on September 26, 2017: <http://www.klgates.com/emerging-trends-in-defend-trade-secrets-act-litigation-09-25-2017/> .

[20] See commentary from DLA Piper LLP (by Rajiv Dharnidharka, Andrew D. Day, Deborah E. McCrimmon) on May 30, 2017:

<https://www.dlapiper.com/en/us/insights/publications/2017/05/defend-trade-secrets-act->

[four-things-learned/](#).

[21] PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995).

[22] See commentary from K&L Gates LLP (by Tara C. Clancy, April Boyer, Michael R. Creta) on September 26, 2017: <http://www.klgates.com/emerging-trends-in-defend-trade-secrets-act-litigation-09-25-2017/>.

[23] A limited exception to this is the Security of Information Act. This Canadian statute provides certain criminal remedies for the misuse of trade secrets. However, they are limited to instances involving the communication of trade secrets to a foreign economic entity (ie, a foreign state or an entity owned or controlled by a foreign state).

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