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Trade Secrets 2022

Canada: Trends & Developments
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Trends and Developments

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Introduction

In recent years, Canadian trade secret law has been the subject of a number of significant updates. Through common law jurisprudence, extraterritorial injunctions have been issued to address trade secret misappropriation. Also, multimillion-dollar damages have been awarded (including one nine-figure award). Through legislation, Canada's largest province (Ontario) has outlawed non-compete agreements, thus elevating the importance for employers to have robust trade secret protections in place.

Background on Trade Secret Enforcement in Canada

Enforcement of trade secret (or confidential information) rights in Canada is, at the provincial level, through an applicable provincial civil court system. This is in contrast to patent, trade mark and copyright enforcement proceedings, which may be pursued on a national level through the Federal Court of Canada.

In *Cadbury Schweppes*, a decision about the recipe for Caesar Cocktails, the Supreme Court relied on the test in *Lac Minerals* for demonstrating trade secret infringement (or misappropriation of confidential information). In particular:

- the information conveyed was confidential;
- communicated in confidence; and
- misused by the party to whom it was communicated.

The more recent developments in Canadian trade secret law are explored in the sections that follow.

Extraterritorial Injunction: a New Remedy for Trade Secret Misappropriation

Canadian Courts have long been hesitant to grant extraterritorial remedies to avoid territorial overreach. This hesitancy arose during the pre-internet era, when territorial divides in intellectual property disputes were clearer.

The law is often slow to evolve, but it now appears that Canadian Courts have recognised the need for extraterritorial remedies in the right case. The writing was on the wall in 2007, when the Supreme Court noted that private international law must evolve to take account for modern realities, and the scope of Canadian Courts' jurisdiction "should be expanded, not narrowed".

In *Equustek*, the Supreme Court of Canada upheld a worldwide interlocutory injunction to prevent ongoing intellectual property infringement by Datalink, including trade secret misappropriation. *Equustek*, a manufacturer of network hardware, sued Datalink for passing off their products as its own and misusing *Equustek*'s trade secrets to develop a competing product. This product was being sold online through various websites. After *Equustek* successfully had Datalink's business in Canada shut down, the latter moved its infringing operation outside Canada and continued selling its products online. As a result, *Equustek*'s next step was to seek, and obtain, an interlocutory injunc-

tion requiring Google to update its search engine to delist any Datalink search results.

In upholding the injunction granted by lower Courts, the Supreme Court emphasised that the “internet has no borders” and, therefore, the only way to ensure that the injunction obtained its objective was to apply it globally. This decision confirmed the breadth of Canadian Courts’ power to grant extraterritorial orders and their willingness to apply that power.

The effectiveness of such a remedy, including the full extent to which foreign courts respect or enforce such extraterritorial orders, remains to be seen.

Notwithstanding that Equustek was successful on its motion, the bar is very high to obtain such a worldwide interlocutory injunction from a Canadian Court. An applicant must establish that:

- there is a serious issue to be tried;
- irreparable harm will be suffered by the applicant if the injunction is not granted; and
- the balance of convenience favours granting the injunction.

In assessing irreparable harm and the balance of convenience, the Court will consider the necessity of an extraterritorial injunction. Is it necessary to stop irreparable harm? Is there a more convenient and limited remedy that will suffice? Depending on the facts and evidence, a worldwide injunction may be necessary and granted by a Canadian Court.

Significant Monetary Awards

In Canada, Courts in intellectual property cases have recently emphasised that the overall purpose in assessing damages or profits is to find “a broadly equitable result”. In numerous cases, it may be impossible to ascertain precisely what

would have been the amount of a plaintiff’s sales and profits in the absence of trade secret misappropriation. Instead, Courts often take a broad axe approach based on the evidence. In trade secret cases, successful plaintiffs have used this broad axe to secure big wins.

In 2009, the Ontario Superior Court noted that damages are rarely sufficient to compensate misappropriations of confidential information given that the harm suffered is often hard to quantify. In that case, the plaintiff (GasTOPS) was in the business of gas turbine engine maintenance when a number of employees resigned to begin working for a competitor (Mxl). This led to a claim against the employees and Mxl for trade secret misappropriation, among other related causes of action. GasTOPS was successful and, in turning to damages, the Court noted the difficulty in determining GasTOPS’ damages. The Court opted to award damages based on accounting of Mxl’s competing profits. After wading through the substantial evidentiary record covering a ten-year period, the Court awarded over CAD11 million.

More recently, the XY case is notable as it involved a trade secret dispute related to gender-sorting technology for bovine sperm. XY was successful in a previous related action and awarded CAD8.5 million. It then brought a subsequent action against other related member companies. The Court awarded over CAD300 million as disgorgement of profits, and an additional CAD500,000 in punitive damages due to litigation misconduct.

In sum, an important takeaway from these decisions is to not underestimate the monetary value of a trade secret. If the secret is misappropriated, Canadian Courts will find a value no matter how difficult the assessment, and the value may be significant.

Ontario outlaws non-compete agreements, giving heightened importance to trade secret enforcement.

On 30 November 2021, the Ontario legislature passed Bill 27, Working for Workers Act, 2021, making Ontario the first province in Canada to prohibit employers from engaging in non-compete agreements with employees. The Bill amends a number of employment related statutes, one of which is the Employment Standards Act, 2000. The purpose behind the new Bill is to attract and retain global talent and investments in Ontario.

Non-compete provisions in employment contracts were among the most widely used tools for protecting against unauthorised use or disclosure of trade secrets in Canada. In the new legislation, a “non compete agreement” is defined as “an agreement, or any part of an agreement, between an employer and an employee that prohibits the employee from engaging in any business, work, occupation, profession, project or other activity that is in competition with the employer’s business after the employment relationship between the employee and employer ends”. Courts traditionally found restrictive covenants enforceable only in “exceptional circumstances”, but now under Bill 27, non-compete agreements are prohibited in employment settings under all circumstances. With respect to non-compete agreements entered into before October 25, 2021, initial jurisprudence states that the prohibition does not apply to such agreements.

However, there are two exceptions:

- the sale of a business where, as part of the sale, the parties enter into an agreement that prohibits the seller from competing with the purchaser’s business and the seller becomes

an employee of the purchaser immediately following the sale; and

- non-compete agreements entered into with executives, defined as “any person who holds the office of chief executive officer, president, chief administrative officer, chief operating officer, chief financial officer, chief information officer, chief legal officer, chief human resources officer or chief corporate development officer, or holds any other chief executive position”.

The outlawing of non-compete agreements in all other instances means that, at least in Ontario, trade secret enforcement will take on heightened importance, as employers will no longer have one of the most commonly used tools for trade secret protection. As a result, contractual confidentiality provisions will likely become more important, as will any other measures that companies may be able to take, to limit trade secret misappropriation (eg, limiting access to trade secrets to select employees; and, ensuring appropriate security measures, including digital and physical measures).

Implementation of New Criminal Provisions

Unlike the US, Canada does not have a statute dedicated to trade secrets in the civil context. However, recent amendments to Canada’s Criminal Code resulted in the addition of section 391. Section 391 formally defines the term “trade secret” and creates two new offences for fraudulently taking a trade secret.

In particular, subsection 391(1) makes it an offence to knowingly obtain, communicate or make available a trade secret by deceit, falsehood or other fraudulent means. The Crown must prove both the act and the mental element beyond a reasonable doubt to be liable under this provision. Subsection 391(2) is a piggy-backing provision, making it an offence to knowingly obtain, communicate or make available a

trade secret obtained through the commission of an offence under subsection 391(1).

Prior to these provisions, parties had to rely on civil remedies under common law for wrongful disclosure or misuse of trade secrets. These provisions, at least on their face, provide trade secret owners with another means to protect their rights.

However, at least one legal commentator has criticised the government for failing to enforce these provisions. To date, it does not appear any cases have been prosecuted under section 391.

Moving Litigation as Quickly as Possible to Have the Best Argument for an Injunction at the Conclusion of a Trial

A more general observation of recent trade secret case law in Canada reveals the need for trade secret owners to move quickly in instances of trade secret misappropriation. Often when confidential information is obtained from an employer and subsequently misused for gain in a competing enterprise, an injunction can prevent the offending party from wrongfully obtaining an advantage by using the confidential information. This concept has often been described as the “springboard principle”. In such cases, an injunction can serve to reduce or eliminate the springboard by enjoining the competitor for at least the time they would have otherwise taken to obtain the confidential information lawfully.

The considerations for granting permanent injunctive relief differ significantly from those applying to interlocutory injunctive relief. The factors examined for permanent injunctions include: the nature of the claim; the facts and circumstances of the case; whether damages or repayment of profits alone would provide an adequate remedy; and, the delay, or time that has passed from the trade secret infringement to the date of trial. Courts have specifically denied injunctive relief in cases where too much time had elapsed since the breach of contract, or misuse of confidential information, and instead awarded monetary relief alone. In such cases, it is important to move litigation along as quickly as possible to have the best argument for an injunction at the conclusion of trial.

Gowling WLG has a 220 professional-strong IP practice across seven jurisdictions and is the trusted adviser for those seeking global IP expertise in prosecution, enforcement and litigation and transactional work across all sectors. The firm offers the full range of IP law through offices in the UK, Canada, China, France, Germany, the UAE and Singapore (JurisAsia). More particularly, there are professionals with trade secret expertise that help companies to identify intangible assets, put policies in place to

protect trade secrets and, when needed, represent companies in cases involving breaches. Recently, it advised a global pharma company on trade secret strategy for AI, created a data breach response plan for a bank, conducted a trade secret audit and set up trade secret management for a technology company, represented a global engineering conglomerate in a know-how misuse case, and advised an SME biotech company on its initial trade secret policy.

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