

THE LAW OF TRADE SECRETS AND CONFIDENTIAL INFORMATION IN THE PROVINCE OF QUEBEC

by
François M. Grenier*
LEGER ROBIC RICHARD, Lawyers
ROBIC, Patent and Trademark Agents
Centre CDP Capital
1001 Aquare-Victoria – Bloc E – 8th Floor
Montreal (Quebec) H2Z 2B7
Tel: 514-987-6242 Fax: 514-845-7874
info@robic.com – www.robic.ca

INTRODUCTION

This section will deal with complementary comments on the Law of Trade Secrets and Confidential Information as it is applied in the Province of Quebec. No major differences exist in the basic legal principles applied in the Province of Quebec as compared to the other Canadian provinces. However, in view of the differences in the legal system, the basis upon which these legal principles are founded are different.

SECTION 1: INTRODUCTION TO THE LEGAL SYSTEM

The Province of Quebec presents a unique legal system based on the duality which has always marked its history. The Quebec Act of 1774¹, established English Common Law as the fundamental basis of the legal system but provided that all matters relative to property and civil rights would be decided according to French civil law. Still today, public and criminal laws are generally governed by the Common Law principles, leaving private law to the reign of the civil system. Intellectual property in Quebec is generally governed by federal statute law supplemented by civil law. Trade secrets in Quebec are regulated by the civil law principles as pertaining to "Property and Civil rights"².

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Lawyer, François M. Grenier is a senior partner in the lawfirm LEGER ROBIC RICHARD, g.p. and in the patent and trademark agency firm ROBIC, g.p. This document constitutes the initial version of the Quebec chapter dealing with the law of trade secrets in Canada and published by CBC under the title Worldwide Trade Secrets Law (looseleaf) It was meant for discussion and does not conclusively state the opinion of the author or the members of her firm on the subject matter nor does it provide an exhaustive review thereof. The Schedules to this material are not reproduced here. Publication 141.

SECTION 2: TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION AS DEFINED BY STATUTE OR CASE LAW

1. Trade Secrets

No statute specifically dealing with trade secrets was ever adopted either in Canada or in Quebec. Equity and Common Law rules have no application when a "civil law" problem arises in the Province of Quebec³. In reality, as will be seen later, equity and Common Law principles are often imported in the civil law, the courts generally trying to find in the Civil Code analogous principles or broad articles allowing the application of a specific Common Law principle. Clearly, the Civil Code itself does not deal specifically with trade secrets. The law relating to trade secrets and confidential information is entirely judge made⁴.

Since no statute exist to define what a trade secret is, the courts have attempted to delimit the scope of the notion. Two important cases decided in Quebec, proposed a definition. In *RI Crain Limited v. Ashton Press Manufacturing Co. Limited*⁵, Mr. Justice Chevrier, relying on definitions offered in American cases, generally defined trade secret as follows:

"What are trade secrets? (...)

1st: A trade secret ... is a property right, and differs from a patent in that as soon as the secret is discovered, either by an examination of the product or any other honest way, the discoverer has the full right to use it (...)

2nd: A trade secret is a plan or process, tool, mechanism or compound known only to its owner and those of his employees to whom it is necessary to confide it (...)

3rd: The term trade secrets as usually understood means a secret formula or process not patented, but known only to certain individuals using it into compounding certain articles of trade having a commercial value, and does not denote there are mere privacy with which an ordinary commercial business is carried on (...)

4th: A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. A trade secret is a

process or device for continuous use in the option of the business. The subject matter of a trade secret must be secret (...)"

In the second case, *Positron Inc. v. Desroches et al.*⁶, Mr. Justice Biron proposed the following definition:

"Trade secrets are usually formulas, manufacturing processes unique to its owner and which have been revealed confidentially to an employee. This is not experience acquired by an employee but, more exactly, knowledge or "savoir-faire" belonging to the employer and revealed by him for the sole purpose of permitting the employee to produce what the trade secret enables him to do. Included in this category are chemical formulas, recipes, manufacturing technologies (...)" (translated)

One of the most important Common Law case on the subject of trade secrets is *Faccenda Chicken Ltd. v. Fowler*⁷, and the reasoning therein was adopted and followed by Mr. Justice Biron in *Positron*⁸ where he described the three categories of information that an employee can acquire during the course of his employment and the protection to which each category is entitled:

"First there is information which, because of its trivial character or its easy accessibility from public sources of information, cannot be regarded by reasonable persons or by law as confidential at all. The servant is at liberty to import it during his service or afterwards to

anyone he pleases, even his master's competitor. An example might be a published patent specification well known to people in the industry concerned (...) Second, there is information which the servant must treat as confidential, either because he is expressly told it is confidential, or because from its character it obviously is so, but which once learned necessarily remains in the servant's head and becomes part of his own skill and knowledge applied in the course of his master's business. So long as the employment continues, he cannot otherwise use or disclose such information without infidelity and therefore breach of contract. But when he is no longer in the same service, the law allows him to use his full skill and knowledge for his own benefit in competition with his former master; and (...) there seems to be no established distinction between the use of such information where its possessor trades as a principal, and where he enters the employment of a new master, even though the latter case

involves disclosure and not mere personal use of the information. If an employer wants to protect information of this kind, he can do so by an express stipulation restraining the servant from competing with him (within reasonable limits of time and space) after the termination of his employment (...) Third, however, there are, to my mind, *specific trade secrets so confidential* that, even though they may necessarily have been learned by heart and even though the servant may have left the service, they cannot lawfully be used for anyone's benefit but their master's. An example is the secret process which was the subject matter of *Amber Size ad Chemical Co. Ltd. v. Menzel* (1913) 2 Ch 239 (23)."

The courts have offered a wide and open definition which indicates a tendency to include in the notion of trade secret a variety of informations.

However, it is clear that only information which cannot be obtained in any other way than from the business source using this information, as opposed to the product put on the market by that source, will be considered a trade secret. For example, in today's technical fields such as electronic or computer engineering, competitors often analyze marketed products to understand their functioning and ultimately, duplicate them. In accordance with the definitions adopted by Quebec courts, no violation of trade secrets is involved in this procedure.

2. Confidential business information (customers list, suppliers list, etc.)

Frequently, the terms "trade secrets" and "confidential information" are used interchangeably. However, in Quebec court cases, the term "trade secrets" is generally used for manufacturing processes and recipes and the term "confidential information" is generally used to describe information conveniently compiled throughout the years by an individual or a company, such as a clients list, a marketing strategy based on clients' preferences, suppliers list, pricing informations or the financial position of a company which partially become known on the market place by the mere fact of being in business.

Evidently, not all such information upon which an employee will come across in the course of his work is confidential and even when it is, it will not benefit of any protection subsequent to the rupture of the working contract and the absence of an implied duty of confidentiality applied to senior employees or of a restrictive covenant as will be seen later. Only those informations which are in essence so confidential that they are assimilated to trade secrets and

become part of the third category described in the *Faccenda* case, will enjoy a legal protection⁹.

There is great confusion in Quebec jurisprudence as to the protection to which confidential business information is entitled. Documents such as list of clients are confidential and an employee is not entitled to copy such a list and take it with him upon leaving his employment. However, in the absence of a restrictive covenant, he may solicit as many clients as he remembers from this list.

SECTION 3: CIVIL LAW AND THE PROTECTION OF TRADE SECRET AND CONFIDENTIAL INFORMATION

As specifically emphasized in *Positron*¹⁰, matters relating to trade secrets are decided in the Province of Quebec in accordance with civil law. In the absence of a written contractual disposition forbidding the disclosure and use of Trade Secrets or confidential information, sections 1024, 1053, 1065 and 1484 of the Civil Code will be applied. They read as follows:

Art. 1024. The obligation of a contract extends not only to what is expressed in it, but also to all the consequences which, by equity, usage or law, are incident to the contract, according to its nature.

Art. 1053. Every person capable of discerning right from wrong is responsible for the damage caused by his fault to another, whether by positive act, imprudence, neglect or want of skill.

Art. 1065. Every obligation renders the debtor liable in damages in case of a breach of it on this part. The creditor may, in cases which admit of it, demand also a specific performance of the obligation, and that he be authorized to execute it at the debtor's expense, or that the contract from which the obligation arises be set aside; subject to the special provisions contained in this Code and without prejudice, in either case, to his claim for damages.

Art. 1484. The following persons cannot become buyers, either by themselves or by parties interposed, that is to say:

Tutors or curators, of the property of those over whom they are appointed, except in sales by judicial authority;

Agents, of the property which they are charged with the sale of;

Administrators or trustees, of the property in their charge, whether of public bodies or of private persons;

Public officers, of national property, the sale of which is made through their ministry.

The incapacity declared in this article cannot be set up by the buyer; it exists only in favor of the owner and others having an interest in the thing sold.

a) Contract law (non-disclosure agreement, use restrictions, etc.)

Generally, under the Civil Code, any contract not contrary to public order is valid and becomes the law of the parties. Contracts with respect to non-disclosure and use restrictions are therefore valid and enforceable. Restrictive covenants with respect to non-competition after employment must be reasonable and restricted in time and space.

b) Equitable doctrine which create implied obligation of confidentiality (fiduciary duties of business partners, etc.)

In *Positron*, Mr. Justice Biron repeated the principle that only superior officers and executive personnel of a company are, outside of any contractual obligations, held to an implicit fiduciary duty requiring loyalty, goodwill and absence of conflict of interest. This principle was specifically analyzed by the Supreme Court of Canada in *Canadian Aero Service Ltd. v. O'Malley*¹¹. Mr. Justice Laskin expressed his views on the matter as follows:

"In my opinion, this ethical rule prohibits any executive or superior officer to usurp for his personal profit or to provide another person or company in which he is a partner, a business opportunity that his present company is actively pursuing; this prohibition continues even after his resignation or when it is reasonable to suspect that his resignation is influenced by a project to acquire the business opportunity pursued by the company and when it is his position inside the company that brought him to know of the business opportunity on which he then acted upon." (translated)

The Quebec Civil Code formally recognizes the above principle. Section 1484 prohibits appropriation by administrators or trustees of the property administered for others. In *Montour Ltée v. Jolicoeur*¹², Mr. Justice Guthrie acknowledged that "... the legal concepts upon which the *Canaero* decision is based do not form part of the civil law of Quebec.". However, he added that the ethical yardstick established by Mr. Justice Laskin "... can be used in measuring the obligation of the prudent administrator referred to in article 1710 C.C.".

c. The employer/employee relationship

i) Covenant not to compete

Covenant not to compete, if reasonable and limited in time and space, will be enforced by the courts. In the absence of such a restrictive covenant or other contractual obligations prohibiting an employee from competing with his former employer, sections 1024, 1053, 1065 and 1484 of the Civil Code will constitute the applicable legislation.

The Court of Appeal established in *Lange Canada Inc. et al. v. Platt*¹³, that the knowledge or experience acquired by an employee in the course of his employment, apart from trade secrets communicated to him, cannot be subject to restraint after employment is terminated and may be used by the employee to the profit of a competitor.

In *Positron*¹⁴, Mr. Justice Biron wrote that one cannot forget the experience acquired while at the service of an employer and added that it is not forbidden to use this general knowledge relative to trade methods and organization to the benefit of another employer. An employee which has not signed a covenant not to compete should not be held to the same obligations as one who did. However, an ex-employee must not use the property of his employer, be it material or intellectual.

When an employee has signed a covenant not to compete, he is held to explicit contractual obligations. The Supreme Court of Canada in *Maguire v. Northland Drug Co.*¹⁵, has established reasonable limits to such contractual obligations not to compete:

"The information and training which an employer imparts to his employee become part of the equipment in skill and knowledge of the employee, and so are beyond the reach of such a covenant. The covenant in any event must not go further than is reasonably adequate to give the protection that is to be

afforded; if it goes too far or is too wide, either as to time or place or scope, it will not be enforced; and if bad in any particular, it is bad altogether (15)."

ii. Implied duties

The information collected by an employee during his employment will be more or less confidential depending on the nature of the information itself and, the way it should be treated will vary on the circumstances surrounding their use.

*Faccenda Chicken Ltd. v. Fowler*¹⁶ establishes the three categories of information accessible to the employee. First, the trivial things which is within the reach of any interested individual do not require any kind of protection.

Next, the confidential information described in the second category of *Faccenda* must remain so during the entire time during which employment exists because there is an implicit loyalty clause in any lease and hire of work. This prohibits an employee to give privileged information to a competitor. However, once the employment is over, the use of skill and knowledge acquired with the former employer is allowed even when in direct competition.

Finally, the only kind of informations protected even after the termination of work with an enterprise are informations likened to trade secrets, which are property of the employer.

As mentioned earlier, the *Positron* case imported these principles in Quebec case law on trade secrets.

iii) The Springboard Theory

In the field of protection of confidential information and trade secrets, it is important to mention the emergence in Quebec of the Springboard theory. This theory has been expressed as follows in *Terrapin Ltd. v. Builders Supply Co. (Hayes) Ltd.*¹⁷:

"... a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and

springboard it remains even when all the features have been published as can be ascertained by actual inspection by any member of the public... The possessor of the confidential information still has a long start over any member of the public... It is, in my view, inherent in the principle upon which the Saltzman case rests that the possessor of such information must be placed under a special disability in the field of competition to ensure that he does not get an unfair start."

When confidential information or trade secrets have leaked to a competitor, the application of the Springboard theory will protect the "head start" of the owner of this information and trade secrets and will "set back" those who illegally obtained access to the information.

The Quebec Superior Court in *Positron*¹⁸ clearly recognized the existence of this theory in the Civil law (through article 1053 of the Civil Code), but criticized the fact that it is applied too broadly and too often without discernment:

"... the Court concludes that the Springboard theory tries to counter a dishonest conduct or to prohibit an action contrary to the proverbial "reasonableman" behavior. Our section 1053 of the Civil Code allows the application of this theory in our law, but only in this limited case. This Court is not prepared to go further." (translated).

Many cases in Quebec have applied this theory in a very vague and imprecise manner¹⁹. In effect, the courts have used the Springboard theory as an equity measure when the immoral behavior of the defendant was shocking. According to certain authors¹⁹, in many cases where the theory was applied, the real issue was a breach in the fiduciary duty of a key-employee as described in *Canadian Aero Services Ltd. v. O'Malley*.

v. Remedies

In Quebec, based on sections 1053 and 1065 of the Civil Code, the remedies usually sought in a case of illegal use of a trade secret or of confidential information are essentially:

- a permanent injunction
- damages
- delivery up of all documents containing confidential informations.

No recourses in equity are available before the Quebec courts.

vi. Written procedures and the protection of Trade Secrets and confidential informations

In Quebec, no judgement has delineated to what extent a plaintiff needs to describe the confidential information or trade secrets in his written procedures. According to the Code of civil procedures, the minimal content of the statement of claim should include:

1. an allegation that the plaintiff possesses a trade secret or confidential information and a precise statement of the reasons why it should qualified as such;
2. an explanation of the circumstances in which the defendant has been exposed to this information and an explanation of the illegal use made thereof;
3. the remedies sought.

The court has a discretion, in these circumstances, to order that all pleadings and portions of the discoveries relating to the trade secrets or confidential information, otherwise public, be sealed and kept confidential. This solution, far from being perfect, allows minimal protection of the plaintiff's property.

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1. Quebec Act, 14 Geo. III, c.83 (1774) (U.K.)
2. *Vapor Canada Ltd. v. MacDonald*, (1976) 7 N.R. 477; *Positron Inc. v. Desroches*, 1988 R.J.Q. 1636; see also Section 92(13) of the British North America Act, 30-31 Vict., c.3 (1867) (U.K.)
3. *Ville Saint-Laurent c. Marien*, (1962) S.C.C. 580, at 587
4. VAVER, David, "What is Trade Secret?", *Trade Secrets*, The Law Society of Upper Canada, Ed. by Roger T. Hughes, Toronto, 1990, pp. 1-41, at 4
5. (1949) C.P.R. 143, at 149
6. (1988) R.J.Q. 1636, at 1653

7. (1986) 1 All E.R. 617, at 623
8. *Supra*, note 6, at 1653
9. *Supra*, note 7, at 624
10. *Supra*, note 6, at 1650-1651
11. (1974) S.C.C. 592, at 607
12. (1987) R.J.Q. 1323, at 1327 (Que. S.C.)
13. (1973), 9 C.P.R. 231 (Que. S.C.)
14. *Supra*, note 6, at 1652
15. (1935) S.C.C. 412, at 417
16. *Supra*, note 7, at 623-624
17. (1967) R.P.C. 375, at 377
18. *Supra*, note 6, at 1658
19. See *Lange Canada Inc. v. Platt*, (1973) 9 C.R.P. 231 (Que. S.C.); *Santé Naturelle Ltée v. Produits de nutrition Vita-form Inc.*, (1985) 5 C.P.R. 548; *Montour Ltée v. Jolicoeur*, (1987) R.J.Q. 2482 (Que. S.C.)
20. GUAY, François, "La protection des secrets de fabrique et des informations confidentielles", *Développements récents en droit commercial*, Service de la formation permanente du Québec, Ed. Yvon-Blais, Cowansville, 1993, pp. 167-204

