

THE LIMITED PROTECTION OF TRADE SECRETS UNDER QUEBEC LAW

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On September 7, 1999, the Court of Appeal of Quebec rendered a decision, which constitutes a considerable analysis regarding the legal protection offered to trade secrets in Canada and more particularly under Quebec's civil law system. In *Ghaly Elia Gideon and Gideochem Inc. v. Tri-Tex Co. Inc.*, [1999] R.J.Q. 2324 (C.A.) (Justice Joseph R. Nuss, writing for a panel of 3 judges), the Court, on an appeal from a judgement of the Superior Court, was specifically asked to issue on whether or not secrets formulae are to be protected by the Copyright Act and on the possibility for a person to seize confidential information before judgement alleging ownership of same.

Facts before the Court. In the above-mentioned decision, a company called Tri-Tex Co. Inc. (Tri-Tex) manufactures dyes and other chemical products. In relation with its business, Tri-Tex developed some secret formulae for the production of dyes and other chemical products, which secret formulae are not being protected by a patent. In May 1998, Tri-Tex alleged that a company named Gideochem Inc. (Gideochem), which operates a similar business, had obtained, illegally, some of Tri-Tex's confidential information and its secret formulae. According to Tri-Tex, Gideochem made an offer of employment to a Tri-Tex employee who had access to the secret formulae developed by Tri-Tex. Tri-Tex also pretended that two long time employees sold a number of Tri-Tex secret formulae to Gideon and Gideochem for \$300 per formula. Moreover, Tri-Tex alleged that one of the said employees gave Gideon and Gideochem a list of Tri-Tex's suppliers.

Position of Tri-Tex. Tri-Tex caused to be issued a writ of seizure before judgement under art. 734(1) *Civil Code of Procedure* (C.C.P.) which authorises seizure without judicial approval in the case where "the *moveable property* which it has a right to claim alleging a right of *ownership* on the secret formulae as well as on the products produced therefrom" (underlines by author). Tri-Tex argued: (i) that the written versions of the chemical formulae created and developed in its laboratories constitute literary works within the meaning of the Copyright Act, and (ii) to have a right of

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ownership in the confidential information among other, its trade secrets and its chemical formulae.

Position of Gideochem. Gideochem filed a motion to quash Tri-Tex's seizure before judgement alleging insufficiency and falsity of the affidavit on the strength of which the writ of seizure was issued. Gideochem admitted contacting some of Tri-Tex's suppliers but that their names were obtained from magazines or through other means. Furthermore, Gideochem confirmed making an offer of employment to a Tri-Tex employee but that it is common to do so in the industry. Finally, Gideochem admitted bringing in two Tri-Tex employees in order to obtain some formulae, but only to expose the inferior quality of the Tri-Tex products. On the other hand, Gideochem argued that Tri-Tex did not have the right to seize all of the moveable effects because it contends confidential information concerning Gideochem's business, financial status, clients, etc.

The Superior Court quashed in part Tri-Tex's seizure before judgement on the grounds of insufficiency and ordered the taking of an inventory of certain items seized by Tri-Tex. Also, Superior Court Judge Dalphond concluded that the Copyright Act does not apply in such a case.

The Court of Appeal was seized of two questions: (i) the application of the *Copyright Act*, and (ii) the seizure before judgement of confidential information.

Copyright Act. When the Court of appeal was asked to issue a ruling on whether or not Tri-Tex's chemical formulae were subject to the *Copyright Act*, Justice Nuss confirmed the decision rendered by Superior Court Judge Dalphond and restated a fundamental rule of Copyright Law saying that there can be no copyright in ideas or in information but only in the expression of them and that ideas are public property. The Court decided that the chemical formulae were ideas and as such are not subject to copyright. Justice Nuss specified that even if the formulae were written or printed on paper or otherwise recorded on computer software, it does not mean that they are "literary works" within the meaning of the *Copyright Act*.

The Court mentioned that the Tri-Tex formulae might constitute a trade secret and referred to the definition of trade secrets proposed by Mr. Justice Biron in the case *Position Inc. v. Desroches et al.* [1988] R.J.Q. 1636:

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 (...) [Our translation]

The Court wrote the following: "Trade secrets may in certain cases be protected contractually (e.g. non competition covenants), by the application of certain legal concepts (e.g. employee loyalty, unfair trade practices, the obligation to act in good faith) or by having recourse to the Patent Act." However, Justice Nuss made sure to specify that they cannot, simply on the grounds of being trade secrets, be afforded protection under the *Copyright Act*. Only the expression of these formulae could be protected. Following the instructions to produce the chemical compounds would not be infringing Tri-Tex's copyright, it would only be using the idea contained in Tri-Tex's "literary works" (chemical formulae).

Seizure before judgement. The Court was then asked to decide whether or not confidential information constitutes "movable property" within the meaning of 734(1) C.C.P in order to seize a number of items at the commercial premises at Gideochem before judgement. The Court stated that "the right to seize before judgement is a provisional remedy of an exceptional nature and that a writ of seizure may therefore be issued only in circumstances where the rules governing this procedure have been strictly observed".

The Court cited *R. v. Stewart* [1988] 1 R.C.S. 969, in which the Supreme Court of Canada ruled that confidential information does not constitute "property within the meaning of s. 283 or 338 of the *Criminal Code*" after the comment of Supreme Court Judge Lamer on whether or not confidential information can be considered as property:

Indeed, [confidential information] possesses many of the characteristics of other forms of property: for example, a trade secret, which is a particular kind of confidential information, can be sold, licensed or bequeathed, it can be the subject of a trust or passed to a trustee in bankruptcy. In the commercial field, there are reasons to grant some form of protection to the possessor of confidential information: it is the product of labour, skill and expenditure, and its unauthorised use would undermine productive efforts which ought to be encouraged. As the term "property" is simply a reference to the cluster of rights assigned to the owner this protection could be given in the form of proprietary rights. The cases demonstrate that English and Canadian civil law protect confidential information. However, the legal basis for going so has not been clearly established by the Courts.

[...]

It appears that the protection afforded to confidential information in most civil cases arises more from an obligation of good faith or a fiduciary relationship than from a proprietary interest. No Canadian Court has so far conclusively decided that confidential information is property, with all the civil consequences that such a finding would entail. [pp. 974-976]

After, Justice Nuss reviewed the jurisprudence and the doctrine in Quebec where a trend of opinion suggest that trade secrets and know-how are to be treated as property. The Court referred to article 1612 *Civil Code of Quebec* where it speaks of

the "holder of a trade secret". Justice Nuss, after discussing the possibility to treat confidential information as movable property, came to the conclusion that the Civil Code does distinguish between "property" and "information" or "right of intellectual property» and consequently, these facts imply that information cannot be assimilated with property, and rejected the property right theory.

Decision. Finally, Justice Nuss concluded that: (i) the *Copyright Act* does not provide a legal basis for the seizure of the items sought to be seized, and (ii) Tri-Tex did not succeed in demonstrating that confidential information constitutes "moveable property" within the meaning of article 734 C.C.P. and dismissed the appeal.

Conclusion. This judgement confirms that the protection of a corporation's trade secrets and confidential information is limited. Even if trade secrets are in written form, they do not gain protection under the *Copyright Act* because they are not considered "literary works". This conclusion should close the debate in the Province of Quebec on property in trade secrets. Trade secrets are not moveable property and should not be viewed as such. Such a decision clearly states the application of the law and the interpretation to adopt in such cases.

For these reasons, it is essential that a corporation that has such confidential information and trade secrets be careful in protecting them with specific and detailed contractual provisions with their employees and other relevant parties and by management systems that would ensure full and efficient protection. Special care should be taken in planing a licensing program on pure trade secrets, whether as licensee looking for certain guarantees of confidentiality and control or as licensor called upon to give them .

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