

**UNIFORM LAW CONFERENCE OF CANADA**

**CIVIL LAW SECTION**

**A REVIEW OF THE UNIFORM TRADE SECRETS ACT**

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**August 21-25, 2005**

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### I. Introduction

[1] The Canadian economy is now, more than ever, based on the knowledge and information its companies possess. The economy is also a function of the ways in which that capital is used. If a company or organization is unable to manage, govern, and control the information on which its business is based, then the viability of the business, and the value of the information it possesses, is severely compromised. The limits of the protection offered by Canadian intellectual property legislation are further blurred and complicated by the fact that there are intangible asset classes which cannot satisfactorily be protected by the *Copyright Act* or the *Patent Act*. One solution is the concept of trade secret.

[2] Trade secret exists in two different legal domains, and choosing one incarnation of this area of law over another depends on the stated public policy goals. First and foremost, trade secret is a creature of the common law and a creation of judicial oversight of commercial relationships. It is, therefore, subject to all the vagaries of judicial review and independence. As a consequence, trade secret as interpreted by the Canadian judiciary is something less than consistent and clearly founded.

[3] In its second incarnation, trade secret has been codified and, in some jurisdictions, this codification has been almost universally adopted as black-letter law. In Canada, the presumptive codification exists in the *Uniform Trade Secrets Act (Canada)* (the “*UTSA*”)<sup>1</sup>.

[4] The *UTSA* was initially approved and recommended for enactment to Canadian jurisdictions by the Uniform Law Conference of Canada (the “Conference”) in 1987. It has yet to be en-acted by a single jurisdiction in Canada. This fact leads one to the conclusion that the lack of a legislative definition for what constitutes trade secret has not hindered its protection by the com-

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mon law in Canada. Since the adoption of the *UTSA* by the Conference, however, the law of intellectual property has progressed, particularly on the international field. In fact, the move toward the harmonization of international legal regimes may explain why the *UTSA*, in its current form, has not been enacted in Canadian jurisdictions – because it reflects neither the current state of the law nor the current business reality of the importance of knowledge and information.

[5] In order adequately to inform a decision on the advisability and feasibility of further promotion of the *UTSA* to Canadian provincial and territorial jurisdictions, the Commercial Law Strategy of the Uniform Law Conference of Canada has first asked me to present a concise re-view of the current state of the law; second, I was asked to examine the text of the *UTSA* to determine if there are areas which need reform; and third, to recommend a course of action to the Conference with respect to the *UTSA*. Note that Appendix A is a section-by-section comparison between the Canadian and American versions of the *UTSA*, to the extent that the two Acts are concordant, and includes the French version of the Canadian *UTSA*.

### **II. Summary of Recommendations**

[6] My recommendation with respect to the *UTSA* is not complicated. The *UTSA* is no less valuable a tool today than it was in 1989 when it was adopted by the Conference, and the Conference should, in the context of the Commercial Law Strategy, press for enactment by Canadian provincial and territorial jurisdictions. Despite a review of the reports of the initial working group, as published in the Annual Proceedings of the Conference (1987 through 1989), the level of political interest and willpower that existed at the time of the adoption of the *UTSA* remains unclear. In view of this very significant unknown— whether the political powers-that-be are even aware of the issue - my recommendation for action in this area of law comes with certain caveats.

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[7] The Conference is in a unique position with respect to its contacts within the provincial and territorial governments and, as such, is extremely well placed to gauge the enthusiasm for the enactment of the *UTSA* within the aforementioned jurisdictions. My recommendation – that the Conference press Canadian jurisdictions to enact the *UTSA* - is contingent on there being adequate support at the level of the offices of provincial and territorial Attorney's General. If such support is found wanting, or cannot be garnered, then the enactment of the *UTSA*, whether in current or modified future form, will remain a fool's errand.

[8] In the course of any preliminary research into provincial and territorial willpower with respect to the *UTSA*, I would also strongly recommend that the Conference poll – whether formally or informally – both the academic and commercial bar for their views; if, for example, the provincial private bars feel that the current legal regime adequately protects its trade secrets and other intellectual capital, then pressing for nation-wide enactment of the *UTSA* is moot. This research method, despite obvious lacuna on the quantitative level, has been used effectively by the Conference and the Commercial Law Strategy. Most recently, the CLS determined that there was insufficient industry, academic, and private bar interest in the reform of the law of documents of title.

[9] Though based on research only of an anecdotal nature, it is my view that the private bar would generally be in favour of the *UTSA*, since it makes at least some strides towards eliminating the subjective aspect of 'intention' from the equation and judicial scrutiny. This aspect of trade secret will be addressed in more depth below.

[10] Finally, I recommend that prior to a concerted push towards provincial and territorial enactment of the *UTSA*, the Conference and the Commercial Law Strategy determine whether the

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legislation is properly aligned with American law and is drafted to account for terms of the *North American Free Trade Agreement* (“NAFTA”) and the WTO’s *Agreement on Trade Related Aspects of Intellectual Property Rights* (“TRIPS”). Fealty to international law, and other legal regimes, is important for two reasons: first, it enhances the credibility of the Canadian system of intellectual property protection and promotes this protection in other jurisdictions – particularly those in which Canadian companies have business interests; and second, it will bring Canada into conformity with its international treaty and agreement obligations and avoid costly conflicts of law and litigation where an individual or party’s rights are in doubt, or questioned.

### III. The Origins of Trade Secret

[11] The concept of trade secret, at least in codified form, has its origins in the American *Restatement (First) of Torts* (1939).<sup>2</sup> The *Restatement* conceived of trade secret as follows:

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 . . . It is not simply information as to single or ephemeral events in the conduct of the business...A trade secret is a process or device for continuous use in the operation of the business.<sup>3</sup>

[12] This definition was further refined in 1985 by the *Uniform Trade Secrets Act* (U.S.), as adopted by the National Conference of Commissioners on Uniform State Laws (“NCCUSL”), which defines trade secret as:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>4</sup>

[13] Interestingly, the most recent and comprehensive definition of trade secret comes from the *Restatement (Third) of Unfair Competition (1995)*. Section 39 of that document states that

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.<sup>5</sup>

[14] In their interpretation of the nature of trade secret, U.S. courts have incorporated what amounts to a property rights analysis, rather than focusing on the issue of trade secret as a consequence of a confidential relationship.

#### **IV. Trade Secret in the Canadian Context**

[15] Where the American treatment of trade secret has evolved into black-letter law, Canadian treatment is, by contrast, entirely the creation of the common law, a fact that is often bemoaned by scholars and courts alike. Indeed, as recently as 2002, Ramsay noted that:

[t]o date, neither the federal government nor the nine common-law provinces have passed any legislation covering the protection offered to trade secrets, let alone defining what a trade secret. Likewise, the Province of Québec, governed by civil law, has not enacted any codes specifically related to trade secrets.<sup>6</sup>

[16] A further, and perhaps more striking difference between Canadian and American treatments is that, in determining the nature of trade secret in the Canadian context, courts focus primarily on the nature of the relationship between parties and whether such a relationship could create a trade secret. The American view, it should be recalled, is that “In defining the existence of a trade secret as the threshold issue, we first focus upon the “property rights” in the trade secret rather than on the existence of a confidential relationship.”<sup>7</sup>

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[17] Two leading cases in the law of trade secret in the Canadian context – and there are, it should be noted, few cases which deal with the issue. *Société Gamma Inc. v. Canada (Department of Secretary of State)*<sup>8</sup>, which deals with trade secret in the context of the *Access to Information Act*<sup>9</sup> at some length, and *Air Atonabee Ltd. v. Canada (Minister of Transport)*<sup>10</sup>, which addresses confidential information, are two leading cases. Both of the aforementioned suggest that trade secret is a question of fact which depends, to a large degree, on the intention of the parties involved in a transaction rather than primarily on the nature of the information itself. In *Atonabee*, Mackey J wrote that:

*whether information is confidential will depend upon its content, its purposes and the circumstances in which it is compiled and communicated, namely:*

that the content of the record be such that the information it contains is not available from sources otherwise accessible by the public or that could not be obtained by observation or independent study by a member of the public acting on his own,

that the information originate and be communicated in a reasonable expectation of confidence that it will not be disclosed, and

that the information be communicated, whether required by law or supplied gratuitously, in a relationship between government and the party supplying it that is either a fiduciary relationship or one that is not contrary to the public interest, and which relationship will be fostered for public benefit by confidential communication.<sup>11</sup> [emphasis added].

[18] Justice Strayer's judgment in *Gamma* expresses the frustration alluded to earlier with respect to the lack of definition for what constitutes trade secret:

The applicant appears to assert that it is the whole of the Proposal which is a "trade secret". *There is unfortunately no authoritative jurisprudence on what is a "trade secret" for the purposes of the Access to Information Act. One can, I think, conclude that in the context of subsection 20(1) trade secrets must have a reasonably narrow interpretation since one would assume that they do not overlap the other categories: in particular, they can be contrasted to "commercial . . . confidential information supplied to a government institution . . . treated consistently in a confidential manner . . ."* which is protected under

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paragraph (b). In respect of neither (a) nor (b) is there a need for any harm to be demonstrated from disclosure for it to be protected. There must be some difference between a trade secret and something which is merely "confidential" and supplied to a government institution. *I am of the view that a trade secret must be something, probably of a technical nature, which is guarded very closely and is of such peculiar value to the owner of the trade secret that harm to him would be presumed by its mere disclosure.*<sup>12</sup> [emphasis added]

[19] Shortly after the *UTSA* was adopted by the ULCC, David Vaver wrote that:

the law relating to confidential information is entirely judge-made. This has been both a virtue and a vice: the law is flexible and can be easily modified as new circumstances arise, but its basis and thus the direction in which it will likely develop are not always clear or easily predictable.<sup>13</sup>

[20] Vaver's view would seem, in part, to echo the conclusion of the Institute of Law Research and Reform (as the Alberta Law Reform Institute was then known), which wrote that "it is probably impossible to arrive at an intrinsic definition of a trade secret. The potential subject-matter is limitless."<sup>14</sup> It is nevertheless possible to outline a number of general prerequisites that are essential if trade secret protection is to be extended to a category or class of information.

[21] First, information, knowledge, or any other intangible must be secret, but absolute secrecy is not critical<sup>15</sup>; second, the information or knowledge must have some actual or future economic value; third, the information or knowledge must have a modicum of novelty; and finally, a duty of confidence, whether explicit (in a contract) or implicit (at common law), must be imposed clearly on the handling of the information or knowledge.<sup>16</sup> In reference to the process of reverse engineering, for example, Sunny Handa wrote that:

Canadian and British courts have applied three general requirements for a successful trade secret claim: (1) the information must have the necessary quality of confidence; (2) the information must have been imparted in circumstances importing an obligation of confidence (*i.e.* a "special relationship" must exist between the parties); and (3) there must be an unauthorized subsequent use of that information to the detriment of the party communicating it.<sup>17</sup>



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[22] The critical point, which bears repeating here, is that Canadian courts, and the Canadian system in general have, in the absence of a solid definition for trade secret upon which to base a judgment of the facts of any particular case, focused on the relationship as between the parties in a dispute.

[23] The glaring inconsistency with the tradition conception of trade secret, and one which the enactment of the *UTSA* would go some way to addressing, is that a focus on the intention of the parties involved in a dispute over an issue of trade secret overlooks, *by necessity*, the actual nature of the trade secret itself. The end result of what amounts to wilful blindness to the issue of property in trade secret is that, irrespective of the resolution of any particular case, the underlying nature of trade secret is never adequately dealt with in Canadian jurisprudence.

[24] A further consequence of this refusal to address the nature of trade secret is the inability of the criminal system to address the issue. Since can only exist where a property right can be established in the object stolen, trade secret's nature begs a similar question. There is, as yet, no concrete definition, interest, or right, in the trade secret beyond that of an individual "intending to keep it secret".

### **V. Trade Secret in the International Context**

[25] In addition to the influence of other common law jurisdictions on the Canadian treatment of trade secret, there is also the issue of the effect of international law. In particular, since the adoption of the *UTSA*, Canadian jurisdictions have become subject to the provisions of the *NAFTA* and *TRIPS*. Each of these agreements has a significant effect on how trade secret is, or should be, treated in the Canadian context. *NAFTA*, for example, imports the concept of 'national treatment' as between the trading partners.<sup>18</sup>

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[26] The relevant sections of the *NAFTA* are found in *Chapter 17 – Intellectual Property*. It states, in part, as follows:

Article 17.01.1 - Each Party shall provide in its territory to the nationals of another Party adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade.

Article 17.11.1 - Each Party shall provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:

- (a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;
  - (b) the information has actual or potential commercial value because it is secret; and
  - (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.
2. A Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or other similar instruments.
  3. No Party may limit the duration of protection for trade secrets, so long as the conditions in paragraph 1 exist...<sup>19</sup>

[27] The implication and consequence of national treatment as between the parties of *NAFTA* is that jurisdictions with less inherent protection for trade secret are subject to what amounts to the extraterritorial application of another nation's legal system. This paper is not intended as a critique or condemnation of the *NAFTA* in this respect, but the fact that the Canadian legal system, with its narrower, more relationship-based treatment of trade secret, may be forced to incorporate

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a more comprehensive interpretation, one that pays heed to a property-based analysis of trade secret. This is not necessarily a drawback, however, as one American author noted:

The United States has the most comprehensive trade secret protection doctrines of all three countries. The Uniform Trade Secrets Act and the Restatement of Unfair Competition have the broadest definitions of trade secrets, the broadest elements of trade secrets, and the broadest of available remedies.<sup>20</sup>

[28] Boyd also notes that the Canadian common law treatment of trade secret does not provide sufficient disincentive to the use of trade secrets since, as he writes: “the only damages might be minimal profits to them compared to potentially large lost profits to the plaintiff...The overall effect of this is to possibly stifle the transfer of innovation and technology to Canadian businesses.”<sup>21</sup> The potential for the structural – if unintended – restraint of trade and commerce is undesirable for two very good reasons: first, a regulatory framework that does not adequately protect the fruits of innovation will, by implication not foster such innovation; and second, there is the possibility that Canada, as a party to *NAFTA*, could be exposed to civil.

[29] The situation is further complicated because Canada is a signatory to *TRIPS*. The agreement, made under the auspices of the World Trade Organization (“WTO”), addresses the international protection and control of almost the complete spectrum of intellectual property rights, and includes a definition of trade secret. The definition, which appears at article 39(2), states:

39(2). Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret; and

(c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.<sup>22</sup>

[30] This text is accompanied by commentary which, while not explicitly acknowledging the idea that there is, or perhaps should be, something in the nature of property in trade secret, certainly raises the possibility:

The Agreement *does not require undisclosed information to be treated as a form of property*, but it does require that a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices.<sup>23</sup> [emphasis added].

[31] The practical consequence of these varied influences on the Canadian treatment of trade secret is that Canadian jurisdictions are faced with an uncomfortable choice. At first blush, it would appear that while Canadian law is consistent with international law, it may not be consistent with the treatment of trade secret in *NAFTA*. If such is the case, and the *status quo* is deemed insufficient for the adequate protection of trade secret in the *NAFTA*, then the reform of trade secret law, at least inasmuch as such reform would bring Canadian legal treatment into line with international law, becomes all the more desirable.

## **VI. Legislative Review**

[32] The following is a section by section review of the *UTSA* as it currently exists. In this review, I make reference to the original report of the Institute of Law Research and Reform and the federal provincial Working Party which issued the 1986 report entitled "Trade Secrets." In addition, I have used the memorandum from R.G. Hammond, of Alberta, to the delegates of the Conference dated 23 June, 1987 and incorporated as Appendix I of the 1988 Proceedings of the Conference. These last were invaluable in providing the background for the present review. Note that

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if a section of the *UTSA* does not appear in what follows is was because I felt that no changes needed to be made to the present text and further, that the issue required no specific comment.

### Section 1: Interpretation

§ 1(1) In this Act,

"Court" means [insert name of appropriate court];

"improper means" includes commercial espionage by electronic or other means;

"trade secret" means any information that

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

is not generally known in that trade or business,

has economic value because it is not generally known, and

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

[33] The wording of the *UTSA (Can.)* is structurally similar to that of the *UTSA (U.S.)* except in regards to the content of the definition 'improper means' and the inclusion of the term 'misappropriation' in the American legislation. With a view to the north American harmonization of the law of trade secret, it may be helpful to amend the 'interpretation' section so that the definitions parallel.

[34] It may also be worthwhile, in the case of a uniform definition of 'trade secret' in the Canadian context, to look to other legislation. The *Security of Information Act, R.S. C. 1985, c O-5*, defines trade secret as follows:

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(4) For the purpose of this section, "trade secret" means any information, including a formula, pattern, compilation, program, method, technique, process, negotiation position or strategy or any information contained or embodied in a product, device or mechanism 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 from not being generally known; and
- (d) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

[35] In addition to this federal definition of trade secret, the term is defined in a number of provincial statutes, most notably in relation to issues of freedom of information and protection of privacy (See, for example, the definitions of trade secret in the following: R.S.P.E.I. 1988, c. F-15.01; S.N.S. 1993, c. 5; S.N.W.T. 1994, c. 20; R.S.A. 2000, c. F-25)

[36] Further, in the context of the application of the *UTSA*, note that trade secret is also addressed in the *Access to Information Act*. R.S.C., c. A-1; the term however, is left undefined. At sections 18 and 20, it reads:

18. The head of a government institution may refuse to disclose any record requested under this Act that contains

- (a) trade secrets or financial, commercial, scientific or technical information that belongs to the Government of Canada or a government institution and has substantial value or is reasonably likely to have substantial value;

...

20. (1) Subject to this section, the head of a government institution shall refuse to disclose any record requested under this Act that contains

- (a) trade secrets of a third party;
- (b) financial, commercial, scientific or technical information that is confidential information supplied to a government institution by a third party and is treated consistently in a confidential manner by the third party;

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- (c) information the disclosure of which could reasonably be expected to result in material financial loss or gain to, or could reasonably be expected to prejudice the competitive position of, a third party; or
- (d) information the disclosure of which could reasonably be expected to interfere with contractual or other negotiations of a third party.<sup>24</sup>

[37] For the sake of uniformity across both legislation and jurisdictions, I would recommend that the *UTSA* be redrafted to eliminate § 1(2), by incorporating it into the paragraph itself.

### **Section 2: Crown is Bound**

§2 This Act binds the Crown.

[38] This section provides no particular controversy, as it stands to reason, from a policy perspective, that the Crown should be bound by the same rules as industry and commerce; this is particularly so since the Crown is an increasingly significant consumer in both the technology and knowledge-based economies.

### **Section 3: Equity and Common Law Preserved**

§3 This Act does not affect any rule of equity or of the common law by virtue of which obligations of confidence arise with respect to the acquisition, disclosure or use of confidential information.

[39] This section provides only that the *UTSA* does not interfere with existing common law or equitable causes of action, and there is no reason to recommend any change. It is interesting to note that that the American approach, that of the NCCUSL, was effectively to unify the various aspects of the protection of trade secret:

Like traditional trade secret law, the Uniform Act contains general concepts. The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of non-contractual liability utilized at common law. The Uniform Act also codifies the re-

sults of the better reasoned cases concerning the remedies for trade secret misappropriation.<sup>25</sup>

To recommend a change to this section would be a) to render any resultant uniform legislation *very* unlikely to be enacted by Canadian jurisdictions, and b) to ignore the benefit of the common law and principles of equity.

**Section 5: Knowledge acquired in course of work**

§5 Nothing in this Act is intended to impose on anyone any liability for the acquisition, disclosure or use of information acquired in the course of a persons work if the information is of such a nature that its acquisition amounts to no more than an enhancement of that persons personal knowledge, skill or expertise.
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[40] This section is, in my view, cause for concern in the context of a 21<sup>st</sup> century, information-based, knowledge-focused economy. The exclusion with respect to ‘information acquired in the course of a person’s work’ may severely limit the potential overall effectiveness of the *UTSA*. Further, given the time elapsed since the Uniform Act was proposed by the *ULCC*, and the fact that no Canadian jurisdiction has moved to enact the proposed legislation, the conclusion might be that the Canadian system is content with the *status quo* – that is, an entirely common law, judge-made, interpretation of trade secret.

[41] In addition, given provincial reticence to define more thoroughly the terms of Canadian trade secret, it seems that legislators, the judiciary, and indeed the business community are saying that “we don’t know what a trade secret is, but we recognize it when we see it.” It is useful, in the context of such a comment, closely to examine other jurisprudential sources, as well as how other Canadian legislation might have some impact on a more concrete definition of trade secret.

[42] Finally, it is not clear in the legislation as it now stands what ‘information’ means in the context of section 5. If, for example, the term information is taken to mean the same thing as the



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definition of information in section 1, then the effectiveness of the statutory tort is zero, since it is precisely this information that is of value in a knowledge-based economy. There is also very little discussion, from any source, as to what ‘personal knowledge, skill, or expertise’ implies; it is conceivable, for example, that an employer could consider a certain data set to be in the nature of a trade secret, while a departing employee could consider it to be personal knowledge. It is precisely this situation that a black-letter definition of trade secret would endeavour to preclude.

[43] It is beyond the scope of this review to address the consequential issues arising with respect to employment law. Employment law nevertheless remains an area which will have an enormous impact on the protection of trade secrets. The competing policy considerations – the protection of an employee’s right to move between jobs as against the protection of an employer’s trade secrets – create a situation which is dynamic, rather than static.

[44] As Horan and Werker wrote in 1990, there

are two competing policy considerations which the courts must attempt to balance. On the one hand, employees should be free to use their general skills and knowledge freely for themselves or for employers of their choice...On the other hand, employers should be able to protect their business assets, tangible or intangible, from being used without authorization and/or to their disadvantage...These two considerations are easily stated but difficult to reconcile on the facts of any particular case.<sup>26</sup>

They note further that “in any given factual situation, it can be difficult to find where an employee’s general knowledge ends and where the employer’s confidential information begins.”<sup>27</sup>

[45] The solution to the employer/employee issue with respect to knowledge and trade secret can, at least to some extent, be addressed in the context of an employment contract. Even this methodology has limits, however. An intangible asset – knowledge – is extremely difficult to categorize and value in the legal sense. The law has been restrained when faced with hindering employee mobility as a consequence of possession of intellectual assets:

The court will not permit an employer to restrain an employee from using the talent, skills, education, ability or general ideas that an employee takes with them to a competitor. "An employer does not own that asset, and cannot control its departure...It is only information gained during employment that is clearly confidential, not part of the corporate marketplace, that will be protected."<sup>28</sup>

[46] By contrast, where a contract of employment exists, but does not specifically address the issue of confidential information and/or trade secrets, breach of confidence is seen to apply.<sup>29</sup> To wit:

[i]n the absence of express terms, the courts will imply terms into the contract of employment in order to restrict employees, *regardless of rank*, from using trade secrets and 'highly confidential' information after the termination of their employment.<sup>30</sup>

[47] I am acutely aware that, in light of the above discussion, any recommendation to re-evaluate the legislative language will imply a detailed and comprehensive review of a number of areas of law, most of which are beyond the purview of this preliminary review. I would nevertheless humbly suggest that the re-invigoration of the *UTSA* and the resumption of efforts in promotion of provincial and territorial implementation would be well served to have a firm grasp of what the *UTSA* intends to define and protect.

### **Section 6: Improper Acquisition**

§6(1) A person entitled to the benefit of a trade secret has a right of action against any person who acquires the trade secret by improper means.

(2) A trade secret is not acquired by improper means if it is developed independently or arrived at by reverse engineering.

[48] In the eighteen years since the original drafting of the Conference's *UTSA*, law, commerce, and industry have taken large strides with respect to technology. Computerization, and the availability of data online, on the internet and through other sources, is a very real cause for con-

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cern with respect to the protection of trade secret.<sup>31</sup> It may nevertheless be a useful exercise to re-evaluate what constitutes ‘improper means’ in the context of trade secret.

### **Section 7: Unlawful disclosure or use**

§7 A person entitled to the benefit of a trade secret has a right of action against any person who discloses or uses the trade secret if the discloser or user knew or ought to have known that there was no lawful authority to disclose or use the trade secret in the manner that it was disclosed or used.

[49] As noted by the drafters, this section creates a statutory tort which covers “the situation where somebody improperly *discloses or uses* a trade secret where they do not have the “lawful authority” to do so.”<sup>32</sup> Note that the actual *utility* of this statutory tort may be minimal inasmuch as a suit under this head of damage would be akin to closing the barn door after the animals have already escaped – in effect, potentially irredeemable damage may already have been done.

[50] Despite the above, the statutory tort remains useful when taken with the *UTSA* as a whole, and can serve as a guide, particularly with respect to the construction of commercial contracts the content of which deals with trade secrets and confidential information. In contracts of employment which provide for non-disclosure and/or non-competition, for example, the existence of such a tort will be a useful guide for both employer and employee when outlining the duties and responsibilities of the parties. Similarly, in contracts such as franchise agreements or other agreements which deal with the disclosure or exchange of sensitive information, the existence of the statutory tort will guide the parties and their counsel.

### **Section 8: Court Orders**

§ 8(1) Where the Court in an action under section 6 or 7 determines that a person acquired a trade secret by improper means or has disclosed or used a trade secret without lawful authority, the Court may do any one or more of the following:  
grant an interlocutory or permanent injunction;  
award compensatory damages;

order the defendant to account to the plaintiff for any profits that have accrued, or that subsequently may accrue, to the defendant by reason or in consequence of the improper acquisition or unlawful disclosure or use of the trade secret;

award exemplary damages;

subject to subsection (3), make an adjustment order regulating the future use of the trade secret by the defendant or by both the plaintiff and the defendant;

make any other order the Court considers appropriate.

(2) The Court shall not exercise its discretion to award both compensatory damages and an account of profits in a manner that allows a plaintiff to recover twice for the same loss.

(3) An order referred to in subsection (1)(e) may include any one or more of the following:

(a) payment in a lump sum or periodic payments, to the plaintiff with respect to the future use by the defendant of the trade secret in an amount and on terms that the Court considers appropriate;

(b) contribution by the defendant to the plaintiff for expenses incurred by the plaintiff in connection with the acquisition or development of the trade secret;

(c) a determination of any incidental question relating to the extent to which both the plaintiff and the defendant may use the trade secret in the future, and the rights and liabilities of each with respect to that use.

(4) On application, the Court shall terminate an injunction if the trade secret ceases to be a trade secret but the injunction may be continued for any additional period of time and on terms that the Court considers reasonable in order to eliminate any commercial advantage that would otherwise accrue to the defendant from the improper acquisition or unlawful disclosure or use.

[51] Since many disagreements with respect to trade secret can result in rapid and severe damage to the party claiming the trade secret, it is, from a public policy perspective, important to allow the plaintiff party the ability to mitigate any further damage. As such, section 8 should remain a part of the *UTSA*. It is nevertheless important to take note of the differences as between Canadian and American treatments of damages in the area of trade secret.

[52] A significant difference between the treatment of trade secrets between Canadian and American law is the propensity for American courts (and the civil jury system) to award significant damages. In the case of trade secret, as in other areas of law, Canadian civil cases are tried

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by judge alone; the result is a scheme in which punitive/exemplary damages are far more common in the United States. While the possibility of extreme damages of this type could serve as a deterrent in future, I am unwilling to recommend a shift in Canadian judicial practice and public policy towards a more American-style system. That said, jurisprudence may yet show that such a move is required in light of Canada's international treaty obligations (i.e., *TRIPS*, *NAFTA*).

### **Section 9: Good faith acquisition, use or disclosure**

§9(1) A person who in good faith acquires, discloses or uses a trade secret and subsequently learns that a person entitled to the benefit of the trade secret has been unlawfully deprived of the benefit, or the person entitled to that benefit, may apply to the Court for a declaration of the rights of the parties.

(2) In a proceeding under subsection (1), the Court may do either or both of the following:

make an interim order to protect the interests and preserve the rights of the parties as it considers appropriate;

make an order under section 8 as if the proceeding were an action referred to in section 6 or 7.

(3) In a proceeding under subsection (1), the Court shall, in determining the rights of the parties, have regard to

the value of the consideration given by the person for the trade secret,

any change in the position of the person in reliance on or in order to use the trade secret made before discovering that the person entitled to the benefit of the trade secret had been unlawfully deprived of the benefit,

the protection granted by this Act to the person entitled to the benefit of a trade secret, and

any other matter the Court considers relevant.

[53] The authors wrote that “what section 11 endeavours to do is to enable a court to adjust the position between the parties according to the equities of the particular situation.”<sup>33</sup> The drafters were careful to note that Commonwealth courts have had considerable difficulty with this aspect of the law, since results will vary significantly depending on how the court chooses to view the nature of trade secret – either as a personal or proprietary right.

[54] A recent case, *Apotex Fermentation Inc. v. Novopharm Ltd.*, [1998] M.J. No. 297, dealt with the intermingling of trade secret law, the law of breach of confidence *and* the law of vicarious liability for the actions of another. In the case, the defendant's employee was guilty of misappropriation of trade secrets, from which the defendant benefited. An attempt was made to qualify the defendant as an innocent third party acquirer, but the *circumstances* of the case led to a ruling in favour of the plaintiff.<sup>34</sup>

[55] In view of the state of the law, and of the protections afforded to individuals and businesses by the above legal framework, I do not recommend any changes to this section – the court is permitted ample discretion to review and adjudge each case on an individual basis. Indeed, it is precisely this discretion and latitude which allows Canadian courts to deal with cases in an appropriate manner, rather than being bound by prescriptive black-letter law.

### **Section 10: Defences**

§ 10(1) In any proceedings under this Act for the unlawful disclosure or use of a trade secret, the defendant is not liable to the plaintiff if the defendant satisfies the Court

that the disclosure was required to be made to a court or tribunal pursuant to any power in that court or tribunal to order the disclosure of information, or

that, in view of the nature of the trade secret, there was, or will be, at the time of the disclosure or use a public interest involved in the disclosure or use that outweighs the upholding of the trade secret.

(2) For the purposes of subsection (1)(b), a public interest in the disclosure or use of a trade secret means the interest of the public at large in being made aware of the existence of

an offence committed under a law in force in [enacting jurisdiction] or other unlawful conduct, or a matter affecting the public health or safety,

in relation to the development, composition or use of the trade secret.

(3) For the purposes of subsection (1)(b), the Court shall have regard to all the circumstances of the case, including

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the nature of the trade secret,  
the circumstances under which the trade secret was or will be disclosed or used by the defendant,  
and  
whether the extent and nature of the disclosure or use was or will be justified.

[56] In principal, this section is both useful and appropriate. As drafted, however, it does not address consequential issues which flow from trade secret litigation. In the *Apotex* case, for example, the issue of public policy arose when the court was asked to rule on the issue of punitive damages and injunctions consequential to a contempt ruling. One can quickly see that, quite apart from the public policy issue of the defences themselves, the permutations are endless. It would, therefore, be advisable for the Conference to examine expanding the definition of ‘public interest’ to relate not simply to the improper disclosure of confidential information or trade secret, but also to behaviour, actions, or circumstances that are a direct result of that disclosure – punitive injunctions and their length, for example.

### Section 12: Assignment of Trade Secrets

§ 12 A person entitled to the benefit of a trade secret may assign a right to the trade secret, either in whole or in part, and either generally or subject to territorial limitations, and may grant an interest in the right to the trade secret by license or otherwise.

[57] As mentioned by the drafters, there has been significant judicial disagreement as to the nature of trade secret – whether it creates a personal or a proprietary right.<sup>35</sup> American courts, for example, have been willing to apply a property rights-based analysis to the issue of trade secrets. Several authors have highlighted this. Peterson points to the fact that recent definitions of trade secret:

create a somewhat indefinite line between information that is part of the public domain, and information that may be protected as a trade secret. The Restatement speaks in terms of a competitive advantage while the UTSA speaks in terms of independent economic value. In both instances, however, the advantage or value flows

from the fact that the subject matter is not generally known. *Some courts view that analysis as creating a property interest.*<sup>36</sup>

Another American writer, Jager, writes that:

In trade secret decisions, the discussion of confidential relationships or the breach of an express or implied contract is often accompanied by a discussion of whether or not the alleged trade secret is "property." Indeed, many of the earlier trade secret cases in the United States analyzed the trade secret in terms of a protectable "property right."<sup>37</sup>

[58] The recommendation with respect to this section is related more to the promotional strategy that the Conference should employ if it decides to resume promotional activities with respect to the *UTSA*. As noted, the two principal analyses are based on personal rights and property rights, and promoting the *UTSA*, which tends towards a property-based analysis, will require both a justification for that perspective and assurances that the rights of parties will not be constrained by that interpretation of the nature of trade secret. As a result, while no changes need be made in the phrasing of the present section, I would recommend to the Conference that any promotion of the *UTSA* note *very* clearly that it represents an exercise in codification rather than anything approaching restrictions on the rights and freedoms of parties.

### **Section 13: Limitation Period**

§ 13(1) Proceedings for the improper acquisition or unlawful disclosure or use of a trade secret must be commenced within 2 years after the acquisition, disclosure or use, as the case may be, is discovered or, by the exercise of reasonable diligence, ought to have been discovered.

(2) For the purposes of this section, a continuing disclosure or use constitutes a single claim.

[If a discovery rule is not desired in the particular jurisdiction, add the usual tort period for that jurisdiction, calculated from the point at which the cause of action arose.]

[Jurisdictions may wish to place section 13 in their legislation that deals with limitation of actions.]



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[59] The limitation period in the *UTSA (U.S.)* is three, rather than the two year limit defined in the *UTSA (Canada)*. Whether there is a need for change in this section depends on two factors: first, the need for redrafting will depend on the limitation periods for claims in the various provincial and territorial jurisdictions in Canada; and second, the need for redrafting will depend on the outcome of the current project of the Conference's Commercial Law Strategy which is drafting a *Uniform Limitations Act*. The latter will be submitted to the ULCC for approval and adoption in August, 2005, and will be recommended to Canadian jurisdictions following that approval.

### **VII. Conclusion**

[60] The conclusion that can be drawn from the preceding review is that the *UTSA* remains a fundamentally sound piece of legislation. If, however, the Conference determines that further promotion at the provincial and territorial level is worthwhile, the recommendations for review and consideration are clear – the *UTSA* should be ‘tweaked’ in certain areas to account for the fundamental shift in Canada’s economic engine as well as to account for advances in technology. Prior to such work, however, it will be important to ascertain the over level of interest in such a law reform project. Provincial and territorial enactment of the *UTSA* will, in my humble opinion, make sense from both a domestic and international perspective, will enhance Canada’s credibility with respect to intellectual property protection, and will make Canada more attractive from a commercial perspectives, and the Conference is perfectly placed to accomplish just such change.

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- <sup>1</sup> Uniform Trade Secrets Act (1989) (Canada), Uniform Law Conference of Canada.
- <sup>2</sup> *Restatement (First) of Torts (1939)*.
- <sup>3</sup> *Ibid.* at 757, comment (b).
- <sup>4</sup> *UTSA*, *supra* note 1 at s.1.
- <sup>5</sup> *Restatement (Third) of Unfair Competition (1995)* at section 39.
- <sup>6</sup> J. T. Ramsay, *Ramsay on Technology Transfers and Licensing* (2d) (Toronto: Butterworths, 2002) at 146.
- <sup>7</sup> *Electro-Craft Corporation v. Controlled Motion, Inc.*, 332 N.W.2d 890 Sup Ct. Minn. At 897. See also *Kodekey Electronics, Inc. v. Mechanex Corp.*, 486 F.2d 449 (U.S. Ct. App. 10<sup>th</sup> Cir. 1973)
- <sup>8</sup> *Société Gamma Inc. v. Canada (Department of Secretary of State)* [1994] F.C.J. No. 589.
- <sup>9</sup> *Access to Information Act, R.S.C.*, c. A-1.
- <sup>10</sup> *Air Atonabee Ltd. v. Canada (Minister of Transport)*, [1989] F.C.J. No. 453, (1989) 27 C.P.R. (3d) 180.
- <sup>11</sup> *Ibid.* at 202. See also *Montana Band of Indians v. Canada (Minister of Indian and Northern Affairs)*, (1988) 26 C.P.R. (3d) 68 (F.C.T.D.).
- <sup>12</sup> *Supra* note 10 at para. 7.
- <sup>13</sup> D. Vaver, “What is a Trade Secret?” in R.T. Hughes, ed., *Trade Secrets* (Toronto: The Law Society of Upper Canada, 1990) at 4 [hereinafter *Trade Secrets*].
- <sup>14</sup> Institute of Law Research and Reform (Alberta), *Trade Secrets*, Report No. 46 (1986) at 157.
- <sup>15</sup> Logically, absolute secrecy is: a) almost an impossibility; and b) practically untenable, given the restrictions that such a rule would place on business transactions.
- <sup>16</sup> *Supra* note 6 at 147 *et seq.*
- <sup>17</sup> S. Handa, “Reverse engineering computer programs under Canadian copyright law” (1995) 40 McGill L.J. 621 at 648.
- <sup>18</sup> W. Patry, “Choice of Law and International Copyright” (2000) 48 Am. J. Comp. L. 383.
- <sup>19</sup> *North American Free Trade Agreement*, Arts. 17.01 and 17.11 [hereinafter *NAFTA*].
- <sup>20</sup> D.L. Boyd, “Trade Secret Doctrines of the NAFTA Countries: The sources of law, the remedies available, and suggestions for improvement” (1997) 14 Ariz. J. Int'l & Comp. Law 879 at 903.
- <sup>21</sup> *Ibid.* at 911.
- <sup>22</sup> *The Agreement on Trade-related Aspects of Intellectual Property Rights* (1995), WTO, article 39(2) [hereinafter *TRIPS*].
- <sup>23</sup> *Ibid.*, Commentary, online at: [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm).

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<sup>24</sup> *Access to Information Act*, R.S.C., c. A-1, ss. 18 & 20.

<sup>25</sup> *Uniform Trade Secrets Act*, National Conference of Commissioners on Uniform State Laws, online, at : <http://www.law.upenn.edu/bll/ulc/fnact99/1980s/utsa85.pdf> (accessed, 1 February, 2005).

<sup>26</sup> M.G. Horan & I.D. Werker, “Trade Secrets, Confidential Information and the Employment Relationship”, in *Trade Secrets*, *supra* note 13 at 76.

<sup>27</sup> *Ibid.* at 78.

<sup>28</sup> M. Conrod, “Who owns what an employee knows? How employers can safeguard intellectual assets” *The Employers Weekly*, March 10, 1995, (14:41).

<sup>29</sup> See, for example, *Canadian Aero Service Ltd. v. O’Malley*, [1974] 40 D.L.R. (3d) 371 at 381 (S.C.C.), *Faccenda Chicken Ltd. v. Fowler*, [1986] 1 All. E.R. 617 at 626 (C.A.), *Monarch Messenger Services Ltd. v. Houlding*, (1984) 2 C.P.R. (3d) 235 (Alta. Q.B.), *Computer Workshops Ltd. v. Banner Capital Market Brokers Ltd.*, (1988) 21 C.P.R. (3d) 116 (Ont. H.C.).

<sup>30</sup> *Supra* note 26 at 82.

<sup>31</sup> See, for example, A. Beckerman-Rodau, “Trade Secrets - The New Risks to Trade Secrets Posed by Computerization” (2002) 28 *Rutgers Computer & Tech. L.J.* 227.

<sup>32</sup> Proceedings of the Sixty-ninth Annual Meeting, Uniform Law Conference of Canada (1987) at 324.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Apotex Fermentation Inc. v. Novopharm Ltd.* [1998] M.J. No. 297.

<sup>35</sup> See, for example, *Napier Environmental Technologies Inc. v. Vitomir*, 2002 B.C.S.C. 1026.

<sup>36</sup> G.R. Peterson, “Trade Secrets in an Information Age” (1995) 32 *Hous. L. Rev.* 385 at 390 [emphasis added].

<sup>37</sup> M.F. Jager, *Trade Secrets Law* at section 4.3 (Westlaw Database TRDSECRET).