

UNIFORM LAW CONFERENCE OF CANADA

CIVIL LAW SECTION

**SUPPLEMENTARY REPORT ON THE REVIEW OF THE
UNIFORM TRADE SECRETS ACT**

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1. Background

[1] At the Annual Meeting of the Uniform Law Conference of Canada (the “Conference” or the “ULCC”) in August 2005, there was a presentation by Clark Dalton of a Paper prepared by Tony Hoffmann entitled “*A Review of the Uniform Trade Secrets Act*” (the “Hoffmann Report”). Although Mr. Hoffmann was not present at the meeting, he did attend by a teleconference hook up.

[2] As noted in the Hoffmann Report, the *Uniform Trade Secrets Act* (the “UTSA” or “UTSA (Can)” as is necessary in the context) was initially approved and recommended for enactment to Canadian jurisdictions by the Conference in 1987. It has yet to be enacted by a single jurisdiction in Canada. 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 ULCC first asked Mr. Hoffmann to present a concise review of the current state of the law; second, 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.

[3] The Hoffmann Report concluded that the Act is no less valuable a tool today than it was in 1989 when it was first adopted by the Conference. The Report, as requested by the Conference, reviewed the origins of trade secrets, then proceeded to review the concept of trade secret in the Canadian context and finally considered the concept in the International context. The Report then went on to explore the UTSA section by section and provided recommendations on each.

[4] After the presentation and consideration of the Report by the Conference Delegates, it was resolved by the Delegates that a review of the UTSA be undertaken and a Report with recommendations be prepared for consideration at the 2006 meeting. This Report is in response to that Resolution particularly with respect to the Recommendations made regarding the legislation.

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[5] My conclusion is that there is no need to make any revisions to the UTSA, except with perhaps to the Notes to Section 13 on the Limitation of Actions.

2. Recommendations in the Hoffmann Report

[6] The text of the UTSA together with the relevant comments contained in the Hoffmann Report is, for convenience, provided as Appendix “A”. Only a few of these require comment as generally no change was recommend to provisions of the Act.

[7] However, one point that is alluded to in the Hoffmann Report is that the National Conference of Commissioners on Uniform State Laws, Uniform Trade Secrets Act (the “UTSA (US)”), differs from the UTSA (Can) in that the American legislation focuses on the “property rights” in trade secrets rather than on the existence of a confidential relationship. The Hoffmann Report seems to take the view that by focussing on the intention of the parties, the nature of a trade secret is overlooked. As such the underlying nature of a trade secret is never adequately dealt with in Canadian jurisprudence. It goes on to note that a further consequence is the inability of the criminal system to address the issue since in the context of theft, only a property interest can be stolen.

[8] No recommendation is made in this context, other than referring to the issues. I do not propose to make any recommendations either on this point because to me the UTSA (Can) as formulated can achieve the same results as the UTSA (US) without having to address the issue whether information is property.¹ Since the issue goes beyond just Trade Secrets, it would not be appropriate to deal with this issue only in this context. The issue requires a much broader analysis which, I submit, is beyond the scope of this Project.

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Review of the Provisions of the Uniform Act

Definitions

[9] In the review of the Definition Section, section 1, the Hoffmann Report makes three comments. The first is that the wordings of the definitions are similar between the UTSA (Can.) and the UTSA (U.S.) except with regards to the definition of improper means and that the UTSA (U.S.) contains a definition of “misappropriation” which incorporates the concept of misappropriation by “improper means”. It is concluded that with a view to harmonization it might be helpful to amend the UTSA (Can.) to make the definitions parallel.

[10] One of the difficulties with this approach is that the UTSA (US) is, as indicated in the Hoffmann Report, focussed upon the property rights in trade secrets. In that context it may be appropriate to use property based concepts like “misappropriation”, however, in Canada there is no need to do so. For the purposes of our legislation where we don’t consider yet, information to be property, we simply need only talk about the acquisition, disclosure or use of a trade secret without having to get into the whole notion of whether trade secrets are property or not. As such there is no need to talk about “misappropriation” at all in the statute.

[11] As to the definition of “improper means”, if one looks at Appendix “A”, one will find an “inclusive definition” in the UTSA (Can) which sets out only one example of what the phrase means: commercial espionage. The UTSA (US) has a much longer shopping list of examples. The choice here is whether to expand the list or not. My inclination is to recommend that the definition in the UTSA (Can) remain as it is until there is some experience with it in practice. It allows the courts the maximum flexibility and is not something that the courts are unfamiliar with. This issue also comes up in the Hoffmann Report Comment on Section 6, and in my view, the answer remains the same on this point.

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[12] In summary, because of the above analysis, I would be inclined to recommend no changes to the UTSA on these points.

[13] The point is also made that it might be worthwhile with respect to a uniform definition of “trade secret” to look at other legislation in the Canadian context. The *Security of Information Act*, R.S.C. 1985, c. O-5 is mentioned, as is the definition in freedom of information legislation across the country. To the extent it is relevant, the Alberta legislation, for example, and those that follow it, contains the same definition as the UTSA.² This was done with a view to someday having the two pieces of legislation mesh together. The federal definition in the *Security of Information Act*, R.S.C. 1985, c. O-5 is also very similar. As such, I would also be inclined not to make any changes here at this time.

[14] The final point here is really a drafting point. The UTSA has a definition of “trade secret” that means any “information” etc.. Subsection (2) states that for the purposes of the definition of “trade secret”, “information” includes etc.. The Hoffmann Report suggests that for the sake of uniformity that the UTSA be redrafted to eliminate subsection (2) and incorporate it into subsection (1). I would recommend against this approach. In this section, what the drafters are trying to do is create a definition and then define one of the terms in the first definition: a definition within a definition. The structure of the definitions as they now stand, it is submitted, is the appropriate way to deal with this kind of drafting issue in order to avoid an overly wordy and complicated definition.

Knowledge Acquired in the course of work – Section 5

[15] This section provides that there is no liability on anyone for the acquisition, disclosure or use of information acquired in the course of a person’s work, if the information is no more than “an enhancement of that person’s personal knowledge, skill or expertise.” The Hoffmann Report suggests that re-invigoration of the Act and the resumption of efforts to promote implementation in the provinces and Territories would be well served by having a firm grip on what the UTSA intends to protect.

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[16] Although one can appreciate this concern, the problem here is that it may be difficult to make the distinction between the improper acquisition, disclosure or use of trade secrets by a person, such as a former employee, and the reliance by that person on skill, expertise and knowledge acquired during ones employment or other exposure to a trade secret. Geoffrey England in his work, *Employment Law in Canada* puts it this way:

“Perhaps the most difficult distinction is between the improper use of trade secrets and other confidential information by a former employee and the quite proper reliance on skill, expertise and knowledge acquired in the course of his or her previous employment. Indeed employees regularly accept particular jobs precisely because they want to acquire certain skills, expertise and knowledge that they hope will increase their marketability with future employers and the courts will respect this practice.”³

[17] Cited as an example indicating the spirit by which the courts make this distinction is *Genesta Manufacturing v. Babey* where there was a claim for an injunction and damages for the use by a former employee in the manufacturing of lighting profiles by a certain method. The Court held that the certain method could not be regarded as a trade secret since the machinery and materials involved in it were known and readily available to competitors, notwithstanding that the former employee had acquired a special expertise in using the method while with the firm.

[18] A similar result occurred in *32262 B.C. Ltd. v. Pacific Sign and Design Ltd. et al*, where the issue concerned former employees from the plaintiff company working on the design of signs for the Defendant company. Here the court said:

“While the plaintiff had developed efficient ways to design and construct signs, these did not amount to confidential information. There were no “trade secrets” appropriated by the applicants. Rather they were trained employees who came, through experience, to recognize how their jobs could be done most efficiently. The evidence falls far short of establishing that they possessed secret information in which the plaintiff holds property rights. Rather they have,

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through experience, simply developed expertise of a non-proprietary nature in the sign industry.”⁴

[19] My assessment based on these cases and the excerpt from England’s work is that the courts are well able to deal with these kinds of situations and that probably it would best to leave the section as it now stands, not define it further and have the courts continue to decide each case on its own merits.

Defences – Section 10

[20] The Hoffmann Report indicates that the section is both useful and appropriate but indicates that it does not address the consequential issues that flow from trade secret litigation. It urges the Conference to:

“examine expanding the definition of ‘public interest’ to relate, not simply to the improper disclosure of confidential information or trade secrets, but to the behaviour, actions or circumstances that are a direct result of that disclosure - punitive damages and their length, for example.”⁵

[21] It is not entirely clear what is meant by this observation. The phrase “public interest” is used in section 10 to allow a court to find that a defendant is not liable to a plaintiff where there is unlawful use or disclosure of a trade secret where there was a “public interest” in the disclosure or use, such as when there has been an offence committed or where there is a matter affecting public health and safety. This approach very much parallels the Public Interest Override Exception in freedom of information and protection of privacy legislation that allows a public body, notwithstanding a prohibition on disclosure or use, to do so in the “public interest”.⁶

[22] The section is not about orders a court can make. These are contained in section 8. In that section, a court, where there is acquisition of a trade secret by improper means and where there is no lawful authority to use or disclose a trade secret, may do any one or more of a number actions, including

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the granting of an interlocutory or permanent injunction an award of exemplary damages. It seems to me the point is covered in section 9 already, unless I have missed something. That being the case, I would therefore recommend no changes to either section 9 or section 10.

The Limitation Period – Section 13

[23] The final point concerns the limitation period for an action under the Act. The Hoffmann Report notes that there is a 2 year limitation period for an improper acquisition or unlawful disclosure or use under the UTSA (Can), whereas there is a 3 year period for such actions under the UTSA (US). The UTSA (Can) section contains a note in parentheses that if a discovery rule is not desired in a particular jurisdiction, then the usual tort period for that jurisdiction is to be calculated from the point at which the cause of action arose. The section also has a further note in parentheses that indicates that jurisdictions may wish to place this section in their legislation that deals with limitation of actions.

[24] The Hoffmann Report indicates that whether there is a need for change to this section depends on the limitation periods for various claims in the provinces and territories and the outcome of the project on limitations to be considered by the Conference in 2005.

[25] As to the first note under this section, although the section itself anticipated a discovery period, it pre-dated the formulation of the discovery rule as a general rule of construction in tort actions at least. In *Peixeiro v. Haberman*, [1997] 3 S.C.R. 549 Mr Justice Major for the Supreme Court of Canada stated at paragraph 36:

“Since this Court's decisions in *Kamloops (City of) v. Nielsen*, 1984 CanLII 21 (S.C.C.), [1984] 2 S.C.R. 2, and *Central Trust Co. v. Rafuse*, 1986 CanLII 29 (S.C.C.), [1986] 2 S.C.R. 147, at p. 224, discoverability is a general rule applied to avoid the injustice of precluding an action before the person is able to raise it, discoverability is a general rule applied to avoid the injustice of precluding an action before the person is able to raise it.”⁷

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[26] As such I think the first note should be deleted. As to the second note, given the acceptance of the new Uniform Limitations Act last August, but acknowledging that not all jurisdictions will have adopted that Act, I would recommend that the note should be modified to the extent that where the Uniform Limitations Act has been adopted in a jurisdiction this section should be deleted, but in those jurisdictions where it has not yet been adopted the Uniform Limitations Act, this section should remain. As to the first part of this note, as the UTSA creates statutory torts, I can see no reason why the normal rules under the Model Act for limitations should not apply. As to the second part of the note, it seems to me more appropriate to retain the section with a parallel limitation period to the Uniform Act and to reflect the general rule of construction as enunciated by the Supreme Court.

Conclusions

[27] I, like the Hoffmann Report, conclude that that the Act is no less valuable a tool today than it was in 1989 when it was first adopted by the Conference. Further, other than the suggestion for changes to the notes associated with section 13, I would not recommend any changes to the text of the Act as explained above.

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¹ See also:

Cadbury Schweppes Inc. v. FBI Foods Ltd., [1999] 1 S.C.R. 142, where Binnie J., for the Court, noted at paragraph 41 that: “The Respondents’ characterization of confidential information as property is controversial. Traditionally, courts here and in other common law jurisdictions have been at pains to emphasize that the action is rooted in the relationship of confidence rather than the legal characteristics of the information confided;

R v. Stewart, [1988] 1 S.C.R. 963, paragraphs 23 to 33.; and

The discussion on this issue in Report No. 46, Trade Secrets, July 1986, Alberta Institute of Law Research and Reform (Alberta Law Reform Institute).

² Freedom of Information and Protection of Privacy Act, c. F-25, s 1(s).

³ *Employment Law in Canada* (3rd), vol 2, Butterworths, Geoffrey England, Roderick Wood, Para 111.143, p. 11.83.

⁴ (2003), BCSC 1724 (Can LII), para 27.

⁵ See Appendix A.

⁶ See for example, *supra* footnote 2, s. 32.

⁷ *Peixeiro v. Haberman*, [1997] 3 S.C.R. 549, 1997 CanLII 325 (S.C.C.), para 36