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"Commercial and Trade Secrets: The Relationship of Employer and Employee"

by

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Preface:

I have been asked to address the civil aspects of so-called trade secrets together with issues concerning ownership of technological innovation, knowledge and "know how" in the relationship between employer, employee or consultant and subsequent employer. Specific attention is to be given to the recent cases of Corona v. Lac Minerals[1], Lake Mechanical[2] and Computer Workshops.[3] The Lac Minerals case has been appealed to the Supreme Court of Canada. Argument has been heard[4] and the judgment awaited at the time of writing this paper (June 1989). Should the judgment and reasons become available prior to the conference, I will prepare a supplemental paper.

Introduction:

The expression "trade secrets" is not yet accepted in Commonwealth jurisdictions as a term of art. It has, however, received substantially greater recognition as such in the United States, especially after its inclusion in the 1939 first Torts Restatement (s. 757).[5] The definition and comments given in the Restatement are today described as the "almost universal starting point" for any judicial analysis of the topic in the United States.[6] In addition, in 1979 the National Conference of Commissioners on Uniform State Laws further regularized the expression in the promulgation of a Uniform Trade Secrets Act[7] which has subsequently been accepted and enacted in a number of States.[8] A major Canadian law reform initiative has similarly utilized the expression and has recommended federal and provincial legislative intervention both criminal (by inclusions within the Criminal Code) and civil (by a "Trade Secrets Protection Act") to regulate this area.[9] A statutory tort has been recommended in the United Kingdom.[10]

In the meantime Canadian and other Commonwealth jurisdictions continue to deal with trade secrets and the interests of employers, employees or consultants and subsequent employers in this context, by application of the following broad causes of action:

(1) **Breach of Confidence**: This encompasses a multitude of relationships in which an obligation of confidence has been found to exist. They range from confidences between spouses to military and security secrets of government. In between are the commercial or business secrets described as trade secrets. Today the proceeding for breach of confidence is accepted to be a distinct and independent cause of action, despite some continuing uncertainty as to its juridical basis.[11]

(ii) **Breach of Fiduciary Duty**: Circumstances giving rise to this obligation extend beyond situations involving confidential information, but any fiduciary relationship involving such any information would almost certainly require that it be kept in confidence by the fiduciary as part of that obligation. This is quite independent of any obligation founded upon a cause of breach of confidence. The interrelationship between these causes is considered later in this paper. A fiduciary obligation can extend to certain relationships of employment or consultancy with respect to technology, innovation and "know how".

(iii) **Breach of Contract**: Trade or commercial secrets may be regulated by an express or implied obligation of confidence in a contract between the parties. If it is not provided for expressly a court will imply this requirement to an extent similar to that imposed by equity as a breach of confidence. There is some confusion as to whether the true basis of any such intervention is implied contract or imposed equity. Differences might follow with respect to the nature of available remedies and the position of third parties.

(iv) **A Special Right of the Crown?**: Recent English authority has acknowledged the existence, independent of contract or of statute, of a "special right" exercisable by the Crown "as the embodiment of the nation as a whole" to maintain, at least in matters of national security, confidentiality arising out of the nature of the particular information and the consequence of its disclosure.[12] Presumably this is a prerogative power. It is not directly relevant in the context of this paper.

Intellectual Property: A Distinct Juridical Basis for Trade Secrets

The expression "intellectual property" is today's nomenclature covering the miscellany of sources of law protecting various applications of ideas or information that emanate from the human mind.[13] In each case it is the incorporeal or intangible value that is protected. Each has its own particular attributes and requirements that must be established to effect protection. The most well known example is copyright protecting "literary, dramatic, musical and artistic work(s)" and forming the most obvious link to a product of the human intellect. Other categories, often referred to as "industrial property" because of their paramount usage in the industrial process, include patents, industrial designs and registered trademarks. In Canada these four sources are federal in jurisdiction and statutory in application.

In addition, intellectual property is taken to encompass two broad sources from provincial jurisdiction, being common law and equity within the common law provinces. These are first, unfair competition as reflected in torts such as passing off, injurious falsehood and appropriation of personality; and secondly, the topic of present concern - trade secrets reflected in the causes set out in the previous section.

To classify trade secret protection as "proprietary" and within the concept of intellectual property is perhaps presumptuous as there is continuing judicial divergence as to whether breach of confidence (outside of exclusively contract) is predicated upon a proprietary theory or simply an obligation of conscience arising from circumstances which equity will recognize. The different perspectives are set out in a recent case as:

> "the duty of confidence which an employee or ex employee may owe to a private employer ... is founded on the need to protect some proprietary interest ... the goodwill of the business" (per Dillon L.J.)
>
> and
>
> "[adopting dicta of the High Court of Australia - breach of confidence] does not lie in proprietary right. It lies in the notion of an obligation of conscience arising from the circumstances" (per Bingham L.J.).[14]

The choice between these perspectives has not yet received serious attention by Canadian courts and the diversity of approach to reaching a solution in particular cases would support a conclusion by Sookman that probably the latter is the norm,[15] but by default.

Debate over labels is unhelpful. The crucial question to ask should be what is nature of the protection afforded and the nature of the remedies provided? Do these differ from those applicable to property? It will be seen that this is largely affirmative. The thrust of trade secret law is to provide exclusivity of use, enjoyment and exploitation to the holder howsoever that protection is described. What may initially be merely a personal obligation between two parties evolves to enjoy protection against third parties. The process is described perceptively by Browne-Wilkinson V.C.

> [The] duty as between confidant and confider, as in many other spheres, will be specifically enforceable in equity. The personal obligation as between the two original parties may, therefore, give rise to a property right, i.e. an equitable interest in the property in relation to which the duty exists. That would apply whether the property was tangible or intangible. The equitable interest of the confider in the confidential

> information would, in accordance with ordinary equitable principles, be enforceable against the whole world save the bona fide purchaser for value without notice of the confider's rights to confidentiality. So far as I can see, such a formulation covers all the cases to which I have been referred.[16]

This accurate description of the process of protection involved, if not "proprietary" is certainly property's identical twin. Why then is the label not more acceptable in a civil liability context?[17] A short answer is that the breadth and diversity of application of the principle and the relatively fleeting duration of the subject matters (only while they are kept secret) does not conform with the relatively more defined and stable subjects that are traditionally accepted as property.[18] Furthermore, we are not comfortable linguistically in referring to spousal or confessional or military or intelligence secrets as property. However, it is suggested that all of these points can be answered, especially if our law were to recognize trade secrets as distinct and independent of the other situations of confidence. Support for this might be found from the more categorized focus in this respect in the United States. It would also be closer to traditional methods of judicial analysis. In this respect Cornish in a United Kingdom context notes the breadth of the principles currently invoked with respect to breach of confidence and finds it to:

> [run] counter to the judges' traditional reluctance to adopt broad propositions as ground rules for the imposition of liability, and [the judges] are now having to face some of the difficulties inherent in their unusual course.[19]

Breach of Confidence:

(i) **History**:

The historical source of trade secret law in both the Commonwealth and the United States can be traced to decisions of the English Court of Chancery beginning in the mid 18th century and certainly by the early 19th century.[20] They were part of a general milieu during the formative years of related causes that we now know as common law copyright, passing off, trade mark infringement and cases focused upon use of others' names as well as breach of confidence. Jager, an American commentator, has isolated three early English Chancery cases as the beginning of trade secret law.[21] He subsequently traces early American counterparts.[22] As noted earlier, American law has subsequently focused predominately upon tort law as the juridical basis for trade secret law.[23] Canadian and Commonwealth law has retained the basis in equity, although with some divergence

as to whether (apart from contract) the juridical basis is proprietary or just generally equitable.

(ii) **Modern Basis: The Lac Minerals Case**:

It is useful to set out the modern approach in the context of Lac Minerals, the most recent major Canadian case on the question of confidence.

Lac Minerals did not involve an employer/employee setting. The parties were found to be seriously negotiating a joint business venture. The plaintiff, Corona, owned mining rights on a piece of land in northern Ontario. It had been carrying out certain gold mining exploration on the land and making regular public reports to attract investment to fund exploration. The geologist considered the exploration program should be extended to neighbouring properties, particularly an adjoining property owned by Williams.

Crucial findings of fact were:

1. There was no contract between the parties;[24]

2. Representatives of the defendant, Lac Minerals, approached the plaintiff, Corona, on a basis constituting a mutual understanding of serious negotiations toward a joint venture between the two;[25]

3. There existed custom or usage in the mining industry at the time of the negotiations imposing an obligation of confidence upon one party who receives confidential information imparted in the circumstances set out above, not to use the information to the detriment of the confider;[26] and

4. The plaintiff, Corona, disclosed to the defendant, Lac Minerals, information beyond that available to the public-essentially the drilling samples, the core from the samples, the drill plan and the drilling sections together with knowledge of the intent of Corona to acquire the Williams' property because of the pattern of mineralization toward that property.[27]

Acting unilaterally Lac Minerals acquired for itself the Williams' property. The Court of Appeal focused upon confidential information within the context of a fiduciary obligation. It noted that breach of confidence and breach of fiduciary duty are distinct causes but may co-exist. Any fiduciary relationship involving confidential information would likely always involve a right to confidentiality.[28] At trial, R.E. Holland J. gave more specific attention to breach of confidence. Applying the post war seminal cases from the United Kingdom[29] he set out the now classic requirements of:

1. The information must have the quality of confidence;

2. The information must be imparted in circumstances in which an obligation of confidence arises; and

3. There must be an unauthorized use of the information to the detriment of the plaintiff.[30]

In each case the burden is on the plaintiff to establish the requirement. Only requirement number 1 was in serious issue in the case.

(iii) The Quality of Confidence:

Practically all requirements as to what will constitute a quality of confidence flow from the overriding requirement that the subject matter of the confidence must not already be in the public domain. The substance of the subject matter may be "simple", it need not be "novel" in the sense required for patent protection, but it must have sufficient originality to be private and not widely known.[31] It must, however, be more than "trivial tittle-tattle", such as the "pernicious nonsense" of the allegedly confidential teachings of the Church of Scientology.[32] The requirement that the subject matter not be public means that it must be inaccessible. This applies equally to a subject matter that subsequently enters the public domain, especially if published by the confider himself. However, the following special situations need to be noted:

(a) The "springboard" principle: Even if some or, perhaps, all of the information is public, if a confidant is enabled by information provided by a confider to gain an advantage that he would not have had if he had to check only public sources, he will still be liable for breach of confidence despite the public disclosure. This reflects an obligation to pay for the advantage gained from the "convenient" confidential source, or the head start that the disclosure had given him over other members of the public. The seminal authority on this point is Terrapin Ltd. v. Builders' Supply Co. (Hayes) Ltd. providing us with the now classic dictum that the:

> Springboard ... remains even when all the features have been published or can be ascertained by actual inspection by any member of the public.[33]

In this case various brochures setting out the components of various units for prefabricated portable buildings were published widely. A member of the public could either build the units from the brochures or from the units by means of reverse engineering. However, if someone had the actual plans, specifications and knowhow of the originator he would certainly have a "head start" over other members

of the public. A select customer mailing list may well be an example of this situation. Customer lists can be developed by any member of the public from public sources, but a very real head start is gained by simply using an already established customer list disclosed in confidence.

The conceptual difficulties with this principle are analyzed superbly by Gurry in his 1984 treatise.[34] He argues convincingly that what is really protected is the original process of mind from persons who wish to use the information which has been disclosed to them without spending "the time, trouble, and expense of going through the same process".[35] He reconciles the springboard principle with the overriding principle denying confidence in information in the public domain, by describing the springboard as a measure of the scope and duration of the obligation enforcing good faith upon a confidant while the rest of the world catches up. The secrecy he describes as really meaning relative secrecy.[36]

Naturally, this situation is of the greatest importance when information is partly private and partly public.[37] The latter was the situation in Lac Minerals and is reflected in the enquiry by R.E. Holland J. as to whether the site visit and information provided to the defendants were of "assistance" to them particularly with respect to the adjoining Williams' property. The defendant's interest in the Williams' property was found to have been alerted or triggered or given a leg up in a way that it could not have been had their geologists simply examined the public documentation that was available.[38] The Court of Appeal found similarly comparing the defendant's somewhat nonchalant attitude prior to the site visit, with its "vigorous staking program" immediately after the visit.[39]

A refinement of the springboard principle was important in the Lake Mechanical[40] case, which I have been asked also to give particular attention. The plaintiff had employed the defendant as its director and secretary-treasurer. The defendant assisted in the design and modification of a computer program for various accounting functions, particularly a cost accounting system. The defendant copied the program and after leaving the employment of the plaintiff, set up his own business using the program. The information was held to be confidential.[41] A fiduciary duty was found to exist between the parties and a remedy for unjust enrichment adopted.[42] The information was only partly private. Considerable public knowledge was put into the system as well as the defendant's own skills from his general accounting and business knowledge. The situation was therefore similar to that of the springboard principle in the sense that there was an apportionment of

contribution. Locke J. awarded only equitable damages on a tortious basis representing the worth of the confidential information.[43]

(b) What type of information is covered?: In addition to not being in the public domain the information to be confidential must:

(i) Be reasonably believed by the owner to be information the release of which would be injurious to him or of advantage to his rivals or others; and

(ii) Information judged to be confidential in the light of the usage and practices of the particular industry.[44]

Locke J. in Lake Mechanical adopted the following description of potential situations of confidences in a context of commercial or trade secrets:

> It may include painstakingly prepared computer programme pertaining to all aspects of the firm's business; meticulously indexed lists of suppliers with comments as to their efficiency, reliability and time required for delivery; laboriously compiled lists of customers and their needs; instructions as to manufacturing processes learned from months of experimentation and trial; lists of employees, including reference to their physical well being and disciplinary history that may be required to be kept confidential in compliance with the terms of a collective bargaining agreement. For many businessmen their confidential lists may well be the most valuable asset of their company.[45]

The American Restatement provides the following abstracted definition:

> 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.[46]

(c) Disclosure by the Confidant or a Third Party:

Public disclosure by the confider (owner) ordinarily will destroy the confidence if it is sufficiently public.[47] Less clear is the position with respect to disclosure by the confidant (employee) or some third party.

An engineer had worked for a company for eight months designing couplings for pipes installed on oil rigs. Upon ceasing this employer the engineer set up his own company in the same business. The defendant engineer disclosed the couplings in a patent application and in a marketing brochure. He claimed that (by his actions) the information was now public. The plaintiff employer argued that the defendant could not benefit from his own wrongdoing. The particular concern was whether an injunction should issue. There was no difficulty with damages.

The English Court of Appeal had to balance the fairness to the plaintiff vis-a-vis the defendant, with the reality of a confidence being lost by public exposure. An injunction issued, but the court examined the consequences of the disclosure upon

the market. If too many competitors had taken advantage of the disclosure it would have been of no consequence to enjoin the defendant. However, if only the plaintiff and the defendant were competing the defendant could enjoin him from continuing.[48] The position was considered to be the same with respect to disclosure by a third party.[49]

In Spycatcher No. 2 this principle was largely accepted, but Lord Goff was vigorous in his opposition, denying with respect to disclosure by a third party or the confidant himself

> "any general principle that, if it is a third party [or the confidant himself] who puts the confidential information into the public domain, as opposed to the confider, the confidant will not be released from his duty of confidence."[50]

He preferred to rely upon monetary remedies such as damages or accounts of profits.[51] Lord Griffiths while expressly recognizing the general principle that Lord Goff denied, did note with respect to its application to both State secrets and commercial or trade secrets that:

> "The courts have to evolve practical rules and once the confidential information has escaped into the public domain it is not practical to attempt to restrain everyone with access to the knowledge from making use of it. That is not, however, to say that the original confidant may not be restrained or even a third party in the direct chain from the confidant. Each case will depend on its own facts..."[52] (emphasis added)

It is quite apparent from the speeches in the House of Lords that should Wright ever attempt to publish his work in the United Kingdom he would be restrained, despite the wide publicity. Lords Brightman and Griffiths saw the injunction as part of a prevention of unjust enrichment.[53] Lord Jauncey would also enjoin Wright to prevent him from discharging himself by means of his own breach of duty.[54] Lord Keith left the issue open, noting that the only basis for such restraint would be that no one should gain from his own wrongdoing or upon the general ground of "lessening the temptation" for others.[55]

(d) Information or knowledge Must be "Objective" or "Identifiable"

Earlier this paper noted in the context of the springboard principle an apportionment of contribution between private and public sources of knowledge and information. The public aspect was the general knowledge with respect to cost accounting systems and the defendant's own accounting and business skills. Locke J. in Lake Mechanical apportioned damages.[56] It is an example of the problem of determining what belongs to the employer as a secret and what belongs to the

employee because of its accessibility outside of the employer. This problem arises similarly in the context of determining what portion of an employee's knowledge, skill and knowhow gained during his employment can be regarded as his and which he can use for his own purposes or for the benefit of another employer; as opposed to that portion of his knowledge and experience that he must regard as belonging to his employer and which must be held in confidence for his employer's benefit.

Canadian courts have adopted an "objective knowledge"/"subjective knowledge" dichotomy. The former is the secret knowledge belonging to the employer. The latter is available for the employee to use for his own purposes.[57] A similar approach is taken in the United States[58] and the United Kingdom.[59] As always some items will be obvious. Unique secret recipes (e.g., the Coca Cola or Angostura Bitter forumulae)[60] will likely be protected, even against an employee who may have created such a formula in the course of his employment. All investment and facilities will have been provided by the employer and the risk borne by him. On the other hand, information and skills provided an employee through a professional degree will obviously not be taken from the employee. In between, at what point does an employee's education and experience as enhanced by the tasks in his workplace become sufficienty linked with the employer as to be part of his business goodwill? There is no short answer but the following factors, drawn from a variety of sources,[61] present some focus:

(1) Is the object an item, or process or information that is discrete from the general "knowhow" (i.e. the practical knowledge of how to do something") of the employee?

(2) Is the object capable of being identified with precision so as to have a recognizable identity apart from the general body of knowledge of the discipline?[62]

(3) Is the object so detailed (measurements, formulae, etc.) that ordinarily it would not be something that an employee would commit to his memory as part of the knowledge of the discipline?[63]

(4) How much of the object consists of information learned, or "knowhow" gained, from "in house" sources not in the public domain or available to rival traders?[64]

(5) How closely does the ex employee's object replicate in structure and operation the object of the former employer?

(6) Did the ex employee take or copy any documentation with respect to the object from the former employer?[65]

(7) Is the object recognized in the employer's firm, or in the industry, or in the community as an item of secrecy (e.g., the Coca Cola formula is widely known in this respect) with deliberate steps being taken to preserve its secrecy?[66]

(8) Would a reasonable person consider the item to belong to the former employer as part of his business?[67]

(iv) The Information Must be Imparted in Circumstances in which an Obligation of Confidence Arises:

In the context of this paper little need be said of this requirement. Confidential information supplied by an employer to an employee for a purpose within the employment is well established as giving rise to an obligation of confidence, even if the juridical basis involves one or all of breach of confidence, breach of fiduciary obligation and breach of contract, express or implied, without any settled rationalization of the interrelationship of these causes.

In addition, the context of parties negotiating at arm's length but upon a common intention to engage in a joint development venture as set out in Lac Minerals, is of significance to investors who disclose their inventions to developers who are to finance the inventions or to provide some sort of technical cooperation.[68] An interesting recent case is Ticketnet Corporation v. Air Canada where the plaintiff had disclosed to Air Canada a ticketing software system it had developed. Negotiations towards a mutual use were undertaken. There was an impasse. The plaintiff disclosed the system indirectly to a competitor of Air Canada. Air Canada continued to use the system. Both parties were restrained from disclosure.[69]

The classic test is whether a reasonable person "standing in the shoes of the recipient of the information would have realized that upon reasonable grounds the information was being given to him in confidence".[70] Whether it is necessary for the information to be actually imparted to the recipient, as opposed to being discovered or taken or overheard has yet to be considered in Canada.[71] It has received fuller attention elsewhere.[72] The United Kingdom's Law Commission Report recommends a category of information "improperly acquired" and lists specific situations.[73] A full analysis of this issue is beyond the scope of this paper, but it is suggested that relief ought not to be limited to situations involving an imparting of confidence, nor should there be an attempt to deal with this issue by specifying in advance particular categories or situations. Instead a general and flexible test is recommended. This test may well be one of "improper means" if it is desired to exclude from the action persons who "innocently" acquire information,

say by overhearing it. On the other hand, perhaps even innocent acquisition of information that a reasonable person would reasonably identify as being confidential should fix that recipient with an obligation of confidence and perhaps even to take reasonable steps to return it (or the physical item upon which it is contained) to its source, or at least to some person in authority. This is suggested obliquely by Lord Griffiths in Spycatcher No. 2.[74] It would be consistent with the obligation of a bailee that is cast upon the finder of a tangible item. Of course, this begs the question as to whether information should be treated in a general proprietary manner in this context.

With respect to liability of third parties (say subsequent employers) receiving confidential information with notice, actual or constructive, that it was acquired by breach of confidence, including breach of fiduciary obligation and breach of contract, it is well established that they will be liable from the date of acquisition.[75] Beyond this the position is speculative. Possibly after acquired notice may bind a third party from that time, unless (perhaps) he has altered his position in reliance on the information. Perhaps also there is a distinction to be made between a bona fide purchaser and a bona fide volunteer. Gurry analyzes these options and suggests, at least with respect to equitable relief, that all the circumstances be taken into account.[76]

(v) An Unauthorized Use to the Detriment of the Plaintiff:

This requirement is included in the classic test, but it has received little or no analysis and the need for a detriment is now open to doubt. A requirement of detriment was noted in Lac Minerals and found to have been met by the plaintiff's lost opportunity to purchase the Williams' property.[77] It was applied and precluded recovery under the head of confidence in Computer Workshops.[78] On the other hand, the Alberta Law Reform Report omits reference to detriment from its formulation, referring only to the need for an unauthorized use.[79] Others have also questioned and expressed uncertainty with respect to its inclusion.[80]

In Spycatcher (No. 2) Lord Goff left open "the question whether detriment to the plaintiff is an essential ingredient."[81] Lord Griffiths, on the other hand, found the need for detriment (or potential detriment) to be essential as the object of the cause is not to punish the confidant but to protect the confider.[82] Lord Keith questioned whether it ought to exist if an injunction is being sought. He acknowledged that no detriment ought to give no compensatory damages, although he considered that in any event a confider ought to receive nominal damages, presumably without any detriment being shown.[83] Furthermore he acknowledged that any

requirement of detriment would be met by the fact of disclosure itself to "persons whom [the confider] would prefer not to know of it even though the disclosure would not be harmful to him any positive way."[84]

(vi) Public Interest Disclosure Defence:

It is useful here to draw attention to a developing "defence" to breach of confidence and possibly other causes such as copyright. It is the so-called "whistle blowers" defence and concerns a situation where the holder of confidential information believes it to be in the public interest to disclose the information, usually to the media. It has recently been analyzed by Hammond.[85] It has not yet been explored to any significant extent (i.e. beyond the odd obiter dicta) by a Canadian court, but it appears to be accepted in principle elsewhere.[86] Hammond raises the interesting question as to whether the defence extends (or ought to extent) to breach of fiduciary obligations involving confidences.[87] Other considerable issues with respect to this possible defence are whether disclosure to the media (as opposed to some relevant authority) is always to be considered to be acceptable and an evaluation of free speech and press factors.

Breach of Fiduciary Duty

As noted earlier both courts in Lac Minerals recognized breach of confidence and breach of fiduciary duty to be separate and distinct causes of action. Any fiduciary relationship involving confidential information will likely always involve a right to confidentiality as part of the fiduciary obligation.[88] However, a relationship breach of confidence can exist between non fiduciaries and is therefore the broader cause within the context of simply confidentiality.

This recognition of the separate situations of both causes is welcome. It should cause future instances involving confidences to be analyzed carefully to decide the appropriate choice of cause with which to proceed. Linked with this is the equally important determination by the Ontario Court of appeal in Lac Minerals recognizing (in effect in obiter dicta seeing that the court had decided to proceed by way of the fiduciary obligation) that equitable relief in the nature of the constructive trust would be equally available even if the proceeding had been by way of breach of confidence.[89] The defendants in that case had sought to restrict relief for breach of confidence to merely damages.[90]

The decision was, of course, supported by the earlier decision of the Supreme Court of Canada in Pre-Cam Exploration & Development Limited v. McTavish[91] awarding relief by way of constructive trust for a breach of confidence established by way of

implied term in an employment contract in a broadly similar factual setting of mineral exploration. In addition, there is now support to be found in the House of Lords in Spycatcher No. 2 where Lord Goff in particular declared (in obiter dicta) that author Peter Wright would hold any copyright he might have in his book in favour of the Crown as part of a proprietary restitution for Wright's breach of confidence.[92]

When should the cause of breach of fiduciary obligation be used in lieu of breach of confidence, assuming in the light of the preceding discussion that the available options of relief are the same. In my view only when the issue of confidence is squarely within a recognized fiduciary relationship and is incidental to other issues under litigation within that relationship,[93] or where the breach of confidence cause is otherwise unavailable. An example of the latter is the Computer Workshops case where the court found the cause to be unavailable because of the absence of detriment to the confider.[94] Essentially what I am suggesting is that trade secret matters should be dealt with primarily as breaches of confidence, or more suitably - a discretely focused category covering only commercial and trade secrets.[95]

Apart from this, when is a fiduciary relationship likely to be available in the contexts covered in this paper? Obviously in the context of Lac Minerals itself - when parties are negotiating a joint venture. What about between employer and employee? Here a limitation is the need for the employee to be a director, senior officer or an otherwise "key" employee with a "substantial management function" within the organization in order to be found to be a fiduciary for the employer.[96] No such requirement exists with respect to employees being found to be in a relationship of confidence.

Breach of Contract

Within the limits of this paper this category of cause is referred to briefly. As noted earlier the Supreme Court of Canada has applied the equitable relief of the constructive trust to violations of confidence established upon breach of an implied term of the contract to that effect.[97] It is, of course, always open to the parties to negotiate an express term of contract with respect to obligations of confidence.[98] Arguably the position of third parties who take information knowing that it is supplied in breach of an obligation of confidence may have a stronger basis to deny liability if the initial obligation was imposed in personam in contract rather than through some proprietary or other equitable theory. However,

this is generally considered to not be the position. The third party's obligation to the original confider upon his acquiring the information with knowledge of his supplier's breach of obligation is thought to be a direct equitable obligation. However, in the absence of a detailed Canadian judicial treatment of these fundamental issues we must certainly include a strong note of caution. Finally, by proceeding through contract other remedies such as repudiation as illustrated in the Computer Workshops case may be available.

Conclusion

This paper has attempted to highlight the major threads and issues dealing with trade secrets in particular the employer/employee setting. The principal theme has been to suggest a more particularized focus upon commercial and trade secrets as a distinct breach of confidence and as a proprietary limb of intellectual property. Along with this, of course, is the suggestion that breach of confidence should be the preferred vehicle of approach as opposed to breach of fiduciary obligation or implied contractual obligation.

1. International Corona Resources Ltd. v. Lac Minerals Ltd. (1986), 25 D.L.R. (4th) 504 (Ont. H.C.); affd (1987), 44 D.L.R. (4th) 592 (Ont. C.A.).

2. Lake Mechanical Systems Corporation v. Crandell Mechanical Systems Inc. (1985), 7 C.P.R. (3d) 279 (B.C.S.C.).

3. Computer Workshops Ltd. v. Banner Capital Market Brokers (1988), 50 D.L.R. (4th) 118 (Ont. H.C.).

4. During the session commencing September 29, 1988.

5. Restatement of the Law of Torts, American Law Institute, Vol. IV, S. 757 (St. Paul, Minn.: A.L.I. Publishers, 1939). The second edition of the Restatement does not change this provision.

6. See Melvin F. Jager, Trade Secrets Law: Intellectual Property Library (New York, N.Y., Clark Boardman Company, Ltd., 1985 - looseleaf update) at S. 3.02. See also S. 3.01[1].

7. This Uniform Act was recommended by the Conference in August 1979 for enactment by the States. It is reproduced in Jager, ibid. Appendix A1.

8. See ibid. Jager, Appendices A2 and A3 setting out versions enacted in the States noted therein.

9. See Report on Trade Secrets: Report No. 46, Institute of Law Research and Reform (Edmonton, Alta.) and A Federal Provincial Working Party, July 1986. The draft "Trade Secrets Protection Act" is set out at p. 256 et seq. and the draft Criminal Code provisions at p. 262 et seq.

10. See the 1981 report of the United Kingdom's Law Commission, Breach of Confidence (Cmnd. 8388: October, 1981) at p. 103.

11. See the U.K. Report, ibid. at para. 4.2; F. Gurry, Breach of Confidence (Oxford, Clarendon Press, 1984) at 58-61 and B.B. Sookman, Computer Law: Acquiring and Protecting Information Technology (Toronto: Carswell, 1989) at para. 4.3.

12. See Attorney General v. Guardian Newspapers Ltd. (No. 2), [1988] 3 All E.R. 545 at 595 (per Donaldson M.R.) following Attorney General v. Jonathan Cape Ltd., [1975] 3 All E.R. 484 at 495 (per Lord Widgery C.J.).

13. See generally J. Phillips, Introduction to Intellectual Property Law (London, U.K., Butterworths, 1986) at 3-5; S. Ricketson, The Law of Intellectual Property (Melbourne, Aust., The Law Book Company Limited, 1984) at paras. 1.1 to 1.5; and W.R. Cornish, Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights (London, U.K.: Sweet & Maxwell, 1981) at 3-17.

14. See the latest "Spycatcher" case - Attorney General v. Guardian Newspaper Ltd. (No. 2), [1988] 3 All E.R. 545 (Ch., C.A. and H.L.) at pp. 613-14 (Dillon L.J.) and p. 625 (Bingham L.J.).

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15. See Sookman, supra, note 11 at para. 4.3.

16. See Attorney General v. Guardian Newspapers Ltd., [1987] 3 All E.R. 316 at 328 (Ch.).

17. It is not intended to suggest here that trade secrets should be "property" for a purpose of any general criminal sanction in the Criminal Code. Different considerations of concept and policy would apply to any such proceedings and, of course, this issue has been largely dealt with in Stewart v. R. (1988), 50 D.L.R. (4th) 1 (S.C.C.). See Bourgeois, "Protecting Business Confidences: A Comparative Study of Quebec and French Law" (1987), 3 I.P.J. 259 at 287.

18. See Gurry, supra, note 11 referring to "metaphorical" property - meaning it to be a convenient term to describe the equitable rights. See also the U.K. Report, supra, note 10 at para. 2.10.

19. See Cornish, supra, note 13 at 263.

20. See Hammond "The Origins of the Equitable Duty of Confidence" (1979), 8 Anglo-Am. L.R. 71.

21. See Jager supra, note 6 at S.2.01. The cases are: Newberry v. James (1817), 2 Mer. 466, 35 E.R. 1011 (Ch.) involving a secret formula for treating gout; Yovett v. Winyard (1820), 1 Jac. & W. 394, 37 E.R. 425 (Ch.) involving secret formulae for various veterinary medicines; and Green v. Folgham (1823), 1 Sim & St. 398, 57 E.R. 159 (Ch.).

22. Ibid. Jager at S.2.02.

23. Ibid. at S.4.01[2] and the Restatement supra, note 4.

24. See Lac Minerals, supra, note 1 at 538 (trial) and 646 (C.A.).

25. Ibid. at 542 (trial) and 613, 639-640 and 644 (C.A.).

26. Ibid. at 536-538 (trial) and 640 (C.A.).

27 Ibid. at 542 (trial) and 628 (C.A.).

28. Ibid. at 638-639.

29. These cases are Saltman Engineering Coy Ltd. v. Campbell Engineering Coy. Ltd. (1948), 65 R.P.C. 203 (C.A.); Seager v. Copydex Ltd., [1967] R.P.C. 349 (C.A.); and Coco v. A.N. Clark (Engineers) Ltd., [1969] R.P.C. 41 (Ch.-Megarry J.).

30. See Lac Minerals supra, note 1 at 539-543 per R.E. Holland J.

31. See Promotivate International Inc. v. Toronto Star Newspapers Ltd. (1985), 23 D.L.R. (4th) 196 (Ont. H.C.).

32. With respect to these general matters see Gurry, supra, note 11 at 81-83 and the authorities there cited.

33. Terrapin Ltd. v. Builders' Supply Co. (Hayes) Ltd., [1967] R.P.C. 349, 391 (Ch.). The passage was approved by the U.K. Court of Appeal in Seager v. Copydex Ltd., supra, note 29 at 367.

34. See Gurry, supra, note 11 at 245-252.

34. Ibid. at 247.

36. Ibid. at 249.

37. Ibid. at 251.

38. See Lac Minerals, supra, note 1 at 532-535 per R.E. Holland J.

39. Ibid. at 627 (C.A.). See generally pp. 614-628.

40. See Lake Mechanical, supra, note 2.

41. Ibid. at 283. Locke J. left open whether the financial methodology could be protected by copyright.

42. Ibid.

43. See Lake Mechanical, supra, note 2 at 284-287.

44. See Thomas Marshall (Exports) Ltd. v. Guinle, [1978] 3 All E.R. 193, 209-210 (Megarry V.C.) applied in Lake Mechanical, ibid. at 281-282.

45. Ibid. at 282. The passage is from the judgment of Cory J.A. in R. v. Stewart (1983), 74 C.P.R. (2d) 1, 20-30; 149 D.L.R. (3d) 583 (Alta. C.A.). rev'd. (1988), 50 D.L.R. (4th) 1 (S.C.C.). See also Vaver, "Trade Secrets - A Commonwealth Perspective", [1979] 1 E.I.P.R. 301.

46. See Restatement, S. 757 (p. 5).

47. Whether a disclosure is sufficiently public is a question of fact. Information does not have to be completely inaccessible to be confidential. Relevant factors to consider include the size or number in the group that knows; the purpose (private or public) for which each has been told; geographic and territorial considerations; the size of the group or potential users who have not taken the time, trouble or paid the expense of availing themselves of the information; and whether the information was licensed or sold under conditions and with obligations of confidence. See generally Gurry, supra, note 11 at 73-76.

48. See Speed Seal Products Ltd. v. Paddington, [1986] 1 All E.R. 91 at 94-96 (C.A.).

49. See ibid. at 95.

50. See Attorney General v. Guardian Newspapers Ltd. (No.2), [1988] 3 All E.R. 545 at 662 (per Lord Goff).

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51. Lord Goff declared that Wright would hold the copyright to the book on constructive trust for the British Crown. To this effect see also Lord Griffiths, ibid. at 654. The remaining Law Lords were sympathetic to this or at least to denying Wright any means to enforce his copyright.

52. Ibid. at 649 to 652 - the quotation is at 652.

53. Ibid. at 647 (Lord Brightman) and 655-656 (Lord Griffiths). If an injunction were not issued the court would be allowing a wrong to continue so long as the Crown received the profits.

54. Ibid. at 668.

55. Ibid. at 644.

56. See supra, text accompanying note 43.

57. See Cain Limited v. Ashton, [1950] O.R. 62 at 72. See also Sookman, supra, note 11 at para. 4 8(b) and Consolidated Textiles Ltd. v. Central Dynamics Ltd. (1974), 18 C.P.R. (2d) 1 at 9-10 (F.C.T.D.) with respect to Federal Court jurisdiction through the vehicle of s. 7(e), Trademarks Act, 1970 R.S.C. c. T.10; 1985 R.s.C. c. T.13.

58. See "What is 'trade secret' so as to Render Actionable Under State Law Its Use or Disclosure by Former Employee" 59 A.L.R. 4th 641. See also related Annotations: 30 A.L.R. 3d 631; 30 A.L.R. 4th 1250; and (with respect to criminal law) 84 A.L.R. 3d 967. Sookman, supra, note 11 at para. 4.8(b) also includes certain American decisions within his commentary.

59. See Herbert Morris Limited v. Saxelby, [1916] A.C. 688 esp. at 711 and 714 (H.L.). See also Gurry, supra, note 11 at 83-85 and 90-92.

60. See Gurry, supra, note 11 at 92, n. 18.

61. These sources include numerous judicial reports in the Commonwealth and the United States; texts by Curry, supra, note 11; Sookman, supra, note 11; and Ricketson, supra, note 13; and the following topics of the American Law Reports Annotations (all with pocket part updating): 30 A.L.R. 3d 631; 30 A.L.R. 4th 1250; and 59 A.L.R. 4th 641.

62. See Gurry ibid. at 91.

63. See Printers and Finishers Ltd. v. Holloway, [1964] 3 All E.R. 731 at 736 (Ch.).

64. See Gurry, supra, note 11 at 90-94 and Sookman, supra, note 11 at para. 4.8(b), n. 208.

65. See Lake Mechanical, supra, note 2 at 281; Cain Limited v. Ashton, supra, note 57 at 72; and Printers and Finishers Ltd. v. Holloway, supra, note 63 at 735. See also Stewart, "Confidential Information and Departing Employees: The Employer's Options, [1989] 11 E.I.P.R. 88 at 91.

66. See Consolidated Textiles Ltd. v. Central Dynamics Ltd., supra, note 57 at 10.

67. Ibid. at 736 noting "the law will defeat its own object if it seeks to enforce in this field standards which would be rejected by the ordinary man".

68. E.g. Saltman Engineering, supra, note 29 where confidential drawings were supplied for manufacturing purposes.

69. See Ticketnet Corp. v. Air Canada (1987), C.P.C. (2d) 38 (Ont. H.C.). This appears to be the only report. It is brought to attention by Sookman, supra, note 11 at para. 4.4.

70. See Coco v. A.N. Clark (Engineers) Ltd. supra, note 29 at 48 per Megarry J.

71. The issue is left open in the Alberta Report on Trade Secrets, supra, note 9 at 67. It is suggested in the Report that the availability of a remedy for unjust enrichment would be available in any event.

72. See Ricketson, supra, note 13 at para. 45.26 to 43.32 and 45.24.

73. See U.K. Law Commission Report, supra, note 10 at pp. 170-171.

74. See Spycatcher No. 2 - Attorney General v. Guardian Newspapers Ltd. (No. 2), supra, note 14 at 657. See also Donaldson M.R. at 603-605 for closely related comments.

75. See generally Gurry, supra, note 11 at 269-283 and Sookman, supra, note 11 at para. 4.9.

76. See Gurry, ibid. at 283.

77. See Lac Minerals, supra, note 1 at (1986) 25 D.L.R. 542-543 per R.E. Holland J.

78. See Computer Workshops, supra, note 3 at 131.

79. See Report on Trade Secrets, supra, note 9 at 67.

80. See Gurry, supra, note 11 at 407-408 and Ricketon, supra, note 13 at paras. 43.45 to 43.37.

81. See Spycatcher No. 2 - Attorney General v. Guardian Newspapers Ltd. (No. 2), supra, note 14 at 659.

82. Ibid. at 650.

83. Ibid. at 639.

84. Ibid. at 640.

85. See Hammond, "Copyright, Confidence and the Public Interest Defence: 'Mole's Charter' or Necessary Safeguard? (1985), 1 I.P.J. 293.

86. See Gurry, supra, note 11 at 325 et seq. and Ricketson, supra, note 13 at para. 44.4 to 44.10. See also Spycatcher No. 2, supra, note 14 at 582-584

(per Scott J.); 614-615 and 617 (per Dillon L.J.); 629-631 (per Bingham L.J.); 649-650 and 657 (per Lord Griffiths); and 659-660 (per Lord goff).

87. See Hammond, supra, note 85 at 296 n. 8.

88. See supra text accompanying note 28.

89. See Lac Minerals, supra, note 1 at 656-659.

90. See ibid. at 657. The defendants also sought to deny relief by way of restitution. Implicitly and such limitation would also have failed.

91. Pre Cam Exploration & Development Limited v. McTavish (1966), 57 D.L.R. (2d) 557 (S.C.C.).

92. See Spycatcher No. 2 - Attorney General v. Guardian Newspapers Ltd. (No. 2), supra, note 14 at 664.

93. In this respect attention is drawn to the recently published collection of major papers from "The International Symposium on Trusts, Equity and Fiduciary Relationships" held at the Faculty of Law, University of Victoria in February 1988 organized by Dr. Donovan Waters. See Equity, Fiduciaries and Trusts ed. T.G. Youdan (Toronto: Carswell, 1989) exhaustively analyzing the fiduciary principle and related areas of equitable obligations and proprietary remedies.

94. See supra text accompanying note 78.

95. In this respect see also Hammond, "Is Breach of Confidence Properly Analyzed in Fiduciary Terms?" (1979), 25 McGill L.J. 244.

96. See Canadian Aero Service Ltd. v. O'Malley (1973), 40 D.L.R. (3d) 371 (S.C.C.); Moore International (Canada) Ltd. v. Carter (1984), 1 C.P.R. (3d) 171 at 174-175 (B.C.C.A.); and 57134 Manitoba Ltd. v. Palmer (1985), 7 C.P.R. (3d) 477 at 481-482 (B.C.S.C.).

97. See Pre Cam Exploration & Development Limited v. McTavish, supra, note 91.

98. See J.T. Ramsay, "Drafting Confidential Agreements in Canada" (1988), 4 I.P.J. 157.

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RÉSUMÉ

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(e) (In progress) Publication of article based on paper presented at "Who Owns Knowledge Conference?": "Character Merchandising: the Marketing Potential Attaching to a Name, Image, Persona or Copyrighted Work" - Intellectual Property Journal (Fall, 1989).

(f) (In progress) Publication of article based on paper presented at Canadian Association of Law Teachers Quebec City Conference 1989: "Copyright and Obscenity; Should There Be 'Content-Based' Exclusion of Copyright Protection?" - Intellectual Property Journal (Spring, 1990).

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"Supplemental Paper: Commercial and Trade Secrets: Some Notes Upon the Supreme Court's Decision in Lac Minerals"

by

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Preface

In the preface to my paper I noted that at the time of writing (June 1989) we were awaiting the judgment and reasons from the Supreme Court of Canada in Lac Minerals.[1] I said that should it be handed down prior to the conference I would prepare a supplemental paper commenting upon it in the context of the present topic. The judgment and reasons were released late Friday, August 11 and were available Monday, August 14. My comments in this supplemental paper are based on a computer print copy of the reasons.

The Issues and the Result

The appeal by the defendant, Lac Minerals, was dismissed. The reasons are lengthy with diverse positions being reflected. The following summarizes the broad issues and positions of the five members of the court:

Issue 1: Were the Parties Within a Fiduciary Relationship?

Three members (McIntyre, Lamer and Sopinka JJ.)	- No
Two members (Wilson and La Forest JJ.)	- Yes

Issue 2: Did the Defendant (Lac Minerals) Act in Breach of Confidence?

All five members	- Yes

1. International Corona Resources Ltd. v. Lac Minerals Ltd. (1986), 25 D.L.R. (4th) (Ont. H.C.); affd (1987), 44 D.L.R. (4th) 592 (Ont. C.A.).

Issue 3: Is the Remedy of Constructive Trust Available for Breach of Confidence?

Three members (Lamer, Wilson and La Forest JJ.) - Yes

Two members (McIntyre and Sopinka JJ.) - No

Two principal judgments were given by La Forest J. (with Wilson J. concurring in a separate judgment) on the one hand, and Sopinka and McIntyre JJ. on the other. Lamer J. gave the "swing" decision, agreeing with Sopinka and McIntyre JJ. in denial of a fiduciary obligation, but then agreeing with La Forest J. with respect to the availability of relief by way of constructive trust for breach of confidence.

The Alleged Fiduciary Relationship

The thrust of this issue goes considerably beyond the subject matter of this paper to encompass the broad question as to how far a fiduciary obligation can arise in the context of an arm's length negotiation between parties in a commercial context.

We should note that Lamer J.'s concurrence with Sopinka and McIntyre JJ. upon this point was expressed as:

> I am in agreement with my brother Sopinka J. and for the reasons set out in his judgment that the evidence does not establish in this case the existence of a fiduciary relationship (emphasis added)

This reflects a primary focus upon an evaluation of the facts. However, upon the crucial issue of "vulnerability" (to be discussed) the law, facts and outcome are so completely interwoven that Lamer J. must have concurred with the legal analysis upon at least that issue.

The primary elements of a fiduciary obligation are accepted by all members of the Court as involving the following broad situations:

(i) Relationships that are Presumptively Fiduciary or "Generally Recognized" as Fiduciary

In this category "the characteristics or criteria for a fiduciary relationship are assumed to exist" (Sopinka J.). The relationships involve some "inherent purpose" or "presumed factual or legal incidents" that present a "strong presumption" of a fiduciary obligation (La Forest J.) or are "almost per se fiduciary" (Wilson J.). These include the well established relationships of directors and corporations, solicitors and clients, trustees and beneficiaries and agents and principals. Nevertheless, the classification of fiduciary is not irrebuttable and it relates only to breaches of "specific obligations" arising only because of its characterization as fiduciary (La Forest J.). This type of relationship was not relevant in Lac Minerals; and

(ii) A Fiduciary Relationship Upon Particular Facts

Relationships in this context are not presumptively nor ordinarily fiduciary, but such a relationship can arise from the particular facts. These are ordinarily relationships created by the parties themselves and give rise to a foundation of "fiduciary expectation" (La Forest J.) of one party by the other. This type of fiduciary relationship was found by La Forest and Wilson JJ. to be established in Lac Minerals. It was denied by the majority.

Before examining this divergence of opinion we need to note La Forest J. to have acknowledged but disapproved a third usage of the fiduciary principle. This involves the imposition of a fiduciary obligation solely in order to secure a particular remedy traditionally associated with breach of a fiduciary obligation. The example is given of a thief being found to be a fiduciary in order to secure the availability of a proprietary tracing remedy.[2] La Forest J.'s criticism of this usage of the fiduciary principle is thoroughly convincing. It points to a sensible alternative approach that should receive development by the courts:

> ... this third use of the term fiduciary, used as a conclusion to justify a result, reads equity backwards. It is a misuse of the term. It will only be eliminated, however, if the courts give explicit recognition to the existence of a range of remedies, including the constructive trust, available on a principled basis even though outside the context of a fiduciary relationship.

This approach is helped considerably by the majority in this case in making available in a breach of confidence context the remedy of constructive trust unaccompanied by a fiduciary obligation.

The difficulties of defining a fiduciary obligation were noted. Both principal judgments approved Wilson J.'s formulation in the earlier case of Frame v. Smith[3] of "common features [providing] a rough and ready guide to whether or not the imposition of a fiduciary obligation on a new relationship would be appropriate and consistent." Her following three general identifying

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2. See Goodbody v. Bank of Montreal (1974), 47 D.L.R. (3d) 335 (Ont. H.C.).

3. Frame v. Smith (1987), 42 D.L.R. (4th) 81 at 98-99 (S.C.C.).

characteristics were also endorsed:

(1) The fiduciary has scope for the exercise of some discretion or power.

(2) The fiduciary can unilaterally exercise that power or discretion so as to affect the beneficiary's legal or practical interests.

(3) The beneficiary is peculiarly vulnerable to or at the mercy of the fiduciary holding the discretion or power.

These characteristics had been formulated by Wilson J. in the context of considering (in Frame v. Smith) whether the relationship of a custodial parent to a non-custodial parent could constitute a new instance of a relationship presumptively of a fiduciary nature (i.e. a fiduciary relationship of the first usage described above) and was treated a such by La Forest J. who isolated three separate factors in the context of determining whether the relationship in this case fell within the second usage of fiduciary (i.e. one imposed because of its factual context). La Forest's expressed factors were:

(1) Trust and confidence;

(2) Industry and practice; and

(3) Vulnerability.

Sopinka and McIntyre JJ. on the other hand appear to accept the "identifying characteristics" of Wilson J. as applicable without distinguishing between the first and second usage situations. Whatever the more appropriate position in this respect, the test of "vulnerability" exists in both formulations and in the present case proved to be the point of division of opinion.

In this respect La Forest J. found:

(1) When dealing with a situation falling within a second usage of fiduciary obligation the factor of "vulnerability" would strengthen a finding of fiduciary obligation, but need not be an absolutely necessary ingredient (as it may well be in a presumptive or first usage situation) to establishing that obligation;

(2) Vulnerability is established sufficiently if the fiduciary is one who can inflict the relevant harm. Actual harm need not be inflicted upon the beneficiary; and

(3) On the facts Corona was vulnerable to Lac Minerals, notwithstanding that it will be upon only a "rare occasion" that vulnerability would be found between commercial parties. He expressed this finding as carrying considerable weight.

Sopinka and McIntyre JJ., on the other hand, found:

(1) "When confronted with a relationship that does not fall within one of the traditional categories, it is essential that the Court consider: what are the essential ingredients of a fiduciary relationship and are they present?"

(2) That all of the "common factors" or characteristics of Wilson J. (Frame v. Smith) do not necessarily need to exist in order to constitute a fiduciary relationship; nor (conversely) does the presence of all of them identify automatically a fiduciary relationship;

(3) However, the factor of "vulnerability" is the "one feature ... considered to be indispensable to the existence of [a fiduciary] relationship."

(4) The essence of "vulnerability" is the parties' relative legal positions whereby one is disadvantaged by, or dependent upon, the other by being at the mercy of the other's discretion; and

(5) On the facts Corona was not vulnerable to Lac Minerals. The following factual aspects, applied in the Court of Appeal, were commented upon in his respect:

(i) In their dealings, the parties had not advanced beyond the negotiation stage.[4]

(ii) Corona had not conferred any discretionary power on Lac Minerals to acquire the property;

(iii) It is irrelevant that Lac Minerals had first approached or "sought out" Corona;

(iv) Some of the evidence was sketchy with respect to establishing a joint venture program;

(v) The supply of confidential information is not in itself necessarily referable to a fiduciary relationship and therefore is "at best a neutral factor":

(vi) With respect to the practice in industry: First, this may be used as a custom for incorporation as a term of a contract, but there is no authority to transplant it to constitute a fiduciary relationship. Second, if a practice is to be relevant [beyond a contractual context] it is "more consistent with the obligation of confidence." Third, more evidence ought to have been given to establish the practice;

(vii) The finding by the Court of Appeal that the parties were not negotiating merely a commercial contract, but were negotiating to further a "common object", was not persuasive in "elevating" the nature of the negotiations. All negotiations seek to achieve a common object. The present negotiations were like any other incident of prospective partnership or joint venture, or simply a commercial transaction; and

(viii) A comparison of a "senior" and "junior" corporate dependency relationship with that of parent and child or priest and penitent was not persuasive because both parties were experienced mining promoters. However, it was noted as "perhaps possible

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4. A contrast was drawn with the Australian case of United Dominions Corporation Ltd. v. Brian Pty Ltd. (1985), 59 A.L.J.R. 676 (H.C. Aust.) where the parties had passed beyond the negotiation stage.

to have a dependency of this sort between corporations" that might lead to a fiduciary obligation.

(6) Upon broader grounds the following factors were persuasive:

(a) With respect to the release of confidential information Corona could have protected itself by way of a contractual confidentiality agreement but chose not to do so. This militated against the imposition of equity's "blunt tool";

(b) Linked with the previous factor is the apparent absence of any request to Lac Minerals to refrain from purchasing the property together with the fact that Corona could have participated in any development only if the property were acquired. These factors suggested that the parties may have contemplated acquisition by Lac Minerals; and

(7) Given that the supply by Corona of confidential information was at the centre of the relationship the availability of an alternative remedy - breach of confidence - militates against use of the "blunt tool" of a fiduciary obligation.

The Breach of Confidence

All five members found Lac Minerals to have acted in breach of confidence with respect to the supply of information to Lac Minerals by Corona. The information was essentially the drilling samples, their core analysis, the drill plan and drill sections, the pattern of mineralization in the area and knowledge of the desirability of acquiring the Williams property.

Both principal judgments recognize the well established general elements (set out at p. 6 of my principal paper):

1. The information must have the quality of confidence;

2. The information must have been imparted in circumstances in which an obligation of confidence arises; and

3. The defendant must have misused the information [earlier expressed as "an unauthorized use"] to the detriment of the plaintiff.

Upon the first element La Forest J. agreed with Sopinka and McIntyre JJ. (and Lamer and Wilson JJ. concurred) that the information supplied by Corona was the springboard which led to the purchase by Lac of the Williams property. Despite the mixture of public and private information the evidence was overwhelming that Lac was "in a preferred position vis-a-vis others with respect to the knowledge of the desirability of acquiring the Williams property".

With respect to the second element, I noted in my principal paper the classic test as being whether a reasonable person "standing in the shoes of the recipient of the information would have realized upon reasonable grounds the information was being given to him in confidence". The appellant had submitted that the trial court had not applied this "reasonable person" test. Again La Forest J. agreed with Sopinka and McIntyre JJ. (Lamer and Wilson JJ. concurring) that this test had been properly applied by the trial judge. The case did not raise the unresolved issues under this head as noted on pages 11-12 of my principal paper (i.e. whether the information must be "imparted" or just "acquired" and the position of third parties).

The third element was likewise found by all members to be met in this case. Lac Minerals had submitted that it had not misused the information because it had perused the public records before making enquiries. This was rejected, essentially upon the evidence establishing the springboard assistance referred to above and a

conclusion that "Lac made use of this information to the detriment of Corona" (per Sopinka J.). The misuse was Lac's acquisition of the property and the lost opportunity for Corona to acquire the property. The acquisition of the property was not a purpose for which Corona had supplied the information. The detriment was noted most strongly by La Forest J. First, that the trial judge had found that "but for the actions of Lac, Corona would have acquired the Williams property" and second, that that conclusion was supported by the evidence. The suggestion that Lac was restricted from using the information for only its own account was rejected by La Forest J. as misconstruing the findings of the trial judge. Sopinka and McIntyre JJ., on the other hand, did emphasize that was not authorized was the acquisition of the property for Lac's exclusive use. The possibility of Lac's acquisition as part of a joint venture was thought to be "consistent" with the evidence. This difference in emphasis reflects upon the key difference between the majority and minority - that of the appropriate remedy.

Before examining this aspect, however, we should note the following general matters with respect to the breach of confidence proceeding.

(1) The need for a "detriment" in additional to an unauthorized of misuse was taken to be a requirement of the action. As noted in my principal paper (pp. 12-13) this has recently been seriously questioned by members of the House of Lords in Spycatcher (No. 2) - Attorney General v. Guardian Newspaper Ltd. (No. 2). Given that the issues raised in that case on this point have not been argued specifically, the issue may still be open. On the other hand, the assumption by the Supreme Court in the present case of a need for a detriment may have foreclosed any such debate.

(2) The independence of breach of confidence from breach of fiduciary obligation is now established unequivocally. In my principal paper I concluded (at p. 15) "that breach of confidence should be the preferred vehicle of approach [with respect to trade secrets] as opposed to breach of fiduciary obligation or implied contractual obligation". The result in this case advances this suggestion. The key issue, of course, is the availability of remedies as between the respective proceedings. La Forest J. noted this as well as the following further distinctions:

(a) The need for "misuse" and "detriment" is required for breach of confidence, but not with respect to breach of fiduciary obligation;

(b) The imposition of an obligation of confidence extends to third parties, notwithstanding that that party is outside of a direct relationship. This is probably not possible in a solely fiduciary context; and

(c) Breach of confidence has an additional jurisdictional base in <u>law</u> as well as equity, but breach of fiduciary obligation is exclusively equitable.

[(d) See also p. 14 of my principal paper].

(3) No attempt was made to provide in detail a jurisdictional theory for breach of confidence. However, the need for such a theory kept recurring, particularly in the context of available remedies. Wilson J. described the breach of confidence principle as being one at common law. La Forest J. similarly acknowledged its common law (as well as equitable) jurisdictional basis. These references could be taken to support a proprietary or tortious basis for the action. The majority's imposition of a constructive trust, being ultimately a proprietary remedy through an in personam trust obligation upon the constructive trustee, supports this approach. Indeed, in denying relief by way of constructive trust, Sopinka and McIntyre JJ. were forced to deny recognition of the concept of property as a jurisdictional basis, noting:

> "When the extent of the connection between the confidential information and the acquisition of property is uncertain, it would be unjust to impress the whole of the property with a constructive trust."

On the other hand La Forest J. noted:

> "It is not necessary ... to determine whether confidential information is property, though a finding that it was would only strengthen the

> conclusion that a constructive trust is appropriate."

Relief by Way of Constructive Trust

This brings us to the final issue. A majority (Lamer, Wilson and La Forest JJ.) permitted relief by way of the constructive trust to prevent unjust enrichment by restoring the property to Corona.

Sopinka and Mcintyre JJ. noting no authority to apply a constructive trust to a breach of confidence situation declined to do so, limiting relief in such situations to damages, injunction and accounting of profits.

The majority were careful to warn that a constructive trust would be a very exceptional remedy, but in this case the only remedy that could bring a just result. The important feature here being that the very essence of the confidence concerned the acquisition of the specific and unique property. In this respect La Forest J. noted that:

> "A constructive trust should only be awarded if there is reason to grant to the plaintiff the additional rights that flow from recognition of a right of property."

It is not however necessary to find a "pre existing" property in order to establish the right to have a constructive trust imposed. If the circumstances warrant a constructive trust then one will be awarded. In effect the constructive trust will "both recognize and create a right of property" (La Forest J.). In effect the crucial question is not whether there is "property", but whether "proprietary relief" is appropriate in the particular case because of a causal connection between the property in question and the defendant's unjust enrichment. To constitute unjustment enrichment

the causal requirement necessitates that the enrichment be achieved at the plaintiff's expense.[5] The plaintiff must be deprived of something.

Conclusion

Above all else Lac Minerals is a case concerning the availability of an appropriate remedial response to a fact situation that reflected a special relationship between the parties which had not been honoured by one of the parties. The constructive trust was seen by the majority as the only vehicle of relief capable of achieving a just result between the parties in their particular circumstances. The continuing legal significance of the majority's decision may well be in the further advancement of the trend (similarly recently discussed in Sorochan v. Sorochan) of allocating relief according to the needs of the particular case as opposed to locking particular forms of relief to the particular substantive areas of law in which they developed historically.

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5. See Pettkus v. Becker (1980), 117 D.L.R. (3d) 257 (S.C.C.) and Sorochan v. Sorochan (1986), 29 D.L.R. (4th) 1 (S.C.C.).