



THE LEGAL INSIDER of Mr. Alain P. Lecours

CANADIAN INTELLECTUAL PROPERTY LAW

Trade Secrets in Canadian Intellectual Property Law

As intellectual property acquires an ever increasing value in the modern knowledge- and information-based economy, an entrepreneur needs to recognize the intellectual property assets possessed by his business. If, unaware of their existence, the entrepreneur should fail to protect adequately his business' intellectual property assets, he overlooks an important element that can add greatly to the value of his business.

When speaking of intellectual property, one generally refers to trade-marks, patents, copyrights, or industrial designs. These concepts are framed by laws and regulations, which usually provide a formal registration mechanism so that a person's intellectual property may be enforced against third parties.

More recently, Common Law jurisprudence has created a new form of intellectual property: the "trade secret". Even though the province of Québec is a Civil Law jurisdiction, its proximity to its Common Law neighbours has allowed the importation of the trade secret concept within Québec Civil Law. The trade secret concept is interesting in that it requires no formal registration. As a result, a business is under no obligation to make public its trade secrets (as opposed to the registration of patents, copyrights, and industrial designs). Furthermore, the protection afforded to a trade secret has no time limit, as long as the secret is not revealed to the public.

The present *Legal Insider* will consider the nature of the trade secret and the conditions of its existence. Furthermore, the *Insider* will broach upon the main protective advantages conferred by trade secrets, as well as the means available to protect such assets.

Definition and Conditions of the Trade Secret

A trade secret may be materialized by the possession of a specific know-how or information of particular importance. As examples, production methods, a company's business plan, lists of clients, chemical formulae, industrial processes, peculiar recipes, commercial practices, etc. may constitute trade secrets, as long as they grant an economical advantage to the business and improve its value.

So that a trade secret does not remain a simple secret, but rather that it may constitute a protected intellectual property asset, it must present the following conditions:

1. The information must only be known by a restricted circle of persons outside of the business;
2. The information must only be known by choice employees of the business;
3. Measures must have been taken to keep the information a secret;
4. The information must have a value for the business and its competitors;
5. The development of the said information must have required non-negligible efforts and financial costs;
6. The information must be difficult to acquire by a third party.

Thus, it is important for the business to protect its investments in research & development and the fruits thereof, these being its property of appreciable financial value. Thus, the business must take measures to maintain the confidentiality of its trade secrets.

Advantages of the Protection Afforded by the Trade Secret

As the trade secret benefits from a broad protection under Common Law, this form of intellectual property is often chosen in place of patents, copyrights, and industrial designs, who offer a more restricted protection. Furthermore, the registration of an industrial design or of a patent requires the publication of the one's know-how or innovation. On the other hand, the protection afforded by a trade secret is based on keeping secret, and thus not disclosing, the sensitive information.

A trade secret also has the advantage of protecting information that possibly could not be protected by a patent, a copyright, or the law on industrial designs. Indeed, obtaining a patent for a product requires that it be innovative. Likewise, copyright only applies to an original work. On the other hand, an innovative or original nature is not a prerequisite of the protection afforded to trade secrets.

Another advantage of the trade secret is its enduring character, contrary to other modes of protecting intellectual property which are limited in time. Thus, as long as the trade secret remains undisclosed, it retains its protection without formality or time limit.

Many countries, oftentimes part of emerging economies, only offer a limited protection to intellectual property, be it because of their courts of law's inefficiency or because of such States' informal complacency toward local enterprises. It is also very expensive to register a patent or industrial design throughout the world. In a global economy where goods are in free circulation, the protection of one's intellectual property through the trade secret may be more judicious than going obtaining its protection through classical means.

Yet, one must keep in mind this advantage held by classical forms of intellectual property protection such as patents, copyrights, and industrial designs: even as their contents are known to the public, they remain protected.

A Secret to Keep, Strategically

In order for the information's owner to preserve the protection of his trade secret, he must take adequate measures to keep the said information secret. Thus, it is important to insert confidentiality clauses in the employment contract of the persons working with the information considered to be part of the trade secret. Furthermore, it is possible to use access codes to limit the consultation by the employees of this sensitive information and to allow access on a need-to-know basis.

Also, confidentiality agreements are indispensable when secret information must be disclosed to a supplier or a potential client. These confidentiality agreements must be perfectly adjusted, so as not to be invalidated by a court of law. In such a case, the confidentiality, and thus the trade secret, would be lost. In sectors where competition is very heavy, instances of industrial espionage may occur. A business must thus surround itself with trustworthy partners in order to prevent such risks.

A foreign enterprise that considers doing business in Canada and wishes to protect its trade secrets therein will need to follow Canadian rules governing the protection of trade secrets, even in its home country, before implementing its trade secrets in Canada. Indeed, if a trade secret is disclosed outside of Canada, it will also cease to be protected within Canada. Thus, a trade secret must conform to Canadian law in order to retain its protection in Canada as an element of intellectual property. In this fashion, a business may not invoke the protection of a trade secret within Canada if the "secret" is already protected by a patent in another country. Indeed, the registration of a patent makes the information broadly available, and thus no longer secret.

Protection of intellectual property is important regardless of the business' method of implantation in Canada: branch office, joint venture, licensing contract, etc. If the joint venture or licensing agreements deal with a trade secret, these contracts must necessarily incorporate confidentiality clauses to protect the said secret. Furthermore, in order to improve the protection, it is interesting to include in the contracts certain clauses clearly setting out the information or processes deemed to be intellectual property as well as the ownership thereof.

Conclusion

Outside of the various classical forms of intellectual property, such as patents, copyrights, and industrial designs, a new element of intellectual property has been recognized in the decisions of Common Law courts: the trade secret.

The trade secret is defined as the possession of know-how or of information, of a particular importance. This form of intellectual property presents certain advantages: it need not be publicly disclosed, its protection is not limited in time, and it requires no formal registration to be protected.

However, certain risks exist. Indeed, the disclosure by publication or by any other mean of a trade secret puts an end to the protection it enjoys. Moreover, the danger may come from outside the business, notably from competitors that could seek to discover and use for themselves the important asset that is the trade secret. Once revealed, the trade secret no longer creates an edge for its possessor and thus loses its value. To prevent these risks, a business must act in a diligent manner and may have interest in seeking keen counsel.

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