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LABOUR AND EMPLOYMENT COMMUNIQUÉ

PROTECTING CONFIDENTIAL BUSINESS INFORMATION & THE DOCTRINE OF INEVITABLE DISCLOSURE

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For many businesses today, trade secrets and other confidential business information are their most valuable assets. Employees require access to this valuable knowledge in the normal performance of their duties. In a society where the job market is in a constant state of flux, and the demand for highly skilled workers is stronger than ever, the risk of unauthorized use or disclosure of confidential information to the competition is a real and imminent concern for many employers. Policies favouring unrestricted employee mobility often conflict with those safeguarding confidential business information. Companies must be vigilant to ensure that their economic interests remain well protected in this fast-changing environment.

It is common knowledge that a party may obtain injunctive relief based on the misappropriation of its trade secrets. It is less well known that relief may also be sought for inevitable disclosure of trade secrets in order to prospectively prevent a party from engaging in activities that may lead to inadvertent improper use of such secrets or disclosure to the competition. It is in this context that the doctrine of inevitable disclosure has taken on particular importance.

The inevitable disclosure doctrine is based on the proposition that under certain circumstances, an employee who performs the same or similar work for a direct competitor of a former employer, will inevitably use or disclose trade secrets in the course of performing his new duties. Regardless of one's intentions, it may simply be impossible for a former employee to segregate proprietary information when performing substantially similar tasks in a competitive industry. In such circumstances, an employer may want to apply for an injunction preventing disclosure of the information.

The courts have set out criteria which must be met for the doctrine to be applied. Firstly, the presence of trade secrets or other confidential business information must be substantiated. Secondly, it must be demonstrated that the disclosure of such information is inevitable and imminent.

American courts have long endorsed the doctrine in situations where a clear threat of disclosure exists. The doctrine gained recent popularity when a United States Court rendered a decision articulating the modern version of the inevitable disclosure doctrine in *PepsiCo, Inc. v. Redmond*[1] . In that case, the Court affirmed a district court's injunction preventing a Pepsi general sales manager from assuming similar duties with Pepsi's chief rival in the fiercely competitive "sports drinks" industry. Importantly, Pepsi did not contend that any trade secrets were actually stolen, but asserted that the former employee would

[1] (7th Cir. 1995) 54 F.3d 1262

necessarily be making future decisions in his new position by relying on his knowledge of Pepsi's trade secrets.

While the doctrine has long been accepted in the United States, Quebec Courts have only recently begun to recognize its validity.

The principle that an employee has an obligation to act loyally and not to make use of any confidential information obtained in the course of his employment is codified under Quebec law[2] . The obligations of confidentiality and loyalty are applicable to an employee throughout and for a reasonable time after cessation of his employment, whether or not he is subject to a restrictive confidentiality agreement. However, in the absence of a non-competition agreement, an employee is free to obtain a substantially similar position with a direct competitor of his former employer. Although such an employee would be bound by the codified obligations of confidentiality and loyalty, disclosure of certain information may be an inevitable consequence.

Quebec Courts have the power to issue injunctions in cases where competition is deemed to be "unfair" as a result of a failure to respect the obligations of confidentiality and loyalty. Indeed, competition in itself is only deemed to be "unfair" under circumstances where it is injurious. Employees have the freedom to earn a living by using their professional skills that they have acquired through experience. The counterpart to this freedom is the indisputable right of employers to protect their trade secrets and other confidential business information from disclosure. In order to force a former employee to respect his or her obligations of confidentiality and loyalty imposed by the *Civil Code of Québec*, an employer would normally be required to demonstrate that the employee disclosed or made use of confidential information. This is problematic since such evidence arises only upon occurrence of the damage which is sought to be prevented. *Recognition of the inevitable disclosure doctrine by Quebec Courts provides a preventative alternative aimed at avoiding the actual occurrence of this irreparable harm*.

Quebec Courts have applied the doctrine of inevitable disclosure in several noteworthy judgements. The courts have relied on the notion that disclosure and use of confidential information by a former employee in order to benefit a competing company constitutes unfair competition as per article 2088 of the *Civil Code of Québec*. This misappropriation of information may be presumed in certain situations where the employee assumes substantially the same position in a company that directly competes with his former employer. It is possible to rebut such a presumption where evidence exists to prove that the new employer does not compete with the former, or where it can be shown that the work involved is not substantially similar.

In *Lawrence Home Fashion Inc. v. Sewell*[3] , the Superior Court applied the inevitable disclosure doctrine in the absence of a non-competition agreement, to issue a safeguard order preventing an employee from divulging confidential information and from soliciting his former employer's clientele.

The doctrine was also cited in *U.B.I. Soft Divertissements Inc. v. Champagne-Pelland*[4] where five employees of an innovative video game company resigned their positions in order to work for its main competitor. Recognizing that employees may, even unconsciously benefit their new employer with information obtained over the course of their previous employment, the Court applied the inevitable disclosure doctrine in order to issue an interim interlocutory injunction forcing all five former employees, whether or not

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2 Article 2088 of the *Civil Code of Québec*, S.Q. 1991, c. 64 (hereinafter, "C.C.Q")

3 [2003] R.J.Q. 1848

4 J.E. 2003-1752

they had previously agreed to a non-competition clause, to respect their obligations of confidentiality towards their former employer by refraining from the disclosure of all confidential business information. In addition, those employees who were bound by a non-competition agreement were prevented from assuming the positions with the competing company.

In *Alstom Hydro Canada Inc. v. Néron*[5] , Hydro Canada Inc. claimed that despite the honesty and good faith of its former employee, in obtaining employment with a competitor, the employee would inevitably make use of confidential information obtained as a result of his employment with their company. The Superior Court made use of the presumption that disclosure of privileged information was inevitable and applied the inevitable disclosure doctrine in order to prevent implication of that employee in certain projects involving a former Hydro Canada Inc. client.

The doctrine was also applied recently in *ING Canada Inc. v. Robitaille*[6] where ING Canada Inc. was able to demonstrate a high possibility of inevitable disclosure by a former employee who obtained a position with a competitor. Although the former employee was permitted to work with the competing company, having never signed a non-competition agreement with ING, the Court was of the opinion that he did not have the right to disclose any confidential information obtained as a result of his work at ING. In her concluding remarks, Justice Anne-Marie Trahan explained that the use of confidential knowledge respecting ING's non-public "recipe" of strategies and criteria to the benefit of AGF, would necessarily cause irreparable damage and have a detrimental effect for ING. In this context, application of the inevitable disclosure doctrine was instrumental in preventing the occurrence of such damage.

The doctrine of inevitable disclosure has gained increasing recognition within the courts of Québec in recent years. Where an employee with access to confidential or trade secret information obtains substantially similar employment with a competitor of their former employer, this doctrine may be used to forestall detrimental disclosure of the information. In a society where competition among industry-specific companies is fierce, it is now more important than ever to protect these intangible assets. The doctrine of inevitable disclosure may provide a valuable weapon in the struggle to protect assets vital to your business.

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5 [2007] R.J.D.T. 53

6 2007 QCCS 634

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