

# What to expect of the new criminal provisions for trade secret protection in Canada

October 9, 2020

On July 1, 2020, the *Canada-United States-Mexico Agreement (CUSMA)* came into force. Among other legislative enactments and amendments, section 391 of the *Criminal Code* was amended to criminalize the misappropriation of trade secrets. We have previously written about these new criminal sanctions here.

The new provision may, for some, be a welcome addition to Canada's trade secrets legal landscape, which, until now, was limited to the common law doctrines of breach of confidence, breach of fiduciary duty, and breach of contract in order to address the misappropriation of trade secrets, without any criminal consequences. In this post, we discuss who may be subject to criminal liability under these new provisions and what we can learn from the body of law that has developed in the United States, which has historically had a more robust legislative trade secrets regime. American case law may inform the development of Canadian case law under these new *Criminal Code* provisions, given the similarity in wording to America statutes.

## Background: what conduct does the new criminal provision target?

Section 391 states that “[e]veryone commits an offence who, by deceit, falsehood or other fraudulent means, knowingly obtains a trade secret or communicates or makes available a trade secret.”

A trade secret is defined as information that (a) is not generally known in the trade or business that may use that information, (b) has economic value for not being generally known, and (c) is subject to reasonable efforts to maintain its secrecy.

The punishment for committing this offence can be as severe as a prison sentence of a maximum of 14 years. However, a person who independently creates the trade secret or reverse engineers the technology will not be criminally liable.

## Who may be liable criminally for the commission of an offence under the new provision?

Section 391 applies to “everyone”. Applying other aspects of the *Criminal Code* and accompanying case law, organizations can expect that “everyone” can include both individuals and organizations. <sup>1</sup>

An organization may be liable when a “senior officer” with at least partial intent to benefit the organization, (1) is the principal individual actor of the offence, (2) directed other representatives of the organization to perform the offence,

or (3) knew that a representative of the organization was or was going to be a party to the offence and did not take “all reasonable measures” to stop them from being party to the offence.<sup>2</sup> Senior officers are individuals who “play an important role” in establishing an organization’s policies or are responsible for “managing an important aspect” of the organization’s activities.<sup>3</sup> Corporate liability may arise from conduct of high- or even middle-management figures as well as the traditional decision-makers of a company.<sup>4</sup>

Other employees in management positions who may not qualify as “senior officers” may still face liability for misappropriation of trade secrets, where the commission of the offence was performed by an employee under their supervision. In addition to being vulnerable to criminal liability for knowingly obtaining a trade secret or communicating/making available a trade secret, individuals in roles of supervision or management may be otherwise found personally liable as a party, including where they are found to be “wilfully blind” to the commission of the offence.<sup>5</sup>

## “Reasonable” insights from American trade secrets law

Given the longer history of codified trade secrets provisions (both civil and criminal) in the United States, and the similarity in wording the new *Criminal Code* provisions, it is instructive to look to at US case law when assessing how further codification of trade secrets protection may play out In Canada.

One of the principal concerns in US law is whether the owner of the confidential information made “reasonable efforts” to keep it secret. US courts often consider the extent to which the owner took to advise the recipients of the trade secrets that the information was confidential and limited access to the information. The new Canadian criminal provision has the same “reasonable efforts” requirement. Accordingly, when determining whether criminal liability exists, Canadian courts may rely on the US case law to ascertain whether there was a trade secret that was improperly accessed or communicated.

Parties seeking to rely on the new Canadian criminal provisions to assist in the deterrence of the misappropriation of trade secrets should ensure that they have measures and policies in place to ensure that trade secrets are treated and marked as confidential and they limit the number of recipients who have access to this confidential information.

## Takeaways for trade secrets protection in Canada

The new Canadian trade secrets criminal provision is a step forward for trade secret protection in the Canadian legal context. From a deterrence perspective, the criminal provision is an important signpost of the seriousness with which trade secrets are treated in the Canadian legal context.

What remains to be seen is how effectively the criminal provision will be enforced and how related civil litigation will proceed. Parties filing criminal complaints may be concerned about handing the reins of the control of litigation to a third party (i.e., the Crown) to prosecute the action. Parties should also be mindful to limitation periods. They cannot sit on the sidelines while a criminal proceeding works its way through the court system (including appeals) to commence a civil lawsuit for misappropriation of confidential information, especially if it will take more than two years.

Regardless, companies must ensure both that they have taken reasonable steps to protect their trade secrets, and that they have internal measures in place to avoid liability for the theft of another person’s trade secret, whether this is in the context of new employees joining the organization or in the context of business negotiations, during which confidential information of another organization may become known.

To receive more information about trade secret violations, please contact a member of Dentons Canada's Intellectual Property Litigation, Technology and New Media team.

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Thank you to student, Hannah Bourgeois, for her assistance on this article.

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1. *Criminal Code*, RSC 1985, c. C-46, s.2, "organization." ↩
  2. *Criminal Code*, RSC 1985, c. C-46, s.22.2. ↩
  3. *Criminal Code*, RSC 1985, c. C-46, s.2. ↩
  4. *R v Metron Construction Corp.*, 2013 ONCA 541 at para 60-61; *R v Petroles Global Inc*, 2013 QCCS 4262 at para 42. ↩
  5. *R v Briscoe*, 2010 SCC 13 at para 21.↩

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