What does it take to succeed as an innovator? The aim of this article is to examine one aspect of this issue, by identifying attitudes to knowledge spillover as indicated by judicial policy regarding the law of trade secrets in the workplace, and to address their consequences for the high-technology industry. A comparative analysis of the laws of trade secrets and confidential information in the employment context in Canada and Israel is carried out, and in the process, a coherent narrative of these laws in both countries is furnished, with the aim of eliminating some of the uncertainty which is characteristic of this field. Combined with data connecting information spillover to high-technology growth, this article finds that the laws of trade secrets and confidential commercial information represent one type of potential instrument in social and economic policy, which can be used to facilitate growth in the high-technology industry.

Que faut-il pour réussir à titre d’innovateur? Dans le but d’étudier une facette de ce sujet, l’auteure tentera d’identifier les prises de position des tribunaux face au « débordement de connaissances » (knowledge spillover) dans la jurisprudence ayant trait au droit en matière de secrets de commerce en milieu de travail. Elle se penchera également sur les effets de ces prises de position dans l’industrie de la haute technologie. L’auteure effectue une étude comparée des lois sur les secrets commerciaux et les renseignements confidentiels en milieu de travail au Canada et en Israël, en fournissant un exposé cohérent du droit de ces deux pays, tout en visant à éliminer une portion de l’incertitude associée à ce domaine. De concert avec les données reliant le débordement d’informations à la croissance dans le domaine de la haute technologie, cet article constate que les lois sur les secrets de commerce et les renseignements confidentiels ont le potentiel de servir d’instruments de politiques sociales et économiques, qui sont susceptibles de contribuer à la croissance de l’industrie de la haute technologie.

* PhD candidate, Hebrew University of Jerusalem – Faculty of Law.
I. Introduction

What does it take to succeed as an innovator? According to Steve Jobs, founder, chairman and CEO of Apple Inc and unquestionably one of the leading Silicon Valley entrepreneurs, it is about being a leader not a follower.\(^1\) Indeed, the rise of Silicon Valley has been attributed to the mobility of the area’s employees, who move from one company to another, carrying their knowledge and experience to new contexts.\(^2\) Rather than staying on to produce more of the same, the success of an invention drives creative engineers to break away with new start-up companies of their own. These typically develop new ideas and applications by competing directly with the old employer, or making products designed to be compatible with the old employer’s products.\(^3\) Once these new companies succeed, the pattern is frequently repeated, to great financial success.\(^4\)

Clearly, a severe and highly-enforced law of trade secrets would lead to less knowledge spillover. If a country wishes to increase the output of its technological innovation, then analyzing the reach of its trade secret laws in the employment context is a valuable tool, since the workplace is one of the central places in which new knowledge is created.\(^5\) However, this is difficult to analyze empirically for many reasons, one of which is the uncertainty that exists regarding the law of trade secrets and restrictive

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\(^1\) Attributed to Jobs as: “Innovation distinguishes between a leader and a follower” <http://www.brainyquote.com/quotes/authors/s/steve_jobs_3.html>.


\(^4\) For example, 40 out of the 68 hard drive manufacturers founded in 1977-1997 in Silicon Valley spun out of existing firms. These firms accounted for 99.4% of total revenues of the start-up group; see April Mitchell Franco and Darren Filson, “Knowledge Diffusion through Employee Mobility” The Federal Reserve Bank of Minneapolis (July 2000), online: The Federal Reserve Bank of Minneapolis <minneapolisfed.org/research/stsr272.pdf>.

\(^5\) The workplace here is used in the broadest sense and includes public institutions such as government, the military, research institutes and so on, since the traditional legal distinction in trade secrets is between restrictive covenants in agreements for the sale of a business and those in contracts of employment. See cases cited in Michael J Trebilcock, The Common Law of Restraint of Trade: A Legal and Economic Analysis (Toronto: Carswell, 1986) at 93-94.
post-employment covenants with respect to their subject matter, definitions, causes of action and remedies.\textsuperscript{6} A comparative analysis can provide a relative standard against which to evaluate the significance of the legal policy in different jurisdictions. Israel and Canada’s common concern with encouraging high-tech growth, coupled with a common legal heritage, makes them good candidates for comparison.

At the same time, the academic treatment of trade secrets and restrictive covenants appears to be inadequate, with leading intellectual property thinkers describing the academic debate of trade secrets as falling between the gaps\textsuperscript{7} and far behind other types of intellectual property, in quality and quantity.\textsuperscript{8} This is surprising since trade secrets are one of the most litigated types of intellectual property and there is an overwhelmingly large body of jurisprudence regarding trade secrets and restrictive covenants.\textsuperscript{9}

The aim of this article therefore, is to carry out a comparison of attitudes to knowledge spillover in Canada and Israel, as indicated by the judicial policies regarding the law of trade secrets in the workplace in both countries. Building on literature according to which knowledge spillover is necessary for innovation, as well as the understanding that the law of trade secrets is one of the ways in which knowledge spillover is regulated, this article argues that it is valuable and interesting to compare the different ways in which this regulatory mechanism is applied, especially between countries whose declared policy aims and legal legacy are similar. In the process, I also hope to present a coherent account of the law of trade secrets in the workplace in Canada and Israel.

To these ends, I begin by analyzing the connection between trade secrets, information spillover and technological growth, in Part 2 of this


\textsuperscript{9} A study of 530 companies in Massachusetts showed that 43% of their intellectual property (IP) disputes had a trade secrets component; see Josh Lerner, “The Importance of Trade Secrecy: Evidence from Civil Litigation” Harvard Business School Working Paper #95-043 (Dec 1994).
article. Part 3 addresses the choices of Israel and Canada as the focus for this article and describes their respective laws on trade secrets in the workplace, alongside recent case law developments. In Part 4, the results of the comparison are synthesized and analyzed in order to advance our understanding of the judicial policy in both jurisdictions. The value in identifying these attitudes is that they advance the ability to understand and evaluate the potential for policy decisions to be fulfilled. This article is therefore an invitation to consider the laws of trade secrets and confidential commercial information as part of the policy considerations relevant to the advancement of innovation.

2. The Connection Between the Law of Trade Secrets, Information Spillover and Technology Growth

As mentioned in the introduction, this article looks at the way two different legal systems deal with trade secrets in the workplace. By carrying out a comparative analysis of these laws, which are effectively geared towards controlling the free flow of information, the author hopes this article will create an understanding of the judicial attitudes regarding this phenomenon. In light of research connecting information spillover with high levels of innovation, it is clear that there is great value in identifying these judicial attitudes, as expressed by case law on trade secrets, since they have the potential to at least partially affect innovation. Some of the justifications for encouraging knowledge spillover are now discussed.

That economies around the world are becoming increasingly knowledge-based, is often cited to emphasize the importance of investment in information production, distribution and use, key determinants of economic growth. 10 For example, the annual growth rate of scientific and engineering employment in the US was 4.9 per cent between 1980 and 2000, more than four times the overall annual growth rate in employment. 11 So too, an increase in patents issued by the US Trademark and Patent Office from 110,000 in 1985 to 269,000 in 2001 indicates the central role of knowledge production to the economy. 12 The interesting question, however, concerns how information behaves and what type of environment is most suited to its creation.

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11 Landes and Posner, supra note 8 at 3.

12 Ibid at 2. The focus on American statistics is natural since both Israel and Canada compare themselves to the United States on this point; see e.g. Vawn Himmelsbach, “IT underspending widens Canada-U.S. productivity gap: experts” Institute for Competitiveness
While providing a full answer to this question is beyond the scope of this article, there is much to be said about the contribution of the spillover of information in generating more valuable information. Scientists have long held free and open communication to be the most essential requirement for their work and to scientific progress, and this has been reaffirmed throughout history, most notably in the Declaration of Scientific Principles published during the First World War, whose seventh principle declared the pursuit of scientific inquiry to demand complete intellectual freedom and unrestricted exchange of knowledge.  

The importance of information spillover to innovation and scientific inquiry has many aspects. For one, it generates feedback, encouraging the innovator to alter hypotheses in light of new information, improve on models and therefore advance more swiftly. The diffusion of information also prevents unnecessary duplication of effort and encourages the discovery of errors, improving the quality of research. This is particularly the case in the evolution of high technologies, where much of innovation builds on earlier inventions.

Furthermore, many computer applications are geared towards working with and supporting existing applications: without an intimate knowledge of the technological makeup of new products, this type of development would be impossible and would result in inefficient incompatibility of high-technology products.  

Romer has identified technological information as one of the most important factors in economic growth, finding that its sharing is a central aspect of development. In his endogenous or new growth theory, firms continue to produce technological information despite the fact that rivals cannot be excluded from it. Innovation is redefined as an interactive process, requiring formal and informal exchanges of

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14 See comments to this effect made by an interviewee working in Silicon Valley in AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge: Harvard University Press, 1994) at 114.
information across networks, with imitation becoming a central component of innovative strategy.\textsuperscript{17}

Beyond the centrality of cumulative research to scientific discovery, knowledge spillover has other positive effects on the commercial aspect of scientific research.\textsuperscript{18} For example, since the first innovator might not have expertise in all applications of its invention, more second generation products are likely to arise if more researchers are able to access that initial invention. This is because not every firm specializing in research and development will see the same opportunities for new products.\textsuperscript{19}

In sum, in a knowledge-based economy where the competitive advantage of a firm is determined by the extent to which it can produce and apply innovative information, knowledge spillover is one of the ways of encouraging creativity and growth. As a mechanism geared towards controlling the free flow of information, understanding the workings of trade secrets can potentially contribute to advancing this goal.\textsuperscript{20} The next section therefore turns to a comparative analysis of the law of trade secrets in Israel and Canada.

\textit{3. Trade Secrets in the Workplace in Canada and Israel}

The question I now turn to is what can be learned about the promotion of research and development from the laws on trade secrets in Israel and Canada. To this end, the following two sections present the laws of trade secrets in the workplace in Israel and Canada, while the findings from this section are synthesized in Part 4.

\textsuperscript{17} OECD, \textit{supra} note 10 at 14. This analysis is echoed in Ronald J Gilson, “Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete” (1999) 74:3 NYUL Rev 575 (suggesting that California’s refusal to enforce non-compete clauses has contributed to the success and growth of high-tech, high-velocity networks such as those in the Silicon Valley). See also Brett M Frischmann and Mark A Lemley, “Spillovers” (2007) 107:1 Colum L Rev 257 (arguing that spillovers are not always bad and more property rights are not always good).

\textsuperscript{18} Lee, \textit{supra} note 3 at 10.

\textsuperscript{19} See Suzanne Scotchmer, “Standing on the Shoulders of Giants: Cumulative Research and the Patent Law” (1991) 5:1 J of Ec Perspectives 29 at 32 (arguing, generally, that the social value of secondary inventions is greater than that for protected primary inventions).

\textsuperscript{20} This is true to a certain extent for most types of intellectual property laws. In fact, from Frischmann and Lemley, \textit{supra} note 17, it emerges that patents and copyright law are better for innovation than trade secrets, since they encourage externalities.
A) The Law in Canada

There is no unified statutory regime regulating confidential commercial information in Canada. Consequently, the protection of such information relies on a number of pre-existing branches of law, which has led to this field being likened to an umbrella, where the “ribs of the umbrella represent various areas of the law under which some measure of protection is available.” This is perhaps the source of the confusion that abounds in Canadian law where the restriction of confidential commercial information is concerned, be it with regard to the substantive legal mechanism that should be employed or the very name given to that mechanism. In this part of the article, therefore, I proceed by focusing on how express and implied duties in the workplace are used to prevent the spread of commercial confidential information by employees in Canada, with a
special emphasis on a separate category of information encompassing customer connections and related information.

1) Express Contractual Obligations Regarding Trade Secrets in the Workplace

Express contractual obligations will usually come in the form of nondisclosure agreements (NDAs), noncompete agreements (NCAs) or nonsolicitation agreements. The content of post-employment covenants is regulated by general contracts law but also by public policy rules developed by the common law such as the restraint of trade doctrine, which is now discussed.

a) The Restraint of Trade Doctrine – Common Law Rein to Anti-Competitive Urges

It is a general principle of the common law that a person is entitled to undertake a lawful trade when and where she wishes. Consequently, the common law does not favour agreements that restrain a person in the exercise of lawful employment and in the absence of special circumstances, such restraints of trade will be considered contrary to public policy and thus void. These special circumstances are defined by the doctrine of restraint of trade, which states that a covenant will only be enforced if it is both reasonable in the interests of the contracting parties (employer and employee), and in the interests of the public. This is an attempt to balance the employer’s economic interests on the one hand, against the common interest of the employee and society in guaranteeing the mobility of employees on the other. Consequently, a post-employment covenant will usually be found invalid unless it is necessary to prevent

This article proceeds by using the term “trade secrets” to refer to a type of confidential commercial information which, by fulfilling certain legal conditions depending on the legal system in question, receives special protection by the law as is manifested by the remedies available to the plaintiff. The term “confidential information,” on the other hand, is used to refer to information which is secret in nature, without saying anything about its legal status. This distinction is hinted at in J D Heydon, The Restraint of Trade Doctrine (Sydney: Butterworths, 1999) at 73 and also supported directly in Elizabeth F Judge and Daniel Gervais, Intellectual Property: The Law in Canada (Toronto: Thomson/Carswell, 2005) at 496.

This article focuses on confidential commercial information, which includes technical information such as manufacturing processes, formulas, technological advances, patentable material; and business information, such as business plans, customer lists, marketing strategies and so on.

24 The modern law was stated in Nordenfelt v Maxim Nordenfelt Guns and Ammunition Company, [1894] AC 535 (HL).
disclosure of trade secrets or use of the employer’s client connections. Similarly, courts will likely strike down NCAs in cases where the more limited nonsolicitation agreement would have sufficed. On the other hand, the courts have been disinclined to restrict the right to contract, particularly when that right has been exercised by knowledgeable persons of equal bargaining power.

In evaluating whether a post-employment covenant is reasonable between the contracting parties, the court will look for a legitimate or proprietary interest protected by the agreement, and analyze the activities restrained, the duration of the covenant, and the geographical area over which it applies. Examples of legitimate or proprietary interests include the protection of trade secrets and customer connections. The list of legitimate interests should not, however, be read as closed. Furthermore, courts are not bound by the provisions of a particular restrictive covenant which designate particular interests as being legitimate; rather, courts must have regard to the realities of the circumstances in making this determination.

A covenant which restrains an employee from engaging in a business different in character from the former employer’s business will most often not be enforced as a result of the scope being unreasonable. For example, an NCA according to which the employee committed not to work as an insurance agent was found to be too broad since the former employer did

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25 *Atlantic Business Interiors Ltd v Hipson et al*, 2005 NSCA 16 at para 38, 230 NSR (2d) 76 [*Hipson*] affirming that a full-scale non-competition clause will only be enforced for an “exceptional case”; see also *Windship Aviation Ltd v deMeulles*, 2002 ABQB 669 at para 27, [2003] 1 WWR 393; *947535 Ontario Ltd v Jex* (2003), 37 BLR (3d) 152 (Ont Sup Ct).

26 *Orlan Karigan and Associates Ltd v Hoffman* [2001] OJ No 3462, CLLC 210-011 (CA); *Total Credit Recovery Ltd v Koyama-Asada* (1998), 34 CCEL (2d) 125 (Ont Ct J (Gen Div)); *Target Marketing & Communications Inc v MacDonald* (1998), 169 Nfld & PEIR 214 (SC (TD)) [*Target Marketing*].

27 See e.g. *Nelsons Laundries Ltd v Manning* (1965), 51 DLR (2d) 537 at 545 (BCSC) where the fact that the covenant in question was negotiated with the involvement of a strong union was fundamental in the court’s finding it to be reasonable. If the court is convinced that the employee was not unfairly exploited, it will uphold even harsh covenants; see e.g. *Friesen v McKague* (1992), 44 CCEL 280 at 286 (Man CA) where the court enforced a covenant according to which a vet was prohibited from practicing within 25 miles of his former employer, for three years, for this reason.

28 Heydon, *ibid* at 101.

29 Heydon, *supra* note 23 at 72; Trebilcock, *supra* note 5 at 68, citing *George Weston Limited v Baird* (1916), 31 DLR 730 at 738 (Ont SC (AD)).

30 *Canadian University Press Media Services Ltd v Pleasants* (2000), 1 CCEL (3d) 219 at 225 (Ont Sup Ct); *Jiffy Foods Ltd v Chomski*, [1973] 3 OR 955 (H Ct J (Div Ct)).
not provide every kind of insurance business. So too, a prohibition on practicing any kind of medicine was found to be too wide where the employee was a specialist in obstetrics and gynecology.

The extent of the geographical area required to protect the proprietary interest in question will be determined by referring to the nature of that interest, and, if applicable, the boundaries of the market for that interest. For example, where the former employer’s clientele is restricted to an area smaller than the area specified in the restrictive covenant, the restraint on the employee will not be enforced or where the clause is not formulated in a manner specific enough to enable the employee to understand the consequences of the limitation to which she is committing herself.

As regards the reasonableness of a restrictive covenant’s duration, a permanent restraint will not be enforced other than in very rare cases and the appropriate duration of a restraint on the disclosure of confidential information depends on the length of time for which the information remains useful. Consequently, the pace of technological advances in some fields makes trade secrets about production processes relatively valueless in a short period of time, whereas other trade secrets that do not lose their value over time, might warrant a longer period of restraint.

It should be noted, however, that case law regarding reasonableness between the parties is not entirely consistent and the principle of the freedom of contracts has been used to justify harsh restrictive covenants, including those that appear unreasonable in terms of duration, scope or geographical area.

The “public interest” consideration is most frequently associated with the effects of a particular restrictive covenant on competition and involves examining whether the restraint will deprive the market or the

32 Sherk et al v Horwitz, [1972] 2 OR 451 (H Ct J) [Sherk].
34 Ernst & Young v Stuart, [1993] 6 WWR 245 (BCSC).
35 Crain-Drummond Inc v Hamel (1991), 35 CCEL 55 (Ont Ct J (Gen Div)), aff’d (1991), 36 CPR (3d) 163 (Ont Sup Ct (Div Ct)) [Crain-Drummond].
37 Dale and Co v Land (1987), 84 AR 52 at 52 (CA), where a five-year province-wide restraint on an insurance broker was enforced.
38 See e.g. Woodward v Stelco Inc (1996), 66 CPR (3d) 491 (Ont Ct J (Gen Div)), aff’d (1998), 80 CPR (3d) 319 (Ont CA), leave to appeal to SCC refused, [1998] SCCA no 455.
relevant community of a service or of sufficient competition in that service. For example, where a community will not suffer from the loss of one general insurance agent because twenty-two others remain in business, the restraint may be upheld.\(^{39}\) Conversely, where a restraint would prevent an obstetrician from practicing in a community short of such specialists, it will be held void as being contrary to the public interest.\(^{40}\) Some courts however, have intimated that if a restrictive post-employment covenant meets the first condition, of reasonableness between the parties, it will automatically be deemed to fulfill the “public interest” condition as well.\(^{41}\) Indeed, this development has been described as being part of a broader phenomenon whereby the public interest is rarely considered, let alone relied upon to strike down a restrictive covenant.\(^{42}\)

\textit{b) The Special Case of Customer Connections and Express Duties}

The specificity requirement of the restraint of trade doctrine, as regards customer connections, dictates that the covenant must do no more than restrain the employee from carrying on business in respect of which the customer connection was built up. Customer connections and related information represent a special category where the restraint of trade doctrine is concerned, in that the court’s scrutiny is distinctly more lax. In one case, the Court held that a non-competition clause prohibiting a dental surgeon who had worked as an associate in a dental practice for less than a year and a half, from working in a competing dental practice within five miles of the employer’s practice, for three years, was not enforceable and that the plaintiff’s interests could have been protected by a non-solicitation clause. The Court stated that “as a general rule, non-solicitation clauses are permissible; in ‘exceptional cases’ only, non-competition clauses will be upheld.”\(^{43}\)

This may appear justified by the fact that, formally, nonsolicitation agreements appear to be narrower in scope since they only address one

\(^{39}\) Elsley v J G Collins Ins Agencies, [1978] 2 SCR 916 at 929.
\(^{40}\) Sherk, supra note 32. This analysis was repeated in Baker et al v Lintott (1981), 141 DLR (3d) 571 (Alta CA), with the Court reaching the opposite conclusion based on the facts.
\(^{41}\) Stephens v Gulf Oil Canada Ltd et al (1976), 11 OR (2d) 129 (CA).
\(^{42}\) Trebilcock, supra note 5 at 106-07.
\(^{43}\) Lyons v Multari (2000), 50 OR (3d) 526 (CA), leave to appeal to SCC refused, [2000] SCCA no 567. This case has been followed in Orlan Karigan & Associates Ltd v Hoffman (2001), 5 CCEL (3d) 311 (Ont Sup Ct J), considered in Kohler Canada Co v Porter (2002), 17 CCEL (3d) 274 (Ont Sup Ct J) and referred to in Infinite Maintenance Systems Ltd v ORC Management Ltd (2001), 139 OAC 331, Button v Jones (2001), 11 CCEL (3d) 312 (Ont Sup Ct J) and Valley First Financial Services Ltd v Trach, 2003 BCSC 223, 120 ACWS (3d) 784.
channel through which a former employee can compete with her former employer. The effects of nonsolicitation agreements can be just as broad as NCAs, however, depending on the type of business in question. In many cases, limiting a former employee’s contact with former clients will effectively serve to restrain her ability to compete with a former employer to an extent which would not be enforced under an NCA. For example, in *Crain-Drummond Inc v Hamel*, the employee had signed a covenant according to which for the duration of one year after the termination of his employment, he would refrain from soliciting any of the company’s or its subsidiaries’ customers. The Court commented that such a covenant is equally likely to be found unreasonable as it pertains to all customers of the plaintiff in the defendant’s assigned territory during the one year period. This could well include persons who became customers after the defendant left the plaintiff’s employment and, as the evidence discloses, would include customers the defendant Hamel brought with him to his employment with the plaintiff.

In most cases, however, the broad scope of nonsolicitation agreements is not so clear and they are approved relatively easily as compared to NCAs. As will become evident towards the end of the discussion on Canadian law, this is also the case where implied duties are concerned. Together, these phenomena act as effective caps on the free flow of certain types of information.

2) Implied Duties – Increasingly Fettered Employees

Courts may aid an employer seeking to control the behaviour of an employee with regard to a trade secret by implying one of the following contractual obligations into the specific employment relationship: the duty of good faith/fidelity, the duty of confidentiality or the fiduciary duty. Post-employment, where no NDA has been signed, the duties implied into the relationship have traditionally been more limited in scope, since a court will not prevent the employee from using the general skills and knowledge acquired while working in her former employer’s business. This distinction has been criticized as being difficult to apply, however, and in *Matrox Electronic Systems v Gaudreau*, the Court found the exemption to

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44 Supra note 35.
46 *R L Crain Limited v Ashton and Ashton Press Manufacturing Company Limited*, [1949] 2 DLR 481 (Ont H Ct), aff’d [1950] OR 62 (Ont CA) at para 19 [Ashton]. The rationale behind this distinction comes from the understanding that there are certain types of knowledge which become an integral part of the employee and whose use by the employee cannot be thereafter controlled without seriously hampering the employee’s personal development; see *Target Marketing*, supra note 26.
be “unworkable and unrealistic in today’s information economy” and “rendered almost meaningless” by the highly specialized nature of modern high-tech workers. 47 The following section discusses additional developments which have effectively contributed to the progressive weakening of this exemption.

a) The Duty of Good Faith

During the period of the employment contract, the employee owes the employer a duty of good faith or fidelity. Since this is a duty which arises from the employment relationship, it does not say anything per se about how an employee should behave post-employment. 48 Rather, it requires the employee to perform her duty faithfully 49 and to be loyal to her employer in dealing with her property, tangible or intangible. 50 An action based on the duty of good faith does not require actual economic harm, since the duty is based on the notions of trust, confidence and loyalty, which courts assume should form the basis of the employment relationship. 51

One aspect of the duty of good faith is that it is an implied term in all employment contracts that the employee will not, during her employment, establish herself in competition with her employer during working hours or in her spare time. 52 In the past, this included preparation for future competition while still employed, in the form of meeting with a competitor, 53 or with other employees 54 interested in competing in future with the employer.

49 R v Fuller, [1968] 2 OR 564 (Ont CA).
51 For comments to that effect, see Duguay v Maritime Welding & Rentals Ltd (1989), 28 CCEL 126 at 131 (NB QB); Laverty v Cooper Plating Inc (1987), 17 CCEL 44 (Ont Dist Ct).
52 Some examples include Croxford v London Jeep Eagle Ltd (1995), 11 CCEL (2d) 308 (Ont Ct J (Gen Div)) where a mechanic solicited work from his employer’s customers; Andrew v Kamloops Lincoln Mercury Sales Ltd (1994), 7 CCEL (2d) 228 (BC SC) where a car salesman privately sold a car off the company lot.
Recent decisions accept that some degree of preparation is necessary if post-employment competition is to be allowed\textsuperscript{55} and have allowed employees to search out alternate employment with competitor companies, respond to such offers and accept them, while still employed.\textsuperscript{56} However, preparation which includes determining to use confidential information or trade secrets, or canvassing customers, will not be protected.\textsuperscript{57}

\textit{b) The Duty of Confidentiality}

Unlike the duty of good faith, the duty of confidentiality continues to apply after the termination of the employment relationship.\textsuperscript{58} This is because the duty of confidentiality does not arise from the employer-employee relationship and it can be found to exist between two individuals between whom there are no contractual relations. Rather, it arises from the fact that the confidant was exposed to secret information with the implicit understanding that they were not to pass this information on to third parties or use it in any other way.\textsuperscript{59}

The duty is not merely implied into the contract of employment, but simultaneously imposed by the equitable doctrine of breach of confidence.\textsuperscript{60} Therefore, unlike contractual duties, which may be enforced only against the party who has assumed the obligation in question, the equitable obligation not to misuse information acquired in confidence falls upon any person into whose hands the information comes as a result of another’s breach of confidence. Hence the duty of confidentiality may be enforced not only against the ex-employee but also against any third party (such as

\textsuperscript{55} See e.g. \textit{Corporate Classic Caterers v Dynapro Systems Inc} (1997), 33 CCEL (2d) 58 (BCSC) where the plaintiff company’s claim was rejected because the employee made reasonable plans outside her normal working hours.

\textsuperscript{56} See e.g. \textit{Barton Insurance Brokers Ltd v Irwin et al} 1999 BCCA 73 at para 39, 170 DLR (4th) 69 (BCCA) [\textit{Barton}]; \textit{Firemaster Oilfield Services Ltd v Safety Boss (Canada)} (1993) Ltd, 2000 ABQB 929, 87 Alta LR (3d) 366.

\textsuperscript{57} See e.g. \textit{CRC-Evans Canada Ltd v Pettifer} (1997), 26 CCEL (2d) 294 at 303-04 (Alta QB) [\textit{CRC-Evans}] where an employee who made plans to compete unlawfully was found to be in breach of his obligations.

\textsuperscript{58} Kokonis, \textit{supra} note 23 at 332.

\textsuperscript{59} \textit{Ibid} at 335.

\textsuperscript{60} See e.g. the discussion \textit{ibid}, where despite the fact that the author distinguishes between the “general duty of confidence” (in equity) and the “obligation of confidence” (a common law implied term of contract) by creating separate chapters for each, the substance of these duties is identical and the same legal tests apply. This approach is repeated throughout the literature. It was only the \textit{Cadbury Schweppes} Court’s interpretation of the case law which relieved this burden by recognizing the multiple roots of the breach of confidence action, confirming it as being a \textit{sui generis} action; see \textit{Cadbury Schweppes Inc v FBI Foods Ltd}, [1999] 1 SCR 142.
another employer, or a rival firm set up by the ex-employee) who acquires the information as a result of the ex-employee’s breach. 61

Above all, the duty of confidentiality is only breached by the misuse of secret information. Where the employer has made no particular effort to prevent the information from freely circulating within or outside the enterprise, a claim against an employee who takes it away in their head and subsequently uses it must fail, no matter how much damage the use of that information causes the employer. 62 At the same time, the duty could arise with respect to mundane information, as long as the employer has made efforts to keep it secret and out of the public domain.

c) The Fiduciary Duty63

The fiduciary duty has undergone significant changes since the end of the last century, some of which will be discussed in this chapter. It has been described as an “obligation of loyalty, good faith, honesty and an avoidance of conflict of duty and self-interest,” 64 continues for a time after the employment relationship ends 65 and was traditionally identified with senior employees occupying positions of particular trust. 66 It requires that the fiduciary avoid obtaining for herself any business opportunities belonging to the employer, which includes the duty not to use trade secrets gained in a fiduciary capacity, though it also enables an employer to restrain the disclosure of information which does not meet the minimal requirement of confidentiality. 67

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61 See e.g. Printers and Finishers Ltd v Holloway [1964] 3 All ER 731.
62 Faccenda, supra note 23 at 625.
63 The basic source for this review is Robert Flannigan, “Fiduciary Obligation in the Supreme Court” (1990) 54 Sask L Rev 45 at 46-47.
64 Felker v Cunningham and Electro Source Inc, [2000] CLLC para 210-035 at 141,286 (Ont CA).
65 CRC-Evans, supra note 57 at 308.
66 Like the duty of good faith, the fiduciary duty is a “status” duty, that is, it arises from the status of the holder of the duty. As regards the fiduciary duty, the relevant status was traditionally that of seniority in the firm, that is, the ability to significantly and directly influence or make decisions regarding company assets. As regards the duty of good faith, the relevant status is that of being an employee. A senior employee therefore has both a fiduciary duty and duty of good faith to her employer. The duty of confidentiality however arises primarily from the nature of the information in question and has less to do with status; the exposure to secret information places an implied duty upon the “receiver” of confidential information to maintain the secrecy of the information.
67 Canadian Aero Service Ltd v O’Malley et al (1973), 40 DLR (3d) 371 (SCC) [Canaero].
Top managers, for example, are prohibited from resigning in order to take advantage of a business opportunity which they have developed or become aware of while employed.\(^{68}\) If, however, the fiduciary has fully disclosed the opportunity to the employer and the latter has declined to exploit it, the fiduciary is free to enjoy it.\(^{69}\) On the other hand, if the fiduciary exploited the opportunity, reasoning that the employer lacked the means to exploit it herself, the fiduciary will likely be held liable. This is because the notions of trust, loyalty and confidence employed in this context are psychological, rather than economic.\(^{70}\)

The fiduciary duty obliges the employee to proactively make disclosures to the employer and as such is a more burdensome duty than the other implied duties. This is seen as including the duty to inform the employer of the employee’s future business endeavours which could threaten the employer’s market base, and also that the employee has been offered or has accepted a position with a competitor.\(^{71}\) If the fiduciary obtains the employer’s consent for such a move, then it cannot be considered a breach.\(^{72}\) The fiduciary duty is also more demanding than the duty of confidentiality since it does not require the breach to have caused harm,\(^{73}\) whereas breach of confidence will only be established where the plaintiff can show that the defendant misused the information. So too, the fiduciary duty is more exacting than the duty of good faith, which allows some preparation for future competition, while the fiduciary employee must disclose all such plans.\(^{74}\)

In the past, courts attempted to narrowly interpret the fiduciary duty, recognizing the need to balance the employee’s need for mobility and the employer’s need for compliant behaviour.\(^{75}\) However, since the \textit{Canadian Aero Service Ltd v O’Malley et al} decision,\(^{76}\) the span of the fiduciary duty has grown. Firstly, the distinction between the duty of good faith and the fiduciary duty has blurred, with lower level workers increasingly being found to owe a fiduciary duty to their employers. Secondly, the fiduciary

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\(^{68}\) \textit{Berkey Photo (Can) Ltd v Ohlig et al} (1983), 2 CCEL 113 at 127-28 (Ont H Ct J).

\(^{69}\) \textit{Ivanore v Bastion Development Corp} (1993), 47 CCEL 74 (BCSC).

\(^{70}\) \textit{MacMillan Bloedel Ltd v Binstead} (1983), 22 BLR 255 (BCSC).

\(^{71}\) \textit{CRC-Evans, supra} note 57. See also \textit{Manley Inc v Fallis} (1977), 2 BLR 277 at 280 (Ont CA); \textit{Fraser v Proscience Inc} (2005), 42 CCEL (3d) 245 at 259-60 (Ont Sup Ct J).

\(^{72}\) \textit{Cline v Don Watt & Associates Communications Inc} (1986), 15 CCEL 181 (Ont Dist Ct).

\(^{73}\) \textit{Lac Minerals Ltd v International Corona Resources Ltd}, [1989] 2 SCR 574.

\(^{74}\) \textit{Wilcox v GWG Ltd} (1985), 8 CCEL 11 at 12 (Alta CA).

\(^{75}\) \textit{RW Hamilton Ltd v Aeroquip Corp} (1988), 22 CPR (3d) 135 (Ont H Ct J).

\(^{76}\) \textit{Canaero, supra} note 67.
duty has been used to prohibit behaviour typically permitted in most cases regarding post-employment competition by former employees. These developments will now be discussed.

i) The Beginning of Expansion

Prior to the Canaero decision, outside the fiduciary duty there was nothing to prevent an employee from terminating her employment and competing partially or even directly with her employer, in the same field, over the same clients – even relying on training given by the former employer. Beyond nurturing a positive relationship with clients for future purposes, the employee was also entitled to actively seek out these clients after leaving the employer.

The Canaero decision significantly altered this by extending the scope of the fiduciary duty so as to apply to a broader base of employees. The defendants, who were not directors but held senior level positions in the plaintiff company, worked on the implementation of a project on behalf of the plaintiff company, until they resigned, incorporated their own company, submitted their own proposal for the project and obtained business related to that project.

The Supreme Court found the positions of the defendant employees in Canaero to be more similar to that of agents of the company than to servants, since they were charged with initiatives and responsibilities beyond those of regular employees. As a result, they owed an extended duty of good faith to their employer, which corresponded to the fiduciary duty owed to a company by its directors, which included the duties of loyalty and avoidance of conflict of interests. Thus they were precluded from obtaining for themselves any business advantage either belonging to the company or for which it had been negotiating. The Court made no

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77 See e.g. Dominion Al-Chrome Corp Ltd v Stoll et al (1974), 14 CPR (2d) 174 (Ont H Ct J) [Stoll]; Pre-Cam Exploration and Development Ltd et al v McTavish et al, [1966] SCR 551; Ashton, supra note 46.

78 Barring some exceptions; see International Tools Ltd v Kollar et al (1968), 67 DLR (2d) 386 (Ont CA). Some of these exceptions were discussed above in the text associated with notes 51-57.

79 Canaero, supra note 67 at 381. The exact term employed by the Court was “top management.” This term was adopted in the later decision in Alberts et al v Mountjoy et al (1977), 16 OR (2d) 682 (H Ct J) [Mountjoy], though for much more junior employees. The vagueness of the term has been criticized as being one of the main triggers for the highly expansive case law described below. See Peter Downard, “Post-Employment Competition and the Courts: An Unfortunate Curve in the Common Law” (1985) 6:3 Advocates’ Q 361 at 367.
attempt to delineate the scope of the new fiduciary duty, describing it as a “developing branch of the law.”

ii) “Fair” Competition

The decision in *Alberts et al v Mountjoy et al* expanded upon the *Canaero* court’s approach regarding the scope of the fiduciary duty. The defendant in *Mountjoy* was employed by an insurance agency, as its manager. Following a change in ownership, he was stripped of his secretary and staff, prompting him to leave without giving notice but without taking any confidential information. A junior salesman left with him and together they established a new business, identical to the plaintiff company. Through the new business, the two former employees solicited the company’s clients and convinced many of them to leave the plaintiff company.

Despite declaring that the ex-employees were permitted to compete directly with the plaintiff company, the Court found the defendants liable for breaching their fiduciary duties, since they had made “an unfair use” of information acquired in the course of their employment. In this determination, the Court revived the dated and amorphous standard of fairness to which departing employees must conform. The information unfairly used was the defendants’ “natural advantage” which enabled them to take over the company’s relationship with its clients.

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80 *Ibid* at 390.
81 *Supra* note 79. It has been argued that *Canaero* could have been interpreted differently, see discussion in Peter C Wardle, “Post-Employment Competition – *Canaero* Revisited” (1990) 69:2 Can Bar Rev 233.
82 *Mountjoy, supra* note 79 at 689.
84 *Mountjoy, supra* note 79 at 690.
The fairness condition was swiftly taken up by a long line of cases with little criticism being voiced. Aside from directly expanding the scope of employees which can be considered fiduciaries, by creating additional restraints on post-employment behaviour through the “fairness” concept, the Mountjoy decision further blurred the line between fiduciaries and regular employees. In the meantime, the full scope of the fairness condition remains unexplored and is broadly seen to have injected a large degree of uncertainty and unpredictability into this field.

iii) Who is a Fiduciary?

After Canaero, the fiduciary duty continued to be further extended to include additional types of employees, well beyond the original confines of the doctrine, with the lack of clarity in the principles and perimeters of the fiduciary duty making it one of the most routinely cited concepts. For example, in one case, a messenger was found to owe his former employer a fiduciary duty after the Court classified his knowledge as peculiar and therefore subject to protection for the former employer’s benefit. In another case, the Court found that employees owed their employer a fiduciary duty, despite the fact that they performed no managerial

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85 See e.g. Sure-Grip Fasteners Ltd v Allgrade Bolt & Chain Inc (1993), 45 CCEL 276 at 288 (Ont Ct J (Gen Div)) [Sure-Grip]; Tomenson Saunders Whitehead Ltd v Baird (1980), 7 CCEL 176 (Ont H Ct J) [Tomenson]; 57134 Manitoba Ltd v Palmer et al (1989), 26 CPR (3d) 8 at 56 (BCCA); Barton, supra note 56. The latter case went some way towards defining the reaches of the “fairness” concept, though its content remains unclear. It should be noted that while the regular employee is increasingly considered to be under the same obligations as fiduciaries, there is no evidence to suggest that the imposition of additional restraints has been reciprocated with improved conditions or increased consideration of any kind.

86 Nelson Burns, supra note 36 at 711.

87 To clarify: The finding that a manager owes a fiduciary duty was one aspect of the expansion, the grounds of which were laid in Canaero. Another aspect was the fact that the junior employee who joined Mountjoy’s new business endeavour was also found to owe a fiduciary duty. The Court reasoned that by being associated with Mountjoy’s new business, the junior salesman found himself “upon the same level in law” and thus became fixed with the same obligations; see Mountjoy, supra note 79 at 689-93. This concept of “fiduciary by association” is further developed towards the end of this section.

88 Almor Services Ltd v Sawyer et al (1990), 31 CCEL 34 at 63 (BC SC) [Almor].

89 England, Christie and Wood, 3rd ed, supra note 23 at 11-162, 11-171; see e.g. RBC Dominion Securities Inc v Merrill Lynch Canada Inc, 2007 BCCA 22, 275 DLR (4th) 385 at para 66 [RBC CA].


91 Monarch Messenger Services Ltd v Houlding (1984), 5 CCEL 219 (Alta QB) [Monarch].
functions and received a fairly low salary supplemented by commission, because of their exclusive relationships with particular clients.\textsuperscript{92}

Even independent contractors have been characterized as being limited by fiduciary duties.\textsuperscript{93} A new category of “fiduciary by association” has enabled courts to hold low-level, traditionally non-fiduciary employees, liable in damages because they were “caught in the web of the duties owed and breached” by a former senior employee who persuaded them to resign and join his new corporation.\textsuperscript{94} Clearly, increased judicial reliance on the fiduciary duty increasingly hampers knowledge spillover, since more employees’ post-employment options are limited.

d) The Special Case of Customer Connections and the Fiduciary Duty

Enticing customers away from one’s current employer is precluded by the employee’s implied duty of good faith.\textsuperscript{95} However, it is well accepted that the employee can inform her customers that she will be ending her employment and even describe her new business venture,\textsuperscript{96} though it is hard to define where such permitted behaviour ends and prohibited “enticement” begins.\textsuperscript{97} Post-employment, an implied duty protecting customer lists from their use by former employees has been found to exist, irrespective of whether these conform to the legal tests for trade secrets and

\textsuperscript{92} Quantum Management Services Ltd v Hann et al (1989), 43 BLR 93 at 105 (Ont H Ct J) [Quantum].
\textsuperscript{93} See e.g. Gunning and Associates Marketing, Inc v Kesler; Double Take Marketing Inc et al, [2005] CLLC para 210-029 at 141,237 (Ont Sup Ct J); Professional Court Reporters v Carter (1993), 46 CCEL 281 at 293 (Ont Ct J (Gen Div)).
\textsuperscript{94} Canadian Industrial Distributors Inc v Dargue (1994), 7 CCEL (2d) 60 at 69 (Ont Ct J (Gen Div)); see also Abrams v Ross Wemp Motors Ltd (1986), 12 CPR (3d) 87 (Ont H Ct J).
\textsuperscript{95} McCormick Delisle & Thompson Inc v Ballantyne (2001), 9 CCEL (3d) 50 (Ont CA).
\textsuperscript{96} Anderson, Smyth, & Kelly Customs Brokers Ltd v World Wide Customs Brokers Ltd (1993), 1 CCEL (2d) 57 at 70 (Alta QB) [Anderson]. See also Westcan Bulk Transport Ltd v Stewart (2005), 38 CCEL (3d) 194 (Alta QB) (a truck driver for 15 years resigned in order to incorporate his own trucking company. Before resigning, he notified the employer’s customers of his plans and that he could match the employer’s prices. The Court held that the employee was entitled to inform the customers of his rates and even enter into a commercial contract with them, stating that in order for employees to be able to enjoy the freedom of labour mobility in employment, they should be entitled to determine future potential remuneration in deciding whether to leave a current employer).
\textsuperscript{97} See e.g. Restauronics Services Ltd v Forster, 2004 BCCA 130, 32 CCEL (3d) 50 at 63, where an employee’s bid on a contract that her current employer had with one of her customers, while serving her working notice, was found to be active solicitation as opposed to mere preparation.
even if they are not confidential. This has served to create an additional broad category of implied duties that controls the behaviour of the departing employee.

The limitation on the solicitation of former customers, barring an express covenant to the contrary, seems to come down to whether or not the information on which the solicitation was based, was derived from a client list physically removed from the former employer’s premises, or from the ex-employee’s memory.\textsuperscript{98} Courts have held this implied obligation to be breached when the employee, while still employed, copied customer lists\textsuperscript{99} or, upon termination, removed a directory of customers’ phone numbers or a personal work diary in which the customers’ names were recorded.\textsuperscript{100} At the same time, courts have held there to be no breach where post-employment, the employee obtained the customers’ names and addresses from a public phone directory,\textsuperscript{101} a personal notebook not used as a regular part of the employee’s work\textsuperscript{102} or from a list compiled by the employee while previously employed elsewhere.\textsuperscript{103}

The early cases on this matter followed the English law approach, whereby the employee was entitled to canvass for the custom of her former employer’s customers, whose names and addresses she had retained in her memory during her employment, as long as she did not take a list of them away with her.\textsuperscript{104} This approach was criticized for rewarding the employee with a good memory while punishing the employee with a bad memory.\textsuperscript{105}

Since the early 1980s, the law on this matter has been characterized by much confusion and conflicting decisions, with some courts attempting to

\textsuperscript{98} See e.g. Stoll, supra note 77; Tasco Telephone Answering Exchange Ltd v Ellerbeck (1966), 57 DLR (2d) 500 (BCSC).

\textsuperscript{99} See e.g. Billows v Canarc Forest Products Ltd, 2003 BCSC 1352, 27 CCEL (3d) 188; Capitanescu v Universal Weld Overlays Inc (1997), 32 CCEL (2d) 195 at 215 (Alta QB).

\textsuperscript{100} White Oaks Welding Supplies v Tapp (1983), 42 OR (2d) 445 (H Ct J).

\textsuperscript{101} Almor, supra note 88.

\textsuperscript{102} Tomenson, supra note 85; Jockey Club Ltd v Byrne, [1969] 2 OR 733 (H Ct J).

\textsuperscript{103} Sure-Grip, supra note 85 at 290.

\textsuperscript{104} See Mountjoy, supra note 79 at 686; Drake International Ltd v Miller et al (1975), 9 OR (2d) 652 (H Ct J) where an injunction was denied for lack of evidence that an ex-employee removed a client list from the premises of the plaintiff company.

\textsuperscript{105} See Mountjoy, ibid at 688.
break away from the English law approach and others continuing it. Recent case law has created the distinction between employees who memorize customers’ details as a result of routine on-the-job exposure and those who deliberately memorize this information for the specific purpose of canvassing the customers in the future, finding only the latter liable. While this technical distinction is an improvement on the English law distinction based on the format in which the information is contained, it has proven to be impracticable in light of difficulties with proving whether the information in question was indeed deliberately memorized, as well as with defining the misappropriated information.

The most innovative approach to developing the law away from these distinctions, has applied the concept of fiduciary duties. This has been done by characterizing the company’s relationship with its clients as a substantial business asset, and arguing that the vulnerability of the business to the soliciting of its clients by former employees, creates a fiduciary duty prohibiting the employee from soliciting those clients when she leaves the business, irrespective of the employee’s seniority. This has served to broaden the burden of duties on departing employees by expanding the fiduciary duty in two distinct directions: horizontally – by creating an additional branch to the law of fiduciaries, and vertically – by extending the reach of the fiduciary duty to lower level employees. In one case, a part-time salesperson with clerical duties in an employee placement

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106 For example Monarch, supra note 91, where the Court declared there to be no difference between memorizing information and removing a list, and thus found a former employee liable for improper use of confidential information, including customer names, rates charged and a general knowledge of the business practices of customers, despite the fact that no information in a tangible form was removed from the employer’s premises.

107 Tomenson, supra note 85, where the Court found that former account executives of the plaintiff company were not making any unfair use of the knowledge they had gained while in the plaintiff’s employ, since client information written into the defendants’ personal diaries was of no matter since they could just as easily have recreated the same information from memory, which is allowed according to the English approach.

108 Packall Packaging Inc v Chantiam (1992), 92 CLLC para 14,015 at 12,078 (Ont Ct J (Gen Div)).

109 Anderson, supra note 96 at 69; Quantum, supra note 92.

110 For a detailed discussion of the conflicting perspectives on vulnerability’s place within fiduciary relations, see Leonard I Rotman, “The Vulnerable Position of Fiduciary Doctrine in the Supreme Court of Canada” (1996) 24:1 Man LJ 60. The increased reliance on the fiduciary duty, at the same time as being surrounded by much uncertainty, is not isolated to the employment law context and Rotman’s article addresses this phenomenon in a broader context.

111 See e.g. Barton, supra note 56 at para 20. For commentary, see Downard, supra note 79 at 362.
agency, was found to be a fiduciary. When the employee left her employer to found a competing agency in the same field, she sent out letters to her former clients. The employee was found to be a fiduciary as a result of her close relationship with clients and held liable for violating that duty, despite the fact that she was not part of the corporate decision-making process.

Some have argued that the fiduciary duty creates a total ban on post-employment competition whereas others have suggested that there is no prohibition on the fiduciary notifying the employer’s clients that she intends to start a business in the future. However, it is firmly in the consensus that active, positive solicitation, which involves inducing former clients to leave the former employer, even post-employment, is prohibited for fiduciaries, even though case law based on the duty of good faith permitted such behaviour in the past. This represents a shift in judicial attitude regarding knowledge spillover and is a clear example of its significance, in that information gained through employment, cannot be used in the process of establishing a new business, thus hampering innovation initiatives.

3) A New Direction?

A recent decision by the Supreme Court of Canada has provided a rare opportunity to learn about the current legal attitudes of leading judges regarding a range of issues central to the law of express and implied duties in the workplace, as used to prevent the spread of commercial confidential information by employees in Canada. The fact that RBC Dominion Securities Inc v Merrill Lynch Canada Inc centered on fairly extreme circumstances and its journey through three instances – each of the last two producing a strong minority opinion – produced an extensive narrative on the rights of employees to compete with former employers. The central aspects of these decisions – the extent of the duty of good faith, fiduciary duty, duty of confidentiality and duty not to compete unfairly – will be discussed below.

Both RBC Dominion Securities Inc (RBC) and Merrill Lynch Canada Inc (ML) are global securities and investment dealers and in 2000, were

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112 EJ Personnel Inc v Quality Personnel Inc (1985), 6 CPR (3d) 173 (Ont H Ct J) [Personnel].
113 Mountjoy, supra note 79 at 115.
114 See e.g. Layne v Michaels (1990), 32 CCEL 144 (BC SC).
115 Hipson, supra note 25 at para 141,315.
the two main securities firms in Cranbrook, British Columbia, each firm being the other’s main competitor. From the facts determined at trial, on November 20, 2000 RBC’s then branch manager (Delamont), together with all but two junior investment advisors and two support staff – a total of 14 employees (Defecting Employees) – left the RBC Cranbrook branch and joined ML’s Cranbrook branch. Prior to their departure, the Defecting Employees copied and removed RBC’s client records, a move which was instrumental in establishing new accounts for RBC’s clients with ML. Notably, the employees in question had not signed any restrictive covenant limiting their actions post-employment.

While the first issue at hand was whether the investment advisors owed RBC a fiduciary duty, by the time they came to write their decisions, the judges of all three instances were apparently aware of the dangers involved in expanding the fiduciary duty beyond its original scope, since they refused to declare that there had been a violation of the fiduciary duty.¹¹⁷ The Supreme Court of British Columbia found that RBC’s client base fulfilled the vulnerability requirement typically used to justify fiduciary duty findings in the context of confidential information. In light of the competitive nature of business relations in the field of securities and investments, however, the trial court determined that finding a fiduciary relationship would go counter to the parties’ expectations and intentions.¹¹⁸ Furthermore, the trial judge rejected RBC’s argument that when an employee’s departure coincides with that of other employees creating the impression that “the whole show” had departed, the employee’s relationship with the employer takes on a fiduciary quality which would otherwise have been absent from the relationship. This finding was adopted by the Court of Appeal for British Columbia¹¹⁹ as well as the majority opinion in the Supreme Court of Canada, which found it unnecessary to consider the reaches of the fiduciary duty.¹²⁰ The minority opinion in the Supreme Court of Canada decision also agreed de facto that there was no room to place the investment advisors or Delamont under a fiduciary duty. However, as will become evident from the analysis below, at least according to the minority opinion, that was the exact effect of the approach the majority took.

¹¹⁷ Nevertheless, the minority in RBC SCC accused the majority of doing just that – expanding the fiduciary duty – in its analysis of the duty of good faith. This is discussed below.
¹¹⁹ RBC CA, supra note 89 at para 37.
¹²⁰ RBC SCC, supra note 116 at para 22.
RBC argued that Delamont violated the duty of good faith implicit in his employment contract by promoting and coordinating the mass defection to ML, a violation distinct and separate to the breaches of duty by the other investment advisors. In finding that this duty had indeed been breached, the trial court carried out a mainly factual analysis, pointing to various actions which were proven before it. These included the meetings Delamont hosted at his home for investment advisors contemplating departure, and the fact that those investment advisors openly discussed their intentions with him without apparent expectation of adverse consequences. But Delamont’s main failure was with regard to his duty to keep his regional manager fully and promptly advised of all significant information relating to the operation of the branch, particularly as to events with the obvious potential of damaging or destroying the very viability of the branch. The trial court found that Delamont kept RBC in the dark because he knew that he was working contrary to its interests.121

The Court of Appeal however was split on this point, with the majority overturning the trial judge’s findings. Southin JA found that Delamont’s violation of his duty of good faith was not argued properly but rather as a violation of his “duty not to compete unfairly,” while providing no arguments as to why Delamont should be treated differently to the other investment advisors.122 While at first it may appear that the majority in the Court of Appeal dismissed the trial court’s finding on a technicality, in actual fact, this argument can be seen to be part of a broader criticism leveled against the “duty not to compete unfairly.” According to this criticism, the parameters of this duty are so vague and its content so unclear, as to make it applicable to most situations. Applying this duty thus broadens the duties on employees, further limiting their ability to apply knowledge to new contexts.

Secondly, the Court of Appeal majority reasoned that the question whether Delamont breached his duty of good faith towards RBC should be judged objectively, that is, irrespective of his testimony in which he declared he gave precedence to his own interests over the company’s interests.123 Southin JA dismissed Delamont’s admission because she could find no objective authority prohibiting the actions Delamont admitted to having undertaken: entertaining an offer of employment from someone else – even a competitor, accepting the offer, not notifying his employer of the offer and thus depriving this employer of the opportunity to retain the employee’s services by matching those terms.124 Neither

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121 *RBC SC*, *supra* note 118 at paras 119-128.
122 *RBC CA*, *supra* note 89 at para 98.
124 *Ibid* at para 104.
could the employment agreement be of any avail since it remained silent on this matter, undermining the trial court’s finding of an actionable breach.

While an objective standard of behaviour may serve to generate some degree of stability and predictability as regards the duties placed on an employee, the majority opinion’s analysis was inadequate since it failed to account for the discomfort the particular circumstances create. Most would find fault with Delamont’s failure to report the mass departure planned by the other investment advisors. And indeed, the minority opinion of Rowles JA was in a similar vein. She found the use of the term “unfair competition” to be unfortunate, in that it injected much uncertainty into the reaches of the law.\textsuperscript{125} However, she recognized that the unique circumstances of this case justified a finding of liability on the part of the investment advisors.\textsuperscript{126} Furthermore, the minority opinion supported the trial court’s finding that Delamont should be treated differently to the other investment advisors, in light of the additional responsibility of his position.\textsuperscript{127}

The Supreme Court of Canada also presented a divided opinion on the way the duty of good faith should be applied, with the majority opinion returning to the analysis of the trial judge, reinstating the $1.48 million damage award and rejecting the first instance “technical” finding. Moreover, the Supreme Court of Canada found that the trial judge had applied the “proximity test” wrongly in asking whether Delamont’s breach was foreseeable, instead of asking whether damage of this sort would have been within the reasonable contemplation of the parties, had they put their minds to the potential breach when the contract was entered into.\textsuperscript{128} This distinction seems apt. In light of the trial judge’s finding of fact that Delamont had been – by his own admission\textsuperscript{129} – under an implied duty to retain RBC’s employees, it was a natural development to find, by extension, that the damages had been contemplated by the employees.

The difficulty arises from the inference that a duty could be implied, retroactively, into the employment contract, solely based on Delamont’s non-legal account of his situation during his testimony. While technically, a duty can be implied in this way, the emphasis placed on Delamont’s testimony seems disproportionate in light of the fact that the parties chose not to contract explicitly about the reaches of his duty of good faith.

\textsuperscript{125} \textit{Ibid} at para 137.
\textsuperscript{126} \textit{Ibid} at paras 138-39.
\textsuperscript{127} \textit{Ibid} at paras 145-49.
\textsuperscript{128} \textit{RBC SCC}, supra note 116 at paras 9-13.
\textsuperscript{129} \textit{RBC CA}, supra note 89 at para 101, citing evidence given before the trial judge.
Furthermore, the possibility that a “moral” duty does not necessarily create a legal one, was not considered. In other words, Delamont only declared that he violated his duty of good faith by putting his own interests ahead of those of his employer when he failed to notify RBC of the imminent departure of the investment advisors. But it is not clear why he thought that behaviour constituted a violation of his duty of good faith, nor whether he intended that to take on legal significance. The Supreme Court of Canada did not address this point, despite the fact that it was raised by the majority in the Court of Appeal, thus rendering the Supreme Court’s argument incomplete.

The minority opinion of Abella J departed from the procedural aspect of the majority’s opinion, to present a substantive and comprehensive analysis of the reaches of the duty of good faith. The cornerstone of the minority opinion was an emphasis of the distinction between the duty of good faith and the fiduciary duty, according to which both categories are meant to be mutually exclusive, that is, the duty of good faith should only be used to find a non-fiduciary employee liable for damages, and only if during the currency of employment, the employee competed with the employer or made improper use of confidential information. Abella J argued that there was no room to expand the duty of good faith beyond the abovementioned confines, to include Delamont’s actions, which were defined as a “failure to exercise the fullest possible diligence in the pursuit of the employer’s interests,” for a number of reasons. Firstly, such a move would be opposed to case law, creating a new legal category of “quasi-fiduciary” employee, “a subset the law has yet to recognize;” secondly, an expansion of the duty of good faith would be inconsistent with the culture of the particular industry in which Delamont was employed (RBC acknowledged that they had also profited in the past from the client books of investment advisors hired away from competitors); thirdly, given RBC’s relative bargaining power and experience, their choice not to sign Delamont on a restrictive covenant was significant. Finally, Abella J made a principled argument, that the suggested expansion of the duty of good faith would place a potentially enormous liability on employees, have a punitive impact and add unwelcome uncertainty, widening the imbalance of power in employment relationships.

130 Ibid at paras 57-58.
131 RBC SCC, supra note 116 at para 37.
132 Ibid at para 53.
133 Ibid at para 51.
134 Ibid at para 60.
135 Ibid at para 49.
136 Ibid at para 52.
Since the trial judge found that Delamont was not a fiduciary employee, Abella J analyzed whether Delamont had violated his duty of good faith, finding that his behaviour fell under the right to plan for future employment opportunities while still employed – part of his undisputed right to compete following the termination of the employment relationship. As will become apparent in the next section, the approach of the dissent at the Supreme Court of Canada bears some resemblance to the law in Israel in this field, where much emphasis is placed on the existence of express agreements so that the implied duty not to compete has been effectively eliminated.

While the majority’s decision may well impact the mobility of professionals in numerous other areas, such as lawyers and accountants, and thus the creative cross-pollination movement of knowledge engendered by such mobility, the exceptional circumstances of this case may also leave it as an isolated comment. The factual basis for the Supreme Court of Canada’s finding that Delamont had violated his duty of good faith by not acting to retain the Defecting Employees, was that Delamont acted while still employed by RBC. It is unclear that a similar result would have been reached had he waited and aided the investment advisors’ departure after leaving RBC himself.

Arguably the greatest contribution of the RBC decisions was the clarification of the status of the “fairness condition,” whose re-entry into the field of post-employment restrictions, was discussed above in some detail. The trial court declared the duty not to compete unfairly to be part of the duty of good faith and found that the improper removal of client records was without justification, enabling the Defecting Employees to compete unfairly with RBC. The trial court found the element of “unfairness” to arise from the finding of fact that the investment advisors actively competed for RBC’s clients before RBC had had a reasonable opportunity to reach equal footing with them, following their departure, before RBC even knew that “a race was on.” Furthermore, the trial judge declared that the length of time considered “reasonable” increases when the employee gives little or no notice, and when his departure coincides with the departure of numerous other employees.

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137 Ibid at para 46.
138 Ibid at para 57.
139 RBC SC, supra note 118 at para 35.
140 Ibid at paras 92-97.
141 Ibid at para 109.
142 Ibid at para 117.
Despite attention paid by the trial judge to the unfair competition of the Defecting Employees, a thorough analysis and legal basis for the “fairness condition” was distinctly absent. This deficiency was noted by the majority opinion in the Court of Appeal, which argued in a distinctly derisive tone, that there is no such thing as an obligation not to compete unfairly, and that if there was, there would be no real way of evaluating its scope. The Court of Appeal illustrated this point by mimicking a dialogue between incoming employees and an employer, who asks them to promise not to compete unfairly when they leave. Southin JA was convinced that most employees would not understand the request, protesting that they have to make a living somehow. While I agree with the conclusion, I am unsure about the example, since I would expect most employees to bridle at the insinuation that they would do anything unfair, without necessarily understanding what unfair competition actually entails. Either way, both majority and minority opinions in the Supreme Court of Canada essentially adopted the Court of Appeal’s conclusion in this respect.

The combined reading of the Supreme Court of Canada decision with the decision of the Court of Appeal clears up a source of great uncertainty in this field by making it clear that the obligation of “fair” post-employment competition cannot be implied into the employment contract. With respect, however, the critique in the two appeal decisions was not as thorough as it could have been. Neither the Court of Appeal nor the Supreme Court of Canada exposed the trial court’s approach as being one that gives precedence to existing companies, without hesitating to hamper competition. Neither did they address the fact that the “fairness condition” as applied by the trial court, was a results-based test, so that it could just as easily have been called the “unfair success” test, since the process does not matter as much as the fact that the employees managed to leave their employer and also get ahead of her at the same time. Finally, neither instance addressed the fact that in an industry where the norm includes leaving a place of employment without giving any advance notice and customer “theft”, it would be hard to give meaningful content to the obligation to compete fairly, even if it did exist.

The trial judge addressed the protection of client records in the context of the fairness condition, finding that the investment advisors had improperly removed these records. There is some discrepancy in the trial court’s analysis in that these records are simply referred to as client information in paragraphs 92-93, whereas in paragraphs 94-95, their confidential essence is emphasized. This creates some confusion in understanding the trial court’s reasoning since it is not clear whether it was

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143 RBC CA, supra note 89 at paras 65-66.
144 RBC SCC, supra note 116 at para 19.
the solicitation of former customers which made the investment advisors’ competition unfair, or the use of confidential information.145 Either way, this analysis represented a return to the English law approach, according to which the removal of client files represents the violation of an employee’s duty, irrespective of the secrecy of the information.146

This approach was singled out for criticism by the Court of Appeal, which pointed out that there was no investigation at trial of the circumstances in which RBC’s customers moved to ML, so it was not determined whether this occurred as a result of misuse of confidential information.147 This point was a springboard for the Court of Appeal’s introduction of the interests of the investment advisors’ clients into the discussion of the restrictive covenants which can be read into the employment contract. It found that in the twenty-first century, clients’ interests are essentially part of the “public interest,” which means that an advisor should be allowed to prepare a list of her own book of business – that is her clients’ details, so that she can then notify them of her departure and enable them to decide whether to change to the new firm or not, rather than expecting the advisor to rely on her memory, as the trial judge indicated.148 The Court pointed out that removing account statements and other related papers could not be justified according to its approach, however, since the causal relationship between the removal of the client files and their move to ML, was not proven. No damages could be awarded since it was just as likely that the clients would have chosen to remain with their advisor, irrespective of the brokerage firm employing her.149

This novel approach to the familiar legal analysis is quite exciting and has been developed elsewhere, as an alternative proposal to the existing legal theory in the field.150 At the same time, since the minority opinion of the Court of Appeal did not expressly differ on the majority’s opinion, as the Supreme Court of Canada did not, one could interpret this approach as having been accepted into the law on the matter. It remains to be seen whether lower courts will read this situation in the same way and adapt

145 RBC SC, supra note 118 at para 97. With an eye to the following section, it is interesting to note that a factual analysis of the confidentiality of the information would have been the focus of this decision, if it had been given by an Israeli Court.

146 See analysis under B) b) below, “The Special Case of Customer Connections and the Fiduciary Duty.”

147 RBC CA, supra note 89 at para 79.

148 Ibid at paras 81-82.

149 Ibid at paras 83-84.

150 See Sima Kramer, Customers as Trade Secrets v Employees as Market-Makers: Introducing the Unified Approach of Innovation Policy (LLM Thesis, Graduate Department of the Faculty of Law, University of Toronto, 2007) [unpublished].
their analyses of future cases to the view placing client interests at the centre of the public interest.

B) Israel – A Legislation-Based Regime\textsuperscript{151}

The Israeli law of trade secrets in the employment context has moved away from its common beginnings with Canadian law in two significant ways. While Canadian courts have expanded the fiduciary duty to include growing numbers of workers under new types of implied duties, which increasingly limit their employment mobility, Israeli courts\textsuperscript{152} have been moving the law in precisely the opposite direction.

This development has been reinforced by the legislation of the \textit{Commercial Wrongs Act}\textsuperscript{153} which created a unified statutory regime, regulating unfair commercial behaviour such as the misappropriation of trade secrets. This Act, combined with the case law on general causes of action which were used in trade secret proceedings before the Act,\textsuperscript{154} has served to create a rich body of law, as will be discussed below.

To facilitate a comparative evaluation of how Israeli and Canadian legal systems prevent the spread of commercial confidential information by employees, this chapter proceeds in a similar format to the chapter on

\textsuperscript{151} The two main sources for the law of trade secrets in the employment context in Israel are: Nehemiah Gutman \textit{Individual and Collective Employment Agreements} (Ramat Gan: Halacha LeMaaseh, 2006) (Hebrew); M Deutch \textit{Commercial Torts and Trade Secrets} (Srigim-Leon: Nevo, 2002) (Hebrew).

\textsuperscript{152} I use the term “courts” in the broadest sense to include the labour tribunals as well as the civil courts. However, it should be noted that prior to the enactment of the \textit{Commercial Wrongs Act}, issues relating to trade secrets in the employment context were mainly heard before judges in the general civil court system, where the choice between magistrate’s or district court depended upon the monetary value or type of remedy requested. The Act fully transfers jurisdiction for such matters to the labour tribunals, which are made up of professional judges specializing in labour and employment issues, who sit alongside two lay people, one representing the employers’ sector and one representing the employees’ sector. The labour tribunals are a separate judicial system consisting of 5 regional labour tribunals and a national labour tribunal, dedicated to labour and employment related issues and have played a significant role in the development of labour and social security law in Israel. The transfer of jurisdiction therefore represents an overt shift in policy emphasis with regard to trade secrets in the employment context, as is also evident from the trends in case law described later in this chapter.

\textsuperscript{153} \textit{Commercial Wrongs Act}, 1999 (began on 29.10.99) (Hebrew).

\textsuperscript{154} The Act created a new tort subject to the general Torts Ordinance (\textit{ibid} at s 11) but also expressly left in place causes of action from other fields used in trade secret proceedings (\textit{ibid} at s 24).
Canada: the next two parts examine the use of express and implied contractual duties in the workplace, with a special emphasis on customer connections and related information. The last part of this chapter addresses the unique role “public policy” has played in developing trade secrets law in Israel.

1) Express Contractual Obligations Regarding Trade Secrets in the Workplace

Explicit restrictive covenants can be part of the individual’s employment contract or they can be imposed on the employment contract through collective labour agreements. While the Act does not establish an a priori distinction between restrictive covenants signed following the sale of goodwill and those signed in the workplace, recent case law has introduced a presumption against the validity of the latter, as will be discussed below.

The validity of restrictive covenants is examined by asking if the restrictions contained in the covenant are wider than is reasonably necessary to protect the legitimate interests of both parties and whether the restrictions contained in the covenant are injurious to the public. The answer to both questions must be in the negative in order for the restrictive covenant to be enforced, though, in practice, it can be presumed that a restrictive covenant that has been found to be fair and reasonable in scope and essence with respect to both parties, will be found to fulfill the second step of the validity test.

The reasonableness of the restrictive covenant is evaluated in terms of the range of activities covered by the restriction, its geographical scope and its duration. A restriction confined to the area of two cities in which the employee previously worked has been upheld and in light of the small

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155 Section 19 of the Collective Labour Agreements Law, 1957 (Hebrew). In that case, the restriction is deemed to be a part of the employment contract between the employer and the employee.

156 CA 618/85 The Western Galilee Fountains v Tavori, PD 40(4) 343 (Hebrew); see also CA 1371/90 Immanuel Damti et al v Joseph Ganor et al PD 44 (4) 847 (Hebrew) [Damti].

157 CA 672/96 “Egged” Israeli Transport Cooperative Ltd. v Baruch Rechtman PD 53 (5) 36 (Hebrew).

158 See especially Gutman, supra note 151 at 41. As regards duration, restrictions for periods of 2 years (CA 310/79 Varshavsky v YMSH, PD 34(2) 743) and even 4 years (see Damti, supra note 156) have been approved by the courts.

159 CA 1/73 Zfadia v Kaldi PD 27 (1) 785 (Hebrew).
size of Israel, it is conceivable that a court would uphold a restriction extending over the whole country.\textsuperscript{160}

The second branch of the test refers to the public interest or “public policy,” which was traditionally considered of secondary importance but has progressively grown in importance and is therefore discussed separately at the end of this section.

\textit{a) The New Case Law – Increased Support for Freedom of Employment}

The courts’ decisions in this field over the past few years reflect an increased concern for the freedom and mobility of employees, as well as a more critical attitude to employers’ interests.\textsuperscript{161} The first such case was \textit{Promer and CheckPoint Technologies Ltd v RedGuard Ltd}, handed down by the National Labour Tribunal.\textsuperscript{162} Despite drawing much criticism,\textsuperscript{163} it was reaffirmed in later cases.\textsuperscript{164}

CheckPoint, a company working on information security software, was sued by RedGuard, a company developing hardware solutions for information security, after Promer, one of its software engineers, joined CheckPoint. Promer had signed an NCA for RedGuard in which he committed not to work for any competing company for twenty-two months following termination of employment. He had also signed an NDA in which he committed not to disclose secret information. The Regional Labour Tribunal enforced the post-employment covenants and ordered Promer and CheckPoint to put off commencing their employment relationship for eighteen months. This result was overturned on appeal.

One of the main contributions of \textit{CheckPoint} was to address the circumstances in which a restrictive covenant will be enforced. These were listed as requiring the existence of a patent, copyright or trade secret as an indication of a legitimate employer’s interest; the investment of special resources in the worker’s training; the payment of special consideration to the worker in return for the commitment not to compete with her former

\begin{footnotes}
\footnote{160}{CA 566/77 Diker v Moch PD 32(2) 141 (Hebrew).}
\footnote{161}{Shlomit Yanisky-Ravid, “Workers Can Compete with their Employers Even if they Signed Non-Compete Agreements: The Case Law and the Solutions” Globes 12.4.00 (Hebrew).}
\footnote{162}{LA 164/99 Promer and CheckPoint Software Technologies Ltd v RedGuard Ltd PDA 34 294 at 325 (given on 4.6.99) (Hebrew) [CheckPoint].}
\footnote{163}{(Former) Justice and President of the National Labour Tribunal M Goldberg, “Contractual Agreements must be Respected?” Globes 22.8.00 (Hebrew).}
\footnote{164}{For example CA 6601/96 AES Systems Inc et al v Moshe Saar PD 54 (3) 850 (given on 28.8.00) (Hebrew) [AES].}
\end{footnotes}
employer post-employment; or, the violation of the duties of loyalty and good faith in a way which can only be limited by the covenant’s enforcement. The court clarified that this list is not intended to be exhaustive and that the specific circumstances of every case must always be considered.

Prior to CheckPoint, it was not required that the employee have actual knowledge of confidential information for the NCA to be enforced. CheckPoint changed this by creating a legal connection between NCAs and NDAs by requiring evidence of a trade secret – a legitimate interest – for the restrictive covenant to overcome the principle of freedom of employment. In AES Systems Inc et al v Moshe Saar, the Supreme Court added that the employer’s “naked” desire that her former employee not compete with her is not a legitimate interest.

CheckPoint further reduced the circumstances in which a restrictive post-employment covenant can be enforced by requiring that in addition to proving that the former employee was exposed to trade secrets, she is also reasonably likely to use these trade secrets. So too, the court will not prevent the worker from taking up a position with the new employer, unless the plaintiff company can show that this move endangers the plaintiff company’s very existence. The Court also remarked that the reduction in development time in the high-technology market requires a parallel reduction in the periods of restriction, if and when an injunction is ordered.

CheckPoint made employee mobility a clear priority in a way that had not been done previously, by detailing a broad range of public policy considerations that should be considered before the employee’s mobility is

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165 CheckPoint, supra note 162 at para 15. In line with pre-Act and pre-Basic Law case law, the Court added that legitimate interests must also be evaluated according to the reasonableness test (also termed the “proportionality” test in this context), that is, they must be reasonable in terms of the activities covered by the restriction, its geographical scope and duration, given the specific circumstances of the case (at para 12). For more, see also the analysis of reasonableness test, at the beginning of this section.

166 Ibid at para 18.

167 Ofer Ravid, “From Limiting Employment to Unlimited Employment” 11 HaMishpat 38, at 39 n 5 citing NLC 3-95/54 Easitope Quality Assurance Ltd v Nituv (Hebrew) [unpublished].

168 CheckPoint, supra note 162 at para 14.

169 AES, supra note 164 at para 31; see also VCR (TA) 3379/08 ITT Advanced Trading Technologies Ltd et al v Anat Faus et al (Hebrew) [unpublished] (7.8.08).

170 AES, supra note 164 at para 20. This new condition has drawn much criticism; see e.g. Deutch, supra note 151 at 598.

171 CheckPoint, supra note 162 at para 32.
limited.172 Freedom of employment as a constitutional norm aimed at protecting the value of human capital was central to the discussion. So too was the fact that work often takes up over a third of the employee’s day and is more than just a source of income but also a source of personal fulfillment, jeopardized when an employee’s mobility is restricted. The Court discussed the markets’ reliance on free competition and an open economy, which in turn require the free movement of human capital, as well as society’s interest in the free and fast dissemination of information in the market, to which employee mobility contributes.

This reasoning was reinforced by the National Labour Tribunal in two subsequent cases. In *Adi Amihay v The Yossi Goldhammer Company Ltd*, the Court added that restricting employee mobility causes the employer to pay the employee a salary below that which would be set for the same work by free-market forces.173 In *Har-Zahav Food Services Ltd v Foodline Ltd et al.*,174 the Court added two reasons justifying the presumption of non-validity regarding restrictive post-employment covenants, as developed in *CheckPoint*: the fact that such clauses are frequently motivated by a desire to “punish” talented employees who jump ship, rather than to protect a trade secret, and the fact that the Israeli market suffers from too much centralization regarding financial capital and economic power.

In *Avner Spector v Direx Medical Systems Ltd*,175 another recent decision to be handed down in this field, a fairly senior employee signed an NDA and an NCA while employed. After he resigned from the company, he founded a new company which proceeded to compete directly with the main product manufactured and sold by Direx. The Court found that even though there had been a formal infringement of the terms of the post-employment covenants, there was no cause of action against the employee, since there was no trade secret involved, despite the fact that the employee had undertaken not to reveal information defined in the nondisclosure agreement irrespective of whether it was a trade secret or not. The Court’s analysis – which relied heavily on *CheckPoint* – effectively eliminated the possibility that information that does not meet the requirements of the law of trade secrets, can be protected by a

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173 LA 292/99 *Adi Amihay v The Yossi Goldhammer Company Ltd* PDA 33 (32)24 (Hebrew) (given on 17.7.00) at para 18 [*Amihay*].
174 LA 1141/00 *Har-Zahav Food Services Ltd v Foodline Ltd et al* TK-AR 2002(3) 795 (given on 19.9.02) (Hebrew) [*Har-Zahav*].
175 LA 15/99 *Avner Spector v Direx Medical Systems Ltd*. Takdin Artsi 2005(2), 37 at 46-7 (Hebrew) (given on 21.4.05) [*Direx*].
nondisclosure agreement. This in turn increased the potential for knowledge spillover.

The Court also analyzed the market for the product in question, comparing the market for the previous employer’s product, to the market for the new employer’s product. The fact that there were many potential clients and that the product was fairly standard, worked in the defendant’s favour and contributed to the Court’s finding that the plaintiff did not have a trade secret.\textsuperscript{176}

\textit{b) The Special Case of Customer Connections and Express Duties}

Besides being a trade secret and having to comply with the general principles applying to express restrictive covenants,\textsuperscript{177} customer connections and related information must fulfill additional onerous conditions in order to be protected in Israeli law. The central case in this respect is \textit{Freida Ben Baruch v Tnuva Communal Center for Marketing},\textsuperscript{178} which stated that there is no reason to protect a customer list unless it is proven that a special effort was required in order to create the list and that it provides the owner with a commercial advantage.\textsuperscript{179} This decision has been broadly adopted in a long line of cases\textsuperscript{180} and interpreted as meaning that customer information derived from public resources\textsuperscript{181} or information arising from customer demands\textsuperscript{182} will not be protected, even if their production involved gathering and sorting.

The most authoritative decision regarding customer lists in the employment context is \textit{Har-Zahav},\textsuperscript{183} in which the defendant, a marketing

\textsuperscript{176} Ibid at 45-49.
\textsuperscript{177} LA 1045/00 Netzer v SGD Engineering Ltd. Takdin Artsi 2000 (3), 453 (given on 2.11.00) (Hebrew) [Netzer].
\textsuperscript{178} CA 9046/96 Freida Ben Baruch v Tnuva Communal Center for Marketing PD 52(1), 625 at 634 (Hebrew) [Ben Baruch].
\textsuperscript{179} This condition also includes a limit on the period over which a list will be protected since over time the original information will lose its value, as changes in consumer practices, fluctuations in foreign exchange rates and the appearance of new competitors, can all neutralize the commercial advantage embodied by the information.
\textsuperscript{180} See for example LA 1181/00 Guy v Tenko International (97) Ltd Takdin Artsi 2000(3) 1 (Hebrew); CF (TA) 340/90 Brinx (Israel) Ltd v Greenberg PM 5745(1) 221 at 226 (Hebrew).
\textsuperscript{181} CF (Haifa) 1585/00, DCR 16883/00 Harel Mediation v. Tarlin Takdin Mehozi 2000(4) 75 (Hebrew).
\textsuperscript{182} LF (TA) 54/12-2882 Gabim Industries Automation Systems Ltd v David Kli; Avoda Ezori 5 657; LF (TA) 53/12-1734 Ha-Argaz Zrifin v Ram Gomeh, Takdin Avoda 93(1) 125.
\textsuperscript{183} Supra note 174.
representative for Foodline Ltd who had signed an NDA, joined Har-Zahav Ltd as their marketing representative, two weeks after being dismissed by Foodline. The companies had common customers as both manufactured various food products, however they only competed directly over clients for bitter chocolate. The District Labour Tribunal prohibited Har-Zahav from marketing bitter chocolate to any of Foodline’s customers, excluding those Har-Zahav could show had bought chocolate from them in the six months prior to the date in which the defendant joined their company. The appeal court overturned this decision, reaffirming the pre-Act Ben-Baruch conditions and, in light of the abovementioned new case law, came up with a list of principles which can be considered in evaluating NDAs relating to customer lists.\textsuperscript{184}

One of these is the extent of the competition between the former employer and the new employer. The Court declared that there is less of a chance that the customer list will have commercial value and thus be recognized as worthy of legal protection, if the competition is indirect. Another consideration was that the value of a customer list is less in the identities of the customers and more in the financial terms of their deals with the company. Even when a customer list contains such information, if it is frequently updated, the chances of its earning legal protection are reduced, since this means that the old information is no longer a trade secret. The Court also emphasized the importance of analyzing the market for the product in question. A customer list for a unique product with two potential clients as opposed to a standard product with a market for thousands of potential clients, is much more valuable and therefore worthy of legal protection.

The Court weighed in certain mitigating circumstances: the rarity of NDAs in chocolate sales; the low chance of the worker finding another job at the age of 54; the fact that the nondisclosure agreement was introduced into his contract after he had been with the plaintiff company for five years; and the fact that the damage the plaintiff company expected to incur by allowing the employment was much lower than the damage the worker expected to incur with the agreement’s enforcement. These considerations, alongside the Court’s failure to address the issue of freedom of contracts, reflect the Court’s concern for the cause of employee mobility in Israel.

\footnote{\textsuperscript{184} These principles, as well as the additional distinctions discussed below, have been adopted in a long line of cases: LF (Jerusalem) 2836/05 Aharon Security v Efaim et al, Takdin Avoda 2007(3), 9139; GCR (TA) 1416/01 Dimex Systems (1988) Ltd v Netcode Ltd et al, Takdin Avoda 2003(4), 6916; LF (TA) 7541/01 Prof Abud v Cred-Guard Scientific Survival Ltd, Takdin Avoda 2002(2) 2903; GCR (Haifa) 2999/03 I Gil Carmel Agencies and Distribution Ltd v Doron Ben Shimon, Takdin Avoda 2003(4) 520.}
Case law has further limited the breadth of protection which customer lists enjoy by developing certain distinctions, such as between existing customers and potential customers. If the connection with existing customers manifests the employer’s reputation thus generating a type of proprietary interest, then connections with potential customers cannot be treated in the same way, since the employer’s reputation has not yet been established.\(^{185}\) A number of decisions have argued that the protection of lists of potential customers should be rejected as a matter of principle.\(^ {186}\)

Another distinction is between lists relating to exclusive customers and those relating to non-exclusive customers. Concerned with limiting the restriction on competition, the courts have reasoned that non-exclusive clients are in any case free to turn to other companies and so there is no justification in limiting competition by a former employee.\(^ {187}\) Yet another distinction is between active solicitation and passive acceptance of former clients. While the application of this distinction is difficult both from a procedural and a substantive legal point of view, the courts have consistently refused to prohibit passive acceptance of former clients.\(^ {188}\)

The wider, more encompassing and more general the customer related information, the less likely the information will be protected as a trade secret and the more likely it will be used to generate competing commercial offshoots. For example, the claim that the law protects a customer list including anyone across the globe who had ever received a receipt from, closed a deal with or received a price offer from the company, was rejected.\(^ {189}\) This is because an overly expansive list can be seen to indicate that the information is not as unique and inaccessible as to fulfill the requirements of trade secret protection. So too, the more extensive the information contained in the list, the greater the chance that part of the

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\(^ {185}\) CA 136/56 Fox v Eilon et Etsioni Ltd PD 11 358 at 361(Hebrew); CF 1370/91 (TA) *World of Fashion Ltd v Izhaki et al*, Dinim Mehozi, 32(1), 52 (Hebrew) [*World of Fashion*].

\(^ {186}\) LTF 3231/02, DCR 2665/02 *The Geographical Company for Hiking Ltd v Sarah Sdot* Takdin Avoda 2002 (3) 126 (Given on 12.8.02) (Hebrew); CF (TA) 2272/98, DCR 10297/98 *Stenograma Ltd v Timlul Ltd* Dinim Mehozi 35(2) 454 (Hebrew). See also CF (TA) 437/92 HM 3766/92 *Stoomhamer Amsterdam NV v Nefdansi* PM 5752 (3) 407 (Hebrew).

\(^ {187}\) Deutch, *supra* note 151 at 432, citing LTF 14-2137/97 *Packer Steels and Metals Ltd v Shalosh* [unpublished] (Hebrew); LTF 51/3-133 *Zadok Alon Ltd v Mizrahi* PDA 23 416 at 419 (Hebrew).

\(^ {188}\) CF (TA) 1609/96 HM 16938/96 *Matkal Raam Advanced Shielding (1996) Ltd v Korach* Dinim Mehozi 26(7) 374 at 384 (Hebrew).

information will fall under the category of non-protected information that is the worker’s general skills and knowledge.\textsuperscript{190}

The fact that the secrecy requirement is re-emphasized in the context of customer lists in the form of additional requirements, is indicative of the mistrust courts feel towards the claim that customer related information should be protected.\textsuperscript{191} This attitude arises from the understanding that the struggle to earn loyal customers is the essence of the principle of competition, which is the foundation stone of a healthy economy. It also betrays the perception that a continued relationship with one’s clients is not an asset over which the employer has exclusive rights.\textsuperscript{192}

2) Implied Duties

Israeli law stands apart from Canadian law in that while the duty upon an employee not to impart her former employer’s trade secrets can be implied into the employment relationship, there is no implied duty not to compete with one’s former employer and absent an express clause to the contrary, the employee cannot be enjoined from working for a competing undertaking.\textsuperscript{193} The root of this duality is now discussed.

a) The Commercial Wrongs Act

The Act establishes an implied statutory duty not to misappropriate trade secrets, which is valid during, after and independently of the employment relationship.\textsuperscript{194} Misappropriation is defined as the taking or using, through

\textsuperscript{190} CF (Haifa) 279/00, DCR 1144/00 Onkal Engineering Safety and Checks Ltd v Yigal Genial Takdin Mehozi 2000 (3) 119 (Given on 19.11.00) (Hebrew). The plaintiff in this case argued that its customer list containing the details of 900 clients, deserved the protection of the law of trade secrets as well as the enforcement of a nondisclosure agreement which referred to customers.

\textsuperscript{191} Deutch, supra note 151 at 428.

\textsuperscript{192} Excluding circumstances involving breach of contract. Deutch espouses this idea, \textit{ibid} at 391.

\textsuperscript{193} CA 239/92 “Egged” Israeli Transport Cooperative Ltd v Mashiah et al PD 48 (2) 66 at 7 (Hebrew) \textit{[Mashiah]}. 

\textsuperscript{194} This article supports the view that the norms created by the Act are “implied statutory duties,” that is, that the norms manifested by this legislation serve as a default mechanism whereby parties who did not expressly stipulate a stand regarding employees’ duties, are assumed to have intended that the Act apply in their contract. This approach is based on Justice Winograd’s decision in CF (TA) 2164/90 AMT Computers Ltd v Bank Hapoalim Investment Company Ltd Dinim Mehozi 26(3) 270 (Hebrew) and supported by CA 252/78 Baron v Mendy’s Tours, PD 33(2) 437 at 440; CA 158/77 Rabinay v Man Shaked PD 33(2) 281 at 282; and Oren Rehes \textit{Trade Secrets and Employment Restrictions} (Oren Rehes Lawyer and Electrical Engineer, 1999) (Hebrew) at 292-93.
“improper means” and without the owner’s consent, of a trade secret, irrespective of whether it was taken directly from the owner or indirectly, via a third party. Receiving or using a trade secret without the owner’s consent, when the receiver or the user knew, or should have known, that they received the information following actions prohibited by the Act, is also considered misappropriation. At the same time, faced with a restrictive covenant narrower in scope than the implied duty imposed by the Act, the labour tribunal will not impose the wider obligations as per the Act.

The court can rule that an illegal misappropriation has taken place even if the trade secret has been modified by its misappropriator, as long as it is substantively similar to the original information. Coupled with evidence of access to the trade secret, substantive similarity establishes a rebuttable presumption of misappropriation.

According to the Act, when public policy justifies the exposure of the trade secret, liability for misappropriation will not be found. The Act also incorporated the “general skills and knowledge” defence, which existed in the case law prior to the Act, according to which information that is part of the employee’s general skills and knowledge, will not be protected.

b) The Duty of Good Faith

Employees have a duty to carry out their jobs in good faith in light of the general contractual duty to fulfill contracts in good faith, which is defined in section 39 of the 1973 Contracts Act. Therefore, if it is proven that an employee acted in bad faith with regard to her former employer’s trade secrets, she can be required to pay compensation to her former employer and can also be limited in her future employment.

\[\text{Supra note 153, s 6(b)(1).}\]
\[\text{CA 155/80 Rav Bariah v Amgar PD 35(1) 817 (Hebrew).}\]
\[\text{Supra note 153, s 9.}\]
\[\text{Ibid, s 10.}\]
\[\text{Ibid, s 7.}\]
\[\text{Ibid. Prior to the Act, see CA 206/72 Migan Ltd v Peer PD 27(1) 576, at 578 (Hebrew); CA 396/74 Tromasbest Ltd v Zakai PD 20(1) 793 at 797 (Hebrew).}\]
\[\text{In contrast to Canadian law, where the duty of good faith is also known as the duty of fidelity, in Israel, the duty of good faith within the employment relationship is a separate and distinct duty from the duty of fidelity. The former is derived from the general contractual duty of good faith whereas the latter is a judge-made duty implied into the employment relationship; see Contracts Act 1973, c 39 (Hebrew).}\]
\[\text{This rule was established in CheckPoint, supra note 162.}\]
This happened in *Yavin Plast v the National Labour Tribunal* (known as *Toema*), where immediately upon resigning, the worker moved to a competing company, setting up a new department in the field in which he had worked for his former employer by relying on his former employer’s trade secrets. The Court found this was done in bad faith and established the principle whereby the duty to carry out contractual obligations in good faith, as stated in article 39 of the 1973 *Contracts Act*, continues to be valid in the post-contractual stage.

For a time, the duty of good faith seemed set to replace the full variety of duties traditionally implied into the employment relationship, even being used to establish an implied duty not to compete with a former employer. However this latter application has been broadly criticized and stands out as an exception to the general direction of case law, according to which a commitment not to compete cannot be implied into the employment relationship. Furthermore, the Act’s enactment has reduced the importance of cases relying on the duty of good faith in order to imply post-employment restrictive covenants.

c) The Duty of Fidelity

This duty dictates that an employee must not engage in any activity that is detrimental to the business of her employer, such as competition or the disclosure of trade secrets, during employment. It arises from contract

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203 HCJ 1683/93 *Yavin Plast v The National Labour Tribunal* PD 47(4) 702 (Hebrew) [*Toema*].

204 Deutch, *supra* note 151 at 592. This was part of a general trend according to which the duty of good faith had been hailed as an umbrella principle in Israeli law, determining legal norms in non-contractual contexts as well.

205 See e.g. CF (TA) 294/97 *DSP Group Inc v IC Com Ltd*. Dinim Mehozi 26(7) 392 (Hebrew).

206 This is the term I found to be most appropriate in translating the Hebrew term *hovat emun* since it is indicative of the burden of loyalty which it places on the employee with respect to her employer. Deutch for example translates this term into “fiduciary duty;” see Deutch, *supra* note 151 at 635. However, I disagree since section 254 of the 1999 *Companies Act* which establishes the fiduciary duty of company functionaries uses the Hebrew term *hovat emunim*. The roots of the words in Hebrew are related as are the concepts on a very basic level; however, they have evolved into separate legal doctrines. The clearest distinction is based on seniority; only company functionaries are seen to have a fiduciary duty whereas all company employees have a duty of fidelity to the company. The extent of the duties is also very different and they go far beyond confidential information and trade secrets in the employment context.

207 LF 36/67-3 *Peleg v The Tractors Group*, PDL 8 281(Hebrew). Restrictions on simultaneous employment can be found in many collective labour agreements, especially those dealing with public sector employees.
law, the law of unjust enrichment and “Israel-style Common Law” according to which it is a free-standing principle.\textsuperscript{208}

The duty of fidelity has been interpreted as establishing that employees must refrain from working for more than one employer at the same time without the first employer’s express permission.\textsuperscript{209} This is to prevent a potential conflict of interest as well as to protect the employer’s proprietary interests, and also includes a duty to respect the confidentiality of information defined as secret by the employer (whether a trade secret or not). There is no violation of the constitutional right to freedom of employment, since the employee is presumed to be earning a living if employed and therefore preventing her from working for a second employer does not infringe upon the right to earn an income.\textsuperscript{210}

Case law has expanded this duty as prohibiting simultaneous employment even when the second employer is not in competition with the first, or when the risk that trade secrets will be revealed is nonexistent. Once the primary employment relationship is terminated, however, the employee ceases to owe a duty of fidelity to her former employer.\textsuperscript{211}

d) The Fiduciary Duty

Section 254 of the 1999 \textit{Companies Act} defines the fiduciary duty owed to the company by its statutory organs, that is, senior management, who are employees for all intents and purposes. This duty includes, among others, the duty to act in good faith and in the company’s best interest, to avoid any actions which place the statutory organ in a conflict of interests between doing her job and fulfilling other duties and to avoid competing with the company.\textsuperscript{212} This section cannot be used, however, to limit the actions of statutory organs post-employment.\textsuperscript{213}

\textsuperscript{208} See Justice Barak’s discussion in \textit{Toema, supra} note 203 at para 6.

\textsuperscript{209} Clearly the implied duty of fidelity is subordinate to the express will of both parties and therefore, if the employee requests it and the first employer agrees, the employee can hold multiple jobs. However, refusing such a request is part of the employer’s prerogative.

\textsuperscript{210} CCA 5205/01 \textit{Parnas v The Israel Broadcasting Corporation (Taverna)} PD 56(2) 9.

\textsuperscript{211} CCA 4/80 \textit{Shanon v Tel-Aviv Municipality} PD 34 (4) 298 (Hebrew).

\textsuperscript{212} \textit{Companies Act}, 1999 s 254.

\textsuperscript{213} This interpretation was confirmed in \textit{World of Fashion, supra} note 185. This decision was given prior to the enactment of the 1999 \textit{Companies Act}. However, the section on fiduciary duties (96.27) in the 1983 \textit{Companies Act} on which the court relied in its decision is identical in its wording to section 254 of the 1999 \textit{Companies Act}. 
e) Customer Connections and Implied Duties

As with the implied duty not to compete, Israeli courts will not recognize an implied duty not to solicit a former employer’s customers, unless the customer related information is a trade secret. Once this condition is fulfilled, case law relating to express restrictions and customer lists would apply, though in light of the recent tendency to limit recognition of implied duties in general and to scrutinize express limitations more closely, in particular, one could speculate that it would rarely lead to the protection of a customer list.

3) Public Policy – A Major Tool for Managing Competing Interests

In the Israeli legal system, “public policy” is a general legal term which embodies fundamental values of Israeli society such as human rights, individual freedom and the proper functioning of society at all levels, including employment and commerce, while at the same time remaining flexible and dynamic in order to reflect the changing values of the times. In the context of trade secrets in the work place, these values include the principle of freedom of contracts, the employer’s right to protect her proprietary interests and the employee’s freedom to choose her occupation. Over the years, the impact of this concept on the law of trade secrets has grown dramatically, moving from its general contracts law source to become a central consideration, of powerful content and direct impact.

Prior to the Commercial Wrongs Act, public policy considerations were introduced into the debate regarding trade secrets in the employment context through contract law. Section 30 of the 1973 Contracts Act cites “public policy” as one of the principles which should be considered when determining the appropriate subject matter for agreements. Similarly, the

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214 See e.g. Netzer, supra note 177 and RPA 230/99 Shenar Communications Ltd v Ayelet Oron Takdin Artsi 1999(2) 17 (Hebrew). In this case, the employee defendant worked for the plaintiff company for three and a half years in marketing, selling advertising space in newspapers, without having signed any kind of restrictive covenant. She resigned and went to work for the plaintiff’s main competitor. The plaintiff company claimed that the employee defendant had contacted their clients using a list that belonged to them and that as a result they had lost their custom. The plaintiff company’s request for an injunction was rejected at the interlocutory stage, with the Court relying on CheckPoint, citing the lack of an express restrictive covenant as one of the main reasons for its decision. The appeal court affirmed this decision.

215 The normative content of “public policy” in the context of trade secrets was elaborated in AES, supra note 164.

216 CA 614/76 Palmonit v Almoni, PD 31 (3) 85; CA 566/77 Dikar v Moch, PD 32(2)141.
1970 *Contracts Remedies Act* describes contracts opposed to “public policy” as being unenforceable. By limiting the freedom of contracts, both of these sections presented an opportunity for employees to defend their actions, though in a fairly minor way, since public policy was considered of secondary importance to the parties’ interests and therefore rarely relied upon.217

The early content of contractual public policy considerations was derived from general legal principles, thus further limiting their effect. This changed with the legislation of two constitutional instruments in the early 90’s, *Basic Law: Human Dignity and Freedom* 1992,218 which established property – including commercial interests – as a constitutionally protected right, and *Basic Law: Freedom of Occupation* 1994, which established the freedom to work in one’s field of expertise as a constitutionally protected right.219 While the Basic Laws were aimed at protecting the rights of civilians before the state, with the declining emphasis placed on freedom of contracts, case law “imported” the values embodied by the Basic Laws into the private sector via general legal terms such as the duty of good faith and public policy. Thus, the public policy consideration became an inlet for the rights-focused discourse, human rights and the public interest – in its ever-changing essence – without necessitating a change in the formal balance of private law. Through “public policy,” the court balances between the freedom of contracts which determines the content of the restrictive covenant, and human rights and other constitutional values such as the right to employment, leading to an increased reliance on the public policy defence, as a result of its more complex, varied and significant legal content.220

The *Commercial Wrongs Act* furthered the reliance on public policy considerations by addressing them directly in the context of trade secrets and establishing that a person will not be held liable for the misappropriation

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217 CA 672/96 “Egged” *Israeli Transport Cooperative Ltd v Baruch Rechtman* PD 53 (5) 36 (Hebrew).

218 (Hebrew) at s 3 [*Dignity Basic Law*]. The significance of the new status of these rights is that laws found to contradict these rights are open to judicial review and can therefore be annulled by the Supreme Court. According to the Basic Laws, these constitutional rights can only be limited by laws that accord with the values of Israel as a Jewish and democratic state, that have been enacted for an appropriate purpose and limit the right only to the extent that is absolutely necessary; see *ibid*, s 8(a).

219 (Hebrew) at s 3 [*Employment Basic Law*]. The literal translation from the Hebrew should be “freedom of occupation.” I refer to this constitutional right as the “right to employment” in order to avoid confusion and to re-emphasize my conscious decision to limit the discussion to the law as regards the classic employer-employee relationship.

220 *Mashiah*, supra note 193 at 7.
of a trade secret if its use is justified according to public policy.\textsuperscript{221} The idea was to establish an exemption for circumstances when the protection of trade secrets offends the public sense of morality and justice,\textsuperscript{222} for example, when an immoral act was involved in the creation of the trade secret, to prevent unfair business practices, to guarantee the freedom of information and media or to guarantee public health considerations. Recent case law has added the presumption of inequality of bargaining power between the employer and the employee regarding restrictive post-employment covenants.\textsuperscript{223} Together with the constitutional content, public policy today has a powerful direct impact on the trade secrets debate and has become a primary force in limiting the effects of both implied and express restrictive covenants.

The most authoritative case as regards the content of public policy after the legislation of the Act and the Basic Laws is AES.\textsuperscript{224} AES Systems Inc marketed “Lanier systems,” providing services to Rafael, amongst others. Saar was employed by AES as a computer technician and had signed an NCA prior to joining the company, according to which he committed not to compete with AES in the distribution, marketing and maintenance of Lanier systems and to refrain from any actions which could frustrate, expropriate or otherwise hurt AES’s relationship with its clients.

Saar was dismissed by AES after twenty-eight months, at which point he immediately founded a computer systems maintenance business, which covered the Lanier systems as well. He advertised his services in national newspapers and also directly approached some of his former employer’s clients, whose details he found in a list he had taken away when he left AES. Rafael approached Saar following his advertising campaign and they subsequently dropped their contract with AES and signed an agreement with Saar, according to which he would provide maintenance services to their Lanier systems.

The District Court found that Saar had violated his contractual obligations with AES by using the customer list in his possession and ordered him to compensate AES for the loss of Rafael’s custom.\textsuperscript{225} AES

\textsuperscript{221} Supra note 153, s 7(a)(2).
\textsuperscript{222} Deutch, supra note 151 at 698.
\textsuperscript{223} CheckPoint, supra note 162 at para 14. According to this presumption, the court assumes that the employee did not fully assert her will in the negotiations prior to the signing of the covenant and therefore the agreement was not voluntary.
\textsuperscript{224} AES, supra note 164.
\textsuperscript{225} It should be noted that employers in Israel – barring some specific exceptions – are entitled to terminate employment contracts without the need to show good and...
and Saar appealed to the Supreme Court, which overturned the District Court’s decision.

The decision in AES mapped out the competing values, principles and interests that make up the public policy consideration, as per the rights discourse that evolved out of the Basic Laws constitutional revolution.226 The Court first analyzed the considerations supporting the enforcement of post-employment restrictive covenants, stating that the public interest, which embodies concepts of justice, morality and social efficiency, is that individuals fulfill their contractual duties.227 While freedom of contract is only part of public policy, it is a very weighty part since it is derived from a constitutional principle.228 So too the employer’s interest that her business investment be protected, must be considered, to encourage her to continue that investment.229

These interests were then balanced against the values, principles and interests which support the non-enforcement of post-employment restrictive covenants. The primary principle is freedom of employment: “The employee’s work is her material and spiritual property,” the Court declared, and her right to choose how and where to be employed is a fundamental aspect of life.230 It is also in society’s interest, since the unlimited use of professional knowledge and experience broadly benefits the public.231 An additional value discussed by the Court in this context was the freedom of competition, seen to be derived from the freedom of employment.232 Competition is perceived as having a democratic quality to it, in that the protection of open-market competition enables the individual sufficient cause since the underlying rule is one of employment at will. For this reason, post-employment restrictive covenants continue to be valid despite the employee’s dismissal. For more on the differences between the Israeli and Canadian laws regarding termination of employment, see the respective country profiles at http://www.ilo.org/public/english/dialogue/ifpdial/info/termination/index.htm.

226 AES, supra note 164 at paras 9-12.
227 For more, see discussion in D Freedman and N Cohen, Contracts (Aviram: Tel-Aviv, 1991) (Hebrew) vol 1 at 15.
228 Freedom of contract is derived from the Dignity Basic Law; see discussion in CA 6821/93 United Mizrahi Bank Ltd v Migdal Collective Village PD 49(4) 221 (Hebrew).
230 AES, supra note 164 at para 12.
231 CA 312/74 The Company for Cables and Electric Wires in Israel v Christianfuller PD 29(1) 316 (Hebrew) at 320.
232 HCJ 1703/92 CAL Airline Carriers v The Prime Minister PD 52(4) 193 (Hebrew). See also Justice Heshin’s comment in ACA 4465/98 Tivol (1993) Ltd v The Sea Chef (1994) Ltd et al PD 56(1) 56 at 74 (Given on 19.8.2001) (Hebrew), where he
to participate in the economic and commercial aspects of life, indicating the individual’s freedom to fulfill his autonomy.\textsuperscript{233} Open competition is considered beneficial to the welfare of society since it contributes to efficiency, encourages entrepreneurship, reduces costs and can improve products and services and lower prices.\textsuperscript{234}

A more recent case advanced the idea of freedom of competition going hand in hand with freedom of employment in the public policy analysis, since the open-market is based on the free movement of capital, products and labour.\textsuperscript{235} An integral part of the free movement of capital is the free movement of information, since information is a proprietary right. The free movement of information is facilitated by, amongst others, employee mobility. Thus, the court found that the free movement of workers between employers lies at the heart of competitive markets in general, and the high-tech industry in particular, where the value of human capital is seen to be equal to if not more important than financial capital.

The following part will summarize the findings from this section, which, beyond providing a basis to facilitate the following discussion, has hopefully also contributed in some measure to clarifying some of the complexity that abounds in the field of trade secrets and restrictive covenants.

\textit{4. Creativity, Control and Trade Secrets Policy: Comparative Analysis, Summarized}

This part extracts the essence of the preceding comparative analysis and isolates and examines the significance of its findings in the broader context. The previous two sections surveyed the approaches taken by Israel and Canada towards the protection of confidential commercial information in the employment context. Despite the distinct legal systems involved, it is remarkable to note the apparent similarities that emerged from the preceding outline. Nonetheless, significant differences in legal principle also emerged and the following section focuses on these, with the aim of clarifying and explaining the tendencies which characterize each jurisdiction, as well as their implications for knowledge spillover.

\textsuperscript{233} CA 2247/95 \textit{The General Director of the Antitrust Authority v Tnuva Cooperative Centre for the Marketing of Agricultural Produce in Israel Ltd.} PD 52(5) 213 at 229-30 (Hebrew).

\textsuperscript{234} For more, see N Cohen, “Commercial Competition and Freedom of Occupation” Iyuney Mishpat 18 (5755) 353 at 354 (Hebrew).

\textsuperscript{235} See discussion in Direx, supra note 175. This option was also raised in an earlier case, PCA 371/89 \textit{Ilan Leibovitz v A et Y Eliyahu Ltd} PD 44(2) 309 (Hebrew).
The first major difference between the laws of trade secrets in Israel and Canada is with regard to the implied duty not to compete with the former employer and the implied duty not to solicit the customers of the former employer. As previously discussed, recent Israeli case law has established that these duties cannot be implied into the employment relationship. Furthermore, even express covenants signed by the employee regarding these duties, will mostly be considered void unless they meet certain very tight conditions, as described above. Together, these developments make for a very lax attitude towards information spillover, in that they significantly hamper an employer’s ability to make use of existing legal instruments to limit the use of knowledge gained through exposure during employment.

The Canadian approach stands in stark contrast to the Israeli law on implied duties, following the expansion of the fiduciary duty in Canada described above. In the past, post-employment competition with one’s former employer was allowed and courts were wary of covenants that came to limit such competition. However, the expansion of the fiduciary duty has meant that an increased number of employees are now bound by a fiduciary duty whose potential reach remains vague. So far, the content of that duty has grown to encompass post-employment competition and solicitation of the former employer’s customers, creating an implied duty not to compete with the former employer as well as not to solicit her customers. This represents a significant cap to an individual’s post-employment freedoms, since less former employees are able to use the skills learned during employment and to venture into private enterprises, effectively reducing the number of work options available to an employee, post-employment. The consequences of this situation are clear for innovation: the less post-employment options available for an employee, the less chance there will be of cross-pollination and other types of offshoots, geared at taking established ideas into new and innovative directions.

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236 See also Gutman, supra note 151; S Cohen and L Whatstein, “Chapter 21: Israel” in Melvin F Jager, ed, Trade Secrets Throughout the World (Toronto: Thomson/West, 2005) at 21.11.

237 See Hall JA in Barton, supra note 56 at paras 17-18 [emphasis added]: Absent any express contractual terms, the law has developed to provide that a former employee will not be at liberty to act in an unfair way to a former employer. Whether it be called a fiduciary duty, a duty of good faith or a duty of confidence, the theme running through this whole area of the law is that in appropriate circumstances, a former employee may be found to have breached an enforceable duty owed to a former employer and may be successfully sued for injunctive relief or for damages... As usual in human affairs, the difficulty is in the details and it is often difficult to know where to draw the line.

238 See Quantum, supra note 92; Mountjoy, supra note 79.
The Supreme Court of Canada’s decision in *RBC* expanded the parameters of the duty of good faith to such an extent as to make its impact almost identical to that of the fiduciary duty,\(^\text{239}\) despite the fact that both duties started out as being mutually exclusive, that is, the duty of good faith could only be used to find a non-fiduciary employee liable for damages, and only if during the currency of employment, the employee competed with the employer or made improper use of confidential information. This development was criticized by the minority opinion in *RBC SCC* as placing a potentially enormous liability on employees, having a punitive impact on them, adding unwelcome uncertainty and widening the imbalance of power in employment relationships;\(^\text{240}\) the law, however, remains as described by the majority opinion. In other words, the prevailing judicial attitude today, in Canada, places the enforcement of implied restrictive covenants above the interest for employee mobility. As a consequence, knowledge spillover – as a by-product of employee mobility – is severely limited, as this is one of the means through which potentially valuable commercial information is spread, which will have a knock-on effect for commercially viable innovation initiatives.

This is the place to mention a related point, regarding the enforcement of express restrictive covenants. In Israel, these are generally treated as highly suspect and presumed to be mostly invalid, as discussed above. NDAs are held to an objective standard in that for the information protection to be enforced, it is required to be a patent, copyright or trade secret and it is not enough for the employer to subjectively designate the information as valuable or private.\(^\text{241}\) Canadian law does not intrude into the freedom of contract so directly, making it comparatively easier for employers to limit the post-employment actions of their former employees. Again, the dominant judicial attitude in Canada regarding express restrictive covenants will have consequences for knowledge spillover, and, as a result, can be considered to be one of the elements to affect innovation, at least in comparison to countries such as Israel, whose judiciary has recently taken the opposite approach, as described above.

The third major difference is with regard to the legal treatment customer connections and related information receives in Israel and

\(^{239}\) This, according to Abella J’s minority opinion in *RBC SCC*, *supra* note 116 at para 37.

\(^{240}\) *Ibid* at para 52.

\(^{241}\) See *CheckPoint*, *supra* note 162 at para 15. The Court listed additional circumstances in which a nondisclosure agreement will be enforced; however, these are not related to the nature of the information, but rather arise out of the employer-employee relationship. See also *Direx*, *supra* note 175 at 45-47, in which the Court’s analysis effectively eliminated the possibility that information that does not meet the requirements of the law of trade secrets, can be protected by a nondisclosure agreement.
Canada. As discussed in the previous section, in Israel, customer lists and related information are treated as a type of trade secret. Therefore, they will be protected only if they fulfill the conditions for trade secret protection such as secrecy, competitive advantage and so on. Furthermore, recent case law has created additional conditions which must be met before a customer list will receive protection from the courts; for example, the requirement that a special effort was required to create the list. Together, these conditions serve to limit the instances of customer theft which will be recognized and punished, thus making it easier for employees to carry knowledge gained during employment, over into new contexts, in which they can compete with their former employers.

In Canada, however, customer connections and related information are treated as a separate category of information deserving legal protection, in addition to that of confidential commercial information and trade secrets and they are therefore not required to be secret nor have any special value. This makes the limitation of the use of customer connections easier in Canada than in Israel, from the outset. Furthermore, the focus of the discussion regarding the protection of customer lists is on the nature of the infringing act and the format of the information, that is, whether it was memorized – deliberately or otherwise – or misappropriated as a physical list. Such an approach clearly leads to more workers being limited in their post-employment options, whereas a more critical or selective approach to the protection of customer lists and related information would free more employees to compete with their former employers.

Another major difference between the laws of trade secrets in Israel and in Canada is with respect to the way the public policy consideration is used. In Canada, the public policy consideration is invoked in the reasonableness test as part of the restraint of trade doctrine, with regard to express contractual obligations. Implied duties are not, however, evaluated against the public policy standard, leaving the duties which can be implied into the employment contract virtually limitless. Furthermore, when courts do claim to weigh-in a public interest, it is rarely more than a fairly abstract interest in competition. The consequences of this asymmetry and what I term “shallow” public interest, are keenly felt in the way the fiduciary duty has developed to encompass principles and individuals which are not an innate part of the duty in its traditional form. Furthermore, as a potential inlet for innovation policy into the range of considerations addressed by the courts in such cases, the fact that public policy is used in such a limited

242 Judge and Gervais, supra note 23 at 501; Downard, supra note 79 at 362.
243 See Personnel, supra note 112.
244 Deutch, supra note 151 at 425.
way, obstructs the development of a potential tool for the advancement of innovation policy.

In Israel, on the other hand, the public policy consideration has developed into a rich concept, increasingly injected into the debate regarding post-employment restraints. The *Commercial Wrongs Act* – as a unified statutory regime for trade secrets – ensures that both implied and express duties comply with the public policy standard. Furthermore, this consideration also surfaces as a constitutional principle imported into the private law debate, carrying with it a human rights rhetoric, among the other norms read into it.

This repetition is indicative of the readiness on the part of Israeli courts to bring into play broader policy considerations, as well as the refusal to place the freedom of contracts above other social principles. The public policy consideration acts as a counterweight to those wishing to enforce more stringent duties upon departing employees, since the increased engagement with the dictates of public policy serves to limit the enforcement of restrictive covenants, whether express or implied, thus releasing more employees who can independently innovate, into the market.

The final difference to be noted in this section is in the approach taken by courts towards the employee. The fact that in Israel, the Act determined that there should be exclusive jurisdiction to the labour tribunals in cases involving trade secrets in the workplace, has affected the direction case law has taken, since the Israeli labour tribunals were established in order to advance the development of labour and employment law, which, in turn, is centered on the recognition that employees require special legal attention in order for their rights to be protected. Prior to the Act’s enactment, issues relating to trade secrets in the employment context were mainly heard before judges in the general civil court system. The labour tribunals are a separate judicial system consisting of five regional labour tribunals and a national labour tribunal, dedicated to labour and employment related issues and have played a significant role in the development of labour and social security law in Israel. Their specific awareness and sensitivity to employee concerns, such as employee mobility and advancement, can at least in part, explain the direction in which recent Israeli case law has taken. In Canada, on the other hand, since these cases go to the appropriate provincial superior court, the decisions cannot be expected to be informed by labour and employment law to the same extent, thus shifting the

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245 *Supra* note 153, s 22.
emphasis away from employee interests such as employee mobility and its potential to encourage the carrying of valuable information over into innovative and potentially commercial contexts.

Another example can be found in the analysis of restrictive covenants in Israel; the court will consider the damage caused to the employee by enforcing the restriction, against the benefit this endows to the employer. In Canada however, this analysis is lacking, as Trebilcock points out, “the courts almost never explicitly or finely calibrate the gains to the employer from the covenant against the costs it imposes on the employee.” 247 Furthermore, as discussed in the section on Canada, employers do not have to prove actual economic harm in order for their claims to be accepted, under both duty of good faith and fiduciary duty actions. Clearly, ignoring the effects of the enforcement of restrictive covenants on the employee, while reducing the burden of proof for the employer, leads to an increase in the restrictive covenants approved, thus hindering the ability of employees to carry information over into new and potentially lucrative applications.

Yet another example is with regard to the place given to the idea that there is an inherent inequality of bargaining power between the employee and the employer, to the advantage of the employer. In Israel, the courts have adopted a firm presumption that the employee does not have the opportunity to freely bargain the terms of her employment contract and there is no opportunity to bring evidence against this presumption. In Canada on the other hand, this idea is treated as a rebuttable presumption and as discussed in the chapter on the law in Canada, courts have enforced harsh covenants in cases where evidence was brought before the court to the effect that there was no exploitation of the employee and that she was not in an inferior bargaining position. The respective treatment of the issue of inequality of bargaining power by the courts is indicative of the policy preferences of the courts in both countries, since considering employees and employers as equal parties to a contractual agreement makes it easier to infer implied duties into the employment relationship, such as the commitment not to compete using information gained during employment, with the consequences described above.

In researching the section on the law in Canada, the overwhelming impression is that most covenants today are enforced and that cases arguing for the imposition of duties on employees are most frequently found in favour of the employer. While this is not a robust empirical

247 Supra note 5 at 69.
conclusion, Hammond made a similar observation in 1981.\footnote{R Grant Hammond, “Quantum Physics, Econometric Models and Property Rights to Information” (1981) 27:1 McGill LJ 47 at 69.} If it was true then, it is likely to be even truer today, with the burgeoning reliance on the fiduciary duty in the context of the law of trade secrets and post-employment competition.

Furthermore, the abovementioned differences read together, are indicative of a judiciary concerned with protecting the proprietary interests of employers over the freedom of employees, certainly as compared with the law of trade secrets in Israel today. More restrictive covenants are enforced, more employees are limited by more duties which in turn increasingly narrow post-employment options for departing employees. Conversely, tools which could potentially be used to balance the increased imposition of duties on employees, are ignored. The public policy consideration remains limited to the field of express contractual provisions and a market-based analysis of the value of customer lists and related information is mostly shunned.

However, this field of law has been most significantly influenced by the expansion of the fiduciary duty. Its extension to junior employees who have no say in the management of the plaintiff company, to post-employment actions, to solicitation and to competition, has greatly broadened the scope of employees whose mobility can be limited. While this is not the place to engage in a detailed critique of this development, it has some clear effects which should be noted.

Firstly, the fiduciary duty can be seen to have replaced an analysis of the actual duties of the employee, the nature of the information or the opportunity at stake or the potential harm to the employer. Instead, the fiduciary duty functions like a blanket prohibition on post-employment competition, limiting a wide range of poorly specified activities. Secondly, the structure of the fiduciary duty is such that it does not take into account commercial factors external to the employment relationship and does not allow for the consideration of its effects on incentives to create. Finally, it is inconsistent with the traditional perception of the employment relationship. The employment relationship is frequently described as being characterized by unequal bargaining power favouring employers, yet at the same time, the fiduciary duty is intended to remedy a perceived imbalance of power in favour of employees.

In Israel on the other hand, the law of trade secrets has undergone a marked shift in the opposite direction to that of Canada. Whereas older case law found that even without an explicit contract, the worker owed the
former employer a duty not to compete with her, today NCAs and NDAs are struck down by courts applying conditions that do not even appear in the Act. At the same time, recent case law cites empirical research showing that the non-enforcement of post-employment restrictive covenants is important to the establishment of industrial high-technology clusters.\(^\text{249}\) This research is then adopted into the public policy consideration, making it a central aspect of the analysis of the conflicting rights.

The tendency in Israel appears to be to limit the effects of the law of trade secrets on employees post-employment even more than the law intended. The overwhelming impression while researching the Israeli section, was that the national labour tribunal overturns most decisions to limit employee mobility and use of customer lists. It does this by emphasizing the market-based analysis, which directly impacts on the assessment of how incentives will be affected if protection of information is denied. The Israeli emphasis on the market value of information seems to more effectively capture efficiency objectives than current Canadian law.

It has already been claimed elsewhere that the opposing tendencies in American and English case law regarding trade secrets and confidential information in the workplace, originate at the very base of attitudes to the field in the respective jurisdictions.\(^\text{250}\) Whereas the American law treats trade secrets as being about interests related to commerce, the English law bases itself mainly on the laws of confidentiality and conduct, where the promotion of creativity is not a direct goal.

This analysis can be applied to the Israeli and Canadian jurisdictions as well. The Israeli law of trade secrets began by adopting English law; however, the legislation of the Act represented a clear move away from this heritage and was mostly influenced by the American law of trade secrets.\(^\text{251}\) By contrast, the Canadian law of trade secrets wholeheartedly accepts the English law approach to this field and has fully adopted significant principles directly into its body of case law.\(^\text{252}\)

In light of these parallels, it is not surprising to therefore find the Canadian case law focuses on the employee’s conduct while the Israeli case law looks to broader policy issues such as economic rationales, incentives to innovation and employee mobility. Furthermore, these parallels can be seen to explain the tendency of Canadian law to enforce

\(^{249}\) See e.g. CheckPoint, supra note 162; Amihay, supra note 173.
\(^{250}\) Deutch, supra note 151 at 322-23.
\(^{251}\) Ibid at 286.
\(^{252}\) Alberta Report, supra note 22 at 109-10.
agreements whereas Israeli law has determined to move in the opposite direction, to the advantage of the policy goal of promoting innovation.

5. Conclusion

The aim of this article was to identify attitudes to knowledge spillover as expressed by trade secrets laws. In Part 2, I discussed literature connecting information spillover to high-tech growth, while Part 3 described the respective laws of trade secrets in the workplace, including recent developments, of Canada and Israel, in order to facilitate the comparative analysis in Part 4.

The comparative analysis revealed that while in Canada, most covenants seem to be enforced, with a burgeoning reliance on the fiduciary duty where no express agreement exists, the Israeli judiciary refrains from enforcing implied limitations on competition and treats even express agreements as highly suspect. The effects of these differences are compounded by related issues such as the status of customer connections and related information in the analysis, the role of the public policy consideration and general attitudes of courts to such cases.

Assuming that the data connecting information spillover to high-tech growth, as discussed in Part 2, is reliable, the differences in legal policy regarding trade secrets in Israel and Canada have the potential to affect the competitiveness of their markets. It is therefore worth noting that Canada’s trade secrets policy is pushing in the opposite direction to the country’s declared policy aim of increasing technological innovation.

Support for this conclusion can be found in the work of the Institute for Competitiveness and Prosperity, which, in a recent working paper, found that in its plans for encouraging innovation and commercialization of findings, Canadian government policy has overlooked the forces that compel firms to innovate, that is, sophisticated and demanding customers and capable competitors.253 Aside from funding research and development, it concluded that creating the conditions that generate competition between companies is fundamental for the encouragement of high-tech growth.254 A legal policy concerned primarily with protecting the proprietary interests of employers, even at the cost of harming the


254 The Institute for Competitiveness and Prosperity, “Institute releases Sixth Working Paper” Institute for Competitiveness and Prosperity (7 October 2004), online:
interests of customers and stifling the competition which former employees could present, clearly works against the conditions defined in the working paper as necessary for innovation.

At the same time, the success of Ontario’s Kitchener-Waterloo area, a leading technology cluster, is at least partly attributable to the local university’s actions to reduce the limitations placed on the mobility of information. Unlike most universities, the University of Waterloo leaves full ownership of inventions made by members of its faculty with the inventor, so that she is free to develop it into a commercial venture.255

Exposing and identifying judicial attitudes to knowledge spillover enables us, as citizens and academics, to better understand social and economic developments around us, as well as to evaluate the potential for executive policy decisions to be fulfilled. As discussed above, Israel and many provinces in Canada, have overtly adopted the objective of attracting high-technology industries to their territories. While future empiric research will surely be needed to evaluate the ideas I have presented here, from the comparative analysis carried out in this article, it is evident that the laws of trade secrets and confidential commercial information represent one type of instrument in social and economic policy, which can be used to facilitate this objective.