MANU/SCCN/0070/1999

Equivalent Citation: [1999] SCC 705, [1999] 1 SCR 142

SUPREME COURT OF CANADA

Case No. 25778

Decided On: 28.01.1999

Appellants: **Cadbury Schweppes Inc.**
Vs.
Respondent: **FBI Foods Ltd.**

Hon'ble Judges:
L'Heureux-Dubé, Gonthier, McLachlin, Iacobucci, Major, Bastarache, Binnie JJ.

JUDGMENT

1 Binnie J. -- Clamato juice is a confection of tomato juice and clam broth. By the early 1980s it had developed a market in Canada about 10 times the size of its market in the United States, where it originated. To a significant extent, its success in Canada is attributed to the efforts of the appellants and their predecessors, who manufactured Clamato juice at plants in Vancouver and eastern Ontario under licence from the respondents. The respondents terminated the licence effective April 15, 1983. The courts below concluded that thereafter the appellants misused confidential information related to the Clamato recipe obtained during the licence period to continue to manufacture a rival tomato-based drink, which they called Caesar Cocktail. Liability for breach of confidence is no longer contested. This appeal requires us to consider appropriate remedies for breach of confidence in a commercial context.

2 The respondents obtained from the British Columbia Court of Appeal a permanent injunction against continued use of the confidential information, or products derived therefrom, plus an award of compensation equivalent to the profits the respondents would have earned had they in fact sold an additional volume of Clamato equivalent to the sales of Caesar Cocktail during the 12-month period following termination of the licence. In this Court the appellants complain that the order of the British Columbia Court of Appeal effectively makes them the insurer of the respondents' profits in the year following the termination, despite the fact it was the respondents who precipitated the termination and thus any market dislocation suffered by Clamato. The appellants want the compensation to be reduced to zero. The respondents, equally indignant, analogize the misused confidential information to a species of property which the appellants have converted to their own use. In their cross-appeal they therefore attack the limitation of their compensation to the profits they would otherwise have earned to a mere 12 months. The respondents say they want the market value of the "pirated" information.

<u>Facts</u>

3 Duffy-Mott registered in Canada the trademark CLAMATO on October 17, 1969. In the late 1970s, it decided to supply the Canadian market by licensing its trademark and its formula to local juice manufacturers, who undertook "the manufacture, distribution, sale and marketing" of Clamato in an exclusive territory. Caesar Canning Ltd. of British Columbia, now bankrupt, obtained the territory consisting of Ontario and Western

Canada for a series of 12-month periods, indefinitely renewable provided the licensee achieved a minimum volume of sales in each 12-month period. Caesar Canning easily exceeded the minimum volumes in each 12-month period.

4 By the spring of 1979, Caesar Canning had built up a distribution system and promoted the product with sufficient energy that its territory was extended to include the rest of Canada. Local sources were obtained for the ingredients except the premixed portion of the dry seasonings, which was provided by the licensor, Duffy-Mott. The *Food and Drugs Act*, R.S.C., 1985, c. F-27, and regulations thereunder, and their U.S. equivalent, required disclosure on the product label of all the ingredients in descending order of quantity. However, neither Caesar Canning nor the other appellants ever did discover the precise formula of the respondents' secret "dry mix". Nevertheless, to enable Caesar Canning to produce Clamato, Duffy-Mott communicated related information about its recipe and manufacturing procedures which the trial judge found to be confidential. This finding is no longer attacked.

5 On May 11, 1981, Caesar Canning entered into a contract with the appellant FBI Foods Ltd. to manufacture Clamato and related products at its Trenton, Ontario plant. The parties called their contract a "Tolling Agreement", and FBI Foods was paid a fixed fee for each case of juice product. The contract was for a period of five years, unless sooner terminated for various reasons, including earlier termination of the underlying Licence Agreement between Duffy-Mott and Caesar Canning. Duffy-Mott consented to, but was not a party to, the Tolling Agreement. To enable it to manufacture Clamato, FBI Foods was given information about the Clamato recipe and methods of manufacture which Duffy-Mott regarded as, and FBI Foods now acknowledges was, confidential.

Termination of the Licence

6 In 1982, the respondent Cadbury Schweppes acquired the shares of Duffy-Mott and, in a switch of business strategy, decided that Duffy-Mott would take back the production and marketing of Clamato in Canada. To this end, it notified Caesar Canning on April 15, 1982 that the Licence Agreement (and consequently the sub-agreement with FBI Foods) would terminate in 12 months. Caesar Canning was offered an ongoing contract to produce Clamato at a fixed fee per case, which it declined.

7 It is important to note that the Licence Agreement left Caesar Canning (and therefore FBI Foods) free to compete with the respondent in the juice market after termination. The Licence Agreement provided only that Caesar Canning would no longer have the right to use the trademark CLAMATO and it would not, for a period of five years, manufacture or distribute any product "which includes among its ingredients <u>clam juice and</u> tomato juice" (emphasis added).

8 Armed with 12 months' notice of the termination of its licence, Caesar Canning immediately began work to develop a competing product. Lorne Nicklason, its Manager of Quality Control and Quality Assurance, developed a "reformulated" tomato-based juice over a few months in late 1982, working from the list of ingredients and processing specifications for Clamato, but omitting clams or other seafood. He made sure that the new product was distinguishable chemically from Clamato, with different levels of salt, pH, and soluble solids. However, the trial judge found (93 B.C.L.R. (2d) 318, at p. 325), and it is no longer disputed, that:

> It is beyond doubt that without the formula and process information about Clamato Mr. Nicklason could not have developed Caesar Cocktail personally. He did not have the necessary skills. The evidence is equally persuasive that

> Caesar Canning could have developed a product as much like Clamato as Caesar Cocktail without using the Clamato recipe by hiring the appropriate skills. It could have done so within the 12-month notice period at modest cost.
>
> ... Anyone who saw the recipe for Caesar Cocktail would have known that it was derived so entirely from the Clamato formulation as to be a virtual copy without clams. The other variations were very minor.

9 It must have come as an unpleasant surprise to Duffy-Mott when Caesar Cocktail was able to substantially replicate the look, smell, texture and taste of Clamato juice, and win a significant share of the market without resort to clam broth or other seafood extract.

10 Caesar Cocktail went on the market immediately after the licensing agreement terminated on April 15, 1983. After being assured that Caesar Canning was not in breach of its contractual covenants with the respondents, FBI Foods agreed to co-pack the new product for eastern Canada. Caesar Cocktail proved to be a success, though its market share trailed a long way behind that of Clamato.

11 Unbeknownst to the appellants, the respondents had surreptitiously discovered the exact formula of Caesar Cocktail at the end of March 1983 by slipping a technical expert onto the team for the final financial audit of Caesar Canning under the Licence Agreement. Despite this knowledge, the respondents did not take any action to enjoin the manufacture and sale of Caesar Cocktail, or otherwise protest. The respondents mistakenly believed (as did Caesar Canning) that the absence of clam broth in the reformulated recipe would be fatal to their claim.

12 Caesar Canning did not live long enough to enjoy its new success. It ran into serious financial problems, ceased production on October 23, 1985, and shortly thereafter made an assignment in bankruptcy. The appellant FBI Foods, which by then relied for a significant portion of its business on the production of Caesar Cocktail, purchased the assets of Caesar Canning, including the Caesar Cocktail brand, for $955,000. It decided to carry on this aspect of the business through a wholly owned subsidiary, its co-appellant FBI Brands. The sale of assets was completed on January 10, 1986. Since that time, FBI Brands has produced and sold Caesar Cocktail under various brand names (other than Clamato) throughout Canada.

13 In 1986, three years after Caesar Cocktail came on the Canadian market, the respondents obtained new and more optimistic legal advice respecting their legal rights, and dispatched a cease and desist letter to FBI Brands. As stated, Caesar Canning, the only entity against which they had a contractual claim, had by that time disappeared into bankruptcy. Eventually, this action was commenced in 1988 against the FBI companies, and the Chief Operating Officer of FBI Foods, Lawrence Kurlender. No claim was ever made for an interlocutory injunction.

<u>Judgments Below</u>

Supreme Court of British Columbia

14 Though the pleadings outlined several causes of action, Huddart J. found it necessary to deal only with the claim for breach of confidence. She held that the information Duffy-Mott had shared with Caesar Canning and FBI Foods was confidential trade know-how, and that it had been disclosed in confidence to Caesar Canning. She found that, quite apart from any contractual arrangements, express or implied, there is

a well-understood obligation of confidentiality in the food industry with respect to such disclosures. She found that all parties recognized the custom that the confidential information was to be used only for the purpose provided. Applying the analysis set out in *Lac Minerals Ltd. v. International Corona Resources Ltd*, 1989 CanLII 34 (SCC), [1989] 2 S.C.R. 574, the trial judge held that Caesar Canning had wrongfully misused the confidential information in its "reformulation" from Clamato to Caesar Cocktail. Nevertheless, Huddart J. considered that the value of the "confidential information" was both transitory and of marginal importance. The formulation of tomato juice products is well understood in the industry. The absence of clam broth from the juice mixture apparently did not worry consumers. The real marketing edge of "Clamato" was its trademark, which the defendants did not infringe. Although there was conflicting evidence on the point, she accepted evidence of consumer testing by the National Food Laboratory that consumers in a blind taste test could (albeit with some hesitation) detect a difference between Caesar Cocktail and Clamato.

15 Turning to the issue of remedy, Huddart J. was faced with the fact that the plaintiffs at trial had waived any claim to disgorgement (or an accounting) of profits. On receipt of the trial judgment the plaintiffs, through new counsel, sought to reopen their waiver of an accounting of profits, but the application was denied.

16 The trial judge found that the plaintiffs had not established any financial loss. The original Clamato continued to dominate its market niche. However, the trial judge did not send the plaintiffs away empty-handed. She concluded that by misappropriating the confidential information the defendants had wrongfully obtained a 12-month "springboard" into the highly competitive juice market that but for the breach they would not have enjoyed. Accordingly, she ruled (1 B.C.L.R. (3d) 258, at pp. 260-61) that:

> When [the plaintiffs] did not prove any loss caused by the misuse of the Clamato recipe, I awarded what have come to be known as "headstart damages" for reasons of fairness.

She assessed "headstart damages" as the amount it would have cost Caesar Canning to hire a consultant to assist with in-house development of a new tomato-based brand during the 12-month notice period. The registrar later assessed this amount to be $29,761.20.

17 As to the respondents' claim for a permanent injunction, Huddart J. found that their inactivity since 1983, when they became aware of all pertinent facts, was fatal. Further, relying on Lord Denning's judgment in *Seager v. Copydex Ltd.*, [1967] 2 All E.R. 415 (C.A.) ("*Seager v. Copydex Ltd. (No. 1)*"), and Megarry J. in *Coco v. A. N. Clark (Engineers) Ltd.,* [1969] R.P.C. 41 (Ch. D.), she questioned the appropriateness of an injunction in a case where much of the "confidential" information was either public or of marginal significance, and any injury could be satisfactorily remedied by financial compensation.

British Columbia Court of Appeal 1996 CanLII 3352 (BC CA), (1996), 23 B.C.L.R. (3d) 325

18 Cadbury Schweppes fared better in the British Columbia Court of Appeal. Newbury J.A., for the court, accepted the trial judge's findings that there had been a breach of confidence, and that a similar product could have been (but was not) developed independently of the confidential information within 12 months. She found (at p. 345) that:

. . . the plaintiff cannot ask the Court to restore him to a market monopoly position if in fact that position was vulnerable to attack in the form of legitimate competition from the defendant.

However, Newbury J.A. rejected the "consulting fee" valuation adopted by the trial judge. Pointing out the agreement of the parties that evidence at trial would be limited to liability issues, with an assessment of damages postponed to a later proceeding (if necessary), Newbury J.A. ordered a reference to determine the amount the plaintiffs would have earned if they (instead of the defendants) had in fact sold the volume of Caesar Cocktail marketed by the defendants in the 12-month period following termination. Further, Newbury J.A. concluded (at pp. 351-52) that a permanent injunction was appropriate, because:

. . . the interests of justice require[d] [the] Court to enjoin the continued breach of confidence by the defendants -- that is, that it enjoin the defendants from making use in the manufacture of a tomato cocktail, the specifications, technical information, advice, and derivatives thereof, that were disclosed to Caesar Canning Ltd. and/or the defendants or any of them in confidence pursuant to the Licensing and Tolling Agreements, and that are not otherwise generally known.

Analysis

19 Equity, as a court of conscience, directs itself to the behaviour of the person who has come into possession of information that is in fact confidential, and was accepted on that basis, either expressly or by implication. Equity will pursue the information into the hands of a third party who receives it with the knowledge that it was communicated in breach of confidence (or afterwards acquires notice of that fact even if innocent at the time of acquisition) and impose its remedies. It is worth emphasizing that this is a case of third party liability. The appellants did not receive the confidence from the respondents, but from the now defunct Caesar Canning. The receipt, however, was burdened with the knowledge that its use was to be confined to the purpose for which the information was provided, namely the manufacture of Clamato under licence.

20 The equitable doctrine, which is the basis on which the courts below granted relief, potentially runs alongside a number of other causes of action for unauthorized use or disclosure of confidential information, including actions sounding in contract, tort and property law. In *Lac Minerals*, *supra*, it was suggested that the action for breach of confidence should be characterized as a *sui generis* hybrid that springs from multiple roots in equity and the common law, *per* Sopinka J., dissenting, at p. 615:

The foundation of action for breach of confidence does not rest solely on one of the traditional jurisdictional bases for action of contract, equity or property. The action is *sui generis* relying on all three to enforce the policy of the law that confidences be respected.

21 While the only controversies still alive in this Court turn on the principles on which financial compensation is to be calculated, and whether or not this is a proper case for a permanent injunction, the disagreement among the parties on the remedies reflect their differing views as to the true nature and scope of the cause of action for breach of confidence. This appeal therefore requires us to examine more closely the character of the interest protected in this case, and on that basis to assess the appropriateness of the remedy that was in fact granted by the British Columbia Court of Appeal.

22 After making the comment reproduced above, Sopinka J. added, at p. 615:

> This multi-faceted jurisdictional basis for the action provides the Court with considerable flexibility in fashioning a remedy. The jurisdictional basis supporting the particular claim is relevant in determining the appropriate remedy. [Emphasis added.]

23 This observation has to be read in light of the actual result in that case. It will be recalled that the defendant Lac Minerals was held to have acquired in confidence information about potential gold deposits in Northern Ontario from the plaintiff Corona Resources in the course of negotiations for a joint venture. Lac Minerals had been brought into the picture because its financial clout as a "senior" mining company was considered by Corona to be essential to obtain funding to develop the gold mine. Lac Minerals quietly used the information received from Corona to bid behind Corona's back for a rich gold-bearing property adjacent to the Corona site from a third party, then let the negotiations with Corona lapse. It was thereby held to have misused confidential information to scoop for itself a commercial opportunity that it would otherwise have known nothing about. All members of this Court agreed that there had been an actionable breach of confidence, but divided on the issue of whether or not a fiduciary duty existed, and, if so, the appropriate remedy. Of the five members of this Court who heard the appeal, only two (La Forest and Wilson JJ.) held that Lac Minerals had breached a fiduciary duty to Corona. Applying fiduciary principles, and aiming at disgorgement, they held that a constructive trust should be impressed on the gold mine in favour of Corona. La Forest J. considered that a constructive trust could be imposed "regardless of the basis of liability" (p. 643). The other three members of the Court (McIntyre, Lamer and Sopinka JJ.) held that imposition of a fiduciary duty was inappropriate in light of the commercial nature of the relationship, but split on the appropriate remedy. Lamer J. (as he then was) agreed with Wilson and La Forest JJ. that a constructive trust ought to be imposed. The other judges considered that it was inappropriate to impose a proprietary remedy, i.e., a constructive trust, on the asset itself (the gold mine) and would have awarded financial compensation only. The majority view on remedy (*per* Lamer, Wilson and La Forest JJ.) therefore imposed a constructive trust even though it was the majority view on liability (*per* McIntyre, Lamer and Sopinka JJ.) that the parties were not in a fiduciary relationship.

24 The result of *Lac Minerals* is to confirm jurisdiction in the courts in a breach of confidence action to grant a remedy dictated by the facts of the case rather than strict jurisdictional or doctrinal considerations. See J. D. Davies, "Duties of Confidence and Loyalty", [1990] *Lloyd's Mar. & Com. L.Q*. 4, at p. 5:

> There is much to be said for the majority view [in *Lac Minerals*] that, if a ground of liability is established, then the remedy that follows should be the one that is most appropriate on the facts of the case rather than one derived from history or over-categorization.

25 The decision in *Lac Minerals* was thus approvingly interpreted by the New Zealand Court of Appeal in *Aquaculture Corp. v. New Zealand Green Mussel Co*, [1990] 3 N.Z.L.R. 299, and, thus interpreted, was criticized by P. Birks, in "The Remedies for Abuse of Confidential Information", [1990] *Lloyd's Mar. & Com. L.Q.* 460, at pp. 464-65. In the *Aquaculture* case Cooke P., for the New Zealand Court of Appeal, had this to say at p. 301:

> Whether the obligation of confidence in a case of the present kind should be

> classified as purely an equitable one is debatable, but we do not think that the question matters for any purpose material to this appeal. For all purposes now material, equity and common law are mingled or merged. The practicality of the matter is that in the circumstances of the dealings between the parties the law imposes a duty of confidence. For its breach a full range of remedies should be available as appropriate, no matter whether they originated in common law, equity or statute. [Emphasis added.]

26 While none of the judges who decided *Lac Minerals* advocated common law or statutory remedies for an action for breach of confidence, they did look to the underlying policy objectives of the various potential causes of action. They fastened on the particular circumstances that gave rise to liability in the case before them as governing the choice of remedy. That having been said, La Forest J., at p. 677, was at pains to avoid a "Chancellor's foot" approach to the choice of remedy:

> I do not countenance the view that a proprietary remedy can be imposed whenever it is "just" to do so, unless further guidance can be given as to what those situations may be. To allow such a result would be to leave the determination of proprietary rights to "some mix of judicial discretion . . . subjective views about which party 'ought to win' . . ., and 'the formless void of individual moral opinion'". . . .

The emphasis on matching the remedy to underlying policy objectives was reiterated in *M. (K.) v. M. (H.)*, 1992 CanLII 31 (SCC), [1992] 3 S.C.R. 6, *per* La Forest J. at p. 81, and *per* McLachlin J. at p. 86. It is in this sense, I think, that Sopinka J.'s statement in *Lac Minerals* (at p. 615) that "[t]he jurisdictional basis supporting the particular claim is relevant in determining the appropriate remedy", must be understood. In short, whether a breach of confidence in a particular case has a contractual, tortious, proprietary or trust flavour goes to the appropriateness of a particular equitable remedy but does not limit the court's jurisdiction to grant it. Such a view is consistent with earlier cases in this Court, including *Pre-Cam Exploration & Development Ltd. v. McTavish*, 1966 CanLII 61 (SCC), [1966] S.C.R. 551.

A. *Significance of the "Sui Generis" Characterization*

27 Sopinka J.'s characterization of the action for breach of confidence as *sui generis* (*Lac Minerals*, at p. 615) was picked up by the Manitoba Court of Appeal in *Apotex Fermentation Inc. v. Novopharm Ltd.* 1998 CanLII 4886 (MB CA), (1998), 80 C.P.R. (3d) 449, at p. 482, para. 113. On the other hand, La Forest J., in *Lac Minerals*, at p. 672, reflected the more traditional view that it is an exercise of equitable jurisdiction (see also *Ben-Israel v. Vitacare Medical Products Inc.* 1997 CanLII 12377 (ON SC), (1997), 78 C.P.R. (3d) 94 (Ont. Ct. (Gen. Div.)) *per* Beaulieu J., at p. 104). The House of Lords, in *Attorney-General v. Guardian Newspapers Ltd. (No. 2)*, [1990] A.C. 109 (the *Spycatcher* case) treated it as an equitable cause of action.

28 Reference to anything as "*sui generis*" tends to create a *frisson* of apprehension or uncertainty amongst lawyers until the jurisprudence about a particular subject matter is further developed. I do not think such apprehension would be justified here. The *sui generis* concept was adopted to recognize the flexibility that has been shown by courts in the past to uphold confidentiality and in crafting remedies for its protection. As was stated by the Law Commission of the United Kingdom in Working Paper No. 58, *Breach of Confidence* (1974), at p. 11:

> ... the courts do not confine themselves to purely equitable principles in solving

> the problems which arise in breach of confidence cases and it would seem more realistic to regard the modern action simply as being *sui generis*.

An example of that flexibility, which created some doctrinal difficulties in terms of purely equitable principles, is found in the leading judgments of Lord Denning M.R. in *Seager v. Copydex Ltd. (No. 1)*, *supra*, and *Seager v. Copydex Ltd. (No. 2)*, [1969] 2 All E.R. 718, referred to in *Lac Minerals* at pp. 610 and 671, and discussed below in some detail. It seems clear, however, that the starting point in the analysis must be the principles of equity.

B. *Relationship Between Breach of Confidence and Fiduciary Duty*

29 The respondents at trial pleaded breach of fiduciary duty. The law takes a hard line against faithless fiduciaries. Such a finding, if made, would have assisted the respondents in their claim to what amounts to a remedy that is "proprietary" (i.e., the respondents, in their cross-appeal, claim that the appellants' sales should be treated as belonging to the respondents, by analogy with the principles governing defaulting trustees or patent infringers for the purpose of calculating financial compensation). Thus, while the courts below found that the facts of this case neither fall into one of the established categories of fiduciary relationships (e.g., solicitor and client, principal and agent), nor meet the exceptional criteria for the creation of a fiduciary duty outside those established categories, the respondents seem to think the remedy not only can but should be approached on the same basis as if the fiduciary argument had succeeded.

(1) Absence of a Fiduciary Relationship

30 Even prior to *Lac Minerals* the Court expressed the view that the policy objectives underlying fiduciary relationships did not generally apply to business entities dealing at arm's length. In *Frame v. Smith*, 1987 CanLII 74 (SCC), [1987] 2 S.C.R. 99, Wilson J. stated, at pp. 137-38:

> Because of the requirement of vulnerability of the beneficiary at the hands of the fiduciary, fiduciary obligations are seldom present in the dealings of experienced businessmen of similar bargaining strength acting at arm's length: see, for example, *Jirna Ltd. v. Mister Donut of Canada Ltd.* (1971), 22 D.L.R. (3d) 639 (Ont. C.A.), aff'd 1973 CanLII 31 (SCC), [1975] 1 S.C.R. 2. The law takes the position that such individuals are perfectly capable of agreeing as to the scope of the discretion or power to be exercised, i.e., any "vulnerability" could have been prevented through the more prudent exercise of their bargaining power and the remedies for the wrongful exercise or abuse of that discretion or power, namely damages, are adequate in such a case.

To the same effect, see *Lac Minerals per* Sopinka J. at p. 595, *Hodgkinson v. Simms*,1994 CanLII 70 (SCC), [1994] 3 S.C.R. 377, at p. 414,*per* La Forest J., and the comment of Professor Davies that "[s]trong evidence should be required before a breach of confidential information situation is metamorphosed into one of fiduciary relationship" (Davies, *supra*, at p. 7). Despite these warnings, a majority of this Court i n *Hodgkinson v. Simms*, *supra*, held that where the ingredients giving rise to a fiduciary duty are otherwise present, its existence will not be denied simply because of the commercial context. The vulnerability of clients to their professional advisors invoked traditional fiduciary principles. In this case there is nothing in the relationship between a juice manufacturer and its licensee to suggest that the former surrendered its self-interest or rendered itself "vulnerable" to a discretion conferred on the latter. The overriding deterrence objective applicable to situations of particular vulnerability to the exercise of a discretionary power (*M. (K.) v. M. (H.)*, *supra*, *per* McLachlin J. at p. 86) does not operate here. If different policy objectives apply, one would not expect the remedy necessarily to be the same.

(2) Fiduciary Duties Arising Outside the Framework of Fiduciary Relationships

31 In *Lac Minerals* Wilson J. expressed the view that while no fiduciary relationship existed, nevertheless a fiduciary duty arose when Corona, in communicating the confidential information, placed itself "in a position of vulnerability to Lac's misuse of that information" (p. 630). This approach was not accepted by the other members of the Court (see Sopinka J., at p. 600), and La Forest J., at p. 657 of the same decision, quoted a contrary view expressed by Professor F. Gurry in *Breach of Confidence* (1984), at pp. 161-62:

> In a breach of confidence action, the court's concern is for the protection of a confidence which *has been created by* the disclosure of confidential information by the confider to the confidant. The court's attention is thus focused on the protection of the confidential information because it has been the medium for the creation of a relationship of confidence; its attention is *not* focused on the information as a medium by which a *pre-existing* [fiduciary] duty is breached. [Emphasis in original.]

32 In some sense, disclosure of almost any confidential information places the confider in a position of vulnerability to its misuse. Such vulnerability, if exploited by the confidee in a commercial context, can generally be remedied by an action for breach of confidence or breach of a contractual term, express or implied (*Pre-Cam Exploration & Development Ltd. v. McTavish*, *supra*, *per* Judson J., at p. 555). In this case, the licensing arrangement expressly contemplated open competition upon termination, subject for a period of five years to avoidance of what came to be recognized as a useless limitation, namely mixing clam broth with tomato juice. While the law will supplement the contractual relationship by importing a duty not to misuse confidential information, there is nothing special in this case to elevate the breached duty to one of a fiduciary character. The respondents' demand to have the appellants' sales treated as an asset "pirated" from the respondents by analogy with a trust estate goes too far.

C. *Relevance of the Licence and Tolling Agreements*

33 In this case, unlike *Lac Minerals*, *supra*, the parties defined their business relationship by a series of contracts. The appellants take the view that this contractual context is important to the issue of remedies because the communication of confidential information occurred after the Licence Agreement (and subsequently the Tolling Agreement) were entered into. The appellants say the respondents wound up with the competitive environment they had bargained for. In effect, the appellants submit that the policy objectives underlying the usual remedies in a breach of confidence action do not apply where commercial parties have by contract ordered their own relationship.

34 The particular contractual terms relied on by the appellants, in the remedies context, are the termination and "entire contract" clauses in the Licence Agreement, which provide as follows:

> **7.** LICENSEE agrees that during the term of this Agreement and for a period of 5 years thereafter LICENSEE will not manufacture, produce, market, advertise, distribute or sell in the Territory any other product which includes among its

ingredients clam juice and tomato juice.

. . .

14. . . .

(c) This Agreement constitutes the entire agreement and understanding between the parties relating to the subject matter hereof and supersedes any and all prior agreements and understandings (whether written or oral) with respect to the subject matter hereof.

35 Nothing is said expressly in the Licence Agreement or Tolling Agreement about confidentiality. It has already been mentioned that there is no privity of contract between the appellants and the respondents. The only party with whom Duffy-Mott had a contract was Caesar Canning, now bankrupt, who is not and never was a party to these proceedings. The appellant FBI Foods was party to the Tolling Agreement with Caesar Canning, but while Duffy-Mott consented to that agreement, it was not made a party to that contract. However, the appellants contend that the contractual terms limit or circumscribe the equitable duty of confidentiality that would otherwise arise, and restrict the remedy to be granted. In their view, the respondents are entitled to no compensation whatsoever.

36 Just as a contractual term can limit or negative a more general duty implied by the law of tort, so too can a contractual term that deals expressly or by necessary implication with confidentiality negate the general obligation otherwise imposed by equity: *337965 B.C. Ltd. v. Tackama Forest Products Ltd.* 1992 CanLII 5964 (BC CA), (1992), 91 D.L.R. (4th) 129 (B.C.C.A.), *per* Southin J.A., at p. 176, leave to appeal to this Court refused, [1993] 1 S.C.R. v. The ability of parties to contract out of, or limit, general duties otherwise imposed by law has been labelled "private ordering", and the general principles applicable here would be analogous to the principles considered by this Court in the context of concurrent remedies in tort and contract in *BG Checo International Ltd. v. British Columbia Hydro and Power Authority*, 1993 CanLII 145 (SCC), [1993] 1 S.C.R. 12, at p. 27:

. . . the tort duty, a general duty imputed by the law in all the relevant circumstances, must yield to the parties' superior right to arrange their rights and duties in a different way. In so far as the tort duty is not contradicted by the contract, it remains intact and may be sued upon.

37 The appellants argue that if contractual provisions can altogether negate the duty of confidence otherwise arising, they should equally be capable of limiting, expressly or by implication, the compensation payable. The appellants say the respondents got exactly what they bargained for, namely a competitive post-termination environment in which Clamato could lose market share to a Caesar Canning successor product that met the contractual criteria of being free of clam broth.

38 This analysis is correct so far as it goes, but it leaves out of consideration the fact the respondents did not bargain for the unfair competition of having their own know-how, imparted in confidence, used against them. The contract cannot reasonably be read as negating the duty of confidence imposed by law. The contractual context, while it may place important parameters on what compensation would be appropriate, does not assist the appellants in their effort to eliminate the compensation altogether.

D. *Relevance of Respondents' Argument Based on an Alleged "Proprietary" Interest in* *the Information*

39 Much of the respondents' argument on the appeal and cross-appeal rested on an analogy which they allege exists between breach of a duty of confidentiality and protection of intellectual property. In effect, they argue that the policy objectives underlying patent protection apply to breaches of confidence in a commercial case where trade secrets constitute the subject matter of the wrongful use or disclosure.

40 The argument that confidential information is property for some purposes is made by Professor A. S. Weinrib in "Information and Property" (1988), 38 *U.T.L.J.* 117. In *R. v. Stewart*, 1988 CanLII 86 (SCC), [1988] 1 S.C.R. 963, this Court concluded that whatever may be the property status of information in other contexts, information is not property for purposes of the theft provisions of the *Criminal Code*. Lamer J. (as he then was) commented in passing on the possibility that trade secrets could be considered property, at pp. 974-75:

> Indeed, [confidential information] possesses many of the characteristics of other forms of property: for example, a trade secret, which is a particular kind of confidential information, can be sold, licensed or bequeathed, it can be the subject of a trust or passed to a trustee in bankruptcy. In the commercial field, there are reasons to grant some form of protection to the possessor of confidential information: it is the product of labour, skill and expenditure, and its unauthorized use would undermine productive efforts which ought to be encouraged. As the term "property" is simply a reference to the cluster of rights assigned to the owner, this protection could be given in the form of proprietary rights.

41 The respondents' characterization of confidential information as property is controversial. Traditionally, courts here and in other common law jurisdictions have been at pains to emphasize that the action is rooted in the relationship of confidence rather than the legal characteristics of the information confided. See, for example, Holmes J. in the United States Supreme Court in *E. I. Du Pont de Nemours Powder Co. v. Masland*, MANU/USSC/0003/1917 : 244 U.S. 100 (1917), at p. 102:

> The word property as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property . . . but that the defendant stood in confidential relations with the plaintiffs, or one of them.

42 The same point was made in the High Court of Australia, *per* Deane J., in *Moorgate Tobacco Co. v. Philip Morris Ltd.* (1984), 156 C.L.R. 414, at p. 438:

> Like most heads of exclusive equitable jurisdiction, its rational basis does not lie in proprietary right. It lies in the notion of an obligation of conscience arising from the circumstances in or through which the information was communicated or obtained.

See also *Federal Commissioner of Taxation v. United Aircraft Corp.* (1943), 68 C.L.R. 525 (Aust. H.C.), *per* Latham C.J., at pp. 534-35; *Macri v. Miskiewicz* reflex, (1991), 39 C.P.R. (3d) 207 (B.C.S.C.), varied at 1993 CanLII 2385 (BC CA), (1993), 50 C.P.R. (3d)

76, *per* Southin J.A., at p. 83.

43 Whether the cause of action is described as *sui generis* or equitable does not change its preoccupation with the violation of a confidence. It is nevertheless true that the nature of the information may influence the appropriate remedy. The respondents rely on the much-quoted (and often criticized) analogy drawn by Lord Denning M.R. in *Seager v. Copydex Ltd. (No. 2)*, *supra*, in which he analogized compensation for breach of confidence to damages for conversion of property, at p. 719:

> Now a question has arisen as to the principles on which the damages are to be assessed. They are to be assessed, as we said, at the value of the information which the defendant company took. If I may use an analogy, it is like damages for conversion. Damages for conversion are the value of the goods. Once the damages are paid, the goods become the property of the defendant. A satisfied judgment in trover transfers the property in the goods. So, here, once the damages are assessed and paid, the confidential information belongs to the defendant company.

44 *Seager v. Copydex Ltd. (No. 2)* was referred to by La Forest J. in *Lac Minerals*, at p. 671. In that case, Lord Denning addressed issues regarding remedies that arose out of the decision on liability in *Seager v. Copydex Ltd. (No. 1)*, *supra*. The facts regarding liability in that case are as follows. The plaintiff had invented a carpet grip. It was not patented. In the course of negotiations for a potential production and marketing agreement with Copydex, the plaintiff described his invention in detail. No agreement was concluded. The defendant subsequently marketed a carpet grip which the court considered a copy of the plaintiff's invention, albeit innocently, by a process of what was called "unconscious plagiarism". No injunction was awarded, yet the defendant was required to pay the plaintiff the "market value" of the information it had wrongfully, though innocently, misappropriated. Having paid the compensation, Lord Denning's view was that "the confidential information belongs to the defendant company" (p. 719).

45 *Seager v. Copydex Ltd. (No. 2)* presents some theoretical difficulties in terms of equitable doctrine. Equity could not operate on the "guilty conscience" of the defendant in that case because the defendant's conscience was apparently clear. Despite the finding at p. 417 of *Seager v. Copydex Ltd. (No. 1)* that "[t]he coincidences are too strong to permit of any other explanation" except plagiarism, the court held the defendant morally blameless. While Lord Denning characterized the cause of action as "equitable" (at p. 417), the lack of unconscionable conduct may have led the court to emphasize the value of the information misappropriated rather than to focus on the misappropriation itself. It should also be noted that in *Phipps v. Boardman*, [1967] 2 A.C. 46, decided two years before *Seager v. Copydex Ltd. (No. 2)*, *supra*, the House of Lords in a divided decision held that confidential information could properly be characterized as a property interest for purposes of the law of trusts. In that case, the trustee profited from confidential information to benefit both the trust and himself. The question was whether the information thus misappropriated was an asset of the trust, thus rendering the trustee liable to disgorgement of his portion of the profit. The House concluded that it was, and disgorgement was ordered. The decision was grounded in trust law rather than property law. In *Re Keene*, [1922] 2 Ch. 475 (C.A.), a secret formula was considered to be an asset that passed to the trustee in bankruptcy.

46 I do not think that the respondents' reliance on intellectual property law is of much assistance here. It ignores "the bargain" that lies at the heart of patent protection. A

patent is a statutory monopoly which is given in exchange for a full and complete disclosure by the patentee of his or her invention. The disclosure is the essence of the bargain between the patentee, who obtained at the time a 17-year monopoly on exploiting the invention, and the public, which obtains open access to all of the information necessary to practise the invention. Accordingly, at least one of the policy objectives underlying the statutory remedies available to a patent owner is to make disclosure more attractive, and thus hasten the availability of useful knowledge in the public sphere in the public interest. As pointed out by Hugessen J.A. in *Smith, Kline & French Laboratories Ltd. v. Canada (Attorney General)*, reflex, [1987] 2 F.C. 359 (C.A.), at p. 366, entrepreneurs in the food industry frequently eschew patent protection in order to avoid disclosure, and thus perhaps perpetuate their competitive advantage beyond the 17-year life span of a patent. We are told that the secrecy of the Coca-Cola recipe has apparently endured for decades. If a court were to award compensation to the respondents on principles analogous to those applicable in a case of patent infringement, the respondents would be obtaining the benefit of patent remedies without establishing that their invention meets the statutory criteria for the issuance of a patent, or paying the price of public disclosure of their secret.

47 The reluctance of common law courts outside the United States to treat trade secrets as a species of property or quasi-property has been criticized: see, e.g., M. Chromecek and S. C. McCormack, *World Intellectual Property Guidebook: Canada* (1991), wherein it is observed, at p. 3-27:

> Not all information can be property; only confidential information can. Confidentiality is a condition sine qua non of the information's proprietary status. This view is fully consistent with the essence of other intellectual property rights, patents, copyrights, industrial designs, trade marks, or even personality rights, the value of which lies not in their possession but in the owner's ability to exclude others from exploiting them.

48 I agree, of course, with the author's emphasis on confidentiality. Breach of confidentiality is the gravamen of the complaint. When it comes to a remedy, however, I do not think a proprietary remedy should automatically follow. There are cases (as in *Lac Minerals*) where it is appropriate. But equity, with its emphasis on flexibility, keeps its options open. It would be contrary to the authorities in this Court already mentioned to allow the choice of remedy to be driven by a label ("property") rather than a case-by-case balancing of the equities. In some cases, as Lord Denning showed in *Seager v. Copydex Ltd. (No. 2)*, *supra*, the relevance of the specific quality of the information to a remedy will not be its property status but its commercial value. In other cases, as in *Lac Minerals*, the key to the remedy will not be the "property" status of the confidence but the course of events that would likely have occurred "but for" the breach. Application of the label "property" in this context would add nothing except confusion to the task of weighing the policy objectives furthered by a particular remedy and the particular facts of each case. In the present case, the trial judge considered the confidential information to be nothing very special, and that "but for" the breach the respondents would in any event have faced a merchantable version of Caesar Cocktail in the market place within 12 months. On these facts, a "proprietary" remedy is inappropriate.

E. *Relevance of Tort*

49 At least one commentator (Professor P. M. North in "Breach of Confidence: Is There a New Tort?" (1972), 12 *J.S.P.T.L.* 149, at pp. 163-65), has suggested that Lord Denning was moving toward the development of a new tort that would provide "some

form of common law protection of interests in confidential information by way of damages analogous to the statutory protection provided in the fields of patents, copyright and designs" (p. 170). In *Seager v. Copydex Ltd. (No. 2)*, *supra*, Winn L.J., at p. 721, said "the basis on which damages are to be recovered in this case is a tortious basis". The United Kingdom Law Commission recommended the creation of a statutory tort in its report on *Breach of Confidence* (Law Com. No. 110, Cmnd. 8388 1981), at p. 151, para. 6.105, *et seq*. Events in England have not moved in this direction. The House of Lords has subsequently affirmed that actions for breach of confidence are equitable in nature: see the *Spycatcher* case, *supra*.

50 Nevertheless, tort principles could have a potential impact in a breach of confidence case on the rules governing the assessment of equitable compensation. It is well established that equitable rules may produce a more generous level of compensation than their counterparts in tort. In *Guerin v. The Queen*, 1984 CanLII 25 (SCC), [1984] 2 S.C.R. 335, for example, the plaintiff Indian band succeeded in recovering compensation for wrongful deprivation of the use of their reserve lands at a level that reflected an unanticipated boom in the Vancouver real estate market. The boom had not been foreseeable at the time the Crown wrongfully leased the Indian plaintiffs' lands to the Shaugnessy Golf Club. In *Hodgkinson v. Simms*, *supra*, the subsequent collapse of the Vancouver real estate market was equally unforeseen, yet the Court put the burden of the unforeseen loss on the defendant. In *Canson Enterprises Ltd. v. Boughton & Co.*,1991 CanLII 52 (SCC), [1991] 3 S.C.R. 534, La Forest J. was prepared to apply tort principles to reduce the level of compensation otherwise payable in equity (at pp. 584-89), although acknowledging that the same reduction could have been produced using equitable principles alone (at p. 585), while McLachlin J. based her analysis entirely on equitable principles (at p. 542). The argument was carried forward in *M. (K.) v. M. (H.)*, *supra*, where, however, it was agreed that where "the same policy objectives underlie two different causes of action similar measures of compensation may be appropriate" (La Forest J., at pp. 80-81; McLachlin J., at p. 86). See also Cooke P. in *Mouat v. Clark Boyce*, [1992] 2 N.Z.L.R. 559 (reversed by the Privy Council on other grounds, [1993] 4 All E.R. 268), at p. 569:

> It would be anachronistic to draw distinctions in this respect between the various sources of liability, dictated as they are by the same considerations of policy.

51 In the present case, the policy objectives in both equity and tort would support restoration of the plaintiff to the position it would have occupied "but for" the breach (*Elsley v. J. G. Collins Insurance Agencies Ltd*, 1978 CanLII 7 (SCC), [1978] 2 S.C.R. 916, *per* Dickson J., at p. 935). It appears from what we have glimpsed of the respondents' case for compensation that potential doctrinal differences such as remoteness, intervening cause, and contributory negligence have no relevance here. In contrast to cases like *Guerin*, the loss measured in this case according to common law principles would produce the same result as the loss measured in equity, as discussed below. In these circumstances, tort principles do not carry us any closer to the solution.

F. *Relevance of Detriment*

52 La Forest J. said in *Lac Minerals* that if the plaintiff is able to establish that the defendant made an unauthorized use of the information <u>to the detriment</u> of the party communicating it, the cause of action is complete (at pp. 635-36 and 657; see also *ICAM Technologies Corp. v. EBCO Industries Ltd.*reflex, (1991), 36 C.P.R. (3d) 504 (B.C.S.C.), affirmed 1993 CanLII 2289 (BC CA), (1993), 52 C.P.R. (3d) 61 (B.C.C.A.).

per Toy J.A., at pp. 63-64; *Ontex Resources Ltd. v. Metalore Resources Ltd.* 1993 CanLII 8673 (ON CA), (1993), 13 O.R. (3d) 229 (C.A.);*655 Developments Ltd. v. Chester Dawe Ltd.* 1992 CanLII 2842 (NL SCTD), (1992), 42 C.P.R. (3d) 500 (Nfld. S.C.).

53 The issue of detriment arises in this case because the trial judge made a specific finding that the respondents had not suffered financial loss, yet she proceeded to find liability and award damages "in the interest of fairness". While La Forest J. in *Lac Minerals* considered detriment to be an essential element of the breach of confidence action (Sopinka J. did not express a view on this point in his discussion of the applicable principles), it is clear that La Forest J. regarded detriment as a broad concept, large enough for example to include the emotional or psychological distress that would result from the disclosure of intimate information (see, e.g., *Argyll (Duchess) v. Argyll (Duke)*, [1967] Ch. 302. In the *Spycatcher* case, *supra*, Lord Keith of Kinkel observed, at p. 256, that in some circumstances the disclosure itself might be sufficient without more to constitute detriment:

> So I would think it a sufficient detriment to the confider that information given in confidence is to be disclosed to persons whom he would prefer not to know of it, even though the disclosure would not be harmful to him in any positive way.

54 The concept of detriment need not be explored on this occasion because, as the Court of Appeal correctly emphasized, the parties had agreed prior to trial that any evidence regarding losses allegedly suffered by the plaintiff would be deferred to a post-trial reference. This arrangement obviated the need for the respondents to lead evidence of detriment at the liability trial. In the end, however, having elected the remedy of financial compensation, the respondents will obviously have to demonstrate at the reference the nature and extent of any detriment suffered to establish the basis for a monetary award.

G. Relevance of Lord Cairns' Act 1858 to Jurisdiction to Award Financial Compensation

55 There appears to be a continuing controversy over the extent to which, if at all, the award of financial compensation is affected by the historic complexities of the *Chancery Amendment Act, 1858* (*Lord Cairns' Act*) and its modern progeny.

56 The origins of this particular controversy predate the merger of law and equity. The concept of damages is a creature of the common law. The passage of *Lord Cairns' Act* in 1858 conferred on the Courts of Equity a jurisdiction to award damages in addition to or in lieu of an injunction or other specific equitable relief. Similar provisions are contained in provincial statutes governing the jurisdiction of the superior courts of the provinces; see, e.g., the*Courts of Justice Act*, R.S.O. 1990, c. C.43, s. 99; *The Court of Queen's Bench Act*, S.M. 1988-89, c. 4, s. 36; *Supreme Court Act*, R.S.P.E.I. 1988, s. S-10, s. 32; *Judicature Act*, R.S.A. 1980, c. J-1, s. 20; *The Queen's Bench Act*, R.S.S. 1978, c. Q-1, s. 45(9); *Judicature Act*, R.S.Y. 1986, c. 96, s. 27; *Judicature Act*, R.S.N.W.T. 1988, c. J-1, s. 42.

57 The practical implication of resting compensation on *Lord Cairns' Act* would be to substitute monetary compensation for injunctive restraint but not necessarily to make compensation available for losses suffered prior to the application for an injunction. In addition, where as in this case, the trial judge held the plaintiffs to be disentitled to an injunction, the jurisdiction to award damages would be open to challenge. There might in fact be a jurisdictional problem in cases where there is "nothing to injunct the

defendant against" (D. Capper, "Damages for Breach of the Equitable Duty of Confidence" (1994), 14 *Legal Stud.* 313, at p. 314).

58 In *Nichrotherm Electrical Co. v. Percy*, [1957] R.P.C. 207, the English Court of Appeal expressed some doubt about the availability of financial compensation in equity outside *Lord Cairns' Act*. In *English v. Dedham Vale Properties Ltd.*, [1978] 1 W.L.R. 93 (Ch. D.), Slade J., at p. 111, attributed the award of compensation in *Seager v. Copydex Ltd. (No. 2)* to *Lord Cairns' Act*, although Lord Denning nowhere mentioned it. As recently as 1979, Vice-Chancellor Megarry suggested in *Malone v. Commissioner of Police of the Metropolis (No. 2)*, [1979] 2 All E.R. 620 (Ch. D.), at p. 633, that:

> . . . if there is no case for the grant of an injunction, as when the disclosure has already been made, the unsatisfactory result seems to be that no damages can be awarded under this head. . . .

See also the *Spycatcher* case, *supra*, *per* Lord Goff of Chieveley, at p. 286; *Ben-Israel v. Vitacare Medical Products Inc.*, *supra*, *per* Beaulieu J., at p. 109; *Pharand Ski Corp. v. Alberta* 1991 CanLII 5869 (AB QB), (1991), 80 Alta. L.R. (2d) 216 (Q.B.) *per* Mason J., at p. 257, para. 180, *et seq.*; and J. D. McCamus, "Equitable Compensation and Restitutionary Remedies: Recent Developments", *Special Lectures of the Law Society of Upper Canada 1995: Law of Remedies: Principles and Proofs*, 295, at p. 330.

59 There are English decisions that award financial compensation for breach of fiduciary duty in the absence of any claim for an injunction or other equitable relief. See, e.g., *Nocton v. Lord Ashburton*, [1914] A.C. 932 (H.L.), where Viscount Haldane L.C. observed (at p. 952) that the Court of Chancery, operating on "the conscience" of the delinquent solicitor,

> could order the defendant, not . . . to pay damages as such, but to make restitution, or to compensate the plaintiff by putting him in as good a position pecuniarily as that in which he was before the injury.

60 Although *Nocton v. Lord Ashburton* was a case of a faithless fiduciary, the decision in *Lac Minerals*, as already discussed, is authority for the proposition that the availability of equitable remedies in a breach of confidence action does not now turn on the presence or absence of a fiduciary duty. Other Canadian cases which have based an award of financial compensation for breach of confidence in the exercise of a general equitable jurisdiction without trying to find a fiduciary duty or worrying about the restrictions buried in the modern successors of *Lord Cairns' Act* include *Apotex Fermentation Inc. v. Novopharm Ltd.*, *supra*; *Recovery Production Equipment Ltd. v. McKinney Machine Co.*, [1998] A.J. No. 801 (QL) (C.A.); *Treadwell v. Martin* (1976), 67 D.L.R. (3d) 493; *Planon Systems Inc. v. Norman Wade Co.*, [1998] O.J. No. 3547 (QL) (Ont. Ct. (Gen. Div.)); *Z Mark International Inc. v. Leng Novak Blais Inc.* (1996), 12 O.T.C. 33 (Ont. Ct. (Gen. Div.)). See also L. Tsaknis, "The Jurisdictional Basis, Elements, and Remedies in the Action for Breach of Confidence -- Uncertainty Abounds" (1993), 5 *Bond L. Rev.* 18, at pp. 46-47.

61 Equity, like the common law, is capable of ongoing growth and development: *Canson Enterprises*, *supra*, *per* La Forest J. at p. 580; *United Scientific Holdings Ltd. v. Burnley Borough Council*, [1978] A.C. 904, *per* Lord Diplock, at p. 926. In my view, therefore, having regard to the evolution of equitable principles apparent in the case law, we should clearly affirm that, in this country, the authority to award financial compensation for breach of confidence is inherent in the exercise of general equitable jurisdiction and does not depend on the niceties of *Lord Cairns' Act* or its statutory

successors. This conclusion is fed, as well, by the *sui generis* nature of the action. The objective in a breach of confidence case is to put the confider in as good a position as it would have been in but for the breach. To that end, the Court has ample jurisdiction to fashion appropriate relief out of the full gamut of available remedies, including appropriate financial compensation.

H. *The Subject Matter of the Compensation*

62 In the present case, the trial judge found, and the Court of Appeal agreed, that the Clamato formula and related processes, insofar as they had been disclosed to the appellants, constituted a unique <u>combination</u> of elements, notwithstanding that some or all of the constituent elements were themselves widely known within the juice industry. It is to be emphasized that this is a case of unauthorized use as opposed to unauthorized disclosure. The information passed to Caesar Canning was found to satisfy the requirements of being inaccessible to the uninitiated, and to constitute an identifiable and distinct source of information which Caesar Canning wrongfully used for its own commercial advantage. As such, it was worthy of protection, but what, in dollar terms, did its misuse cost the respondents?

63 In the respondents' view their Clamato information is, literally, priceless. They say its continued use must be forever enjoined. It is only past misuse which, being now incurable, will have to be compensated in mere dollars and cents. In the appellants' view, on the other hand, the Court should focus on what the trial judge found was the peripheral importance of the information actually used. Caesar Cocktail, in one formulation or another, would have been on the market. The processing and other details, however confidential, did not add to its market potential. In other words, the appellants' position is that the use of confidential information may have been an actionable wrong but it did not cause any monetary loss to the respondents.

I. *Measure of the "Lost Opportunity"*

64 The applicable concept of restoration was set out in the reasons of McLachlin J. in *Canson Enterprises* as follows, at p. 556:

> In summary, compensation is an equitable monetary remedy which is available when the equitable remedies of restitution and account are not appropriate. By analogy with restitution, <u>it attempts to restore to the plaintiff what has been lost as a result of the breach; i.e., the plaintiff's lost opportunity</u>. The plaintiff's actual loss as a consequence of the breach is to be assessed with the full benefit of hindsight. Foreseeability is not a concern in assessing compensation, but it is essential that the losses made good are only those which, on a common sense view of causation, were caused by the breach. [Emphasis added.]

The concept of the "lost opportunity" is particularly apt here. The respondents' real complaint is not that the appellants manufactured Caesar Cocktail at a particular temperature or atmospheric pressure. Production details are a means to an end. The respondents' "lost opportunity" was that the appellants, using these confidential production techniques, entered the marketplace with Caesar Cocktail a year earlier than would otherwise have been the case. The respondents were not entitled to be free of competition from the appellants. Apart from the clam juice limitation, they were only entitled to be free of the appellants' competition which used the respondents' confidential information. The respondents argue that no consultant could duplicate "precisely" the Clamato production details. This may be true, but the trial judge reasoned that it would not be necessary for the appellants or their consultants to discover independently the actual Clamato details within that year. Juice formulation is not rocket science. A consultant skilled in the art and deploying a variety of techniques could have come up with a plausible clam-free copycat product within 12 months to bring the respondents' commercial "opportunity" to a close. Moral indignation is not a factor that is to be used to inflate the calculation of a compensatory award. The respondents' entitlement is to no more than restoration of the full benefit of this lost but time-limited opportunity.

J. *The Trial Judge Found the Confidential Information to Be "Nothing Very Special"*

65 The trial judge awarded the respondents the equivalent of the consulting fee it would have cost Caesar Canning to develop Caesar Cocktail without improper use of the respondents' confidential information. A similar approach was used by the Manitoba Court of Appeal in *Apotex Fermentation Inc. v. Novopharm Ltd.*, *supra*, and by the British Columbia Court of Appeal in *ICAM Technologies Corp. v. EBCO Industries Ltd.*, *supra*. See also *Interfirm Comparison (Australia) Pty. Ltd. v. Law Society of New South Wales*, [1977] R.P.C. 137. The "consulting fee" approach uses the putative development costs (in this case, of Caesar Cocktail) as a proxy for the market value of the confidential information. In adopting this approach the trial judge relied on the analysis of Lord Denning in *Seager v. Copydex Ltd. (No. 2)*, *supra*, already discussed, who for the purposes of assessing equitable compensation divided confidential information into three categories: "nothing very special", "something special" and "very special indeed", as follows, at pp. 719-20:

> The difficulty is to assess the value of the information taken by the defendant company. . . . The value of the confidential information depends on the nature of it. **[1]** If there was nothing very special about it, that is, if it involved no particular inventive step but was the sort of information which could be obtained by employing any competent consultant, then the value of it was the fee which a consultant would charge for it; because in that case the defendant company, by taking the information, would only have saved themselves the time and trouble of employing a consultant. But, on the other hand, **[2]** if the information was something special, as, for instance, if it involved an inventive step or something so unusual that it could not be obtained by just going to a consultant, then the value of it is much higher. It is not merely a consultant's fee, but the price which a willing buyer -- desirous of obtaining it -- would pay for it. It is the value as between a willing seller and a willing buyer. **[3]** ... if the plaintiff is right in saying that the confidential information was very special indeed, then it may well be right for the value to be assessed on the footing that, in the usual way, it would be remunerated by a royalty. The court, of course, cannot give a royalty by way of damages; but it could give an equivalent by a calculation based on a capitalisation of a royalty. Thus it could arrive at a lump sum. Once a lump sum is assessed and paid, then the confidential information would belong to the defendant company in the same way as if they had bought and paid for it by an agreement of sale. [Emphasis added.]

66 The trial judge clearly consigned the trade secrets which the respondents had confided to the appellants to the "nothing very special" category, as she awarded Lord Denning's measure of compensation applicable to the lowest level of importance, a mere consulting fee to represent the avoided cost of in-house development. The respondents complain that no consultant could exactly replicate the magic of Clamato,

and certainly could not do so in 12 months. The trial judge's view, however, was that it would not be necessary for the appellants to discover and replicate exactly the respondents' production techniques. They would be competitive using substitute techniques that produced any sufficiently close copycat tomato-based product to satisfy the ordinary customer. If the market value of the confidential information is the proper measure of compensation in this case, I would accept the assessment of the trial judge. My quarrel is not with her calculation but with the underlying premise that market value is the appropriate approach on the facts of this case.

K. *The Springboard Doctrine*

67 The trial judge acknowledged that the breached confidences had acted as a "springboard" to enable the appellants to bring Caesar Cocktail to market 12 months earlier than would otherwise have been the case. The "springboard" or "head start" concept descends from the judgment of Roxburgh J. in *Terrapin Ltd. v. Builders' Supply Co. (Hayes) Ltd.*, [1967] R.P.C. 375 (Ch. D. 1959), aff'd [1960] R.P.C. 128 (C.A.), at p. 391:

> As I understand it, the essence of this branch of the law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a spring-board for activities detrimental to the person who made the confidential communication, and spring-board it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public.

The "springboard" concept has been referred to in Canada, including in *Lac Minerals*, *per* Sopinka J., at p. 610; *Santé Naturelle Ltée v. Produits de Nutrition Vitaform Inc.* reflex, (1985), 5 C.P.R. (3d) 548 (Que. Sup. Ct.), at p. 553; *Montour Ltée v. Jolicœur* (1988), 19 C.I.P.R. 25 (Que. Sup. Ct.), at p. 45; *Matrox Electronic Systems Ltd. v. Gaudreau*, reflex, [1993] R.J.Q. 2449 (Que. Sup. Ct.), at pp. 2463-64; and *Ben-Israel v. Vitacare Medical Products Inc.*, *supra*, *per* Beaulieu J., at p. 106.

68 The respondents contend that the trial judge erred in her measure of equitable compensation for two reasons. Firstly and most importantly, they were not in the business of selling their trade secrets to competitors, and therefore the "market value" of the information is irrelevant. There is some support for this in the reasons of Sir Edward Eveleigh in *Dowson & Mason Ltd. v. Potter*, [1986] 2 All E.R. 418 (C.A.), where at p. 422 he rationalized *Seager v. Copydex Ltd. (No. 2)*, on the basis that in that case the plaintiff "would have sold [the] information; that was his line of business". There is also some support for this view in *Coco v. A. N. Clark (Engineers) Ltd*., *supra*, *per* Megarry J. at p. 50.

69 Secondly, the respondents say the "springboard" cases are inapplicable because, properly understood, they presuppose that at the end of the "head start" period, the defendants would in fact have discovered the actual secrets they earlier misappropriated. In fact, they say, Clamato has been often emulated but never precisely copied.

70 In my view the respondents' argument reads the jurisprudence too narrowly. The unique features of the respondents' manufacturing process, and its alleged lack of replicability, do not necessarily establish a causal relationship to a financial loss. The respondents were not in the business of selling information, and I therefore agree with them that the "market value" of the confidential information is not the appropriate measure of compensation in this case.

71 That having been said, the respondents were in the business of exploiting commercial opportunities, and their ability to make a profit from Clamato was limited by the acknowledged entitlement of the appellants to market a similar product without clam juice. The assessment of compensation has therefore to address the value of the lost market opportunity and, in particular, the lost advantage of being able to market Clamato free of the appellants' competition for 12 months, and not be diverted to a valuation of the confidential information itself.

72 The trial judge held that the appellants were able to approximate the taste of Clamato without ever having had access to the secret "dry mix", and that this approximation was sufficient for commercial purposes. While the details of the respondents' particular combination of manufacturing process might have remained undiscovered forever, she found that there are different substitute ways to produce the desired result. As the trial judge observed, Clamato had a certain identity of taste and texture and "considerable changes can be made to the ingredients and process of a food product without the product identity being changed" (p. 329). For that reason, the precision of a few degrees temperature here or a few pounds pressure there, and the other details imparted in confidence to the appellants, were found to be "nothing very special". These findings are important because they show that while Clamato is unique, its uniqueness is not a condition of exploiting (nor an assurance of defending) the commercial opportunity.

73 The respondents complain that the trial judge's analysis was hypothetical, because the appellants have never in fact reproduced Clamato using non-confidential technology. However, the Court is free to draw inferences from the evidence as to what would likely have happened "but for" the breach: *Lac Minerals*, *per* Sopinka J., at pp. 619-20, and *per* La Forest J., at pp. 668-69; *Rainbow Industrial Caterers Ltd. v. Canadian National Railway Co.*, 1991 CanLII 27 (SCC), [1991] 3 S.C.R. 3, at p. 15; *Pharand Ski Corp. v. Alberta*, *supra*, *per* Mason J., at p. 263, para. 202; and *Chaleur Silica Inc. v. Lockhart* 1990 CanLII 5384 (NB QB), (1990), 108 N.B.R. (2d) 366 (Q.B.), *per* Russell J., at p. 405, para. 76. In the case of *Coco v. A. N. Clark (Engineers) Ltd*., *supra*, on which they rely so strongly, Megarry J., at p. 49, pointed to the artificiality of actually requiring the confidant to discover "independently" the information of which he or she is already aware.

74 In my view, the key to the assessment of equitable compensation in this case is the expected duration of the respondents' "lost opportunity", i.e., the economic advantage they would have enjoyed after the cancellation of the licence "but for" the breach. It would be inequitable to protect the respondents' interest in a commercial opportunity they never enjoyed by invoking undue solicitude for their "nothing very special" information.

75 There is a further more general objection to the respondents' formalistic approach. Equity has set a relatively low threshold on what kinds of information are capable of constituting the subject matter of a breach of confidence. In *Coco v. A. N. Clark (Engineers) Ltd.*, *supra*, Megarry J., at p. 47, considered that "some product of the human brain" applied to existing knowledge might suffice. A similarly expansive concept was adopted in *Lac Minerals* at p. 610 by Sopinka J., quoting Lord Greene M.R. in *Saltman Engineering Co. v. Campbell Engineering Co.* (1948), 65 R.P.C. 203 (C.A.), at p. 215. Gurry in *Breach of Confidence*, *supra*, gives instances of information which were protected from disclosure because they were otherwise inaccessible, despite the fact that they possessed little or no actual value, including the commercially disastrous invention for rearing pigs at issue in *Nichrotherm Electrical Co. v. Percy*, *supra.* He

concludes, at p. 82:

> It would seem, therefore, that the nonsensical nature of information is not to be regarded as a barrier to confidentiality, but, rather, as a factor which the court will take into account in the exercise of its discretion whether to grant equitable relief, <u>or as a factor affecting the quantum of any damages</u> which may be in question. [Emphasis added.]

76 While equity is thus quick to protect confidences, it cannot be blind to the nature of the opportunity lost to the respondents, or the value of their information, when consideration turns to remedies. Equity will avoid unjustly enriching the confider by overcompensating for "nothing very special" information just as it will avoid unjustly enriching the confidee by awarding less than realistic compensation for financial losses genuinely suffered. Characterizing the action as "*sui generis*" does not alter the relevance of this equitable principle.

77 It seems to me that the respondents' arguments for exclusivity relate at bottom to their claim for injunctive relief. The information may be nothing very special, they say, but it is ours, and the appellants have no right to its use, with or without payment. Refusal of an injunction, they say, would be equivalent to the grant of a compulsory licence. I think it is therefore convenient to turn at this stage to the claim for injunctive relief, and in light of the decision reached under that head, I will then complete the consideration of financial compensation.

L. *Award of a Permanent Injunction*

78 Injunctive relief, whether interim, interlocutory or permanent, is available in appropriate circumstances to restrain the apprehended or continued misuse or disclosure of confidential information. The problems here were, firstly, the delay of the respondents in asserting their rights coupled with the appellants' change of circumstances in the interim, relying at least in part on the respondents' inactivity; secondly, the trial judge's finding that the protected information was "nothing very special"; and thirdly, the conclusion of the trial judge that any loss could be adequately remedied by financial compensation.

(1) <u>Delay Coupled with Change in Circumstances</u>

79 The trial judge considered this objection to be virtually conclusive. "This is not a case for an injunction", she wrote (at p. 347), "and has not been since mid-1983, if it ever was". The respondents were slow to assert their rights against the appellants, and, once asserted, were slow in pressing ahead with the action. Caesar Cocktail entered the market on April 15, 1983. The respondents knew then that the appellants were selling a copy of Clamato juice minus the clam broth. The fact the respondents may have delayed action under a misapprehension of their legal rights was certainly a consideration relevant to the defence of acquiescence raised against them, but the delay thus explained away may nevertheless be taken into consideration when weighing the equities of a permanent injunction. On January 10, 1985 the appellants paid $955,000 for the assets of the bankrupt Caesar Canning influenced, at least in part, by the continuing lack of action on the part of the respondents.

80 It was not until June 19, 1987 that the respondents wrote a "cease and desist" letter to the FBI companies threatening litigation. An action was commenced about a year later. The appellants sought further particulars of the statement of claim, and a further year passed before the plaintiffs filed their notice of intention to proceed. The courts

below found that the plaintiffs had allowed some six years to elapse after the termination of the Licence Agreement before they got serious with their action against the appellants.

81 In R. J. Sharpe, *Injunctions and Specific Performance* (loose-leaf), numerous cases are cited at para 1.840 for the proposition that "a combination of delay and prejudice to the defendant is required to deprive the plaintiff of a specific remedy to which he or she is otherwise entitled". This combination, often considered as a second branch of the doctrine of laches, may deny injunctive relief even where the plaintiff's conduct does not amount to acquiescence in the correctness of the defendant's position under the first branch of that doctrine. The distinction is noted at pp. 76-78 by La Forest J. in *M. (K.) v. M. (H.)*, *supra*. A good example of this principle in action is *Institut national des appellations d'origine des vins et eaux-de-vie v. Andres Wines Ltd.* 1987 CanLII 4051 (ON SC), (1987), 40 D.L.R. (4th) 239 (Ont. H.C.), *per* Dupont J., at p. 297, affirmed by the Ontario Court of Appeal 1990 CanLII 6726 (ON CA), (1990), 71 D.L.R. (4th) 575n, leave to appeal to the Supreme Court of Canada refused, [1991] 1 S.C.R. x. In that case, the French wine authority and French champagne producers sought to restrain Canadian wineries from associating the name "champagne" with their products. There was no suggestion that the French plaintiffs had ever acquiesced in the correctness of the legal position advanced by the Canadian defendants. Nevertheless, apart from everything else, the Court held that during the period of delay (much longer than here) the Canadian wineries had invested large amounts of money in the research and development of "domestic champagne", and had carved out a domestic market. The injunction was refused, and for these and other reasons the action was wholly dismissed.

82 However, as the authors of Sharpe, *Injunctions and Specific Performance*, *supra*, also point out at para 1.870, delay plus detriment do not necessarily bar the action entirely. There may be delay combined with prejudice which "has less drastic effect and which is relevant to the issue of remedial choice, that is, delay sufficient to deprive the plaintiff of specific relief but not to bar action altogether". In *Stephenson Jordan & Harrison Ltd. v. MacDonald & Evans* (1951), 69 R.P.C. 10 (C.A.), at p. 16, it was considered relevant to the grant of an injunction that the third party sought to be enjoined (as the appellants are in this case) had not been alerted to the alleged breach of confidence "before they had . . . incurred any substantial expense". The plaintiff was left to its claim for financial compensation. In this case, the delay of the respondents, combined with the ongoing investment and commercial activity of the appellants based on Caesar Cocktail in the interim, argued powerfully against the grant of injunctive relief.

(2) <u>The "Nothing Very Special" Nature of the Information</u>

83 As to the trial judge's view that the "nothing very special" quality of the information militated against the grant of a permanent injunction, support is found in the discussion of La Forest J. in *Lac Minerals*, at p. 643:

> Imposing a disability on a party in possession of confidential information from participating in a market in which there is room for more than one participant may be unreasonable, such as <u>where the information relates to a manufacturing process or a design detail</u>. In such cases, it may be that the obligation on the confidee is not to use the confidential information in its possession <u>without paying compensation for it</u> or sharing the benefit derived from it. [Emphasis added.]

84 The Court of Appeal in this case nevertheless reversed the trial judge's ruling and granted a permanent injunction. Newbury J.A. thought it inequitable to subject the defendant, in effect, to a forced sale of the confidences. She preferred the approach of Lord Evershed M.R. in *Terrapin*, *supra*, at p. 135, where he doubted that the misappropriation of confidential information by a competitor should be regarded as "merely a matter of compensation in pounds, shillings and pence". Newbury J.A. also quoted, at p. 349, the statement of Smith L.J. in *Shelfer v. City of London Electric Lighting Co.*,[1895] 1 Ch. 287 (C.A.), at p. 322, that

> a person by committing a wrongful act (whether it be a public company for public purposes or a private individual) is not thereby entitled to ask the Court to sanction his doing so by purchasing his neighbour's rights, by assessing damages in that behalf. . . .

85 The law would lose its deterrent effect if defendants could misappropriate confidential information and retain profits thereby generated subject only to the payment of compensation if, as and when they are caught and successfully sued.

86 I think, however, that one's indignation in this case has to be tempered by an appreciation of the equities between the parties at the date of the trial. Eleven years had passed since Caesar Cocktail went into production, using "nothing very special" information that could promptly have been replaced (had the respondents made a timely fuss) by substitute technology accessible to anyone skilled in the art of juice formulation. At the date of trial, it would have been manifestly unfair to allow information of peripheral importance to control the grant of injunctive relief. The equities in favour of the respondents' claim for an injunction to put Caesar Cocktail off the market rightly yielded to the appellants' equities in continuing a business to whose success the confidential information had so minimally contributed.

(3) <u>Adequacy of a Monetary Remedy</u>

87 The present case essentially involves the settlement of financial accounts between business entities. The injunction, if granted, would have inflicted damage on the appellants disproportionate to the legitimate interest of the respondents: see, e.g., the *Spycatcher* case, *supra*, *per* Lord Goff, at p. 290:

> But the [*Spycatcher* disclosures in the newspaper] were very short: they gave little detail of the allegations: a number of the allegations had been made before: and in so far as the articles went beyond what had previously been published, I do not consider that the judge erred in holding that, in the circumstances, the claim to an injunction was <u>not proportionate</u> to the legitimate aim pursued. [Emphasis added.]

An injunction in the circumstances of the present case would inflict competitive damage on the appellants in 1999 far beyond what is necessary to "restore" the respondents to the competitive position they would have enjoyed "but for" the breach 16 years ago on April 15, 1983.

88 As in *Schauenburg Industries Ltd. v. Borowski* 1979 CanLII 1893 (ON SC), (1979), 101 D.L.R. (3d) 701 (Ont. H.C.),*per* Craig J., at p. 712, the blow to the respondents, whatever it may be, can be adequately compensated by money.

89 In these circumstances, the trial judge was correct to refuse a permanent injunction, and the permanent injunction issued by the British Columbia Court of Appeal should be

vacated.

M. *The Measure of Financial Compensation*

90 The respondents, thus denied an injunction, must look entirely to dollars and cents for their restoration. I think, as stated, the Court of Appeal was correct to reject the trial judge's "consulting fee" approach in this case. The award would not restore the respondents to the position they would have been in but for the breach. The respondents did not lose a consulting fee. They were not in that business.

91 This case is closer to *Dowson & Mason Ltd. v. Potter*, *supra*, where the plaintiff, as here, was a manufacturer, not a seller of information. In that case, the court affirmed the trial judge's view (at p. 424) that:

> . . . the proper basis for the assessment of damages is the loss suffered by the plaintiffs according to their <u>loss of profits</u> resulting from the assumed wrongful disclosure and use of the confidential information. . . . [Emphasis added.]

92 In my view, however, the British Columbia Court of Appeal erred in being prepared to assume, for purposes of achieving an equitable result, that if Caesar Cocktail had been kept off the market because of its unconscionable origins, the respondents would have filled the void with sales of Clamato juice. The respondents' damages, on this assumption, would be their lost profit on the <u>assumed</u> sales of Clamato juice. While this approach puts the focus where it belongs, on the financial position of the respondents, it makes a number of unjustified assumptions. There is as yet no precise evidence that the sales of Clamato juice were affected by the marketing of Caesar Cocktail, and if so to what extent. The compensation order of the Court of Appeal raises issues of causation that concerned the courts as long ago as 1895 in *Robb v. Green*, [1895] 2 Q.B. 1, *per* Hawkins J., at pp. 19-20:

> It is impossible with mathematical accuracy to ascertain [the loss]. It would be unjust to saddle the defendant with every loss of custom the plaintiff has sustained, for that cannot all be reasonably attributed to the unlawful action of the defendant. The specific instances as yet traced to the defendant's action are, it is true, but few; but still their loss does not form the limit of the injury to the plaintiff, for the wholesale canvass of his customers was likely to influence many and to diminish permanently his receipts and profits. On the other hand, fluctuation of business, bad times, and many other circumstances may possibly have contributed to the loss. I cannot, therefore, award the plaintiff an indemnity against the whole diminution of his trade.

93 In *Canson Enterprises*, *supra*, McLachlin J. emphasized, at p. 556, that "[t]he plaintiff's actual loss as a consequence of the breach is to be assessed with the full benefit of hindsight . . . but it is essential that the losses made good are only those which, on a common sense view of causation, were caused by the breach".

94 The reference directed by the Court of Appeal should therefore continue, but on somewhat modified terms. Firstly, the mandate is to assess the loss attributable to the breach of confidence, if any, sustained by the respondents during the 12-month periodfollowing the termination. For this purpose, some guidance may be taken from the discussion of compensation for breach of trade secrets outlined in the *American Restatement (Third) of Unfair Competition*, ch. 4, at § 45, p. 516:

> *e. Relief measured by plaintiff's loss.* A frequent element of loss resulting from

the appropriation of a trade secret is the lost profit that the plaintiff would have earned in the absence of the use by the defendant. The plaintiff may prove lost profits by identifying specific customers diverted to the defendant. The plaintiff may also prove lost profits through proof of a general decline in sales or a disruption of business growth following the commencement of use by the defendant, although the presence of other market factors that may affect the plaintiff's sales bears on the sufficiency of the plaintiff's proof. If the evidence justifies the conclusion that the sales made by the defendant would have instead been made by the plaintiff in the absence of the appropriation, the plaintiff may establish its lost profits by applying its own profit margin to the defendant's sales.

95 The respondents led some evidence of a general nature that Clamato's national market share dropped from 83.1 percent to 77.8 percent in the 12 months after termination, and that Caesar Cocktail picked up 7.1 percent of the national market in its first year of sales. The respondents will no doubt lead evidence that their loss of market share can be linked to evidence of sales that were in fact diverted to Caesar Cocktail or its derivatives in that period. The task of the Referee is to get as good an approximation as is possible at this late date of the magnitude of the respondents' loss. In pursuing this inquiry, the Referee ought not to demand from the respondents a level of proof that is greater than the subject matter permits. See, e.g., *Planon Systems Inc. v. Norman Wade Co.*, *supra*, *per* Spence J., at paras. 72-75.

96 Secondly, the compensable period is the 12 months following termination, as directed by the Court of Appeal. The appellants argue that the 12-month period ought to begin with the date of the notice of April 15, 1982 and point out that the trial judge said the appellants could have developed a Caesar Cocktail-like tomato juice without using the Clamato manufacturing information "within the 12-month notice period". The fact is, however, that on April 15, 1983, the date when the licence expired, the appellants did not have a formulation for Caesar Cocktail that complied with their legal obligations to the respondents. They had in fact taken no steps to produce a product that complied. I see no reason to "backdate" the fiction of their hypothetical research to the notice period. The appellants did not begin to sell a product in breach of the confidence until April 15, 1983. Thus began the period of unfair competition which turned the respondents' "opportunity" into a "lost opportunity". I therefore believe that the Court of Appeal was correct to start the compensable period on April 15, 1983. The trial judge found that the competition would have ceased to be unfair once the appellants could reasonably have been expected to come up with a tomato juice product independently of the confidential information. The trial judge fixed that period at 12 months. Accordingly, the respondents' argument to extend the compensation period beyond April 14, 1984 should also be rejected. As the market advantage created by the "nothing very special" information lapsed at the end of the 12-month period, an award that continued the compensable period beyond that date would benefit the respondents to an extent which the courts below found would be unjust.

97 Thirdly, the Referee may think it proper to have regard to the "other market factors" mentioned in the *American Restatement*. It must be remembered that, at the time of the termination, Caesar Canning and FBI Foods had built up a business infrastructure to which the respondents denied themselves access by their notice of termination, and which the appellants were perfectly entitled to utilize to advance their own economic interests thereafter. As counsel for the respondents acknowledged in oral argument, the appellants "had the distribution system, they had the experience, they'd built up the market and they had the contacts. Why did they have to take this [trade secret] as

well?". His point was to emphasize the vulnerability of his clients to a breach of confidence. However, if in fact the sales of Clamato dropped in the 12 months following termination, as appears to be the case, it may be that at least some of the drop was caused by the self-inflicted deprivation of this business infrastructure, and was not causally related to the existence of Caesar Cocktail.

98 Fourthly, the assessment of the respondents' loss of profit may include consideration of the royalties otherwise payable under the Licence Agreement for the 12-month compensable period. While it is true the respondents intended to exit the licensing business and to confine themselves thereafter to manufacturing and distribution, it is also true that the appellants frustrated that intention by continuing to use at least part of what was licensed. The Referee may, therefore, as part of the assessment of the respondents' loss of profit, consider whether all or a portion of the licence fees otherwise payable (which represented the parties' own evaluation of the income stream attributable to the subject matter), should fairly be included in the calculation.

99 Fifthly, the Referee will have to keep in mind that the objective is a broadly equitable result. Mathematical exactitude is neither required nor obtainable. In *United Horse-Shoe and Nail Co. v. Stewart* (1888), 13 App. Cas. 401 (H.L.), Lord Watson, admittedly in a patent case, said, at p. 413, that estimating the loss to the plaintiff's trade "must always be more or less matter of estimate, because it is impossible to ascertain, with arithmetical precision, what in the ordinary course of business would have been the amount of the [plaintiffs'] sales and profits". The Referee will have to operate by analogy with the principle expressed in *Wood v. Grand Valley Railway Co.* 1915 CanLII 4 (SCC), (1915), 51 S.C.R. 283, *per* Davies J., at p. 289:

> It was clearly impossible under the facts of that case [*Chaplin v. Hicks*] to estimate with anything approaching to mathematical accuracy the damages sustained by the plaintiffs, but it seems to me to be clearly laid down there by the learned judges that such an impossibility cannot "relieve the wrongdoer of the necessity of paying damages for his breach of contract" and that on the other hand the tribunal to estimate them whether jury or judge must under such circumstances do "the best it can" and its conclusion will not be set aside even if the amount of the verdict is a matter of guess work.

This principle was quoted and applied in *Penvidic Contracting Co. v. International Nickel Co. of Canada*, 1975 CanLII 6 (SCC), [1976] 1 S.C.R. 267,*per* Spence J., at pp. 279-80. See also *Apotex Fermentation Inc. v. Novopharm Ltd.*, *supra*, where the Manitoba Court of Appeal states, at p. 512:

> Where injury has been suffered in a complex commercial setting, a "flexible and imaginative approach" to the assessment of the damages may be required.

100 These considerations are not, of course, exhaustive. I mention them because they arose out of the argument before us, and it is devoutly to be hoped that they may save the parties some time and money at the next stage of their 16-year long wrangle.

<u>Disposition of the Appeal</u>

101 The appeal is therefore allowed, with costs, and the Referee is directed to calculate the amount of compensation required to restore to the respondents what the respondents have lost as a result of the appellants' breach of confidence. The period of calculation, for the reasons given, is to be restricted to the 12-month period commencing April 15, 1983. The award will carry pre-judgment interest from the dates

of the losses, and post-judgment interest at table rates under the *Court Order Interest Act*, R.S.B.C. 1996, c. 79, will be used where applicable, or otherwise at two percent under banker's prime. Absent special circumstances, simple interest is the usual award ancillary to equitable remedies in British Columbia: *Canson Enterprises Ltd. v. Boughton & Co.* reflex, (1992), 72 B.C.L.R. (2d) 207 (S.C.), at p. 229, aff'd 1995 CanLII 1941 (BC CA), (1995), 11 B.C.L.R. (3d) 262 (C.A.). The appellants will have their costs in this Court. In light of the history of divided success in the litigation, however, the respondents are still to have their costs in the Court of Appeal at Level 2, as ordered by that court, and the costs of the trial are to be referred to the trial court for disposition.

Disposition of the Cross-Appeal

102 For the reasons already given, I would reject the cross-appeal of Cadbury Schweppes et al. against the limitation of their compensation to the 12-month "head start" period. The cross-appeal cannot succeed unless we are persuaded that the courts below erred in their concurrent findings that the misused information was "nothing very special" and provided no more than a 12-month "head start". The evidence, on the contrary, amply supports these findings, and the cross-appeal must therefore be dismissed with costs.