Protective Agreements and Confidentiality Orders

THE STATE OF PLAY

November 15, 2019

Protecting Confidential Information

Protective Orders: limit disclosure confidential information exchanged by parties in litigation

Confidentiality Orders: address filing of confidential information with the Court under Rule 151 of the *Federal Courts Rules*

Hybrid Orders: Provisions from both Protective and Confidentiality Orders

Protective Orders

Issuance of Protective Orders on consent of parties:

- Parties agree to terms
- Submit Draft Order to the Court
- Traditionally granted by Courts
- Court must review for provisions relating to filing of confidential materials

Recent jurisprudence has questioned this practice absent special circumstances, at least where the parties are in agreement

Alternative: Implied Undertaking Rule Supplemented by Protective Agreement

Parties execute agreement with same terms as Protective Order

Used during discovery phase when documents are exchanged between parties

Court not involved until confidential information is to be filed

Implied undertaking rule: documents and information received in litigation during discovery are subject to implied undertaking to use and disclose them only for the purposes of the litigation

Some Concerns Expressed with Protective Agreements

- Enforceability
- Applicability to third parties
- Uncertain scope of implied undertaking rule
- Parties' discomfort with relying on agreement with opponent rather than Court Order
- Added heft of Court Order
- Important change to longstanding practice

Recent Jurisprudence

Live Face on Web, LLC v Soldan Fence and Metals (2009) Ltd, 2017 FC 858

Seedlings Life Science Ventures LLC v Pfizer Canada Inc, 2018 FC 443

- Tabib P questioned necessity of a formal Protective Order on consent
- Distinguished the test for issuance of a Protective Order
  - *Sierra Club of Canada v Attorney General (Minister of Finance)*, 2002 SCC 41 only applies to Confidentiality Orders
- Suggested the implied undertaking rule and an agreement between parties as an alternative

Recent Jurisprudence (continued)

Seedlings Life Science Ventures LLC v Pfizer Canada Inc, 2018 FC 956 rev'ing 2018 FC 443

- Ahmed J overturned Tabib P's decision not to issue a Protective Order on consent
- Applied the test at paragraph 60 of *Sierra Club*
  - Information treated as confidential
  - Interests could be harmed by disclosure
  - Information accumulated with reasonable expectation that it will be kept confidential
- In *obiter*, acknowledged Tabib P's observations were not without substantial merit

Recent Jurisprudence (continued)

Canadian National Railway Company v BNSF Railway Company, 2019 FC 281

- I dismissed motion to issue Protective Order on consent – applied test at paragraph 53 of *Sierra Club*, which considers the necessity of the requested order (same test as for Confidentiality Order)
- Though acknowledging that Confidentiality Orders differ importantly from Protective Orders, not satisfied that paragraph 60 of *Sierra Club* was intended to be the test for Protective Orders
- Supported the implied undertaking rule in combination with a private agreement as a reasonable alternative
- Decision currently under appeal (A-92-19)

Recent Published Decisions of the Federal Court have Granted Protective Orders

dTechs EPM Ltd v British Columbia Hydro & Power Authority, 2019 FC 539 (Lafrenière J):

- Plaintiffs refused to enter into a protective agreement
- Suggested limitations in the Implied Undertaking Rule
- Applied the test found in paragraph 60 of *Sierra Club* – rejected need to demonstrate necessity

Paid Search Engine Tools, LLC v Google Canada Corporation, 2019 FC 559 (Phelan J):

- A contested motion for a Protective Order
- Distinguished protective orders and confidentiality orders
- Applied the test found in paragraph 60 of *Sierra Club* – again, did not require demonstration of necessity

Debate for Today

Resolved:

The Court should only issue a protective order when there is a genuine dispute involving the exchange of documents and information during the discovery process. Protective orders should not be issued as a matter of routine, rather only in highly unusual circumstances.

- Yes (Trent Horne)
- No (Kamleh Nicola)
- You're both wrong (Kavita Ramamoorthy)

The "Goldilocks debate"

What Should not be Disputed

- Most IP cases involve the exchange of highly confidential information
- Particularly for defendants, who may not have chosen to be involved in litigation, there must be an effective mechanism to protect the confidentiality of that information, and effective means of enforcement
- The implied undertaking rule, while not expressly set out in the *Federal Courts Rules*, applies to Federal Court proceedings and is enforceable without an underlying order

What Should not be Disputed

- The *Federal Courts Rules* make no express provision for a protective order (Rule 151 relates only to the filing of confidential material)
- Protective orders typically apply to the discovery process, which is not open and accessible to the public
- Protective orders and agreements are virtually identical in substantive content
- The Court is not a rubber stamp. Orders are made only upon an assessment of the evidence and the application of the appropriate legal principles of substantive or procedural law. There must always be some evidence to support relief requested from the Court

Protective Agreements are Effective

Sierra Club does not mandate the routine grant of protective orders

The Court has jurisdiction to enforce protective agreements

Agreements provide as much protection as an order – a reasonable alternative measure

Specific concerns can be addressed in case management

Who Can Misuse Information?

- Litigants
- Lawyers
- Third parties (e.g. experts)

Sierra Club

This proceeding was an application for judicial review (*i.e.* under Part 5 of the Rules, not Part 4)

Sierra Club challenged the federal government's decision to provide financial assistance to Atomic Energy of Canada over the construction and sale of CANDU reactors to China

Atomic Energy, an intervener, served an affidavit which summarized certain confidential documents. The issue was whether Sierra Club could see the documents themselves.

Sierra Club

7 …….. In essence, what is being sought is an order preventing the dissemination of the Confidential Documents to the public.

35 …….. What is the proper analytical approach to be applied to the exercise of judicial discretion where a litigant seeks a confidentiality order under Rule 151 of the *Federal Court Rules, 1998*?

Jurisdiction

Need to consider jurisdiction from two perspectives:

First, the general jurisdiction of the Court. The Federal Court is a statutory court, and its general jurisdiction is set out in s. 17 of the *Federal Courts Act*.

Does the Court have jurisdiction over the underlying dispute? Is there a ticket of entry to the Court?

Jurisdiction

Second, if the matter is properly in the Federal Court, then we move to the Regulations under the Act (the Rules).

What can (or must) the Court do when taking a case from the originating document to a resolution?

What express or inherent jurisdiction does the Court have to control its own process?

If a matter is not squarely addressed within the Rules, to what extent can the Court fashion a form of protection or enforcement?

Jurisdiction

Powers of case management judge or prothonotary

385(1) Unless the Court directs otherwise, a case management judge or a prothonotary assigned under paragraph 383(c) shall deal with all matters that arise prior to the trial or hearing of a specially managed proceeding and may

(a) give any directions or make any orders that are necessary for the just, most expeditious and least expensive determination of the proceeding on its merits;

Jurisdiction

The Court has broad powers to enforce promises and agreements

- Undertakings
- Consent orders
- Return of inadvertently disclosed documents (*Sellathurai v. Canada (Public Safety and Emergency Preparedness*, 2011 FCA 223 at para 38)

Jurisdiction

Settlement agreements

Apotex Inc. v. Allergan, Inc., 2016 FCA 155

[13] On the issue of jurisdiction, I agree with the Federal Court and substantially adopt its analysis. I would add the following. Contract law, when viewed in a vacuum, is normally under provincial jurisdiction. However, the Federal Court has jurisdiction when the contract law issue before the Court is part and parcel of a matter over which the Federal Court has statutory jurisdiction, there is federal law essential to the determination of the matter, and that federal law is valid under the constitutional division of powers: *ITO-Int'l Terminal Operators v. Miida Electronics*, [1986] 1 S.C.R. 752, 28 D.L.R. (4th) 641; *Canadian Transit Company v. Windsor (Corporation of the City)*, 2015 FCA 88, 384 D.L.R. (4th) 547.

Enforcement

466 Subject to rule 467, a **person** is guilty of contempt of Court who

(a) at a hearing fails to maintain a respectful attitude, remain silent or refrain from showing approval or disapproval of the proceeding;

(b) disobeys a **process** or order of the Court;

(c) acts in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court;

(d) is an officer of the Court and fails to perform his or her **duty**; or

(e) is a sheriff or bailiff and does not execute a writ forthwith or does not make a return thereof or, in executing it, infringes a rule the contravention of which renders the sheriff or bailiff liable to a penalty

Implied Undertaking Rule

Prothonotary Tabib in *Seedlings*:

[31] …… To the extent the practice of routinely issuing protective orders specifically concerns purely protective provisions, the analysis conducted above illustrates that it was developed at a time where the applicability of the implied undertaking rule and its contours were still ill-defined. Certainty as to the applicability and scope of the implied undertaking has made this practice irrelevant.

Implied Undertaking Rule

Justice Phelan in *Paid Search Engine*:

[50] There are some significant gaps with the implied undertaking particularly in cases like the current one. The basis of the implied undertaking, as a common law rule not codified in the *Federal Courts Rules*, creates some uncertainty as to its scope. It is also a principle that continues to develop and may differ across jurisdictions. The application of the implied undertaking to the parties does not address all the consequences that may flow from using the information for legitimate purposes. This is particularly important in respect of third parties (such as witnesses and experts who are not parties) and internally within the opposing organizations. Further, the matter of enforcement and the Court's ability to control behaviour is not settled unless the terms are encased in an order.

Implied Undertaking Rule

Information obtained during discovery can only be used for the purposes of the litigation for which it was obtained, not for any collateral or ulterior purposes

Implied Undertaking Rule

The implied undertaking applies to the parties, their counsel, and the experts or third party consultants they have retained, and can be enforced by the Court against these third parties; *Winkler v Lehndorff Management Ltd*, [1998] OJ No 4462, 28 CPC (4th) 323).

Recipients and Advance Notice of Filing

This can be fully addressed in an early case management direction

The Court routinely issues directions and timetables for the service and filing of motion materials, including confidential information

Directions are not mere suggestions as to what should happen in the conduct of a case, but are the expectation of what shall happen (*Pfizer Canada Inc. v. Apotex Inc.*, 2013 FC 1036)

The Comfort and ‘Heft’ of an Order

Existing obligations need not be memorialized in orders

But We've Always Done This

Past practice is not a stand-alone reason to continue

The scope and enforceability of the implied undertaking rule has become more defined

Sometimes "standard practice" is demonstrated to be incorrect (e.g. *Luis Alberto Felipa v. Canada (Minister of Citizenship and Immigration)*, 2011 FCA 272)

Enforcement

Pfizer Canada Inc. v Apotex Inc. (1997 CarswellNat 2569, 77 CPR (3d) 284))

Raychem Corp. v. Brosz (1995 CarswellNfld 168)

Battle Lines Are Drawn

Does a protective agreement “do the job” of a protective order?

The short answer?

NO

Protective agreements are wholly inadequate in trade secrets and IP disputes.

Based on a premise that is not specific to confidential information, being the implied undertaking rule.

“Motherhood” Statement

Juman v Doucette [2008] 1 SCR 157 per Binnie J:

[23] Quite apart from the cases of ***exceptional prejudice, as in disputes about trade secrets or intellectual property***, which have traditionally given rise to express [protective orders], there are good reasons to support the existence of an implied (or, in reality, a court-imposed) undertaking. [Emphasis added.]

What is the Implied Undertaking Rule?

It is a judge-made procedural convention that is not enshrined in any legislation, nor in the Federal Courts Rules.

As Justice Binnie noted (Juman at para. 4)

> [4] The rule is that both documentary and oral information obtained on discovery, […], *is* subject to the implied undertaking. It is not to be used *by the other parties* except for the purpose of that litigation, unless and until the scope of the undertaking is varied by a court order or other judicial order or a situation of immediate and serious danger emerges. [Emphasis is that of Justice Binnie's]

It is clear that the reference here is to the litigants.

The phrase "other parties" does not include third parties.

Vegas Rules

General idea is that “whatever is disclosed in the discovery room stays on the discovery room unless eventually revealed in the courtroom or disclosed by judicial order.” (Juman at para. 25)

Discovery does not engage the “open court principle” as it is not conducted before a judge, nor in open court.

Thus, Sierra Club is not engaged.

- Does not provide a “map” for the governance of pre-trial exchange of information , which often includes confidential and commercially sensitive information.

Protective Orders ∧OVER∧ Agreements

Protective agreements are based on a principle—the implied undertaking rule—that gives no comfort or confidence to litigants that their confidential and commercially sensitive information will be adequately protected.

Implied undertaking is wholly inadequate in these exceptional circumstances.

Thus, by extension, protective agreements must be and are wholly inadequate.

Protective orders provide clear protections that can be subsequently enforced by the Federal Court.

Protective Orders ∧OVER∧ Agreements

Many reasons why protective orders are necessary:

- The case law relating to implied undertakings comprises a "patchwork" of constructs and is not codified.
- The case law is unclear whether the implied undertaking extends to third parties who are not parties to the litigation.
- No clarity on whether protective agreements are enforceable; or what constitutes an appropriate remedy.
- It is inappropriate to "force" litigants to negotiate terms of a protective agreement, especially at very early stage of proceeding.

“Patchwork” of Constructs

Implied undertaking:

- is NOT codified in the Federal Courts Rules
- is codified by 3 provinces in rules of procedure as a “deemed undertaking” (Ontario, Manitoba & PEI).
- BUT not a complete code and requires resort to a patchwork of jurisprudence to fill in the gaps

There is no one source that governs mechanics, including relief against breach, third party disclosure, inadvertent disclosure

Juman illustrative of the extent of this patchwork as it considered **43 cases** !

Diversity of approach to implied undertaking rule is no better illustrated than Power v Parsons 2018 NLCA 30

- 3 judges; 3 different approaches

Does Not Extend to 3rd Parties

Power (NLCA) at para. 14

[14] It is clear from *Juman* that an implied undertaking is a court imposed legal obligation on "*parties* to civil litigation…not to use the documents or answers for any purpose other than securing justice in the civil proceedings in which the answers were compelled" (*Juman* at para. 27, emphasis added). […] and third parties are not bound by implied undertakings (Juman at para. 55). Third parties are not therefore bound to treat implied undertakings in the same manner as parties to litigation.

Lack of clarity as to how to enforce a breach by a third party, especially innocent third parties who receives the information from a litigant.

How to prevent or otherwise restrict innocent third parties from using confidential information?

“Contempt” Proceedings Are Insufficient

Some commentators have suggested that a breach of the implied undertaking (and a protective agreement) may be enforced through the contempt procedure contained in the Federal Courts Rules.

What is the procedure to obtain contempt order?

Rules 466-472 contemplate 2-step process:

(1) motion for an order requiring person held in contempt to appear to answer contempt allegations

- need to establish *prima facie* case of contempt

(2) contempt hearing that is analogous to criminal offence

- requires proof beyond a reasonable doubt

Adversity Does Not Lead to Collaboration

The need for protective measures to protect confidential information arises very early in the litigation.

Litigants are at peak adversity and even animosity.

Trade secret and IP disputes involve litigants who are (fierce) competitors.

Cannot force such litigants to negotiate a compromised agreement regarding the designation and disclosure of confidential and often highly commercially sensitive information.

Cannot impose protective agreement on litigants where there are areas of disagreement.

Once the Barn Door Opens….

Protective agreements do not provide the clarity needed to give comfort to litigants that their proprietary, confidential and oftentimes highly commercially sensitive information will be afforded the protection required to mitigate the risk of disclosure.

Disclosure of this information—even inadvertently—is akin to opening the barn door and letting the horses run free. Once confidential information is out there it cannot be pulled back .

The risks are too great to warrant the “maybe protection” of a protective agreement.

Protective orders are the only means to provide meaningful, enforceable and real protection.

“Hmmm……”

“Just Right”

Applicable Test

Application of *Sierra Club* test *(dTechs)*:

[43] In analyzing in what circumstances a confidentiality order could be granted, the Supreme Court of Canada cited with approval the test applied by this Court for a protective order. This test, at paragraph 60 of Sierra Club, focuses on the belief of the moving party as to the confidentiality of the information and the likelihood that its non-confidential release could cause harm to the party's interests. [emphasis added]

- Also see *Seedlings #2* and *Google* cases which similarly adopted the para 60 test

Applicable Test

Sierra Club test (para 60)*:*

Pelletier J. noted that the order sought in this case was similar in nature to an application for a protective order which arises in the context of patent litigation. Such an order requires the applicant to demonstrate that the information in question has been treated at all relevant times as confidential and that on a balance of probabilities its proprietary, commercial and scientific interests could reasonably be harmed by the disclosure of the information: AB Hassle v. Canada (Minister of National Health and Welfare) (1998), 1998 CanLII 8942 (FC), 83 C.P.R. (3d) 428 (F.C.T.D.), at p. 434. To this I would add the requirement proposed by Robertson J.A. that the information in question must be of a "confidential nature" in that it has been "accumulated with a reasonable expectation of it being kept confidential" as opposed to "facts which a litigant would like to keep confidential by having the courtroom doors closed" (para. 14). [emphasis added]

Applicable Test

Sierra Club paragraph 60 test:

- Information treated as confidential
- Interests could be harmed by disclosure
- Information accumulated with reasonable expectation that it will be kept confidential

Current State of Play

Necessity is not a factor which appears to be an acknowledgement that implied undertaking rule is not sufficient/adequate

Rather the focus is on the nature of the information sought to be protected

PMNOC Regulations

Do the amended *PMNOC(Regulations)* reflect this approach?

PMNOC Regulations

- Sections 5(3.5), (3.6) and (3.7) (also see section 6.03):
  - 5(3.5) The second person may impose on the first person….and any owner of a patent to whom a document is forwarded under subsection 3.3 any reasonable rules for maintaining the confidentiality of any portion of a submission or supplement….
  - 5(3.6) Those confidentiality rules are binding and enforceable by the Federal Court, which may award any remedy that it considers just if they are not respected.
  - 5(3.7) On motion of the first person or owner of the patent – or on its own initiative….- the Federal Court may set aside or vary any or all of those confidentiality rules in any manner that it considers just.

Current State of Play

- unclear if the *PMNOC Regulations* permit a party to obtain an Order from the Court that reflects the confidentiality rules i.e. Protective Order

- regardless, these provisions implicitly recognize the concerns around reliance solely on agreements and the implied undertaking rule
  - Arguably the same concerns that Justice Ahmed notes at para 31 of *Seedlings*

Current State of Play

One size does not fit all:

Protective Agreements will suffice for those who feel it is adequate

Protective Orders ought to be available to those who feel agreements are not adequate (no necessity need be shown) as long as the requirements of *Sierra Club* test are met

Low Bar

With that perspective in mind, the bar ought to be low, as discussed by the Court in *dTechs EPM Ltd:*

[64] Finally, I wish to add that given the fairly low test that a party has to satisfy to obtain a protective order, parties should be encouraged to apply informally to the Court, particularly in case managed proceedings, when such relief is sought on consent of the parties or is unopposed; see *Notice to the Parties and the Profession: Informal Requests for Interlocutory Relief, August 25, 2017*

Addressing Court's concerns

Other jurisdictions have a protective order template – this would give the Court some comfort that the language was standard and it would reduce the Court's work/time to deal with these requests