



## **ADVOCACY CONFERENCE**

### **PRE-TRIAL DOCUMENT DISCLOSURE AND CONFIDENTIALITY IN A COMMERCIAL CASE**

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### **I. Overview**

In light of the broad tests for relevancy in B.C., this paper addresses practical methods for a civil litigator to:

- (1) ensure that all relevant documents are produced by your client; and,
- (2) maintain a level of confidentiality over the documents being produced.

### **II. Relevancy**

The test for the relevancy of a document in B.C. is extremely broad. The starting point is Rule 26(1) of the Rules of Court, Reg. 221/90, (as amended):

A party to an action may deliver to any other party a demand in Form 92 for discovery of the documents which are or have been in the party's possession or control relating to any matter in question in the action, and the other party shall comply with the demand within 21 days by delivering a list, in Form 93, of the documents that are or have been in the party's possession or control relating to every matter in question in the action.

The key passage from Rule 26(1) is that your client must produce documents “relating to any matter in question in the action.” The above Rule is read in conjunction with the common law in B.C. reflected in the classic judgment of Brett L.J. in *Compagnie Financiere et Commerciale du Pacifique v. Peruvian Guano Co.* (1882), 11 Q.B.D. 55 at p. 63, where he wrote:

It seems to me that every document relates to the matters in question in the action, which not only would be evidence upon any issue, but also which, it is reasonable to suppose, contains information which may—not which must—either directly or indirectly enable the party . . . either to advance his own case or to damage the case of his adversary.

It is the duty of counsel to follow the above tests and decide which documents are relevant (*G.W.L. Properties Ltd. v. W.R. Grace & Co. of Canada* (1992), 14 C.P.C. (3d) 74 (B.C.S.C.)). The duty on counsel is an ongoing duty throughout the litigation (Rule 26(13)).

### III. Confidentially Concerns and Protective Measures

Your client may be reluctant to produce documents due to confidential or embarrassing information contained in the documents. For instance, the information may relate to future business plans, company policies, product designs, salaries or the like. Nevertheless, the fact that a document is confidential or embarrassing does not affect your client's obligation to produce the document.

There are three methods by which confidential information is (or can be) protected in the pre-trial process. The first level of protection is found in the common law. Your client may be satisfied, as explained below, that both the opposing counsel and the opposing party are limited in what they can do with the information contained in your client's documents: the courts recognize that there is an implied undertaking of confidentiality over all documents produced in litigation.

However, if the existence of the implied undertaking is not sufficient to allay the concerns of your client regarding document disclosure, you may need to revert to the next level of protection available to your client: it is possible to secure a Protective Order, either by consent or by judicial determination. A Protective Order can be drafted in a manner to:

- (a) ensure that both opposing counsel and the other party are well aware of the undertaking of confidentiality; and,
- (b) physically control access to your client's documents and specifically limit the range of people who are permitted to read or work with the documents.

In our experience, negotiating a Protective Order by consent is more cost effective and beneficial to the client than is a Protective Order received through the court process. Discussions with opposing counsel can identify the reasonable limitations that ought to exist with respect to the scope of the Protective Order and the necessary protective procedures to be employed.

Finally, if your client needs enhanced protection over its documents, and a Protective Order is insufficient to ensure confidentiality, you can apply to the court for the extraordinary procedure of sealing the court record.

### IV. An Implied Undertaking of Confidentially

The leading case in B.C. as to the permitted use of documents produced in the course of litigation is *Hunt v. T & N, plc* (1995), 34 C.P.C. (3d) 133 (B.C.C.A.). Here, a five member panel changed the law (as it was after *Kyuquot Logging Ltd. v. B.C. Forest Products Limited* (1986), 5 B.C.L.R. (2d) 1 (C.A.)), and held that a party obtaining production of documents is under an obligation to keep such documents confidential. The documents cannot be used for purposes other than for the conduct of the proceedings in which they are produced.

The Court did not provide an exhaustive definition as to the "proper use" of documents but noted at para. 65 that the opposing party should have:

. . . the right to disclose such documents to other advisors, such as potential expert witnesses, here or elsewhere as counsel may advise. Such, in our view, is proper use in the proceedings. Similarly, the obligation should not be construed rigidly . . . The obligation the law imposes is one of confidentiality from improper publication. It does not supersede all other legal, social or moral duties.

### 2.1.3

In *Discovery Enterprises Inc. v. Ebco Industries Ltd.* (1997), 39 B.C.L.R. (3d) 50 (S.C.), leave to appeal denied (1998), 103 B.C.A.C. 261, the plaintiff disclosed documents to the defendant pursuant to the standard request for the discovery of documents. In order to disparage the plaintiff, the Chief Financial Officer of the defendant gave copies of certain of the plaintiff's documents to third parties. The defendant admitted that it erred in disclosing document "B," and that such disclosure potentially breached the *Hunt* implied undertaking not to use materials discovered in litigation for collateral purposes. However, the defendant had earlier filed an affidavit in court with other documents produced by the plaintiff, "A," "C" and "D" attached to the affidavit. The defendant argued that the implied undertaking did not exist as:

- (a) the disclosure of the documents by the plaintiff was "voluntary," as opposed to after a court order; or alternatively,
- (b) the implied undertaking ended in regards to Documents A, C, and D when the documents were tendered in open court.

Williams C.J.S.C rejected both of the above arguments. First he held that it was inconsequential that the documents were disclosed "voluntarily" as opposed to after a court order. He wrote at para. 14:

What this argument says is that parties in each case wishing to ensure that documents are protected by an undertaking would never disclose in accordance with a demand but would always require an application to court with a resulting court order. I cannot accept such a position. If demand is made there is a requirement on the part of the opposing party to produce all relevant documents.

Next, Williams C.J.S.C considered whether the implied undertaking of confidentiality ceased when the documents were tendered in open court. Williams C.J.S.C. noted that in England, through an amendment to the Rules of Court, and in Ontario through pronouncement of the Court of Appeal, the law now stands that the undertaking ends when a document is disclosed in open court. Nevertheless Williams C.J.S.C. refused to unilaterally alter the common law rule in B.C. He raised a series of policy issues that he thought needed to be considered before he was prepared to abandon the common law rule. For instance, at paras. 33-34 he wrote:

. . . should the receiving party be able to bring any application, disclose the otherwise confidential documents [in an affidavit in court] and thereby do an "end run" around the undertaking for its own purposes?

Should disclosure in a chambers application, filing in a public registry or even disclosure in open court, all of which are extremely limited disclosures, be a rationale for ending an implied undertaking which came about to protect the disclosing party from those documents being used for extraneous purposes?

Williams C.J.S.C. held that if the rule needed changing he would leave it to the Rules Revision Committee to do so. The plaintiff received its chosen remedy of an order prohibiting the defendant from making any further disclosures.

The latest word on the existence and the scope of the implied undertaking of confidentiality is the recent decision of the Supreme Court of Canada in *Lac d'Amiante du Québec Ltée v. 2858-0702 Québec Inc.*, 2001 S.C.C. 51. The issue in the case was whether it was appropriate for a trial judge of the Quebec Superior Court to recognize an implied rule of confidentiality regarding evidence produced on discovery, absent such a specific rule in the Quebec *Code of Civil Procedure*. LeBel J., for the Court, recognized the existence of the "implied rule" in the common law jurisdictions of Canada and found it appropriate for the trial judge to have recognized the same rule in Quebec.

For the purposes of advising your clients on the production of documents, two issues from *Lac d'Amiante* are important. First, LeBel J. expressed, at para. 43 and again at para. 72, what is the reality for the client:

When the case reaches the trial stage, the effectiveness of the application of this rule [of confidentiality] is no doubt limited and temporary; examination on discovery is of course only one step in the conduct of a civil trial. If the adverse party chooses to use the evidence or information obtained on discovery at the hearing on the merits and files it in the court record for that purpose, any expectation of confidentiality disappears. Only exceptional grounds such as, for example, the interest of one party in protecting trade secrets or specially privileged information, such as professional privilege or *in camera* hearings concerning individuals' conditions, will result in the court maintaining the partial or complete secrecy of certain information, during the trial and in the court records.

. . . once the trial begins, and except for the limited number of cases held in camera or subject to a publication ban, the media will have broad access to the court records, exhibits and documents filed by the parties, as well as to the court sittings. They have a firm guarantee of access, to protect the public's right to information about the civil or criminal justice systems and freedom of the press and freedom of expression.

Your client needs to be warned that absent "exceptional grounds" there is little to be done to keep documents confidential if the documents are tendered in open court.

Nevertheless, a second principle from *Lac d'Amiante* can provide some re-assurance to your client. The Supreme Court of Canada shared the same concerns of Williams C.J.S.C. in *Discovery Enterprises*, and held that the undertaking on the adverse party and counsel for the adverse party does not end after the trial concludes. In short, all people who hear the evidence in the public courtroom, or read the documents found in the court file are free to make whatever use of the information they please. However, the other party and the opposing counsel are precluded from using the same information for any collateral purpose without a court order. LeBel J. wrote at para. 76:

Before concluding, it would seem to be in order to comment on the scope of the rule of confidentiality. The rule applies during the case to both a party and the party's representatives, and it remains applicable after the trial ends. However, there must be some limits on the rule. For instance, the court will retain the power to relieve the persons concerned of the obligation of confidentiality in cases where it is necessary to do so, in the interests of justice. However, the courts will avoid exercising that power too routinely, as to do so would compromise the usefulness of the rule, if not its very existence. For example, the exceptions to the rule of confidentiality must not be used, where a party has obtained information at an examination to enable the party to use that information virtually automatically in other court proceedings. That practice would be contrary to the public interest and would amount to an abuse of process.

The end result of *Lac d'Amiante* is to uphold the current state of the law in B.C. as it is found in *Hunt* and *Discovery Enterprises*.

Please refer to Appendix A, a sample letter that explains to your client the need to produce and list all potentially relevant documents and provides a summary of the measures available to protect confidentiality.

## **V. Remedy for a Breach of the Implied Undertaking of Confidentiality**

In *Sandbar Construction Ltd. v. Howon Industries Ltd.* (1998), 58 B.C.L.R. (3d) 55 (S.C.), Quijano J. considered the ramifications arising from a breach of the undertaking of confidentiality as described in *Hunt*. In *Sandbar*, the lawyer for the plaintiff sent to a lawyer for a third party an affidavit that

contained documents produced by the defendant. The third party then used the documents in a separate action against the individuals associated with the corporate defendant. Quijano J. held at paras. 14-15:

As a result of *Hunt* the implied obligation has been reinstated in this province so that the burden is now on the recipient of the information to obtain leave of the court or consent of the owner of the material to make use of it outside the scope of the immediate proceedings. The only logical conclusion that can be drawn from the consequences of *Hunt* is that breach of the implied obligation, being an obligation to the court and effective as a part of the court's order in relation to the obligation of the party to disclose otherwise private information, can give rise to contempt proceedings. To conclude otherwise would leave no effective remedy for breaches of the obligation which do not result in substantial compensable damage.

The contempt proceeding did not go forward and the issue in *Sandbar* has not been considered in a subsequent case. *Sandbar* makes it apparent that contempt of court is the remedy for a breach of the implied undertaking, but it is not known if the facts of the case warranted a finding of contempt.

## VI. Protective Order

If your client has concerns regarding documents that are particularly sensitive, further protection beyond the implied undertaking may be available by controlling the terms under which your client's documents will be physically handled by the opposing party. The following three recent cases are examples where one party was able to show to the court that the facts of the case warranted further protection beyond the implied undertaking.

In *Fibron Machine Corp. v. Sawley*, [1999] B.C.J. No. 2356 (S.C.), amended in, [1999] B.C.J. No. 2338 (S.C.),<sup>1</sup> the plaintiff claimed that the defendant (the principals of which were former employees of the plaintiff) misappropriated and made wrongful use of the plaintiff's confidential information and trade secrets. In a pre-trial application the plaintiff sought disclosure of various price quotations given by the defendant to potential customers. Scarth J. succinctly stated the dilemma before the court at para. 4 of the (second, amended) judgment:

. . . it is apparent not only from the nature of the action itself—the protection of trade secrets—but also from the material presented to the Court on pre-trial applications that certain information is perceived by the party possessing it to be so sensitive that disclosure would prejudice its economic interests if not destroy its viability as a going concern. In this situation the Court is faced with the oft-times difficult task of weighing one party's entitlement to full disclosure with the other party's valid concerns to protect its economic interests.

Further, at para. 11, Scarth J. was cognizant of, “. . . the virtual impossibility of erasing from the operating minds of the plaintiff the information it might receive with respect to pricing in the quotations.” In this somewhat unique situation, Scarth J. ordered that the documents in question be produced only to the accountants retained by the plaintiff. The accountants were ordered to, “not disclose such details to any person including the plaintiff without further order of the Court or the written consent of the defendants.”

Judge Scarth's novel solution attempted to balance disclosure with confidentiality. To date, *Fibron* has not been considered in a subsequent decision.

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1 The first judgment, an oral decision, was released after the second judgment, a written decision.

## 2.1.6

In *CXY Chemical Canada Ltd. Partnership v. Kvaerner Chemetics Inc.* (1998), C.P.C (4th) 159 (B.C.S.C.), the dispute concerned “anode coating technology,” a trade secret of the defendant. The only experts available to the plaintiff were two former employees of the defendant, both of whom were contractually obligated to the defendant not to use secret information acquired during the course of their employment. The defendant asserted that the two experts were competitors with the defendants and, therefore, should not have access to the defendant’s documents. In order to balance the interests of the parties, Preston J. held that as a term of their access to the confidential materials, the two expert witnesses were required to execute undertakings not to provide technical assistance to the defendant’s competitors in the future.

The decision is an example of the creative solutions that counsel can suggest to protect the confidentiality requirements of your client, while allowing the other party access to relevant documents.

In *Agentis Information Services Inc. v. West Coast Title Search Ltd.* (1997), B.C.L.R. (3d) 292 (S.C.), the plaintiff claimed for defamation and injurious falsehood against a rival company. In-house counsel for the plaintiff described the sensitive nature of certain of its documents in an affidavit partially reproduced at para. 4 of the judgment:

The documents I have identified . . . are highly confidential. The documents contain sensitive business information . . . about Agentis’ marketing strategies. For example, the documents contain: information about the internal systems Agentis proposed or developed regarding work flow management, including the use of technological systems, designed to attract the business associated with Requests for Proposals; Agentis’ pricing strategy in relation to Requests for Proposals and Agentis’ financial projections related to Requests for Proposal. Further, the existence of the documents themselves reveals information about Agentis’ business relationships and initiatives that, but for this litigation, would otherwise remain private between Agentis and its clients or potential clients.

All counsel agreed that the information disclosed by the plaintiff was subject to the implied undertaking set out in *Hunt*. However, due to the public nature of the litigation, the plaintiff was not satisfied with the implied undertaking and applied for an order to seal the court record. Counsel for Agentis was concerned that opposing counsel would append certain documents to affidavits filed in court and then invite third parties to review the evidence.

Kirkpatrick J. refused to seal the court file. Nevertheless she agreed, due to the acrimonious nature of the litigation, to grant an order which clarified and expanded the scope of the implied undertaking of confidentiality.

Two further cases where Protective Orders were issued should also be considered:

- *Altec Design Group Ltd. v. Motion Works Inc.* (1992), 46 C.P.R. (3d) 61 (B.C.S.C.)
- *Geac Canada Ltd. v. Prologic Computer* (1989), 35 B.C.L.R. (3d) 136 (S.C.)

In summary, certain factors that increase the likelihood of receiving a Protective Order in B.C. are:

- (1) the more confidential the nature of the documents and the likelihood for misuse (*Fibron, CXY, Agentis*);
- (2) if the litigants are in competition (*Fibron, Agentis*);
- (3) if the past (or potential) conduct of the parties suggests that misuse is likely (*Agentis*).

A sample Protective Order is contained in Appendix B.

## VII. Sealing the Court File

There is a presumption that documents in the court registry are accessible to the public. Rule 64(1) reads:

Unless otherwise provided by an enactment, a person may, on payment of the proper fees, obtain from the registry a copy of a document on file in a proceeding.

Similarly, there is, of course, a long-standing presumption that courtrooms are accessible to the public. One method to avoid the public disclosure of your client's sensitive documents during the pre-trial process is to try to incorporate a clause into the Protective Order that the opposing party will not affix documents that your client has specifically labelled as confidential to an affidavit filed in court without leave to do so.

An alternative, more restrictive approach is to apply to court to seal the court file and, therefore, prohibit public access to your client's documents. As mentioned above, Kirkpatrick J. refused an application to seal the court file in *Agentis*. Kirkpatrick J. identified *Attorney-General of Nova Scotia et al. v. MacIntyre*, [1982] 1 S.C.R. 175, as the leading decision on the openness of the courts. In *MacIntyre*, Dickson J., for the majority, wrote regarding the presumption of public access to the courts and held that the burden lies on the party who protests such free access. Kirkpatrick J. discussed *MacIntyre* and the prospects of sealing the court record as follows at paras. 23-27 of *Agentis*:

As was made clear by the Supreme Court of Canada in *MacIntyre*, *Agentis* has the burden of establishing that the ends of justice would be subverted by disclosure. Counsel for *Agentis* referred the court to cases in which the commercial disputes between the parties has involved the disclosure of highly sensitive information and in which courts have made orders sealing the court record. See: *Apotex Inc. v. Wellcome Foundation Ltd.* (1993), 51 C.P.R. (3d) 305 (F.C.T.D.); *CPC International Inc. v. Seaforth Creamery Inc.*, *supra*.

Based on the material filed on this application, I am unable to conclude that the documents in question amount to "trade secrets" of the kind referred to in the authorities. The information is not, as in *CPC International*, in the nature of a special formulation or processing technique. Nor is the information related to a patent, as was the case in *Apotex Inc.* The information is doubtlessly confidential in many respects, but is not so confidential that its disclosure would seriously harm the commercial interests of *Agentis* such as to require a sealing order.

In my opinion, the documents in question here do not contain trade secrets. Nor do the documents meet the exception referred to by the House of Lords in *Scott v. Scott*, [1911-13] All E.R. Rep. 1, where Lord Loreburn held, at 13:

. . . when the subject-matter of the action would be destroyed by a hearing in open court, as in a case of some secret process of manufacture, the doors may be closed . . .

Accordingly, I am not persuaded that *Agentis* has satisfied the burden that requires it to demonstrate that the ends of justice demand the sealing of the court record in respect of the documents and information in question. *Agentis*, like any litigant who embarks on litigation, must recognize that, in so doing, the evidence in the litigation may be the object of public scrutiny.

As a contrast to *Agentis*, it is useful to look at *CPC International Inc. v. Seaforth Creamery Inc.* (1996), 49 C.P.C. (3d) 382 (Ont. Ct. Gen. Div.), one of the cases distinguished by Judge Kirkpatrick. In *CPC*, the plaintiff alleged that its former employee used trade secrets belonging to the plaintiff in re-formulating the defendant's mayonnaise product. Before the plaintiff disclosed its own trade secrets, the plaintiff sought access to the defendant's documents in relation to its re-formulated mayonnaise. The defendant protested disclosing its documents before the plaintiff, and the defendant also counterclaimed regarding its proprietary rights over pourable salad dressings. Both parties were concerned, in general, with confidentiality. The Case Management Judge addressed the concerns of

the parties by issuing a restrictive “Confidentiality Order.” The order, seen at Schedule “A” to the judgment, sealed the entire court file, directed that, “The hearing relating to any matter shall take place *in camera* . . . ,” created a timeline for disclosure and defined the “designated persons” eligible to receive the documents produced on discovery.

It is apparent that the existence of highly confidential trade secrets, being the recipes and the manner of production of mayonnaise, convinced the court that the records should be sealed to protect the economic interests of the companies. Approximately four months later, arising from a subsequent interlocutory application, the Ontario Court of Appeal at (1996), 3 C.P.C. (4th) 100, refused to vary the terms of the order as it was granted by the Case Management Judge.

The party asserting the need to seal the court record or hold a judicial hearing *in camera* will need to overcome the long-standing tradition whereby the courts are presumed to be open to the public. Nevertheless, if the facts of your case warrant such a procedure, it is the final step in ensuring the confidentiality of your client’s documents in a civil trial.

### **VIII. Conclusions**

- (1) There is an implied undertaking of confidentiality on the opposing counsel and the opposing party not to disclose or use your client’s documents for purposes other than the current litigation. (*Hunt, Lac d’Amiante*)
- (2) The implied undertaking of confidentiality on the opposing counsel and the opposing party is not waived when documents are attached to affidavits or mentioned in open court. (*Lac d’Amiante, Discovery Enterprises*)
- (3) The remedy for a breach of the implied undertaking of confidentiality is an order for contempt of court. (*Sandbar*)
- (4) If documents become part of the court file the public will have access to the documents. (*Lac d’Amiante*)
- (5) If the documents become evidence at trial, the documents will be open to public scrutiny. (*Lac d’Amiante*)
- (6) If the client is not satisfied with the implied undertaking, it is possible to secure a Protective Order either by consent or by judicial determination. (*Fibron, CXY, Agentis, Appendix B*)
- (7) The party hoping to seal the court file or hold court *in camera* bears the burden of showing the necessity for such a procedure. (*MacIntyre, Lac d’Amiante, CPC, Agentis*)