Identifying and Enforcing Trade Secrets in the Food and Beverage Industry

June 23, 2020

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Trade secrets provide a business with an opportunity to obtain a commercial advantage over competitors who do not know or use the secret. Trade secrets do not have to be significant innovations, just new and unknown, with at least a minimal degree of skill applied by the secret owner to obtain it. Many food and beverage businesses do not realize that even a simple new manufacturing process or formulation could give rise to a protectable trade secret. However, the secret must be managed carefully to initially qualify as a trade secret, and then to avoid loss of rights. This article will provide a brief overview of trade secret protection, as well as show how they can be used to protect against misappropriation by former business collaborators, as well as departing employees and their new employers.

Trade Secrets for Food and Beverage Products

Creation and protection of trade secrets is especially important for food and beverage products, where processes and recipes may not be suitable for patenting. We emphasize that simplicity is not a bar to trade secret protection. As an example, the specific proportion of clam juice, seasonings and tomato juice used in Clamato™ beverage was a protectable trade secret. This was the case even though the label listed all the basic ingredients (though “spices” listed on the label were not specified). As well, the Clamato brand owners weren’t the first to mix tomato juice and clam broth with spices. This had been disclosed in a cookbook at least 10 years before Mott’s first sold Clamato beverage in 1966. Since it was a trade secret, the owner was able to prevent its misuse by a former business partner.

The recipe for Thomas’™ English muffins is another example of a protectable trade secret in the food and beverage sector. Thomas’ parent Bimbo Bakeries was granted an injunction preventing a former executive from working for competitor Hostess™ Brands. Although experts testified that the basic techniques for making English muffins were widely known, the United States Court of Appeals recognized Thomas’ method as a trade secret. Accordingly, the Court found it would be virtually impossible for the executive to perform work at Hostess without disclosing the trade secrets.

The Hellman’s mayonnaise formulation was also an enforceable trade secret against a former employee and his new employer. This was despite the Court finding that all commercial brands of mayonnaise have some characteristics in common as government regulation restricts the ingredients used and the minimum proportion of vegetable oil in the product. Unique processing techniques were sufficient to establish Hellman’s method as an enforceable trade secret.

Establishing Trade Secrets

It is good practice for a company to document the existence and origin of trade secrets. The trade secret needs to be definable and clear. The person creating the documentation must thoroughly understand the technology and how it is used in the context of the company business. A lawyer that understands the company technology and industry can assist by advising on best practices. Trade secret rights must be provable, to enforce those rights. Factors that can show existence of a trade secret include:

- is the information that is the subject of the secret generally known in the relevant industry;
• cost and difficulty to initially develop the trade secret;
• ease of acquisition of the secret by others;
• uniqueness;
• protections used to maintain confidentiality of information inside the business and when shared outside the business; and
• the commercial value of the secret to the business.

Trade Secret Duration and Loss of Rights
As mentioned above, trade secret protection lasts for as long as the information remains a secret. The trade secret is lost when the secret becomes public knowledge. It is not easy to keep a secret, particularly if competitors can reverse engineer the product (and there is no obligation on them not to do so if there is no relationship between the companies).

Business and R&D Practices to Protect Trade Secrets
Secure records should be kept of the trade secret and any development history. Also keep records of the location of the trade secret, and who has access (employees and commercial partners with whom the secret was shared). Trade secrets should be clearly identified and categorized, including the level of commercial importance. Weigh competing advantages of using patent, trade secret or both.

Confidentiality agreements and company policies can help protect secrets. Control and train employees, consultants and business partners. Ensure that ownership of any improvement generated by employees and consultants using the trade secret is documented. Consider using non-competition and non-solicitation clauses as another layer of protection beyond confidentiality clauses. Mark documents as confidential (and copyright, if appropriate).

Use physical and electronic security to limit access (file cabinets, passwords etc). Do not over-disclose confidential information. Have exit interviews when confidential relationships end, in order to reinforce confidentiality and ensure return of information to the company. Require return of confidential information at relationship end.

Trade Secret Misappropriation – Civil and Criminal Remedies
Upon discovering a potential breach of confidence, the trade secret owner should take enforcement action promptly. An injunction can be requested from a court in order to prevent initial disclosure or further misuse of the trade secret. In Canada, it is difficult to get an injunction because courts require proof, among other things, that in the absence of the injunction, irreparable harm will occur for which money is not sufficient compensation. However, it is often easier to show irreparable harm to get an injunction in a trade secret case than in other intellectual property cases involving patents or trademarks.

If a trade secret loss occurs due to misappropriation, then the misappropriator may be liable to pay damages to the trade secret owner for its losses. Courts take a flexible approach to compensating for losses due to trade secret misappropriation. The typical remedies available for a breach of confidence are damages (monetary compensation for losses) or an accounting of profits (a monetary award based on the extra profits earned by a competitor from misuse of the information). The plaintiff can generally elect between damages and an accounting of profits. In the Clamato case, the Supreme Court of Canada awarded Cadbury Schweppes, the owner of the Clamato recipe damages in an amount that would put Cadbury in the position it would have been had the misappropriation not occurred.

As discussed above, there is a risk that employees will take trade secrets with them when they leave a company. Courts have enforced trade secrets in situations where departing employees misappropriate information and take it to a competing business. In one example, a departing employee took trade secrets for commercial scale manufacturing of Hellman’s™ Mayonnaise to a private label manufacturer and was held liable.

The United States-Mexico-Canada (USMCA) trade agreement requires Canada to create criminal provisions for trade secret misappropriation. Specifically, Bill C-4, an Act to implement USMCA, proposes new Criminal Code provisions to
make it an offence to knowingly obtain a trade secret, or communicate or make available a trade secret, via deceit, falsehood, or other fraudulent means. Our firm’s articles on criminal penalties are here and here.

Conclusion

Trade secret protection provides a significant opportunity to protect innovations for natural products, particularly in the food and beverage industry. Even small changes to recipes and processes can constitute protectable trade secrets. Preserving the confidentiality of trade secrets is essential; companies should have a broad protection strategy including non-disclosure agreements, employment clauses, and physical and technological barriers to keep information secret.

1 This article won’t discuss trademarks (brands) which are a key form of IP for foods and beverages.

2 Cadbury Schweppes Inc. v FBI Foods Ltd. (1999), 83 CPR (3d) 289 (SCC).

3 Bimbo Bakeries USA, Inc. v Botticella, 613 F.3d 102 (2010).


6 RJR MacDonald Inc v Canada (AG), [1994] 1 SCR 311, 111 DLR (4th) 385.