ESSENTIAL COMPETITION LAW

IPSPO2Y

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Study unit 1
Introduction

Overview

In this study unit, we will explain the function and sphere of competition law. We will discuss the two areas of competition law — the law relating to the maintenance and promotion of competition or antitrust law and the law of unfair or unlawful competition and the relationship between them. We will then deal with the historical development of competition law in South Africa. Finally, we will summarise the most important international agreements that are relevant to competition law.

Learning outcomes

After completing this study unit, you should be able to explain —

- the function and scope of competition law
- the various paths along which competition law traditionally develop
- the international agreements that are relevant to competition law

Discussion

Introduction

Competition law concerns —

- the legal rules directed at maintaining and promoting competition in the economy, and
- the legal rules regulating the relationship between business competitors.

This second set of rules constitutes what is known as the law of unfair competition. These rules will be the focus of this module.

To alert you to the increasing importance and scope of the first set of rules, we include an overview of the South African Competition Act 89 of 1998 as an example of contemporary legislation in this context. The first set of rules emanate mainly from statute, although they do include the rules relating to the enforceability of covenants in restraint of trade.

Function and sphere of competition law

Competition law is dynamic and topical, because it relates directly to people's continuing struggle for survival. Central to a person’s survival is the need to be economically active in order to improve her standard of living. That so many people try, all the same time, to achieve this goal, does not make this task any easier. The question now arises — how should this way of life proceed? Clearly, because people perceive their needs as unlimited, and since the resources of the world are limited, the process cannot be allowed to proceed uncontrolled or unchecked.

Consequently, all societies have to engage in an economic process to organize and coordinate human endeavour in order to satisfy human wants and needs. The inevitable economic problem has many facets —

- what to produce, and in what quantities;
- how to manage production;
- how to allocate and utilize scarce resources; and
- how to divide the fruits of the production process.

Different societies have developed differing answers to these central questions. In societies with a socialist ideological bent, the economic process is managed by the State, by means of what we may call a bureaucratic approach. Decisions regarding production and distribution are taken by bureaucrats. It has been argued that this type of system lends itself to favouritism, inefficiency, ineffectiveness, and waste. Moreover, its greatest weakness is said to be its inability to create wealth and prosperity. So today there seems to be a growing international agreement that, on national and global economic levels, absolute socialist systems yield favour to free market systems.

Under a free market approach, making economic policy and managing economies are not primarily the responsibility of a central State bureaucracy. Stated in most basic terms, decisions regarding production and distribution are guided by the profit motive, and the impersonal forces of supply and demand. The inefficient and ineffective do not set the pace; only the strongest competitors prevail. This is said to ensure that the scarce resources of society are put to their best use and are not easily squandered on frivolous or wasteful schemes. It is, of course, a serious drawback of this system in its purest form that it often leads to an unequal distribution of wealth.

A free market system requires a competitive market to prevent market participants from using their economic power to exploit others. Suppose, for example, that a consumer wants to buy an article which is manufactured by a single producer. The producer is in a strong bargaining position — the consumer must pay the price which the producer asks, or make do without the article. However, as soon as other producers enter the market and offer the same or similar articles for sale, the consumer's position is considerably strengthened — she now has a choice of producers. If she feels that one producer's price is too high, she may approach the others. Apart from obviating economic exploitation, competition in this sense has other important functions. They include:

- ❑ Competition promotes a more efficient use of economic resources. Consumer needs are better satisfied by competitors than by monopolies, because competition ensures that the allocation or distribution of economic resources is more responsive to consumers' wants. Theoretically, perfect and pure competition in all industries establishes an equilibrium in the price structure and brings about an allocation of resources that maximizes the economic welfare of any given income group. Consumers get more and better goods for their given income.

- ❑ Competition guarantees consumers greater freedom of choice between goods and services of various types and quality.

Competition gives producers freedom to enter industries that offer larger profits.

- ❑ Competition spurs economic growth. It is a strong incentive to —

- ☐ business efficiency,
- ☐ the lowering of costs and prices,
- ☐ the adoption of new methods of production and distribution, and
- ☐ the development of new products and services.

There are many situations from which enterprises may benefit to the prejudice of society, other enterprises, or consumers. (For example, traders who conspire not to compete with one another deprive society of the very benefits which society would otherwise have enjoyed under a free market system.) This places a responsibility on the State to take steps to prevent enterprises from undermining competition for their own gain. The conventional method by which the State tries to discharge this responsibility is by means of laws aimed at maintaining and promoting competition in the economy. These laws are sometimes referred to as *antitrust* law or *public* competition law.

State intervention under the banner of antitrust law is primarily concerned with strengthening competition. In this process it is perfectly possible to advance the interests of consumers and competitors at the same time. But this is not the foremost concern of competition policy. Rivalry among enterprises also affects the relationships between them in their capacity as legal subjects. It is conceivable that the conduct of enterprises might infringe upon the rights of other enterprises. This dimension of the relationship between rivals is a matter of the law of unfair competition. So the law of unfair competition governs the relationship between business rivals. This branch of competition law has been described as that part of private law which is designed to meet 'the schemes of geniuses bent upon reaping where they have not sown' (see *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd & others* 1981 (2) SA 173 (T) at 183).

The law of unfair competition, then, protects the rights of enterprises in the competitive struggle. Again, it is quite conceivable that when enterprises pursue the protection of their rights under unfair competition law, this may, in a modest way, serve the objectives of competition policy. But this is not the primary goal of the law of unfair competition.

Traders who conduct their business in contravention of the law of unfair competition can obtain wrongful advantages over their rivals. A few examples:

- A and B manufacture soft drinks. A spreads the false rumour that B's product contains poison.

- A and B manufacture cigarettes. In an advertising campaign, A claims that his product is manufactured from imported tobacco and is marketed on a large scale abroad. In fact, his cigarettes contain an inferior local tobacco, and are marketed locally only.

- B owns a national chain of stores with a high turnover and a trade name which has become well known. A starts a business with a trade name which is spelt a little differently but pronounced virtually the same.

- A and B own taxis. A employs hoodlums to intimidate B's prospective passengers.

- A and B own restaurants. A persuades soft drink manufacturers to boycott B by no longer delivering stock to him.

The fact that competition law comprises two distinct spheres does not mean that they are independent fragments which happen to have been joined by a name. After all, they deal with different aspects of the competition phenomenon in economic life. Their common objective is free and lawful competition. This connection between them appears clearly from the fact that legal protection against unfair competition obviously presumes that a situation of competition exists in the particular trade. The monopolist who is the sole manufacturer of an article for which no alternative or substitute exists has, after all, no one with whom to compete, lawfully or unlawfully. This notion has been stated thus: ' Unfair competition ... cannot exist unless there is competition, and there cannot be competition unless there is something to compete with' (*Raladam Co v Federal Trade Commission* 42 F 2d 430 at 436). The relationship between the two spheres appears also from the fact that the same competitive act can give rise to a remedy in both spheres. Suppose, for example, that a group of traders develop a scheme to instigate a boycott by consumers against an enterprising competitor. This conduct is wrongful in principle, and so the law of unfair competition will be at the competitor's disposal. But the scheme should also be prohibited under antitrust law, since its object is to restrict competition.

Activity 1.1

- List and compare the main features of the socialist and the free market approaches to the regulation of the economic process.
- Name two aspects of public competition law that benefit producers.
- List the main features of the relationship between the two spheres of competition law.

After you have performed these activities, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Historical perspective on the development of competition law

The legal regulation of monopolies (and hence anti-competitive behaviour) has a long history dating back as far as the Roman Empire. From the time of Julius Caesar (100–44 BC) until the codification of Roman law by the emperor Justinian(485–565 AD), various penal sanctions were introduced to prevent the formation of monopolies. However, the object of this legislation was never realized, on account of the conduct of the State itself. DV Cowen ('A Survey of the Law Relating to the Control of Monopoly in South Africa' (1950) 18 *South African Journal of Economics* 124 at 127) explains:

> 'During the economic crisis which threatened the existence of the Western Empire during the third century AD the emperors themselves sought to replenish their impoverished treasuries by the sale of monopoly rights. The result was that many of the most important branches of industry and trade throughout the Empire came to be organised on a state-protected monopolistic basis. The anti-monopoly laws

> were virtually paralysed; for it was obviously paradoxical, at least, to have such laws when the State itself obtained a considerable part of its revenue from the sale of monopoly rights.'

After the fall of the Roman Empire in 476 AD, economic and legal life in Europe collapsed. Gradually, over time, commerce revived. With it came a recurrence of monopolies. In an attempt to control the exercise of monopoly power, a number of penal provisions were introduced. The most important of these was the Edict of Charles V for the Netherlands, promulgated on 4 October 1540. This edict made it an offence for any person to enter into an agreement that smacked of a monopoly or was prejudicial to the public interest. These penal provisions against monopolies proved totally inadequate in practice. By the end of the seventeenth century, they had fallen into disuse.

During this period the restrictions on free commerce contributed to the limitation of competition and acts of unfair competition. So there was little need to regulate competitive relationships.

The industrial revolution brought about increased production and the widespread distribution of goods. This, in turn, led to intensified competition which fostered unfair competition. The need for the legal regulation of competitive conduct became more pressing. But it was only during the latter half of the nineteenth century that the concept 'unfair competition' gained acceptance.

Increased competition also ruined many competitors. In an attempt to save themselves, competitors organized themselves into cartels which controlled vast areas of trade and industry. In the end, this led to the recurrence of monopolies. It soon became apparent that unbridled competition carried with it the seed of its own destruction and that the legal regulation of competition was essential.

In most countries of Europe it was soon felt that some rules of fair play between competitors were required. Different approaches soon manifested themselves:

- France found a satisfactory solution from the outset. On the basis of the general provision imposing liability in delict (tort) in article 1382 of the Civil Code, case law quickly and with marked flexibility developed the *action* *en concurrence déloyale*. It guaranteed people in business legal protection against, for example, the risk of confusion, imitation, disparagement, disclosing trade secrets, and piracy.

- Germany, which had a similar general provision of liability in article 823 of its Civil Code, however, did not follow a similar path for purely jurisprudential reasons. Instead, in 1909, a special statute to regulate competition law was enacted — the *Gesetz gegen den unlautern Wettbewerb* (UWG).

- England did not follow either route. Rather, it built upon the possibilities of claims under equity and at common law, especially the tort of passing off. Any broader form of protection was considered incompatible with the common law. In particular, Professor WR Cornish (*Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* 4th ed (1999) § 16-48 p 652) states that

  > 'at the end of the nineteenth century, the Courts deliberately confined this tort [injurious falsehood] to those circumstances which were most incontrovertibly unjustifiable. Their caution stands as one of the chief barriers to the adoption of any broader conception of unfair competition.'

So the industrial nations reacted differently to the demands of competition brought about by the introduction of free trade. The fundamental differences between the various approaches are the reason that is remains difficult to harmonize the law against unfair competition at international level.

The South African law relating to the maintenance and promotion of competition is regulated mainly by statute. The current legislation dealing with the maintenance and promotion of competition is the Competition Act 89 of 1998; it came into operation on 1 September 1999. Typically, this Act prohibits a number of restrictive horizontal and restrictive vertical practices as well the abuse of a dominant position, and introduces a mechanism for the control of mergers. Although certain common law rules are significant for this branch of the law of competition (for example, those relating to covenants in restraint of trade), they are of secondary importance only.

In the United Kingdom, for example, the Competition Act 1998 deals with restrictive agreements, arrangements, and concerted practices in the context of national trade. (Issues which affect trade between member states of the European Union are left to the European Commission.) The executive functions are given to the Director-General of Fair Trading, who has extensive powers of investigation. On finding a breach, she may require alteration of agreements, termination of restrictive practices and abuses of dominant positions, and the payment of fines. For restrictive agreements, she has the power to grant clearances, individual exemptions, and block exemptions.

The South African law of unfair competition derives from the common law, which shares its Roman origins with the codified systems of Europe. Today, South African law recognizes a general action for unlawful competition. There are also a number of isolated statutory provisions which overlap or supplement the protection provided by the common law. The most important of these are the —

- Merchandise Marks Act 17 of 1941
- Business Names Act 27 of 1960
- Companies Act 61 of 1973
- Trade Practices Act 76 of 1976
- Close Corporations Act 67 of 1984
- Harmful Business Practices Act 71 of 1988
- Trade Marks Act 194 of 1993
- Counterfeit Goods Act 37 of 1997

Activity 1.2

- Compare the primary sources of the law regulating the maintenance of competition and the law regulating unfair competition in South Africa

- What is the source of the legal rules in your country regulating the maintenance and promotion of competition?

- Is there legal protection in your country against unfair competition? If so, is the protection based on common law or statute?

Discussion

International context

Paris Convention

The Convention for the Protection of Industrial Property was concluded in Paris in 1883. (Hence it is know as the ‘Paris Convention’.) When the Convention was promulgated, it did not make any reference to competition law. There were two reasons for this original exclusion of competition law:

- The Convention initially mainly served the international regulation of ‘hard core’ industrial property, especially patents. In the field of patent law, the principle of territoriality dominated. This was thought to be particularly unsatisfactory in view of increasing international connections and the divergent national laws. As it was impossible then to create a uniform international patent law, concluding an international treaty was seen as the next best option.

- At the end of the nineteenth century competition law was at best only weakly developed in the contracting states. The leading industrial nations had responded differently to the demands of competition brought about by the introduction of free trade. The manner of their reaction lies at the heart of the continuing difficulty in harmonizing the law against unfair competition at an international level.

France was the first country to provide effective protection against unfair competition. It argued strongly for including a general clause proscribing unfair competition in the Paris Convention. It was suggested that the wording should follow Article 1382 of the French Civil Code. This part of the proposal was strongly resisted by the Anglo-American countries.

At the Brussels Revision Conference of 1900, a provision was inserted (now article $10^{bis}(1)$) into the Convention: it obliged contracting states to grant nationals of other contracting states the same protection against unfair competition as they grant to their own nationals. Adopting the principle of national treatment in this way was a significant step forward in countries which had a developed competition law. But it meant little in countries which granted little or no protection again unfair competition.

In 1911, then, at the Washington Revision Conference, article 10^{bis} was expanded to oblige contracting states to ensure 'effective protection against unfair competition'. Also at this conference —

- protection against unfair competition was recognized as one of the objects of the protection of industrial property (article 1(2)),
- which was subject to the principle of national treatment (articles 2 and 3);
- contracting states were required to create appropriate remedies to combat unfair competition (article $10^{ter}(1)$); and
- these remedies should also be available to trade federations and associations (article $10^{ter}(2)$).

In 1925, the Revision Conference in The Hague adopted a definition of unfair competition in article $10^{bis}(2)$ — 'any act of competition contrary to the honest practices in industrial or commercial matters'. Two instances of unfair competition were listed in article $10^{bis}(3)$:

- action which creates the risk of confusion, and

discrediting competitors by false allegations.
In 1958, a third instance was added — false or misleading designation's of one's own product.

In its present form, then, article 10^{bis} reads:

> '(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.
>
> '(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.
>
> '(3) The following in particular shall be prohibited:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;

2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial commercial activities, of a competitor;

3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.'

It cannot be doubted that article 10*bis* has contributed to raising the level of protection against unfair competition generally, and to a certain level of legal harmonization. It has also served as a substantive model for developing competition law in countries such as Italy, Belgium, and Japan.

For countries with a developed unfair competition law, though, article 10*bis* no longer serves as a model, since this provision suffers from certain inadequacies:

- it is deficient as far as sanctions are concerned (even allowing for article 10*ter*);
- it applies only within a competitive relationship;
- the three instances in article 10*bis*(3) are worded too narrowly (for example, they do not refer to truthful criticism, or disparagement by comparison); and
- there is no demarcation of the special statutory protection of intellectual property and consumer protection.

At the same time, countries with an undeveloped unfair competition law often object to the wide scope of the general clause in article 10*bis*(1).

See further Frauke Henning-Bodewig 'International Protection Against Unfair Competition — Art 10*bis* Paris Convention, TRIPS and WIPO Model Provisions' (1999) 30 *IIC* 166 at 187–188.

TRIPS Agreement

The Uruguay Round of multilateral trade negotiations held under the framework of the General Agreement on Tariffs and Trade (GATT) concluded on 15 December 1993. The agreement embodying the results of those negotiations — the Agreement Establishing the World Trade Organization (WTO) — was adopted on 15 April 1994 in Marrakesh. It entered into force on 1 January 1995 and binds all WTO members. Annex 1C of this agreement is the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). All states which become members of the WTO are bound to a mutual recognition of a high level of intellectual property protection (article II.2 of the Marrakesh Agreement).

Competition law as such is not mentioned in the TRIPS Agreement. But there are some references to competition law:

Article 22(2) obliges members of the WTO to protect geographic indications of source from the application of misleading designations, in particular, and, generally, from any use 'which constitutes an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention'. So geographic indications are protected against any unfair use, especially that which creates the risk of confusion. See further Study Unit 5 below.

- ❑ In terms of article 39, trade secrets ('undisclosed information'), too, is protected with reference to article 10*bis*. See further Study Unit 7 below.

- ❑ Some licensing practices or conditions pertaining to intellectual property rights may restrain competition and have an adverse effect on trade and the transfer and dissemination of technology. So the TRIPS Agreement allows member countries to adopt legislation to prevent licensing practices that may constitute an abuse of intellectual property rights having an adverse effect on competition (article 40).

- ❑ Article 2 of the TRIPS Agreement requires members of the WTO to comply with the substantive provisions of the Paris Convention, but only in respect of the stated subject-matter of the TRIPS Agreement. Unfair competition, as such, is not part of the subject-matter of the TRIPS Agreement; only geographic indications and trade secrets are. On a close reading of article 2, then, its effect is that those members of the WTO which are not party to the Paris Convention are now obliged, in respect of trade secrets and geographic indications, to grant foreign nationals at least the protection provided for in article 10^{bis} of the Paris Convention (see Henning-Bodewig op cit at 180).

WIPO Model Provisions

At the end of 1996, the World Intellectual Property Organization (WIPO) published its Model Provisions for Protection Against Unfair Competition. These provisions are accompanied by explanatory notes. According to the notes to article 1, these provisions should be at the disposal of countries which, by virtue of article 2 of the TRIPS Agreement, are for the first time obliged to observe article 10^{bis} of the Paris Convention. So they are particularly useful to developing countries. In the following study units, we will illustrate how these model provisions correspond to the detailed rules of a developed system of unfair competition law like that of South Africa.Note, though, that the WIPO Model Provisions do not constitute binding international standards: they are merely a proposal without any legal commitment. In this sense they are very different from the Paris Convention and the TRIPS Agreement. Their effect is restricted to suggesting to countries with no, or without a developed, law against unfair competition, how such law can be constituted; to countries with a developed competition law, they urge a consideration of established unfair competition rules to determine whether they meet modern demands.

See further, generally, Charles Gielen 'WIPO and Unfair Competition' [1997] 2 *European Intellectual Property Review* 78; Henning-Bodewig op cit at 181–187.

Activity 1.3

Determine whether your country is —

- ❑ one of the countries of the Paris Union
- ❑ a member of the World Trade Organization

Conclusion	You should now appreciate the function and sphere of competition law. In particular, you should appreciate that there are two main areas of competition law — the law relating to the maintenance and promotion of competition (antitrust law) and the law of unfair (or unlawful) competition. You should be able to explain the international framework within which competition law operates, and distinguish between binding standards and their sources, on the one hand, and suggestions for the development of national legislation, on the other.

Study unit 2
The law of unfair competition

Overview

In this study unit, we will explain the protection against unfair competition generally. To prepare you for the more detailed study in the remaining study units, we will explain the basis of such protection internationally and in South Africa, and the requirements for protection. We will then discuss key requirement of wrongfulness (unlawfulness) and the criteria for determining whether a competitive act constitutes unfair competition.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ understand the general principles on which protection against unfair competition is based
- ❑ apply general principles to solve problems that arise in this sphere

We will tell an ongoing story in this module, and will give you more facts as they become necessary. The facts are imaginary, but the answers to the problems we pose relating to them are based on various South African court decisions.

Setting the scene

Ultra Company and Mega Company both manufacture beer. They sell their products in the same market and are trade rivals.

Discussion

Protection against unfair competition

As you know from Study Unit 1, the law of unfair competition deals with the legal rules which regulate the relations between competitors; in other words, with the (un)lawfulness of a competitor's conduct as against others. You also know that article 10*bis* of the Paris Convention obliges members of the Paris Union to provide protection against unfair competition. A similar obligation, albeit of limited scope, is imposed on members of the World Trade Organization by article 2 of the TRIPS Agreement.

You may have seen from the few examples we gave in Study Unit 1 that unfair competition may take many forms. In commerce, new competitive techniques are constantly developed, and it is often difficult to state categorically whether or not they are lawful. For this reason it is important that you should be able to approach the problems that arise in this sphere on the basis of general principles.

Article 10*bis* of the Paris Convention, in addition to setting out the principal acts against which protection should be provided, provides a basis for a general all-embracing protection against acts of unfair competition. Article 10*bis*(2) states:

> 'Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.'

A few remarks about this provision:

❑ The competitive act contemplated is not restricted to an act or conduct in the strict sense, that is, a positive act, but also includes conduct that consists of an omission (a failure to act).

The concept 'honest practices' is strongly influenced by French legal thinking. 'Practices' (*usages*) refer to the actual practices; the requirement that these practices must be 'honest' (*honnetes*) is judged objectively. There is no uniform international standard to determine whether a practice is honest. The content of this requirement will depend on the perspective of each country, supplemented by international usage. Also, within each country, the question is whose perspective as to the honesty of a practice is relevant — the notional consumer, or a notional competitor.❑ The phrase 'industrial or commercial matters' implies that all economic activity is contemplated. It covers not only the activities of traders providing goods or services, but also the activities of those in professions such as architects, engineers, medical doctors, and lawyers.

Article 1 of the WIPO Model Provisions similarly states that

> 'any act or practice, in the course of industrial or commercial activities, that is contrary to honest practices shall constitute an act of unfair competition'.

The above remarks about article $10^{bis}(2)$ of the Paris Convention applies with equal force to article 1 of the WIPO Model Provisions (see notes 1.02 and 1.05 on article 1). In addition —

- The term 'practice' is used in addition to the term 'act' to clarify that not only an act in the strict sense but also behaviour which consists of an omission to act can constitute unfair competition (note 1.04 on article 1). The following two examples are given:
- a failure to correct or supplement information concerning a product test published in a consumer magazine, thereby giving a wrong impression of the quality of the product offered on the market; and
    - a failure to give sufficient information concerning the correct operation of a product, or possible side-effects of a product.

- Unlike article $10^{bis}(2)$ which refers to 'any act of competition', the WIPO Model Provisions do not require that the relevant act must be an act of competition. This means that the WIPO Model Provisions apply even where there is no direct competition between the person who commits the act and the person whose interests are affected by the act (note 1.06 on article 1). Where the act is not directed against a competitor, it may still influence competition in the market by increasing the competitiveness of the perpetrator as against her competitors. For example, where someone other than the owner of a well-known trademark uses it for entirely different products, the user of the trademark normally is not in competition with the owner. But the use of the trademark is still relevant to competition, since the user obtains an unfair advantage over his competitors who do not use the well-known trademark, which is likely to favour sales of the user's products. See further Study

Unit 4 below.

- Statutory intellectual property laws are based on the notion of unfair competition — the unauthorized use of another's intellectual creation constitutes an unfair exploitation of it. Protection under intellectual property legislation does not preclude protection under unfair competition law. Instead, protection against unfair competition may supplement such statutory protection. This also appears from article 1(2) of the WIPO Model Provisions:

  > 'Articles 1 to 6 shall apply independently of, and in addition to, any legislative provisions protecting inventions, industrial designs, trademarks, literary and artistic works and other intellectual property subject matter.'

Finally, article 1(1)(b) of the WIPO Model Provisions states that '[a]ny natural person or legal entity damaged or likely to be damaged by an act of unfair competition shall be entitled to' legal remedies.

At this stage, just two brief remarks:

- The use of the term 'entitled' establishes a right to protection to acts of unfair competition (note 1.08 on article 1).

- The term 'damage' is intended to be understood broadly, to cover the instance where the defendant has obtained, or is likely to obtain, an unjust enrichment at the expense of the plaintiff. The protection is not only against past conduct but also against imminent harmful conduct.

Activity 2.1

- Briefly state what is meant by the term 'an objective criterion', as opposed to 'a subjective criterion'.

- What is the relationship between the legal rules governing unfair competition and those protecting intellectual property?

After you have performed these activities, read the discussion in Tutorial Letter 201 for feedback.

Discussion

A general law of unfair competition?

Neither South Africa nor the United Kingdom, as another example pertinent to those countries with a common-law tradition, has a single statute covering unfair competition as such. It does not follow from this that traders do not have a remedy against unfair competition. In South Africa and the United Kingdom protection against unfair competition is provided at common law. (This protection is bolstered by a few isolated statutory provisions.)

However, it is crucial to note that South Africa and England have different common-law traditions based on different origins. (In its Roman law roots, the South African common law stands closer to the Civil Codes of Europe.) In particular, the South African law relating to liability for patrimonial (financial) loss is based on a general action of Roman origin — the Aquilian action (taking its name from the lex Aquiliae, the Roman statute on which it is based). So South Africa has a law of delict, imposing a general liability for any form of unlawful conduct. From this follows, then, that South African law recognizes a general action for unlawful competition.
English law, by contrast, does not have a law of tort, but rather a law of torts (in a sense, a catalogue of actions for certain types of unlawful conduct that the law has already recognised). An English trader has to rely on the separate torts of breach of confidence, passing off, and injurious falsehood to prevent certain acts of unfair competition.If an act of unfair competition does not fall into one of defined torts, a trader has no legal basis on which to prevent the competition.

The difference between the South African and English position is clear. In South African law a trader who has been at the receiving end of any form of unfair competition can claim redress with the Aquilian action. So ‘the broad and ample basis' of the Aquilian action is available to provide a remedy to the wronged trader, even in the absence of direct precedent (*Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* 1968 (1) SA 209 (C) at 218; *Stellenbosch Wine Trust Ltd & another v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd & another* 1972 (3) SA 152 (C) at 161; *Schultz v Butt* 1986 (3) SA 667 (A)). Unlike in England, a South African plaintiff who is the victim of a competitor's unlawful conduct does not have to force her action into mould of some or other established tort (delict). Clearly, then, a flexible system based on general principles of liability, like the South African, is better equipped to deal effectively and speedily with the ever-changing challenges of the competitive environment in commerce.

Activity 2.2

Ultra Company thinks up a new competitive practice which harms Mega Company. There is no legal precedent directly relevant.

- ❑ Can Mega Company approach a South African court for assistance?
- ❑ If the competitive practice occurred in London, can Mega Company approach an English court for assistance?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Activity 2.3

In your legal system, determine —

- ❑ the basis for protection against unfair competition
- ❑ whether your law recognizes a general action for unfair competition, or whether it recognizes a number of actions for specific types of action for certain instances of unfair competition

Discussion

Liability for unfair competition in South African law

For a competitor to incur liability for unfair competition in terms of the Aquilian action, the following elements of liability should be established:

- *An act or conduct*: A competitor's conduct may consist not only of an act in the strict sense but also behaviour that consists of an omission (a failure to act).

- *Wrongfulness*: The competitor's act or conduct must be wrongful (unlawful). The question as to the wrongfulness of competitive conduct is of cardinal importance in the field of unfair competition. It raises vexed questions and will be discussed in greater detail in the next section.

- *Fault*: A plaintiff who suffered damages as a result of unlawful competitive conduct should, in principle, succeed if she can prove either intent or negligence on the part of the defendant. Provided that the requirements for an interdict (injunction) have been met, the wronged trader should be entitled to an order restraining the unlawful conduct irrespective of intent or negligence on the part of her competitor (*Long John International Ltd v Stellenbosch Wine Trust (Pty) Ltd & others* 1990 (4) SA 136 (D)). So, although the element of fault is required if the plaintiff seeks damages, it is not a requirement where she seeks cessation of the competitive conduct.

- *Causation*: The competitor's conduct must be the cause the damage suffered by the plaintiff (*Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* (supra); *Geary and Son (Pty) Ltd v Gove* 1964 (1) SA 434 (A)).

- *Damage*: A plaintiff who wishes to recover damages, must show that she has actually suffered patrimonial loss, and its extent. Damage is usually suffered through loss of trade or custom.

Activity 2.4

- ❑ Name the five elements of delictual liability for unfair competition in South African law.
- ❑ If Mega Company intentionally does something unlawful to Ultra Company, but this action causes no financial loss to Ultra Company, may Ultra Company institute an Aquilian action against Mega Company?
- ❑ If Mega Company creates a beer that tastes so much better than any previous beer that everyone buys it, and Ultra Company suffers financial harm because of enormous lost sales, can Ultra Company institute an Aquilian action against Mega Company?

After you have answered these questions, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Wrongfulness (unlawfulness)

There are different answers to the question as to the nature of the wrong that is suffered by the victim of unfair competition. The prevailing view is that unfair competition is invariably characterized by the infringement of a trader's right to attract custom (Van Heerden & Neethling op cit at 94). This view has found support in South African law, though the courts have tended to refer to the object of the right to attract custom as 'goodwill' or 'business reputation' (*Geary & Son (Pty) Ltd v Gove* (supra) at 440; *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* (supra) at 216; *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd & others* 1981 (2) SA 173 (T) at 182).

So the wrongfulness of an act of unfair competition lies in the infringement of a trader's right to attract custom or goodwill. This brings us to the question — what is goodwill?

Goodwill

One of the best-known definitions from English law is that of Lord MacNaghten in *Inland Revenue Commissioners v Muller and Co's Margarine Ltd* 1901 AC 217 at 223–224:

> ‘It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of a good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may preponderate here and another element there. To analyse goodwill and split it up into its component parts, to pare it down ... until nothing is left but a dry residuum ingrained in the actual place where the business is carried on while everything else is in the air, seems to me to be as useful for practical purposes as it would be to resolve the human body into the various substances of which it is said to be composed. The goodwill of a business is one whole ...’.

The right to attract custom or goodwill has also been described as ‘the benefit arising from connection and reputation’ (*Receiver of Revenue (Cape) v Cavanagh* 1912 AD 459 at 464, quoting *Lindley on the Law of Partnership* 7th ed by WB Lindley & TJC Tomlin (1905) at 476), and as ‘the totality of attributes that lure or entice clients or potential clients to support a particular business’ (*Caterham Car Sales & Coachwork Ltd v Birkin Cars (Pty) Ltd & another* 1998 (3) SA 938 (SCA) at 947). Also, in the case of a professional soccer club, it was held that its goodwill derived from ‘the reputation for the good soccer it had played over many years, that had been built up its team which was distinguished from other teams ... and distinguished from all other teams by [its] nickname’ (*Moroka Swallows Football Club Ltd v The Birds Football Club & others* 1987 (2) SA 511 (W) at 526).

Van Heerden and Neethling (op cit at 94) explain that the enterprise is an economic unit which may have a greater composite value than the value of its separate components. (See also *O'Kennedy v Smit* 1948 (2) SA 63 (C) at 67, where Herbstein J stated that ‘a good test to apply in deciding whether a business has developed any goodwill is to determine whether a reasonable purchaser would pay anything over and above the value of the real assets of that business for the right to be allowed to continue to carry on that business’.) This greater value must obviously be represented by ‘something’ — an incorporeal thing which owes its origin to the organisational coherence of the independent components of the enterprise. The activities of the trader are firstly directed at attracting clients. To do so, she must create a favourable attitude to the enterprise in all the persons who deal with it, including employees, suppliers, creditors and customers. The purpose of the trader is to create a single incorporeal goodwill by bringing together the dissimilar components of the enterprise. If she succeeds, the economic unit of the enterprise acquires a higher value than the sum of the value of the independent components.
So, the financial value of the enterprise includes the goodwill which can be regarded as a dependent component of the enterprise — dependent in the sense that unlike independent components such as location, client bases, credit standing and many others, it cannot carry on a more or less permanent existence outside the context of the enterprise. Dissimilar factors such as the location of a shop's premises, or personal qualities in the trader or her employees, determine goodwill. Goodwill is always a unit and indivisible, and originates by bringing together several components in terms of a specific plan. Goodwill is also a unit in its projections to potential clients, suppliers, and employees. There is a constant interaction between these projections. The stronger the effect of the goodwill in respect of suppliers, the more favourable the conditions for providing supplies; this means that the performance of the trader can be offered to clients on more attractive terms and, again, the greater the turnover, the stronger the goodwill in respect of suppliers of credit facilities.

The goodwill of an enterprise is perceived as a creation of the entrepreneur. Although it can only come into existence in the context of an enterprise, it can exist independently of the entrepreneur and other components of the enterprise. As an incorporeal creation of the entrepreneur, goodwill is recognized as intellectual property and the legal object of an intellectual property right. South African courts view goodwill as a movable incorporeal asset which forms part of a trader's patrimony, and can be sold and transferred.

Distinctive marks (such as trade marks and trade names) do not in themselves constitute goodwill any more than they represent symbols of goodwill. But they are an extremely important factor in its formation and continued existence. So goodwill and distinctive marks are always closely linked. Still, a distinctive mark has a certain independence from goodwill and a trader acquires a right (in addition to his right to attract custom) to the distinctive value of his marks in relation to the goods or enterprise they individualize. Van Heerden and Neethling (at 110) describe this right to the distinguishing value of such a mark as an accessory intellectual property right.

Interference with goodwill

Thus far, we have shown that in unfair competition the wrongfulness lies in the infringement of a trader's right to attract custom, and we have looked more closely at goodwill as such. But this is by no means a complete answer to the question as to what constitutes wrongfulness — you will realise that all competitive acts, even if they are lawful, may affect a trader's right to attract custom. For example: manufacturer A markets an outstanding product at the same price as her rival B charges for an inferior product. As a result, B's sales — and the goodwill of her enterprise — will suffer. But no-one would maintain that A has acted wrongfully.

The self-evident question now is — when is one trader's interference with another's goodwill wrongful? If the interference with a trader's goodwill takes place wrongfully, such interference infringes the injured party's right to attract custom. But lawful interference with a trader's goodwill infringes no right of hers.

You will, of course, observe that this question raises no practical problems in run-of-the-mill cases (such as passing off) where the wrongfulness of the competitor's conduct has long since been defined. But where the court is faced with a novel situation where the defendant's behaviour is claimed to have been wrongful, we deal with what has rightly been seen as the main difficulty in this branch of the law (*Gove v Geary & Son (Pty) Ltd* 1963 (4) SA 95 (D) at 100; *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* (supra) at 216).

In dealing with this problem, the South African courts have declined to formulate a general definition of the limits set to competition. Their approach has been to decide in each instance whether the particular conduct under consideration could be recognized as an infringement of the plaintiff's right, and hence as unfair competition. In the process they apply the objective criterion of public policy. In *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* (supra) at 188–189 the court formulated this test as follows:

> ‘What is needed is a legal standard firm enough to afford guidance to the court, yet flexible enough to permit the influence of an inherent sense of fair play.
>
> ‘I have came to the conclusion that the norm to be applied is the objective one of public policy. This is the general sense of justice of the community, the *boni mores*, manifested in public opinion.
>
> ‘In determining and applying this norm in a particular case, the interests of the competing parties have to be weighed, bearing in mind also the interests of society, the public weal. As this norm cannot exist in vacuo, the morals of the market place, the business ethics of the section of the community where the norm is to be applied, are of major importance in its determination.’

(See also *Lorimar Productions Inc & others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc & others v OK Hyperama Ltd & others; Lorimar Productions Inc & others v Dallas Restaurant* 1981 (3) SA 1129 (T); *Schultz v Butt* (supra).)

In most instances, it will be competitors who interfere with a trader’s goodwill. But this is not always so; others, too, can infringe her right to attract custom. One example is where a person publishes untrue and disparaging allegations about a trader or her products and so causes her damage. In *Harchris Heat Treatment (Pty) Ltd v Iscor* 1983 (1) SA 548 (T) at 555, the court stated:

> ‘The remedy under the lex Aquilia in cases of unlawful interference with the business of another is not confined to

> competitors in trade. Loss will, prima facie be occasioned by the unlawful deprivation of the owner of a trade secret of the right to exploit it, whether by attracting custom or in other ways.'

In a number of cases acts which constitute wrongful competition assume stereotyped forms. The best known of these are discussed in the study units below. But the possibility cannot be ruled out that new forms of unfair competition may develop.

Note also that particular instances of unfair competition may sometimes involve various forms of unfair competition, or can even be simultaneously classified as different forms of unfair competition.

Activity 2.5

- ❑ What criterion is used in the Paris Convention to determine the wrongfulness (unlawfulness) of competitive conduct?
- ❑ What criterion is used in South African law to determine the wrongfulness (unlawfulness) of competitive conduct?
- ❑ If your domestic law recognizes a general action for unfair competition, what criterion is used to determine the wrongfulness (unlawfulness) of competitive conduct?

After you have performed these activities, read the discussion in Tutorial Letter 201 for feedback.

Reading 2.1

Study *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd & others* 1981 (2) SA 173 (T). Ask yourself the following questions when you read this decision:

- ❑ Which types of unfair competition were alleged?

- On what basis did the court deal with them? Was there one delict encompassing all of them, or was the term ‘unlawful competition’ merely generic for a number of delicts, all with the same object of granting protection in respect of different legal relationships and with differing elements?

- Which traditional criteria did the court consider to determine whether interference with the trade of another was unlawful? Was unfairness a criterion? Was dishonesty a criterion?

Which criteria were applied in the United States and England at the time of this judgment to determine whether interference with another’s trade was unlawful?

- Which criterion did the court decide was appropriate in terms of the South African law?

- How does this criterion relate to the criteria accepted in earlier decisions?

Activity 2.6

Mega Company owns two trade marks — TIGER and CROWN.

- Is this what their goodwill comprises?

- State two further possible aspects of the goodwill of Mega Company.

After you have performed these activities, read the discussion in Tutorial Letter 201 for feedback.

Activity 2.7

- Ultra Company has an excellent system for keeping track of supplies and expiry dates on its products. The system has been developed by its employees. Mega Company obtains a copy of this system and proceeds to use it. In this way, it saves a lot of money by streamlining its distribution procedure. Is this unfair competition on the part of Mega Company?

- Ultra Company publishes an independent survey, conducted in 700 pubs, in which 85 per cent of beer consumers say that they prefer Ultra Company's products to Mega Company's. Can Mega Company sue Ultra Company for unfair competition?

After you have performed these activities, read the discussion in Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate the various criteria applied to determine whether certain conduct constitutes unfair competition. In South African law, you should be able to explain the key requirement of wrongfulness (unlawfulness) and the criteria for determining whether a certain competitive act is wrongful.

Study unit 3
Passing off

Overview

In this study unit, we will discuss protection against passing off. We will explain the nature of passing off as well as the requirements for a successful action for passing off.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ understand the nature of passing off
- ❑ understand the requirements for an action for passing off
- ❑ be able to determine whether conduct constitutes passing off
- ❑ apply general principles to solve problems that arise in this context

Setting the scene

The facts of this episode are those of a decision of the High Court of South Africa — *Tie Rack plc v Tie Rack Stores (Pty) Ltd & another* 1989 (4) SA 427 (T).

The applicant had successfully established a business of selling men's ties and other clothing accessories in London, and has extended its business to other cities in England, North America, Europe, and Australia. Its business was conducted under the name *Tie Rack*. A distinctive logo was devised for its shops. It conducted no trade in South Africa, but its shops were known to many South Africans who travelled overseas. There were no plans for extending its business to South Africa. In 1985 L and M registered in South Africa the trademark THE TIE RACK. They had intended opening a business with that name but later had decided that the business would not be viable. During 1987, the rights to this trademark were sold to the first respondent; the assignment of the trademark was registered later. The first respondent opened various businesses in South Africa under the name *Tie Rack*. A logo was devised, which was very similar to the applicant's. The applicant sought relief, amongst other grounds, on the basis of passing off.

Discussion

Protection against passing off

This form of unfair competition is arguably the most important — it occurs most often in practice.

International provisions

Because of its importance, the Paris Convention singles out this form of unfair competition as one of three main forms of unfair competition against which protection should be granted. In article 10*bis*(3)1, the Convention requires countries to grant protection against 'all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor'.

A similar provision appears in the WIPO Model Provisions. Article 2(1) states:

> 'Any act or practice, in the course of industrial or commercial activities, that causes, or is likely to cause, confusion with respect to another's enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.'

Note some of the explanatory notes on the article:

- The term 'enterprise' includes human beings and legal persons.
- Intent to confuse is not relevant for the purpose of determining whether certain conduct constitutes unfair competition.
- Actual confusion is not required; the likelihood of confusion is sufficient ground to found an action.

Article 2(2) then contains examples of confusion:

> Confusion may, in particular, be caused with respect to
> (i) a trademark, whether registered or not;

(ii) a trade name;
(iii) a business identifier other than a trademark or trade name;
(iv) the appearance of a product;
(v) the presentation of products or services;
(vi) a celebrity or a well-known fictional character.

A few notes on this provision:

- Where a trademark, trade name, or business identifier is associated by consumers with a certain commercial source or origin, any conduct which causes, or is likely to cause, confusion with respect to such source or origin usually constitutes unfair competition. But the concept 'confusion' is not restricted to confusion in respect of source or origin. Instead, it should include anything which can indicate a business connection. Two examples:

  - In the case of confusion with respect to *affiliation*, we have two users of the same or similar trademarks. So consumers may think that a relationship exists between the users.

  - In the case of confusion with respect to *sponsorship*, consumers, while they do not assume that the products or services originate from the same source, still expect from their similarity that the use of the trademark for the products or services in question has been agreed to by the owner of the mark.

- It is pointed out that the use of a trademark for different goods or services will, generally, not cause confusion, unless the mark is a well-known trademark.

- The term 'business identifier other than a trademark or trade name' covers a broad spectrum of designations such as business symbols, emblems, logos, and slogans used by an enterprise to convey, in the course of industrial or commercial activities, a certain identity relating to the enterprise and its products or services.

- The 'appearance of a product' includes its packaging, shape, colour, and other non-functional characteristic features.

- ❑ The ‘presentation of products or services’ includes advertising. For example: confusion may arise from information given about certain products or services, or about the relationship between the enterprise offering the products or services and other enterprises offering similar products or services.

- ❑ Subparagraph (vi) deals with —
  - ☐ *publicity rights* relating to well-known performers, media and sports personalities, and other celebrities, and
  - ☐ *merchandising rights* relating to fictional characters in literary and artistic works.

  These rights relate to marketing techniques in terms of which enterprises are licensed to use the popularity or fame attached to the names or likenesses (including the voices) or certain celebrities and fictional characters. Such use is expected to stimulate consumer demand for the licensee’s products or service. Unauthorized use of the name or likeness in question could then cause confusion, or a risk of confusion.

- ❑ Again, note the co-existence of protection against unfair competition and the protection of intellectual property. In subparagraph (i), the protection against confusion applies also to registered trademarks, whereas the protection in subparagraph (iv) against confusion relating to the appearance of a product applies also to registered industrial designs.

Protection against passing off squarely fits into this international framework.

Activity 3.1

Compare the provisions relating to protection against causing confusion with respect to another’s enterprise in the Paris Convention and the WIPO Model Provisions.

After you have performed this activity, read the discussion in

Discussion

South African law

As in other countries, in South Africa passing off takes place where a trader represents to the public that her enterprise, goods, or services are that of her competitor, or are connected with her competitor's. She does so by using or imitating her competitor's distinctive marks. To determine whether a trader's conduct amounts to passing off, one has to enquire whether the public is likely to be confused into believing that her enterprise, goods, or services are, or are connected with, that of her competitor.

A trader may use distinctive marks to distinguish her enterprise, goods, or services from those of her competitors. In the case of an enterprise, we have to do with a trade name; in the case of goods, with a trademark (whether registered or not) or with what is known as get-up or trade dress; and, in the case of a service, with a service mark. In all these cases it may constitute unfair competition if a competitor uses or imitates a trader's distinctive mark and so represents to the public that her enterprise, goods, or services are, or are connected with, that of the trader concerned.

Intent to confuse the public is not a requirement for passing off. Nor is actual confusion. All that is required is a reasonable likelihood of such confusion arising. Whether a particular representation causes, or is likely to cause, confusion is, of course, a question of fact which will have to be determined in the light of all the circumstances of each case.

The confusion in question is not restricted to confusion in respect of origin or source of the enterprise, goods, or services, but includes confusion with respect to business affiliation or connection, or sponsorship.

Finally, passing off should not be looked at in isolation. In practice, statutory remedies often overlap with the common-law remedy against passing off. Most significantly, trademarks can be registered in respect of goods or services. Their owners then acquire the statutory remedies against trademark infringement; it then frequently happens that passing off is alleged as a further or alternative claim in an action for trademark infringement.

The elements of passing off

The following description of passing off was given in *Pasquali Cigarette Co Ltd v Diaconicolas & Capsopolus* 1905 TS 472 at 474:

> 'Now the principle of law which has to be applied to cases of this nature is an extremely simple one, and the principle is this, that no man is allowed to pass off his goods as the goods of another person; no manufacturer of goods is allowed to represent to the public that the goods which he is selling are the goods of a rival manufacturer. That is the simple principle. It is in the application of that principle that the difficulties occur. There are many ways, of course, in which a dishonest trader may represent to the public that his goods are the goods of a rival manufacturer. He may do so by adopting his name or by imitating his trade-mark, or ... by getting up his goods so as to resemble the goods of the rival manufacturer, and thus to induce the public to purchase his goods as the goods of the other.'

In South African law, the generally accepted definition of passing off can be found in *Capital Estate and General Agencies (Pty) Ltd & others v Holiday Inns Inc & others* 1977 (2) SA 916 (A) at 929. Rabie JA stated:

> 'The wrong known as passing off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to a passing off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is connected with, that of another ... . Whether there is a reasonable likelihood of such confusion arising is, of course, a question of fact which will have to be determined in the light of the circumstances of each case.'

A close reading of these statements, then, reveals that in an action for passing off a plaintiff must prove two things:

- ❑ that the trade mark, get-up, service mark or trade name which he claims has been imitated is known in the market and has acquired with the public a reputation associated with his goods, services or business; and

- that the defendant's conduct is likely to deceive or confuse the public.

Activity 3.2

Ultra Company produces a beer called *Great Sport*. It is marketed in a distinctive green and gold chevron striped can. It has been on the market for four years and is very popular. Mega Company starts production of a beer called *Good Sport*. It is sold in a can with golden arrows. Ultra Company feels that Mega Company is committing passing off. What should Ultra Company be able to prove in order successfully to institute action against Mega Company for passing off?

After you have answered this question, read Tutorial Letter 201 for feedback.

Discussion

Reputation

This requirement is essentially that the plaintiff's mark, get-up, or name must have become distinctive of the goods, service, or business concerned. It has been stated repeatedly in the case law (for example, *Royal Beech-nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods* 1992 (4) SA 118 (A); *Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd & another* 1998 (3) SA 938 (SCA).

A plaintiff need not show that the defendant deliberately imitated her get-up, trade name, or trademark, or intended thus to deceive the public. But if the defendant was actually actuated by such a motive, this may have a bearing on whether the plaintiff in fact had acquired such reputation (*Yellow Cabs of South Africa Ltd v Ginsberg* 1930 WLD 205 at 209).

Where a trader has established a business reputation in a particular area, she can prevent another trader carrying on business under her trade name in that area provided, of course, that she can show that deception or confusion is likely to result. In the case of a retail business, the area in which the goodwill is affected is the same area from which it draws its customers.

Where the trademark, trade name, business, or product of a foreigner has acquired a reputation within South Africa, she will be entitled to protection against passing off despite the fact that she has never traded or carried on business there (*Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd* (supra)). Note that the Trade Marks Act 194 of 1993 also prohibits the unauthorized registration and use of unregistered trademarks which are well known in South Africa as being the marks of persons who are nationals of, domiciled in, or have commercial establishments in countries which are members of the Paris Convention (see sections 10(6) and 35). The rights are afforded to the proprietor of a well-known foreign trademark irrespective of whether she carries on business or has any goodwill in South Africa.

Note also that although reputation is an element of passing off, this does not mean that a wronged trader is without remedy merely because no reputation has been established (*Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd* (supra)). Passing off is but one recognized form of unlawful competition, and so such trader may have other remedies against unfair competition.

Related to the question of repute is the court's attitude to the nature of the trademark, get-up, service mark, or trade name concerned:

- Say, for example, that a trader's get-up of her goods consists of a shape and colour common to the trade. She will clearly not be able to prevent a competitor from using a similar get-up unless she has added distinctive features to the common colour and shape and she can establish that these added features have been so imitated that the public is likely to be misled. It is also possible that while the individual characteristics of the get-up may be common to the trade, the plaintiff's arrangement of them is distinctive.

Where the shape of a trader's product (whether or not such shape is functional) has acquired a reputation and so has become distinctive, she will be able to prevent a competitor from using a similar shape for her product without clearly distinguishing it. The competitor will be obliged to alter the shape of her product if she cannot distinguish it in any other way. Only where the shape concerned is dictated by functional necessity (in other words, where the products concerned cannot be manufactured in any other way) will the trader be unable to prevent the use of a similar shape (*Weber-Stephen Products Co v Alrite Engineering (Pty) Ltd & others* 1992 (2) SA 489 (A)).

- ❑ When a trader uses a word in its ordinary meaning in connection with her business, she will be protected only if the word has acquired a 'secondary meaning' among her customers.

- ❑ On the other hand, where a person invents a name or mark for her goods, service, or business and it in no way describes or relates directly to the nature of the goods, service, or business, it is simple to infer passing off if a competitor proceeds to use the name or mark. In such a case one generally speaks of 'distinctive', 'fancy', or 'invented' names or marks. These must be distinguished from descriptive names or marks. Where the trademark, service mark, or trade name is a general term describing the nature of the goods, service, or business, anyone may use that name or mark. The plaintiff will succeed only if she can show that, through her use, the word or mark has acquired a 'secondary meaning' — become associated with her specific goods, service, or business.

- ❑ Finally, we have the question of the use by a trader of her family name as a trademark, service mark, or trade name. Where a trader's name has acquired a reputation and has become distinctive of her goods, services, or business, she can prevent other traders from using the same (in other words, her own) name without clearly distinguishing their goods, services, or business from hers.

Activity 3.3

Ultra Company produces a beer called *Great Sport*. It is marketed in a distinctive green and gold chevron striped can. It has been on the market for four years and is very popular. Mega Company starts production of a beer called *Good Sport*. It is sold in a can with golden arrows. Ultra Company feels that Mega Company is committing passing off.

- ❑ Can Ultra Company institute action for passing off on the basis of the fact that Mega Company is using a similar colour on its cans? A number of beer manufacturers use the colour gold on their cans.

- ❑ Can Ultra Company base its action of the similarity between *Great Sport* and *Good Sport*? A number of beers contain the word ‘sport’ in their names.

After you have answered this question, read Tutorial Letter 201 for feedback.

Discussion

Deception

Whether the defendant's trademark, service mark, get-up, or trade name is so similar to the plaintiff’s that it is likely to deceive or confuse the ordinary customer, must be decided by the court in the light of all the evidence. An ‘ordinary’ customer or purchaser is neither very careful nor very careless and ignorant, but somewhere between the two extremes. As far as goods are concerned, she is a person who is more or less aware of the characteristics of the goods she wants; she has a general idea of the article's appearance; and although she does not examine it closely she has some idea of its general appearance. However, as far as the danger of confusion is concerned, the class of persons who are likely to be the customers or purchasers must also be taken into account. Where an article is of the kind that is likely to circulate among illiterate persons, the average purchaser which the court has to consider may be a person of a very low standard of education (*Royal Beech-nut (Pty) Ltd v United Tobacco Co Ltd* (supra)).

On the other hand, in the case of the trade names of two hotels, the court considered that they would cater to educated persons of some standing. And, in a case concerning sparkling wines, the fact that both products were fairly expensive and that the likely purchaser would not readily mistake one oval device for another, influenced the decision of the court.

A trader who approaches the court for an interdict need not prove that anyone was actually misled, or that confusion actually ensued. Proof of these facts may strengthen her case, but if there is a clear probability that deception or confusion may arise, she is entitled to insist that her trademark, get-up, service mark, or trade name not be used (*Royal Beech-nut (Pty) Ltd v United Tobacco Co Ltd* (supra)). As is to be expected, fault on the part of the respondent is not necessary for an interdict (injunction) restraining passing off.

Complicity

Finally, anyone who assists, aids, or abets another to commit passing off (or any form of unfair competition, for that matter) is in principle liable under the Aquilian action. As was stated in *McKenzie v Van der Merwe* 1917 AD 41 at 51, '[u]nder the lex Aquilia not only the persons who actually took part in the commission of a delict were held liable for the damage caused, but also those who assisted them in any way . . .'.

The English courts have equally little hesitation in pinning responsibility upon a person who enables the passing off to occur. The general test is whether the passing off is a reasonably foreseeable consequence of the misrepresentation (*Erven Warnink BV v J Townsend & Sons (Hull) Ltd* (supra)). Recently, in a case involving what is known as cybersquatting, the Court of Appeal gave this requirement an extended reading. In *British Telecommunications plc v One in a Million Ltd & others; Virgin Enterprises Ltd v One in a Million Ltd; J Sainsbury plc v One in a Million Ltd; Marks & Spencer plc v One in a Million Ltd; Ladbroke Group plc v One in a Million Ltd* [1999] FSR 1 (CA), the defendants acquired Internet domain names in the top-level domains. These names included those of well-known British companies. Each company then had to buy off the defendants if it wanted to use the name itself. Neither the defendants nor any other 'purchaser' of the domain name could lawfully use it in trade, such as in advertising on a website. Still, the court held that there was passing off in threatening to provide others with such an 'instrument of fraud'. The defendants were ordered to surrender the domain names to those 'rightfully' entitled to them.

Reading 3.1

Study *Capital Estate & General Agencies (Pty) Ltd & others v Holiday Inns Inc & others* 1977 (2) SA 916 (A). Ask yourself the following questions when you read this decision:

- ❑ What was the nature of the commercial activity conducted by the appellants and the respondents respectively?
- ❑ How did the respondents' trade name become distinctive? Which principles did the court apply in this regard?
- ❑ Did the parties carry on their commercial activities in a common field? Was this significant?
- ❑ What did the court decide was the crucial question to dispose of this case?
- ❑ How did the court answer this question on the facts of the case?

Reading 3.2

Study *Royal Beech-nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods* 1992 (4) SA 118 (A). Ask yourself the following questions when you read this decision:

- ❑ What kind of reputation did the plaintiff have to establish? Why was this required?
- ❑ What kinds of goods were involved? Were they the

same or similar?

- ❑ By what standard did the court judge the likelihood of confusion?

- ❑ Which facts did the court consider to determine whether there was a likelihood of confusion?

- ❑ What did the court conclude?

Activity 3.4

Ultra Company produces a beer called *Great Sport*. It is marketed in a distinctive green and gold chevron striped can. It has been on the market for four years and is very popular. Mega Company starts production of a beer called *Good Sport*. It is sold in a can with golden arrows. Ultra Company feels that Mega Company is committing passing off.

- ❑ Can Ultra Company base its action on the general get-up of its can compared to the general get-up of Mega's can? At a glance, the two cans look identical and the two names sound very similar.

- ❑ Does Ultra Company have to produce consumers or traders who were actually confused for it to be successful?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Discussion

'Unclean hands'

In English and American law, in terms of the equity doctrine of unclean hands, no relief is granted to a competitor who goes to court on the grounds of passing off and herself misleads the public in respect of her enterprise or goods. In these legal systems, a plaintiff cannot obtain equitable relief if she is guilty of unlawful conduct connected with her claim — 'one seeking equity must do equity'.

In *Zyp Products Coy Ltd v Ziman Bros Ltd* 1926 TPD 224, the court imported this doctrine into South African law. The applicant had applied for an interdict against the respondent on the basis that the latter had imitated the labels on its goods. But the respondent countered that the words 'Manufacturers and Sole Proprietors: Zyp Products Co New York and Johannesburg' were printed at the bottom of the applicant's label. This, so the argument continued, created the impression that the product (Worcester sauce) was manufactured in Johannesburg and New York, which was untrue. And the imported product enjoyed a greater demand in South Africa than the local version. On the basis of these allegations, which the applicant did not deny, the court refused the application, even though it had found that the respondent had actually committed passing off. The court said (at 232):

> 'The applicant, having....made out its case against the use by the respondent of the red Ace label, is entitled to an interdict restraining the respondent from using that label unless the presence of the words "New York" on the applicant's label involves a false representation of such a character as to disentitle the applicant to relief. The plaintiff in a passing off case is not entitled to protection if he himself by the get-up of his goods makes a material false representation in relation to such goods.'

Van Heerden and Neethling (op cit at 184) correctly note that the 'clean hands' doctrine should be treated with circumspection. Protection should be refused only where the removal of the misleading words would affect the distinguishing function of the particular distinctive mark. The presence or absence of the words 'New York' on the applicant's label in *Zyp Products* could not affect its distinctiveness in the least. So the interdict was wrongly refused.

According to current authority, the doctrine of 'clean hands' applies only where the plaintiff has been guilty of fraud, dishonesty, or bad faith.

Activity 3.5

Ultra Company produces a beer called *Great Sport*. It is marketed in a distinctive green and gold chevron striped can. It has been on the market for four years and is very popular. Mega Company starts production of a beer called *Good Sport*. It is sold in a can with golden arrows. Ultra Company feels that Mega Company is committing passing off. Ultra Company claims in its advertising material that *Great Sport* is the 'beer of champions'. This statement is superimposed on the logo of the Olympic games. Ultra Company does not have permission to use this logo. Will this prevent Ultra Company from being successful in its claim against Mega Company for passing off?

After you have answered this question, read Tutorial Letter 201 for feedback.

The distinction between passing off in South African and English law

In the context of passing off, the South African courts lean heavily on English authority. Note though, that the English courts consider the action for passing off in circumstances which in South African law would lead to a consideration of possible liability for misrepresentation as to one's own performance (on which, see further Study Unit 5 below). (For example, the action for passing off lies in English law where a trader supplies her own goods when she receives an order for those of the plaintiff (*Bostitch v McGarry* [1964] RPC 173). Applying the principles relating to passing off in English law to this type of behaviour in South Africa may lead a court to deny liability where it should have been imposed on a different, but correct, basis.) The reason for this is that English courts are prepared to find passing off more easily than South African courts: as we explained in unit 2 above, English law has a defined and limited set of torts, so if an act of unfair competition does not fall within one of these recognised torts, a plaintiff will have no remedy.

The classic statement of the elements of liability for passing off in English law appears in the 'Jif Lemon' case — *Reckitt & Coleman v Borden* [1990] RPC 340 (HL) at 499. Lord Oliver stated:

> 'First, [a plaintiff] must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the purchasing public by association with the identifying "get-up" (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognized by the public as distinctive specially of the plaintiff's goods or services. Secondly, he must demonstrate a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that the goods or services offered by him are the goods

> or services of the plaintiff.... Thirdly, he must demonstrate that he suffers, or ... that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as those offered by the plaintiff.'

These elements were stated slightly differently by Lord Diplock in the 'Advocaat' case — *Erven Warnink BV v J Townsend & Sons (Hull) Ltd & others* [1979] AC 731 (HL) at 742. He enumerates them thus:

> '(1) A misrepresentation (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate consumers of goods or services supplied by him, (4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence) and (5) which causes actual damage to a business or goodwill of the trader by whom the action is brought or ... will probably do so.'

These definitions are substantially similar to those given by South African courts and are often quoted with approval by them.

As in South Africa, English courts hold responsible persons who help others to commit passing off. The general test is whether such persons should have reasonably foreseen the consequences of the misrepresentation.

Unlike South African law, English law, grants no relief to a competitor who goes to court on the grounds of passing off and when she herself misleads the public in respect of her enterprise or goods.

Conclusion	You should now appreciate the nature of passing off and the elements of liability for passing off. You should also appreciate the co-existence of liability for passing off and for infringement of intellectual property rights such as registered trademarks.

Study unit 4
Damaging another's goodwill or reputation

Overview

In this study unit, we will discuss the protection against unfair competition in the form of damaging another's goodwill or reputation. We will explain the nature of such conduct as well as the different forms that it can assume — unconcealed misappropriation, and concealed misappropriation. We will also pay particular attention to dilution which results from this form of unfair competition. You will also learn the requirements for a successful action based on this form of unfair competition.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ understand the nature of unfair competition in the form of damaging of another's goodwill or reputation
- ❑ be able to distinguish between the different forms of this type of unfair competition
- ❑ understand the elements of an action based on this form of unfair competition
- ❑ apply general principles to solve problems that arise in this context

Setting the scene

The facts of this episode are those of a decision of the High Court of South Africa — *Philip Morris Inc & another v Marlboro Shirt Co SA Ltd & another* 1991 (2) SA 720 (A).

Marlboro Shirt had since 1954 manufactured and sold garments in South Africa under licence from a similarly named American company. The MARLBORO trademark was registered in South Africa in the name of the American company; Marlboro Shirt was recorded as a registered user of the mark. Marlboro Shirt's licence to sell garments under the MARLBORO mark was later extended to cover the United Kingdom and Ireland. Marlboro Shirt had used the 'Marlboro' name and trademark in South Africa continuously since 1954. It had acquired a substantial repute in this trademark in South Africa. Philip Morris manufactured and sold Marlboro cigarettes. In 1987, when the proceedings against Marlboro Shirt were launched, it was the largest selling brand of cigarettes in the world. Marlboro cigarettes had been manufactured and sold by Philip Morris and its predecessor since 1883. In 1954, as part of its reformulated marketing strategy for Marlboro cigarettes, Philip Morris adopted a new trademark. It contained a new device and lettering. From 1972, and to further the masculine image of Marlboro cigarettes, Philip Morris each year sponsored at least one team of drivers on the annual Grand Prix motor racing circuit. At least two cars each year, for 20 years, prominently bore the *Marlboro* name. The Grand Prix races enjoyed wide media coverage in South Africa, including on television. The Marlboro Shirt trademark and the Philip Morris Marlboro cigarette trademark bore no resemblance to one another.

In 1974, Philip Morris moved into the clothing business. Its mark was modified for use as a label in that business. The modified mark was similar to the cigarette mark, but had the words 'Leisure Wear' printed beneath the word 'Marlboro' in white lettering outlined in black. To protect its rights in the use of the name 'Marlboro' in relation to clothing, Marlboro Shirt in 1977 sought registration of the word 'Marlboro' by itself, and sought a registration of a trademark, incorporating the modified Philip Morris mark, for clothing. Philip Morris opposed the application, and the matter was still pending at the hearing of the appeal. From 1978 to 1982, Marlboro Shirt advertised its clothing in *The Buyer,* a trade magazine read by persons in the wholesale and retail clothing trade, but not by members of the purchasing public. On four occasions Marlboro Shirt used the Philip Morris modified mark, once accompanied by a photograph of a Grand Prix racing driver; on three further occasions it advertised its shirts without the new device of the Philip Morris mark, but using the distinctive Philip Morris mark lettering style. In 1982, Marlboro Shirt ceased using the new device, but continued, on at least some of its labels, to use the lettering style similar to that used on the Philip Morris mark, sometimes with and sometimes without the new lettering.

In 1987, Philip Morris launched legal proceedings against Marlboro Shirt. It sought to interdict Marlboro Shirt from, amongst other things, representing that Marlboro Shirt or its products were in any way associated with the business of Philip Morris in its Marlboro cigarettes or its sponsorship of Grand Prix motor racing. The application was dismissed. On appeal, Philip Morris claimed relief for passing off. It argued —

- that from 1978 to 1982, Marlboro Shirt, by using the Philip Morris mark and modified mark, had misrepresented that its clothing was connected with or in some way sponsored by Philip Morris;
- that such misrepresentation had caused the South African public to confuse the source of the goods of Marlboro Shirt;
- that by 1982 a connection had been created in the minds of members of the purchasing public between the clothing of Marlboro Shirt and Marlboro cigarettes; and
- that the cessation of use in 1982 of the new device had not disconnected the source of the clothing of Marlboro Shirt from that of Marlboro cigarettes in the minds of members of the purchasing public.

For Marlboro Shirt it was argued that, while Philip Morris had a reputation in South Africa for Marlboro cigarettes, it had no goodwill in the clothing industry — it was common cause that Philip Morris had never sold clothing in South Africa.

The court held that, in order to obtain the relief it sought, Philip Morris had to establish that Marlboro Shirt was representing that its merchandise was associated with it at the time of the present proceedings, and not only at some earlier stage. The court held that Philip Morris had failed to establish proof of public confusion as to the source of merchandise of Marlboro Shirt, let alone that any confusion that there might have been was as a result of unlawful conduct by Marlboro Shirt.

Discussion

Protection against damaging another's

International provisions

Article 3(1) of the WIPO Model Provisions states:

> 'Any act or practice, in the course of industrial or commercial activities, that damages, or is likely to damage, the goodwill or reputation of another's enterprise shall constitute an act of unfair competition, regardless of whether such act or practice causes confusion.'

Damaging another's goodwill or reputation constitutes unfair competition regardless of whether the conduct in question causes confusion or takes advantage of that other person's goodwill or reputation. Such conduct damages that goodwill or reputation where it goes beyond what is required to defend one's own legitimate interests (note 3.01 on article 3). Article 3(1) does not apply where the damage is lawfully inflicted, such as in the case of comparative advertising which is truthful and not misleading.

Article 3(2) then concentrates on dilution:

> (a) Damaging another's goodwill or reputation may, in particular, result from the dilution of the goodwill or reputation attached to
> (i) a trademark, whether registered or not'
> (ii) a trade name;
> (iii) a business identifier other than a trademark or a trade name;
> (iv) the appearance of a product;
> (v) the presentation of products or services;
> (vi) a celebrity or a well-known fictional character.
>
> (b) For the purposes of these Model Provisions, "dilution of goodwill or reputation" means the lessening of the distinctive character or advertising value of a trademark, trade name or other business identifier, the appearance of a product or the presentation of products or services or of a celebrity or well-known fictional character.'

The notes to this article provide:

- The main rationale behind the notion of dilution is that trademarks, trade names, and other business identifiers should be protected against the obvious desire of other market participants to take advantage of their essential uniqueness.

- Dilution may occur even where there is no direct competition between the owner of the business identifier and the person who uses it without authorization for entirely different products or services. There need not even be confusion with respect to the enterprise which produces the products or renders the services. If there is indeed confusion in the mind of consumers, or the likelihood of such confusion, then, of course, the action for passing off may be appropriate (see Study Unit 3).

- In determining whether a user has diluted another's business identifier, regard should be had to —
  - the similarity between the signs involved,
  - the circumstances of the use by the user, and
  - the extent of such use.

- The reference to 'lessening' in article 3(2)(b) implies that the distinctive character or advertising value does not have to be destroyed completely for the conduct to be actionable.

As far as comparative advertising is concerned, it is noted that 'reference to another's trademark, trade name or other business identifier in comparative advertising should be permitted only to the extent that the reference does not *unduly* damage the goodwill or reputation attached to that business identifier' (emphasis added). A measure of dilution as a result of comparative advertising is contemplated; but such dilution is fenced in by the qualifier 'unduly' and the statement in respect of article 3(1) that the advertising should be truthful and not misleading. (See also Study Unit 6)❑ As far as article 3(2)(a)(vi) is concerned, refer to the comments on article 2(2)(vi) in Study Unit 3.

How is damage caused?

Generally, then, any act, in the course of industrial or commercial activities, which damages, or is likely to damage, the goodwill or reputation of another's enterprise constitutes an act of unfair competition, regardless of whether such act causes confusion. In particular, the advertising value or distinctive character of a trade name, trademark, or service mark becomes diluted when it is used by others. Remember that not only names or marks may have an advertising value in connection with a trader's enterprise, goods, or services - any sign or character which is used in connection with a trader's enterprise, goods, or services may acquire an advertising value.

As we have shown, passing off concerns the imitation of another's distinctive trade name, trademark, and service mark. Damaging another's goodwill or reputation, by contrast, concerns the misappropriation of the advertising value of another's advertising signs. In other words, the trader who commits this form of unfair competition misappropriates the advertising value which the trade name, trademark, or service mark of another has in connection with the latter's enterprise, goods, or services. The perpetrator does not create an impression that her enterprise, goods, or services are the same as those of another. But she still uses the recognition which the enterprise, goods, or services of another enjoys in order to establish a reputation for her own enterprise, goods, or services. In other words, she uses the reputation or good name of another's enterprise, goods, or services in order to increase her own profit or financial gain.

Damaging another's goodwill or reputation (misappropriation of the advertising value) takes place both inside and outside a competitive situation. So it not restricted to competitors.

Two basic forms of misappropriation of the advertising value can be distinguished — unconcealed misappropriation and concealed misappropriation.

Activity 4.1

Compare the protection against passing off and the protection against misappropriation of advertising value. How are these two types of protection against unfair competition similar? How do they differ?

After you have performed this activity, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Unconcealed misappropriation

Unconcealed (or open) misappropriation usually takes place within a competitive context. It occurs when the advertising sign of an undertaking in relation to its product is used by a trade rival in relation to its own, competing product. A typical example of this form of misappropriation is comparative advertising (see further in this regard unit 6.3). A trader may, for example, state that her product is a 'substitute for' or 'similar to' that of another. In so doing, the trader diverts the positive association which the sign enjoys in relation to its proprietor's product to her own product. The selling power or advertising value of the sign is shared, and the advertising value or distinctive character of the sign becomes diluted. A further example is the generic use of another's advertising sign ('generic use' means to denote a class of goods).

Unconcealed misappropriation constitutes unfair competition unless it can be justified by necessity, such as where the perpetrator cannot inform the public about the nature and purpose of her goods or services in any way other than by referring to her competitor's goods or services. An example is where a trader manufactures spare parts for her competitor's machinery and brings this to the attention of the public in her advertisements.Unconcealed misappropriation may also occur outside a competitive context — where another's advertising sign is used in relation to non-competing goods or services. For example, a trader may say that her motor vehicles are manufactured with the same care and precision as Rolex watches.

See also Study Unit 6, as conduct which damages the goodwill of another frequently also constitutes unfair competition by discrediting the enterprise or activities of another.

Activity 4.2

Ultra Company advertises its beer *Great Sport* with the following slogans:

> '9 out of 10 drinkers prefer *Great Sport* to *Good Sport*.'
>
> 'We make *Great Sport* with as much care as Rolls Royce makes motor cars.'
>
> '*Great Sport* is the closest local thing to *Corolla*' (a very expensive imported beer).

Which of these slogans amount to unconcealed misappropriation?

After you have answered this question, read Tutorial Letter 201 for feedback.

Discussion

Concealed misappropriation

Concealed misappropriation occurs both within and outside a competitive situation.

It occurs within a competitive situation, for example, in the typical passing-off context. Here, the perpetrator not only misappropriates the distinguishing value but also the advertising value of the trade name, trademark, or service mark concerned. Passing off gives rise to a likelihood of confusion. But even in the absence of a likelihood of confusion, a trader should be entitled to protection against misappropriation of the advertising value of her advertising signs.

Concealed misappropriation takes place outside a competitive situation where the advertising sign of a trader in relation to her enterprise, goods, or services is misappropriated by a non-rival for use in relation to her own non-competing enterprise, goods, or services. The enterprises, goods or services may be related or unrelated.

Concealed misappropriation in relation to related enterprises, goods, or services occurs where the advertising sign of another is used by a non-competitor to create the impression that her enterprise, goods or services is in some way associated with the enterprise, goods, or services of the former. For example, persons familiar with Yale locks are likely to think that Yale flashlights or Yale alarms are connected with or sponsored by the Yale Lock Company. This situation gives rise to a likelihood of confusion.

Concealed misappropriation may also occur in relation to unrelated enterprises, goods, or services. Here, there is no likelihood of confusion. However, the recognition which the advertising sign enjoys is transferred to the perpetrator's enterprise, goods, or services, thus stimulating sales. An example of concealed misappropriation in relation to unrelated enterprises, goods, or services is the use of a representation of the highly esteemed ROLLS ROYCE trademark in the background of a whisky advertisement. The reputation of excellence which attaches to the ROLLS ROYCE trademark is transferred to the whisky.

Activity 4.3

As part of its marketing campaign,

- Ultra Company uses *Regal* as the name for its beer (*Regal* is also the name of an expensive Scotch whisky); and
- in the background of its print advertisement for *Regal* beer, a photo taken at the Miss World competition is shown.

Is either action a form of concealed misappropriation?

After you have answered this question, read Tutorial Letter 201 for feedback.

Discussion

Dilution – the result of misappropriation

Unconcealed as well as concealed misappropriation, whether in or outside the competitive context and regardless of whether it is likely to confuse the public, gives rise to the dilution of the advertising value or distinctive character of the trade name, trademark, or service mark concerned. The unauthorized use of the trade name, trademark, or service mark by others will lead to the gradual consumer disassociation of the trade name, trademark, or service mark from the proprietor’s enterprise, goods, or services. The commercial magnetism or advertising value of the name or mark becomes eroded or blurred. In this way the advertising value or distinctive character of the name or mark becomes diluted and the goodwill of the proprietor’s enterprise is infringed.

Where the name or mark is used in relation to products of an inferior quality, or where it is used in an offensive or degrading context, the reputation and good name enjoyed by the name or mark may become tarnished.

Requirements for protection against damage to goodwill or reputation

A plaintiff who wishes to rely on this form of unfair competition must prove —

- ❑ that her trade name, trademark, or service mark has acquired a reputation or advertising value in respect of her enterprise, goods, or services;
- ❑ that the defendant has used the plaintiff’s name or mark in relation to her own enterprise, goods or services without the plaintiff’s consent; and
- ❑ that the plaintiff's goodwill is impaired, or threatened with impairment, by tarnishment or dilution of the advertising value or distinctive character of her name or mark.

There is no reported South African decision in which relief has been granted expressly on the basis of this form of unfair competition. In all the reported cases, the conduct complained of has been dealt with on the basis of passing off. Here are a few examples:

- *Federation Internationale de Football & others v Bartlett & others* 1994 (4) SA 722 (T) involved concealed misappropriation between competitors. The first applicant was the controlling body for soccer and the organizer of the soccer World Cup tournament. The other applicants were involved in the licensing of World Cup insignia such as trademarks, logos, and emblems. The applicants sought an interdict to restrain the respondents from misrepresenting that they were holders of licensing rights in South Africa in respect of the World Cup USA ‘94.

  The court pointed out that the applicants were involved in the business of character merchandising. This involves the merchandising of popular names and characters or insignia in order to enhance the sales of consumer products in relation to which the names, characters, or insignia are used. The court accepted that the business of character merchandising had taken hold in South Africa and that people in the street would have known about it. They would have made the link between the name, character, or insignia and the events or circumstances which made it famous, and would also have been aware that the link between the name, character, or insignia and the products in connection with which it is used was established through licensing. Such names, characters, and insignia could have an advertising value which could enhance the desirability of the products in connection with which they were used and could boost sales.

  Although the court considered granting relief on the basis of misappropriation of the advertising value of the World Cup insignia, it ultimately based its finding on passing off. The court found that the applicants had a reputation and goodwill in South Africa in regard to the character merchandising of World Cup insignia. The public would associate any references to the 1994 World Cup with the applicants. The respondent had misrepresented that they were the holders of World Cup licensing rights in South Africa. This was likely to cause the applicants injury or damage. So the court granted the interdict.

- An example of unconcealed misappropriation between competitors in the absence of any likelihood of confusion or deception can be found in *Union Wine Ltd v E Snell and Co Ltd* 1990 (2) SA 189 (C). The applicant had for more than 30 years marketed a wine known as *Bellingham Johannisberger*. The wine was extremely popular and had become the best selling wine in its price bracket. The name *Johannisberger* had not been registered as a trademark. The respondent, a liquor merchant, commenced selling a similar wine under the name *Edward Snell Johannisberger*. The applicant applied for an interdict on the grounds of unfair competition to restrain the respondent from using the name *Johannisberger* in connection with its wine.

  The court found that the applicant had acquired a reputation in the name *Johannisberger* which had become distinctive of the applicant's wine and that the applicant was likely to lose customers as a result of the respondent's conduct. However, despite the shared name *Johannisberger*, the get-up of the two wines were so dissimilar that it was unlikely that the public would be misled into believing that the two wines were the same or connected with each other. In the absence of a likelihood of confusion, the court held that the respondent's conduct did not amount to passing off. Nor did it constitute unfair competition. So the application was dismissed.

  As we have shown, a likelihood of confusion is not required for misappropriation of the advertising value. The name *Johannisberger* had acquired a reputation and advertising value in connection with the applicant's wine which was misappropriated by the respondent. As a result, the applicant's goodwill was likely to be impaired. So the interdict should have been granted.

- *Capital Estate and General Agencies (Pty) Ltd & others v Holiday Inns Inc & others* 1977 (2) SA 916 (A) involved concealed misappropriation of the advertising value in relation to related enterprises. A well-known hotel group applied for an interdict to restrain the respondent from using its name in respect of a shopping centre and duplex apartments. The applicant had acquired a reputation in the name *Holiday Inn* which had become distinctive of its business. It was well known in the hotel industry, having been promoted extensively through advertising. The court found that the respondent's use of the name *Holiday Inn* was likely to confuse the public into believing that the two businesses were connected. As there was sufficient potential prejudice and injury to the applicant's reputation, the court granted an interdict on the basis of passing off (see also *Philip Morris Inc v Marlboro Shirt Co SA Ltd* (supra)); *Royal Beech-nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods* 1992 (4) SA 118 (A)).

- *Lorimar Productions Inc & others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc & others v OK Hyperama Ltd & others; Lorimar Productions Inc & others v Dallas Restaurant* 1981 (3) SA 1129 (T) provides an example of concealed misappropriation in relation to unrelated enterprises, goods or services. The applicants, the makers of the television series *Dallas*, applied for an interdict to restrain the respondents from using, in respect of their dissimilar business or goods any of the characters and names depicted in the series, such as *Dallas*, *Southfork*, and *JR*. The applicant failed to show that it had acquired a reputation in the characters and names in connection with the respondent's business or goods or that there was any likelihood of confusion. Accordingly, the court refused to grant the interdict because the respondent's conduct did not amount to passing off.

  In such a case, an applicant should merely be required to show that the characters and names had acquired a reputation in connection with its own business and that the advertising so acquired had been misappropriated and exploited by the respondent in connection with its business or goods. So the interdict should have been granted because the goodwill of the applicant was affected, despite the fact that there was no possible confusion between the business of hte parties.

Reading 4.1

☞

Study *Federation Internationale de Football & others v Bartlett & others* 1994 (4) SA 722 (T). Ask yourself the following questions when you read this decision:

- ❑ What were the distinctive marks before the court?
- ❑ What was the legal basis of the plaintiff's action?
- ❑ On what legal basis did the court grant relief? Which facts led the court to this conclusion?
- ❑ Which alternatives did the court favour as the legal basis for the relief granted?

Activity 4.4

Ultra Company produces a beer called *Great Sport*. It has been on the market for four years and is very popular. Mega Company starts producing a running shoe also called *Great Sport*. Ultra Company feels that Mega Company is competing unfairly.

- ❑ Does Ultra Company have an action against Mega Company on the basis of the misappropriation of the advertising value of *Great Sport*?
- ❑ What does Ultra Company have to prove to succeed in such an action?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate the nature of the protection against unfair competition in the form of damaging another's goodwill or reputation. You should also appreciate the different forms that such unlawful conduct can assume — unconcealed misappropriation, and concealed misappropriation. Finally, you

	should appreciate how dilution fits into the framework of liability for unfair competition, and understand the elements of liability for misappropriation.

Study unit 5
Misleading the public

Overview

In this study unit, we will discuss protection against unfair competition in the form of misleading the public about one's own enterprise or performance, and who is entitled to protection when this occurs. We will explain the nature of the action as well as the requirements for a successful reliance on this action.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ understand what comprises misleading the public about one's own enterprise or performance
- ❑ understand the elements a plaintiff must prove to succeed in action based on the defendant's misleading the public about his or her own enterprise or performance
- ❑ be able to determine whether conduct constitutes misleading the public about one's own enterprise or performance
- ❑ apply general principles to solve practical problems that arise in this context

Setting the scene

The facts of this episode are those of a decision of the High Court of South Africa — *Zyp Products Coy Ltd v Ziman Bros Ltd* 1926 TPD 224.

A and B were local manufacturers of Worcester sauce. A, the manufacturer of *Zyp* sauce, had printed on the label of its bottle — 'Manufacturers and Sole Proprietors: Zyp Products Company New York and Johannesburg'. This, so it was successfully argued, created the impression that the sauce was manufactured in Johannesburg and New York, which was untrue. B's submission that imported Worcester sauce was in greater demand and sold at higher prices than the local product was not denied by A. So the words 'New York' on A's label constituted a 'material false representation'.

For a discussion of a different aspect of this case and the relevance of this finding, see Study Unit 3.

Discussion

International context

The Paris Convention singles out this form of unfair competition as one of three main forms of unfair competition against which protection should be granted. In article 10^{bis}(3)3, the Convention requires countries to grant protection against 'indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods'.

A similar provision appears in the WIPO Model Provisions. Article 4(1) states:

> 'Any act or practice, in the course of industrial or commercial activities, that misleads, or is likely to mislead, the public with respect to an enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.'

Note the following:

- ❑ The compilers of the WIPO Model Provisions believe that misleading, especially in advertising, may well be the most prevalent form of unfair competition (note 4.01 on article 4).

- ❑ Misleading statements may be made about another's enterprise. But this is the subject of a separate provision — article 5 (see Study Unit 6).

- ❑ Misleading acts may also be committed by a third party who misleads the public in order to favour a particular competitor (note 4.01 on article 4). For example, a magazine creates a misleading impression of a product in a way that benefits the manufacturers of that product.

- ❑ Misleading acts are primarily targeted at consumers, not competitors: they cause consumers to take decisions prejudicial to themselves when they acquire products or receive services (ibid).

- Misleading acts include any type of statement (including misleading indications or allegations) about an enterprise or its products or services, or about its industrial or commercial activities (note 4.02 on article 4).

- The concept 'misleading' is not restricted to inherently false statements, or to statements that have actually given the customer a false impression. It is sufficient for the relevant statement to have a misleading effect (ibid). The same applies to article 10^{bis}(3)3 of the Paris Convention.

- Even a statement which is literally correct can be misleading; for example, where it gives the misleading impression that the advertised fact is something out of the ordinary when it is not (ibid).

- The omission of information may also be misleading (ibid).

- Obvious exaggerations (even if they are literally inaccurate) should not be considered deceptive where they are 'easily recognizable' as 'sales talk' (ibid).

- Misleading statements may concern —
  - persons acting on behalf of an enterprise
  - the assets of the enterprise
  - its credit rating
  - sponsorship, affiliation, or its business connections
  - unfounded claims of intellectual property protection (such as references to non-existing patents)
  - incorrect information about the involvement of the enterprise in charity work or environmental conservation (note 4.03 on article 4).

All methods of communication — written, oral, and even symbolic (such as gestures) — are included (note 4.04 on article 4). So the model provision embraces, for example, trademarks, labels, brochures, radio commercials, television publicity spots, and posters.

- The misleading act need not be in bad faith: even unintentional deception has to be prohibited in the interest of consumers and competitors (note 4.05 on article 4).

- ❑ The misleading act must be capable of creating some sort of definite impression that can be shown to be true or untrue. So ‘unobjective or suggestive advertising, which does not more that create positive feelings about a product’, should generally not be considered to be misleading (note 4.06 on article 4).

Article 4(2) lists examples of confusion:

> ‘Misleading may arise out of advertising or promotion and may, in particular, occur with respect to
> (i) the manufacturing process of a product;
> (ii) the suitability of a product or service for a particular purpose;
> (iii) the quality or quantity or other characteristics of products or services;
> (iv) the geographical origin of products or services;
> (v) the conditions on which products or services are offered or provided;
> (vi) the price of products or services or the manner in which it is calculated.’

A few remarks about this provision:

- ❑ Misleading mainly happens when products or services are advertised or promoted. But it may also occur between contracting parties or in dealing with subcontractors or suppliers; for example information about business plans for promotional campaigns or exhibitions, or about guarantees, resources, or the ability to deliver (note 4.07 on article 4).

- ❑ Misleading statements concerning the manufacturing process of a product may relate to —
  - ☐ the safety of a product;
  - ☐ the configuration or assembly of its components; or
  - ☐ other technical details (note 4.08 on article 4).

- ❑ Some examples of misleading acts concerning the suitability of a product or service for a particular purpose:
  - ☐ missing or insufficient information about the product, or about the use or results to be expected from it, such as —
    - · information about a lock being ‘pickproof’, when it can be opened without damage by a master key or keys

other than the original, or
- · information about software being compatible with a certain type of computer, when it is not; and
- ☐ misleading information about services, such as misrepresentation of the opportunities available to graduates of an educational institution (note 4.09 on article 4).

❑ Misleading advertising concerning the *quality* of goods or services may, for example, relate to —
- ☐ the durability of a product;
- ☐ the quality of its manufacturing process;
- ☐ the quality of components used in it; or
- ☐ the ingredients used in food, or the way in which it is produced (note 4.10 on article 4).

❑ Misleading statements concerning ‘other characteristics’ of goods or services may, for example, relate to —
- ☐ product specifications;
- ☐ the style or date of manufacture of a product;
- ☐ the results of tests carried out on the product; or
- ☐ whether the product is new, altered, or used (ibid).

❑ Reference to the geographical origin of a product or service may include any name, designation, sign, or other indication that refers to a given country or to a place located in it. Such reference conveys the impression that the product bearing the indication or the service originates in that country or place (note 4.11 on article 4).

This provision concerns the use of false or misleading indications of source.

Geographical indications and appellations of origin are special types of indications of source. They are covered by the TRIPS Agreement. A *geographical indication* identifies a product as originating in the territory of a member of the WTO, or a region or locality in that territory, where a given quality, reputation, or other characteristic of the product is essentially attributable to its geographical origin (article 22.1 of the TRIPS Agreement).

An *appellation of origin* is the geographical name of a country, region, or locality, which serves to designate a product originating there, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including human and natural factors (article 2(1) of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration).

- Examples of deception as to the conditions on which products or services are offered or provided, include:
  - a condition of sale in terms of which a purchaser must bring in new customers (a ‘pyramid’ sale) — such condition misleads as to the real implications of the sale;
  - an advertisement which fails to specify that only a limited quantity of a product may be purchased per customer; and
  - incorrect statements in a contract about, for example, payment, or the customer’s right to cancel (note 4.12 on article 4).

- An example of deception as to the price of goods or services, or the manner in which it is calculated, is advertising as ‘special’ a price that has been the normal price for some time (note 4.13 on article 4).

Activity 5.1

Give your own practical example of each form of misleading the public that is mentioned in article 10*bis*(3)3 of the Paris Convention.

Discussion

Protection against misleading the public

By way of introduction, three examples:

- Adam advertises that he sells copper trays, when he actually sells copper-coloured trays of an inferior alloy.

- Bongiwe advertises that she sells clothes at producers’ prices, whereas she actually charges the normal retail price.

- Carl, with the intention of attracting customers to his shop, announces that he has rare Persian carpets for sale. In fact, he has no such carpets in stock.

The wrongfulness of the acts in all these instances does not lie in the fact that the trader has misled the public or has acted in conflict with the public interest. Instead, it lies in the fact that by deception she prevents clients from drawing a clear distinction between her performance and that of her competitors. Her acts are directed precisely at attracting clients, not by the merits of her own performance but by the semblance of another or better performance.

Even before the above international provisions were mooted, the South African court have viewed interfering with the goodwill of a rival trader by deceiving the public as to the quality, extent, nature, et cetera, of one's own performance as unlawful (*John Waddington Ltd v Arthur E Harris (Pty) Ltd* 1968 (3) SA 405 (T) at 416–417). The following description of what comprises this type of unfair competition was given by Booysen J in *Long John International Ltd v Stellenbosch Wine Trust (Pty) Ltd & others* 1990 (4) SA 136 (D) at 143:

> 'a person who falsely and culpably represents to the public that his products are products of a particular character, composition or origin known by the public under a descriptive name which has gained a public reputation, without passing them off as the product of the plaintiff, who produces what may be termed the genuine products, and who thereby causes patrimonial loss to the plaintiff, commits the delict of unlawful competition, and is liable in damages to the plaintiff. It follows also that the injured party is entitled to an interdict restraining such conduct where such patrimonial loss has occurred or is likely to be caused. Perhaps I should add that I take the view that where all the above elements are present save that of fault (or culpability), an interdict would still be justified.'

Earlier, in *Geary and Son (Pty) Ltd v Gove* 1964 (1) SA 434 (A), the Appellate Division confirmed that new forms of unfair competition, such as misleading the public, would be actionable if the general requirements for Aquilian liability were met. In the course of his judgment Steyn CJ stated (at 440–441):

> 'The plaintiff's action is Aquilian. It sues in delict. What it apparently seeks to allege is the wrongful interference by a competitor with its rights as a trader. Although there is no clear statement to that effect in the declaration as amplified, the right upon which the plaintiff may be

> presumed to rely is its right to attract custom. The interference alleged would, on that basis, appear to be a wilful misrepresentation and dishonest conduct on the part of the plaintiff's competitor by which customers or potential customers have been or will be induced to deal with the competitor rather than with itself. I do not propose to attempt a definition of the limits set to competition in trade by Aquilian liability, but whatever those limits are, it seems clear that interference of the nature indicated is recognised as an infringement of a trader's rights and therefore as a delict in our law. As stated by De Villiers CJ in *Combrinck v De Kock* 5 SC 405 at 409:
>
>> "Fair and honest competition, however active, is open to everyone, but no one has the right to take an undue and improper advantage by means of falsehoods, the effect of which is to benefit himself at the expense of another".
>
> According to Buchanan J in the same case (at 415) the underlying principle is that
>
>> "no one is permitted to carry on trade by fraudulent misrepresentation to the injury of another".
>
> The plaintiff does not base its case upon a misrepresentation negligently made, but upon wilful falsehood, ie an intentional wrongful act on the part of the defendant. What he has to allege and prove, therefore, is that the defendant has, by word or conduct or both, made a false representation, that it knew the representation to be false, that the plaintiff has lost or will lose customers, that the false representation is the cause thereof, and that the defendant intended to cause the plaintiff that loss by the false representation.'

Although fault is a requirement when damages are sought (see Study Unit 9), those courts who have pertinently considered the fault requirement for the grant of an interdict (injunction) have held that fault (intent or negligence) is not required for an interdict and that even innocent deception as to one's own enterprise or performance is unlawful (*Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd (1)* 1988 (2) SA 350 (W)).

In England, the courts were faced with a series of cases in which defendants had not represented their goods to be that of the plaintiffs (in other words, passed them off as such) but still had falsely represented them to be goods of a particular character, composition, or origin, known by the public under a descriptive name which had gained a public reputation. Since the English courts could not create a new tort to cover these situations, they simply extended the scope of the tort of passing off to include such conduct (see, for example, *Bollinger J & others v Costa Brava Wine Coy Ltd* [1960] RPC 16, *J Bollinger & others v The Costa Brava Wine Company Limited* [1961] RPC 116 (the 'Champagne' case); *Vine Products Ltd & others v Mackenzie & Co Ltd & others* [1965] 3 All ER 58 (the 'Sherry' case); *John Walker & Sons Ltd & others v Henry Ost & Co Ltd & another* [1970] 2 All ER 106 (the 'Scotch Whisky' case); *Erven Warnink BV & another v J Townend & Sons (Hull) Ltd & another* [1980] RPC 35 (CA) at 85 (HL) (the 'Advocaat' case)).

Reading 5.1

Study *Geary & Son (Pty) Ltd v Gove* 1964 (1) SA 434 (A). Ask yourself the following questions when you read this decision:

- ❑ What was the content of the defendant's misrepresentation?
- ❑ On the facts before the court, what 'undue and improper advantage' could the defendant have gained by his misrepresentation?
- ❑ Which of the instances of misleading the public in article 4(2) of the WIPO Model Provisions is illustrated by the facts of this case?

Discussion

Who may sue?

A practical problem concerning this kind of deception is that a competitor will be able to sue only if the goodwill of her enterprise may be, or actually has been, affected by the misrepresentation (HJO van Heerden & J Neethling *Unlawful Competition* (1995) 159). It is often difficult for an entrepreneur to obtain proof that the action of a competitor in respect of her own product or service has caused the entrepreneur harm.

This problem has not been solved in the international context:

the relevant instruments still require an aggrieved competitor to show some form of 'unjust enrichment' in order to found an action.

As we have shown, the international instruments also allow consumers and consumer groups to institute action. (Strictly speaking, we then move from competition law to the law relating to consumer protection.) In South African law, class actions are not available for actions other than under the Constitution. And it is unlikely that any individual consumer will suffer sufficient damage, or be able to show a sufficient likelihood of damage, to acquire the legal standing to institute action.

What degree of deception is required?

You have seen that deception concerning one's own performance can be wrongful as against a competitor. But what of a trader's puffing of her product in advertisements?

In *Post Newspapers (Pty) Ltd v World Printing & Publishing Co Ltd* 1970 (1) SA 454 (W), the court held that, provided that no untrue or disparaging allegations are made in respect of a competitor's goods, 'vaunting the superiority of the defendant's own goods' is not unlawful.

Certain forms of puffing can, however, amount to wrongful deception. So it will often be difficult to decide whether certain claims made by a dealer in respect of her products are simply acceptable puffing, or amount to deception which is wrongful in respect of competitors. In *Spinner Communications v Argus Newspapers Ltd* 1996 (4) SA 637 (W), it was stated that the exaggeration of a newspaper's publication figures was not mere puffing — such figures may be the basis on which revenue of publications is determined, and exaggerated figures can wrongly divert advertising revenue to the person making the misrepresentation.

Activity 5.2

Ultra Company hears that Mega Company has launched a new beer under the name *Bavaria*. Bavaria is a German region famous for its beer. It transpires, though, that *Bavaria* is unlike any German beer and is actually closer in taste to dark Irish beer. It also transpires that *Bavaria* is made in Botswana from local ingredients. Ultra Company loses sales, as it seems that young professionals, the market targeted by both companies, prefer imported beer.

- ❑ Can Ultra Company take any legal action against Mega Company?

- ❑ Can Ultra Company claim damages from Mega Company?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Discussion

Statutory prohibitions

Certain statutes prohibit forms of public deception. If these prohibitions are contravened, the statutory remedies or sanctions are available. Contravention of these prohibitions may also in appropriate circumstances found an action for unfair competition. See further Study Unit 8.

Section 9(b) of the Trade Practices Act 76 of 1976 states that '[n]o person shall ... in connection with the sale or leasing of goods, directly or indirectly make any statement or communication or give any description or indication which is false or misleading in material respects in respect of the nature, properties, advantages or uses of such goods or in respect of the manner in, conditions on or prices at which such goods may be purchased, leased or otherwise acquired'.

Section 6(1) of the Merchandise Marks Act 17 of 1941 provides that a person who applies a false trade description to goods is guilty of an offence. A 'false trade description' includes a trade description which 'is false in a material respect as regards the goods to which it is applied' (section 1). A 'trade description', in turn, connotes, amongst other things,

> 'any description, statement or other indication, direct or indirect, as to the number, quantity, measure, gauge or weights of goods, or as to the name of the manufacturer or producer or as to the place or country in which any goods were made or produced, or as to the mode of manufacturing or producing any goods, or as to the

material of which any goods consist, or as to the goods being the subject of an existing patent, privilege, or copyright, and includes any figure, word, or mark which, according to the custom of the trade, is commonly taken to be an indication of any of the aforementioned matters'.

Reading 5.2

Study *Long John International Ltd v Stellenbosch Wine Trust (Pty) Ltd & others* 1990 (4) SA 136 (D). Ask yourself the following questions when you read this decision:

- ❑ What was the nature of first respondent's misrepresentation?
- ❑ Was the court prepared to allow an action for passing off in the circumstances, along the lines of English precedent? What were the reasons for the approach adopted by the judge in this respect?
- ❑ What patrimonial loss did the applicant suffer as a result of the first respondent's misrepresentation?
- ❑ What statutory prohibitions did the first respondent contravene?

Activity 5.3

Compare the instances of misleading the public specifically proscribed by the Paris Convention and the examples given in article 4(2) of the WIPO Model Provisions with the relevant provisions of the Merchandise Marks Act 17 of 1941 and the Trade Practices Act 76 of 1976.

After you have done so, read Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate the nature and elements of misleading the public about one's own enterprise or performance as a type of unfair competition, and the possible co-existence of common-law liability and statutory remedies.

Study unit 6
Discrediting another's enterprise or its activities

Overview

In this study unit, we will discuss the instances when discrediting or disparaging the goods or services of another, usually a competitor, constitutes unfair competition. You will note that the essential difference between these activities and those discussed in Study Unit 5: there, the deception related to one's own product or services, whereas here, the deceptive information relates to another person's goods or services.

Learning outcomes

After completing this study unit, you should be able to —

- understand what can constitute discrediting
- understand what requirements must be met for discrediting to exist
- be able to determine whether actions or behaviour constitute discrediting

Discussion

Introduction

The infringement of another's commercial goodwill by the spreading of untrue, disparaging, or unjustifiable allegations about its enterprise or products is wrongful in principle. Such conduct is usually directed at preventing the merits of a competitor's performance from winning the day and so conflicts with the competition principle.

Examples of this form of unfair competition are —

- Tsepo, in a pamphlet, spreads the untruth that the food product of Salang, a competitor, contains poisonous substances
- Tsepo says that Salang's product weighs less than is stated on its label

- Tsepo says that Salang always cheats her clients with their change

International context

The Paris Convention singles out this form of unfair competition as one of three main forms of unfair competition against which protection should be granted. In article $10^{bis}(3)2$, the Convention requires countries to grant protection against ‘false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor’. While this provision covers both goods and services, it is limited to situations where there is a competitive relationship between the parties.

The WIPO Model Provisions do not contain this limitation, and, also, do not require an actual untruth. This appears from article 5(1):

> ‘Any false or unjustifiable allegation, in the course of industrial or commercial activities, that discredits, or is likely to discredit, another’s enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.’

Note the following:

- Not only untruthful allegations but also unjustifiable allegations may have a discrediting effect (see note 5.02 on article 5). Unjustifiable allegations are not strictly untrue of a competitor, but in certain circumstances they may be considered unfair competition if the ‘attack’ is exaggerated, or if the words used are disparaging, such as in cases of comparative advertising. True but incomplete statements may, of course, have a similar effect.

- It is not required that a false or unjustifiable allegation should actually have caused discredit (note 5.03 on article 5). Also, bad faith is not required. Effective protection against discrediting is independent of any proof of actual or intended damage, or of the way in which the discrediting allegations are made.

- False allegations about the activities of a competitor, or her products or services, typically convey untrue facts (note 5.04 on article 5). Such allegations may appear in comparative advertising, and especially in the promotion of one's own products. False allegations may also relate to facts concerning another enterprise, such as its assets, or credit rating.

- Often, the person or company under attack is a competitor, or there is at least some sort of competitive relationship between the parties. But not only competitors may act in a manner contrary to the principles of fair competition (note 5.05 on article 5). For example, consumer associations, or the media may also make false or unjustifiable allegations about an enterprise's products, services, or business activities.

Article 5(2) of the WIPO Model Provisions then lists examples of discrediting. The provision states that discrediting may arise from advertising or promotion, and may occur in respect of —

- the manufacturing process of a product;
- the suitability of a product or service for a particular purpose;
- the quality, quantity, or other characteristics of products or services;
- the conditions on which products or services are offered or provided; and
- the price of products or services, or the manner in which it is calculated.

As far as discrediting relating to the price of products or services is concerned, allegations may, for example, suggest that the price of a product is exorbitant, or that its sale is subject to certain conditions (as with ‘pyramid’ or ‘snowball’ sales) (note 5.07 on article 5).

Activity 6.1

Name two differences between the Paris Convention and the WIPO Model Provisions relating to discrediting.

After you have performed this activity, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Protection against discrediting another's enterprise or its activities

The exact position relating to this type of unfair competition in South African law is uncertain, as a result of certain statement in some older cases. In view of this, and in view of the significance of more recent cases which do not directly deal with discrediting, a few general remarks are called for.

In the South African law of delict, two forms of action, both dating from Roman times, are available:

- You have already learnt about the Aquilian action, the general delictual remedy for patrimonial (financial) loss suffered as a result of the intentional or negligent action of another. This action is available only for an act which causes pecuniary loss; the act should have been performed intentionally or negligently. Unlawful interference with the business of another, including a rival, founds an Aquilian action if it has caused financial loss. The publication by a rival trader of injurious falsehoods concerning her rival's goods, service, or business is merely an example of such unlawful interference, as the right to attract custom is infringed.

- In contrast, the actio iniuriarum is available when compensation for the infringement of a personality right is claimed. The most common example of an iniuria is defamation. In such an action there is always an element of insult, for which the action lies. Pecuniary loss does not have to be proved. To succeed with this action, it is necessary to prove the intention to injure; negligence is not sufficient. A court will award compensation, not because of any financial loss suffered by the plaintiff, but because the insult to her requires some form of compensation for her injured feelings.

Confusion of these two actions has led to uncertainty in the present context. Such confusion had its origin in *GA Fichardt Ltd v The Friend Newspapers Ltd* 1916 AD 1. During World War I, the defendant published in his newspaper a report in which he allegedly created the wrong impression that the plaintiff — GA Fichardt Ltd — was a German, or German-orientated, enterprise. The plaintiff company alleged that this was defamatory under the wartime circumstances, and claimed a large sum in compensation. The Appellate Division ruled that the allegation or representation was not defamatory. Three of the judges expressed themselves in passing on whether the plaintiff could still succeed with another cause of action. All three thought that the actio iniuriarum was appropriate, and hence that the intention to injure had to be proved. The court stated (at 7) that —

> '... if Fichardt Ltd could show that its business had suffered because it had wrongfully been called a German company it would have its remedy. But that remedy would not take the form of an ordinary action for defamation; it would be an actio injuriarum to recover damages sustained by reason of a statement false but not defamatory. The present proceedings are not so couched; and if they had been, it would be necessary for the plaintiffs to affirm and prove animus injuriandi on the part of the defendants.'

More recent decisions, and leading writers on competition law in South Africa, have criticised this decision. The plaintiff was interested in the recovery of patrimonial loss, not in satisfaction for injury to its personality — it is always the principles of Aquilian liability which apply when a trader wishes to recover damages on the ground of an infringement of her right to goodwill. Spreading untrue allegations in respect of her enterprise is merely one of the ways in which such right can be infringed.

It can happen, of course, that those allegations simultaneously infringe a personality right of the trader, in which case she can also recover compensation with the actio iniuriarum. Then, of course, intent is a requirement. The infringement of two distinct rights is at issue. As to Aquilian liability for damages on the ground of infringement of the right to goodwill, either intent or negligence suffices according to general principles.

The statements in *Fichardt* have been echoed in various cases where, either expressly or by implication, the actio iniuriarum has been regarded as the appropriate action when a trading enterprise has been discredited. This approach clashes not only with common-law authority, but also with the Appellate Division judgment in *Matthews & others v Young* 1922 AD 492. This has had the somewhat curious result that in some cases it has been accepted that patrimonial loss may be claimed under either the actio iniuriarum (which requires proof of an intention to injure, but which is more correctly confined to the infringement of personality rights), or an Aquilian action based on fault in the form of intent (see, for example, *International Tobacco Co (SA) Ltd v United Tobacco Co (South) Ltd (1)* 1955 (2) SA 1 (W) at 24).

International Tobacco is a particularly good illustration of the type of competitive conduct that is viewed as discrediting a competitor. ITC manufactured MAX cigarettes. UTC was a competitor who made cigarettes under several other trademarks. The facts of the case and the reasons for judgment appear from this extract (at 15–16):

> ‘The plaintiff then has proved that the native propagandists of the UTC did say that the ITC did nothing for the native, that the ITC did not employ natives, that the ITC was connected with [a political party], that the ITC was the enemy of the native, that Max was the wrong cigarette for the native to smoke, that there were various other wrong attributes of Max, that Max caused coughing, and that Max caused TB. They systematically destroyed Max cigarettes in conjunction with these remarks.
>
> ‘It is quite clear that all these remarks were made as part of a campaign carried out with the object of discouraging natives from smoking Max and of injuring the ITC in its trade. All the statements were false. All of them were made with the knowledge of their falsity and were calculated both in fact, and to the knowledge of those making them, to cause injury; they were therefore made maliciously.
>
> ‘There can be no doubt that the propagandists in making these statements were acting in the course and scope of their employment.’

In English law, the tort of injurious falsehood is available in the case of false statements discrediting a competitor’s goods or business. However, unlike passing off where the English courts have considerably extended the scope of the tort, in the case of injurious falsehood they have confined the tort to those circumstances which are ‘most incontrovertibly unjustifiable’ (WR Cornish *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* 4th ed (1999) §16-48 p 652).

In the leading case of *Ratcliffe v Evans* [1892] 2 QB 524 at 527, Bowen LJ stated that written or oral falsehoods were actionable ‘where they are maliciously published, where they are calculated in the ordinary course of things to produce, and where they do produce, actual damage’.

So there are three elements of liability:

- *Falsehood*: it must be shown that the statement is false. True statements, however harmful or discrediting, are not actionable.

- *Malice* refers to the defendant's state of mind — a 'sinister purpose' (*The Royal Baking Powder v Wright, Crossley & Co* (1900) 18 RPC 95 at 99), or a 'indirect or dishonest motive' (*Serville v Constance & another* [1954] 1 All ER 662). In *Wilts United Diaries Ld v Thomas Robinson Sons Coy Ld* [1957] RPC 220 at 237, Stable J summarized the position thus:
    - if the defendant knows the statement to be untrue, it is malicious whether or not the defendant intended to benefit herself (or someone else) rather than injure the plaintiff;
    - if the defendant believes her untrue statement, but still makes it to injure the plaintiff, she will also be liable.

- *Damage*: the court required proof, for example, that property had lost its value, or a business its custom or source of supply, as a natural consequence of the falsehood (*Haddan v Lott* (1854) 15 CB 411, 139 ER 484). In trading cases this was not always restricted to unequivocal proof that the plaintiff had lost particular transactions or profits. Section 3 of the Defamation Act 1952 abrogated the need to prove special damage if the falsehood in question —
    - was calculated to cause pecuniary damage to the plaintiff and was published in writing or some other permanent form; or
    - was calculated to cause pecuniary damage to the plaintiff in respect of any office, profession, trade, or business, held or carried on by her at the time of publication.

  The pecuniary damage must be a natural and probable consequence of the wrongful act (for example, *Customglass Boats Ltd & another v Salthouse Bros Ltd & another* [1976] 1 NZLR 36, [1976] RPC 589; *Stewart-Brady v Express Newspapers* [1997] EMLR 192).

Activity 6.2

Ultra Company has an advertising campaign in which a slim, attractive man is shown drinking ULTRA beer. Standing next to him is a fat, dirty, and ugly tramp drinking MEGA beer. The caption reads — 'Hate your gut!'. In fact, ULTRA and MEGA beer contain the same number of calories and are equally fattening.

- ❑ Can Mega Company sue Ultra Company for unfair competition on the basis of discrediting?

- ❑ Would your answer be any different if the situation were covered by the WIPO Model Provisions and not South African law?

After you have answered these questions, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Comparative advertising

Before we leave discrediting, one last issue demands our attention — comparative advertising. May one manufacturer compare her product in an advertisement with that of her competitor and indicate that hers is better or that there are defects in her competitor's product?

HJO van Heerden and J Neethling (*Unlawful Competition* (1995) 303–306) argue that —

- ❑ such a comparison always entails discrediting the other person's performance,
- ❑ so it constitutes a direct impairment of goodwill, and
- ❑ hence is, in principle, wrongful.

They argue further that only if the comparison is necessary to emphasize the merits of the actor's performance is the interference justified by necessity. It goes without saying that the necessary comparison must be true in all respects.

To date, the question of comparative advertising has arisen in only one South African case. There, a different view was adopted. In *Post Newspapers (Pty) Ltd v World Printing & Publishing Co Ltd* 1970 (1) SA 454 (W) at 456 and 459–461, the applicant and respondent were the publishers of two newspapers — *Post* and *The World*. Both targeted the same potential readership, and so they competed for advertising.

Under cover of a circular letter, the respondent sent a market review to advertising agents. In it *Post* was unfavourably compared with *The World* as an advertising medium. The applicant sought an interdict prohibiting the dispatch of those documents. Nicholas J referred with approval to some English cases. In one of them — *Cellactite & British Uralite v Robertson* (*The Times*, 23 July 1957) — Hodson LJ succinctly said:

> 'The general position in law is: comparison — yes; but disparagement — no.'

The essence of the judgment is contained in the following extract (at 459):

> 'To the extent that the statements complained of involved merely a comparison of *The World* and *Post*, they are not actionable. There are, however, statements ... which amount to a disparagement of *Post* as an advertising medium.... If these statements were shown prima facie to be untrue, the applicant would be entitled to relief.'

In terms of South African case law, then, purely comparative advertising is not wrongful — wrongfulness occurs only if the competitor is discredited by untrue allegations. (If the trader's own product is vaunted by means of untrue allegations, the problem of 'puffing' arises, which we have discussed in Study Unit 5.)

In English law, the tort of injurious falsehood is also relevant to comparative advertising. The courts have been reluctant to impose liability: the comparison must not only be untrue and malicious, but the misstatement must be about the plaintiff's goods and not the defendant's (for example, *Canham v Jones* 2 V & B 218, 35 ER 302; *Young v Macrae* (1874) 3 B & S 264). In *White v Mellin* [1895] AC 154 (HL), the House of Lords declined to impose liability where a retailer attached stickers puffing his 'house brand' to tins of the plaintiff's baby food. All the stickers said was that the house brand was 'far more nutritious and healthful than any other preparation'. Lord Herschell feared a flood of litigation over the rival merits of products, and that judicial decisions would be used for advertising (at 164; see also *Consorzio del Prosciutto di Parma v Marks & Spencer plc & others* [1991] RPC 351, albeit in respect of passing off). In *Hubbuck & Sons Ltd v Wilkinson, Heywood & Clark Ltd* [1899] 1 QB 86 (CA), the Court of Appeal treated even an advertisement purporting to set out the results of chemical tests as no more than a statement that the defendant's paint was equal to, or somewhat better than, the plaintiff's.

Activity 6.3

Ultra Company launches a new advertising campaign. It consists of a table comparing its three most popular beers with three most popular beers produced by Mega Company. The table includes information of the number of vitamins and minerals added by Ultra Company to its products, and shows that the Mega Company products contain no added vitamins or minerals. This information is correct but irrelevant — none of these vitamins or minerals survive the fermentation process. Can Mega Company sue Ultra Company for unfair competition because of this advertisement?

After you have answered this question, read the discussion in Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate when discrediting or disparaging the goods or services of another, usually a competitor, constitutes unfair competition. You should also appreciate the essential difference between these activities and deception relating to one's own product or services. Finally, you should appreciate how these principles relate to comparative advertising.

Study unit 7
Unfair competition in respect of secret information

Overview

In this study unit, we will explain the meaning of the term 'secret information', and when disclosing such information constitutes unfair competition.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ define the concept 'secret information' as used in international instruments and in the case law;
- ❑ understand when such information may not be disclosed;
- ❑ understand the extent of a former employee's obligations in this regard towards her former employer; and
- ❑ be able to identify instances when disclosure of secret information constitutes unfair competition.

Discussion

Introduction

Why does secret information have to be protected? The answer is simple — once it is disclosed to the public, or to competitors, the economic value of the information (which usually comprises its licensing value and competition value), is lessened or lost.

You will note that not only disclosure is prohibited — obtaining secret information and using it are also prohibited.

So a competitor cannot acquire information that was illegally disclosed to another, or make use of information illegally acquired from a rival by someone else's.

Usually, when anything is obtained without the consent of the person who exercises lawful control of it, this constitutes a crime. Here, however, we are concerned with competition law. So the fact that the action of obtaining the information constitutes theft merely indicates that other fields of law may also find application. But, to comprise unfair competition, in addition to unlawful acquisition, other elements such as secrecy and behaviour contrary to honest commercial practices must be present.

International context

The Paris Convention does not deal pertinently with unfair competition in respect of secret information.

Article 39(1) of the TRIPS Agreement, though, requires protection against this form of unfair competition 'in the course of ensuring effective protection against unfair competition as provided in Article 10*bis* of the Paris Convention'. In particular, article 39(2) states:

> 'Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
> (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
> (b) has commercial value because it is secret; and
> (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.'

Article 6(1) of the WIPO Model Provisions likewise states:

> 'Any act or practice, in the course of industrial or commercial activities, that results in the disclosure, acquisition or use by others of secret information without the consent of the person lawfully in control of that information (hereinafter referred to as "the rightful holder") and in a manner contrary to honest commercial practices shall constitute an act of unfair competition.'

Note the following:

- The use of the expression 'secret information' in article 6 instead of 'undisclosed information' as in article 39 of the TRIPS Agreement does not imply any difference in substance: it merely indicates that the rightful holder of the information must take certain measures or must behave in a certain way to keep the information unknown to third parties (note 6.01 on article 6).

- The prohibition of disclosure, acquisition, or use of secret information without the consent of the rightful holder applies to all persons ('others') (note 6.02 on article 6). Persons likely to have knowledge of secret information are typically those having special relations with the rightful holder, such as present or former employees, partners, members of the board of directors, and other such persons. Independent contractors, experts, lawyers, customers, or any suppliers of goods or services to an enterprise may also have such knowledge.

- The 'rightful holder' of secret information connotes the natural or legal person who is lawfully in control of the information (note 6.03 on article 6; see also article 39.2 of the TRIPS Agreement).

- Disclosure to the public may occur through publication, such as in the media or at exhibitions. It may also consist in communicating the information to another person who, while keeping it secret, would take advantage of it herself without the rightful holder's consent. The communication need not be made in exchange for financial or other gain.

- Competitive strength usually depends on innovative techniques and accompanying know-how in the industrial and commercial fields (note 6.05 on article 6). So if the rightful holder of the secret information has taken appropriate measures to preserve its secrecy, its unauthorized 'acquisition' by others should be an act of unfair competition. But the acquisition by employees of confidential information concerning the commercial or industrial activities of their employer may be necessary for the performance of their duties. Such acquisition is not covered by article 6(1) in so far as it is authorized by the employer. The acquisition of secret information by a third party is covered by article 6(2)(v) (see below).

- Secret information is typically ‘used’ by exploitation, such as in the production of the enterprise of the person who has acquired it (note 6.06 on article 6). It can also be used to support the enterprise's manufacturing or trading activities in other ways.

- It follows from the nature of the secret information that lawful disclosure, acquisition, or use by others can only occur with the consent of the rightful holder (note 6.07 on article 6). The requirement that such information may be disclosed, acquired, or used only with the consent of the rightful holder may emerge directly from a contract or oral agreement, such as between the rightful holder and her employee, or between the rightful holder and a supplier involved in a specific project. It may also emerge indirectly from the circumstances — from the steps taken by the rightful holder to keep the information secret so that others may be aware of its confidential nature.

- Former employees are, generally, entitled to use and exploit, for the purpose of earning their living, any skills, experience, and knowledge that they may have acquired in the course of their previous employment (note 6.08 on article 6). It is often difficult to draw the borderline between the legitimate use of skills, knowledge, and experience acquired during employment, on the one side, and the unfair disclosure or use of the former employer's secret information, on the other. Where the employee’s conduct involves breach of contract or confidentiality obligations, theft, embezzlement, industrial espionage, or conspiracy with a competitor, her disclosure or use of information is clearly unlawful.

- The disclosure or use of secret information by a person who has acquired it in a legitimate business transaction with the rightful holder cannot constitute unfair competition if the disclosure or use is made without violation of the contract (such as where the contract is silent on the matter) (note 6.09 on article 6).

Article 6.2 then lists some examples of this type of unfair competition:

> ‘Disclosure, acquisition or use of secret information by others without the consent of the rightful holder may, in

particular, result from

(i) industrial or commercial espionage;
(ii) breach of contract;
(iii) breach of confidence;
(iv) inducement to commit any of the acts referred to in items (i) to (iii);
(v) acquisition of secret information by a third party who knew, or was grossly negligent in failing to know, that an act referred to in items (i) to (iv) was involved in the acquisition.'

These examples correspond to footnote 10 to article 39.2 of the TRIPS Agreement.

Note the following:

- Industrial or commercial espionage is typically a deliberate attempt to appropriate another's secret information (note 6.11 on article 6). Espionage may be carried out by forming a relationship with the rightful holder with the fraudulent intention of inducing the latter to communicate the secret information (for example, by obtaining employment or by having an associate hired as an employee of the rightful holder). It may also be carried out by means of listening devices, by gaining access to a plant with a view to discovering the secret information and taking photographs, and by other means. And it may occur through unlawful access to computer files and databases. The fact that espionage is usually a criminal offence does not mean that the same act cannot be also considered unfair competition.

- Contractual obligations in connection with secret information may be specified in an oral or written contract (typically, between an employer and an employee), or, in the absence of an express contract, may be inferred from an employment relationship (note 6.12 on article 6). Such obligations may similarly exist between business partners, and between an employer and a contractor.

- Article 6(2)(iii) deals with the situation where there is no contract for the protection of secret information, and where the secrecy depends on a confidential relationship between individuals (note 6.13 on article 6). Such a relationship may exist between partners, and it may arise out of the relations between an employer and his employee. If a former employee can be regarded as a competitor of her former employer

> after she has set up her own company in the same sector as her former employer, a breach of confidence on the part of the former employee should be considered an act of unfair competition.

This brings us to the key question: when is information 'secret'? Article 6(3) of the WIPO Model Provisions seeks to answer this question:

> 'For the purposes of this Article, information shall be considered "secret information" if
> (i) it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
> (ii) it has commercial value because it is secret; and
> (iii) it has been subject to reasonable steps under the circumstances by the rightful holder to keep it secret.'

This provisions corresponds to article 39.2 of the TRIPS Agreement.

Note the following:

- ❑ Absolute secrecy is not required (note 6.18 on article 6).

- ❑ In determining whether reasonable steps have been taken to keep the information secret, account should be taken of —
  - ☐ the amount of effort and money spent by the rightful holder on developing the secret information,
  - ☐ the value of that information to her and to her competitors,
  - ☐ the extent of the measures taken by the rightful holder to keep the information secret, and
  - ☐ the ease or difficulty with which it could be lawfully acquired by others (note 6.20 on article 6).

  Moreover, the secret information has to be identifiable (for example, in documents, or through storage in a database). Although contractual obligations are not necessary, the rightful holder must have shown her intention to have the information kept secret.

Finally, article 6(4) of the WIPO Model Provisions states:

> ‘Any act or practice, in the course of industrial or commercial activities, shall be considered an act of unfair competition if it consists or results in
>
> (i) an unfair commercial use of secret test or other data, the origination of which involves considerable effort and which have been submitted to a competent authority for the purposes of obtaining approval of the marketing of pharmaceutical or agricultural chemical products which utilize new chemical entities, or
>
> (ii) the disclosure of such data, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.’

This provision is similar to article 39.3 of the TRIPS Agreement. It states:

> ‘Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.’

Note the following:

- ❑ Article 39.3 of the TRIPS Agreement is basically addressed to governments for the protection against unfair commercial use of undisclosed information submitted for the marketing approval of pharmaceutical or agricultural products. In contrast, article 6(4) of the WIPO Model Provisions is addressed to enterprises that commit certain acts after having improperly obtained such information from the authority that had received it from an applicant for marketing approval (note 6.21 on article 6).

- ❑ Article 6(4)(I) relates only to undisclosed test or other data that have been submitted to an authority (such as a government or a governmental agency), which is competent for the approval of the marketing of pharmaceutical or agricultural chemical products (note 6.22 on article 6). Only chemical products that utilize ‘new chemical entities’ (new chemical compounds) are considered. However, since, as a matter of principle, information need not be ‘new’ to qualify for protection (it is required only to have commercial value because of its secret nature), the question whether data concerning pharmaceutical or agricultural chemical products should be protected — regardless of whether or not they utilize new chemical entities — should be considered by the legislator.

- The manner in which the information is obtained is immaterial to the act or practice being considered an act of unfair competition (note 6.23 on article 6). It may be obtained from the authority directly or indirectly. The unfairness of the act arises from the fact that the enterprise has not developed the test or other data itself and so has avoided the expense of producing it.

- To qualify for protection against unauthorized use or disclosure, the test or other data must be the result of considerable effort in relation to test or other data already available in the pharmaceutical and agricultural chemical field concerned (note 6.24 on article 6). The concept ‘effort' here includes investment in things such as staff time and equipment which entails financial expenditure.

- The phrase ‘unfair commercial use’ connotes, for example, use of the relevant data to produce the same or similar products (note 6.25 on article 6). Such use would not normally be made by the authority in question but by third parties; it could also take the form of sale of the data to others.

- ‘Disclosure’ of the relevant test or other data may have the same detrimental effects on the enterprise applying for marketing approval as any unauthorized use of the information (note 6.26 on article 6). So the act of disclosure of such information is considered an act of unfair competition. The unauthorized disclosure may consist in publishing the information or in passing it on to others (for example, for research purposes). Such disclosure should be considered an act of unfair competition regardless of whether the person who has disclosed the information receives any financial remuneration for the disclosure.

- There are two exceptions where disclosure of test or other data is not considered an act of unfair competition (these exceptions apply typically to disclosure by a public authority).

- The first exception applies where the disclosure is necessary to protect the public, notably for the purposes of public health.

- The second applies where steps have already been taken to ensure that the data are protected against unfair commercial use. For example, where the data submitted for the purposes of obtaining marketing approval are the subject of a patent application and that application is published in the course of the patent procedure, no harm is done by the same data being disclosed by the authority competent for marketing approval if the data enjoy, as the subject matter of the application, provisional protection pending the grant of a patent (note 6.27 on article 6).

Activity 7.1

Give an example of what you consider to be —

- a breach of contract,
- a breach of confidence, and
- industrial espionage.

Discussion

Protection against unfair competition with respect to secret information

England

In *Coco v Clark* [1969] RPC 41 at 47, Megarry J gave the following succinct statement of the requirements for the tort of breach of confidence:

> ‘First, the information itself ... must “have the necessary quality of confidence about it” [per Lord Greene MR in *Saltman Engineering v Campbell Engineering* (1948) 65 RPC 203 (CA) at 215]. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorized use of that information to the detriment of the party communicating it.’

South Africa

This is one of the best descriptions of the position in South African relating to unfair competition with respect to secret information (*Stellenbosch Wine Trust Ltd & another v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust & another* 1972 (3) SA 152 (C) at 162):

> ‘I have no doubt that the trader who filches information from a competitor, information which he knows to be secret and confidential, and which has been developed by the competitor's skill and industry, is acting unfairly and dishonestly if he uses the information for his own profit and to the detriment of his rival. His conduct amounts to deliberate misappropriating of a business asset which was acquired by another's skill and industry. It is difficult to appreciate how this conduct differs in principle from the conduct of a man who steals goods from the shelves of a rival's shop. Both types of conduct constitute unlawful interference with the trade of another; both types of conduct are in my view actionable, and fall within the principles of the lex Aquilia.’

(See also *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Pty Ltd* 1968 (1) SA 209 (C) at 221–222; *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd & others* 1981 (2) SA 173 (T).)

South African case law requires that, to qualify for protection as secret information, information be confidential and have a trade value. This means that the information must not be public property or public knowledge — it must be available to a limited number of persons only. Also, the information must be of value to its holder. The actual or potential usefulness of the information to trade rivals is an important consideration. If the information enables a trader to gain an advantage over her competitors, it is regarded as having a trade value (see *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* (supra)).

These are some examples of information which have qualified for protection as secret information in South African law:

- customer lists (*Easyfind International (SA) (Pty) Ltd v Instaplan Holdings* 1983 (3) 917 (W))
- tender prices (*Sibex Construction (SA) (Pty) Ltd & another v Injectaseal CC & others* 1988 (2) SA 54 (T));
- computer software (*Northern Office Micro Computers (Pty) Ltd & others v Rosenstein* 1981 (4) SA 123 (C));
- business communications (*Sage Holdings Ltd & another v Financial Mail (Pty) Ltd & others* 1991 (2) SA 117 (W));
- sales statistics (*Wilrose Timbers (Pty) Ltd v CE Westergaard (Pty) Ltd & others* 1980 (2) SA 287 (W));
- a manufacturing process (*Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd & another* 1977 (1) SA 316 (T)); and
- credit records (*Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Ltd* (supra)).

Provided the elements of a delict can be proved, there is no limit to what unfair competition in regard to secret information can comprise.

Also, more than one field of law can apply where someone acquires and uses her rival's confidential information:

- Copyright can play an important role in certain circumstances (*Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Ltd* (supra)).

- The law of contract can also be an important source of protection *(Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg & another* 1967 (1) SA 686 (W)). A dealer may also sometimes rely on an implied term in a contract of service when an employee uses confidential information in a prejudicial manner.

- The question has arisen whether the English-law principle of breach of confidence could be a source of protection. This concept, which is included in the international definitions of unfair competition in respect of secret information, describes the cause of action which a plaintiff has at her disposal under English law when confidential ideas or information are directly or indirectly acquired from the plaintiff by the defendant, and the defendant then, knowingly and without the permission of the plaintiff, uses these ideas or information to the detriment of the plaintiff. This action does not depend upon an express or implied agreement between the parties; whether or not the parties are in a competitive relationship is immaterial.

In *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Ltd* (supra), the court ruled that the English action for breach of confidence is not, as such, part of South African law.

However, in *Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd* (supra), the court accepted that this English-law action was part of South African law. The court pointed to the fact that counsel were agreed upon the legal principles applicable, and free reference was then made to English cases concerned with breach of confidence. No indication was given that the court was dealing with a controversial question. Cursory reference was also made to the *Coolair Ventilator* case (where an implied term in a contract of service was at issue) and to parts of the judgment in the *Stellenbosch Wine Trust* case (where the court dealt with breach of confidence and Aquilian liability, respectively). The outcome in *Harvey Tiling* cannot be faulted. But for that outcome it was unnecessary to resort to breach of confidence — the same outcome could have been achieved on the grounds of an implied contractual term, or Aquilian liability.

The more correct view was expressed in *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* (supra) at 190–191:

> ‘Insofar as the English action on breach of confidence is based on an implied contractual term relating to confidentiality of information acquired, it finds its counterpart in our law in the action on breach of contract.’

The approach that a delictual action for ‘breach of confidence’ is merely a manifestation of the Aquilian action for unfair competition was endorsed in *Schultz v Butt* 1986 (3) SA 667 (A) at 679.

- The unauthorized use of confidential information can involve the breach of a fiduciary duty which a director owes to her company (*Sibex Construction (SA) (Pty) Ltd v Injectaseal CC* (supra)).

Protection against disclosure is not restricted to competitors. Where a non-rival appropriates her information, the owner of secret information also has a remedy (*Harchris Heat Treatment (Pty) Ltd v Iscor* 1983 (1) SA 548 (T)). Also, protection is accorded not only to the owner of the confidential information but to anyone who is in lawful possession of it, such as a licensee (*Prok Afrika (Pty) Ltd & another v NTH (Pty) Ltd & others* 1980 (3) SA 687 (W)).

Finally, it is accepted that, although an employer's rights to her trade secrets are worthy of protection, a former employee is still entitled to use her own skill and experience even if it is to attain a similar result (*Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* (supra)).

In the *Coolair Ventilator* case, A had received certain confidential information from his rival B's employee. The court granted an interdict prohibiting the use of that information on the ground that it was an implied term of the contract of service between B and his employer that the latter would not disclose confidential information of his employer's to a rival dealer. Marais J said the following (at 691):

> 'It seems to me that an employer is entitled to be protected from unfair competition ... brought about by confidential information of his business having been conveyed to a trade rival by an employee or ex-employee. What would constitute information of a confidential nature would depend on the circumstances of each case, and in this regard the potential or actual usefulness of the information to a rival would be an important consideration in determining whether it was confidential or not.
> ...
>
> 'In order to succeed an employer such as the applicant must establish that the disclosure complained of was made to a trade rival.'

In *Knox D'Arcy Ltd & others v Jamieson & others* 1992 (3) SA 520 (W) and *Meter Systems Holdings Ltd v Venter & another* 1993 (1) SA 409 (W), Stegmann J distinguished between trade secrets in the broad sense and other confidential information which an employee must regard as confidential as long as she remains employed by the employer but which is of such a nature that it ceases to be confidential once the employee terminates her employment. We believe, however, that there is no justification for such a distinction. The fact that an employee has left the employment of her employer cannot be the touchstone to determine the confidentiality of information. An employee's duty not to divulge her employer's trade secrets or use them for her own benefit depends upon the intrinsic nature of the information; this duty does not terminate with the contract of employment. The employee's obligation not to divulge or use her employer's confidential information terminates only when the information ceases to be of a confidential nature.

Activity 7.2

A director of Ultra Company resigns from the company and goes to work for Mega Company. He was a director of Ultra for more than ten years and is obviously privy to large amounts of secret information.

- ❑ In terms of his directors' agreement, he may not work for another brewery for 5 years. Can Ultra Company stop him from working for Mega Company?
- ❑ There is no restraint in the directors' agreement which prevents him working for another brewery. Can Ultra Company stop him from working for Mega Company?
- ❑ He encourages the employees under his command to leave with him. Can Ultra Company prevent him from doing this?

After you have answered these questions, read the discussion in Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate the meaning of the term 'secret information', and when disclosing such information constitutes unfair competition. You should also appreciate the extent to which such protection of secret information co-exists with remedies against the misappropriation of secret information in terms of other fields of law.

Study unit 8
Miscellaneous forms of unfair competition

Overview

In this study unit, we deal with a number of forms of unfair competition that have been recognized by the South African courts. These are competition in contravention of a statutory provision, piracy, harassment, and boycott. We will explain the nature of these forms of unfair competition passing and the requirements for liability.

Learning outcomes

After completing this study unit, you should be able to —

- ❑ understand the nature of competition in contravention of a statutory prohibition, piracy, harassment, and boycott
- ❑ understand the requirements for liability for competition in contravention of a statutory prohibition, piracy, harassment, and boycott
- ❑ determine whether conduct constitutes competition in contravention of a statutory prohibition, piracy, harassment, or boycott
- ❑ apply general principles to solve problems that arise in this context

Setting the scene

The facts of this episode are those of a decision of the High Court of South Africa — *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd & another* 1991 (2) SA 455 (W).

B and GY designed, manufactured, and supplied furniture; the second respondent was a furniture retailer. B had seen a photograph of an M-shaped sofa with a hard-wood frame, manufactured in the United States. On the basis of the photograph, B designed its own M-shaped sofa ('the Fendi'). The only substantial difference between its sofa and the one in the photograph was that B's had a metal frame. After the release of its sofa to the market, GY began manufacturing a similar M-shaped sofa (‘the Pisa'). B sought a restraining interdict against GY on the basis that, amongst other things, GY was competing unlawfully with B by copying its Fendi lounge suite and selling such copy to the public in competition with B.

Discussion

International context

None of the forms of unfair competition discussed in this study unit is expressly stated in the Paris Convention or the WIPO Model Provisions. However, article 10*bis* of the Paris Convention and article 1(1) of the WIPO Model Provisions state broad, general principles of liability. So these forms of unfair competition can be viewed as specific instances of liability which flow from the sweeping general principles. They illustrate, too, the way in which a legal system which functions on the basis of general principles of liability can adapt to meet new challenges in the market.

Rivalry in contravention of a statutory provision

In a competitive relationship, a competitor may not do something that another competitor is not allowed to do — this disturbs the equality principle with is the foundation of competition law. In particular, if a competitor transgresses a statutory provision, others cannot deal with the competition except by also breaking the law. This means that the competitor who transgresses obtains an advantage not because of the merits of her own performance, but because she is doing something illegal.

> For example: Arthur and Bertha both sell a product the price of which has been officially fixed (such as petrol). In terms of the relevant legislation, no-one may sell the product at a lower price than the set one. Contravention of this prohibition constitutes an offence. Bertha attracts buyers by offering the product at less than the set price. Arthur can counter Bertha’s competition only by himself

> selling at less than the set price. But by law he may not do this. So the balance in the competitive relationship between the parties is disturbed by an act against which Arthur cannot defend himself in any way other than by also breaking the law. Note that Bertha's conduct is not wrongful as against Arthur merely because it contravenes the statutory prohibition. The fact that the State can prosecute Bertha for selling products at less than the set price does not necessarily mean that Arthur has any legal remedy against Bertha. Bertha's act is wrongful as against Arthur only if it interferes with his goodwill.

So the only remaining question is — does the wrongdoer's contravention of the norm enable her to gain an advantage over her rivals? Put differently, is the economic merit of the wrongdoer's performance based on her contravention of the statutory prohibition?. If so, the act is wrongful in respect of competitors who are affected by it.

One of the earliest decisions on this issue was *Patz v Greene & Co* 1907 TS 427. Here, the applicant, who carried on business in the vicinity of a mine compound, sought an interdict against the respondent who carried on a similar business on claim ground at the entrance to the compound. The application for the interdict was founded, amongst other things, on the fact that trading on claim ground (on which mining may be done) was prohibited by statute. Solomon J stated (at 433 and 435):

> 'Everyone has the right, in my opinion, to protect himself by appeal to a court of law against loss caused to him by the doing of an act by another, which is expressly prohibited by law. Where the act is expressly prohibited in the interests of a particular person, the Court will presume that he is damnified, but where the prohibition is in the public interest, then any member of the public who can prove that he has sustained damage is entitled to his remedy.
>
> ...
>
> 'I have no hesitation, therefore, in coming to the conclusion that, if the applicant had brought an action against the respondents, *and had proved that he had suffered loss through their illegal trading*, he would be entitled to judgment for the loss which he had sustained, and also to an interdict restraining the respondents from carrying on their illegal trade' (emphasis added).

The general rules as formulated in *Patz* have been cited with approval and followed in later decisions. The single justified point of criticism was that an interdict was refused because 'the applicant has made out nothing more than a prima facie case of actual injury, and without proof of injury there is no proof in interference with his trade or an infringement of his right' (at 438). Is the aggrieved competitor to sit and wait patiently until she has suffered provable damage as a result of the offence? For purposes of an interdict, the only question in all cases of competitive conflict ought to be whether an infringement of the plaintiff's right to goodwill is reasonably probable. It is only when the plaintiff claims damages that it becomes necessary to prove injury.

Let us now examine the practical implications of the *Patz* case more closely where a rival competes in conflict with a statutory provision:

- ❑ Where the act is prohibited in the interest of a particular person or class of persons (such as manufacturers (*Tobler v Durban Confectionery Works (Pty) Ltd* 1965 (4) SA 497 (C) at 500–501)), for purposes of the interdict the court will presume that that person (or class of persons) is damnified and grant relief without requiring evidence of damage. Whether the prohibition is intended to protect a specific person or class of persons depends, of course, upon the interpretation of the provision concerned. An instance of this type of unlawful competitive conduct is the application by a trader of false trade description to her goods — an act which is defined and made an offence in the Merchandise Marks Act 17 of 1941.

- ❑ Where the statutory prohibition is in the public interest (and this is again a matter of interpretation), any member of the public, including a rival trader, who can prove that she has sustained damage, or that she is reasonably likely to sustain damage, is entitled to an interdict. Examples of this type of prohibition are encountered where a dealer applies for an interdict against a rival who is conducting business without having obtained a licence as required by some local by-law, provincial ordinance, or an Act of Parliament. Examples of statutory provisions which primarily protect the public interest but also serve the interests of traders as a group include
  - ☐ prohibitions in terms of the Trade Practices Act 76

of 1976 (see *Long John International Ltd v Stellenbosch Wine Trust (Pty) Ltd & others* 1990 (4) SA 136 (D)), and

- the prohibition of restrictive practices in terms of public competition law.

Under both these types of prohibition the wronged dealer who has suffered loss also has an action for damages, provided, of course, that there was fault on the part of the defendant.

Activity 8.1

Legislation provides that beer must be sold by breweries to retailers at a set price.

- Ultra Company offers retailers who buy its beer a 10 per cent discount. Can Magna Company institute action for unfair competition?

- Ultra Company does not offer retailers a discount, but sells the beer at the set price. However, it gives retailers a free case of whisky for every 100 cases of beer ordered. Can Magna Company institute action for unfair competition?

After you have performed this activity, read the discussion in Tutorial Letter 201 for feedback.

Discussion

Misappropriation of a rival's performance

This form of unlawful competition is concerned with the slavish copying or pirating of a rival's performance. In the absence of statutory protection (such as that for patents, copyright, and designs), anyone may freely use or copy a rival's published trade information or ideas. The reason for this is that, upon publication, the information or ideas become part of the common domain. A competitor may copy the idea on which her rival's product is based, provided that she uses the idea to create her own product. But where A not only takes B's idea but also B's performance, we are concerned with the piracy of B's performance.

According to HJO van Heerden and J Neethling (*Unlawful Competition* (1995) 242), piracy is not confined to the direct misappropriation of a rival's performance (as in *Schultz v Butt* 1986 (3) SA 667 (A)) but includes making an identical, or substantially identical, copy. The South African courts, however, are reluctant to regard the making of an identical or substantially identical copy as unlawful (see *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd* (supra)). OH Dean ('Copying Industrial Products' (1991) 20 *Businessman's Law* 177 at 180) summarizes the position as follows:

> '... there must be some additional factor other than the mere copying of the fruits of someone else's labours before unlawful competition will be held to have occurred. Perhaps that factor will in time come to be so widely and generally construed as to be present in every case in which a defendant unfairly reaps where he has not sown. In effect, copying per se will then be treated as unlawful in such cases.'

Related to the question as to the unlawfulness of the act of piracy is the nature of the pirated performance. Only if the pirated performance is, through appearance or some other characteristic, unusual or distinctive should protection be afforded. A performance which is the same as, or which differs only negligibly from, other competing performances should not be entitled to protection. Also, protection is not granted to purely functional features of a competitor's performance.
Non-functional features can always be changed without the effectiveness of the performance being affected and so they enjoy protection.

The leading South African decision on this form of unfair competition is *Schultz v Butt* (supra). These were the facts: A reproduced rival B's fibre-glass boat by repairing B's broken boat mould. The court held that the wrongfulness of A's acts lay, not in the fact that he misappropriated the idea on which B's performance was based, but in that he misappropriated B's actual performance and made it the basis of his pretended performance. Such piracy is contrary to the competition principle in terms of which the merit of one's own performance is the decisive factor. So A's acts are, in principle, unlawful in so far as they interfere with B's goodwill.

Harassment of a rival's customers, employees, or suppliers

In this context, ‘harassment’ connotes the exertion of improper physical or psychological pressure aimed at discouraging others from establishing trade relations with a rival.

Classic examples of this type of competitive conduct (such as routing a competitor's clients by shooting at them) were the product of, as R Callmann calls it, ‘a more rugged age’ (*The Law of Unfair Competition, Trade Marks and Monopolies* 2 ed (1982) vol 2 774). In view of the competition principle, the wrongfulness of such conduct is self-evident.

The exertion of psychological pressure naturally occurs more readily in contemporary society. An example of this is setting up pickets which, verbally or with the help of placards, discourage prospective buyers from supporting a competitor. At least some buyers may well be induced by such conduct to take their business elsewhere.

In *Ebrahim v Twala & others* 1951 (2) SA 490 (W), for example, an interdict was granted where a group of taxi owners assaulted and intimidated the taxi driver and apparently also the prospective passengers of another taxi owner. Although the outcome cannot be faulted, the judge devoted most of his attention to the arguments raised by the respondents — that the applicant had to call in the help of the police, that he himself could initiate criminal proceedings against the respondents, and that the court was not competent to prohibit by interdict the commission of a crime. The applicant, we want to stress, was entitled to relief on the ground of the infringement of his right to goodwill and not on the ground of the criminal character which the action by the taxi owners happened to have.

A distinction can be drawn between primary and secondary boycotts:

- A primary boycott involves a refusal of an undertaking to have trade relations with another undertaking. Since an undertaking is free to decide for itself with whom it wishes or may not wish to have trade relations, a primary boycott cannot, generally, be regarded as wrongful. In *Times Media Ltd v South African Broadcasting Corporation* 1990 (4) SA 604 (W), the SABC refused to broadcast a television advertisement of the *Sunday Times* because it referred to M-Net, a rival of the SABC. The court found that this did not amount to a boycott and unlawful competition.

- A secondary boycott involves systematically trying to induce other undertakings to exclude a particular undertaking from trade (Van Heerden & Neethling op cit at 308). A trader who instigates a boycott against a rival trader interferes directly with the goodwill of the competitor. The extension of her own goodwill results only from the interference with the competitor's goodwill. So the advantage which she obtains is not to be ascribed to the merits of her performance but in fact to the suppression of a competitor. This is in conflict with the competition principle.

Finally, note that the instigation of a boycott may often constitute conduct which might also be classified as unlawful competition in the form of harassment (discussed above).

An example from the South African case law: In *Hawker v Life Offices Association of South Africa & another* 1987 (3) SA 777 (C), the court approved the general principles at issue in boycott cases. Although this case dealt with the unlawful interference with an employee's right to earn her livelihood in a chosen sphere, the court recognized the close analogy with a boycott and applied the same legal principles to that specific situation. According to the court, the instigation of a boycott is in principle unlawful and can be justified only in exceptional circumstances. The perpetrator incurs Aquilian liability if she infringes a trader’s right to goodwill intentionally or negligently. Fault is not required for an interdict.

Activity 8.2

- Ultra Company incites its consumers to picket bottle stores which stock beer made by Magna Company. It gives the pickets free beer while they do so. The pickets get drunk and burn certain stores. Other stores are now too scared to stock beer made by Magna Company. Can Magna Company institute action against Ultra Company for unfair competition?

- Ultra Company tells the South African manufacturers of tin cans that Magna Company is unable to meet its debts and persuades them to stop supplying cans to Magna Company. Can Magna Company institute action for unfair competition?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Conclusion

You should now appreciate the nature of competition in contravention of a statutory provision, piracy, harassment, and boycott, and the elements of liability for these forms of unfair competition.

Study unit 9
Remedies

Overview

In this study unit, you will find out what remedies are available to a person with whom someone else has competed unfairly. The existence of remedies which can deter potential unfair competitors and can compensate the successful plaintiff for past infringement is essential for the promotion of competition — without effective relief, any legal rules against unfair competition are meaningless. We will set out the minimum relief required by the TRIPS Agreement and then explain the relief available at common law in South Africa.

Learning outcomes

After completion of this study unit, you should be able to —

- set out the minimum TRIPS requirements for relief
- discuss the remedies available at common law

Setting the scene

The facts of this episode are those of a decision of the High Court of South Africa — *Moroka Swallows Football Club Ltd v The Birds Football Club & others* 1987 (2) SA 511 (W).

The applicant was the owner of a team of professional soccer players known as *Moroka Swallows*. The team played in the National Soccer League (NSL) under the name of *Moroka Swallows*; its playing colours were maroon and white. The team was also identified by a logo — a circle containing a bird in flight, with the words 'Moroka Swallows' above and the word 'Birds' below the bird. The applicant contended that its team was widely known as 'The Birds'. The first respondent played in a rival league — the National Professional Soccer League (NPSL) — under the name *The Birds*.

Moroka Swallows was founded in 1947 and from the outset was known by various nicknames, including 'The Birds'. At first, the team played in the South African Soccer League (SASL) where it did well and built up an enthusiastic following. In 1965, it won the SASL Cup. In 1965–1966 the SASL split. The NPSL was formed. The split also rent *Moroka Swallows* — one part remained with the SASL but moved to

Durban where they played under the name *Moroka Swallows Big XV*. The other part remained based in Soweto. It played in the NPSL and continued to be known as *The Birds*. It continued to do well. In 1969, it won the NPSL trophy, and, in 1970, the Rogue League. In 1971, the club again split in two. One part was called *Moroka Swallows Babes*. The other formed the company which was the applicant and known as *Moroka Swallows Football Club Ltd. Moroka Swallows Babes* was never known as 'The Birds'. The nickname attached solely to the applicant's team. The applicant's team retained a very large following. The fortunes of 'The Babes' waned and it was relegated to the second division. In 1972, 'The Birds' won the Keg League; in 1975, the BP Top Sixteen; in 1980, the BP Top Eight; and, in 1983, The Mainstay Cup. In 1985, a rift occurred in the NPSL. A new league (the NSL) was formed, which the applicant joined. The clubs belonging to the NPSL suffered similar divisions. Some members of each left to join the NSL. So in each of the leagues there were teams calling themselves *Orlando Pirates*, *Amazulu*, *Bloemfontein Celtic*, and *Durban Bushbucks*. The first respondent also had its origin at this time. There were also a number of other teams known by similar names which played in other leagues, such as *Bloemfontein Birds* which played in the second division of the NSL, *Birds United* playing in the Bophuthatswana League (also playing in maroon and white), and *Shongwene Birds* playing amateur football on the East Rand.

The applicant alleged that the first respondent, by adopting 'The Birds' for its team name, playing in maroon and white togs, and engaging some of the applicant's former players, created a likelihood of confusion which infringed its goodwill. This would result in financial loss, as the public would pay money to watch the first respondent's team in the mistaken belief that it was the applicant's. Also, as the first respondent played a less skilled and less attractive game than the applicant, its reputation would suffer. This would lead to a reduction in subscriptions to its supporters club and sales of wares licensed to carry the applicant's name and logo.

The applicant sought an order against the first respondent, its office bearers, and professional soccer players who played for first respondent's team. The applicant contended that they were passing off their team as the applicant's.

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International requirements

Article 10*ter* of the Paris Convention states:

> '(1) The countries of the Union undertake to assure to nationals of the other countries of the Union appropriate legal remedies effectively to repress all the acts referred to in Articles 9, 10 and 10bis.
>
> (2) They undertake, further, to provide measures to permit federations and associations representing interested industrialists, producers, or merchants, provided that the existence of such federations and associations is not contrary to the laws of their countries, to take action in the courts or before the administrative authorities, with a view to the repression of the acts referred to in Articles 9, 10 and 10bis, in so far as the law of the country in which protection is claimed allows such action by federations and associations of that country.'

The TRIPS Agreement is the first international intellectual property instrument which requires certain minimum enforcement procedures when infringement has been proved.

As a general obligation, the TRIPS Agreement states:

> 'Members shall ensure that enforcement procedures ... are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements' (article 41(1)).

Also, enforcement procedures should be fair and equitable, not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays (article 41(2)). At the same time, the TRIPS Agreement does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law generally (article 41(5)).

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It then deals with specific civil remedies, including injunctions (interdicts) (article 44), damages (article 45), and delivery up of infringing material (article 46).It appears, then, that the TRIPS Agreement, generally, sets three ‘performance standards’ in the context of remedies for the infringement of intellectual property rights:

- effective remedies
- expeditious remedies to prevent infringement
- remedies which deter further infringement

The WIPO Model Provisions do not contain any specific provision relating to appropriate remedies, as this is the subject of a separate study (see notes 1.08 and 1.09 on article 1).

National law

The following remedies are generally regarded as being available to the successful plaintiff in a delictual action based on unfair competition:

- an interdict (injunction)
- an order for the removal of the infringing mark from all material, and, where the infringing mark cannot be separated or removed from the material, an order that all such material be delivered up to the plaintiff (provided that this is viewed as a mandatory interdict and that the plaintiff has shown a well-founded fear that the defendant would otherwise contravene the interdict)
- damages

Interdicts (injunctions)

An interdict is a judicial order compelling someone to refrain from an unlawful act (prohibitory) or, more rarely, to do something (mandatory).

Interdicts can be either final or interim (pendente lite).

From the requirements for the granting of an interdict, it appears that fault, in the form of intent or negligence, is not a prerequisite.

Interim interdicts

An interim interdict preserves or restores the status quo pending the final determination of the rights of the parties. It does not affect the final determination of these rights.

The following requirements must be satisfied before an interim interdict can be granted (*LF Boshoff Investments (Pty) Ltd v Cape Town Municipality; Cape Town Municipality v LF Boshoff Investments (Pty) Ltd* 1969 (2) SA 256 (C); *Multi Tube Systems (Pty) Ltd v Ponting & others* 1984 (3) SA 182 (D)):

- The applicant's right must be clear, or, if not clear, prima facie established, though open to some doubt.
- If the right is only prima facie established, there must be a well-grounded apprehension of irreparable harm to the applicant if the interim relief is not granted and she succeeds ultimately in establishing her right.
- The balance of convenience should favour the granting of an interim interdict.
- The applicant should have no other satisfactory remedy.

Even when these requirements have been satisfied, the court retains a general discretion to be exercised when it decides whether to grant or refuse a temporary interdict. In *Beecham Group Ltd v B-M Group (Pty) Ltd* 1977 (1) SA 50 (T) at 54, Franklin J stated that questions relating to the applicant's prospects of success in the action and to whether she would be adequately compensated by an award of damages at the trial are merely factors to be taken into account in the exercise of this discretion. These factors should not be considered in isolation, but together with factors such as the balance of convenience, the preservation of the status quo, the relative strength of each party's case, the so-called uncompensable disadvantages to each party, and the respective prejudice that would be suffered by each party as a result of the grant or refusal of the interdict. The latter boils down to the following question: who will probably suffer the greater damage — the plaintiff, if the interdict is refused and the action finally succeeds, or the defendant, if the interdict is granted and the action ultimately fails?

An interim interdict is obtained by means of an application to the High Court.

Final interdicts

A final interdict is based on a final determination of the rights of the parties.

Before a final interdict can be granted the following three requirements must be satisfied —

- ❑ the applicant should have a clear right
- ❑ there must be an injury actually committed or reasonably apprehended
- ❑ there must be no adequate protection by any other ordinary remedy

The usual way to obtain a final interdict is by way of action, when a full trial takes place. But it may also be obtained by way of application, provided there is no material factual dispute between the parties.

The requirements for granting a final injunction in England are substantially similar to those in South Africa. However, because of the equitable basis of the English injunction, the court there has a much greater discretion as to whether to grant or refuse final relief than a South African court.

Activity 9.1

Ultra Company has compiled a credit record of all liquor outlets in South Africa. This record is available only to its agents. They use it to make sure that large orders are not delivered to financially dubious traders. Mega Company secretly obtains a copy of this record. It makes copies of it available to its own agents. This may cause Ultra Company great embarrassment, because its outlets may discover the company's opinion of their creditworthiness.

- ❑ Set out the steps which Ultra Company should take to restrain Mega Company immediately from using its credit record.

- ❑ What must Ultra Company prove to get immediate relief?

- ❑ Set out the steps which Ultra Company should take to get permanent relief.

- ❑ What must Ultra Company prove to get permanent relief?

After you have answered these questions, read Tutorial Letter

201 for feedback.

Discussion

Order for delivery up

Upon the final determination of the rights of the parties to an action based on unfair competition, the court may grant the successful plaintiff an interdict to restrain the defendant from further acts of unfair competition. However, the possibility exists that the defendant may have in her possession articles, stationery, and other material that could be used to commit further acts in contravention of the interdict.

To discourage the defendant from disregarding the interdict and committing further acts of unfair competition, the court may order —

- the removal of the offending part of the material; or
- if this is not possible, delivery up of offending material if it could be used to commit further acts of unfair competition.

The purpose of an order for delivery up has been said to enhance the efficacy of the interdict, since the infringer is deprived of the means to perform acts of unfair competition. Consequently, a claim for removal or delivery should be combined with a claim for an interdict. Viewed in this way, fault on the part of the defendant should not be required.

Statutes regulating other forms of intellectual property expressly provide for delivery up. But as the remedies for unfair competition are based on common law, not statute, an order for delivery up will not automatically be granted together with an interdict prohibiting unfair competition. It is likely that a plaintiff will have to show a reasonable apprehension that the defendant will contravene the interdict before the court will grant an order for delivery up.

Of course, one can argue that any offending material delivered up to the successful plaintiff may have some intrinsic value, so that she gains an advantage by the delivery up, which, in turn, relates to the damages that she should receive. But the fact remains that the purpose and function of delivery up bears no relationship to the determination or award of damages. For this reason, too, fault should not be required for a successful claim for delivery up.

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Some uncertainty exists concerning the basis and precise nature of a claim for removal or delivery up. The correct view appears to be to regard such an order as a mandatory interdict which is granted together with a prohibitory interdict. The defendant is ordered to remove the offending matter or deliver up the offending material, so preventing further unfair competition as far as possible.

Activity 9.2

The court seems set to grant Ultra Company a final interdict to restrain any further unfair competition on the part of Mega Company. However, Ultra Company wants all the copies of the credit record which Mega Company has distributed to its agents, as it fears that any such agent can threaten to disclose the information contained in the record to the outlet concerned, in an attempt to blackmail Ultra Company.

- ❑ What can Ultra Company do to obtain this material?
- ❑ Can Ultra Company demand its delivery or merely its destruction?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Discussion

Damages

Interference with the right to goodwill and all other forms of unfair competition are delicts (torts). So the usual principles of delictual liability (liability in tort) apply to an award of damages for such interference.

Since unfair competition gives rise to delictual liability, fault in the form of intent or negligence on the part of the defendant must be proved before any claim for damages can succeed. This principle is also stated in article 45 of the TRIPS Agreement:

> ‘The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered

> because of an infringement of that person's intellectual property right by an infringer who *knowingly, or with reasonable grounds to know*, engaged in infringing activity' (emphasis added).

Damages have been said to be 'aimed at compensating the proprietor for his patrimonial loss, actual or prospective, sustained through the infringement' (*Omega Africa Plastics (Pty) Ltd v Swisstool Manufacturing Co (Pty) Ltd* 1978 (3) SA 465 (A) at 471). Damages are notoriously difficult to prove in this type of case. The courts will estimate the damages suffered to the best of their ability on the probabilities (*International Tobacco Co (SA) Ltd v United Tobacco Co (South) Ltd (1)* 1955 (2) SA 1 (W); *Hushon SA (Pty) Ltd) v Pitech (Pty) Ltd* [1997] 2 All SA 672 (SCA)).

The damages awarded may include loss of profits in respect of those articles which the plaintiff could and would herself have made and sold, but for the interference. The burden of proof is on the plaintiff to prove damages, since there is no legal inference that infringing sales would have gone to the plaintiff (*Omega Africa Plastics (Pty) Ltd v Swisstool Manufacturing Co (Pty) Ltd* (supra) at 472).

Activity 9.3

Mega Company induces the extremely efficient distribution manager of Ultra Company to leave the employ of Ultra Company.

- Mega Company has no need of her services but wants to ensure that Ultra Company does not expand its distribution chain. As a result of this action, Ultra Company suffers serious financial loss. However, it cannot quantify exactly the amount of its loss. Will this prevent Ultra Company from claiming damages from Mega Company?
- Mega Company induced her to leave, because it needed a distribution manager itself. As a result of this action, Ultra Company suffers serious financial loss. Will Ultra Company be able to claim damages from Mega Company in these circumstances?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Anton Piller orders

The Anton Piller order (taking its name from *Anton Piller KG v Manufacturing Processes Ltd* [1976] Ch 66) is a further legal remedy developed initially in England but now frequently used in South Africa, in particular in proceedings relating to intellectual property rights. The original Anton Piller order, in both England and South Africa, comprised an ex parte order in the form of a mandatory injunction coupled with an inspection order and an order for delivery or disclosure. It is a remedy which is aimed particularly at acquiring or conserving information for purposes of a subsequent action on the ground of infringement. The information so acquired generally relates to the origin and extent of the infringement, the identity of infringers, the profits obtained as a result of the infringement, and the whereabouts of the infringing articles, materials, or aids.

The great value of this remedy is that it is brought as an ex parte application without prior notice to the other party, so that the latter is caught unawares, before she has time to destroy or dispose of her infringing stock or incriminating papers. This traditional Anton Piller order usually comprises the following:

- an order to enter and search the premises of the defendant, and to attach documents and other material located, with the primary purpose of preserving this as evidence;
- an order for the disclosure of the identity of suppliers and customers of the defendant, and of the origin of infringing articles; and
- an order for the delivery up of infringing articles as well as relevant documents.

The remedy in this form (still the form in which it is granted in England) was granted in South Africa in several cases, in none of which its legal validity was questioned. However, in a subsequent series of decisions, the courts strongly condemned this type of remedy, on the basis that the relief, other than the search for and attachment of property in the possession of the defendant, was not based on the principles of Roman-Dutch law.

The Appellate Division (now the Supreme Court of Appeal) subsequently held that a more limited version of the Anton

Piller order, for the search and attachment of documents and other material to which the plaintiff has no right but for the purpose of preserving it as evidence, forms part of our law (*Shoba v Officer Commanding, Temporary Police Camp, Wagendrift: Maphanga v Officer Commanding, South African Police Murder and Robbery Unit, Pietermaritzburg* 1995 (4) SA 1 (A)).

This remedy may be brought as an ex parte application without prior notice to the respondent. To obtain such an order, the applicant must prima facie establish the following:

- that she has a cause of action on the ground of infringement against the respondent which she intends to pursue;
- that the respondent has in her possession specific, and specified, documents and other material which are of vital importance to her subsequent action; and
- that there is a real and well-founded apprehension that this evidence may be destroyed or disposed of before the subsequent action comes to trial or before the discovery stage.

The court has a discretion to grant the remedy. In exercising this discretion, the court will have regard, amongst others, to the following factors:

- the cogency of the applicant's prima facie case as set out in its application;
- the potential harm that would be suffered by the respondent if the order is granted as compared to the potential harm that would be suffered by the applicant if the order is refused; and
- the terms of the order (these should not be more onerous than is necessary to protect the interests of the applicant).

In England and South Africa the courts have held that they must make sure that this type of procedure is not abused.

In *Ex parte Dabelstein & Hildebrandt* [1996] 2 All SA 17 (C), the court held that the granting of an Anton Piller order is not inconsistent with the protection of human rights in the Constitution of the Republic of South Africa Act 108 of 1996. The court ruled that Anton Piller orders are necessary and proportionate to the legitimate aim pursued and constitute a justifiable limitation of the rights envisaged by section 33(1) of the Constitution. (Section 33(1) states that '[e]veryone has the right to administrative action that is lawful, reasonable and procedurally fair'.)

Activity 9.4

Ultra Company starts marketing a beer which it alleges is made solely from imported ingredients. Mega Company loses a major part of its sales as a result of this new beer. Mega Company knows that the new beer is not made from imported ingredients and that delivery notes from local suppliers, which will prove this, are stored at the head office of Ultra Company. Ultra Company denies all allegations that its beer contains local ingredients. Mega Company is convinced that if Ultra Company finds out that Mega Company is aware of the existence of the delivery notes, they will be destroyed (so that Ultra Company need not disclose them in any legal proceedings).

- ❑ Is there anything Mega Company can do to prevent this?

- ❑ What must Mega Company prove to obtain such relief?

After you have answered these questions, read Tutorial Letter 201 for feedback.

Conclusion

You should now know which remedies are available to a person with whom someone else has competed unfairly. You should understand the standards set by the TRIPS Agreement, and be able to determine how these standards can be implemented in national law.

FEEDBACK ON ACTIVITIES

Activity 1.1

In a socialist approach to the economic process, the State manages the process through its employees; in a free-market system, the economic process is largely determined by the participants in economic activity.

Whilst a socialist system does not usually create wealth and prosperity, a free-market system may result in an unequal distribution of wealth.

Competition law allows producers to enter markets which offer profit, and prevents the formation of monopolies.

The main feature is the existence of a competitive situation.

The objective of both is free and lawful competition.

Anti-competitive acts or behaviour can contravene both spheres of competition law.

Activity 1.2

The primary source of public competition law is statute, currently in South Africa, the Maintenance and Promotion of Competition Act 89 of 1998. In contrast, the primary source of unfair competition law is common law, more specifically in South Africa, the principles of the Roman-Dutch law relating to the law of delict (torts).

Activity 1.3

South Africa is a member of both the Paris Union and the World Trade Organization.

Activity 2.1

An objective criterion is a standard which is not influenced by the assessor's own thoughts or opinions, whereas a subjective criterion is assessed on a personal or individual view of the matter. Note that although an objective criterion is required to judge 'honest practices', this criterion can never be viewed as completely objective, as it is affected by time and place — what is viewed as honest varies according to the time and country concerned.

These rules may supplement each other, and are not exclusive, as statutes dealing with intellectual property protection are based on the notion of preventing unfair competition.

Activity 2.2

Mega Company will be able to approach a South African court for assistance if the competitive practice complies with all the requirements for delictual liability.

Mega Company will not be able to approach an English court for assistance unless the competitive practice falls within the definition of an existing tort.

Activity 2.3

In South African law, the basis for protection is the common-law principles governing the law of delict (tort).

The South African law of unfair competition recognizes a general action for unfair competition. As a result, new forms of unfair competition may be prevented, so long as all the elements that comprise a delict can be proved.

Activity 2.4

The five elements which must be present before liability for any form of delict is imposed are — conduct, wrongfulness, fault, causation, and damage.

Liability in terms of the Aquilian action occurs only if all the elements of a delict, including the element of damage, are present. If Ultra Company has suffered no financial loss, it will not be able to prove the element of damage.

If Mega Company makes a better beer than its competitors, there is nothing wrongful in its conduct. So, again, all the elements of a delict will not be present. Ultra Company will not be able to institute an Aquilian action, because it will not be able to prove the element of wrongfulness.

Activity 2.5

The Paris Convention uses the criterion of 'honest practices in business or commercial matters' (article 10bis(2)) to determine whether conduct is wrongful.

South African law uses the criterion of public policy — 'the general sense of justice of the community' to determine whether conduct is wrongful.

Activity 2.6

Although a trademark is a valuable part of a trader's goodwill, the two are not synonymous. A trademark can be separated from the rest of the goodwill, for example, by selling it to another trader. Also, a registered trademark enjoys statutory protection in addition to its protection at common law, if it has sufficient reputation to form part of the goodwill of a business.

Two possible aspects of goodwill are the location of the premises, and staff attitudes. (Try to think of other examples of reasons which make you prefer one shop to another.)

Activity 2.7

If the information is not freely available, it is likely that Mega Company's behaviour will be viewed as unfair competition, more specifically in the form of the misappropriation of secret information. (These facts are similar to those of *Dunn & Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* 1968 (1) SA 209 (C).) Note also that it is possible that this behaviour breaches other intellectual property rights such as copyright.

Publication of true information, even if it is disparaging about a trade rival, is not viewed as unfair competition in South African law (see further *Post Newspapers Ltd v World Printing & Publishing Co Ltd* 1970 (1) SA 454 (W)). Note that Ultra Company may not use any trademark owned by Mega Company in their advertisement, as this could constitute trademark infringement.

Activity 3.1

The two most important differences are:

unlike the WIPO Model Provisions, the Paris Convention requires a competitive situation between the parties; and

the WIPO Model Provisions require the act complained of to be the cause of the confusion, while the terminology of the Paris Convention is not quite as definite.

In addition, the WIPO provisions specify various examples of confusion.

Activity 3.2

Ultra Company must be able to prove —

that the get-up it uses has become distinctive of the beer it produces; and

that Mega Company's product is likely to deceive the public because it is confusingly similar to its product.

Activity 3.3

It is unlikely that Ultra Company will be able to institute action based on the use of either the gold-coloured can or the word 'sport', as both of these features appear to be in common use. Ultra Company will have to show that it has added further distinctive features to its get-up before a passing-off action will succeed.

Activity 3.4

Ultra Company is more likely to be successful if it bases its action on a comparison of the general get-up of the two brands than if it relies on the individual features of its product.

No. Although it is useful to present instances of actual confusion to the court, Ultra Company will be able to obtain an interdict without such evidence provided that there is a clear probability of deception or confusion.

Activity 3.5

According to early South African case law, this misleading image could result in the refusal of an interdict. But later decisions and writers on the subject hold that a misleading statement or image will affect the position only if the objectionable matter relates to the 'distinguishing function of the distinctive mark'. So where the misleading element is used only as the background to an advertisement, it is unlikely to influence the grant or refusal of an interdict.

Activity 4.1

The two types of protection are similar in that the relief afforded is the same in both instances. Also, the protection is given to a mark or get-up that enjoys a reputation. They differ in that, in passing-off, the distinctive mark is used in such a way that the public is deceived into thinking that two products or services are the same, whereas with misappropriation of the advertising value, the distinctive mark is used to advertise the product or service of another.

Activity 4.2

All three examples are forms of unconcealed misappropriation.

Activity 4.3

Both examples are forms of concealed misrepresentation.

Activity 4.4

In principle, it is possible that Ultra Company may have an action against Mega Company on this basis.

Ultra Company will have to prove —

- that its trade mark has acquired a reputation in connection with beer,
- that Mega Company is using its trade mark without consent, and
- that the distinctive character of the mark will be diluted by this use.

Activity 5.1

Article 10*bis*3(3) refers to ‘indications or allegations’ which could be misleading as to ‘the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods’.

Examples could include allegations such as the following:

nature — calling a product the ‘top brand’, or ‘voted the most popular product’;
manufacturing process — ‘cold-pressed olive oil’ when it is a cheaper oil produced by a heating process;
characteristics — ‘sharpest cutting edge’ for an ordinary kitchen knife;
suitability for purpose — the ‘multi-purpose house paint’ when it is suitable only for indoor use;
quantity — a packet that contains ‘at least 20 chocolate balls’ when most packets actually contain fewer.

These are some typical examples.

Activity 5.2

Ultra Company will be able to institute legal action against Mega Company. Mega Company’s use of the name ‘Bavaria’ on beer is misleading as to the source of the beer. It can also be viewed as misleading regarding the nature of the beer — a typical Bavarian beer has a recognizable style and flavour. Because Ultra Company is losing sales, it will be able to show that its goodwill is affected by this conduct of Mega Company's and so obtain an interdict.

It will be able to claim damages from Mega Company if it can prove fault on the part of Mega Company, and can show that it is, suffering, or is likely to suffer, financial loss due to this conduct.

Activity 5.3

Article 10bis3(3) of the Paris Convention refers to 'indications or allegations' which could be misleading as to 'the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods'.

Article 4(2) of the WIPO Model Provisions deals with both goods and services. It includes the list above but also refers to the geographical origins, the conditions on which goods or services are provided, and the price (or the manner of calculation of the price) of goods or services.

Section 9(b) of the Trade Practices Act deals with goods only and requires any 'statement or communication or ... description or indication' to be false or misleading in a *material* respect. This requirement does not appear in either of the international instruments and appears to imply a higher degree of culpability. Misleading can relate to the 'nature, properties, advantages or uses' of the goods — a list which corresponds to some extent with that of the Paris Convention. It can also relate to the manner, condition, or price of purchase or lease.

Section 6(1) of the Merchandise Marks Act is even more limited. It deals only with false trade descriptions applied to goods. Such descriptions can relate to the 'number, quantity, measure, gauge or weight of goods', or to their manufacturer or producer, or the place where made, their mode of manufacture or material, or any intellectual property rights to which they are subject.

When one compares these South African statutes with the international instruments, one must remember that, unlike the international instruments, neither statute is intended primarily as relief against unfair competition. It is for this reason that the statutory restrictions are more specific in nature.

Activity 6.1

Article 10bis 3(2) of the Paris Convention limits protection against discrediting to instances where a competitive relationship exists, and requires an actual falsehood before protection is granted. The WIPO model provisions do not contain such limitations.

Activity 6.2

Thus far, South African case law has only recognised an aquilian action for disparagement when an actual untruth has been told about the product or service of a competitor. The advertisement concerned does not contain an untruth as such, it is merely misleading. On the basis of decided cases, it is unlikely that the court will grant relief in this instance.

Yes. The WIPO model provisions do not require an actual false allegation — an unjustifiable allegation is sufficient. It is probable that the insinuation that Ultra Company's beer is less fattening than that of Mega Company will be viewed as unjustifiable, and so Ultra Company will be able to seek protection in terms of these provisions.

Activity 6.3

Although textbooks on the subject suggest that most comparative advertising should be actionable, South African case law has held that only untrue allegations are wrongful.

Activity 7.1

Examples of these forms of unfair competition are given on page 1.7.5.

Activity 7.2

If the contract with Ultra Company contains a restraint of trade clause, the director will commit breach of contract if he joins Mega Company, and Ultra Company may seek an interdict preventing him from doing so.

If the contract with Ultra Company has no restraint of trade clause, he may join Mega Company but may be sued for breach of confidence if he uses secret information belonging to Ultra Company to benefit his new employer.

In the context of secret information, the director may not encourage other persons to divulge secret information to a trade rival, even if he does not do so himself, and so he cannot entice his staff to leave in the hope that they will also provide Mega Company with secret information. (Note that the poaching of staff may also be a form of unfair competition.)

Activity 8.1

Yes. This action would comply with the requirements for rivalry in contravention of a statutory prohibition, as formulated in *Patz v Greene*.

In this instance it is necessary to study the wording of the relevant statute. If the statute merely prohibits sale at less that the set price, Mega Company cannot allege that any statute has been contravened. If, on the other hand, the statute prohibits any form of financial incentive to purchase one product rather than another, the gift of whisky is also a form of rivalry in contravention of a statute.

Activity 8.2

Yes. This is a clear example of harassment and secondary boycott.

Yes. This can be viewed as a form of secondary boycott because Ultra Company is attempting to dissuade other undertakings from dealing with Mega Company by telling untruths.

Activity 9.1

Ultra Company must apply for an urgent interim interdict.

To obtain an interim interdict, it must prove —

- a clear or prima facie right;
- if prima facie, a well-grounded apprehension of irreparable harm;
- that the balance of convenience favours the grant of interim relief; and
- that Ultra Company has no other satisfactory remedy.

Ultra Company must institute an action for a final interdict (and possibly also damages).

Ultra Company must prove —

- a clear right
- an injury committed or imminent
- no other satisfactory remedy

Activity 9.2

Ultra Company can ask the court to grant a delivery up order together with the interdict.

The court will usually only grant destruction, not delivery, unless Ultra Company can show that it has a justified fear that the documents will not be destroyed if they are left with Mega Company.

Activity 9.3

In the first example, Ultra Company will be able to prove fault on the part of Mega Company, in that it intended to harm Ultra Company by its actions. Damages are therefore available in theory, and a court is encouraged to estimate damages if a precise calculation cannot be made.

In the second example, the mere employment of a rival's employee does not give rise to a claim for damages if there was no fault (intent or negligence) on the part of Mega Company. (Note that inducing the employee to part with secret information, or to breach her employment contract with Ultra Company, may be forms of unfair competition.)

Activity 9.4

Ultra Company must request the court to grant an Anton Piller order. See page 1.9.11 for what must be proved to obtain such an order.