IP ENSight

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Fight as a soldier, not a guerrilla

by Waldo Steyn

What exactly is unlawful competition? Unlawful competition is often lumped together with IP, and indeed there are obvious links: the common law action of passing off (closely related to trade marks) is a species of unlawful competition; and unlawful competition cases often involve technology, trade secrets and the misuse of confidential information, thus potentially bringing them within the scope of patent law and copyright law. So, the recent South African Court of Appeal ("**SCA**") judgment in the case of *Pexmart CC v H. Mocke Construction (Pty) Ltd* is important.

The issue here was whether Pexmart had unlawfully used confidential information and trade secrets belonging to Mocke Construction. The confidential information and secrets related to a process of lining (with plastic) steel pipes that are used in the mining industry, with a view to preventing corrosion. The man behind Mocke Construction had worked closely with an American in developing this lining process, and the American had licensed his own IP to the company. At one stage, Mocke Construction employed an individual by the name of Henn. Henn subsequently went on to join Pexmart, a rival business. When Pexmart started supplying the same product to the gold mining company that Mocke Construction was doing business with (at a cheaper price) Mocke Construction sued, claiming unlawful competition.

Judge Navsa, who handed down the court's judgment, went through the basics of unlawful competition. The obvious starting point was the famous case of *Schultz v Butt*, where the court said this: "As a general rule, every person is entitled freely to carry on his trade or business in competition with his rivals. But the competition must remain within lawful bounds. If it is carried on unlawfully, in the sense that it involves a wrongful interference with another's right as a trader, that constitutes an *injuria* for which the Aquilian action lies if it has directly resulted in loss."

The judge looked at another famous case, *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cap) Pty Ltd*, where these dramatic words were said: "Though trade warfare may be waged ruthlessly to the bitter end, there are certain rules of combat which must be observed. The trader has not a free lance. Fight he may, but as a soldier, not a guerrilla."

Judge Navsa made the point that there is no closed list of actions constituting unlawful competition, but there are some obvious prohibitions, for example:

- trading in contravention of a law
- fraudulent misrepresentation
- publication of injurious falsehoods
- physical assaults and intimidation
- passing off of a rival trader's goods
- unfair use of a competitor's fruits and labour
- misuse of confidential information
- inducement of a breach of contract
- interference with character merchandising rights

The judge said that this case was primarily involved with the misuse of confidential information and trade secrets, incorporating the unfair use of a competitor's fruits and labour. In this context he referred to the decision of *Harchris Heat Treatment (Pty) Ltd v Iscor*, where the court described the confidential information in issue as "intellectual property", meaning that the owner has the "right to exploit it."

In order for information to qualify as a trade secret, the judge said that three requirements must be met. These are as follows: the information must be capable of application in trade or industry; the information must be secret or confidential; and the information must be of economic (business) value to the plaintiff.

Dealing with confidential information, the judge made the point that in the *Schultz* case (see earlier) – a case that dealt with a design for a hull of a boat, and where the defendant not only used the design but even went on to get a design registration ("adding impudence to dishonesty", in the words of the court) – there was unlawful competition, despite the fact that there had not actually been any use of confidential information. In that case, the court relied on concepts of fairness and honesty and said this: "There can be no doubt that the community would condemn as unfair and unjust Schultz's conduct in using one of Butt's hulls (which were evolved over a long period, with considerable expenditure of time, money and labour)."

Applying the law to the facts, Judge Navsa made a number of findings. The process used by Pexmart was similar to the process developed by Mocke Construction, with the differences being immaterial. The protectable information involved in this case had been developed over decades through trial-and-error, both by the American who had licensed his IP, and through refinements made in South Africa. The evidence that the trade secrets had been developed over many years and through many hours of practical application was uncontroverted. The information quite clearly had economic value.

The judge was also critical of Pexmart. The fact that it had failed to call Henn as a witness counted against it. As did the fact that Pexmart had at one stage unsuccessfully sought a licence from Mocke Construction. The judge concluded that there had been unlawful competition.

Companies should not overlook unlawful competition, given that it potentially has a very broad application, but they should certainly not see it as a substitute for IP registrations, such as trade marks or patents. Registered rights not only have a strong deterrent value, but they are also easier to enforce than common law rights.

Waldo Steyn

IP | director

cell: +27 82 382 6404
