THE RIGHT TO THE TRADE SECRET

by

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FOREWORD

I wish to express my deepest gratitude to:

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This work is dedicated to my parents with my love.

Johann Knobel
Pretoria
June 1996
A legally protectable trade secret is secret information which is applicable in trade or industry, in respect of which the owner has the will to keep it secret, which has economic value, and which is concrete enough to be embodied in a tangible form and to exist separately form its owner. A comparative study reveals that while trade secrets can be infringed in three ways - namely unauthorized acquisition, use and disclosure - contemporary legal systems differ in respect of both the ambit and juridical bases of protection against such infringing conduct.

The legal protection of trade secrets is promoted by the recognition of a subjective right to the trade secret. This right is an intellectual property right independent of statutory intellectual property rights like patent rights and copyright, the common law intellectual property right to goodwill, and the personality right to privacy.

In South African private law, trade secrets can be adequately protected by the application of general delictual and contractual principles. Delictual wrongfulness of trade secret misappropriation is constituted by an infringement of the right to the trade secret. Thus any act that interferes with the powers of use, enjoyment and disposal exercised by someone with a subjective right to that trade secret, is, in the absence of legal grounds justifying such interference, wrongful. Patrimonial loss caused by both intentional and negligent infringement of trade secrets should be actionable under the *actio legis Aquiliae*. Wrongful trade secret infringements can - also in the absence of fault on the part of the infringer - be prevented by an interdict. Protection of trade secrets is not restricted to the contexts of either unlawful competition, or fiduciary relationships.

Trade secret protection is on a sound footing in South African law, compares favourably with the position in other legal systems, and is in step with the international agreement on *Trade-Related Aspects of Intellectual Property Rights* to which South Africa is a signatory nation.

**KEY TERMS:** Trade secrets; Confidential information; Legal protection; Private law; Contract; Delict; Intellectual property; Subjective rights; Unlawful competition; Fiduciary relationships.
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CHAPTER 1

INTRODUCTION

1.1 TRADE SECRETS AND TRADE SECRET MISAPPROPRIATION TODAY

One of the most important determinants of the success of modern commercial and industrial enterprises is the information utilized by them. The competitive edge provided by such information is potentially at its premium if the information is only available to one enterprise and not to others. Thus trade secrets - which may provisionally be defined as secret information capable of application in trade and industry - are jealously guarded by many entrepreneurs and commercial enterprises from access by competitors and potential competitors. Such trade secrets may include information as varied as medical and cosmetic formulae, manufacturing processes, geological studies pinpointing the location of rare minerals, computer software, customer lists, and plans for corporate take-overs.

The lengths to which individual enterprises will go to protect their particular trade secrets, give an idea of the perceived value of trade secrets in the commercial world. A good example is the measures taken by the Coca-Cola company to protect the complete formula of Coca-Cola. This formula has been described in an American court as one of the best-kept trade secrets in the world. Most of the ingredients of Coca-Cola are common knowledge, but the ingredient which gives it its distinctive taste is a secret combination of flavouring oils and other ingredients, known as "Merchandise 7X". The formula for Merchandise 7X has been tightly guarded since Coca-Cola was first invented. It is known to only two persons in the company at any one time. Only these two persons may oversee the actual preparation of Merchandise 7X. Their identity is never disclosed to outsiders, and they are not allowed to fly on the same aeroplane at the same time. The written version of the formula of

---

1 Pooley ixff.
2 Cf Coleman Trade secrets 1; Delpoort 1982 BML 164; Pienaar 2ff.
3 Cf eg Eells and Nehemkis 110; Van Heerdan and Neethling 227.
4 Coca-Cola Bottling Co v Coca-Cola Co 107 FRD 288 (1985) 289. This judgment is the source from which the protective measures of the Coca-Cola Company in respect of the formula of Coca-Cola, as set forth in the main text, have been gleaned.
Merchandise 7X is kept in a security vault in a bank in Atlanta, and this vault can only be opened by a resolution from the company's board of directors. The company decided not to produce Coca-Cola in India, a potential market of 550 million persons, because the Indian government required disclosure of the secret formula as precondition of doing business there. The value of this specific trade secret becomes even clearer if one keeps in mind that Coca-Cola is credited by the Guinness Book of Records\(^5\) as the world's most popular soft drink, with sales in 1992 of 506 million drinks per day, representing an estimated 46 per cent of the world market.

A further indication of the potential value of trade secrets, is the eagerness with which competitors in the market endeavour to gain access to the trade secrets of others. This phenomenon is not a new one. Thus Eells and Nehemkis describe,\(^6\) for instance, how the French succeeded in the eighteenth century to learn the secret manufacturing process employed by the Chinese to produce high quality porcelain, only to have the secret stolen from them by the English.\(^7\) However, the surreptitious acquisition of the trade secret of others is particularly prevalent in modern times. Eells and Nehemkis paint\(^8\) the following picture of industrial espionage in contemporary societies:

"The corporate spy's mission is to acquire a rival's secret proprietary information - by outright theft, when necessary, or by more subtle, conventional methods, when possible. Whichever method is utilized, industrial espionage is widespread and commonplace throughout the contemporary business world. Owing to the technical nature of their trade secrets, competitive espionage is prevalent and intense in the high-technology industries - in aerospace, electronics, computer, instrumentation, pharmaceuticals, cosmetics and weaponry. In addition, few US industries - large or small, well-known or obscure - are entirely free from economic espionage. One security expert puts it this way: 'Little companies steal from big companies. Big companies steal from little companies. Everybody steals from everybody.' As Japan, the Soviet Union, Western Europe and the United States vie with increasing intensity for economic supremacy,

\(^5\) 222.

\(^6\) 108-109.

\(^7\) Cf further Eells and Nehemkis 109: "The catalogue of misappropriated technology and trade secrets is extensive. In the march of industry there is scarcely a technological development which has not been stolen by competitors or would-be competitors: the secret for steel production was stolen from the British by the German Alfred Krupp; the secret of rubber was stolen by spies and pirates who repeatedly infringed on Charles Goodyear's basic patent for vulcanization; and representatives of various nations freely pirated Rudolf Diesel's car engine. It is not an exaggeration to say that modern industry is largely wrapped in the mantle of stolen trade secrets."

\(^8\) 109-110.
industrial espionage has reached epidemic proportions."

The enormity of losses sustained by the misappropriation of trade secrets is not easily assessed. The misappropriation of trade secrets is not always easy to detect. Enterprises may be unable to demonstrate that their poor performance in the market is due to the misappropriation of their trade secrets, and if they can, they may be too embarrassed to do so. Accurate statistics are therefore impossible to compile. Nevertheless, in a text published in 1987, Pooley states that the losses sustained by American businesses as a result of the misappropriation of trade secrets, are estimated to exceed $4 billion annually. In the late 1950's and early 1960's the American Cyanamid Corporation was the victim of systematic theft of its trade secrets relating to drug cultures, and the sale thereof to Italian competitors. Cyanamid claimed that the development of the antibiotics concerned had cost them $30 million in research and development, and estimated that sales losses to Italian competitors resulting from the trade secret misappropriation might have been as much as $100 million.

Many different methods are employed to gain access to trade secrets without the consent of the owners thereof. These methods range from very basic procedures which may be performed by almost anyone, to highly sophisticated procedures which can only be performed by specialists armed with costly technological aids. Commercial rubbish may be collected and analyzed with the purpose of finding items like memoranda and reports, computer printouts, used floppy and stiffy discs, fax sheets containing fax numbers and names of senders, customer lists, invoices and delivery notes of raw materials, containers which can give an indication of contents, ingredients and volumes, bank details, and so forth. In one instance on record, a cleaning woman was persuaded by a competitor of the chemical company where she was employed, to sell the trash she collected to the mentioned competitor, who eventually found a secret batch formula among discarded notes. Agents are recruited from the labour force of competitors, or the services of professionals are

9 Cf Saunders 8-9.
10 Bottom and Gallati 16.
11 x.
12 Hamilton 49-50; cf Saunders 3 who puts the amount at $24 million ($8,57 million at the time the espionage took place).
13 Hamilton 49-50.
14 Bottom and Gallati 36; Croft 35-41.
15 Eells and Nehemkis 126.
hired, to obtain details of new product designs, details of research and development, board minutes, memoranda and so forth. In the United States there are industrial espionage agents who specialize in locating engineers and technicians with disproportionately large mortgages on their homes, or who are otherwise obviously living beyond their means, for recruitment to their espionage networks. Once such individuals have been persuaded to accept payment for supplying relatively harmless information, they are frequently easily conditioned to purloin valuable trade secrets. Sophisticated surveillance equipment is used to spy on competitors. A survey in the USA estimated that over 10,000 illegal "bugs" or listening devices are planted each year - more than twenty times the amount of legal bugs for law enforcement purposes. These devices may be concealed in any conceivable position inside buildings, in corporate gifts, and in clothing. Directional microphones of various descriptions facilitate the recording of conversations from a distance. A so-called "laser bug" makes it possible to eavesdrop on conversations conducted behind closed doors from adjacent buildings or parked vans up to a distance of 500 meters away. A laser beam, which is in the invisible infrared waveband, is aimed at a window of the room in which the conversation is being conducted. As the light waves hit the surface of the window, they are modulated by vibrations of the glass caused by the conversation inside the room. The beam is reflected back into a device which converts the light waves into audible sound. Current technology has made it possible to listen in on conversations conducted not only on conventional telephones, but cordless and cellular phones as well. Facsimile (fax) machines can also be "tapped". Miniature cameras built into items such as cigarette packets, wrist

16 Croft 41-43.

17 Eells and Nehemkis 127; cf Bottom and Gallati 50.

18 Cf Croft 98ff for a discussion of different types of listening devices employed in industrial espionage.

19 Saunders 121.

20 Saunders 44-45.

21 Cf Croft 98.

22 Eells and Nehemkis 126: "[A] 'stereo bra' with a separate microphone in each cup... enables the wearer, seated in a bar, to transmit simultaneously conversations from both her left and right. In short, the bar girl who is hired to eavesdrop becomes a veritable broadcasting station."

23 Croft 102-105.

24 Croft 100; Saunders 45.

25 Croft 110-114.

26 Croft 106.
watches, pocket watches, ballpoint pens, vanity cases and walking sticks may be used to photograph documents, machinery and production lines.\textsuperscript{27} Conventional 35mm cameras equipped with high-magnification telephoto lenses, as well as video cameras, may also be used for espionage purposes.\textsuperscript{28} Photography from an aeroplane has been employed to record the layout of a new production plant under construction.\textsuperscript{29} Current trends towards the wholesale computerisation of information makes trade secrets increasingly vulnerable to unauthorized access by computer "hackers", who can - with access to no more than a computer terminal and a telephone - invade computer systems. Computer security consultants maintain that no computer has yet been built which cannot be penetrated.\textsuperscript{30}

Not all methods of obtaining the trade secrets of others, can strictly be termed industrial espionage. A most prevalent method of obtaining a competitor's trade secrets is "reverse engineering" or "bench-marking" - that is, the analysis of new products released on the market.\textsuperscript{31} Croft\textsuperscript{32} cites the example of Canon producing, in the late 1970's, a photocopier that was cheaper than the comparable machine manufactured by Xerox, resulting in Xerox's market share in photocopiers shrinking from forty-nine per cent to twenty-two per cent in just a few years. By reverse engineering Canon's machine, Xerox succeeded in arresting the downward slide in their market share. Eells and Nehemkis\textsuperscript{33} quote a spokesman for General Motors stating in public: "It's no secret that we buy damn near all our competitors' products and tear them down to the last bolt... It's good business." Furthermore, increasingly mobile employees\textsuperscript{34} frequently leave their employers to take up new employment or start their own businesses, often taking knowledge of their former employers' production and marketing secrets with them.\textsuperscript{35}

\textsuperscript{27} Cf Croft 138-140.
\textsuperscript{28} Croft 141-142.
\textsuperscript{29} Croft 76-77; Eells and Nehemkis 112; Bottom and Gallati 19.
\textsuperscript{30} Eells and Nehemkis 134-138; cf Croft 124-131; Saunders 6-7.
\textsuperscript{31} Croft 77-78; Eells and Nehemkis 131-132; Pooley 171.
\textsuperscript{32} 78.
\textsuperscript{33} 131.
\textsuperscript{34} Cf in general Saunders 11-21.

\textsuperscript{35} Such employees may be enticed away by their employers' competitors as part of an industrial espionage strategy (cf Bottom and Gallati 42-43: "Hiring away a key employee has long been a technique of industrial espionage. Such a technique has an increased value in an age of job mobility, an uncertain business climate, and a decline in moral values. The new employee is expected to bring all knowledge gained while at the previous job. Sometimes the new employee is expected to bring
It is clear that trade secrets are extremely valuable assets in industry and commerce today. It is equally clear that trade secrets are increasingly under threat of appropriation by people with no authority to do so. Whereas the examples cited here have been taken from literature dealing with other countries, there is no reason to presume that the position is meaningfully different in South Africa. It stands to reason that the law must take cognizance of trade secrets and trade secret misappropriation. In this study, the basis and scope of the legal protection of trade secrets are investigated.

1.2 PARAMETERS AND METHODOLOGY

This study is confined to the following parameters:

a) The study is basically confined to private law. Cognizance is taken of criminal law provisions only in so far as they shed light on the protection of trade secrets in private law. Constitutional law is considered in so far as private law rules are influenced by fundamental human rights.

(b) For the purposes of this study a trade secret is regarded as information (i) capable of commercial or industrial application (ii) which merits legal protection on account of its secrecy, that is, its limited accessibility. The approach followed is not to take terminology at face value. If information complies with the two mentioned minimum requirements, it falls within the scope of this study - irrespective of whether it may be called a 'trade secret', 'business secret', 'industrial secret', 'confidential information', or 'know-how' by a particular judge, statute or commentator. Information which is not applicable in commerce or industry, or which is not protectable on account of its secrecy, strictly falls copies of data that could be useful to the new employer. Due to the miniaturization in data storage and the expansion in microchip usage, this illicit transfer will be harder to prevent as time goes by. However, no sinister undertones need to be present - the employee's move may be a bona fide step, taken in the absence of any undue outside influence, to make a new occupational start.

Industrial espionage may not be as intense or as sophisticated as in, say, the United States of America, but the same threats of trade secret misappropriation are undoubtedly present. This is clearly evident from the number of trade secret misappropriation cases which have already served before our courts - see ch 9 below.

Thus in the comparative study of German law it was necessary to examine the criminal law protection of trade secrets in German law in some detail to determine the scope of private law protection - see ch 4 below.

These are the minimum requirements employed to help define the parameters of this thesis. Other characteristics or elements of protectable trade secrets will be highlighted later.

36 Industrial espionage may not be as intense or as sophisticated as in, say, the United States of America, but the same threats of trade secret misappropriation are undoubtedly present. This is clearly evident from the number of trade secret misappropriation cases which have already served before our courts - see ch 9 below.

37 Thus in the comparative study of German law it was necessary to examine the criminal law protection of trade secrets in German law in some detail to determine the scope of private law protection - see ch 4 below.

38 These are the minimum requirements employed to help define the parameters of this thesis. Other characteristics or elements of protectable trade secrets will be highlighted later.
outside the compass of this study. However, in some instances attention is given to such information, since a juxtaposition of such information and trade secrets may contribute to a clearer understanding of the nature of the latter and the scope and basis of the legal protection thereof. It may be noted that although information cannot be "owned" or "possessed" in quite the same way as a tangible thing, it was nevertheless judged more convenient for the purpose of this study to refer to the owner and possessor (the latter for instance under a license) of a trade secret, rather than the "right-holder" or the "person with a right to a trade secret". 39

(c) The study is a comparative one. One of its main objectives is to produce a relatively comprehensive exposition and critical appraisal of the protection of trade secrets in South African private law. To facilitate evaluation of the position in South African law, a comparative survey of the protection of trade secrets in the contemporary legal systems of three industrialized Western countries is undertaken. Cognizance is also taken of the GATT 40 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). A comparative study is preferred to a historical one because the immense economic importance of trade secrets, and concomitantly the threats of misappropriation in their current guises and of their current magnitude, are essentially modern phenomena. 41 A comparison of contemporary legal protection of trade secrets in industrialized countries, is therefore considered to be more appropriate and productive than an inquiry into the historical development of the legal protection of trade secrets. The growing trend towards international uniformity of laws of commercial application, including those pertaining to intellectual property, 42 also contributes to make a comparative study the logical choice.

Legal systems for comparative study were chosen to represent both of the two

39 Cf Knobel 1990 THRHR 488 fn 1; Domanski 1993 THRHR 232-233.

40 General Agreement on Tariffs and Trade. See ch 5 below.

41 Cf in general Van Heerden and Neethling 51-52. (The misappropriation of trade secrets was, however, probably not entirely unknown in eg Roman law. The actio servi corrupti might have been available to the owner of a slave for recovery of double damages from someone who had enticed or forced the slave to disclose the owner’s business secrets. Cf Schiller 1930 Columbia LR 837ff; Van Heerden and Neethling 52 fn 7.)

major Western legal families - the common law systems with their generally more casuistic approach and strong case law tradition, and the Romano-Germanic (civil law) systems with their strong emphasis on general principles of liability and their codification tradition. English law was chosen as mother system of the common law legal family, and because of its pervasive influence on the protection of trade secrets in South African law. The law of the United States of America was chosen as a second example of the common law legal family. The American law of trade secrets provides enlightening comparative material since it shares the same common law origins of English law, but has seen more progressive development than the mother system. American law is furthermore a contender for comparative research by virtue of American authority having been cited in South African trade secret cases. German law, generally held in high esteem among South African legal scientists, was chosen as representative of the civil law legal family. Finally, American and German trade secrets law developed in societies governed by constitutions with entrenched human rights. Since South Africa does not have a long tradition of fundamental human rights, but all laws must now conform to the values upheld by the new Constitution, a study of trade secret protection in these two foreign legal systems is also valuable from this perspective.

1.3 STRUCTURE

In chapters 2, 3 and 4 the protection of trade secrets in respectively English, American and German law are examined. The elements of protectable trade secrets, the different forms of infringement recognized, legal remedies, specific problems with the legal protection of trade secrets, and the legal bases of protection, are investigated in respect of each of the chosen foreign legal systems. In chapter 5 the relevant provisions of the GATT TRIPs agreement - to which the three countries mentioned, as well as South Africa, are signatories, and which can therefore be expected to exert an important influence on the legal protection of trade secrets in

43 Cf in general David and Brierley 24-26 307ff; Van Zyl Regsvergelyking 169ff; Zweigert and Kötz 187ff.

44 Cf in general David and Brierley 22-24 33ff; Van Zyl Regsvergelyking 56ff; Zweigert and Kötz 76ff 138ff.

45 Probably because, as a result of the influence of the German Pandectist School, the German codification displays a precision and rigour of thought unmatched by other continental codes - cf eg Zweigert and Kötz 150. Furthermore, German law saw a more complete reception of Roman law - which is also the foundation of South African common law - than other Romano-Germanic systems - cf Hosten et al 306; Van Zyl Geskiedenis 228ff.

46 Act 200 of 1993 sec 35(3) - cf par 8.2.2.1 below; Van Heerden and Neethling 16.
these territories in future - are examined. Chapter 6 contains a brief juxtaposition of some of the results of the comparative study described in the foregoing four chapters. Thus common ground between the three foreign systems and the provisions of the *GATT TRIPs* agreement is highlighted on the one hand, while differences between them, and peculiarities of each system, are also exposed.

Chapter 7 is an analysis of the nature of trade secrets as valuable assets protected by the law, and the basis of such protection, in the light of insights gained from the comparative study and an application of the doctrine of subjective rights as recognized in South African law. Thus the universal elements of legally protectable trade secrets are discussed in some depth, various potential bases of legal protection and their compatibility with the South African legal system are considered, and the case in favour of the recognition of a subjective right to the trade secret is argued.

In chapter 8 a theoretical model for the protection of trade secrets in South African law is presented. In constructing this model, insights gained from all the foregoing chapters are built upon. Thus it is endeavoured to emulate the strengths and avoid the weaknesses of the practical protection of trade secrets in the three foreign legal systems where possible, whilst care is taken to promote results harmonizing with the provisions of the *GATT TRIPs* agreement. The elements of protectable trade secrets, and the implications of the recognition of a subjective right to the trade secret, are also kept in mind. It must be stressed, however, that this model is not intended to be of universal application to all legal systems. Therefore an important element of the model is an exposition and application of general principles of the South African law of delict and contract. A model of how trade secrets should be protected by an application of general South African legal principles, in the light of insights gained by comparative legal research and the acceptance of a subjective right to the trade secret, is thus presented. It is hoped that this model will serve two purposes - first, as a basis for a critical evaluation of the existing recognition and protection of trade secrets in the South African positive law, and second, to suggest answers to some questions concerning trade secret protection which have not yet been addressed by the South African courts or legislature.

Chapter 9 contains a critical statement of the South African positive law concerning the recognition and protection of trade secrets. Whereas the previous chapter contains expositions of many general principles of South African law, South African case law dealing specifically with trade secrets, is only discussed in detail in this chapter. The position is evaluated on the basis of the theoretical model of trade secret protection presented in the previous chapter.

Chapter 10 contains a brief conclusion.
2.1 INTRODUCTION

In English law trade secrets are protected principally\(^1\) by the action for breach of confidence.\(^2\) This action has been described\(^3\) as a "civil remedy affording protection against the disclosure or use of information which is not publicly known and which has been entrusted to a person in circumstances imposing an obligation not to disclose or use that information without the authority of the person who has imparted it". Various types of information - not only trade secrets - may be protected against breach of confidence by this action.\(^4\) Broadly they may be categorized as information of a commercial or industrial nature - such as trade secrets - and information concerning an individual's private life and experience.\(^5\) Little legal significance attaches to the distinction between the various classes of information - they are basically subject to the same legal principles.\(^6\) The law of breach of confidence is almost entirely based on case law.\(^7\)

The English Law Commission investigated the law relating to breach of confidence in England and Wales.\(^8\) Working Paper No 58 on *Breach of Confidence* was

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\(^{1}\) See Vitoria 177ff for a brief overview of torts and crimes which can conceivably be committed in connection with trade secrets; cf Winfield and Jolowicz 590.

\(^{2}\) Cf Coleman *Trade secrets* 4; Gurry 3; Vitoria 162ff.

\(^{3}\) *LAW COM No 110* 10.

\(^{4}\) Cf Bainbridge 219; Coleman *Trade secrets* 1; Cornish 215; Gurry 6ff; *LAW COM No 110* 9.

\(^{5}\) *LAW COM No 110* 9. Cf Coleman *Trade secrets* 1 who mentions trade secrets, personal secrets and governmental secrets; Gurry 6ff who lists trade secrets, personal confidences, government information and artistic and literary confidences.

\(^{6}\) Cf Cornish 215 220; *LAW COM No 110* 9. However, Coleman *Trade secrets* 1-2 9 and Gurry 89 suggest that different policy considerations govern legal intervention in respect of the different classes of confidential information.

\(^{7}\) Cf Bainbridge 219. The action for breach of confidence has received statutory recognition in sec 17(1) of the Copyright, Designs and Patents Act 1988, and sec 1 of the Official Secrets Act 1989 provides for a number of offenses relating to the disclosure of confidential information.

\(^{8}\) The Scottish Law Commission investigated the Scottish law of breach of confidence, culminating in the publication in 1984 of a report on *Breach of Confidence (SCOT LAW COM No 90).*
The report contained a thorough examination of the existing law relating to breach of confidence as a whole - and thus not only to trade secrets, but personal confidences as well. A number of perceived shortcomings were pointed out, and it was recommended that the present action for breach of confidence be abolished and replaced by a statutory tort of breach of confidence. The published report also contained a draft *Breach of Confidence Bill* which has, however, never been enacted. The future development of this branch of the law is thus still firmly in the domain of the courts.

### 2.2 REQUIREMENTS FOR THE PROTECTION OF TRADE SECRETS

To found the action for breach of confidence, a plaintiff must prove that:

(a) the information which is sought to be protected is in some measure confidential or secret;

(b) it was imparted in circumstances giving rise to an obligation of confidence; and

(c) the defendant has breached this obligation of confidence by some unauthorized use or disclosure of that information.

The prerequisites for reliance on the action for breach of confidence may therefore be said to relate basically to the following:

(a) information of a secret or confidential nature; and

(b) the origin and breach of an obligation of confidence.

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9 Cited as LAW COM No 110. For a general discussion of the report, cf Coleman 1982 *EIPR* 73.

10 Cf Gurry 474.

11 These views of the Law Commission will be referred to below where deemed appropriate.

12 LAW COM No 110 103.

13 LAW COM No 110 Appendix A 179-236.

14 Cf Bainbridge 222-223; Coleman 1982 *EIPR* 78.

15 See further Coleman *Trade secrets* 15-18 48-49 85-87; Gurry 474-479.

16 Cf Bainbridge 221-222; Chandler and Holland 22; Coleman *Trade secrets* 4; Coleman *Intellectual property* 9-10; Cornish 220; Gurry 4-5. The requirements stated are based on Coco v AN Clark (Engineers) Ltd [1969] RPC 41. However, Bainbridge 223 suggests that the second requirement, viz that the information must have been imparted in circumstances importing an obligation of confidence, might make this test unduly restrictive. Thus it is problematical to apply to persons improperly acquiring information, eg by industrial espionage. See further par 2.4.2; 2.4.3 below.
2.2.1 NATURE AND CHARACTERISTICS OF TRADE SECRETS

2.2.1.1 TERMINOLOGY

2.2.1.1.1 Confidential information

In English case law, reference is often made to the term *confidential information*, rather than *trade secrets*. These two concepts are often used as apparent synonyms, but certain distinctions must be borne in mind. In the first place, confidential information protectable against breach of confidence need not necessarily be capable of commercial or industrial application, but can also relate to an individual's private life.17 In South African law the last-mentioned category of confidential information belongs to the sphere of the law of privacy,18 a subject falling outside the scope of this study. Secondly, it has been suggested that information can be confidential without being secret.19 The issue(s) of secrecy and confidentiality will be examined in depth.20 For the time being it should be borne in mind that even confidential information that can be applied in commerce and industry may possibly not qualify as trade secrets since confidentiality may be a wider concept than secrecy.

2.2.1.1.2 Trade secrets

While the term *trade secret* is used *eo nomine* in English cases, it is difficult to find a generally accepted definition of trade secrets in English law.21 In its report on *Breach of Confidence*22 the English Law Commission adopted the stance that it was

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17 Cf par 2.1 above.

18 Neethling *Personality* 33ff; par 7.4.4.3 below.

19 Cf par 2.2.1.2.3; 2.4.1 below.

20 Par 2.2.1.2.3 below.

21 Cf Bainbridge 226: "The term 'trade secret' is often used in relation to confidential information associated with industrial and commercial activity. The classification of some forms of confidential information as trade secrets is important because the protection afforded by the law may depend upon it. Unfortunately, there is no satisfactory legal definition of the term." The tendency of English judges and legal scholars not to devote too much attention to the formulation of definitions for recognized legal concepts, and its apparentness particularly in the field of trade secrets law, is pointed out by Vitoria 9. Cf Coleman *Trade secrets* 4: "It is probably impossible to define a trade secret, but this is not particularly important. It is much better to look at a number of descriptions in order to acquire a general appreciation of the concept, for this is the approach adopted by the courts when attempting to classify information in order to assess whether it is capable of being protected by the laws of confidentiality." Cf Purvis and Turner 1989 *EIPR* 4: "[T]he word[s 'trade secret'] had never... been used to mean anything more precise than commercially sensitive or valuable information with an element of confidentiality about it."

22 *LAW COM No 110* 9.
impracticable and unnecessary to distinguish between information of a commercial or industrial nature on the one hand and information concerning an individual’s private life and experience on the other, and therefore declined to furnish a definition of a trade secret.

Vitoria extracts the following elements of a trade secret from case law:
(a) it consists of information;
(b) the information must be secret either in an absolute or a relative sense;
(c) the possessor must demonstrate that he has acted with an intention to treat the information as a secret;
(d) the secret information must be capable of industrial or commercial application; and
(e) the possessor must have an interest in the information worthy of legal protection, bearing in mind English principles of equity; this will generally be an economic interest.

Taking Vitoria’s elements as a point of departure, a trade secret protectable under English law may be defined as secret information capable of industrial or commercial application, in respect of which the possessor has the will to keep it secret.

2.2.1.1.3 Know-how

Apparently from American origin, the term *know-how* is also often encountered in English case law. Its vagueness and “chameleonic character” have been mooted by several authors. On the one hand it is used as a synonym for confidential information of a technological character, particularly information concerning the practical day-to-day working of complicated and definite processes. On the other hand it is sometimes used to denote subject-matter that cannot be protected as confidential information, such as the acquired skill and experience of a technician.

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23 For the purposes of this study it was deemed necessary to make this distinction, inter alia to facilitate comparison with South African law, where the distinction is a real and necessary one. Cf par 2.2.1.1.1 above.

24 11.

25 Cf also Bainbridge 226.

26 Vitoria 79; Reid 2.

27 Cf Coleman *Intellectual property* 12; Reid 3; Turner 17-20; Vitoria 79-95.

28 Reid 2; Turner 17.
which are inseparable from him or her.\textsuperscript{29}

2.2.1.4 Conclusion

As this study deals with trade secrets, only the protection of confidential information applicable to commerce or industry is considered here. Even though the legal protection of confidential information of a personal nature\textsuperscript{30} is in English law effected by the same action, it will not be considered here. Because of its ambiguity, the term \textit{know-how} will not be used as a technical term in this study.\textsuperscript{31}

2.2.1.2 ELEMENTS OF A TRADE SECRET

The following elements of a trade secret protectable at English law may be discerned:

\begin{itemize}
  \item [(a)] information;
  \item [(b)] commercial or industrial applicability;
  \item [(c)] secrecy;
  \item [(d)] a will on the part of the possessor to preserve secrecy; and
  \item [(e)] economic value.
\end{itemize}

2.2.1.2.1 Information

A trade secret consists of \textit{information}. This information may be well developed and organized, as in the case of a specific recipe or manufacturing process; or it may be a yet undeveloped idea.\textsuperscript{32} The information may be recorded in writing, be it in words, figures, diagrams, drawings or other pictorial rendering; or it could be embodied in a physical object like a machine or a tool.\textsuperscript{33} The important point here is that the action for breach of confidence protects the information itself and not its carrier - that is, the piece of paper on which, or other physical object in which, the information may be embodied.\textsuperscript{34} In fact, the information can be protected even if it has not been

\textsuperscript{29} Cf Coleman \textit{Intellectual property} 12; Reid 3; Turner 17.

\textsuperscript{30} In South African law, this is the province of the law of privacy, a field distinct from trade secrets law - cf par 7.4.4.3 below.

\textsuperscript{31} Cf Reid 3; and see again par 1.2 above on the approach to terminology adopted in this study.

\textsuperscript{32} Cf eg Turner 14ff.

\textsuperscript{33} Cf Gurry 66-67 and authorities cited.

\textsuperscript{34} Vitoria 12.
expressed in a tangible form, but has been communicated in confidence orally.\textsuperscript{35}

2.2.1.2.2 Commercial or industrial applicability

Although this requirement is not given much prominence in case law or literature, it is clear that in order to constitute a trade secret, information must be capable of commercial or industrial application.\textsuperscript{36}

2.2.1.2.3 Secrecy/confidentiality

If information capable of industrial or commercial application is to qualify as a protectable trade secret, it must be secret or confidential.\textsuperscript{37} The \textit{locus classicus} normally cited\textsuperscript{38} for this requirement is \textit{Mustad v Dosen}.\textsuperscript{39} In that case, the plaintiffs applied for an injunction restraining the communication of information regarding a process for the manufacture of fish hooks. However, the plaintiffs had disclosed the process in a patent specification filed for the purpose of obtaining patent protection. Publication of the process destroyed the secrecy thereof, and therefore the application failed.

The courts have with increasing frequency\textsuperscript{40} stated the secrecy requirement by saying that the information which is sought to be protected must not be in the "public domain". In the seminal case, \textit{Saltman Engineering Co Ltd v Campbell Engineering Co Ltd},\textsuperscript{41} the secrecy requirement was expressed as follows:\textsuperscript{42}

"The information, to be confidential, must... have the necessary quality of

\textsuperscript{35} Cf \textit{Seager v Copydex Ltd} [1967] RPC 349; \textit{Terrapin Ltd v Builders' Supply Co (Hayes) Ltd} [1967] RPC 375 389-391; Gurry 67; Reid 19.

\textsuperscript{36} Cf Coleman \textit{Trade secrets} 1-2; Bainbridge 226; Gurry 90-97; \textit{LAW COM No 110} 9. Vitoria 20-21 points out that the cases are silent on this matter, but declares that there can be little doubt that it is an element of "an English trade secret". She finds support for this submission in the use of the word \textit{trade} in the term \textit{trade secret} itself: "it is a secret of a trade, trade meaning business or industry". In \textit{Lansing Linde Ltd v Kerr} [1991] 1 WLR 251 260 Staughton LJ stated expressly that "it must be information used in trade or business".

\textsuperscript{37} Cf in general Bainbridge 225-226; Coleman \textit{Trade secrets} 5ff; Coleman \textit{Intellectual property} 10-11; Cornish 220ff; Gurry 65ff; Reid 17ff; Turner 11ff; Vitoria 12ff; \textit{LAW COM No 110} 27ff.

\textsuperscript{38} Cf \textit{LAW COM No 110} 28; Vitoria 14-16.

\textsuperscript{39} [1963] RPC 41.

\textsuperscript{40} Cf \textit{LAW COM No 110} 28.

\textsuperscript{41} (1948) 65 RPC 203, later also reported in [1963] 3 All ER 413.

\textsuperscript{42} 215.
confidence about it, namely, it must not be something which is public property and public knowledge."

These words, or words to the same effect, have often been cited by the courts.\textsuperscript{43}

As a basic point of departure, therefore, the information must not be public knowledge, or, as it has also been formulated,\textsuperscript{44} the information must possess the attribute of inaccessibility. This general principle is, however, applied somewhat loosely and the concept "secrecy" is given a quite liberal construction. Absolute secrecy is not required - relative secrecy suffices.\textsuperscript{45} The relativity of the secrecy requirement manifests itself in various ways. First, it appears that secrecy will not necessarily be destroyed if, besides the plaintiff and the defendant, there are others who have knowledge of the alleged secret.\textsuperscript{46} Such persons might have learnt the secret from the owner,\textsuperscript{47} or they might have obtained the secret by independent

\textsuperscript{43} Eg Ackroyds (London) Ltd v Islington Plastics Ltd [1962] RPC 97 104; Cranleigh Precision Engineering Ltd v Bryant [1964] 3 All ER 289 300; [1966] RPC 81; Under Water Welders & Repairers Ltd v Street and Longthorne [1968] RPC 498 506.

\textsuperscript{44} Gurry 70.

\textsuperscript{45} Cf in general Coleman \textit{Trade secrets} 5ff; Cornish 222; Gurry 70 ff; \textit{LAW COM No 110} 27 ff; Turner 15-20 71-86 102-106; Vitoria 12 ff.

\textsuperscript{46} Eg Franchi \textit{et al} v Franchi \textit{et al} [1967] RPC 149 152-153: "Clearly a claim that the disclosure of some information would be a breach of confidence is not to be defeated simply by proving that there are other people in the world who know the facts in question besides the man as to whom it is said that his disclosure would be a breach of confidence and those to whom he has disclosed them... It must be a question of degree depending on the particular case, but if relative secrecy remains, the plaintiff can still succeed." Cf Coleman \textit{Trade secrets} 5; Cornish 222; \textit{LAW COM No 110} 30. Turner 16-17 writing on English and American trade secrets law, submits that secrecy may be found even though the knowledge is known to some other persons, perhaps more especially so if it is not known to the plaintiff's principal competitors. He adds that secrecy among potentially interested persons seems to be the material criterion and that the knowledge of the interested trade should be considered. Thus, differing degrees of precaution to maintain secrecy are appropriate in different industries. Where, for example, an industry is highly complex and competitive, and several research departments are employed to analyze all the technical literature and competitors' products, insufficient secrecy will usually exist if the alleged secret can be discovered with certainty by chemical analysis of observation of products on the market. If, on the other hand, the trade or industry concerned is less highly organized, the fact that the secret could have been discovered by an astute competitor, will not necessarily deprive it of protection, if it has not in fact been so discovered. Turner also points out the importance of obligations of confidence (cf par 2.2.2 below) imposed by the plaintiff on those to whom he has disclosed his alleged trade secret. Thus, it is likely that the "secret" will be regarded as too ephemeral to warrant further protection if it is known to sixty out of a hundred members of the trade, free of any bonds of confidence. But if the sixty who know it are bound by confidence, then the court might well regard the information as sufficiently secret to be protected. Turner's submissions are quoted with approval by Vitoria 13 fn 4, 14 fn 5.

\textsuperscript{47} Cf Coleman \textit{Trade secrets} 5; Cornish 222.
means,\textsuperscript{48} or by reverse engineering, that is, by analysing a marketed product in which the secret has been embodied.\textsuperscript{49}

Second, information can be secret even though the "component parts of which [it] is composed"\textsuperscript{50} are in the public domain, provided that the assembled information as a whole is not readily available.\textsuperscript{51} The principle was stated as follows in the Saltman case:\textsuperscript{52}

"The information, to be confidential, must... have the necessary quality of confidence about it, namely, it must not be something which is public property and public knowledge. On the other hand, it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker upon materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process."\textsuperscript{53}

The test is thus whether the information can only be reproduced at the cost of time, labour, and effort, in which case it will be confidential, even though its "constituent parts" may be in the public domain.\textsuperscript{54} To cite an example: although all the names on a customer list may be obtainable from public directories, the list as a whole can still be confidential if it can only be reproduced by substantial effort, and is not otherwise available.\textsuperscript{55}

\textsuperscript{48} Cf James v James (1872) 13 LR Eq 421 424; Gurry 48.

\textsuperscript{49} Cf Estcourt v Estcourt Hop Essence Co [1875] 10 Ch App 276; Gurry 48.

\textsuperscript{50} Wording borrowed from Gurry 71.

\textsuperscript{51} Cf in general Coleman Trade secrets 6-7; Gurry 71-72; LAW COM No 110 29-30.

\textsuperscript{52} (1948) 65 RPC 203 215.

\textsuperscript{53} In Coco v A N Clark (Engineers) Ltd [1969] RPC 41 47 it was formulated as follows: "Something that has been constructed solely from materials in the public domain may possess the necessary quality of confidentiality: for something new and confidential may have been brought into being by the application of the skill and ingenuity of the human brain. Novelty depends on the thing itself, and not upon the quality of its constituent parts."

\textsuperscript{54} Cf also Gurry 70-71.

\textsuperscript{55} Robb v Green [1895] 2 QB 1; cf Gurry 71. Cf further LAW COM No 110 137 where the following recommendations regarding the secrecy requirement are made: "(i) To be capable of enjoying the protection of an action for breach or feared breach of confidence, the information must be information which is not in the 'public domain.' We do not think that it would be desirable to define this beyond saying that information is in the public domain when, having regard to its nature and the circumstances of its disclosure, it is generally available to the public. (ii) Information should not be treated as being
This "labour and effort" test led to the adoption of the so-called "springboard doctrine" which has since given rise to complications in the interpretation of the secrecy requirement. The origin of the "springboard doctrine" was the famous footnote in Terrapin Ltd v Builders' Supply Co (Hayes) Ltd:

"[A] person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public... [T]he possessor of such information must be placed under a special disability in the field of competition to ensure that he does not get an unfair start."

These words have been quoted in numerous cases, and their frequent application has led Vitoria to conclude that non-secret information may nevertheless be confidential by virtue of contractual provisions (express or implied) or by virtue of the relationship of the parties and the circumstances under which the second party learned the information. Such information may then be protected by the action for

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56 Cf in general Bainbridge 228; Cornish 222; LAW COM No 110 33-38; Gurry 245-252; Reid 52-55; Vitoria 33ff 163ff.

57 Cf LAW COM No 110 33.


60 21: "It cannot be emphasized enough to the reader that since the decision rendered in 1948 in the Saltman case, the orientation of the English case law in this area has changed. Instead of examining whether or not a trade secret exists, most of the cases since 1948 are based upon claims for breach of confidence; and the initial issue with which the English courts must grapple is: is the information involved in this case confidential information?]. Thus, the term 'confidential information' has taken on juridical significance"; further 23ff. According to Vitoria's analysis, confidential information differs from trade secrets in the following ways: (a) confidential information need not be capable of industrial or commercial application (23); (b) it need not be secret; not even relative secrecy is required (24ff). All that is required is that it be confidential. She explains at 24: "The term 'confidential' should not be confused with the term 'secret'. From the cases, it must be information which (1) the parties expressly agree orally or in writing (ie by contract) is to be treated as confidential; or (2) the possessor confided or entrusted (in confidence) to the recipient without any contractual accord; or (3) was available or accessible to the recipient because of his relationship of trust and confidence to the possessor. In other words, information may be confidential by virtue of contractual provision, express or implied; or by virtue of the relationship of the parties and the circumstances under which the second party (disclosee) learned the information. Information which is confidential may generally not be disclosed and/or used for one's own or another's purposes without the consent of its owner, unless a contract provides otherwise."
breach of confidence even though it may be in the public domain. Vitoria’s contentions need to be investigated, since they render the requirement of secrecy uncertain. Thus some of the cases cited by Vitoria in support of her postulate of non-secret confidential information are considered here.\(^{61}\)

The logical starting point is the famous footnote in the *Terrapin* case itself. Much misunderstanding seems to have arisen as a result of the footnote being quoted out of context, as pointed out by the Law Commission.\(^{62}\) An analysis of the facts and a reading of the footnote in its context throw an entirely new light on those frequently quoted words. The parties were in a contractual relationship, in terms of which the defendants manufactured portable buildings according to the design of the plaintiffs. To that end, the defendants had received confidential information from the plaintiffs. After termination of the contract, the defendants used the confidential information to market portable buildings. The plaintiffs applied for an interlocutory injunction. The defendants argued that they had been released from their obligation of confidence, because the features of the buildings had been made public by the plaintiffs’ selling the buildings, and publishing descriptions thereof in brochures. This argument was rejected by the court, and the interlocutory injunction was granted.

Taken on face value, the famous passage in the judgment certainly seems to imply that published information - which according to *Mustad v Dosen*\(^{63}\) cannot be secret - may be protected. However, the court found\(^{64}\) that the brochures would not enable anybody to see exactly how the portable building units were constructed. The brochures only revealed the *features* of the units, not their *design*. A competitor to whom the design had not been imparted would still have to prepare plans and conduct tests or determine the design by means of reverse engineering.\(^{65}\) Seen in this light, the *fons et origo* of the springboard doctrine does not cast any doubt on the secrecy requirement.\(^{66}\)

\(^{61}\) The majority of cases cited do not support her thesis unequivocally - cf eg *Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd* [1963] RPC 45; *Seager v Copydex Ltd* [1967] RPC 349; *Under Water Welders & Repairers Ltd v Street and Longthorne* [1968] RPC 498; *Industrial Furnaces v Reaves* [1970] RPC 605. Only the most important cases that do, on the face of things, seem to offer substantiation for Vitoria’s contentions are considered below.

\(^{62}\) *LAW COM No 110* 34; cf the editorial comment in [1967] RPC 375 376 (in the original report only an extract from the judgment of the court *a quo* was reported in a footnote - which was later quoted out of context - [1960] RPC 128 130).

\(^{63}\) [1963] RPC 41.

\(^{64}\) [1967] RPC 375 391.

\(^{65}\) 391-392.

\(^{66}\) Cf Gurry 247-250.
Furthermore, the Law Commission\textsuperscript{67} did not regard the springboard doctrine to be in conflict with the public domain principle. It was of the opinion that an injunction could only be issued after information had entered the public domain, if the purpose thereof was to eliminate the unfair head-start obtained by the infringer’s breach of confidence before the information had entered the public domain.

In \textit{Cranleigh Precision Engineering Ltd v Bryant}\textsuperscript{68} the first defendant had developed special methods of constructing an above-ground swimming pool. In his capacity as managing director of the plaintiff company, he learnt that a Swiss patent (the Bischoff patent) for an essentially similar pool had already been issued. Not disclosing this information to the plaintiff company, he left its employ, and secured for himself the United Kingdom rights in the Swiss patent. He then proceeded through the second defendant, a company which he had formed, to market a pool manufactured by the methods he had developed while still employed by the plaintiff. An injunction was sought restraining the defendants from inter alia exploiting their knowledge of the patent. The plaintiff’s case was summarized by the court\textsuperscript{69} as follows:

\textsuperscript{67} \textit{LAW COM No} 110 134-135. Because of the cogency of its reasoning, the relevant passage is quoted in full: "[W]e do not think that doctrine is in principle inconsistent with the requirement as to public domain; nor, indeed, do we think that acceptance of the doctrine necessitates any major modification of the requirement as to public domain. Once information is in the public domain, it should cease to have the quality of secrecy necessary for a successful breach of confidence action, whether it was put into the public domain by the plaintiff himself, by the person who was subject to an obligation of confidence regarding it, or by a third party. It follows that even a person who puts information into the public domain, when himself subject to an obligation of confidence, should not be enjoined for all time from using the information, although we should emphasize that he will be liable in damages for his initial breach of confidence regarding it, or by a third party. It follows that even a person who puts information into the public domain, when himself subject to an obligation of confidence, should not be enjoined for all time from using the information, although we should emphasize that he will be liable in damages for his initial breach of confidence in disclosing the information to the public. The purpose of the 'springboard doctrine' is to protect the plaintiff, not to punish the defendant; and we think that the interest of the plaintiff which the doctrine seeks to protect can be protected by a qualification of, or perhaps more accurately by a gloss on, the 'public domain' principle. Suppose that a person in breach of confidence has used certain information with a view to exploiting it commercially; he may, for example, have tooled up his factory to make the product to which the information relates or have organized in advance a special sales system to market it. The information thereafter comes into the public domain (whether or not as a result of the defendant's breach of confidence). Unless restrained, such a person would, vis-à-vis the person to whom the publication of confidence was originally owed, be in a more favourable position than any of the latter's trade competitors: he would have obtained a 'head start' over those who could only begin to make preparations for exploiting the information when it had entered the public domain. His advantage would continue until that point in time when manufacturers in general, relying on the public release of the information, could reasonably be expected to reach the stage in the exploitation of the information which he had in fact already reached when the information became public. The gloss on the principle of public domain to which the springboard doctrine gives rise may be expressed as follows: objection cannot be taken to a claim for an injunction in proceedings for breach of confidence in respect of the use of the information on the sole ground that the information in question is in the public domain, so long as, by reason of the defendant's having use of the information in breach of confidence before it entered the public domain, he would, unless restrained, enjoy an advantage over those who have had to obtain the information through its public release."

\textsuperscript{68} [1966] RPC 81, [1965] 1 WLR 1293.

\textsuperscript{69} 81.
"[I]t was not what appeared in the Bischoff specification itself which was confidential. It was the knowledge of the possible effect to and upon the plaintiffs of the existence and publication of this specification which was confidential in the hands of the one person who was in a position to assess its true significance because of the knowledge which he, as the plaintiff's managing director, possessed of all the facts of the plaintiffs' swimming pool and of their business connected therewith."

The defendants, relying on Mustad v Dosen, contended that everything in the Bischoff specification was public property by virtue of its publication. Therefore there could be nothing confidential about any aspect of the Bischoff specification, either as such or in its effect on the plaintiffs. If there were an inconsistency between the Terrapin and Mustad cases, they argued, the decision of the House of Lords in the Mustad case had to prevail. The court held that the judgment in Terrapin correctly stated the law, and that there was no inconsistency between the Terrapin and Mustad cases. However, in deciding the case before him, Roskill J distinguished Mustad on the ground that in that case the plaintiffs themselves had published the confidential information in the patent specifications, whereas in the Cranleigh case publication had been made by a third party.70

In so far as the Cranleigh case can be taken as authority that information may still be protected after publication by someone other than the owner thereof, it certainly offers support for the proposition that information may in certain instances be in the public domain and yet be capable of protection by the action for breach of confidence.71 However, this aspect of the judgment has been criticized by the Law Commission72 and commentators.73 It has been suggested74 that the decision

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70 In Speed Seal Ltd v Paddington [1985] 1 WLR 1327 1332 the Cranleigh case was interpreted as follows: "Now the Cranleigh case... shows that the mere fact that publication has been made by a third party does not necessarily release from his obligations a person who previously owed a duty not to disclose. The purpose of an injunction is protection. Whether a plaintiff, in circumstances such as the present, needs protection might depend upon the state of the market. If, for example, the only traders seriously competing in the market are the plaintiff and the defendant (the latter being a person who, in breach of duty to the plaintiff, wrongfully published the information to the world) it may be a matter of continuing importance to the plaintiff that the defendant should not continue to get the benefit of the wrongdoing. If, on the other hand, the publication has produced a market with a large number of traders, the elimination of one trader (the defendant) might not be of consequence."

71 Vitoria cites it (47-51) in support of her thesis.

72 LAW COM No 110 36-37: "Notwithstanding the view of Mustad taken by Roskill J... it is doubtful whether an obligation of confidence, as distinguished from any express or implied contractual obligation which may exist between the parties, can persist after the information in question has reached the public domain, irrespective of the way in which it has come into the public domain. Suppose an inventor has given particulars of a certain device to a draughtsman who accepts an obligation in respect of that information. The draughtsman passes on the information to a third party, who knows that he is obtaining the information in breach of the draughtsman's obligation of confidence.
should have been based on breach of a corporate fiduciary duty, rather than on the misappropriation of confidential information.\(^{75}\)

Another case that does seem to support the concept of non-secret confidential information is *Suhner & Co v Transradio Ltd.*\(^{76}\) In that case Plowman J, after hearing the defendants contend that the alleged confidential information in issue was in fact "free and available elsewhere",\(^{77}\) said the following:\(^{78}\)

"A great deal of the defendant’s evidence seems to me to be really beside the point, first of all, because the confidential nature of the document is not dependent on whether the information which it contains is available elsewhere; but, on the question of whether it contains useful information which has been compiled by the plaintiffs for a particular purpose and, if it does contain such information and if it has been compiled and handed over to the defendants for a particular purpose, then, as I understand the law, that document is confidential and the defendants are not entitled to use it for another purpose."

The court cited the *Saltman* case as authority. This statement in *Suhner* appears to be an unusually liberal interpretation of the *Saltman* case: as noted above, that case is normally understood to signify that if the information in question can only be reproduced at the cost of time, labour, and effort, it will be confidential, even though its "constituent parts" may be in the public domain. The information "as a whole" must, according to the more generally accepted interpretation of the *Saltman* case,

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\(^{73}\) Cf Braithwaite 1979 *MLR* 95 fn 17; Cornish 223 fn 55 221 (on the *Speed Seal* case - fn 70 above).

\(^{74}\) Braithwaite 1979 *MLR* 95 fn 17; Cornish 223 fn 55.

\(^{75}\) Cf, however, Jones 1970 *LQR* 468-470 who agrees with the *Cranleigh* case; and Gurry 78 who formulates the following rule based on the *Cranleigh* and similar cases: "While the general rule is that information must be inaccessible in order to be confidential, in certain cases information which is generally available may be considered as confidential between two parties because of the context in which it occurs. In these cases, confidentiality inheres not so much in the information itself, but in the association of the information with a particular context which the parties know attaches a special significance to the information." It should be noted that this type of confidential information recognized in the *Cranleigh* case could not be a trade secret of the employer, since the latter was not even aware thereof, let alone had the will to keep it secret - cf par 2.2.1.2.4 below.

\(^{76}\) [1967] *RPC* 329.

\(^{77}\) 332.

\(^{78}\) 333.
still be not easily accessible, and thus (relatively) secret.

Another case that may also have a bearing on the issue of non-secret confidential information is *Thomas Marshall (Exports) Ltd v Guinle*, in which four elements are tentatively proposed to assist with the identification of confidential trade information that will be protected by the courts:

(a) the information must be information the release of which the owner believes would be injurious to him or advantageous to his rivals or others;

(b) the owner must believe that the information is confidential or secret, in other words that it is not already in the public domain. Some or all of his rivals may already have the information, but as long as the owner believes it to be confidential he is entitled to try and protect it;

(c) the owner’s belief under the two previous heads must be reasonable; and

(d) the information must be judged in the light of the usage and practices of the particular industry or trade concerned.

Implicit in this test is the possibility that information which is objectively in the public domain, may be confidential if the owner believed it to be so, and his or her belief in this regard was reasonable. The subjectivity of this four-element test of confidentiality has been criticized by Bainbridge. He suggests that only information that is -judged objectively- not in the public domain, can be protected.

Finally, in the context of contracts of employment, information which is not a trade secret may be regarded as confidential. This aspect will be dealt with below.

In conclusion it may be said that some judicial support exists for the proposition that non-secret information may be confidential and protectable by the action for breach of confidence, but that few commentators appear to agree with this, and that the bulk of case law requires the information to be (to a certain degree at least) not in the

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80 226: "According to this test, a certain amount of subjectivity is allowed on the part of the owner of the information but this is restricted by the requirement that the owner’s beliefs must be reasonable. On this basis, it is possible that a duty of confidence could arise and attract legal remedies even if the information is actually in the public domain if the owner’s contrary belief is reasonable. However, this is going too far and the author is not aware of any cases where information already in the public domain has been held to be confidential. Ultimately, the test must be objective." Cf Coleman *Trade secrets* 7-8; Reid 22.

81 Cf Hull 1986 *EIPR* 321.

82 Par 2.4.1.
public domain, and thus secret.

2.2.1.2.4 The owner's/possessor's will to preserve secrecy

Trade secrets also have a subjective element. This has already been touched upon in the discussion of the Thomas Marshall case.\textsuperscript{83} As noted,\textsuperscript{84} that case is open to the interpretation that the subjective belief of the person trying to protect his or her alleged trade secret may actually be the overriding factor in establishing secrecy; this notion has, however, been criticized. The better view is that secrecy must be established objectively, but that a subjective element is added to the inquiry in the sense that the owner of the trade secret must also have the \textit{animus} to keep the relevant information out of the public domain.\textsuperscript{85} Such an \textit{animus} can be deduced from the steps taken by the owner to preserve the secrecy of the relevant information.\textsuperscript{86} Thus in \textit{Faccenda Chicken Ltd v Fowler},\textsuperscript{87} the Court of Appeal held that one of the factors to be taken into account when deciding whether information was a trade secret or not, was whether the confider (in the context of the case the employer) had impressed on the confidant (employee) the confidentiality thereof. Although an employer could not prevent use or disclosure of information merely by telling the employee that it was confidential, the attitude of the employer towards the information could provide evidence which might assist in determining whether the information was a trade secret or not. In \textit{Lansing Linde Ltd v Kerl},\textsuperscript{88} Staughton LJ expressed the opinion that for information to qualify as a trade secret, the owner should limit the dissemination thereof, or at least not encourage or permit widespread publication.

This requirement will probably often be applied in a negative way, in the sense that the court will refuse protection if the evidence shows that the owner was careless as to whether the information remained secret or not.\textsuperscript{89}

\textsuperscript{83} [1978] 3 All ER 193.

\textsuperscript{84} Par 2.2.1.2.3 above.

\textsuperscript{85} Cf Bainbridge 226; Coleman \textit{Trade secrets} 7-8; Reid 22; Vitoria 20; Hull 1986 \textit{EIPR} 321; Underwater Welders & Repairs Ltd v Street and Longthorne [1968] RPC 498 505-506.

\textsuperscript{86} Cf Hull 1986 \textit{EIPR} 321.

\textsuperscript{87} [1986] 1 All ER 617 (CA) 627; cf Coleman \textit{Trade secrets} 26.

\textsuperscript{88} [1991] 1 WLR 251 260.

\textsuperscript{89} Cf Yates Circuit Foils v Electrofoils [1976] FSR 345.
2.2.1.2.5 Economic value

Whereas economic value is arguably a characteristic of all trade secrets, it does not receive much attention in English case law or commentaries. However, some dicta may be found indicating that economic value is indeed a constitutive element of a trade secret. This element may also be expressed in terms of either a competitive advantage to the owner of the trade secret, or significant harm which can be caused to the owner by unauthorized disclosure of the secret to competitors.

2.2.2 ORIGIN AND BREACH OF AN OBLIGATION OF CONFIDENCE

To invoke the protection of the action for breach of confidence, an obligation of confidence must exist, and there must have been a breach or feared breach of that obligation.

2.2.2.1 ORIGIN OF AN OBLIGATION OF CONFIDENCE

An obligation of confidence will be found to exist if confidential information is imparted by a confider to a confidant for a limited purpose, and the confidant will be under an obligation not to use the information for any purpose other than that for which it was disclosed. This is the test commonly employed by the courts to determine whether an obligation of confidence exists. In *Coco v AN Clark (Engineers) Ltd* it was stated that an obligation of confidence would arise whenever a reasonable man standing in the shoes of the recipient of the information would realize on reasonable

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90 Cf par 1.1 above.
91 Cf eg Johnson & Bloy (Holdings) Ltd v Wolstenholme Rink PLC [1987] 1 IRLR 499 502: "Somebody may hit upon the combination of two ingredients after many years of research, which produce an immensely valuable result wholly unknown to anybody else" (emphasis added). Cf Coleman *Trade secrets* 1; Eisenschitz 1984 *EPR* 92; Purvis and Turner 1989 *EIPR* 4; Vitoria 11.
92 Cf Gurry 7.
94 Cf in general Bainbridge 231ff; Chandler and Holland 23ff; Coleman *Trade secrets* 29ff; Coleman *Intellectual property* 12ff; Cornish 226ff; Gurry 111ff; LAW COM No 110 18ff.
95 Cf Gurry 113-114 and the extensive list of authorities cited; Coleman *Intellectual property* 13; Coleman *Trade secrets* 33-34.
96 [1969] RPC 41 48; cf Coleman *Trade secrets* 32; Chandler and Holland 25.
grounds that the information was being given to him in confidence.\(^{97}\) \(^{98}\) Various sources of obligations of confidence can be discerned, and these will now be examined.

2.2.2.1.1 Contract

Contract is one of the most frequent sources of an obligation of confidence.\(^{99}\) Two situations can be distinguished, namely express and implied contractual obligations of confidence.

2.2.2.1.1.1 Express contractual obligation of confidence

In principle the courts will enforce express contractual terms imposing an obligation of confidence.\(^{100}\) Such provisions are frequently contained in contracts between business organizations, between consultants and businesses consulting them, and between employers and employees.\(^{101}\)

Express contractual provisions protecting trade secrets frequently take the form of covenants in restraint of trade, that is, agreements restricting the ability of the

\(^{97}\) Cf Coleman *Trade secrets* 32-33 who contrasts this test with the importance of the subjective perceptions of the trade secret owner in the *Thomas Marshall* case [1978] 3 All ER 193 209-210 (par 2.2.1.2.3 above): "The *Thomas Marshall* test concentrates on the views of the 'owner' of the information, whereas the *Coco* test delineating the circumstances in which an obligation of confidence will be imposed, concentrates on the views of the recipient of the information. This shift in emphasis from the 'owner' of the information to the recipient [note, however, that the *Coco* case was the earlier of the two decisions] reflects the bilateral nature of the obligation of confidence. The 'owner' is in the best position to assess whether information amounts for example to a trade secret, but if the recipient is to be bound by an obligation to respect its confidentiality, the information must be conveyed in circumstances in which he ought reasonably to realise his liability. Any other test would not reflect the practicalities of the situation."

\(^{98}\) The Law Commission has recommended the following test to determine whether an obligation of confidence has been created (*LAW COM No 110* 106): "[A]n obligation of confidence should come into existence where the recipient of the information has expressly given an undertaking to the giver of the information to keep confidential that information, or a description within which it falls, or where such an undertaking is, in the absence of any indication to the contrary on the part of the recipient, to be inferred from the relationship between the giver and the recipient or from the latter's conduct." See further par 2.2.2.1.3 below.

\(^{99}\) Cf Turner 183-261 who regards contract as the most frequent source; cf *LAW COM No 110* 86 where this distinction is given to equity. Cf in general Coleman *Intellectual property* 15ff.

\(^{100}\) Cf in general Bainbridge 232-233 237-238; Coleman *Trade secrets* 37-44; Coleman *Intellectual property* 15-18; Gurry 28-28; Reid 30-31; Turner 259-261; *LAW COM No 110* 18 27 In 140 30-31; Stewart 1989 *EIPR* 92-94.

\(^{101}\) Cf Bainbridge 232; Coleman *Trade secrets* 37-38.
covenantor to compete with the covenantee following termination of the contract. Such agreements are in principle contrary to public policy and therefore void. Especially in context of employment contracts, public policy favours the continuing ability of the employee to use his or her skills and knowledge after termination of the contract. Only restraints of trade that are reasonable between the parties and not contrary to the public interest will be enforced by the courts. Restraints may not prohibit competition per se - they may only protect the covenantee's legitimate business interests, of which trade secrets are recognized as an example. Restraints which are too wide in terms of the time during which and area within which the covenantor may not seek employment with competitors of the covenantee or may not compete with the latter himself, will not be enforced.

In Faccenda Chicken Ltd v Fowler the Court of Appeal suggested obiter that only trade secrets or their equivalent could be protected by a restraint in trade and that other information which the employee must treat as confidential during the subsistence of the employment contract, could not. This suggestion has been criticized by commentators as being unduly restrictive and was not followed in

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102 See in general Mehigan and Griffiths 1ff.
103 Cf Coleman Trade secrets 41-42.
104 Cf Coleman Trade secrets 42; Gurry 28-29; Mehigan and Griffiths 56ff.
105 Cf Bainbridge 237; Coleman Trade secrets 42.
106 Cf Bainbridge 237.
107 Cf Coleman Trade secrets 43.
108 Cf Bainbridge 237; Coleman Trade secrets 43.
109 [1986] 1 All ER 617 (CA).
110 See par 2.4.1 below on the distinction between such information and trade secrets.
111 Cf Bainbridge 238: "[M]ost business organizations possess information that would harm them or benefit others if divulged even though that information is not a trade secret"; Chandler and Holland 46ff; Cornish 230; LAW COM No 110 (published before the Faccenda Chicken case) 27 fn 140: "Theoretically there is no reason why a person should not by contract bind himself regarding matters which are common knowledge or easily ascertainable. But (i) a contract restricting a former employee's disclosure or use of an employer's 'trade secrets' will be construed to exclude what is generally known; (ii) express cover of matters which are generally known may amount to an unreasonable restraint on trade or may contrary to Article 85 of the EEC Treaty...; (iii) in the unusual case where such a contract would be binding what is being secured is merely the silence of the other party, not the secrecy of the information"; Purvis and Turner 1989 EIPR 3: "The Court is apparently saying that nothing which is not a genuine trade secret is protectable by a restrictive covenant, and genuine trade secrets do not need a restrictive covenant to protect them. One is forced to question whether this can really represent the law. What is the point of an employer having a restrictive covenant at all when he has to show that the information was protected at common law before it can be enforced?"; Hull 1986 EIPR 322.
Balston Ltd v Headline Filters.\textsuperscript{112}

2.2.2.1.1.2 Implied contractual obligation of confidence

The courts will frequently imply a term imposing an obligation of confidence into an existing contractual relationship.\textsuperscript{113} The courts have even on occasion implied a contractual obligation of confidence in a case where there was no existing contractual relationship between the parties to a disclosure of confidential information. In \textit{Mechanical and General Inventions Co Ltd and Lehwess v Austin and The Austin Motor Co Ltd},\textsuperscript{114} the parties entered into negotiations with a view to a future business arrangement which did however not come to fruition. In the course of the negotiations the plaintiffs disclosed certain confidential information to the defendants. The defendants later applied for a patent based on that information. Damages were awarded to the plaintiffs for breach of a contract that was implied on account of the disclosure of the information and the implied promise of the defendants to use the information only for the limited purpose of considering whether to enter into a business agreement with the plaintiffs or not. However, when faced with a similar situation in Seager v Copydex Ltd,\textsuperscript{115} the court preferred to base its judgment on equity, rather than on an implied contract.\textsuperscript{116}

Gurry\textsuperscript{117} undertakes an interesting investigation of the relationship between express and implied obligations of confidence. He poses the question whether an express contractual term imposing an obligation of confidence is exhaustive of a confider’s rights to protect confidential information disclosed pursuant to a contract, or whether the express term merely provides minimum protection to the confider that can be supplemented by an implied term. The general principle of English contract law in this regard is that if the parties have included an express term in a contract dealing with a certain matter, there is no room for implying further terms dealing with the same matter. The express term is then exhaustive of the parties’ rights and duties in

\textsuperscript{112} [1987] FSR 330 - an interlocutory hearing. Cf Bainbridge 238; Chandler and Holland 50.

\textsuperscript{113} Cf in general Bainbridge 233-236; Coleman \textit{Trade secrets} 44-45; Coleman \textit{Intellectual property} 18-20; Gurry 29-35; Reid 31-32; Turner 237-258; LAW COM No 110 18-19.


\textsuperscript{116} Cf also \textit{Nichrotherm Electrical Co Ltd v Percy} [1957] RPC 207; Gurry 29 fn 30; Turner 220-222 239.

\textsuperscript{117} 30-35.
respect of that matter.\textsuperscript{118} Dicta in \textit{Potters-Ballotini Ltd v Weston-Baker}\textsuperscript{119} seemed to apply this principle to the law relating to breach of confidence. An injunction was refused \textit{inter alia} because an express contractual term restricted the protection of the relevant information to a specified period of time, which period had at the time of the proceedings just about expired.

However, Gurry points out,\textsuperscript{120} a contrary line of cases exists, holding that in this area of the law, the courts are free to imply an obligation of confidence which either \textit{supplements} or \textit{replaces} an express obligation of confidence. Thus, in \textit{British Industrial Plastics Ltd v Ferguson}\textsuperscript{121} the court was prepared to imply an obligation of confidence that outlasted an express obligation coupled to a time limit. And in the \textit{Thomas Marshall} case,\textsuperscript{122} where an express term prohibited \textit{disclosure} of certain confidential information, the court was willing to imply a duty of fidelity and good faith prohibiting both disclosure \textit{and use} of the information.\textsuperscript{123}

2.2.2.1.2 Non-contractual confidence

Examples can be found in English case law of situations where an obligation of confidence is found to exist independently of contract, express or implied. In such a situation the obligation of confidence is almost always based on equity.\textsuperscript{124} The \textit{locus classicus} is the \textit{Saltman Engineering} case.\textsuperscript{125} In that case there were three sets of plaintiffs, of whom only the third stood in a contractual relationship with the defendants. The first plaintiffs planned to manufacture leather punches. Under agreement with them the second plaintiffs prepared drawings for the manufacture of certain tools required to make the leather punches. An order to make the tools was placed with the third plaintiff, but he handed the drawings to the defendants and

\textsuperscript{118} Cf Gurry 30.

\textsuperscript{119} [1977] RPC 202 205.

\textsuperscript{120} 31.

\textsuperscript{121} (1939) 56 RPC 271 277; cf Gurry 32 fn 40.

\textsuperscript{122} [1978] 3 All ER 193.

\textsuperscript{123} Cf further case law cited by Gurry 34-35. Gurry 35 concludes: “The courts seem prepared... to use the contractual jurisdiction in a way which enables them to implement the underlying policy of enforcing confidences by giving the confider the benefit of the full obligation of confidence as it may exist at law. This policy appears to take precedence over the demands of doctrinal purity.”

\textsuperscript{124} Cf Coleman \textit{Trade secrets} 45-47; Coleman \textit{Intellectual property} 14-15; Gurry 36-39; LAW COM No 110 19-21.

\textsuperscript{125} (1948) 65 RPC 203, later also reported in [1963] 3 All ER 413; cf par 2.2.1.2.3 above.
asked them to make the tools. The defendants used the confidential drawings to make leather punches and sold them for their own profit. The Court of Appeal based its decision solely on the relationship between the first plaintiffs and the defendants, and found that there had been a breach of the duty of confidence owed in the circumstances by the defendants to the first plaintiffs. The court stated expressly\(^\text{126}\) that an obligation of confidence is not limited to cases where the parties are in a contractual relationship. A factor that weighed heavily with the court was the defendants' knowledge of both the confidential quality of the drawings, and the limited purpose for which they had been placed in possession of the drawings.\(^\text{127}\)

In *Seager v Copydex Ltd*,\(^\text{128}\) where confidential information was disclosed during abortive pre-contractual negotiations, the defendants were held liable in equity for exploiting the information for their own benefit. As noted,\(^\text{129}\) in the similar *Austin* case\(^\text{130}\) the court preferred to base its judgment on implied contract rather than on equity.

In *Coco v AN Clark (Engineers) Ltd*,\(^\text{131}\) which also dealt with a disclosure made in the course of unsuccessful pre-contractual negotiations, the following test was proposed\(^\text{132}\) to determine whether an equitable obligation of confidence should be imposed:

"It may be that that hard-worked creature, the reasonable man, may be pressed into service once more; for I do not see why he should not labour in equity as well as law. It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realized that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence. In particular, where information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture or the manufacture of articles by one party for the other, I would regard the recipient as carrying a heavy burden if he seeks to

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\(^\text{126}\) 212.

\(^\text{127}\) Saltman case 213 216. Cf, however, Turner 225-230.

\(^\text{128}\) [1967] RPC 349; cf Coleman *Trade secrets* 46; Gurry 126; *LAW COM No 110* 20.

\(^\text{129}\) Par 2.2.1.1.2 above.

\(^\text{130}\) [1935] AC 346; cf Gurry 125-126.


\(^\text{132}\) 48.
repel a contention that he was bound by an obligation of confidence.

However, the information in *Coco* was found not to be confidential, and it has been suggested\(^\text{133}\) that the proposed reasonable person test was an *obiter dictum*. The test has furthermore been criticized as placing a too heavy burden on recipients of unsolicited, allegedly confidential, information to avoid liability.\(^\text{134}\)

### 2.2.2.1.3 Situations in which an obligation of confidence will arise

From the case law a number of situations in which obligations of confidence will typically arise, can be identified.\(^\text{135}\) When confidential information is disclosed for the purpose of a *business relationship*, the courts will, in the absence of clear indications to the contrary, generally assume an obligation on the confidant to use the information only for the limited purposes of that relationship. Examples are:\(^\text{136}\) a manufacturer disclosing confidential information to a sub-contractor; parties to pre-contractual negotiations disclosing confidential information; an employer disclosing confidential information to an employee; confidential information disclosed in licensing and distributor agreements. Obligations of confidence may also rest on parties to a *fiduciary relationship*,\(^\text{137}\) like company directors. Where *statute*\(^\text{138}\) makes disclosure of confidential information compulsory, an obligation of confidence may be imposed on the state or its agencies receiving the information.\(^\text{139}\) It is uncertain whether English law recognizes obligations of confidence arising solely by virtue of confidential information being acquired by improper means - such as industrial espionage. This question is dealt with below.\(^\text{140}\)

\(^{133}\) *LAW COM No 110* 21; cf however Coleman *Trade secrets* 32-33 45.

\(^{134}\) See *LAW COM No 110* 87 on the objections received in this regard by the Law Commission.

\(^{135}\) Cf Coleman *Trade secrets* 31-32; Gurry 122-176.

\(^{136}\) Gurry 122-143 and authorities cited.

\(^{137}\) Cf Gurry 158-162 and authorities cited; Cornish 227-228.

\(^{138}\) Gurry 175-176 225-238; cf Reid 103-141.

\(^{139}\) Obligations of confidence are also frequently imposed on persons who receive confidential information in their *professional capacity*, eg bankers and legal advisers. More often than not, such information will be of a personal rather than a commercial nature, but trade secrets may also be disclosed in such a context. Cf Gurry 143-158.

\(^{140}\) Par 2.4.2.
2.2.2.2 BREACH OF AN OBLIGATION OF CONFIDENCE

The final requirement for the action for breach of confidence is that there must have been a breach of the obligation of confidence to the detriment of the confider.\textsuperscript{141} The breach may consist of an unauthorized use of the information by the confider, that is, use for a purpose other than the limited purpose for which the last-mentioned received it.\textsuperscript{142} The breach may also consist of an unauthorized disclosure of the information.\textsuperscript{143} An anticipated breach may be sufficient to found the action.\textsuperscript{144} Unauthorized use of a "material part" of the confidential information is sufficient to constitute a breach - it is not required that the secret in its entirety be utilized.\textsuperscript{145} Awareness on the part of the confidant that he or she was using the confidential information is not necessary to constitute a breach of the obligation of confidence. If the confidant believes that he or she is not using the confidential information, but his or her mind is so "saturated"\textsuperscript{146} with it that he or she utilises it subconsciously, the courts will find that the obligation has been breached.\textsuperscript{147} \textsuperscript{148}

An obligation of confidence can only be breached by the person on whom the obligation rests,\textsuperscript{149} and only as against the person to whom the obligation is owed.\textsuperscript{150}

\textsuperscript{141} Cf authorities cited in par 2.2.2 above.

\textsuperscript{142} Cf Bainbridge 241-242; Coleman \textit{Trade secrets} 4; Gurry 4-5 256-266; Reid 49-60; \textit{LAW COM No} 110 127.

\textsuperscript{143} Cf Bainbridge 241; Coleman \textit{Trade secrets} 4; Vitoria 162-163; \textit{LAW COM No} 110 127.

\textsuperscript{144} Cf Coleman \textit{Trade secrets} 4; \textit{LAW COM No} 110 71-82; Vitoria 162-163.

\textsuperscript{145} \textit{Amber Size and Chemical Co Ltd v Menzel} [1913] 2 Ch 239; Gurry 258.

\textsuperscript{146} \textit{Terrapin Ltd v Builders Supply Co (Hayes) Ltd} [1967] RPC 375 390.


\textsuperscript{148} Although it is not required that the confidant realizes he or she is breaching the obligation, awareness or knowledge of the confidential nature of information is, however, an important factor indicating the existence of an obligation of confidence. Cf par 2.2.2.1; 2.2.2.1.2 above and Gurry 261.

\textsuperscript{149} Cf Coleman \textit{Trade secrets} 82; \textit{LAW COM No} 110 22-26 88-89.

\textsuperscript{150} Coleman \textit{Trade secrets} 34-35; Gurry 121; \textit{LAW COM No} 110 26; Vitoria 171-173 and authorities cited.
2.3 REMEDIES

The following remedies may be available in an action for breach of confidence:151

2.3.1 DAMAGES

If a breach of confidence also constitutes a breach of contract,152 damages153 may be awarded according to normal common law principles.154 If the liability arises only in equity, damages may be awarded in substitution of or in addition to an injunction.155 Where, in a given case, the only likely breach of confidence is a past one, it is doubtful whether damages in equity may be given, since there is then no case for an injunction to which they may be a substitute or addition.156

The assessment of the quantum of damages to be awarded for a breach of confidence is a very difficult exercise.157 Nevertheless, although such assessment would frequently be at best a rough estimate, the courts will not for this reason refuse an award of damages.158 The practice is not for the court to assess the damage itself, but to order an enquiry as to damages to be done by an official.159

As regards the quantum of future damages in lieu of an injunction, it was held in Seager v Copydex Ltd (No 2)160 that damages were to be assessed at the market value of the misused confidential information, which in turn depended on the nature

151 See in general Bainbridge 242-243; Cornish 236-239; Gurry 363-451; LAW COM No 110 64-82; Reid 178-189; Vitoria 371-431.

152 Or a tort such as inducing breach of contract; cf Cornish 238.

153 See in general Bainbridge 242-243; Cornish 238-239; Gurry 428-451; LAW COM No 110 64-70; Reid 184-186; Vitoria 408-427.

154 Cf Cornish 238; Gurry 430-431.

155 In accordance with Lord Cairns' Act - the Chancery Amendment Act 1858; cf Cornish 238; Gurry 431.

156 Cf Cornish 239, who criticizes such a view as being 'narrowly historical'.

157 Gurry 442: "[i]nformation is such an elusive concept that any attempt to quantify the loss consequent on its misuse will be hazardous"; cf in general Plibersek 1991 EIPR 283ff.

158 Cf Gurry 442-443; Vitoria 413; in respect of intellectual property in general Cornish 43.

159 Cf Vitoria 413 fn 131; Gurry 431. Cf in general Blanco White and Jacob 327; Copinger and Skone James 343-344; Wadlow 580.

of the information. If there was nothing very special about it, that is, if it involved no particular inventive step, but was the sort of information which could be obtained by employing any competent consultant, the value thereof was the fee which a consultant would charge. On the other hand, if the information was something special, as for instance if it involved an inventive step or something so unusual that it could not be obtained by just going to a consultant, then the value would be the price which a willing buyer - desirous of obtaining it - would pay for it. If the information was very special, its value might be assessed on a royalty basis. The court could not give a royalty by way of damages, but it could give an equivalent by a calculation based on a capitalization of a royalty, thus arriving at a lump sum.  

"Exemplary" or "punitive" damages (that is damages additional to compensation) may be awarded in breach of confidence cases if government servants have acted in an oppressive, arbitrary or unconstitutional way, or if the defendant's conduct was calculated to give him or her a profit likely to exceed the compensation payable to the plaintiff.

2.3.2 ACCOUNT OF PROFITS

The purpose of an account of profits is to recover from the defendant the profits he or she has made. In this respect it differs from an action for damages, which is aimed at compensating the plaintiff for the loss he or she has suffered. An account of profits and an action for damages are always alternative remedies.

Practical difficulties have made the account of profits an unpopular remedy. Apparently it is often just as difficult to establish the quantum of the infringer's profits as it is to establish the plaintiff's loss. The main problem is frequently to determine what part of the profit arose from the breach of confidence, since many other factors may contribute to the total profit in the defendant's hands. However, situations...
may arise where it will be a relatively simple matter to assess the defendant's liability, for instance where he or she would have made no profits had he or she not misused the plaintiff's confidential information.\textsuperscript{167} Where the defendant's profits are only partially attributable to the misused information, an apportionment will have to be made. In such cases, it has been suggested,\textsuperscript{168} the courts may exercise their discretion not to award an account of profits, and to award damages instead.\textsuperscript{169}

It has been submitted,\textsuperscript{170} by analogy of the use of this remedy in trade marks law, that if an account of profits is ordered it should commence only from the date on which the defendant became aware that he or she was infringing the plaintiff's intellectual property rights.

2.3.3 INJUNCTIONS

The injunction is a remedy of considerable importance in breach of confidence cases, since it provides an effective way of preserving the secrecy of confidential information.\textsuperscript{171} It may be awarded in two forms - as a temporary remedy in the form of an interlocutory injunction, or as final relief in the form of a final (or perpetual) injunction.

2.3.3.1 INTERLOCUTORY INJUNCTIONS

The interlocutory injunction may be granted either before any breach of confidence has taken place in order to prevent an apprehended breach, or after an actual breach but before trial to restrain any further breach pending the outcome of the litigation.\textsuperscript{172} The granting of the interlocutory injunction is in the discretion of the court.\textsuperscript{173} The court "must be satisfied that the claim is not frivolous or vexatious; in

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\textsuperscript{167} As in Peter Pan Manufacturing Corporation \textit{v} Corsets Silhouette Ltd [1963] RPC 45; cf Gurry 422-425; \textit{LAW COM No} 110 70-71; Reid 187-188; Vitoria 428.

\textsuperscript{168} Gurry 422-423 426.

\textsuperscript{169} Cf further in general Prime 239-241; Bently 1990 \textit{EIPR} 106; Bently 1991 \textit{EIPR} 5.

\textsuperscript{170} Gurry 421; cf Vitoria 427.

\textsuperscript{171} See in general Bainbridge 242-243; Cornish 236-238; Gurry 376-410; \textit{LAW COM No} 110 71-81; Reid 165-170 181-183; Vitoria 372-394 398-406.

\textsuperscript{172} Reid 165-166.

\textsuperscript{173} Cf Vitoria 379; \textit{LAW COM No} 110 71; Cornish 38.
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other words, that there is a serious question to be tried." If the plaintiff (the applicant for the interlocutory injunction) has satisfied this standard of proof, the court will then decide on a "balance of convenience" whether the injunction should be granted or not. In this regard, a number of principles have been formulated. If damages awarded at the trial would adequately compensate the plaintiff and the defendant would be in a financial position to pay them, no interlocutory injunction should normally be granted. If damages would not provide an adequate remedy for the plaintiff in the event of his or her succeeding at the trial, the court should consider whether the defendant would be adequately compensated by the plaintiff's cross-undertaking as to damages should the plaintiff be unsuccessful at the trial. If damages under such an undertaking would be adequate and the plaintiff would be in a financial position to pay them, an interlocutory injunction would be granted. Where there is doubt as to the adequacy of the respective remedies in damages available to either party or to both, any factor which may affect the balance of convenience - and there is no closed list of such factors - is brought into account. Where such factors appear to be evenly balanced, it is prudent to preserve the status quo. If the balance remains more or less even, it may not be improper to take into account, in tipping the balance, the relative strength of each party's case as revealed by the affidavit evidence adduced on the hearing of the application. This should be done only where it is apparent upon the facts disclosed by evidence as to which there is no credible dispute that the strength of one party's case is disproportionate to that of the other party.

2.3.3.2 FINAL INJUNCTIONS

Like the interlocutory injunction, the final injunction is a discretionary remedy, and

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174 American Cyanamid v Ethicon [1975] AC 407 (not a trade secret case, but the most authoritative case on interlocutory injunctions). Cf Gurry 377-395; LAW COM No 110 71-79; Reid 166-168; Vitoria 379-381.

175 Earlier dicta in the case law that the applicant must make out a prima facie case are now doubtful authority. See eg Reid 166.

176 Cf Cornish 39; Gurry 377; Reid 166.

177 In the American Cyanamid case 408-409. Cf Gurry 386-395; LAW COM No 110 72-73; Reid 167-169; Vitoria 380-381.

178 An interlocutory injunction will normally only be granted to the plaintiff if he or she gives a cross-undertaking to make good any damage suffered by the defendant as a result of the injunction, should the plaintiff be the unsuccessful party at the trial - cf eg Cornish 39.

179 Cf Cornish 39.

180 Cf in general Bainbridge 242-243; Cornish 41 238; Gurry 398-410; LAW COM No 110 79-81; Reid 181-183; Vitoria 398-406.
will not be lightly granted if a sufficient remedy in damages exists. However, an injunction is often the only remedy with which the secrecy of information can effectively be protected. Factors which may influence the courts in the exercise of their discretion to grant an injunction are:

(a) the nature of the information - trivialities will not lightly be protected by way of an injunction;
(b) publication of the information will be an important factor influencing both the applicability and the duration of the injunction;
(c) the extent of the contribution of the appropriated information to the activity that the applicant is trying to restrain - if the contribution was considerable, an injunction will be appropriate; if it was relatively insignificant, damages would be more appropriate;
(d) good faith and change of position - where the user was unaware that he or she was infringing another's intellectual property, and he or she has substantially changed his or her position (for instance by commencing costly manufacturing and marketing processes), damages may be more appropriate than an injunction; and
(e) certainty in the terms of the injunction - the confidential information to which it relates must be sufficiently clearly identified so as to enable the party enjoined by it to know precisely what he or she may and may not do.

The correct view seems to be that it is not necessary to establish detriment before an injunction may be granted.

2.3.4 ORDERS FOR DELIVERY UP OR DESTRUCTION

In proper cases the courts will order the defendant to deliver up or destroy any materials in which the plaintiff's confidential information is embodied. This is an

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181 Cf Bainbridge 242-246; Gurry 396-398; LAW COM No 110 79-81.
182 Cf Cornish 236; Gurry 397-398; Reid 181.
183 This list is based on the analysis by Gurry 398-410; cf Cornish 238; LAW COM No 110 79-81; Reid 182-183.
184 See par 2.4.4 below.
185 See Gurry 407-408.
186 Cf in general Bainbridge 243; Cornish 41-42 236; Gurry 411-416; LAW COM No 110 81-82; Reid 183-184; Vitoria 406-408.
equitable remedy and thus a discretionary one.\textsuperscript{187} An order for delivery up or destruction is normally made in cases where the court has awarded an injunction against the defendant.\textsuperscript{188}

If the materials to be delivered up or destroyed are in the nature of documentary, audio tape or photographic recordings of the plaintiff's confidential information, no special problems arise. If, on the other hand, the objectionable materials are things like production machinery or completed products, an order for destruction may prove socially wasteful, and in such circumstances the courts will not exercise their discretion lightly.\textsuperscript{189} Gurry\textsuperscript{190} identifies three factors that may influence the courts in this regard:

(a) knowledge on the part of the defendants of their obligation of confidence will make it easier for the courts to order destruction;

(b) if the plaintiff's confidential information played a major part in the manufacture of the articles, the courts will be more readily inclined to order destruction; and

(c) the court will be reluctant to order the destruction of production machinery or completed products if an award of damages can be a suitable remedy.

If the plaintiff's confidential information is embodied only in certain components of the defendant's machinery, and it is practicable to sever them from the complete units, the potentially wasteful effect of an order for destruction may be minimized by ordering removal and destruction of only those objectionable components.\textsuperscript{191}

\section*{2.3.5 ANTON PILLER ORDERS}

The so-called Anton Piller order\textsuperscript{192} is an order applied for \textit{in camera} and without notice to the defendant, to inspect premises on which a plaintiff suspects an infringement of his or her intellectual property is taking place, and to seize, copy or

\textsuperscript{187} Cf Bainbridge 243; Cornish 41; Gurry 411; \textit{LAW COM No 110} 81.

\textsuperscript{188} Cf Cornish 41; Gurry 411; Vitoria 407.

\textsuperscript{189} Cf Gurry 413-415; Reid 184.

\textsuperscript{190} 414-415.

\textsuperscript{191} Cf Gurry 415-416 and authority cited.

\textsuperscript{192} After \textit{Anton Piller KG v Manufacturing Processes Ltd} [1976] RPC 719; cf in general Cornish 47-50; Adams 1985 \textit{EIPR} 92; Hoyle 1988 \textit{EIPR} 112.
photograph material relevant to the alleged infringement.\textsuperscript{193} The purpose of the order is to take the defendant by surprise, in order to prevent destruction or removal of evidence of such an infringement. More frequently granted in copyright infringement cases, it is nevertheless also available in cases where misuse of confidential information is suspected.\textsuperscript{194}

Requirements for the granting of an Anton Piller order are the following:\textsuperscript{195}

(a) there must be an extremely strong prima facie case;
(b) there must be clear evidence that the defendant has in his or her possession incriminating documents or objects;
(c) the circumstances must be such that the normal processes of the law would be frustrated if the order was not granted; there must therefore be a real danger that evidence would be destroyed or removed if the defendant was forewarned; and
(d) the plaintiff must show that the actual or potential damage is very serious to him or her.

The order may be granted at any stage of the relevant action.\textsuperscript{196} If granted before service of the writ on the defendant (as would normally be the case in order to preserve the element of surprise), the court will not allow the order to be misused as purely a means of gathering evidence to decide what kind of action can be brought against the defendant.\textsuperscript{197} The courts will grant Anton Piller type orders on terms limiting to a certain degree the inroads inevitably made into the interests of the defendant by the execution of such an order.\textsuperscript{196}

2.4 SPECIAL PROBLEM AREAS

There are a number of situations in which the owner of a trade secret may experience difficulties if he or she wishes to protect his or her confidential trade information in the English courts. Sometimes, but not necessarily always, these situations could

\textsuperscript{193} Cf Cornish 47.

\textsuperscript{194} Cf Cornish 48; Gurry 366-367; Reid 170-172.

\textsuperscript{196} Cf Anton Piller KG v Manufacturing Processes Ltd [1876] RPC 719; Cornish 47; Gurry 368-371 and authorities cited.

\textsuperscript{196} Gurry 371-372.

\textsuperscript{197} Gurry 371-372 and authorities cited.

\textsuperscript{198} Cf Gurry 372-375; Hull 1989 \textit{EIPR} 382; Russell 1992 \textit{EIPR} 243.
arguably point towards inadequacies in English trade secrets law. A number of situations posing special problems are examined in the following paragraphs.

2.4.1 EMPLOYERS AND EMPLOYEES

Employees often have access to confidential business information of their employers. They may receive it directly from their employers, or from other employees, or from outside sources, or they may themselves generate confidential information in the course of their employment. The employer-employee relationship is therefore one with an inherent potential for breach of confidence, especially in these days of increasing labour mobility. Two situations can be distinguished - first, where the employee is currently employed by the employer, and second, where the employee has left the employ of the (former) employer.

It is the unauthorized use or disclosure of confidential information by the ex-employee after termination of the contract of employment that presents special difficulties. Here the courts must weigh the interest of the employer in maintaining confidence, and the employee's conflicting interest that he or she should be free to use his or her skill and knowledge to earn a living elsewhere. Conflicting policy considerations enter the picture - on the one hand the policy in favour of maintaining confidences, on the other hand policies favouring mobility of labour, free flow of information, and free competition.

The main problem is the difficulty, in many situations, to distinguish between the trade secrets of the ex-employer - which the former employee is not allowed to use or divulge; and the employee's acquired general skill and knowledge - which his or her former employer cannot restrain him or her from using. In Printers and

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199 Cf in general Bainbridge 233-236; Chandler and Holland 37-58; Cornish 228-231; Coleman Trade secrets 52-64; Coleman Intellectual property 21-25; Gurry 177-224; LAW COM No 110 39-41; Reid 35-42; Rideout 96-101; Turner 115-159; Vitoria 77-78 191-261; Stewart 1989 EIPR 88ff.

200 Cf Bainbridge 233-234.

201 Cf Coleman Trade secrets 59.

202 Cf in general Bainbridge 234; Coleman Trade secrets 9-14 59-61; Gurry 198-202; LAW COM No 110 39-41; Reid 38-42; Turner 115-159; Vitoria 218-228 and authorities cited.

203 The Law Commission (LAW COM No 110 137), recognizing that a very fine distinction must sometimes be drawn between protectable information and personal skills and knowledge, has nevertheless considered it best to leave it to the courts to draw that distinction where necessary in the light of the circumstances of each individual case. The Commission did venture the opinion that "any test be formulated in broad terms so that account can be taken both of changing views on the employment relationship and of technical developments".
Finishers Ltd v Holloway\textsuperscript{204} an ordinary person test is formulated to distinguish between the employer's trade secrets and the employee's skill and knowledge:

"If the information in question can fairly be regarded as a separate part of the employee's stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of his old employer, and not his own to do as he likes with, then the court, if it thinks that there is a danger of the information being used or disclosed by the ex-employee to the detriment of the old employer, will do what it can to prevent that result by granting an injunction."\textsuperscript{205}

An important exposition of applicable principles was made in Faccenda Chicken Ltd v Fowler.\textsuperscript{206} In the court a quo Goulding J said\textsuperscript{207} that the information acquired by an employee in the course of his employment fell into three categories:

(a) information which, because of its trivial character or its easy accessibility from public sources, cannot be regarded as confidential at all;

(b) information which the employee must treat as confidential, either because he is expressly told it is confidential, or because from its character it obviously is so, but which once learned remains in the employee's head\textsuperscript{208} and becomes part of his own skill and knowledge applied in the course of his employer's business; and

(c) specific trade secrets.

\textsuperscript{204} [1965] RPC 239 255.

\textsuperscript{205} Cf LAW COM No 110 39-41. Gurry 11 criticizes this test as "a very difficult test to apply and it also makes it hard to predict the outcome of a given case".

\textsuperscript{206} [1985] 1 All ER 724 (ChD), [1986] 1 All ER 617 (CA). Cf Bainbridge 234-236; Chandler and Holland 45-57; Coleman Trade secrets 11-14 60-61; Coleman Intellectual property 23-24; Cornish 229-231; Reid 39-42; Rideout 98-101.

\textsuperscript{207} [1985] 1 All ER 724 731-732; cf Coleman 1984 EIPR 172ff.

\textsuperscript{208} Note that the mere fact that the information is "carried away in the employee's head" is not a criterion by which this class of information is to be distinguished from true trade secrets, since Goulding J makes it clear that even though an employee has learnt information by heart, it remains protectable as a trade secret if it is of a sufficiently high standard of confidentiality. Cf the cogent reasoning of Parker LJ in Johnson & Bloy (Holdings) Ltd v Wolstenholme Rink PLC [1987] 1 IRLR 499 502: "The matter may be tested very simply. Somebody may hit upon the combination of two ingredients after many years of research, which produce an immensely valuable result wholly unknown to anybody else. An employee would have no difficulty in holding that knowledge in his head and inevitably carrying it away with him. But it cannot... be regarded as part of the ordinary skill and experience of the particular employee. It is a secret, whether or not it is carried away in his head"; cf Chandler and Holland 51.
The employee, said Goulding J, could not - during subsistence of the employment relationship - use or disclose information in the second category contrary to the purpose for which it had been imparted, without infidelity and therefore breach of contract. After termination of the contractual relationship, on the other hand, the employee was allowed to use his full skill and knowledge for his own benefit in competition with his former employer. If an employer wanted to protect information of this kind, he could do so by a reasonable express agreement in restraint of trade. However, information in the third category - specific trade secrets - could not, even though they might have been learned by heart and even though the employee might have left the service, lawfully be used for anyone's benefit but the employer's.

In the Court of Appeal Neill LJ formulated the applicable principles as follows:

(a) where the parties are, or have been, linked by a contract of employment, the obligations of the employee are to be determined by the contract between him and his employer;

(b) in the absence of any express term, the obligations of the employee in respect of the use and disclosure of information are the subject of implied terms;

(c) while the employee remains in the employment of the employer his obligations are included in the implied term which imposes a duty of good faith or fidelity on the employee. The extent of the duty of

Coleman Trade secrets 12 makes the following comments: "The term trade secrets had been used regularly in English law and in Commonwealth jurisprudence, but arguably it had never before acquired the status of a term of art, merely being used to describe commercial confidential information, in contradistinction to other categories of confidences protected by obligations of confidence, such as personal secrets, or the secrets of the state. Quite what Goulding J envisaged as amounting to confidential information in a commercial context but not to a trade secret is unclear, and one cannot necessarily rely on an interpretation of Goulding J's second category as being exactly synonymous with the old category of [the employee's own] knowledge and skill, even if that notion was certain, which it was not. If Goulding J did mean knowledge and skill, why did he not say so? Why did he call it something different, unless he meant it to be different?" Cf Purvis and Turner 1989 EIPR 3.

The duty of good faith is much broader than the duty to respect confidentiality, and also covers the duties to act honestly, not to make a secret profit, and not to compete with the employer during subsistence of the employment contract - cf Coleman Trade secrets 57; Gurry 179; Mehigan and Griffiths 58ff; Hull 1986 EIPR 321; Stewart 1989 EIPR 88-89. During subsistence of the employment contract, a precise analysis and classification of information received by the employee is therefore strictly not necessary. Cf Rideout 97: "It is unnecessary to explain the duty of an existing employee, as regards information he has received, in terms of confidentiality. His duty of faithful service will prevent him using, during his employment, a wide range of information concerning his employer's business other than for the purposes of that business. That duty obviously ceases when the relationship of service, from which it derives, ceases. The duty to respect confidentiality, or as it has always been expressed in the law of employment, not to disclose trade secrets, continues after the employment has ended."
good faith will vary according to the nature of the contract. The duty of good faith will be broken if an employee makes or copies a list of the customers of the employer for use after his employment ends, or deliberately memorizes such a list, even though, except in special circumstances, there is no general restriction on an ex-employee to canvas or do business with his former employer's customers;

(d) the implied term which imposes an obligation on the employee after the termination of the employment, is more restricted in its scope than that which imposes a general duty of good faith during subsistence of the employment relationship. The obligation not to use or disclose information may cover secret manufacturing processes such as chemical formulae, designs, special construction methods, and other information which is of a sufficiently high degree of confidentiality as to amount to a trade secret. The obligation does not extend, however, to cover all information which is given to or acquired by the employee while in his employment, and in particular may not cover information which is only 'confidential' in the sense that an unauthorized disclosure of such information to a third party while the employment subsisted would be a clear breach of the duty of good faith;

(e) to determine whether information is a trade secret - which may not be used or disclosed by an employee after his employment has ended - all the circumstances of the case must be considered. Factors which must be taken into account are:
(i) the nature of the employment;\textsuperscript{213}
(ii) the nature of the information itself - in this regard Neill LJ disagreed with Goulding J's suggestion that an employer could protect the use of information in his second category by means of a restrictive covenant;\textsuperscript{214}

\textsuperscript{213} Employment in a capacity where confidential material is habitually handled may impose a high obligation of confidentiality, because the employee can be expected to realize its sensitive nature to a greater extent than if he were employed in a capacity where such material reaches him only occasionally or incidentally.

\textsuperscript{214} 626-627: "[I]nformation will only be protected if it can properly be classed as a trade secret or as material which, while not properly to be described as a trade secret, is in all the circumstances of such a highly confidential nature as to require the same protection as a trade secret eo nomine... We must... express our respectful disagreement with the passage in Goulding J's judgment where he suggested that an employer can protect the use of information in his second category, even though it does not include either a trade secret or its equivalent by means of a restrictive covenant... It is clearly impossible to provide a list of matters which will qualify as trade secrets or their equivalent. Secret processes of manufacture provide obvious examples, but innumerable other pieces of information are capable of being trade secrets, though the secrecy of some information may be only short-lived. In addition, the fact that the circulation of certain information is restricted to a limited number of individuals may throw light on the status of the information and its degree of confidentiality.\textsuperscript{215} See the criticism of commentators noted in par 2.2.2.1.1.1 above.
(iii) whether the employer impressed on the employee the confidentiality of the information;\textsuperscript{215} and
(iv) whether the relevant information can be easily isolated from other information which the employee is free to use or disclose.\textsuperscript{216}

Another interesting aspect of the Faccenda Chicken case is Neill J's raising, but then preferring to leave open, the question whether additional protection should be afforded to an employer where the ex-employee is not seeking to earn his living by using his skill, knowledge and experience acquired in the course of his career, but by selling - that is, disclosing - to a third party information which he acquired in confidence in the course of his former employment.\textsuperscript{217}

Some commentators\textsuperscript{218} have come to the conclusion that for confidential information to be protected, a higher level of confidentiality is required in the context of employment than in other cases - in other words, that the courts apply a different, stricter, definition of confidential information in employment cases. Others\textsuperscript{219} observe that while the principle that a distinction must be drawn between the employee's acquired skill and knowledge and the employer's special trade secrets does not appear to add anything to the ordinary requirement that information must be confidential before the courts will grant protection to it, it nevertheless seems that the courts subject claims against former employees to closer scrutiny because of the conflicting policy issues at stake. Whether these analyses will prove accurate in the long term, will probably depend on the content that the courts will give to the term "trade secret" in the employment context. Already there are indications that the courts may be giving a wider interpretation to the term than might have been expected from

\textsuperscript{215} Although an employer cannot prevent use or disclosure of information merely by telling the employee that it is confidential, the attitude of the employer towards the information provides evidence which may assist in determining whether or not the information is a trade secret or not. Cf par 2.2.1.2.4 above.

\textsuperscript{216} The separability of the information in question is not conclusive, but the fact that the alleged 'confidential' information is part of a package and that the remainder of the package is not confidential, is likely to throw light on whether the information in question is really a trade secret.

\textsuperscript{217} 627. Cf Coleman \textit{Trade secrets} 14-15 who questions the validity of such a distinction; cf 61: "[I]s there really a difference between earning one's living from using information, and living off the proceeds of a one-off sale? Perhaps the latter is seen to be morally more akin to espionage. The ex-employee is not using his knowledge to earn his daily bread. It enables him to sit on the beach at Torremolinos. A rather harsh view, and one the present author would not wish to adopt." Cf also Coleman \textit{Intellectual property} 23-24.

\textsuperscript{218} Coleman \textit{Trade secrets} 10 13-14 59-61; cf Cornish 231.

\textsuperscript{219} Gurry 199.
a first reading of the Faccenda Chicken cases.\textsuperscript{220} To cite two examples: the names and preferences of clients may be sufficiently confidential to be protected as trade secrets; and information which can be "carried away in the employee's head" will not be disqualified for protection as a trade secret solely on that account.\textsuperscript{221} Furthermore, highly confidential information of a non-technical or non-scientific nature may also qualify as trade secrets.\textsuperscript{222} Such developments could be an indication that the employer-employee relationship is not giving birth to a concept of trade secrets narrower than the trade secret concept employed in other contexts.

2.4.2 ACQUISITION OF TRADE SECRETS BY INDUSTRIAL ESPIONAGE AND OTHER REPREHENSIBLE MEANS

A situation in which the protection afforded to confidential information by the English law is arguably inadequate, or at best very uncertain, is where the information is acquired by improper means in the absence of a relationship of confidence between the parties. In the field of trade secrets, this is the problem encountered particularly in the case of industrial espionage.\textsuperscript{223} The root of the problem is stated succinctly by Coleman:\textsuperscript{224}

"[T]he emphasis of the English action is on breach of an obligation of confidence. In cases where there is an obligation to respect confidentiality, there are few problems in founding liability, providing all the other elements of the action are present... But where there is no obligation of confidence, there can be no breach and no action. This causes problems, for example, where a spy gleans a secret from reading a confidential document, tapping a telephone, or gaining unauthorised access to a computer network. The spy cannot, without a high degree of artificiality, be said to have voluntarily undertaken an obligation to respect the confidentiality of the information he has improperly acquired.\textsuperscript{225} Any obligation must be imposed involuntarily by the law, but here English law

\textsuperscript{220} Cf Chandler and Holland 50-51.

\textsuperscript{221} Cf fn 208 above.

\textsuperscript{222} Cf Chandler and Holland 50.

\textsuperscript{223} Cf in general Bainbridge 223 240; Cornish 233-234; Coleman Trade secrets 82-91; Coleman Intellectual property 31-33; Gurry 162-168; LAW COM No 110 22-25 88 113-123; Vitoria 366-370; cf 29-30.

\textsuperscript{224} Trade secrets 82.

\textsuperscript{225} Cf Gurry 164-165 who does not appear to experience any difficulty with this allegedly artificial construction.
seems remarkably reluctant to intervene."

There are a couple of cases containing dicta to the effect that the publication or use of information improperly obtained may be restrained, but these relate to copyright infringement or documents improperly obtained for use in legal proceedings, and are not directly applicable to the action for breach of confidence.

A case that is directly relevant to the action for breach of confidence (but only indirectly to trade secrets, dealing as it does with confidential information of a personal, rather than a commercial, nature) is Malone v Metropolitan Police Commissioner. The case dealt with the tapping of a telephone, the plaintiff instituting civil proceedings against the Metropolitan Police Commissioner and arguing inter alia that he had a right of confidentiality in respect of the conversations on his telephone lines. Megarry VC accepted that to found the action for breach of confidence the information must have been imparted in circumstances importing an obligation of confidence. He thus drew a distinction between misuse of information by, on the one hand, a person to whom the information was intended to be communicated, and, on the other hand, by someone to whom the plaintiff had no intention of communicating anything. Referring to the latter category, to which the "unknown overhearer" belonged, Megarry VC said that he did not see why someone who had overheard some secret in such a way should be exposed to legal proceedings if he used or divulged what he had heard. A person who used a telephone to give confidential information to another could do so in such a way as to impose an obligation of confidence on that other person, but Megarry VC did not see how it could be said that such an obligation was imposed on a person overhearing the conversation, whether by tapping or other means.

The Malone case has been lamented by commentators. Thus, Coleman finds it regrettable that Megarry VC did not distinguish between those who deliberately set out to acquire secret information, and those who came across it accidentally. She

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226 Eg Millar v Taylor (1769) 4 Burr 2303 2378-2379; cf Coleman Trade secrets 83.

227 Ashburton v Pape [1913] 2 Ch 469 475; ITC Film Distributors Ltd v Video Exchange Ltd [1982] Ch 431; cf Coleman Trade secrets 83.

228 Cf Coleman Trade secrets 82-83; LAW COM No 110 23.

229 [1979] Ch 344.

230 375-376.

231 376.

232 Trade secrets 84.
argues that someone who acquires information accidentally, and then makes use thereof without knowing that it is secret, should not be liable, at least for use prior to receiving notice of the secrecy. On the other hand, someone who deliberately sets out to acquire trade secrets by improper means should be liable, regardless of whether such a person is under a pre-existing obligation of confidence or not.\textsuperscript{233}

The Law Commission\textsuperscript{234} came to the conclusion that it is very doubtful to what extent, if at all, information becomes impressed with an obligation of confidence by reason solely of the reprehensible means by which it has been acquired, and irrespective of some special relationship between the person alleged to owe the obligation and the person to whom it is alleged to be owed. In its preliminary Working Paper\textsuperscript{235} the Commission suggested in this regard that an obligation of confidence should arise where the person from whom the information has been obtained without his authority could reasonably expect that the information would not be so obtained, and where the acquirer of the information knows or ought to know that in receiving it he is defeating the reasonable expectations of the original holder.\textsuperscript{236} However, in

\textsuperscript{233} Cf further Coleman \textit{Trade secrets} 85: "[T]here is all the difference in the world between accidental overhearing and deliberate telephone tapping, and within the latter category, a distinction should be drawn between on the one hand, legitimate telephone tapping by the police, and on the other hand, industrial espionage... [T]he Vice-Chancellor failed to draw any of these distinctions... He did however state that he was only dealing with a case of \textit{authorised} tapping by the police in connection with the detection of crime. Thus, tapping by others... could be treated differently, but the judgment does remain disturbingly general in its treatment of secret information (a) acquired by those who are not under a pre-existing obligation of confidence; and (b) acquired by improper or surreptitious means. If anything, \textit{Malone} took English law further away from establishing liability for improper misappropriation of confidential information in the absence of a pre-existing obligation of confidence. A better approach... would have been to apply a principle... granting the courts a power 'to restrain the publication of confidential information improperly or surreptitiously obtained' [quotation from \textit{Ashburton v Pape} [1913] 2 Ch 469 475]. Then to state that there are exceptions to that principle, one of which is the acquisition of information in the public interest, for example, as in \textit{Malone}'s case, by the police acting under the relevant authority to tap telephones in connection with the detection of crime." Cf, in a similar vein, Gurry 166-167: "[T]he principle on which the case was decided seems to me regrettably wide and to grant a licence to tap telephone conversations without incurring civil liability (assuming no tort, such as trespass, to have been committed). The path was open to the court to hold that the tapping was a breach of confidence and yet to excise the action of the police on the defence of just cause or excuse - which, as a secondary measure, Megarry V.-C. did. If one cannot claim breach of confidence because of a public awareness that telephones are liable to be tapped - a known risk inherent in the circumstances of communication - then why is it that employers, who are certainly aware that some employees are prone to infidelity, can claim breach of confidence against an employee who surreptitiously acquires confidential information which has been made available within the employment context?... It would be preferable if the \textit{Malone} principle applied only where the circumstances of communication are such as to show that the confider's attitude to the confidentiality of the information leads others to believe that there is nothing confidential about the communication.*

\textsuperscript{234} 24; cf 88 where reference is made to the "glaring inadequacy of the present law" in this regard.

\textsuperscript{235} No 58.

\textsuperscript{236} Cf \textit{LAW COM} No 110 114.
the final report, the Commission preferred not to adopt such a general principle, but rather to specify a number of situations in which the acquirer of information should, by reason of the way in which he has acquired it, be treated as subject to an obligation of confidence in respect thereof.

Coleman concludes that the present English law concerning the improper acquisition of confidential information leaves "a huge gap in the protection of confidential information", and that there is an obvious need for reform. She points

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237 LAW COM No 110 114.

238 The complete recommendations in respect of information improperly obtained are as follows (LAW COM No 110 122-123):

*(i)* A person should owe an obligation of confidence in respect of information acquired in the following circumstances:

(a) by unauthorised taking, handling or interfering with anything containing the information;

(b) by unauthorised taking, handling or interfering with anything in which the matter containing the information is for the time being kept;

(c) by unauthorised use of or interference with a computer or similar device in which data is stored;

(d) by violence, menace or deception;

(e) while he is in a place where he has no authority to be;

(f) by a device made or adapted solely or primarily for the purpose of surreptitious surveillance where the user would not without the use of the device have obtained the information;

(g) by any other device (excluding ordinary spectacles and hearing aids) where he would not without using it have obtained the information, provided that the person from whom the information is obtained was not or ought not reasonably to have been aware of the use of the device and ought not reasonably to have taken precautions to prevent the information being so acquired.

(ii) An obligation of confidence shall be imposed on a person who jointly participates in the acquisition of information if, though he did not use any of the improper means listed in paragraph (i) above, he personally acquired the information and he is, or ought to be, aware that the information was acquired by the use of any such improper means by his fellow participator.

(iii) An obligation of confidence should not arise in accordance with paragraph (i) above where the information has been obtained by a person in the course of the lawful exercise of an official function in regard to the security of the State or the prevention, investigation or prosecution of crime or by a person acting in pursuance of any statutory provision so far as the information has been disclosed or used for those purposes or for any purpose expressly or impliedly authorised by a statutory provision."

239 Trade secrets 87.

240 Others have struck a more optimistic note, arguing that in exercising their equitable jurisdiction, the courts may well be able to deal satisfactorily with the matter. Cf Jones 1970 LQR 463 482-483: "It would be rash... to conclude that the stranger who sells information obtained... from the use of electronic bugs cannot be enjoined and is not liable to make any recompense or account for his profits to the plaintiff. Equity, to borrow a metaphor, should not be past the age of child-bearing. A defendant who has taken good care not to enter any relationship of any sort with the plaintiff and who has obtained confidential information by reprehensible means should be in no better position than a defendant who is given and deliberately breaches the plaintiff’s confidence... The formula, reprehensible means, should be sufficiently flexible to enable the court to balance the equities of each
out that the recommendations of the Law Commission - which have in any case never been enacted - do not attach liability to the improper acquisition of confidential information itself. Rather, they recommend that the person who has acquired the information by improper means "owe an obligation of confidence" in respect thereof, which will mean that unauthorized use and disclosure may be restrained. Coleman is of the opinion that the earlier in the chain of activity the liability attaches, the better. She argues that where a spy engaged in industrial espionage is discovered before he has time to use or disclose a secret, not only should an injunction be granted to prevent anticipated use or disclosure, but damages should be available for the very fact of improper acquisition. The civil remedy should furthermore be backed up by appropriate criminal offenses.

2.4.3 THIRD PARTIES

The question under consideration here is whether a third party, that is a person who has received confidential information without having any direct communication with the owner thereof, can be restrained from using or divulging the information. According to Vitoria such third parties can be categorized in six classes:

(a) a person learning the information from someone who, in breach of contract or confidence, imparts it to him;

(b) a person who learns the information by procuring or inducing another's breach of contract or confidence;

(c) a person learning the information from someone who did not breach contract or confidence in obtaining the secret or in imparting it to him;

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case... I know of no English authority which holds that a defendant who uses reprehensible means to obtain confidential information should be liable in equity to make restitution. But I do not think the courts will be reluctant to impose such a liability. Cf Gurry 164-165: "The problem... is that the right to preserve the confidentiality of information only operates against those in whom a confidence has been reposed by the communication of the confidential information. The confider has not deliberately communicated any information to the spy, so how can it be said that the spy is abusing a confidence? The spy has, however, used means to force an unwanted communication, or, at least, transmission, of the information on the confider. Because of those means he has placed himself in the position of one who receives confidential information, and the means also indicate that he is aware that the confider wishes to keep the information confidential - otherwise, he would not have needed to employ the means but could have asked the confider for the information. He should, therefore, be attributed with the obligation of confidence which is imposed on a confidant who receives confidential information knowing and recognizing that the confider wishes to preserve its confidentiality. The problem of espionage can thus be accommodated within the action for breach of confidence without doing violence to the way in which the action has developed, nor to the notion of confidence which lies at the heart of the action."

241 Trade secrets 86.

242 See in general Bainbridge 239-240; Cornish 231-233; Coleman Trade secrets 49-51; Gurry 269-289; LAW COM No 110 25-26 125-127; Reid 57-60; Turner 401-413; Vitoria 333-370.
(d) a person learning the information in bad faith but not through any intermediary who breached contract or confidence to the plaintiff - this is the case of industrial espionage;
(e) a person who learns the information accidentally without any intermediary at all; and
(f) the independent developer, that is the person who, whilst under no obligation of confidence to the plaintiff, independently develops the same trade secret as that of the plaintiff.

As far as the second category is concerned, the inducement of another to breach a contract or confidence is a recognized tort in English law, and this situation does not pose any particular problems.\textsuperscript{243} English law does not seem to attach liability to third parties in the third, fifth, or sixth categories.\textsuperscript{244} The position of the person who gains access to another's trade secrets by reprehensible means such as industrial espionage - the fourth category - has already been discussed.\textsuperscript{245}

In the case of a third party in the first category, that is a person who learns the confidential information from someone who imparts it to him or her in breach of contract or confidence, two possible situations may be distinguished. If the receiver of the information knows, or should reasonably have known, that it has been disclosed to him or her in breach of an obligation of confidence, he or she will as a general rule be bound to respect the confidentiality of that information in the same way that the informant should have respected it.\textsuperscript{246}

If, on the other hand, the receiver does not have knowledge - actual or constructive\textsuperscript{247} - of the breach, the position is more problematical. The general rule seems to be that such a person is not liable for breach of confidence if he or she uses or discloses the information,\textsuperscript{248} but once he or she acquires knowledge of the confidential character of the information, he or she becomes liable from that time

\textsuperscript{243} Cf Coleman \textit{Trade secrets} 49; Cornish 232; Vitoria 364-365.

\textsuperscript{244} See Vitoria 365-366 370.1.

\textsuperscript{245} Par 2.4.2 above.

\textsuperscript{246} Cf Bainbridge 239-240; Coleman \textit{Trade secrets} 49; Gurry 271-275; \textit{LAW COM No 110} 25; Vitoria 335-342 and authorities cited.

\textsuperscript{247} Cf Coleman \textit{Trade secrets} 49; \textit{LAW COM No 110} 25.

\textsuperscript{248} This immunity of the so-called \textit{innocent recipient} has been branded the "Achilles' heel" of the law of breach of confidence by Bainbridge 223; cf 239: "This is the one fundamental weakness of the law of breach of confidence - innocent parties are largely unaffected by this area of law."
onwards for any subsequent use or disclosure.\textsuperscript{249} \textsuperscript{250}

It is not clear whether the above-mentioned principles apply where the third person is a \textit{bona fide} purchaser for value of the secret information, or if he or she has in good faith altered his or her position in reliance on the information, for example by making substantial changes to production lines in order to implement a new production process, or whether \textit{bona fide} purchase for value or substantial change of position may be raised as a defence.\textsuperscript{251}

Commentators\textsuperscript{252} have advocated a flexible approach in terms of which \textit{bona fide} purchase for value or substantial change of position are not absolute defences, but rather \textit{factors} to be taken into account when the court must decide whether to grant

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\item \textsuperscript{249} Cf Bainbridge 239; Cornish 232; Coleman \textit{Trade secrets} 49; Gurry 275; \textit{LAW COM No 110} 25. \textit{Contra} Vitoria 342-343: "[E]ven the third party who, at the time he receives the disclosure of the secret or confidential information, does not and should not reasonably have known that the information belongs to the plaintiff and that the party disclosing to him was breaching contract or confidence in doing so, or that the disclosing party had acquired it illegally, may be enjoined from using or making further disclosure. Also, he may incur liability for damages if he uses the information after he has received notice of the true state of facts." Most of the cases cited by Vitoria do not seem to support her position unequivocally - an exception being \textit{Printers and Finishers Ltd v Holloway} [1965] RPC 239 257: "[T]he case of \textit{Prince Albert v Strange} (1850) 1 M.&G., 41 E.R. 1171 shows that an injunction may be granted against someone who has acquired - or may acquire - information to which he was not entitled without notice of any breach of duty on the part of the man through whom he obtained it." See, however, Gurry 276-277 who remarks that in the type of situation encountered in the \textit{Holloway} case "the instigation of the action itself will, of course, bring the breach to the attention of the third party". Cf also Turner 401-406.

\item \textsuperscript{250} This is also in substance what the Law Commission recommended in this regard (\textit{LAW COM No 110} 271): "[A] person who acquires information already impressed with an obligation of confidence, however created, should become subject to that obligation as soon as he has both acquired the information and knows or ought to know that the information is so impressed."

\item \textsuperscript{251} Cf Cornish 232-233; Gurry 275-281; Coleman \textit{Trade secrets} 49-50; \textit{LAW COM No 110} 25-26.

\item \textsuperscript{252} Cf Jones 1970 \textit{LQR} 479: "The application of a flexible notion of change of position may... balance more effectively than an absolute defence of \textit{bona fide} purchase the competing equities of the honest purchaser and the... plaintiff"; Gurry 280-281: "The matter really falls... to be decided as a question of principle. This being the case, one must ask: what is the basis of the court's intervention against the third party who receives confidential information from an errant confidant? Here, two things can be said. First, the court is seeking to protect a confider from the further abuse of a confidence which has been created by the limited communication of information. Given the mobility of information, effective relief can only be granted to the confider by adopting a severe attitude to the third party, who has in his hands the power to destroy permanently the confidence, and who has been made aware, by notice, of that power. On the other hand, however, it must also be said that the basis of the court's intervention against the third party is an exercise of the \textit{equitable} jurisdiction, and equitable remedies are discretionary. Once the discretionary nature of the remedies which the court will order against a third party are brought to mind, then it is a question, not of absolute defences..., but of \textit{factors} which the court will take into account in determining what relief should be granted against the innocent third party." See further Cornish 232-233.
\end{itemize}
\end{footnotesize}
an injunction against an innocent third party recipient or not. Gurry\textsuperscript{253} argues that the importance of \textit{bona fide} purchase should not be stressed, since it is primarily a matter between the third party and the confidant and, if the court is seeking to protect the confider from an abuse of confidence, it should not be overswayed by the fact that the confidant has also deceived the third party in circumstances in which the third party may have an action against the confidant. He emphasizes that the court should furthermore consider all the other circumstances which may be relevant to the granting of an injunction against a confidant who is in breach of duty. In particular, the conduct of the parties must be considered - whether the confider has delayed in bringing the action or whether proceedings are commenced in time,\textsuperscript{254} and whether the third party has behaved with propriety after being informed of the breach of confidence.

The Law Commission was also of the opinion\textsuperscript{255} that an absolute rule was undesirable, and that it was better to leave a discretion with the courts to decide on the circumstances of each individual case whether to grant an injunction or damages in lieu thereof. The Law Commission also proposed in their unenacted draft bill\textsuperscript{256} an adjustment order to compel a plaintiff who has successfully applied for an injunction against a third party who has - before acquiring knowledge of the breach of confidence - incurred expenditure in reliance on the confidential information, to make such a contribution towards that expenditure as deemed just and equitable by the court.\textsuperscript{257}

2.4.4 DURATION OF PROTECTION

An obligation of confidence may come to an end in different ways. In the first place, if the obligation has been created by a contract, the contract may also stipulate when the obligation will come to an end.\textsuperscript{258} As noted,\textsuperscript{250} the courts may regard the express contractual obligation as providing only a minimum protection, reading in

\begin{itemize}
\item \textsuperscript{253} 280-282.
\item \textsuperscript{254} Quoting Stephenson Jordan & Harrison Ltd v Macdonald and Evans (1952) 68 RPC 190 195.
\item \textsuperscript{255} LAW COM No 110 126.
\item \textsuperscript{256} Cl 15, LAW COM No 110 218.
\item \textsuperscript{257} An approach hailed by Coleman \textit{Trade secrets} 51 as "the most sensible solution of the otherwise almost intractable problem of innocent third party acquirers of trade secrets".
\item \textsuperscript{258} Gurry 252-254; LAW COM No 110 143.
\item \textsuperscript{259} Par 2.2.2.1.1.2 above. Cf Gurry 253-254.
\end{itemize}
implied contractual protection that outlasts the express contractual protection. Secondly, if the information falls into the public domain, the obligation of confidence comes to an end. The better view seems to be that this will also be the case where the period of protection has been expressly stipulated in a contract - contractual protection of "confidential" information should not continue after the information has fallen into the public domain. If the person bound by the obligation of confidence himself caused the information to fall into the public domain, he or she may be liable for destroying its confidential character. Thirdly, the obligation of confidence may come to an end if the person to whom it is owed expressly or impliedly releases the confidant from its application.

The greatest source of problems in connection with the duration of the legal protection of trade secrets, is probably the application of the so-called springboard doctrine, since - as noted - it could possibly be interpreted as subjecting a defendant who has breached an obligation of confidence, to an indefinite prohibition on use of the relevant information - even after it has passed into the public domain. This apparent impasse has already been dealt with above. In the light of the recognition of the courts that the head-start obtained by misuse of confidential information may often be of a temporary nature, the logical remedy to neutralize the head-start would appear to be an injunction limited in duration to the period for which the unfair advantage may reasonably be expected to continue. Relatively recently, the courts have approved such an approach, also in interlocutory

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260 Cf Gurry 245; LAW COM No 110 143.

261 Cf Gurry 253; LAW COM No 110 143-144. On the position regarding the contractual protection of information which is from the outset not secret, see again par 2.2.1.2.3 above.

262 LAW COM No 110 143-144.

263 Cf Gurry 241-244; LAW COM No 110 143-144.

264 Par 2.2.1.2.3 above.

265 Par 2.2.1.2.3 above; cf especially fn 67.

266 Cf Potters- Ballotini Ltd v Weston Baker [1977] RPC 202 206: "the springboard does not last forever"; 206-207: "a time may come when so much has happened that [the person subject to the obligation of confidence] can no longer be restrained"; Harrison v Project and Design Co (Redcar) Ltd [1978] FSR 81 87.

267 Cf Hull 1981 EIPR 261.

2.5 LEGAL BASE OF TRADE SECRET PROTECTION IN ENGLISH LAW

After examining the scope of protection of trade secrets afforded by the English law concerning breach of confidence, it may be of value to give some thought to the possible legal bases of this protection. As commentators have pointed out, the case law does not present a clear picture in this regard. Authority can be found for all of the following:

2.5.1 CONTRACT

A very substantial percentage of trade secret protection is undoubtedly founded in contract, either express or implied, as discussed above. The relationship between the express contractual base and the implied contractual base has also been touched upon.


270 A dictum in the Roger Bulivant case [1987] FSR 172 188 may be interpreted as suggesting that injunctions with time limits are only appropriate in the case of information which employees need only treat as confidential during the subsistence of the employment contract (par 2.4.1 above), and not in the case of true trade secrets: "[A] distinction can and should be drawn between information sought to be used by ex-employees to the detriment of their previous employers which can properly be described as comprising trade secrets on the one hand and that which is merely confidential on the other...; [I]n relation to that type of information, as distinct from that concerning real trade secrets, the court should be concerned that it does not, in granting such an injunction give the injured party more protection than he realistically needs and in particular discourage or prohibit what in the course of time becomes legitimate competition. I think that in cases where 'springboard' interim injunctions in respect of confidential information are sought the judge should ask himself whether any injunction should be subject to a time limit other than the usual 'until trial or further order', which is usually appropriate to injunctions in respect of true trade secrets, and if so, for what period such an injunction should be so limited." On the other hand, the use of the word "usually" - as highlighted by the italic print added in the quotation - may indicate that the Appeal Court did not intend to be prescriptive on this issue, and that time-limited injunctions may sometimes be appropriate in the case of true trade secrets as well.

271 Eg Coleman Trade secrets 37; Gurry 25; Jones 1970 LQR 463; LAW COM No 110 86.

272 Par 2.2.2.1.1.

273 Par 2.2.2.1.2 above.
2.5.2 EQUITY

Equity\textsuperscript{274} is, as noted above,\textsuperscript{275} another major jurisdictional base for trade secret protection.

Gurry\textsuperscript{276} examines the relationship between the equitable and contractual bases of obligations of confidence. He points out that equity clearly has a role in the breach of confidence action where there is no possibility of relief in contract, either because the immediate parties to a confidence are not in a contractual relationship, or because the person against whom relief is sought is a third party not privy to a contractual disclosure. Beyond these situations, the boundaries between equity and contract are indistinct. Thus it is possible that the same facts could give rise to a contractual or an equitable obligation of confidence. Two types of situations can be discerned here:

(a) a confidant can be held liable in respect of the same conduct for breach of both an equitable and a contractual obligation of confidence;\textsuperscript{277} and

(b) the courts will sometimes proceed on the equitable basis alone, even though an obligation of confidence might exist in contract.\textsuperscript{278}

Gurry concludes\textsuperscript{279} that a broad notion of confidence underlies the action for breach of confidence, in respect of which the legal bases of protection are of secondary importance. The courts will ensure that this confidence is respected to the full extent, and in so doing, they will feel free to draw on all the available jurisdictional sources available.

2.5.3 PROPERTY

An interesting possibility is that of regarding confidential information as a species of

\textsuperscript{274} On equity in general, and its place alongside the common law in the English legal system, see David and Brierley 339ff.

\textsuperscript{275} Par 2.2.2.1.2; cf Plibersek 1991 EIPR 283ff.

\textsuperscript{276} 39-46.

\textsuperscript{277} Eg Robb v Green [1895] 2 QB 315; Nichrotherm Electrical Co Ltd v Percy [1957] RPC 207; Ackroyds (London) Ltd v Islington Plastics Ltd [1962] RPC 81; Stewart 1989 EIPR 89.

\textsuperscript{278} Eg Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd [1963] RPC 45; cf Cranleigh Precision Engineering Ltd v Bryant [1966] RPC 81; Stewart 1989 EIPR 89.

\textsuperscript{279} 45-46.
property.

_Dicta_ can be found in the case law supporting the idea that confidential information is property. The decision in _Exchange Telegraph Co (Ltd) v Howard_\(^{280}\) may be cited as an example.\(^{281}\) The plaintiff was a news agency that collected information on scores at cricket matches and supplied it to subscribers. The defendant surreptitiously acquired this information and supplied it to its customers. The court granted injunctions restraining the defendant from obtaining the information and disseminating it to others, substantiating its judgment as follows:\(^{282}\)

"The plaintiffs carry on the business of collecting and distributing information. The knowledge of a fact which is unknown to many people may be the property of a person in that others will pay the person who knows it for the information as to that fact. In unpublished matter there is at common law a right of property, or there may be in the circumstances of the case. The plaintiffs here sue, not in copyright at all, but in respect of that common law right of property in information which they had collected and which they were in a position to sell. Their case is that the defendant has stolen their property, that he has surreptitiously obtained that which belonged to them, and used it in rivalry with them."

On the other hand, _dicta_ may also be found explicitly denying that confidential information can be property. Thus in _Phipps v Boardman_ it was said:\(^{283}\)

"In general information is not property at all... The true test is to determine in what circumstances this information has been acquired. If it has been acquired in such circumstances that it would be a breach of confidence to disclose it to another then courts of equity will restrain the recipient from communicating it to another. In such cases such confidential information is often and for many years has been described as the property of the donor... But in the end the real truth is that it is not property in any normal

\(^{280}\) (1906) 22 TLR 375.

\(^{281}\) Cf Gurry 50-51. See also the cases cited by Vitoria 109-128.

\(^{282}\) 375.

\(^{283}\) 1967 2 AC 46 127 per Lord Upjohn (interestingly, Lords Hodson (107) and Guest (115) disagreed with him on this point); see also the cases cited by Gurry 54-56; eg Nichrotherm Electrical Co Ltd v Percy [1957] RPC 207 209: "[A] man who thinks of a mechanical conception and then communicates it to others for the purpose of their working out the means of carrying it into effect does not, because the idea was his (assuming that it was), get proprietary rights equivalent to those of a patentee. Apart from such rights as may flow from the fact, for example, of the idea being a secret process communicated in confidence or from some contract of partnership or agency or the like which he may enter into with his collaborators, the originator gets no proprietary rights out of the mere circumstance that he first thought of it."
Commentators differ widely in their opinions on this matter, although the majority seem to think that information cannot be property, at least not in a traditional sense. Some furthermore deny any advantage in a view that confidential information can be property, since the property concept is allegedly too restrictive a basis for the problems peculiar to the field of confidential information to be satisfactorily dealt with. Others are of the opinion that property could provide a valuable extension of the action for breach of confidence, in so far as it could furnish a basis upon which trade secrets may be protected against acquisition by improper means, such as industrial espionage.

2.5.4 TORT

Tort does not seem to play a major role in the protection of trade secrets in English

284 Cf Vitoria 128-134; Turner 12; Eisenschitz 1984 EIPR 92; Wright 1993 EIPR 237ff.

285 In this camp is, inter alia, Coleman Trade secrets 48-49: "The main problem with the property approach is that it is too limiting. Information in general and confidential information in particular has characteristics which cannot be accommodated by the concept of property, or at least not by straining it beyond its traditional boundaries. For instance, information 'taken' is often information shared. What is 'lost' in trade secrecy cases is exclusivity and the economic advantage that [it] gives in the marketplace, not possession. When information is shared, there is also no permanent deprivation, again only a loss or reduction of market advantage and market power... The matter is one of balancing a complex web of public and private interests, for which a traditional property-based analysis is ill-equipped."

286 Cf Gurry 53-54: "The property jurisdiction could... provide a valuable extension of the breach of confidence action. The role of contract and equity may be confined to circumstances in which there is a relationship of confidence between a confider and a confidant, or a proven breach of such a relationship which results in the passing of the information to a third party. Property can supplement this jurisdiction by providing relief against those who obtain confidential information, not as a result of a broken relationship of confidence, but by surreptitious means. Thus, it would provide an answer to the problems raised by modern technology, which has produced the means of acquiring information, by tapping telephone wires or by using electronic surveillance devices, in circumstances which do not involve either a breach of a confidential relationship or a tort, such as trespass. Nevertheless, the right in property does not appear to be a conventional one which operates against the whole world. There is authority to support the right of a person to use confidential information which he has discovered by independent means [citing James v James (1872) 13 LR Eq 424], or by analysing a marketed product [citing Estcourt v Estcourt Hop Essence Co (1875) 10 Ch App 276]. Property would seem confined to conferring a right of action against those who surreptitiously acquire information, or acquire it by use of 'reprehensible means'." See further the distinction Gurry 47-56 draws between the metaphorical and literal use of property in confidential information cases. Gurry 54 does, however, admit that the "existence of a proprietary right in confidential information... has a very tenuous foothold on authority".
law. Its main role in this regard is a subsidiary one in that it provides a number of ancillary remedies which can be utilised to protect confidential information. Torts which may, depending on the circumstances of each case, be applicable include interference with contractual relations, conspiracy, conversion, and passing off.

Tort has been proposed as a vehicle for law reform. In 1981 the Law Commission recommended that a new tort of breach of confidence be created by statute to replace the existing action for breach of confidence. As noted, the Law Commission's draft bill on breach of confidence has never been enacted. However, some commentators still regard tort as a suitable base for reform of the

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287 Coleman Trade secrets 47; Gurry 56. Vitoria 162ff, in an aberrant classification, includes her discussion of the action for breach of confidence under the heading of "Tort law aspects of trade secrets" (151), but concedes (157) that hers is not a traditional use of the term "tort" and that "perhaps a more accurate term than 'tort' would be 'a broad equitable principle of good faith"; cf Bainbridge 219 who characterizes breach of confidence as a "tort which lies in the domain of equity". See in general on the scope of English tort law Hepple in Butler and Kudriavtsev (eds). English textbooks on tort often do not refer to breach of confidence at all (cf Rogers), or if they do, it is referred to as a 'doubtful tort' (cf Baker 398 399-400; Winfield and Jolowicz 590-591), or only in so far as it relates to privacy (cf Markesinis and Deakin 611). Exceptions are Clerk and Lindsell, who include (for the first time in the 16th edition) a short chapter on breach of confidence, and Salmond and Heuston who state (in the twentieth edition) that breach of confidence "is now recognised as a distinct tort". Cf Street 6: "[B]reach of confidence, as yet an embryonic and even disputed tort, protects a patient's right to confidentiality from his doctor as much as a multinational company's right to protection of their trade secrets"; 166: "An action for damages has been found to lie even in circumstances where neither breach of contract nor harm to tangible or intangible property is established. Nevertheless the precise nature of the action for breach of confidence remains unclear. Criteria used to determine the measure of damages indicate a judicial perception of the action as an emergent tort. The duty of confidentiality is discussed in terms reminiscent of the more familiar duty of care... The Law Commission has proposed clarification of the issue by creating a statutory tort of breach of confidence. For the present though the better view remains that '... whatever the circumstances are which created the confidential relationship, the obligation to remain silent depends on a duty of good faith enforceable in equity.' See further Stanton 9; North 1972 JSPTL 149. An unspoken reason for the hesitation of English law to characterize the action for breach of confidence as a tort action, may be the half-hearted recognition of tortious liability for pure economic loss in that legal system in general. English courts prefer to base liability for pure economic loss on contract. Cf eg Furmston 2; Cane in Furmston 113ff.

288 Cf Gurry 56-57.

289 Cf Gurry 56-57; Vitoria 177-184.2.

290 LAW COM No 110 103; cf Coleman 1982 EIPR 73ff; Eisenschitz 1984 EIPR 91-92; North 1971 JSPTL 149.

291 Par 2.1 above.

292 LAW COM No 110 179-236.

293 Eg Coleman Trade secrets 49: "Tort is an expanding medium for legal control, its main advantages being flexibility, and the fact that a new nominate tort can be formulated to regulate wrongful conduct without regard to historical antecedents, such as those which accompany a traditional notion such as property. Whatever the position in the past, tort is firmly in ascendance and property
2.5.5 SYNTHESIS

The uncertainty surrounding the legal basis of the action for breach of confidence has been regarded by some as unsatisfactory. Others, however, view this situation as advantageous one, arguing that the courts should be free to adopt whatever legal basis is appropriate in the circumstances to enforce a confidence. According to this view, the action for breach of confidence is a *sui generis* one, and attempts to force it into a single legal foundation should be resisted.\(^{294}\)

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\(^{294}\) Cf Gurry 25-28: "The jurisdictional basis of the action for breach of confidence has been a source of lingering uncertainty and controversy... Most commentators have regarded this situation as unsatisfactory and as evidence of conceptual confusion on the part of the courts. In *Argyll v Argyll* [[1967] 1 Ch 332], Ungoed-Thomas J pointed the way to an alternative interpretation by saying that it is the *policy* of the law which is 'the basis of the courts' jurisdiction'. This policy, it has been observed, is to enforce confidences created by the communication of confidential information. Underlying all of the cases in which the courts have granted relief is a broad notion of confidence reposed by one party in another which the courts will enforce. Once this policy is brought to mind, it is possible to regard the jurisdictional sources on which the courts rely as merely secondary mechanisms which provide the means by which the courts can enforce a confidence. The courts' attitude to jurisdictional sources has thus been a pragmatic one. Their principal concern has been, not to classify the breach of confidence action into an existing conceptual category, but to use existing categories to enforce the more fundamental notion of confidence... The action should properly be regarded, therefore, as *sui generis*, and attempts to confine it exclusively within one conventional jurisdictional category should be resisted. The present approach has the advantage of flexibility, giving the courts freedom to respond to the different social circumstances in which a confidence may arise, and it would be unwise to sacrifice this for conceptual neatness. Within the context of a given case, however, it may become important to identify the particular jurisdiction on which the court relies. The jurisdictional basis determines what remedies are available to the litigant. Thus, if relief is founded on contract, damages and an injunction will be the appropriate remedies. If the court relies on equity, then the available remedies will be an injunction, or damages in lieu of an injunction..., or an account of profits. Finally, if the court proceeds on the basis of property, the appropriate remedies will be an injunction and damages. Even within this context, however, the significance of the jurisdictional basis... should not be over-emphasized. In the first place, there is some authority to suggest that traditional relationships between jurisdiction and remedies have been ignored by the courts in this area... The role of the jurisdictional basis in limiting the availability of remedies is further diminished by the courts' adroitness in switching from one basis to another where the action demands."
3.1 INTRODUCTION

In the United States of America the protection of trade secrets is regulated by the laws of the various states, not by federal law.\(^1\) This means that each state is free to develop its own trade secrets law, provided that it does not conflict with federal intellectual property law policy. However, the trade secrets laws of the various states exhibit a large degree of similarity because of two major unifying influences - the Restatement of the Law of Torts of 1939 and the Uniform Trade Secrets Act of 1979.\(^2\)

Originally the trade secrets law of England was adopted and further developed by the American courts, each state thus gaining its own body of judicial precedent constituting its common (non-statutory) trade secrets law.\(^3\) Under these circumstances a measure of inconsistency among the laws of the various states was inevitable. The (first) Restatement of the Law of Torts, produced by the American Law Institute in 1939, contained sections defining trade secrets and dealing with the unauthorized use and disclosure of trade secrets. The Restatement was not binding law, but was rather meant to be of persuasive value in order to promote uniformity among the laws of the various states.\(^4\) In respect of trade secrets it succeeded to a substantial degree, being cited widely by the courts and leading to a greater consistency of authority and terminology among the court decisions of the various states.\(^5\)\(^6\)

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\(^1\) See eg Lupo and Tanguay 79.

\(^2\) Chisum and Jacobs 3.6; Coleman *Trade secrets* 18-26; Dorr and Munch 7-9; Dratler 4.3 4.7-4.8; Jager Vol 1 3.1-3.56; Lupo and Tanguay 73-80; Milgrim Vol 1 1.3-1.67.

\(^3\) Chisum and Jacobs 3.7-3.11.

\(^4\) Chisum and Jacobs 3.11; Coleman *Trade secrets* 19.

\(^5\) Chisum and Jacobs 3.12; Coleman *Trade secrets* 19-22; cf Milgrim Vol 1 1.4.

\(^6\) The second Restatement of Torts (1978) omitted trade secrets because it was felt that trade secrets law had grown too important in its own right to be included in a restatement of the general law of torts. An updated restatement dealing with trade secrets law was however never produced. Cf Chisum and Jacobs 3.13; Coleman *Trade secrets* 21-22; Milgrim Vol 1 1.22-1.23.
In 1979 the National Conference of Commissioners on Uniform State Law published a Uniform Trade Secrets Act that could be adopted and enacted by the state legislatures to promote uniformity. The Act has had a high degree of success and has been enacted in well over half of the states. However, in many states it has been enacted in an amended form, and therefore there is still no absolute uniformity, even among those states which have adopted it. Court decisions pre-dating the adoption of the Uniform Trade Secrets Act usually retain interpretive value in the particular state unless they are expressly contradicted by the Act.

### 3.2 REQUIREMENTS FOR THE PROTECTION OF TRADE SECRETS

In American law two broad requirements must be met before there can be legal intervention to protect trade secrets:

(a) there must be a trade secret; and
(b) the trade secret must be misappropriated.

### 3.2.1 NATURE AND CHARACTERISTICS OF TRADE SECRETS

#### 3.2.1.1 TERMINOLOGY

3.2.1.1.1 Defining trade secrets

The Restatement of the Law of Torts provides a comprehensive definition of trade secrets.

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7 Chisum and Jacobs 3.13; Coleman *Trade secrets* 22. See Milgrim Vol 1 1.44ff for a list of states that have adopted the Act.

8 Coleman *Trade secrets* 22; Dorr and Munch 7; Samuels and Johnson 1990 *Creighton LR* 49ff.

9 Chisum and Jacobs 3.14.

10 Cf Dratler 4.27-4.28: "[Limited availability, economic value, and relative secrecy... capture the essence of trade secrecy. Once information has met these three criteria, it constitutes a trade secret; then the viability of a tort claim depends upon whether it has been misappropriated"; Kintner and Lahr 133: "Trade secrets have been a significant class of intellectual property accorded judicial protection broadly based on the twofold inquiry into (1) whether there really is a 'secret' in the first place and (2) whether there exists any duty on the part of the person who learned the secret not to use or disclose it"; Callmann Vol 2 14.8: "The threshold issue in every case is not whether there was a confidential relationship or a breach of contract or some other kind of misappropriation, but whether, in fact, there was a trade secret to be misappropriated." Field et al 17.9: "Whether under the common law or the Uniform Act, most courts view trade secret misappropriation cases as having essentially three components: (1) Does the plaintiff have a trade secret? (2) Has the trade secret been misappropriated? (3) What is the proper remedy?"; Kitzke 1986 *The Business Lawyer* 564.

11 Sec 757 comment (b).
Trade secrets, portions of which have been quoted approvingly in virtually every state. It provides *inter alia*:

"A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it... The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret."

This description has been described as "without question, the closest thing to a universally accepted definition".

Stressing that the secrecy need not be absolute, and that it is impossible to provide an exact definition of a trade secret, the Restatement of Torts furnishes a list of factors to be considered when determining whether given information is a trade secret or not:

(a) the extent to which the information is known outside the business;
(b) the extent to which it is known by employees and others involved in the business;
(c) the extent of measures taken to guard the secrecy of the information;
(d) the value of the information to the proprietor and his competitors;
(e) the amount of effort or money expended in developing the information; and
(f) the ease or difficulty with which the information could be properly acquired or duplicated by others.

The Restatement adds another requirement to its description of a trade secret, namely that only information which is in *continuous use* in a business can qualify as a trade secret, whereas information relating to single or ephemeral events in the

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12 It is rather more voluminous than a definition in the traditional sense, and is perhaps more aptly described by Coleman *Trade secrets* 19 as a 'working description of a trade secret'.

13 Milgrim Vol 1 1.4; cf Lupo and Tanguay 75; Dratler 4.11; Field et al 17.16.

14 Lupo and Tanguay 75.

15 On the relativity of secrecy, see par 3.2.1.2.3 below.

16 Sec 757 comment (b).
conduct of a business does not qualify as a trade secret. However, this requirement has been ignored or rejected by the courts and disapproved of by commentators.

The Uniform Trade Secrets Act defines a trade secret as follows:

"Trade secret means information including a formula, pattern, compilation, program, device, method, technique or process that:
(i) derives independent economic value, actual or potential from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

Significantly, the continuous use requirement of the Restatement definition is omitted from this definition. Apart from this difference, the definitions are in material agreement, differing in terms of precision of formulation rather than in substance.

The definition in the Uniform Trade Secrets Act has been freely quoted and applied

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17 Thus it provides in sec 757 comment (b): "[A trade secret] differs from other secret information in a business... in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management."

18 Chisum and Jacobs 3.18-3.19; Coleman Trade secrets 20; Dratler 4.12-4.13.

19 Confidential information relating to single events in a business could be protected under sec 759 of the Restatement of the Law of Torts, which provides: "One who, for the purpose of advancing a rival business interest, procures by improper means information about another's business is liable to the other for the harm caused by his possession, disclosure or use of the information." Although the protection in terms of sec 759 is not so wide as that under sec 757 (in so far as it only applies to information acquired by improper means for the purposes of advancing a rival business interest - see Coleman Trade secrets 21), it nevertheless considerably dilutes the practical importance of the 'continuous use' requirement in sec 757 (Dratler 4.12-4.13).

20 Sec 1(4).

21 By and large, the courts also seem to ignore or disagree with the continuous use requirement, a notable exception being Lehman v Dow Jones & Co Inc 783 F 2d 285 (2d Cir 1986). See Chisum and Jacobs 3.18-3.19.

22 Cf Dratler 4.12.
in the courts of the states which have adopted the Act. However, even in some of those states the Restatement definition is still treated as authoritative and applied alongside the statutory definition in the Act. In some judgments other definitions of trade secrets have been formulated, but these rarely add something significant and do not normally purport to be comprehensive.

3.2.1.1.2 Know-how

'Know-how' is a concept that is quite frequently encountered in case law and commentaries, but which seems to have no single, generally accepted meaning. It seems to be equally capable of application as a virtual equivalent of the term 'trade secret', a contrasting term denoting matter which cannot be characterized as trade secrets, and a broader generic term including both trade secrets and other matter.

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25 Cf Milgrim Vol 1 1.4ff.

26 See in general Callmann Vol 2 14.46-14.48; Ellis 220ff 293ff; Kintner and Lahr 140-141; Turner 32-37.

27 Cf Callmann Vol 2 14.46: "[T]he [Restatement] definition which is recognized for trade secrets is equally applicable to know-how... Another generally accepted definition states that know-how 'may consist of inventions, processes, formulae, or designs which are either unpatented or unpatentable; it may be evidenced by some form of physical matter, such as blue-prints, specifications, or drawings... or it may involve accumulated experience and skills which can best, or perhaps only, be communicated through the medium of personal services... One court... limited the concept of know-how to the experience of skills which result from applying certain techniques. An employee is not required to leave such experience behind when he moves on to another company. That kind of knowledge does not qualify as a trade secret"; Kintner and Lahr 140: "The term know-how... can be used to describe practically any technical subject of a technical trade secret so that secret know-how is almost synonymous with 'trade secret' technology. On the other hand, technical know-how, not a trade secret, is a category of knowledge that any technical employee is free to take with him from one job to another"; Pooley 32 fn 11: "Know-how, which can be a trade secret, consists of general information used in a particular application, giving some commercial advantage. It is a collection of 'lesser tricks"; Turner 32: 'The words 'know-how' are used by the layman to mean all the valuable knowledge which is accumulated by research workers, pilot-plant operators, and others who have produced a new process by means of experimentation and effort. Sometimes the words are used loosely to refer to the process itself, particularly if that process involves the use of a new machine."
3.2.1.2 ELEMENTS OF A TRADE SECRET

The following elements of a trade secret protectable at American law may be extracted from the Restatement and Uniform Trade Secrets Act definitions of trade secrets:

- (a) information;
- (b) commercial or industrial applicability;
- (c) secrecy;
- (d) the use of reasonable efforts to maintain secrecy; and
- (e) economic value.

From the case law and the commentaries a sixth element (or sub-element) may be added, namely:

- (f) concreteness.

These elements will now be dealt with individually.

3.2.1.2.1 Information

The Uniform Trade Secrets Act defines a trade secret as "information including a formula, pattern, compilation, program, device, method, technique or process". Information is thus used as a collective term denoting the essence of all the various forms of trade secrets. At first glance the Restatement definition does not appear to agree with this, as it states that "[a] trade secret may consist of any formula, however, the general usage encompasses valuable knowledge which is an adjunct to the use of a new invention." An example of a complex definition from the case law is the following from *Mycalex Corp v Pemco Corp* 64 F Supp 420, 68 USPQ 317 (DC Md 1946), 159 F2d 907, 72 USPQ 290 (4th Cir 1947) at 68 USPQ 322: "[T]actual knowledge not capable of precise, separate description, but which when used in an accumulated form, after being acquired as the result of trial and error gives to the one acquiring it an ability to produce something which he otherwise would not have necessary for commercial success"; cf Turner 35.

Because of its ambiguity, 'know-how' is not used as a technical term in this study - cf par 2.2.1.1.4 above; 7.2.8.2 below.

*26* Because of its ambiguity, 'know-how' is not used as a technical term in this study - cf par 2.2.1.1.4 above; 7.2.8.2 below.

*29* Cf Dratler 4.12 who recognizes three 'key requirements': (a) limited availability; (b) consequent economic value; and (c) use of reasonable efforts to keep the secret.

*30* Sec 1(4); see par 3.2.1.1.1 above.

*31* Cf Jager Vol 1 3.40.

*32* Sec 757 comment (b); see par 3.2.1.1.1 above.
pattern, device or compilation of information". The implication seems to be that a compilation of information is merely one of several forms that a trade secret may take, and that the other forms cannot accurately be characterized as information. However, the Restatement continues to say that a trade secret "differs from other secret business information";\(^{33}\) thus implying that a trade secret is secret business information too. It is submitted that the language used in the Uniform Trade Secrets Act is more accurate, and that a trade secret always consists of information, albeit embodied in or pertaining to a formula, or a program, or a technique, or a process, and so on.\(^ {34}\)\(^ {35}\)

3.2.1.2.2 Commercial or industrial applicability

Information must be capable of commercial or industrial application to qualify as a trade secret. This requirement is not normally stated in so many words in the case law or by the commentators,\(^ {36}\) but may be regarded as trite and implicit in the concept trade secret itself.\(^ {37}\)

3.2.1.2.3 Secrecy

If information is to qualify as a trade secret, it must be secret.\(^ {38}\) The Restatement of the Law of Torts states expressly\(^ {39}\) that the subject matter of a trade secret must

\(^{33}\) Cf par 3.4.1; 3.4.4; 3.5.1; 3.5.2 on the legal protection of confidential business information not qualifying as trade secrets.

\(^{34}\) Cf eg the following definitions from the case law: McKay v Communispond Inc 581 F Supp 801 807 (SDNY 1983): "A trade secret has been defined as information known to only a few and not the general public..."; El duPont de Nemours & Co v United States 288 F 2d 904 911, 129 USPQ 473 (Ct Cl 1961): "A trade secret is any information not generally known in a trade. It may be an unpatented invention, a formula, pattern, machine, process, customer list, customer credit list, or even news." Cf Chisum and Jacobs 3.14: "To qualify as a trade secret, information must be eligible for protection, be secret, and have commercial value"; Dorr and Munch 3: "From a practical viewpoint, trade secrets can comprise any information that gives a business a competitive edge over competitors"; Field et al 17.18: "[C]ourts have found that virtually any type of information which is capable of being used in a business to obtain a competitive advantage may qualify as a trade secret."

\(^{35}\) See further par 2.2.1.2.1 above on the position in English law. The same considerations relevant there also seem to be applicable here.

\(^{36}\) It is implicit in the Restatement definition of trade secrets where it is stated (sec 757 comment (b)) that a trade secret is "used in one's business".

\(^{37}\) See also par 2.2.1.2.2 above.

\(^{38}\) Cf in general Callmann Vol 2 14.52ff; Chisum and Jacobs 3.19ff; Dratler 4.27ff; Jager Vol 1 5.46.5ff; Milgrim Vol 1 1.86ff.

\(^{39}\) Sec 757 comment (b).
be secret, and adds that matters of public knowledge or general knowledge in an industry cannot be secret. The Uniform Trade Secrets Act requires that the information in question be not "generally known to, and not... readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use". The secrecy requirement has been singled out in a court decision as "the threshold issue in every case".

Although there are cases that may be understood to require absolute secrecy, the better view is the far more generally supported one that relative secrecy is sufficient. The Restatement adopts a relative concept of secrecy by stating that the proprietor of the business may communicate his trade secret to employees involved in its use, or to others pledged to secrecy, without losing protection. Furthermore, secrecy will not be destroyed if others have discovered the secret by independent invention, provided they are also keeping it secret. What is required, is that a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. In a similar vein, the Uniform Trade Secrets Act defines trade secrets as information that "derives... economic value... from not being generally known to, and not being readily

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40 Cf eg: Continental Data Systems Inc v Exxon Corp 638 F Supp 432 442-443 (ED Pa 1970); Metallurgical Industries Inc v Fourtek, Inc 790 F 2d 1195 1199-1200, 229 USPQ 945 (5th Cir 1986).

41 Sec 1(4). The Commissioners' comment on sec 1 explains that these words do not require "that information be generally known to the public for trade secret rights to be lost. If the principal person who can obtain economic benefit from information is aware of it, there is no trade secret. A method of casting metal, for example, may be unknown to the general public but readily known within the foundry industry. Information is readily ascertainable if it is available in trade journals, reference books, or published materials. Often, the nature of a product lends itself to being readily copied as soon as it is available on the market. On the other hand, if reverse engineering is lengthy and expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering."

42 Cf eg Zoecon Industries v American Stockman Tag Co 713 F 2d 1174 1179 (5th Cir 1983).

43 Microbiological Research Corp v Muna 214 USPQ 567 572 (Utah S Ct 1981); cf Callmann Vol 2 14.8; Chisum and Jacobs 3.19.

44 Eg Goldin v RJ Reynolds Tobacco Co 22 F Supp 61 65, 37 USPQ 244 (SDNY 1938); Chicago Lock Co v Fanberg 676 F 2d 400 404 (9th Cir 1982); cf Milgrim Vol 1 1.314-1.315.

45 Cf eg Dratler 4.30-4.34; Jager Vol 1 5.46.6; Kintner and Lahr 154-155; Milgrim Vol 1 1.315ff and case law cited.

46 Sec 757 comment (b).

47 Sec 757 comment (b).

48 Lupo and Tanguay 78 are of the opinion that the Restatement requires a higher measure of secrecy than the Uniform Trade Secrets Act. Other commentators do not share this view - cf Chisum and Jacobs 3.20; Dratler 4.29 4.37.
ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use". Independent invention, and reverse engineering\(^{49}\) of a product acquired by fair and honest means (such as purchase thereof on the open market), are identified as 'proper means'\(^{50}\) by which a trade secret may be discovered, which may result in more than one person having a trade secret in the same information.\(^{51}\)

The notion of relative secrecy is underscored by the bulk of the case law.\(^{52}\) How liberally secrecy may be interpreted, is demonstrated in *Data General Corporation v Digital Computer Controls, Incorporated*.\(^{53}\) The plaintiff was the manufacturer of a highly successful computer. It was his practice to supply, with each computer, a set of drawings, revealing *inter alia* the logic circuitry of the computer, for maintenance purposes. The defendant obtained the drawings from a customer of the plaintiff's and used them to manufacture a substantially identical computer. At the time of trial, the plaintiff had allegedly supplied nearly six thousand copies of the drawings to his customers, whilst at the time of the misappropriation eighty copies had been distributed on that basis. Each set of drawings carried a notice claiming the drawings and specifications therein to be the property of the plaintiff, not to be copied or used without written permission. The court held that the distribution of the drawings for a limited purpose did not destroy the required secrecy, and granted an injunction restraining the defendant from using them.\(^{54}\)

The secrecy requirement is also relative in the sense that information may be

\(^{49}\) See further Lupo and Tanguay 96; Milgrim Vol 1 1.173ff.

\(^{50}\) Other instances of 'proper means' are discovery under a license from the owner of the trade secret; observation of an item in public use or on public display; and obtaining the trade secret from published literature - Uniform Trade Secrets Act sec 1 Commissioners' comment.

\(^{51}\) Sec 1 Commissioners' comment: "Because a trade secret need not be exclusive to confer a competitive advantage, different independent developers can acquire rights in the same trade secret"; "Often, the nature of a product lends itself to being readily copied as soon as it is available on the market. On the other hand, if reverse engineering is lengthy and expensive, a person who discovers a trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering."

\(^{52}\) Eg *Drill Parts & Services Co v Joy Manufacturing Co* 223 USPQ 521 526 (Ala S Ct 1983): "Absolute secrecy is not required; a substantial element of secrecy is all that is necessary to provide trade secret protection"; *Jostens, Inc v National Computer Systems, Inc* 214 USPQ 918 924 (Minn S Ct 1982): "Secrecy need not be total; depending on the circumstances, only partial or qualified secrecy will do"; *El duPont de Nemours & Co v United States* 288 F 2d 904 911, 129 USPQ 473 (Ct Cl 1961): "A plurality of individual discoverers may have protectable, wholly separate rights in the same trade secret"; see further Jager Vol 1 5.46.6-5.54; Milgrim Vol 1 1.315ff and case law cited.

\(^{53}\) 188 USPQ 276 (Del Cir Ct 1975).

\(^{54}\) Cf Dratler 4.43; Jager Vol 1 5.51-5.52.
protected as a trade secret even if substantial portions thereof are in the public domain or are readily ascertainable, so long as the whole is not. This principle is particularly applicable to customer lists, but is not confined to them.\(^{55}\)

The case law frequently requires trade secrets to possess a degree of \textit{novelty}.\(^{56}\) This requirement was presumably borrowed from patent law,\(^{57}\) but has been given a different meaning in the context of trade secret law.\(^{58}\) In fact, it seems to boil down to just another way of saying that information that is general knowledge or in the public domain cannot constitute a trade secret.\(^{59}\) Seen in this light, the novelty requirement is not an independent requirement.

If the secrecy of a trade secret is lost, so is - as a general rule\(^ {60}\) - the legal protection of that information.\(^{61}\) Secrecy may be lost in a variety of ways, amongst others the following - by the owner of the trade secret disclosing it without adequate safeguards or non-disclosure agreements;\(^ {62}\) by the marketing of a product if the secret can be readily learned\(^ {63}\) by scrutiny or inspection of that product;\(^ {64}\) by

\(^{55}\) Cf eg \textit{Heyman v Ar Winarick, Inc} 325 F 2d 594 590 (2d Cir 1963); \textit{Zoecon Industries v American Stockman Tag Co} 713 F 2d 1174 1179 (5th Cir 1983); \textit{Superior Flux & Manufacturing Co v H&S Industries, Inc} 210 USPQ 669 671 (ND Ohio 1980); Dratler 4.32-4.33.

\(^{56}\) See Jager Vol 1 5.77ff and authorities cited.

\(^{57}\) Jager Vol 1 5.77.

\(^{58}\) Cf the Restatement Sec 757 comment (b); \textit{Rohm and Haas Co v Adco Chemical Co} 213 USPQ 723 751 (DNJ 1981).

\(^{59}\) See eg \textit{Alderman v Tandy Corp} 720 F 2d 1234, 222 USPQ 806 807 (11th Cir 1983) where it was said that a trade secret must "possess at least that modicum of originality which will separate it from everyday knowledge"; \textit{Kewanee Oil Co v Bicron Corp} 416 US 470 476: "Novelty, in the patent law sense, is not required for a trade secret... However, some novelty will be required if merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimum novelty." Cf Jager Vol 1 5.85 who, after a comprehensive discussion comes to the following conclusion: "[T]he novelty requirement for trade secrets is difficult to differentiate from the secrecy requirement. Often, it appears that the courts are rationalizing their decision that an idea is not sufficiently secret, because it is in the public domain, by saying that it therefore lacks the necessary 'novelty'. Nevertheless, this requirement of at least a slight advance over common knowledge is well established in the trade secret common law. It can be rationalized as a further attempt by the courts to prevent matters in the public domain from being withdrawn in the future by cloaking matters of common knowledge with secrecy."

\(^{60}\) Exceptions may be found in the trade secret laws of some states. See par 3.4.4; 3.5.2 below.

\(^{61}\) Milgrim Vol 1 1.86 and case law cited; cf Turner 266.

\(^{62}\) \textit{Burten v Milton Bradley Co} 592 F Supp 1021 1029-1037, 224 USPQ 391 (DRI 1984); Milgrim Vol 1 1.135ff 1.153ff.

\(^{63}\) This situation must be distinguished from the case of reverse engineering where a certain measure of time and expenditure must be invested to unravel the secret - see fn 41 above.
displaying an article in a manner permitting its secret to be known,\textsuperscript{65} and by publication in advertising material\textsuperscript{66} or technical literature.\textsuperscript{67} It must be borne in mind, though, that marketing a product or publishing features thereof will not inevitably result in a sufficient disclosure to terminate the secrecy and thus the protectability of a trade secret. In \textit{Tabor v Hoffman}\textsuperscript{68} the plaintiff had manufactured and marketed a certain unpatented pump. The pump was made from a set of moulds which were in turn prepared from a set of patterns. The finished parts differed substantially from the moulds, due to shrinkage of the metal whilst cooling. The defendant surreptitiously obtained a duplicate set of patterns, and began to manufacture pumps from the duplicate patterns. An injunction was issued against the defendant restraining him from making pumps from the patterns, or using them in any other way. The court held that while the defendant was at liberty to reverse engineer the marketed pump, the patterns had not been placed on the market and he was therefore not entitled to use them.

3.2.1.2.4 Use of reasonable efforts to maintain secrecy

A matter of considerable importance in American trade secrets litigation is the sufficiency or insufficiency of measures taken by the plaintiff to protect the secrecy of his alleged trade secret.\textsuperscript{69} In the Restatement of the Law of Torts the "extent of measures taken to guard the secrecy of the information" is listed\textsuperscript{70} as one of five factors to be used in deciding whether given information constitutes a trade secret.

\begin{itemize}
\item \textsuperscript{64} Sears, Roebuck & Co v Stiffel Co 84 S Ct 784 789; Mayer v Josiah Wedgwood & Sons 601 F Supp 1523, 225 USPQ 776 785 (SDNY 1985); SI Handling Systems, Inc v Heisly 753 F 2d 1244 1255, 225 USPQ 441 (3d Cir 1985); AMP Inc v Fleischhacker 823 F 2d 1199 1203, 3 USPQ 1421 (7th Cir 1987); see further Milgrim Vol 1 1.142ff.

\item \textsuperscript{65} American Sign & Indicator Corp v Schulenburg 167 F Supp 20 27 (SED Ill 1958), 267 F 2d 388 (7th Cir), 361 US 886 (1959); Skoog v McCray Refrigerator Co 211 F 2d 254, 101 USPQ 1 (7th Cir 1954); Chun King Sales Inc v Oriental Foods Inc 136 F Supp 659 662, 108 USPQ 400 (SD Cal 1955), 244 F 2d 909, 113 USPQ 404 (9th Cir 1957); see further Milgrim Vol 1 1.153.

\item \textsuperscript{66} McKay v Communispond, Inc F Supp 801 807 (SDNY 1983); Combustion Engineering, Inc v Murray Tube Works, Inc 222 USPQ 239 241 (ED Tenn 1984); but cf Penetone Corp v Palchem, Inc 627 F Supp 997 (ND Ohio 1985); DeGette v Mine Company Restaurant, Inc 751 F 2d 1143, 224 USPQ 763 (10th Cir 1985); see further Milgrim Vol 1 1.153ff.

\item \textsuperscript{67} Struthers Scientific & Intl Corp v Rappi & Hoenig Co 453 F 2d 250 254 255 (2nd Cir 1972); Hurst v Hughes Tool Co 634 F 2d 895 897 (5th Cir), 102 S Ct 123 (1981); but cf Schalk v State 767 SW 2d 441 446 (Tex App Dallas 1988); Penetone Corp v Palchem, Inc 627 F Supp 997 (ND Ohio 1985); see further Milgrim Vol 1 1.157ff.

\item \textsuperscript{68} 118 NY 30, 23 NE 12 (1889); cf Milgrim Vol 1 1.160ff.

\item \textsuperscript{69} Cf eg Pooley 25; Givens 152-153 155; Klitzke 1986 The Business Lawyer 555 561-563.

\item \textsuperscript{70} Sec 757 comment (b); par 3.2.1.1.1 above.
\end{itemize}
The Uniform Trade Secrets Act defines a trade secret explicitly as information that is, amongst other things, "the subject of efforts that are reasonable under the circumstances to maintain its secrecy". In order to establish his or her case, a plaintiff will therefore need to establish not only that his or her alleged trade secret is in fact (relatively) secret, but also that he or she has taken measures which are reasonable in the circumstances to maintain that secrecy.

The reasonableness of the measures taken to preserve secrecy must be judged with reference to circumstances like the size of the enterprise, the number of employees, and the potential and tempo of employees leaving the enterprise to seek employment elsewhere. Thus in a small enterprise with only three employees, diagrams of electric circuitry were held to be trade secrets even though the employer kept them in an unlocked filing cabinet in the employee work area, did not require employees to sign confidentiality agreements and did not control the amount of copies made. In the circumstances it was sufficient that new employees were always informed of the confidentiality policy of the enterprise, that the office was always locked when the employees were not present, that customers were supplied only with portions of the diagrams which were marked confidential, and that the defendant was warned not to show the diagrams to outsiders. On the other hand, at a large plant reasonable efforts to maintain secrecy could include a fence, restricted access to gates, 'no trespassing' signs, fourteen guards, employee identification cards, screening of visitors, non-disclosure agreements in purchase orders, limiting the distribution of the operating manual to certain employees on a need-to-know basis, requiring salaried employees to sign non-disclosure agreements,

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71 Sec 1(4); par 3.2.1.1.1 above.

72 Cf Callmann Vol 2 14.50 who introduces a more subjective angle by requiring an intention to maintain secrecy. Dratler 4.27-4.29 4.37ff refers to this requirement as the 'relative secrecy' requirement. What is referred to as the 'secrecy' requirement (which, as noted in par 3.2.1.2.3 above, is in fact a relative secrecy requirement) in this study, is characterized by Dratler as the 'limited availability' requirement. To establish in court that reasonable measures to maintain (alleged) secrecy have been taken, may, as a practical matter of evidence, be easier than to establish that certain information is in fact secret. The court may rely on satisfactory evidence establishing the former to decide that the latter has also satisfactorily been established. See Metallurgical Industries Inc v Fourtek, Inc 790 F 2d 1195 1199, 229 USPQ 945 (5th Cir 1986); cf Givens 155.

73 Kozuch v Cra-Mar Video Center, Inc 478 NE 2d 110 113 (Ind App 1985); cf Dratler 4.41 fn 84.

74 Eg Bellboy Seafood Corp v Nathanson 410 NW 2d 349 353 (Minn App 1987); Televation Telecommunication Systems, Inc v Saindon 522 NE 2d 1359 1364-1366 (1988); cf Dratler 4.41 fn 83.

75 Eg Electro-Craft Corp v Controlled Motion, Inc 332 NW 2d 890 902; cf Dratler 4.41 fn 85.

76 Televation Telecommunication Systems, Inc v Saindon 522 NE 2d 1359 1364-1366 (1988); cf Dratler 4.41 fn 83.
and subjecting hourly employees to comprehensive written rules and regulations.\textsuperscript{77} 78

Also relevant when determining whether measures taken to maintain secrecy are reasonable, is the expense involved.\textsuperscript{79} The courts do not require the plaintiff to take extremely expensive measures to guard against every ingenuity that industrial spies can come up with.\textsuperscript{80} Thus in *El duPont de Nemours & Company, Incorporated v Christopher*\textsuperscript{81} the plaintiff was not expected to build an otherwise unnecessary enclosure over his uncompleted chemical plant to protect his trade secrets from aerial photography.

\subsection*{3.2.1.2.5 Economic value}

The Uniform Trade Secrets Act states explicitly\textsuperscript{82} that a trade secret is information that "derivs independent economic value, actual or potential from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use". In the Restatement a trade secret is described\textsuperscript{83} as giving "an opportunity to obtain an advantage over competitors who do not know or use it". The "value of the information to the trader and his competitors" is also included in the list of factors enumerated in the Restatement\textsuperscript{84} to be considered when determining whether given information is a trade secret or not.\textsuperscript{85}

The economic value requirement is normally not difficult to satisfy. The majority of alleged trade secrets which become the subject of legal dispute satisfy the

\textsuperscript{77} CPG Products Corp v Mego Corp 214 USPQ 206 207-208 (SD Ohio 1981); cf Dratler 4.41 fn 86; Jager Vol 1 5.61-5.62. See further Coca-Cola Bottling Co v The Coca-Cola Co 107 FRD 288 289 294, 227 USPQ 18 (D Del 1985); cf Jager Vol 1 5.63-5.64; par 1.1 above.

\textsuperscript{78} For suggested precautions, cf Givens 158-160; Jager Vol 1 5.71-5.77; Phillips 1987 *The Business Lawyer* 1048-1050.

\textsuperscript{79} Dratler 4.42; Uniform Trade Secrets Act sec 1 Commissioners' comment.

\textsuperscript{80} Uniform Trade Secrets Act sec 1 Commissioners' comment.

\textsuperscript{81} 431 F 2d 1012 1016-1017 (5th Cir).

\textsuperscript{82} Sec 1(4).

\textsuperscript{83} Sec 757 comment (b).

\textsuperscript{84} Sec 757 comment (b).

\textsuperscript{85} A contrary view exists, viz that economic value, in the sense of a competitive advantage, is merely a factor pointing to compliance with the secrecy requirement - cf Field et al 17.106-17.109 and authority cited.
requirement simply because the plaintiffs deem them worth the effort and expense of litigation. A plaintiff may prove the economic value of his or her alleged trade secret by direct or circumstantial evidence. In respect of the former, he or she may for example prove that he or she has paid for the information, or that others have paid for use of the information, or that the information has resulted in demonstrable lower production costs or more effective marketing. As far as circumstantial evidence is concerned, the plaintiff may show the amount he or she has invested in his or her alleged trade secret, or the defendant's successful use of the alleged secret. Even showing the defendant's intention of using the alleged secret without authorization may serve as circumstantial evidence of the economic value thereof. A trade secret need not be in current use to satisfy the economic value requirement. The secret must have an economic value - a purely spiritual or religious value will for instance not satisfy this requirement.

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86 Dratler 4.35.

87 See Dratler 4.35-4.36 and authorities cited.

88 Eg Plant Industries, Inc v Coleman 287 F Supp 636 643 (CD Cal 1968); see further Dratler 4.35 fn 54.

89 Eg in the case of Aries Information Systems, Inc v Pacific Management Systems Corp 366 NW 2d 366 368 (Minn 1985) the fact that a computer software system had generated $2 million in sales revenue over a four year period showed economic value. Cf Dratler 4.35 fn 55.

90 Televation Telecommunication Systems, Inc v Saindon 169 Ill App 3d 8, 522 NE 2d 1359 1365 (1988); cf Dratler 4.36 fn 56.

91 Eg Zoecon Industries v American Stockman Tag Co 713 F 2d 1174 1179 (5th Cir 1983); cf Dratler 4.36 fn 57.

92 This is one of the factors listed by the Restatement sec 757 comment (b) for consideration when determining whether information is a trade secret. Cf Hayes-Albion v Kuberski 421 Mich 170, 364 NW 2d 609 615 (1984); see further Dratler 4.36 fn 58.

93 Eg Klamath-Orleans Lumber, Inc v Miller 87 Cal App 3d 458 (1978); cf Dratler 4.36 fn 59.

94 Surgidev Corp v Eye Technology, Inc 828 F 2d 452 456 (8th Cir 1987); cf Dratler 4.36 fn 60.

95 In Syntex Ophthalmics, Inc v Tsuetaki 701 F 2d 677 683, 219 USPQ 962 (7th Cir 1983) the court rejected a contention that a trade secret must be in actual use (based on the Restatement sec 757 comment (b) definition of a trade secret as information 'which is used in one's business'), holding instead that the proper test is that it must be of value to its owner. Cf Jager Vol 1 5.88. The Uniform Trade Secrets Act is clear on this matter, providing that a trade secret must have an economic value, actual or potential.

96 Religious Technology Center v Wollersheim 796 F 2d 1076 1090-1091 (9th Cir 1986); cf Religious Technology Center v Scott 10 USPO 2d 1379 (9th Cir 1989); Dratler 4.36-4.37; Jager Vol 1 3.16.4-3.16.5.
3.2.1.2.6 Concreteness

Information is often required to attain a certain level of concreteness in order to qualify as a trade secret. The notion is that a trade secret must be more concrete than a mere "idea, theory, possibility or emotion, and relatively specific in its intended implementation". In the Restatement of the Law of Torts, this requirement may be regarded as implicit in its formulation of the 'continuous use' requirement, whereby a trade secret is described as "a process or device for continuous use in the conduct of the business". The Uniform Trade Secrets Act does not require concreteness, from which some commentators have deduced that it is left to the discretion of the courts whether to apply or reject this "traditional requirement". Others seem to be of the opinion that some measure of concreteness will (almost) always be required, but that the degree of concreteness required will depend on the facts and circumstances and may therefore vary quite considerably from case to case.

The courts phrase the concreteness requirement in various ways. Thus it has been stated that "an idea must be reduced to concrete form to qualify as the subject of a protectable property interest"; or that an "idea [must] be sufficiently concrete in its development to be usable"; or that an idea must be translated into a "useful form". By way of contrast, a "vague mental conception" or a "tentative

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97 Chisum and Jacobs 3.16.
98 Cf Chisum and Jacobs 3.16.
99 Sec 757 comment (b).
100 Nor does it perpetuate the 'continuous use' requirement, as noted in par 3.2.1.1.1 above.
101 Chisum and Jacobs 3.16.
102 Cf Jager Vol 1 5.87: "The cases provide no definitive line of demarcation between an abstract and a concrete idea... [S]uch a decision will depend upon all the facts and circumstances of a case, and will be made by the courts on a case-by-case basis. It is clear, however, that the courts are extremely reluctant to grant legal protection, under the trade secret law, for a nebulous concept. An unspoken but apparent reason is the inherent difficulty in framing and enforcing judicial relief for abstractions. Accordingly, a trade secret owner should stress the finite character or concreteness of his idea in court"; Field et al 17.20.
103 John W Shaw Advertising Inc v Ford Motor Co 112 F Supp 121 123, 98 USPQ 186 187 (ND Ill 1953); cf Carneval v William Morris Agency, Inc 124 NYS 2d 319, 98 USPQ 84 (NY S Ct 1953); see further Jager Vol 1 5.86-5.86.1.
104 Wilson v Barton & Ludwig, Inc 220 USPQ 375 377 (Ga Ct App 1982); cf Jager Vol 1 5.86.1.
105 Richter v Westab, Inc 529 F 2d 896 902, 189 USPQ 321 326 (6th Cir 1976); cf Jager Vol 1 5.86.
exploration\textsuperscript{107} could not satisfy the concreteness requirement. That absolute concreteness is not required, is demonstrated clearly in \textit{Jones v Ulrich}.\textsuperscript{108} The plaintiff had invented a fertilizer spreader and orally disclosed the idea to the defendant, who later disputed that the information was concrete enough to constitute a trade secret. The court held that an idea must be concrete to a degree to be protectable, but that it is not necessary that it be "tangible and in a material form".\textsuperscript{109} The defendant's ability to construct the fertilizer spreader within twenty-four hours of receiving the information, showed that it was not a mere theory, but sufficiently concrete to merit protection.\textsuperscript{110}

\subsection*{3.2.2 MISAPPROPRIATION}

Once it has been established that the information in question is a trade secret, the plaintiff needs to establish that there is a misappropriation (real or imminent) thereof to invoke the intervention of the law.\textsuperscript{111}

Actions that may constitute a misappropriation are described in the first Restatement of the Law of Torts and the Uniform Trade Secrets Act. The Restatement\textsuperscript{112} lists the following acts as giving rise to liability:

(a) disclosure or use of another's trade secret, without a privilege to do so, by someone who discovered the secret by improper means;

(b) disclosure or use of another's trade secret, without a privilege to do so, in circumstances where the disclosure or breach constitutes a breach of confidence reposed in him by the owner of the secret in disclosing it to him;

(c) disclosure or use of another's trade secret, without a privilege to do so, by someone who learned the secret from a third person with notice of the facts that it was a secret and that the third person had discovered it by improper means, or that the third person's disclosure

\begin{thebibliography}{99}
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\item \textsuperscript{106} Lamson \textit{v} Martin 159 Mass 557, 35 NE 78 81 (Mass 1893); cf Chisum and Jacobs 3.16.
\item \textsuperscript{107} Progressive Engineering, \textit{Inc v Machinecraft, Inc} 169 F Supp 291, 122 USPQ 201 206 (D Mass 1959); cf Jager Vol 1 5.86 fn 194.
\item \textsuperscript{108} 342 Ill App 16, 95 NE 2d 113, 87 USPQ 331 (Ill App Ct 1950).
\item \textsuperscript{109} 87 USPQ 331 337.
\item \textsuperscript{110} Cf Chisum and Jacobs 3.16; Jager Vol 1 5.86.2-5.86.3.
\item \textsuperscript{111} See par 3.2 above.
\item \textsuperscript{112} Sec 757.
\end{thebibliography}
to him was in another way a breach of his duty to the owner of the secret; or
(d) disclosure or use of another's secret, without a privilege to do so, by someone who learned the secret with notice of the facts that it was a secret and that the disclosure was made to him by mistake.

The Uniform Trade Secrets Act defines\textsuperscript{113} misappropriation as consisting of the following:

(a) acquisition of another's trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means;
(b) disclosure or use of another's trade secret, without express or implied consent to do so, by a person who used improper means to acquire knowledge of the secret;
(c) disclosure or use of another's trade secret, without express or implied consent to do so, by a person who at the time of the disclosure or use, knew or had reason to know that his knowledge of the trade secret was derived from or through a person who had utilised improper means to acquire it;
(d) disclosure or use of another's trade secret, without express or implied consent to do so, by a person who at the time of the disclosure or use, knew or had reason to know that his knowledge of the trade secret was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
(e) disclosure or use of another's trade secret, without express or implied consent to do so, by a person who at the time of the disclosure or use, knew or had reason to know that his knowledge of the trade secret was derived from or through a person who owed a duty to the plaintiff to maintain the secrecy of the information or to limit its use; or
(f) disclosure or use of another's trade secret, without express or implied consent to do so, by a person who, before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

The most striking difference between the Restatement and the Uniform Trade Secrets Act is that in terms of the former misappropriation can only consist of disclosure or use of a trade secret, whereas in terms of the latter the mere \textit{acquisition} of a trade

\textsuperscript{113} Sec 1(2).
secret may already constitute a misappropriation.\textsuperscript{114}

A key concept in both definitions is \textit{improper means}. In the Restatement the following are listed\textsuperscript{115} as examples of improper means: breach of contract, abuse of confidence, impropriety in the means of procurement, use of physical force to take a secret formula from another's pocket, breaking into another's office to steal a formula, fraudulent misrepresentation to induce disclosure, tapping of telephone wires, eavesdropping, and other forms of espionage. The Restatement states that in general improper means "fall below the generally accepted standards of commercial morality and reasonable conduct". In the Uniform Trade Secrets Act improper means are defined\textsuperscript{116} as including theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Neither the Restatement\textsuperscript{117} nor the Uniform Trade Secrets Act defines improper means exhaustively, thus enabling the courts to expand the list of improper means as circumstances and policy may dictate.\textsuperscript{118}

An interesting example (from the pre-Uniform Act era) of the application of the "improper means" concept by the courts is provided by the celebrated decision in \textit{El duPont de Nemours & Company v Christopher}.\textsuperscript{119} The defendant was hired by an unknown third person to photograph the plaintiff's uncompleted plant from an aeroplane in order to learn the plaintiff's secret process for making methanol. The defendant's defence was that he had used public airspace without violating any government aviation standard, that he had not breached any relationship of

\textsuperscript{114} Dratler states (4.62) that "[b]y itself, the use of unlawful means to acquire a trade secret does not create legal liability. There must be evidence of actual or threatened disclosure or use of the secret"; cf Jager Vol 1 5.24-5.27. These statements do not seem to accurately reflect the position, at least not in those states which have adopted the Uniform Trade Secrets Act, in so far as the Act states explicitly that acquisition may be misappropriation (sec 1(2)(i)), and that misappropriation may be enjoined (sec 2(a)). Cf Coleman \textit{Trade secrets} 89: "Liability is wider under the [Uniform Trade Secrets Act], for here not only can use or disclosure be restrained, but also the \textit{acquisition} of a trade secret by improper means. Thus, in those states which have adopted the [Uniform Trade Secrets Act], liability can arise earlier in the normal sequence of events, that is, it can attach before actual or threatened use or disclosure of the secret"; Chisum and Jacobs 3.30: "The Restatement definition of conduct triggering liability and the Uniform Act definition of misappropriation are substantially identical, with one exception. The Restatement includes disclosure or use as an essential element. The Uniform Act provides that mere wrongful acquisition - without use or disclosure - can be a misappropriation."

\textsuperscript{115} Sec 757 comments (b) and (f).

\textsuperscript{116} Sec 1(1).

\textsuperscript{117} Sec 757 comment (f).

\textsuperscript{118} Dratler 4.58.

confidence, and that he did nothing fraudulent or illegal. The court rejected these contentions, relying on the rule in the Restatement\(^\text{120}\) that "[o]ne who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if... he discovered the secret by improper means". The court held explicitly that a breach of confidence was not a requirement to found an action for obtaining another's trade secret by improper means. To obtain knowledge of a process without investing the time and money needed to discover it independently, was held to be improper, unless the holder of the secret voluntarily disclosed it or failed to take reasonable precautions to maintain its secrecy. The \textit{duPont} case is endorsed in the Uniform Trade Secrets Act comment,\(^\text{121}\) where it is stated that "[i]mproper means could include otherwise lawful conduct which is improper under the circumstances".

By way of contrast, the Uniform Trade Secrets Act comment\(^\text{122}\) lists the following as examples of \textit{proper means}:

\begin{itemize}
  \item[(a)] discovery by independent invention;
  \item[(b)] discovery by reverse engineering, which is defined as "starting with the known product and working backward to find the method by which it was developed". The reverse engineering will only be lawful if the product was acquired by fair and honest means, for instance purchasing it on the open market;
  \item[(c)] discovery under a licence from the owner of the trade secret;
  \item[(d)] observation of an item in public use or on public display; and
  \item[(e)] obtaining the secret from published literature.
\end{itemize}

### 3.3 REMEDIES AND PRESERVATION OF SECRECY DURING LITIGATION

The Restatement provides\(^\text{123}\) that one who has a right to a trade secret may

\begin{itemize}
  \item[(a)] recover damages for past harm; or
  \item[(b)] be granted an injunction against future harm by disclosure or adverse use; or
  \item[(c)] be granted an accounting of a wrongdoer's profits; or
  \item[(d)] have the physical things embodying the secret surrendered by the
\end{itemize}

\(^{120}\) Sec 757.

\(^{121}\) Sec 1 Commissioners' comment, citing as an example the \textit{duPont} case; cf Chisum and Jacobs 3.42.

\(^{122}\) Sec 1 Commissioners' comment.

\(^{123}\) Sec 757 comment (e).
wrongdoer for destruction;
and he may have two or more of these remedies in the same action.

The Uniform Trade Secrets Act has separate sections dealing with injunctive relief\(^{124}\) and damages,\(^{125}\) and another dealing with the awarding of attorneys' fees.\(^{126}\)

### 3.3.1 DAMAGES

The Restatement of the Law of Torts provides\(^{127}\) that one who has right to a trade secret may recover damages for past harm. The Uniform Trade Secrets Act provides\(^{128}\) that a complainant may, in addition to\(^{129}\) or independent of\(^{130}\) injunctive relief, recover damages for the actual loss caused by misappropriation. The Uniform Act comment states\(^{131}\) that an award of damages is, like injunctive relief, appropriate only for the period during which the information is entitled to protection as a trade secret, plus the additional period, if applicable, during which the misappropriator retained an advantage over 'good faith competitors' as a result of his misappropriation.\(^{132}\) It is during this time alone that misappropriation causes actual

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\(^{124}\) Sec 2.

\(^{125}\) Sec 3.

\(^{126}\) Sec 4. The general rule in American courts is that parties must pay their own attorneys' fees (cf Chisum and Jacobs 3.51), but the Act provides that reasonable attorneys' fees may be awarded to the prevailing party if (a) a claim of misappropriation was made in bad faith; (b) a motion to terminate an injunction was made or resisted in bad faith; or (c) there was wilful and malicious misappropriation.

\(^{127}\) Sec 757 comment (e).

\(^{128}\) Sec 3(a).

\(^{129}\) Cf case law cited by Milgrim Vol 3 15.209 fn 102.

\(^{130}\) Cf case law cited by Milgrim Vol 3 15.212 fn 103.

\(^{131}\) Sec 3 Commissioner's comment.

\(^{132}\) Cf Milgrim Vol 3 15.214: "The period for which damages are assessable... probably terminates after the expiration of the head-start advantage gained by the misappropriator [citing inter alia Structural Dynamics Research Corp v Engineering Mechanics Research Corp 401 F Supp 1102 1119-1120 (ED Mich 1975); Telex Corp v International Business Machines Corp 367 F Supp 258 320-326 358-359 363, 179 USPQ 777 (ND Okla 1973), 510 F 2d 894, 184 USPQ 521 (10th Cir), 423 US 802 (1975)], although there is authority supporting the view that the head-start concept has relevance only to the duration of an injunction [citing inter alia Sikes v McGraw-Edison Co 665 F 2d 731 736-737 (5th Cir), 671 F 2d 150 (1982); Organic Chemicals, Inc v Carroll Products, Inc 211 USPQ 628 633-634 (WD Mich 1981); Goldberg v Medtronic, Inc 686 F 2d 1219 1229, 216 USPQ 89 (7th Cir 1982)]."
damage to the complainant and unjust benefit to the misappropriator. On the other hand, damages may be available even though an injunction is no longer available - for instance for wrongful use prior to a public disclosure of the secret. While a claim for actual damages and net profits may be combined with a claim for injunctive relief, if both claims are granted, the injunctive relief will usually preclude a monetary award for the period during which the injunction is effective.

The Uniform Act further provides that a complainant may also recover, in addition to his actual loss, the unjust enrichment caused by the misappropriation that is not taken into account in computing damages for actual loss.

The quantum of the damages may be computed with reference to either the complainant's loss or the misappropriator's profits, but not to both. In the 1985 amendments to the Uniform Trade Secrets Act, provision was made for yet another alternative measure of the amount of damages, namely the imposition of a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

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133 The Commissioners' comment thus appears to align itself with the so-called Conmar rule, rather than the so-called Shellmar rule - see par 3.4.4 below.

134 Milgrim Vol 3 15.213. As will be seen in par 3.4.4 below, injunctive relief may in appropriate circumstances be granted even after secrecy has been destroyed.

135 Uniform Trade Secrets Act sec 3 Commissioners' comment.

136 Sec 3(a).

137 The Commissioners' comment explains that this is an adoption of a trend in the case law to allow recovery of both a complainant's actual losses and a misappropriator's unjust benefit caused by the misappropriation (citing Tri-Tron International v Veeto 525 F 2d 432 (Ca 1975); cf Chisum and Jacobs 3.49 ins 26 27). The Act expressly forbids a double counting - that is, a counting of the same item as both a loss to the complainant and an unjust benefit to the misappropriator (citing Telex Corp v International Business Machines Corp 519 F 2d 894, 184 USPQ 521 (10th Cir 1975), 423 US 802 (1975) as a case which may have sanctioned a double counting in the past).

138 Milgrim Vol 3 15.216-15.222 and case law cited; Lupo and Tanguay 87; cf Callmann Vol 2 14.170-171: "The measure of damages, it has been held, is determined by the difference between the plaintiff's position before and after the misappropriation of his secret. The plaintiff's probable loss may be a more significant indication of this difference than the defendant's actual gain. The injured plaintiff should not be denied relief because the defendant made no profits; the risk of the illegal venture should be borne by the defendant. Accordingly, the law will require the wrongdoer to pay a 'reasonable royalty' for the misappropriation. If the defendant has totally destroyed the secret, thus denying its benefit to the plaintiff, its value will be an appropriate measure of damages; but where the plaintiff still has some of the benefit of the secret, its total value to the plaintiff would be an inappropriate measure. The cost of legally acquiring the information by independent experimentation may be relevant on the issue of its value. But unless a specific injury to the plaintiff can be established, such as lost sales, the loss to plaintiff is not the proper basis for assessing damages. In such cases defendant's gain may serve as the point of proper reference in determining the extent of the plaintiff's loss." Cf, in similar vein, Kintner and Lahr 241-242.

139 Sec 3(a); cf Chisum and Jacobs 3.50; Jager Vol 3 Appendix A1.21ff.
secret.\textsuperscript{140}

In the case of wilful and malicious misappropriation, the Uniform Trade Secrets Act authorizes\textsuperscript{141} the court to award exemplary or punitive damages in addition to recovery of actual loss. The amount of such exemplary damages may not exceed an amount twice that of the amount awarded for actual loss.

### 3.3.2 ACCOUNT OF PROFITS

The Restatement of the Law of Torts provides\textsuperscript{142} that one who has a right to a trade secret may be entitled to an account of profits.\textsuperscript{143} With this equitable remedy the measure of compensation is established with reference to the defendant's profits rather than the plaintiff's losses (or damage).\textsuperscript{144} \textsuperscript{145} If the defendant has used and will continue to use the plaintiff's trade secret without authority, but the plaintiff is denied injunctive relief on policy grounds, the court order may provide for continuing accountings to appraise the value of continuing use.\textsuperscript{146}

### 3.3.3 INJUNCTIONS

The injunction is often the only remedy with which the secrecy of a trade secret may effectively be preserved, and is therefore the most frequently sought after remedy in trade secret litigation.\textsuperscript{147}

\textsuperscript{140} According to Milgrim Vol 3 15.232ff a trend in the case law to compute the amount of damages with reference to a reasonable royalty, seems to have arisen as a result of analogy with patent law.

\textsuperscript{141} Sec 3(b); cf Chisum and Jacobs 3.50.

\textsuperscript{142} Sec 757 comment (e).


\textsuperscript{144} Milgrim Vol 3 15.248-15.249.

\textsuperscript{145} As noted (par 3.3.1 above), in American trade secrets law the defendant's profits may also be used as a basis for determining \textit{quantum} in an action for damages.

\textsuperscript{146} Republic Aviation Corp v Schenk 152 USPQ 830 835 (Sup Ct 1967), where injunctive relief was denied in the light of national defence considerations; cf Milgrim Vol 3 15.251. A remedy earmarked for this type of situation by the Uniform Trade Secrets Act (sec 2(b); cf the Commissioners' comment) is an injunction making future use by the defendant conditional on the payment of a reasonable royalty; see par 3.3.3 below.

\textsuperscript{147} Cf Chisum and Jacobs 3.47; Jager Vol 1 7.4-7.5; Kintner and Lahr 238; Lupo and Tanguay 87; Milgrim Vol 3 15.133ff; Lamb v Quality Inspection Services, Inc 214 USPQ 575 576 (La Ct App 1981).
The Restatement provides\(^{148}\) that one who has a right to a trade secret may be granted an injunction against future harm by disclosure or adverse use. The Uniform Trade Secrets Act provides\(^{149}\) that actual or threatened misappropriation may be enjoined. In respect of the duration of an injunction, the Act provides\(^{150}\) that the injunction will be terminated - on application to the court - when the trade secret ceases to exist, but the injunction may be continued for an additional reasonable period to eliminate any commercial advantage that the misappropriator would otherwise have derived from the misappropriation. However, the duration of injunctions in trade secret cases has been one of the major points of contention in American trade secrets law, and therefore this matter will be examined in more depth below.\(^{151}\)

Furthermore, the Act originally provided\(^{152}\) that if it would be unreasonable to prohibit future use of a trade secret by the misappropriator, the court could issue an injunction making the misappropriator's future use of the secret conditional on the payment of a reasonable royalty. The Commissioners' comment gave two examples of situations where it could be unreasonable to prohibit future use. Firstly, an "overriding public interest" could militate against an injunction prohibiting future use. In Republic Aviation Corporation v Schenk,\(^{153}\) for instance, the court was of the opinion that an injunction prohibiting a misappropriator from supplying the United States with an aircraft weapons control system could have endangered military personnel in Vietnam. Secondly, it may be unreasonable to issue a prohibitory injunction against a third person who acquired a misappropriated trade secret in good faith and without reason to know of its prior misappropriation.\(^{154}\) This provision has since\(^{155}\) been amended to provide that in exceptional circumstances, an injunction may condition further use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. It is further added that "exceptional circumstances" include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation

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\(^{148}\) Sec 757 comment (e).

\(^{149}\) Sec 2(a).

\(^{150}\) Sec 2(a).

\(^{151}\) Par 3.4.4.

\(^{152}\) Sec 2(b).

\(^{153}\) 152 USPQ 830 (Sup Ct 1967).

\(^{154}\) This matter is discussed in more depth in par 3.4.3 below.

\(^{155}\) In 1985; see Jager Vol 3 Appendix A1.17ff.
that renders a prohibitory injunction inequitable.\textsuperscript{156}

Injunctions may be granted in three basic forms. In the first place, a temporary restraining order may be sought.\textsuperscript{157} The purpose of this remedy is to preserve the status quo pending a determination of the appropriateness of further preliminary injunctive relief.\textsuperscript{158} If the trade secret owner can establish that he or she will suffer immediate and irreparable harm before the other party can be given an opportunity to oppose the restraining order, the application may even be brought ex parte. Because it does not conform with the general principle that a court will only act after all parties have had a reasonable opportunity to be heard, the courts will issue an ex parte temporary order with circumspection.\textsuperscript{159}

Secondly, a preliminary injunction may be granted to maintain the status quo between the parties pending the outcome of a trial. The applicant must prove the following to be granted a preliminary injunction:\textsuperscript{160}

(a) the existence of a clear right which needs protection;
(b) that irreparable harm will result if the injunction is not granted;
(c) that the remedy at law is inadequate;
(d) that there is a likelihood of success on the merits of the case; and
(e) that the preliminary injunction will not have an injurious effect on the general public.

In many cases\textsuperscript{161} a more lenient test has been used, namely whether the applicant has shown:

(a) that irreparable harm will result if injunctive relief is not granted; and
(b) either: (1) that there is a likelihood of success on the merits; or
(2) that there are sufficiently serious questions going to

\textsuperscript{156} The Commissioners' comment cites an "overriding public interest" on the Schenk case model as a further example of "exceptional circumstances".

\textsuperscript{157} See in general Jager Vol 1 7.6-7.12.

\textsuperscript{158} Jager Vol 1 7.9 and authority cited.

\textsuperscript{159} See Jager Vol 1 7.7-7.9.

\textsuperscript{160} Cf eg Scott & Fetzer Co v Khan 74 Ill App 3d 400, 393 NE 2d 102, 208 USPQ 362 365 (Ill App 1979); American Can Co v Mansukhani 223 USPQ 97 104 (7th Cir 1984); FMC Corp v Varco International, Inc 677 F 2d 500, 217 USPQ 135 136 (5th Cir 1982); see further Jager Vol 1 7.14-7.15 and case law cited; Lupo and Tanguay 87.

\textsuperscript{161} Eg Sonesta International Hotels Corp v Wellington Associates 483 F 2d 247 250 (2nd Cir 1973); William Inglis & Sons Baking Co v ITT Continental Baking Co 526 F 2d 86 (9th Cir 1975); Litton Systems, Inc v Sundstrand Corp 224 USPQ 252 254 (Fed Cir 1984); see further Jager Vol 1 7.16-7.18 and case law cited.
the merits to make them a fair ground for litigation and that the balance of hardships tips decidedly towards the applicant.

In trade secret cases an established threat of disclosure, destruction or dilution of the trade secret will generally constitute irreparable harm justifying injunctive relief. \(^{162}\) In *Ecolaire, Incorporated v Crissman*\(^ {163}\) the unauthorized use of a former employer's trade secrets was found to constitute irreparable harm, because the value of the plaintiff's loss of long term investment in the trade secrets, and loss of goodwill, could not be measured merely in terms of money. The requirement that there must be a likelihood of success on the merits, will usually be satisfied if the applicant can show that he or she does possess a legally protectable trade secret. It is not required at this stage to make out a case which will justify relief at the final hearing. \(^ {164}\) The public interest requirement has been given various interpretations. Thus it has been held \(^ {165}\) to be in the public interest to prevent the acquisition of a trade secret by unfair means only through a former employee. In another case \(^ {166}\) it was in the public interest to deny injunctive relief, where granting the injunction would have meant a delay in the completion of an important airport in Saudi Arabia. It has been held \(^ {167}\) that the public interest element must relate to specific and concrete action rather than to abstract principles.

Finally, a permanent injunction may be ordered by the court after a full trial. \(^ {168}\) As with the temporary restraining orders and preliminary injunctions, the normal rules regarding injunctions apply. \(^ {169}\) The major point of contention regarding injunctive relief in trade secret cases is its duration, and this issue is discussed in more depth elsewhere. \(^ {170}\)

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\(^ {162}\) *CPG Products Corp v Mego Corp* \(^ {214}\) USPQ 206 214 (SD Ohio 1981); see further - also on variation in this regard among different jurisdictions - Jager Vol 1 7.18-7.25.

\(^ {163}\) 542 F Supp 196, 215 USPQ 817 824 (ED Pa 1982); cf Jager Vol 1 7.22.2.

\(^ {164}\) *MBL (USA) Corp v Diekman* \(^ {112}\) Ill App 3d 229, 445 NE 2d 418 (1983); see further Jager Vol 1 7.25-7.26.

\(^ {165}\) *FMC Corp v Varco International* \(^ {217}\) USPQ 135 139 (5th Cir 1982); cf Jager Vol 1 7.26.1.

\(^ {166}\) *Litton Systems, Inc v Sundstrand Corp* \(^ {224}\) USPQ 252 258 (Fed Cir 1984); cf Jager Vol 1 7.26.2.

\(^ {167}\) *Continental Group, Inc v Amoco Corp* \(^ {614}\) F 2d 351 (3rd Cir 1980); cf Jager Vol 1 7.26.2-7.27.

\(^ {168}\) See in general Jager Vol 1 7.32.3-7.51.

\(^ {169}\) See eg Jager Vol 1 7.32.3.

\(^ {170}\) Par 3.4.4 below.
It is typical of trade secret cases to have an award made of an injunction combined with damages. The granting of injunctive as well as monetary relief in a trade secret case does not constitute 'double damages'.

3.3.4 ORDERS FOR DELIVERY UP

The Restatement states that one who has right to a trade secret may have physical things embodying the secret, such as designs, patterns and so forth, surrendered by the wrongdoer for destruction. The Uniform Trade Secrets Act provides that in appropriate circumstances affirmative acts to protect a trade secret may be compelled by a court order. The Commissioners' comment explains that the relevant section authorizes injunctions ordering a misappropriator to hand over the 'fruits of the misappropriation', like stolen blueprints or unauthorized photographs or recordings, to the plaintiff.

3.3.5 PRESERVATION OF SECRECY DURING LITIGATION

A plaintiff trade secret owner may have to reveal his or her trade secret in court in order to sustain the burden of proof imposed upon him or her, or to give the defendant a fair opportunity to defend himself or herself. To prevent such a disclosure during litigation from making the secret available to the plaintiff's competitors, the court may order the trial to proceed in camera. The court may even prevent the disclosure of the secret to expert witnesses during the taking of testimony, unless they take an oath of secrecy. The court may furthermore protect trade secrets from open discovery according to civil procedure rules by entering a protective order that a trade secret may not be disclosed or may only be disclosed in a designated way.

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171 Jager Vol 1 7.2 and case law cited; Lupo and Tanguay 87.
172 Sec 757 comment (e).
173 Sec 2(c).
174 Cf Callmann Vol 2 14.169; Chisum and Jacobs 3.51; Milgrim Vol 3 15.266-15.267.
175 Callmann Vol 2 14.156; Jager Vol 1 5.93.
176 Callmann Vol 2 14.67 14.156; Jager Vol 1 5.95.
178 Jager Vol 1 5.95.
3.4 SPECIAL PROBLEM AREAS

3.4.1 EMPLOYERS AND EMPLOYEES

_During the subsistence of the employment relationship_ the employee is under a duty not to use or disclose the trade secrets of his or her employer.\(^{179}\) This duty is not dependent on an express contractual provision between the parties - it may be implied in law.\(^{180}\) The employee's duty to respect the employer's trade secrets coincides with the former's general fiduciary duty towards the latter.\(^{181}\) However, the fiduciary duty goes beyond the protection of trade secrets - it prohibits the employer from using or divulging any confidential information concerning the employer's business, irrespective of whether it is a trade secret or not, to the detriment of the employer.\(^{182}\)

The unauthorized disclosure or use of the former employer's trade secrets by an ex-employee _after termination of the employment relationship_ poses special problems. The basic rule is that after termination of employment, the ex-employee is free to use his or her acquired general knowledge, experience and skill, as long as he or she does not use the former employer's trade secrets.\(^{183}\) The principle is clear and straightforward, but its practical application is notoriously difficult.\(^ {184}\) Two conflicting interests, both supported by policy considerations, must be balanced.\(^{185}\) On the one hand there is the interest of the employer to have his or her exclusive use of his or her trade secret protected by the law, supported by the policy consideration that reasonable legal protection will tend to encourage the development of new and better technology. On the other hand there is the interest of the former employee to use his or her acquired skills and knowledge to secure a favourable position in the market, supported by the public interest in healthy competition and the dissemination of ideas, processes and methods. The problem becomes especially acute when the former employee had a key post and was doing work of a confidential nature requiring a high

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\(^{179}\) Cf Callmann Vol 2 14.78; Kintner and Lahr 164; Milgrim Vol 1 5.4-5.5.

\(^{180}\) Callmann Vol 2 14.78-14.79.

\(^{181}\) Cf Kintner and Lahr 170; Milgrim Vol 1 5.4-5.5.

\(^{182}\) Kintner and Lahr 170-174; cf Callmann Vol 2 14.80. The employee also has an implied duty not to compete with the employer during subsistence of the employment relationship; cf Milgrim Vol 1 5.29.

\(^{183}\) See eg Callmann Vol 2 14.87; Dratler 4.19; Milgrim Vol 1 5.19 and case law cited.

\(^{184}\) Cf Callmann Vol 2 14.87: "This rather piously oversimplified principle is much easier to state than to apply."

\(^{185}\) Cf eg Callmann Vol 2 14.87-14.88; Dratler 4.18; Kintner and Lahr 174ff; fn 189 191 below.
degree of specialized knowledge and skill. One commentator has suggested\textsuperscript{186} that any attempt, in such a case, to draw a line between the employee's general knowledge and skill and the employer's trade secrets will inevitably involve some injustice to one of the parties.

Two examples from case law may serve to illustrate how the application of the mentioned principles to different sets of facts may lead to divergent results.\textsuperscript{187} In \textit{El duPont de Nemours & Company v American Potash & Chemical Corporation}\textsuperscript{188} the plaintiff, duPont, was the only successful commercial manufacturer of titanium dioxide by a chloride process. Hirsch, in his capacity as former employee of duPont, played an important role in the research and development of the process. The American Potash & Chemical Corporation, which was interested in developing a chloride process for the manufacture of titanium dioxide and had previously unsuccessfully sought from duPont a licence for the process, employed Hirsch in a management position one day after he had resigned from duPont. DuPont was successful in obtaining a restraining order to prevent Hirsch from disclosing its trade secrets concerning the manufacturing process to Potash.\textsuperscript{189} In \textit{Wexler v

\textsuperscript{186} Callmann Vol 2 14.89: "The more important an employee's job, the more difficult will it be to separate the knowledge he is free to use from that which should be within the secret sphere of the business owner. Where the employee is an expert in a newly developed science, whose creative mind established a manufacturing department on the basis of his own plans and ideas, or is a man known to and desired by industry, any attempt to draw the line between his own intellectual equipment and that which he cannot use or divulge without a breach of confidence necessarily involves some injustice to one party. The problem is accentuated in modern industry, because in high technology companies inventors are often an important part of the management team."

\textsuperscript{187} Cf Milgrim Vol 1 5.38ff.

\textsuperscript{188} 200 A 2d 428 (Del Ch 1964); cf Kintner and Lahr 175-176; Milgrim Vol 1 5.38-5.42.

\textsuperscript{189} The court expressed its appreciation of the burden placed on the employee whose knowledge has become interwoven with the employer's trade secrets, and the policy issues at stake in the determination of the rights of the parties, as follows (437): "The court fully recognizes that this is a case of great social and industrial significance both on the question of the right to relief and, if established, the scope thereof. Among the substantial and conflicting policies at play in this situation are the protection of employers' rights in their trade secrets on the one hand, versus the right of the individual to exploit his talents, use matters of general knowledge, and pursue his calling without undue hindrance from a prior employer on the other. The law recognizes that trade secrets are entitled to reasonable protection regardless of the supporting legal label. Reasonable legal protection tends to encourage, as here, substantial expenditures to find or improve ways and means of accomplishing commercial and industrial goals. The protection of such efforts when translated into trade secrets tends to encourage such efforts and the result is beneficial to the employer and presumably to society. However, it is hard to ask a man to work in a trade secret area and thereby circumscribe his possible future liberty of action and the use of the knowledge of the trade secrets. The interests involved are as easy to state as they are difficult to protect, particularly in the face of the ever-increasing complexity of present day technology."
Greenberg, Greenberg was a chemist formerly employed by the Buckingham Wax Company, for whom he developed new formulas by analysing and duplicating competitors' products. He later left Buckingham and sought employment with the Brite Products Company. Before Greenberg had left Buckingham, Brite's business had consisted solely of buying and distributing chemical products. Soon after Greenberg had joined Brite, however, Brite started manufacturing the same products that it used to purchase from Buckingham for distribution. The court found that since Greenberg's job with Buckingham had been to copy, rather than to invent, the results were the fruits of his own skills. The formulas were therefore part of his acquired knowledge and skill, which he could not be restrained from using.

The Wexler and duPont cases have been distinguished on the grounds that Hirsch in the duPont case had done original and independent research and development, while Greenberg in the Wexler case had only reverse engineered the secrets of others; and that duPont had more to lose because he was the sole manufacturer of titanium dioxide by a chloride process, whereas the Buckingham Wax Company had already had competitors in the market. However, Milgrim has criticized

190 399 Pa 569, 160 A 2d 430 (1960); cf Kintner and Lahr 149 150 174-175; Milgrim Vol 1 5.48-5.56.

191 The court expressed the conflicting interests at stake as follows (434-435): "The burden the appellees must... meet brings to the fore a problem of accommodating competing policies in our law: the right of a businessman to be protected against unfair competition stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he is best suited. There are cogent socio-economic arguments in favor of either position. Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods. In addition, it must be recognized that modern economic growth and development has pushed the business venture beyond the size of the one-man firm, forcing the businessman to a much greater degree to entrust confidential business information relating to technological development to appropriate employees. While recognizing the utility in the dispersion of responsibilities in larger firms, the optimum amount of 'entrusting' will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum. On the other hand, any form of post-employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee's bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive. Moreover... society suffers because competition is diminished by slackening the dissemination of ideas, processes and methods. Were we to measure the sentiment of the law by the weight of both English and American decisions in order to determine whether it favors protecting a businessman from certain forms of competition or protecting an individual in his unrestricted pursuit of a livelihood, the balance would heavily favor the latter."

192 Cf Milgrim Vol 1 5.54-55.

193 Cf Kintner and Lahr 176.

194 Vol 1 5.55.
the Wexler case on the ground that there was no policy justification for allowing Greenberg to use his reverse engineering skills in the same field and be permitted to use the formulas he had reverse engineered for his former employer, if those formulas did in fact constitute trade secrets. If, on the other hand, the formulas did not really qualify as trade secrets, for instance because they were easily ascertainable from the marketed products (and therefore did not require true, skilled reverse engineering), the case had been correctly decided.

The employer may furthermore protect his or her trade secrets by way of express contract - either in the form of agreements to preserve the secrecy thereof, or in the form of restrictive covenants by which the employee is bound not to compete with the employer after termination of the employment relationship.\(^{195}\)

### 3.4.2 INDUSTRIAL ESPIONAGE

While industrial espionage is certainly a problem in the commercial and industrial sectors of American society,\(^ {196}\) the law seems to be adequately developed to protect the trade secret owner against the actions of industrial spies, provided the latter is caught.\(^ {197}\) In terms of the (first) Restatement of the Law of Torts\(^ {198}\) use or disclosure of a trade secret by improper means give rise to liability. Protection under the Uniform Trade Secrets Act\(^ {199}\) is wider in so far as the improper acquisition of trade secrets already constitutes misappropriation that may be enjoined or for which an award of damages may be made. An obligation of confidence between the trade secret owner and the misappropriator is not a prerequisite for intervention by the law.\(^ {200}\) In terms of the Uniform Act there is apparently no need

\(^{195}\) Par 3.5.1 below.

\(^{196}\) See eg Pooley (published 1987) who states (x) that the damage to American business from theft of trade secrets is estimated to exceed four billion dollars annually. Cf Milgrim Vol 1 7.138ff.

\(^{197}\) This is in contrast to the position in English law, where as noted (par 2.4.2 above), the position can at best be described as uncertain - cf Coleman Trade secrets 87.

\(^{198}\) As noted in par 3.2.2 above.

\(^{199}\) As noted in par 3.2.2 above.

\(^{200}\) Dratler 4.90-4.91: "Not only does tort law impose duties in the absence of an employee-employer relationship; it may impose duties in the absence of any relationship at all. Even complete strangers may be liable to a trade secret owner for misappropriation, for example, by industrial espionage... [T]he gist of trade secret misappropriation is the use of improper means to acquire the secret. While the term 'improper means' includes breach of contract and breach of confidence, it also includes a number of acts that have nothing to do with contracts or confidential relationships, such as theft, bribery, and industrial espionage. These acts require no prior relationship whatsoever between the victim of the misappropriation and the misappropriator - that is, the thief, briber or industrial spy."
for the trade secret owner to wait for actual or threatening disclosure or use of the trade secret by the spy or the person who received the secret from the spy - the mere acquisition by improper means already justifies legal intervention.\textsuperscript{201} The case law has furthermore proved the preparedness of the courts to protect trade secret owners against industrial espionage.\textsuperscript{202}

\subsection*{3.4.3 INNOCENT RECIPIENTS}

As noted,\textsuperscript{203} in American law an obligation of confidence between a misappropriator and the owner of a trade secret is not a prerequisite for legal intervention. Consequently, a trade secret owner will in general not experience particular difficulties to obtain injunctive relief or an award of damages against a third person (that is, someone who has had no direct communication with the trade secret owner) who has misappropriated his or her trade secret.\textsuperscript{204} However, the position of the third person who has received the trade secret neither by breach of a confidential relationship nor by any other improper means, requires closer scrutiny. The Restatement of the Law of Torts provides\textsuperscript{205} that someone who has received another's trade secret from a third person without notice that it is a secret and that the third person's disclosure thereof was a breach of a duty to the trade secret owner, or who has learned the secret through a mistake without notice of the secrecy and the mistake, will not be liable to the owner for use or disclosure of the secret prior to receipt of such notice. After receipt of the notice he will be liable to the owner for unauthorized use or disclosure of the secret. However, if he has - before receiving the notice - in good faith paid value for the secret, or has so altered his position that it would be inequitable to hold him liable, the trade secret owner will have no redress against him. The Restatement does not require a particular form of notice, but states\textsuperscript{206} that the question is simply whether in the circumstances the recipient knows or should know that the information is the other's secret and that its disclosure has been made

\begin{footnotes}
\begin{enumerate}
\item[201] Par 3.2.2 fn 114 above; cf Coleman \textit{Trade secrets} 90.
\item[202] Eg \textit{El duPont de Nemours & Co v Christopher} 431 F 2d 1012, 166 USPQ 421 (5th Cir 1970), 400 US 1024, 401 US 967 (1971) - par 3.2.2 above; cf Callmann Vol 2 14.137-14.140; Milgrim Vol 1 7.138-7.188 and case law cited.
\item[203] Cf par 3.4.2; 3.2.2 above; Dratler 4.90-4.91; Coleman \textit{Trade secrets} 90.
\item[204] See, for instance, the position of the industrial spy, par 3.4.2 above.
\item[205] Sec 758; cf Chisum and Jacobs 3.42-3.43.
\item[206] Sec 757 comment (j).
\end{enumerate}
\end{footnotes}
in confidence. Under the Uniform Trade Secrets Act the position is substantially the same,²⁰⁷ except in so far as the absolute immunity on third parties who have in good faith paid value or materially altered their positions before receiving notice that the secret has been misappropriated, is rejected. In such a case the Act confers²⁰⁸ a discretion on the court to issue an injunction conditioning future use upon payment of a reasonable royalty to the owner of the secret.²⁰⁹ An award of damages may, however, not be made in such a case.²¹⁰

### 3.4.4 DURATION OF PROTECTION

In principle the legal protection of a trade secret can last so long as the secret can indeed be kept secret, and this may be a considerable period of time, spanning several generations.²¹¹ It may be stated that in principle trade secret protection may last for an indefinite period of time.²¹² A question that has caused major dissensus among the courts of the various states, is whether the legal protection of a trade secret may in given circumstances outlive the subsistence of the secret itself. This has been the subject of the *Shellmar-Conmar* controversy.²¹³

The so-called *Shellmar* rule is named after the decision in *Shellmar Products Company v Allen-Qualley Company*.²¹⁴ In this case the defendant had by his wrongful conduct caused the plaintiff's trade secrets, disclosed to him in the course of negotiations which subsequently broke down, to be disclosed. The defendant was enjoined from using those secrets, despite the subsequent issuance of patents - fully

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²⁰⁷ See the definition of 'misappropriation' (sec 1(2) - par 3.2.2 above) and secs 2 and 3 - par 3.3.3; 3.3.1 above. The Commissioners' comment to sec 2 states explicitly that notice by the trade secret owner to the good faith third person that the last-mentioned has knowledge of a trade secret as a result of misappropriation by another, suffices to make the third person a misappropriator thereafter (under sec 1(2)(ii)(B)(ii)).

²⁰⁸ Sec 2(b) (as amended) read with the Commissioners' comment.

²⁰⁹ Cf Chisum and Jacobs 3.43.

²¹⁰ The 1985 amendments to sec 3(a) provides that a complainant is entitled to recover damages for misappropriation "except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable"; cf Jager Vol 3 Appendix A1.21.ff.

²¹¹ Eg the recipe of Coca-Cola - a trade secret for more than 100 years. Cf par 1.1 above.

²¹² Restatement of the Law of Torts sec 757 comment (a); Dratler 4.3 4.56.


²¹⁴ 87 F 2d 104, 32 USPQ 24 (7th Cir), 301 US 695 (1937).
disclosing the trade secrets - to other parties.

It has been pointed out\(^\text{215}\) that the *Shellmar* decision was not concerned with a situation in which the publication or patenting of the trade secret resulted directly from the conduct of the trade secret owner or his agents. The initial disclosure of the secret was caused by the wrongful conduct of the defendant, and therefore he forfeited his right as a member of the general public to benefit from the later publication of the trade secret in a patent.\(^\text{216}\) That the *Shellmar* rule concerned the situation where the defendant had made a wrongful disclosure, was also clearly stated in *Syntex Ophthalmics, Incorporated v Tsuetaki*.\(^\text{217}\) However, the interpretation of the *Shellmar* rule generally accepted by the courts was that publication of the trade secret, even by the trade secret owner, does not rule out injunctive relief against a defendant who learnt the trade secret in confidence before publication took place.\(^\text{218}\)

The *Conmar* rule is named after the decision in *Conmar Products Corporation v*


\(^\text{216}\) Cf the words used by the Federal Circuit Court of Appeal of the Seventh Circuit (87 F 2d 110, 32 USPQ 29): "It is quite true that Allen-Qualley’s trade secrets have been disclosed to the world... Appellant [ie the defendant] first made that disclosure in an unlawful manner, and because of that fact it cannot contend that it is a member of the public to whom it made the disclosure. To hold otherwise would be to permit appellant to profit by its own wrong. We are dealing here not with Allen-Qualley’s right against the world, but with that company’s right against appellant... [T]he reason for the injunction still exists and... Allen-Qualley’s right thereto has not been extinguished."

\(^\text{217}\) 701 F 2d 677 683, 219 USPQ 962 (7th Cir 1983): "[W]e held in... Shellmar... that a wrongdoer who has made an unlawful disclosure of another’s trade secrets cannot assert that publication to escape the protection of trade secret law. We believe that principle to be equally vital today. To hold otherwise would be to permit appellants to profit from their own wrong." Cf Jager Vol 1 6.14-6.15.

\(^\text{218}\) In *AO Smith Corp Petroleum Iron Works Co* 73 F 2d 531, 24 USPQ 183 (6th Cir 1934), 74 F 2d 934, 25 USPQ 29 (6th Cir 1935), the leading case relied on in the *Shellmar* case, it had already been decided that the publication of a trade secret through the issuance of a patent by the owner of the trade secret, did not preclude injunctive relief against a defendant who had misappropriated the trade secret in breach of confidence before publication. Later cases have liberally interpreted *Shellmar*, bringing it in line with the *AO Smith* case. Eg: *Jones v Ulrich* 87 USPQ 331 335 (Ill App 1950): "[D]efendant, being himself burdened with a prior confidential disclosure, may not now set up a subsequent publication or even abandonment of the invention to the general public to escape the consequences of his alleged violation of the confidential disclosure made earlier to him"; *Franke v Wiltschek* 209 F 2d 493 495, 99 USFQ 431 433 (2nd Cir 1953): "Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs’ confidential relationship, and in so doing incurred a duty not to use it to plaintiffs’ detriment. This duty they have breached*; *Rohm and Haas Co v Adco Chemical Co* 215 USPQ 1081 1088 (3rd Cir 1982); *Goldberg v Medtronic, Inc* 216 USPQ 89 95: "[O]ne who breaches an obligation of confidence and uses confidential information to the owner’s detriment is liable despite the fact that the information could have been lawfully obtained"; cf Jager Vol 1 6.15ff.
Universal Slide Fastener Company.\textsuperscript{219} An ex-employee of the plaintiff built a
machine for the defendant that allegedly utilised trade secrets of the plaintiff. The
trade secrets were later disclosed in patents issued to the plaintiff. Injunctive relief
against the defendant was denied, and the Shellmar rule expressly rejected.\textsuperscript{220} The
import of the Conmar rule is that trade secret protection is 'cut off' by the issuance
of a patent or other form of publication of the secret. Like the Shellmar, this rule
has been followed in many cases.\textsuperscript{221}

The granting of a permanent injunction after publication of the relevant trade secret
in terms of the Shellmar rule has been criticized as being a punitive remedy.\textsuperscript{222} On
the other hand, strict application of the Conmar rule has also been criticized as being
unduly harsh.\textsuperscript{223} However, the alleged harshness of the Conmar rule has been
tempered in some ways. In the first place, while the Conmar rule bars an injunction

\begin{itemize}
\item \textsuperscript{219} 172 F 2d 150, 80 USPQ 108 (2nd Cir 1949).
\item \textsuperscript{220} Jager has expressed the opinion (Vol 1 6.27) that an outright rejection of Shellmar was
unnecessary, and that the court in Conmar could have distinguished it on the facts: "In Shellmar, the
misappropriator participated in the allegedly fatal trade secret disclosure, whereas in
Conmar the fatal disclosure was caused by the trade secret owner. In Shellmar the wrongdoer was unable

\begin{itemize}
\item \textsuperscript{221} Eg Timely Products Corp v Arron 523 F 2d 288, 187 USPQ 257 (2d Cir 1975); Forest
Laboratories, Inc v Pillsbury Co 452 F 2d 621 624, 171 USPQ 731 (7th Cir 1971) (contra American
Can Co v Mansukhani 223 USPQ 97 111 n 24 (7th Cir 1984); Rototron Corp v Lake Shore Burial
Vault Co 712 F 2d 1214, 220 USPQ 169 170 n 2 (7th Cir 1983); M & T Chemicals, Inc v International
Business Machines Corp 403 F Supp 1145 1149, 188 USPQ 568 (SDNY 1975), 542 F 1165 (2nd
Cir), 429 US 1030 (1976); cf Jager Vol 1 6.28ff.
\item \textsuperscript{222} See Barclay 1978 UCLA LR 211; cf Jager Vol 1 6.25 who concedes that in the case of
publication of the trade secret by the trade secret owner, the Shellmar rule is too harsh, but then
proceeds to state: "[A]ny harshness of the Shellmar rule dissipates when the publication fatal to the
trade secret occurred at the hands of the misappropriator. In those situations there is little ground for
sympathy for the trade secret violator who has attempted to terminate the trade secret with his own
hand. Extensive, or perhaps permanent, injunctive relief should be available to the owner of the trade
secret under those circumstances." The question might be asked, however, if damages would not be
more appropriate in such a case.
\item \textsuperscript{223} Cf Jager Vol 1 6.27-6.28: "[A]s strictly applied the Conmar rule bars any damages or injunctive
relief after the trade secret is published by anyone. This rule can be harsh, and can produce unjust
results, in some situations. One example would be where the misappropriator knew that the secret
information would eventually be public, such as through knowledge of a pending patent application
which is likely to issue as a patent. Armed with that knowledge, he could take steps which would give
him a competitive advantage, and place the trade secret owner at a substantial disadvantage,
immediately after the date of public disclosure. Courts sitting in equity should be able to respond to
such a situation, even in jurisdictions which follow Conmar."
after publication of the secret, monetary relief may still be available in proper circumstances. For instance, if the unauthorized use of the plaintiff's trade secret has enabled the defendant to manufacture and market a product at an earlier date than would have been possible by means of independent research and development, damages and an accounting of profits resulting from the acceleration of the date when production was possible, may still be awarded. 224

Secondly, what has been described 225 as a 'middle ground' between Shellmar and Conmar, has been found in decisions granting 'lead time' injunctions. In Winston Research Corporation v Minnesota Mining & Manufacturing Company 226 the plaintiffs took four years to develop a precision tape recorder. Using trade secrets of the plaintiff, the defendant needed only fourteen months to develop a rival tape recorder. The defendant was enjoined from using or disclosing the plaintiff's secrets (which were soon to be disclosed by the plaintiff in announcements, demonstrations and sales of the tape recorders) for a period of two years. Similarly in K-2 Ski Company v Head Ski Company, 227 'lead-time' injunctions were granted, the lengths of which were chosen as the periods needed by the defendant to lawfully develop the products by reverse engineering or independent development. 228 229

224 Eg Schreyer v Casco Products Corp 97 F Supp 159, 88 USPQ 515 (D Conn), 190 F 2d 921, 90 USPQ 271 (2nd Cir 1951), 342 US 913 (1952); Engelhard Industries, Inc v Research Instrumental Corp 324 F 2d 347 353, 139 USPQ 179 (9th Cir 1963), 377 US 923 (1964); Epstein v Dennison Manufacturing Co 314 F Supp 116 125, 164 USPQ 291 (SDNY 1969); cf Jager Vol 1 6.30-6.31.

225 Jager Vol 1 7.35.

226 350 F 2d 134, 146 USPQ 422 (9th Cir 1965); cf Jager Vol 1 7.42-7.43.

227 506 F 2d 471 474, 183 USPQ 724 726 (9th Cir 1974); cf Jager Vol 1 7.43.

228 Also eg SI Handling Systems, Inc v Heisley 753 F 2d 1244, 225 USPQ 441 (3rd Cir 1985); Sigma Chemicals Co v Harris 32 PTCJ 309 (8th Cir 1986); cf Jager Vol 1 7.44-7.49.

229 Thought-provoking comments on certain practical ramifications of lead-time injunctions are made by Dratler 4.75-4.77: "The notion of a head start period makes good sense with respect to reverse engineering, for the time it would take to reverse engineer a particular product is eminently susceptible to proof by expert testimony. The notion is more problematic, however, as applied to independent development. It is one thing to estimate the time required by competent engineers to extract a known secret from a designated product, but it is quite another to estimate the time required to discover the secret in the abstract, particularly when the secret is one that no one had ever before discovered or used... If the secret required ingenuity, insight, or invention to develop, or if the plaintiff's and defendant's resources and capabilities are disparate, then any estimate of the time required for the defendant to develop the same secret from scratch may be nothing more than a shot in the dark. Yet despite the difficulty of estimating the time required for independent development, some courts have attempted to do so, at least in cases involving departing employees. In cases like these, the duration of the injunction is often the focus of an unspoken compromise between conflicting policies of employee mobility and free competition on the one hand, and encouraging innovation by protecting business' investment in it on the other. Though messy and usually imprecise, a compromise of this sort allows courts to balance employers' efforts and investment in their secrets and the egregiousness of employees' breaches of confidence against employees' contributions to the secrets, the ease of
The Uniform Trade Secrets Act provides\(^{230}\) that an injunction shall on application to the court be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate the commercial advantage that would otherwise be derived from the misappropriation. If the court finds that it would be unreasonable to prohibit further use, an injunction may be issued making future use conditional on the payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.\(^{231}\) The Act may thus be said to have adopted a Conmar rule tempered by the possibilities of granting 'lead-time' injunctions or ordering the payment of reasonable royalties for future use.\(^{232}\)

### 3.4.5 CONFLICT BETWEEN TRADE SECRETS LAW AND FEDERAL INTELLECTUAL PROPERTY LAWS

It has been said\(^{233}\) that there are two paradigms of intellectual property law in the United States - protection based on the Copyright Clause of the United States discovering the secrets by improper means, and the extent to which an injunction would curtail desirable competition in the industry. There are two dangers, however, in using an estimate of independent development time to compromise conflicting policies. First, such an estimate may require speculation and conjecture to an extent unacceptable in a courtroom. Second, relief based on such an estimate may deprive the trade secret owner of the potentially infinite duration of trade secret protection, which is a significant part of its attraction vis-a-vis patents. To reduce these dangers, courts should give the plaintiff the benefit of the doubt in determining the duration of injunctive relief based on independent development, and should be reluctant to estimate independent development time at all without good evidence that independent development is imminent or that the necessary information would be available from a combination of published sources and reverse engineering.\(^{234}\)

\(^{230}\) Sec 2(a).

\(^{231}\) Sec 2(b); see par 3.3.3 above.

\(^{232}\) This is made very clear in the Commissioners' comment to sec 2, in which the position as formulated in the K-2 Ski case is expressly adopted. It is further stated: "The general principle of section 2... is that an injunction should last for as long as is necessary, but no longer than is necessary, to eliminate the commercial advantage or 'lead time' with respect to good faith competitors that a person has obtained through misappropriation. Subject to any additional period of restraint necessary to negate lead time, an injunction accordingly should terminate when a former trade secret becomes either generally known to good faith competitors or generally knowable to them because of the lawful availability of products that can be reverse engineered to reveal a trade secret. For example, assume that A has a valuable trade secret of which B and C, the other industry members, are originally unaware. If B subsequently misappropriates the trade secret and is enjoined from use, but C later lawfully reverse engineers the trade secret, the injunction restraining B is subject to termination as soon as B's lead time has been dissipated. All of the persons who could derive economic value from use of the information are now aware of it, and there is no longer a trade secret under section 1(4)."

\(^{233}\) Dratler 1.76.
Constitution, and protection based on other sources of legal authority. The first is characterized by strong protection of exclusivity, but for a limited period of time - the province of patent and copyright laws. The second, to which the protection of trade secrets belongs, is characterized by a weaker protection, but for a potentially unlimited period of time. Protection under the 'strong' paradigm is afforded by federal statutory law, while protection under the 'weak' paradigm is largely a matter of state law. If protection under state law overlaps with protection under federal law, a potential for conflict is created and the possibility of federal pre-emption arises.

In the Sears and Compco cases, the Supreme Court held that federal policy pre-empted state unfair competition laws that purported to prevent the copying of articles unprotected by federal patent or copyright laws. The question as to whether state trade secret laws were pre-empted by federal patent law, was authoritatively decided by the Supreme Court in Kewanee Oil Company v Bicron Oil Corporation. The court stated that the policy objective of patent law was to promote progress of science and the useful arts by offering for a limited time a right of exclusion to the inventor, in exchange for a complete disclosure of the invention. The objectives of trade secrets law were the maintenance of standards of commercial ethics and the encouragement of invention. In the case of subject matter known to be unpatentable, no conflict between patent and trade secret laws could arise, while trade secret protection in this field could be beneficial to society by encouraging minor inventions, deterring unethical commercial practices and facilitating licensing. In the case of trade secrets of doubtful patentability, the court found that the deleterious effects on society and patent policy of abolishing trade secret protection could not be balanced out by the speculative gain which might result from inventors with inventions of doubtful patentability coming forward to apply for patents. In the case of clearly

234 Art 1 sec 8 cl 8.
237 Cf Chisum and Jacobs 1.11; Jager Vol 2 10.1-10.2.
238 Cf Painton & Co v Bourns, Inc 422 F 2d 216, 169 USPQ 528 (2nd Cir 1971); Servo Corp v General Electric Co 337 F 2d 716, 143 USPQ 85 (4th Cir 1964), 383 US 934 (1966); Water Services, Inc v Tesco Chemicals, Inc 410 F 2d 163, 162 USPQ 321 (5th Cir 1969); Winston Research Corp v Minnesota Mining & Manufacturing Co 350 F 2d 134, 146 USPQ 422 (9th Cir 1965); Dekar Industries, Inc v Bissett-Berman Corp 434 F 2d 1304, 168 USPQ 71 (9th Cir 1970), 402 US 945 (1971); Aileman 1967 JPOS 713; Doerfer 1967 Harvard LR 1432.
patentable inventions, where "the federal interest in disclosure is at its peak", 240 the court was of the opinion that trade secret protection was not a sufficiently attractive option to deter many inventors of such inventions from seeking patent protection. 241 The court accordingly held that there was no justification for either complete or partial pre-emption of trade secrets law by patent law. 242

The Kewanee decision has, however, not eliminated all the possible conflicts between trade secret and patent laws. An important issue that remains unresolved relates to the situation where a patent is issued on an invention that is already the subject of a trade secret held by another person. 243 Who has the superior right to the invention - the first inventor who elected to keep it secret, or the second inventor who chose to apply for a patent? In these circumstances, the trade secret and the patent cannot co-exist, because when a patent is issued, there is public disclosure and consequently secrecy is destroyed. 244 A juxtaposition of the decisions in Gillman v Stern 245 and Dunlop Holdings v Ram Golf Corporation 246 suggests 247 that the outcome must depend on whether the public had the benefit of the trade secret or not. Thus, where only the first inventor had the benefit of the secret, the second inventor would prevail and would be able to sue the former for infringement if he or she continued to use the (former) secret after the latter had obtained the patent. This

240 416 US 489.

241 The court pointed out (490) that patent protection was "attractively stronger" than trade secret protection, because the latter did not preclude discovery by fair means (like reverse engineering or independent development) and the appreciable risk of misappropriation of a trade secret in a manner not easily susceptible of discovery or proof. Chisum and Jacobs 1.18 brand this analysis as "strained", "because it is common knowledge that inventors and companies do commonly forego patent protection on at least some otherwise patentable inventions when trade secrets are a less costly option". They opine that it might have been because the court sensed this, that it also cited (493) the acquiescence of Congress in the long history of patent-trade secret co-existence.

242 Cf Aronson v Quick Point Pencil Co 440 US 257, 201 USPQ 1 (1979). Cf further Christianson v Colt Industries Operating Corp 609 F Supp 1174 (DC III 1985), 822 F 2d 1544, 3 USPQ 1241 (Fed Cir 1987). The decision in the district court has been singled out by Jager Vol 2 10.8.4 as "the most serious collision to date between the state trade secret laws and the patent disclosure requirements..." However, on appeal the decision was reversed and it was held explicitly (822 F 2d 1563) that there was "no basis for the district court's rulings that non-compliance with [patent law disclosure requirements] preempt[ed] state trade secret law...". See further Jager Vol 2 10.5-10.6.1 10.8.3-10.8.4; cf Burk 1993 Seton Hall LR 560ff.


244 Burke in Milgrim Vol 4 K3.15.

245 114 F2d 28 (2nd Cir 1940).


247 See Burke in Milgrim Vol 4 K3.16ff.
would be the case where for instance the secret related to a process whereby a known product could be manufactured faster or cheaper, but the product was not marketed at a lower price.\footnote{Cf the Gillman case.} If, on the other hand, the public had reaped the benefit of the trade secret, the first inventor would be able to invalidate the second inventor’s patent on the ground of the former’s prior use. This would be the case where for instance the secret was embodied in - but not readily apparent from - a marketed product, resulting in a product superior to its rivals (or without rivals) being made available to the public.\footnote{This has been termed ‘non-informing public use’. Cf Burke in Milgrim Vol 4 K3.17.}

The position was unsatisfactory. In the first of the two scenarios sketched above, there is clearly no protection of the rights of the first inventor-trade secret owner. In the second scenario, both parties are prejudiced. The second inventor has his or her patent invalidated, while the first inventor’s trade secret was destroyed by publication when the (now invalidated) patent was issued.\footnote{Cf Bennett 1975 JPOS 742; Burke in Milgrim Vol 4 K3.19ff.} A more satisfactory solution, and one that does not require a distinction to be drawn between cases where there was benefit to the public or not, has been proposed by the American Bar Association.\footnote{1982 Summary of Proceedings, Section of Patent, Trademark and Copyright Law (ABA Chicago Illinois 1982) resolution 206.1.}

This proposal entails the statutory enactment of a right of the first inventor-trade secret user to continue to use his or her invention regardless of the subsequently issued patent, while also allowing the second inventor to exploit his or her patent and to enforce its exclusivity against all parties except the first inventor.\footnote{A similar solution was proposed by Burke in Milgrim Vol 4 K3.23-K3.24 in 1981: "In order to protect both patents and trade secrets from mutual destruction in the face of a conflict, legislative action should be taken... [A] possible solution would be to let the patent stand in the face of prior trade secret use, whether non-informing or otherwise. Once the patent issues, the trade secret holder would not be allowed to further license or expand the use of the trade secret, as that would infringe on the rights of the patentee, but he may continue to use it to the extent that it has been used before the patent issues. In this way, the rights of both parties would be accommodated. The patentee would receive his legal monopoly and the trade secret user would receive somewhat of a bonus. Since his secret is always subject to independent discovery, the trade secret user cannot complain when, after the patent expires, the invention is available to the public. However, by virtue of the patent having been issued on the same invention, the trade secret holder, under this proposal, could practice his invention to the exclusion of all others, except of course, for the patentee and those licensed by him, because the use of the invention by any other independent developer would constitute infringement of the patent."}

253 Cf, however, WL Gore & Associates, Inc v Garlock, Inc 220 USPQ 303 310 (Fed Cir 1983) where the court indicated in an obiter dictum that in a conflict between the interests of a first inventor-trade secret holder and a second inventor-patentee, the law favours the latter. Cf Jager Vol 2 10.8.
A partial overlap can also occur between protection under trade secrets law and copyright law, and raises the question whether trade secrets law may be pre-empted by the Copyright Act. The Act explicitly pre-empts state laws purporting to provide equivalent rights in respect of works of authorship fixed in a tangible medium of expression. Subject matter like computer software springs to mind as potentially qualifying for both copyright and trade secret protection. Does the application of trade secrets law to such subject matter purport to provide rights equivalent to the exclusive rights under copyright law? As generally interpreted by the courts, it does not, and trade secret and copyright protection are in principle allowed to co-exist in respect of the same subject matter. Since trade secret

254 Copyright Act of 1976.

255 See in general Dratler 1.81-1.83; Heller in Milgrim Vol 3 Appendix B.1B; Jager Vol 2 10.9-10.20; Kintner and Lahr 242-243; Langer in Milgrim Vol 3 Appendix B.1A.

257 Eg Warrington Associates, Inc v Real-Time Engineering Systems, Inc 522 F Supp 367 368 (ND Ill 1981): "An analysis of the interests secured by copyright and trade secret law makes plain that the claims are not 'equivalent' as intended by Congress. It is well-settled that copyright protection extends not to an idea itself, but rather to the particular expression used by its author... In contrast, the protection provided by the common law of trade secret misappropriation extends to the very ideas of the author, subject of course, to the requirement that the idea has some originality and is as yet undisclosed or disclosed only on the basis of confidentiality... The practical distinction between the two interests is manifest. While disclosure of the expression does not vitiate rights secured by copyright law, that same disclosure may well strip the underlying idea of trade secret. To a certain degree the two respective rights in intellectual property interact. To the extent a work has been copyrighted and published, the chances of unprivileged disclosure may increase. But the mere fact that an expression is copyrighted does not, in and of itself, disclose the trade secret or eliminate its mantle of confidentiality"; M Bryce & Associates, Inc v Gladstone 215 USPQ 81 87: "The line of demarcation between trade secret and copyright protection is clear. Trade secret law protects content irrespective of form of expression, copyright law protects form of expression but not the underlying ideas"; Brignoli v Balch, Hardy & Scheinman, Inc 645 F Supp 1201 1205-1206 (SDNY 1986); Vault Corp v Quaid Software Ltd 655 F Supp 750 763 (ED La 1987), 847 F 2d 255 (5th Cir 1981); Foresight Resources Corp v Pfortmiller 719 F Supp 1006 1011 (D Kan 1989). Cf, however, Videotronics, Inc v Bend Electronics, Inc 564 F Supp 1471, 223 USPQ 296 (D Nev 1982) where the court found that trade secret protection for copyrightable computer software was pre-empted; Avco Corp v Precision Air Parts, Inc 210 USPQ 894 (MD Ala 1980), 676 F 2d 494, 216 USPQ 1086 (11th Cir 1982) where the district court stated (210 USPQ 896 898) that trade secret rights would not be pre-empted as long as the cause of action contained elements such as "invasion of personal rights or a breach of trust or confidentiality that are different in kind from copyright infringement". Since such elements had not even been alleged, the court found pre-emption in a summary judgment motion. See further Jager Vol 2 10.15-10.17; Dratler 1.82 fn 50.

258 Cf also the Final report of the National Commission on the New Technological Uses of Copyrighted Works (July 31 1978) Library of Congress (1979) 18: "The availability of copyright for computer programs does not... affect the availability of trade secret protection. Under the act of 1976 only those state rights that are equivalent to the exclusive rights granted therein (generally, common law copyright) are preemted. Any decline in use of trade secrecy might be based not upon preemption but on the rapid increase in the number of widely distributed programs in which trade secret protection could not be successfully asserted." This report resulted in enactment of the Computer Software Protection Act of 1980, which rewrote sec 117 of the Copyright Act of 1976 to clarify copyright.
protection cannot be given to published information, only unpublished copyrightable works may qualify for this dual protection.\textsuperscript{259}

\subsection*{3.4.6 FREEDOM OF INFORMATION ACT}

The Freedom of Information Act\textsuperscript{260} grants any member of the public a right of access to information held by federal government agencies. Intended to promote clean administration,\textsuperscript{261} the perception exists that many businesses are exploiting it as a mechanism by which information of rivals can be obtained.\textsuperscript{262} Certain categories of information are exempted from the disclosure requirements of the Act, amongst others "trade secrets and commercial or financial information obtained from a person and privileged or confidential".\textsuperscript{263} However, in \textit{Chrysler Corporation v Brown}\textsuperscript{264} it was held that the exemption was not mandatory, and the agencies still had a discretion to reveal information falling in an exempted category. Disclosure in terms of the Freedom of Information Act may be a major threat to trade secrets filed with federal agencies.\textsuperscript{265}

\subsection*{3.5 LEGAL BASE OF TRADE SECRET PROTECTION IN AMERICAN LAW}


\textsuperscript{260} Of 1966: 5 USC sec 552.

\textsuperscript{261} Cf \textit{HR Rep No 92.1419 92nd Cong 2nd Sess 1 (1972)}; Jager Vol 2 12.6.

\textsuperscript{262} Because of extensive involvement of the federal government with business concerns from the private sector, a considerable body of commercially valuable information on private businesses is contained in agency files. Jager Vol 2 12.6-12.6.1; Schapiro in Milgrim Vol 4 Appendix E; cf Conelly \textit{1981 Wisconsin LR} 209-210 who states that fears of industrial espionage by means of the Freedom of Information Act mechanisms are greatly exaggerated.

\textsuperscript{263} Sec 552(b)(4).


\textsuperscript{265} Literature on the topic includes Callmann Vol 2 14.176-14.182; Dorr and Munch 31-32; Jager Vol 2 12.1-12.52; Arnold \textit{1976 Juris Doctor} 17; Casey, Martinsen, and Moss \textit{1984 AIPLA Q J} 76; Conelly \textit{1981 Wisconsin LR} 207; O'Reilly \textit{1984 AIPLA Q J} 13; Phillips \textit{1980 JPOS} 652; Schapiro in Milgrim Vol 4 Appendix E.
bases of trade secret protection.

3.5.1 CONTRACT

Contract is raised most frequently as a basis for trade secret protection because of the existence of an express contract. Express contractual provisions may protect trade secrets either directly in the form of non-disclosure or so-called confidentiality agreements, or indirectly in the form of restrictive covenants not to compete. The various states differ in respect of their policies regarding the enforceability of restrictive covenants. In the majority of the states non-competition covenants which are reasonable in respect of subject matter, time and territory will be enforced. The courts usually require the restrictive covenant to be ancillary to a legitimate business purpose or agreement, and to protect a legitimate business interest, of which a trade secret is a recognized example.

A contract regulating trade secrets may also be implied from the facts. In such a case the court looks for the existence of a factual situation to support the existence of a contract based on the implied understanding of the parties. Trade secrets may also be protected on the strength of a quasi-contract, or contract implied in law. This type of contract has been described as a legal fiction used to explain the desirable result of affording legal protection.

Contract is an important base of trade secret protection because of the general practice of big corporations to include in their employment agreements express

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266 Cf Dratler 4.81; Jager Vol 1 4.1; Kintner and Lahr 214. However, it does not follow that if a contract exists, a claim for trade secret protection will inevitably be a contractual one - a claim sounding in tort may also be appropriate. See Dratler 8.81.

267 Cf Callmann Vol 2 14.24-14.26; Chisum and Jacobs 3.39-3.41; Dratler 4.91ff; Jager Vol 2 13.1ff; Milgrim Vol 1 4.2ff; Pooley 79ff.

268 Cf Chisum and Jacobs 3.40; Dratler 4.98ff; Pooley 82.

269 Cf Chisum and Jacobs 3.40; Dratler 4.99; Milgrim Vol 1 4.65ff; Pooley 82.

270 Chisum and Jacobs 3.40; Jager Vol 2 13.4-13.5.

271 Jager Vol 1 4.2-4.3.

272 Jager Vol 1 4.3.

273 Interestingly, the obligation of an employee not to misappropriate his employer's trade secrets may be typified by some decisions as implied-in-fact (see Turner 287-293) and by others as implied-in-law contracts (see Turner 293-296). Implied-in-law contracts to protect trade secrets do not arise only in employer-employee relationships. See Jager Vol 1 4.5.
contractual provisions to protect their trade secrets.\(^{274}\) It is nevertheless clear that contract is not a prerequisite in American law for the protection of trade secrets.\(^{275} \) 276 Conversely, contract may also be used to protect information that is not a trade secret.\(^{277}\)

### 3.5.2 TORT

Tort is by far the most popular theory of trade secret protection.\(^{278}\) As noted,\(^{279}\) the protection of trade secrets was dealt with in the first Restatement of American law in the section on Torts. The misappropriation of trade secrets is also frequently characterized, explicitly or implicitly, as a tort in the case law\(^{280}\) and by commentators.\(^{281}\) Tort also seems to be the main basis of trade secret protection under the Uniform Trade Secrets Act.\(^{282}\)

\(^{274}\) Dratler 4.81; Kintner and Lahr 214 218.

\(^{275}\) Callmann Vol 2 14.10; Dratler 4.81; Kintner and Lahr 214.

\(^{276}\) However, a contract will be a requirement for trade secret litigation against the United States government, the reason being that the United States has not waived its sovereign immunity for torts - cf Radioptics, Inc v United States 204 USPQ 866 880 (Ct Cl 1979); Jager Vol 1 4.2 4.11.

\(^{277}\) Cf Dratler 4.91-4.93, who points out that this may especially be the case where the owner of the information has not taken reasonable steps to keep the information confidential, but the information is still not readily available to all and sundry; Milgrim Vol 1 4.29ff and case law cited. Sec 7(b) of the Uniform Trade Secrets Act specifically provides that the Act does not affect contractual relief that is not based upon misappropriation of a trade secret.

\(^{278}\) Jager Vol 1 4.8.

\(^{279}\) Par 3.1 above.

\(^{280}\) Eg Northern Petrochemical Co v Tomlinson 484 F 2d 1057 1060, 179 USPQ 386 388 (7th Cir 1973); American Can Co v Mansukhani 216 USPQ 1094 1099 (ED Wisc 1982), 220 USPQ 167 (7th Cir 1983).

\(^{281}\) It is formulated very strongly by Dratler 4.81: "Trade secret protection in the United States arises under tort law. As in other fields of tort law, the common law or relevant statutes impose general duties on individuals and legal entities to protect other's trade secrets, whether or not any contract also imposes similar obligations. Courts sometimes refer to the duties that tort law imposes as implied in law, or even as implied contracts. More commonly, however, courts simply refer to these duties as arising out of confidential relationships. Yet however they are described, these duties owe their origin to the law of torts." Cf Callmann Vol 2 14.2-14.4; Jager Vol 1 4.8ff.

\(^{282}\) Cf sec 7 which provides that the Act displaces "conflicting tort, restitutionary and other law... pertaining to civil liability for misappropriation of a trade secret", but does not affect contractual or other civil liability that is not based upon misappropriation of a trade secret.
The tort theory of trade secret protection is often more or less equated\textsuperscript{283} with a breach of confidence theory of trade secret protection.\textsuperscript{284} However, as noted,\textsuperscript{285} protection of trade secrets in American law is definitely not limited to cases where a relationship of confidence exists between the plaintiff and the defendant. If misappropriations which occur outside the sphere of a confidential relationship (for instance industrial espionage) also give rise to tortious liability, the tort base of trade secret protection is surely wider than actions for breach of confidence,\textsuperscript{286} and the equation between the two may therefore be misleading.

Some courts following the tort theory of trade secret protection, and perhaps more specifically those of a breach of confidence persuasion,\textsuperscript{287} are inclined to attach a lesser significance to the nature of the subject matter that is sought to be protected, and strongly emphasize, on the other hand, the relationship and the conduct of the parties. These courts will sometimes, in the face of the existence of a relationship of confidence or impropriety of conduct on the part of the defendant, protect commercial information that does not fully qualify as trade secrets.\textsuperscript{288} Thus perpetual injunctions

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{283} Cf Jager Vol 1 4.8ff (especially 4.12); Kintner and Lahr 209-212.
\item \textsuperscript{284} This is interesting, because in English law the action for breach of confidence does not seem to be generally characterized as tortious liability - cf par 2.5.4 above.
\item \textsuperscript{285} Par 3.2.2; 3.4.2; 3.4.3 above.
\item \textsuperscript{286} A commentator who makes this very clear in his analysis of tort law aspects of trade secret protection, is Dratler 4.81ff. On 4.90 he states clearly: "Not only does tort law impose duties in the absence of an employee-employer relationship; it may impose duties in the absence of any relationship at all. Even complete strangers may be liable to a trade secret owner for misappropriation, for example, by industrial espionage" (citing \textit{El duPont de Nemours & Co v Christopher} 431 F 2d 1012, 166 USPQ 421 (5th Cir 1970), 400 US 1024, 401 US 967 (1971) and \textit{Tabor v Hoffman} 118 NY 30, 23 NE 12 (1889)).
\item \textsuperscript{287} Cf Dratler 4.71.
\item \textsuperscript{288} Cf Chisum and Jacobs 3.27-3.29; Dratler 4.71; Jager Vol 1 4.9-4.11; \textit{Franke v Wilschek} 209 F 2d 493 495, 99 USPQ 431 433 (2nd Cir 1953): "Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiff's publicly marketed product. The fact is that they did not. Instead they gained it from plaintiff's confidential relationship, and in so doing incurred a duty not to use it to plaintiff's detriment. This duty they have breached" (emphasis added); cases cited by Chisum and Jacobs 3.28-3.29; and fn 289 below. It seems that such protection of non-secret information is outside the scope of the Uniform Trade Secrets Act, since the Act only deals with the misappropriation (as defined in sec 1(2)) of trade secrets (as defined in sec 1(4)) - par 3.2.1; 3.2.2 above. Sec 7(a) specifically provides that the Act displaces conflicting tort law pertaining to civil liability for misappropriation of trade secrets. However, sec 7(b) provides that the Act does not affect civil liability or relief that is not based upon misappropriation of trade secrets. If particular states have granted legal protection to information that is not trade secrets, such protection is thus probably not excluded by the Act - cf Chisum and Jacobs 3.29.
\end{itemize}
\end{footnotesize}
may, for instance, be granted even though the misappropriated trade secrets have largely become public knowledge.\textsuperscript{289} The Restatement has probably been influential in this development\textsuperscript{290} by denying the existence of a property right in trade secrets\textsuperscript{291} and by expressly making provision for the protection of non-secret business information.\textsuperscript{292}

Unfair competition is a corollary base for the protection of trade secrets.\textsuperscript{293} Again the focus often falls sharply on the unfair tactics of the misappropriator or on the violation of a confidential relationship.\textsuperscript{294}

### 3.5.3 Property

A question that crops up frequently in the case law, and which most commentaries discuss at some length,\textsuperscript{295} is whether trade secrets are property. In the Restatement\textsuperscript{296} and some cases\textsuperscript{297} a negative answer is given. Case law denying

\textsuperscript{289} Eg Franke v Wiltschek 209 F 2d 493 496 499 500 (2nd Cir 1953); Shellmar Products Co v Allen-Qualley Co 87 F 2d 104, 32 USPQ 24 (7th Cir), 301 US 695 (1937); Richardson v Suzuki Motor Co 868 F 2d 1226 1244 (Fed Cir 1989); Bryan v Kershaw 366 F 2d 497 (5th Cir 1966). See further Dratler 4.10 fn 80; Jager Vol 1 4.10 fn 39.1-39.3 and cf par 3.4.4 above.

\textsuperscript{290} Cf eg Crocan Corp v Sheller-Globe Corp 385 F Supp 251 (ND Ill 1974) 254 where the court relied expressly on the Restatement for the following statement: "[I]mproper means used to gain information is a separate basis of liability, regardless of whether the information constitutes a technical trade secret in the narrow sense of the word"; Chisum and Jacobs 3.27-3.28.

\textsuperscript{291} Sec 757 comment (a); see par 3.5.3 fn 296 below.

\textsuperscript{292} Sec 757 comment (b): "Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information"; sec 759: "One who, for the purpose of advancing a rival business interest, procures by improper means information about another's business is liable to the other for the harm caused by his possession, disclosure or use of the information"; sec 759 comment (b): "The rule stated in this Section applies to information about one's business whether or not it constitutes a trade secret... Examples of information, other than trade secrets, included in this Section are: the state of one's accounts, the amount of his bid for a contract, his sources of supply, his plans for expansion or retrenchment, and the like."

\textsuperscript{293} Cf Jager Vol 1 4.12; Klitzke 1986 The Business Lawyer 556-558. Some states (eg California and Louisiana) have unfair competition statutes that apply to trade secrets; see Jager Vol 1 4.12.

\textsuperscript{294} Jager Vol 1 4.12.

\textsuperscript{295} Eg Callmann Vol 2 14.8-14.19; Dratler 4.70-4.72; Jager Vol 1 4.13-4.26; Kintner and Lahr 206-209; Milgrim Vol 1 2.1ff; Turner 12.

\textsuperscript{296} Sec 757 comment (a): "The suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected. The theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests upon breach of this duty; that is breach of contract, abuse of confidence
the existence of a property right in trade secrets frequently relies on the following famous remarks in *El duPont de Nemours Powder Company v Masland*: 

"The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property..., but that the defendant stood in confidential relations with the plaintiffs..."

However, other decisions have quoted the *Masland* case, whilst nevertheless maintaining that trade secrets are property. In *Ruckelshaus v Monsanto Company* the Supreme Court held that a trade secret is property, and stated explicitly that the decision in *Masland* did not deny the existence of a property interest in a trade secret.

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298 244 US 100 102, 37 S Ct 575 576, L Ed 1016 (1917).

299 Prominent commentators seem to either disagree with the *Masland* decision, or to interpret it in a way that does not rule out the view that trade secrets are property. See Callmann Vol 2 14.8; Jager Vol 1 4.15-4.16; Milgrim Vol 1 2.4ff; cf however Ellis 12; Turner 12.

300 *Eg Monolith Portland & Midwest Co v Kaiser Aluminum & Chemical Corp* 407 F 2d 288 293 (9th Cir 1969); *Northern Petrochemical Co v Tomlinson* 484 F 2d 1057 1060, 179 USPQ 386 (7th Cir 1973); *R. v. Monolith Portland & Midwest Co v Kaiser Aluminum & Chemical Corp* 407 F 2d 288 293 (9th Cir 1969); *Northern Petrochemical Co v Tomlinson* 484 F 2d 1057 1060, 179 USPQ 386 (7th Cir 1973); [A] trade secret, unlike a patent or a copyright, has no proprietary dimension. A suit to redress the theft of a secret is one grounded in tort...": *Rosenthal v Goldstein* 183 NY Supp 582 584 (Supp Ct 1920); *Franke v Wiltschek* 209 F 2d 493 495, 99 USPQ 431 433 (2nd Cir 1953) - see quotation in fn 218 above; *Klockner-Humboldt-Deutz AG, Köln v Hewitt-Robins Division* 486 F Supp 283, 203 USPQ 631 (DC D SC 1978).

301 *Eg International Indus v Warren Petroleum Corp* 99 F Supp 907 913 915 917, 91 USPQ 198 (D Del 1951), 298 F 2d 696 (3rd Cir 1957); *AO Smith Corp v Petroleum Iron Works Co* 73 F 2d 531 539 (6th Cir 1934), 74 F 2d 934 (1935); see further Milgrim Vol 1 1.5 fn 8 and case law cited; Kintner and Lahr 207. Cf also *National Starch Products, Inc v Polymer Industries, Inc* 273 AD 732, 79 NYS 2d 257 (1st Dept), 274 AD 822, 81 NYS 2d 278 (1948); and the commentary by Milgrim Vol 1 2.5-2.7.


303 1004 n 9; cf Jager Vol 1 4.16: "The debate on the meaning of *Masland* is brought to a close by *Monsanto.*" See further *Van Products Co v General Welding & Fabricating Co* 419 Pa 248 268, 213 A 2d 769 780, 147 USPQ 221 (1965); *Anaconda Co v Metric Tool & Die Co* 485 F Supp 410, 205 USPQ 723 (ED Pa 1980).
The majority view of the case law is that trade secrets do constitute a type of property, and leading commentators strongly support this view. It is furthermore supported by the legal practice that trade secrets may be assigned, licensed, constitute trust property, pass by way of testate or intestate succession, subjected to insolvency laws, and taxed as personal property. Trade secrets may also be regarded as property for the purpose of

304 See the case law cited by Milgrim Vol 1 2.4ff; Callmann Vol 2 14.9 fns 6-13; Kintner and Lahr 206.

305 Eg Callmann Vol 2 14.8: "The threshold issue in every case is not whether there was a confidential relationship or a breach of contract or some other kind of misappropriation, but whether, in fact, there was a trade secret to be misappropriated"; 14.9: "Happily, under the majority view, a trade secret, whether it be a secret formula, process, pattern, device, compilation of information or otherwise, is held to be property, and the owner has 'power to make use of it to the exclusion of the world,' or, like the owner of any property, to deal with it as he pleases"; 14.10: "If trade secrets are property,... relief should be granted against anyone 'who has obtained the secret by unfair means,' and the owner of the trade secret should be protected against such activity even in the absence of an underlying contract or confidential relation, or if the contract is unenforceable. In such an instance, the property concept may be indispensable"; cf, however, 14.12: "Where a relationship between the parties does exist, however, the property concept is not an essential of the cause of action because relief is also available for breach of contract or betrayal of confidence. It does, however, provide an additional cause of action, and may also enlarge the range of available remedies. The relationship aspect of the case, however, overshadows the property aspect in such a case and the famous statement... in... Masland is most applicable to that type of situation"; Milgrim Vol 1 2.4: "The unifying principle here is that the very property right that permits one to use and to disclose to others subject to restrictions on use and disclosure underlies any cognizable trade secret claim, be it for breach of contract or of confidential relationship. It is only because the trade secret possessor has the right to so use and disclose a trade secret that the possessor can claim that any person using the information is engaging in wrongdoing. Stated simply, the property right is the implicit mechanism that permits a court to recognize any remedy, be it for breach of a contract or of confidential relationship. Property used with respect to trade secrets denotes 'the group of rights inherent in the citizen's relation to the physical thing, is the right to possess, use and dispose of it'. A property view is a fundamental intellectual starting point. The property right in anything is always a relational right, ie, the right that an owner may have vis-a-vis the world. The right to prevent unauthorized use or disclosure by one standing in a contractual or confidential relationship to the owner is the fundamental property right." See further the commentators mentioned in Milgrim Vol 1 2.11 fn 20. Cf, however, Ellis 12; Turner 12; Correa 1963 Bus Law 531; Samuelson 1989 Cath UL Rev 365; Stedman 1962 Ohio St LJ 21.

306 Milgrim Vol 1 2.22-2.27; Kintner and Lahr 208.


308 Milgrim Vol 1 2.32-2.34.

309 Milgrim Vol 1 2.35-2.36.

310 Milgrim Vol 1 2.36-2.44.

311 Jager Vol 1 4.15; Kintner and Lahr 208-209; Milgrim Vol 2 11.3ff.
protection under the Fifth Amendment of the Constitution.\(^{312}\) However, there is recognition that the property 'label' cannot always be applied to trade secrets and other forms of property in a uniform manner. Some cases and commentators\(^{313}\) refer to limitations which trade secrets are, but other forms of property are not, subject to - for instance discovery (with the concomitant potential destruction\(^{314}\) of the property interest) by fair means.\(^{315}\) Others\(^{316}\) label trade secrets expressly as a form of intellectual property.

Recognition of property rights in trade secrets usually leads to close scrutiny of the nature of the information sought to be protected, and to an unpreparedness on the part of the courts to protect information that is not secret.\(^{317} 318\)

\(^{312}\) Whether or not trade secrets are property and hence subject to the protection of the Fifth Amendment, flows from the characterizations under the controlling state law - *Ruckelshaus v Monsanto Co* 467 US 986, 104 S Ct 2862, 81 L Ed 815 (1984); cf Milgrim Vol 1 2.3 fn 5.

\(^{313}\) Eg *Eastman Kodak Co v Reichenbach* 20 NY Supp 110 (Sup Ct 1892), 79 Hun 183, 29 NY Supp 1143 (Sup Ct 1894): "The word 'property,' as applied to trade secrets..., has its limitations; for it is undoubtedly true that when an article manufactured by some secret process, which is not the subject of a patent, is thrown upon the market, the whole world is at liberty to discover, if it can by any fair means, what that process is, and, when discovery is thus made, to employ it in the manufacture of similar articles. In such a case, the inventor's or manufacturer's property in his process is gone..."; cf Kintner and Lahr 207. This phenomenon of 'disappearing property' has been used as basis for an (unconvincing) argument that there can be no property rights in trade secrets (eg Stedman 1962 *Ohio St L J* 21); see the comments of Milgrim Vol 1 2.8ff. See further fn 314 below.

\(^{314}\) Note that if another person acquires a trade secret by fair means, the secrecy thereof - and thus the property therein - is not inevitably destroyed - see again par 3.2.1.2.3 above.

\(^{315}\) Cf par 3.2.1.2.3 above.

\(^{316}\) Eg *Ferroline Corp v General Aniline and Film Corp* 207 F 2d 912 922 (7th Cir 1953): "We are dealing with a type of intellectual property - in effect, a property right in discovered knowledge." Cf Kintner and Lahr 206; Jager Vol 1 4.17.

\(^{317}\) Cf eg *National Starch Products, Inc v Polymer Industries, Inc* 79 NYS 2d 357 (NY App Div 1948) where the court first emphasized (360) the existence of a property right in a trade secret, and then made the following statement (361): "[T]here is no betrayal of confidence unless there is a secret to be imparted."

\(^{318}\) Cf the juxtaposition in two commentaries of the property approach and breach of confidence approach to trade secret protection - Chisum and Jacobs 3.4-3.5: "Courts base trade secrets doctrine on two distinct principles: (1) a property interest in secret business information; and (2) a duty to respect the confidentiality of information. In applying the property principle, courts examine whether particular information is sufficiently secret and valuable to be considered private property. In applying the duty principle, courts put primary emphasis on the circumstances under which an alleged misappropriator obtained the information and may impose a duty to avoid its use or disclosure if it was obtained through a confidential relationship or improper means - even if its secrecy has not been definitely established... In some situations, a case outcome may depend on which principle the court emphasizes. For example, if information's secrecy is not clearly established but a defendant acquired information through improper means, a court emphasizing the property principle would find no protectable trade secret; a court emphasizing the duty principle would penalize the defendant. Trade secret law's equitable nature and ethical roots invite emphasis on the duty principle when a defendant's
3.5.4 UNJUST ENRICHMENT

Unjust enrichment, also known as quasi contract, is a theoretical base infrequently relied on for trade secret protection. In *Matarese v Moore-McCormack Lines* the relevant principle was formulated as follows:

"The doctrine of unjust enrichment or recovery in quasi-contract... applies to situations where as a matter of fact there is no legal contract, but where the person sought to be charged is in possession of money or property which in good conscience and justice he should not retain, but should deliver to another."

The plaintiff in the *Matarese* case was a man of little education, employed by the defendant as a stevedore. He had invented and demonstrated to an agent of the defendant a device that would greatly facilitate the loading and unloading of cargo and would thus save the defendant money. The defendant did some tests and put several of the plaintiff's devices into operation. Despite promises of remuneration, the defendant was later discharged without having been compensated. Instituting action against the defendant, the plaintiff was unable to prove the existence of a contract between himself and the defendant, and consequently he averred that the latter had been unjustly enriched by using the devices without compensating him. Finding that the defendant's use of the device had paid off with substantial savings, the court settled the unjust enrichment issue in the plaintiff's favour.

The unjust enrichment theory of trade secret protection often goes hand in hand with a breach of confidence situation.

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319 More generally referred to as 'undue' or 'unjustified' enrichment in South African law.

320 Kintner and Lahr 212; cf sec 3(a) of the Uniform Trade Secrets Act - par 3.3.1 above.

321 158 F 2d 631, 71 USPQ 311 (2nd Cir 1946); cf Kintner and Lahr 212-213.

322 634.

323 See Kintner and Lahr 213-214 and case law cited. They also point out that although the court in the *Matarese* case mentioned only unjust enrichment as the basis of protection, the relationship between the plaintiff and the defendant, being one of employee and employer, was one of confidence.
3.5.5 PRIVACY OF A BUSINESS ORGANISATION

After stating\textsuperscript{324} that the \textit{Christopher} case\textsuperscript{325} suggests that the owner of a trade secret may obtain protection even against a stranger solely in reliance on his property right in the secret and the unfair tactics of the defendant in obtaining it, Callmann also offers\textsuperscript{326} an alternative theoretical explanation of the decision. He suggests that in addition to any contractual, confidential, or competitive relationships, trade secrets law arguably also protects the "right of privacy of a business organisation".\textsuperscript{327} He submits that the combination of true trade secrets, and confidential information which does not qualify as trade secrets in the strict sense, constitutes the 'secret sphere' of a business. This secret sphere, he argues, merits protection as a whole, and should be recognized as property.\textsuperscript{328}

\begin{center}
\begin{tabular}{l}
\textbf{324} Callmann Vol 2 14.11. \\
\textbf{325} Par 3.2.1.2.4 above. \\
\textbf{326} Vol 2 14.11-14.12. \\
\textbf{327} 14.11: "If there is such a right where business, as opposed to personal, secrets are concerned, then no reason appears why it should not serve in place of the [mentioned] relationships as a protectable interest which in itself is sufficient to justify the protection of trade secrets in an otherwise appropriate case. This would explain why the plaintiff won in duPont v Christopher; notwithstanding the absence of a contract, a confidence, or even a clear indication that the defendant photographer had been hired by a competitor of the plaintiff." \\
\textbf{328} 14.12: "There may be some trade secrets in which there is no property right, because they do not meet the requirement of uniqueness; ie these secrets usually pertain to information concerning business techniques which are generally known in the industry, but the use of which by a particular business should be kept concealed simply because it is not wise to allow competitors too detailed a view of internal operations. Secrets of this kind may not even be reduced to tangible form, and because of this fact plus their lack of uniqueness they may even be incapable of transfer. Such secrets, when combined with all the other secrets of a business in which property does exist - eg, technological secrets - or in which the property right of a person unassociated with the business is recognized - eg, secrets licensed to the business owner - form what may be referred to as the 'secret sphere' of the business. This sphere, however, is an integral part of the whole business unit; and, since the 'going concern' value of the business as a whole is generally recognized as property entitled to protection, this integral part should be protected with the whole... Moreover, there is no valid reason why the secret sphere of the business should not be recognized independently as property, much as its goodwill is. Goodwill is commonly considered a property value, although it is only a part of the business... The secret sphere is no less important an element of the business, for it is the means by which internal efficiency is insured, and the prospects for retaining goodwill thereby enhanced. The secret sphere and goodwill are both vulnerable to attack and unlawful encroachment; if one enjoys protection independently as a property right, the other is equally entitled to such protection." Cf \textit{Kewanee Oil Co v Bicron Corp} 416 US 470 (1974) 487: "A most fundamental human right, that of privacy, is threatened when industrial espionage is condoned or is made profitable"; \textit{Bonito Boats, Inc v Thunder Craft Boats, Inc} 109 S Ct 971 (1989) 980; 'Note' 1974 Harvard LR 828.
\end{tabular}
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3.5.6 SYNTHESIS

The co-existence of several theories of trade secret protection in the various jurisdictions of the United States seems to be at times a harmonious and at times an uneasy one. In principle the tort and contract theories appear to be equally valid and seem to supplement each other. The available remedies will be determined by the form of the action - whether it is founded in contract or in tort.\textsuperscript{329} The property theory seems to overlap with both the tort and contract theories, to be capable of harmonious co-existence with them,\textsuperscript{330} and to contribute to a better understanding of the subject matter protected by trade secrets law. Indeed this appears to be the position in many jurisdictions.\textsuperscript{331} However, in some jurisdictions upholding the tort theory, and perhaps more particularly those with a strong breach-of-confidence orientation, the property theory of torts may be doubted or denied. The unjust enrichment theory may sometimes offer the most comfortable explanation of trade secret protection in a particular situation.\textsuperscript{332} The 'privacy of a business' theory provides an interesting alternative theoretical explanation of certain instances of trade secret protection.\textsuperscript{333}

\textsuperscript{329} See eg Lupo and Tanguay 87: "The remedies available to the trade secret plaintiff depend on the underlying theory of liability. In appropriate circumstances, the plaintiff can receive both an injunction and money damages under either the contract or tort theory but cannot get punitive damages for a breach of contract."

\textsuperscript{330} In respect of property and breach of confidence, the case is ably argued by Dratler 4.71-4.72: "From a modern perspective... [the] debate between the 'property' and 'breach of confidence' schools of trade secret jurisprudence appears to miss the point. Although trade secrets do not enjoy the same strong protection as patented inventions, this does not mean they are not 'property'... If property is defined as the right to exclude, then trade secrets fall within that definition; the law gives their owners a limited exclusionary right: the right to exclude others from taking illegitimate shortcuts to their acquisition or use. Thus, trade secret protection constitutes a limited proprietary right - to prohibit breaches of confidence and other 'improper means' to acquire the secret - and the 'property' and 'breach of confidence' branches of trademark [surely trade secret?] doctrine coalesce. As long as information is not so readily available that it fails to qualify as a trade secret at all, it should merit protection under either theory. Then the remedy can account nicely for the relative ease or difficulty of acquiring the trade secrets by proper means." In a similar way the property in trade secrets may be protected by contract, express or implied. See Milgrim Vol 1 2.4 4.2ff.

\textsuperscript{331} Cf Jager Vol 1 4.20; Kintner and Lahr 209; Burk 1993 Seton Hall LR 589.

\textsuperscript{332} See par 7.3.4 below for an evaluation of the relevance of this basis of protection in South African law.

\textsuperscript{333} See par 7.4.4.3 below for an evaluation of the relevance of this theory for South African law.
CHAPTER 4

GERMAN LAW

4.1 INTRODUCTION

In German law the protection of trade secrets is regulated comprehensively by statutory laws, the most important of which is the German Unfair Competition Act, the Gesetz gegen den unlauteren Wettbewerb. Furthermore, in German law the civil law protection of trade secrets is to a certain extent a corollary of the criminal law protection of trade secrets, making it impractical to discuss the former without copious references to the latter.

4.2 REQUIREMENTS FOR THE PROTECTION OF TRADE SECRETS

In the most important statutory provisions protecting trade secrets, certain types of conduct are defined to which criminal sanctions are attached and which may entitle the prejudiced party to specified forms of civil law relief. These statutory provisions refer to commercial and industrial secrets without defining them. Civil law protection may also be based on statutory provisions dealing with unlawful competition in general, in which no mention of trade secrets is made. The characteristics of protectable trade secrets have, however, crystallized in case law and commentaries interpreting the codes. Therefore, if the codes are viewed together with interpretive cases and commentaries, the requirements for the protection of trade secrets relate basically to the following:

(a) the nature and characteristics of trade secrets; and
(b) conduct constituting misappropriation.

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1 For a historical perspective on these statutory provisions, see Nastelski 1957 GRUR 2-4.
2 Abbreviated UWG.
3 Cf Wise 4.51.
4 Geschäfts- oder Betriebsgeheimnis (Gesetz gegen den unlauteren Wettbewerb sec 17), translated by Wise 4.9 as commercial and industrial secrets. See par 4.2.1.1 below.
5 See par 4.2.2.5 below.
4.2.1 NATURE AND CHARACTERISTICS OF TRADE SECRETS

4.2.1.1 TERMINOLOGY

In the Gesetz gegen den unlauteren Wettbewerb, the composite term Geschäftsoder Betriebsgeheimnis is used,\(^6\) which may be translated as 'commercial or industrial secret'.\(^7\) The distinction between commercial and industrial secrets seems to be a purely factual one with little legal significance.\(^8\) The English term 'know-how' also crops up in commentaries and cases, but there is no unanimity concerning its content.\(^9\)

4.2.1.2 ELEMENTS OF A TRADE SECRET

The following elements of a trade secret protectable at German law are apparent from commentaries and the case law:

(a) information;
(b) commercial or industrial applicability;
(c) secrecy;

\(^6\) Sec 17.

\(^7\) See Wise 4.9.

\(^8\) Wise 4.17 fn 58. (However, later in his text Wise is contradicted in this regard by the authors he quote - some of them he reports to be of the opinion that industrial secrets are property (4.27ff), whereas he reports all of them to be virtually unanimous that commercial secrets are not property (4.46)). Baumbach-Hefermehl 1299 do not even distinguish between commercial and industrial secrets for the purpose of supplying practical examples from the case law (whereas Wise 4.16-4.17 does). Von Gamm 987 supplies typical examples of commercial and industrial secrets respectively, but adds that the concepts overlap to a certain extent, and that - in view of their equal treatment by the law - there is barely any need to make a strict distinction between the two types of secrets. Nastelski 1957 GRUR 1 says that for the purposes of sections 17ff UWG the two types of secrets are treated equally, but that the distinction may be of practical importance for other statutory provisions: "Das UWG spricht, soweit es sich mit dem Geheimnisschutz ausdrücklich Befällt, also in den §§ 17 bis 21, von Geschäfts- und Betriebsgeheimnissen und behandelt beide Arten völlig gleich... Für die Auslegung der §§ 17 - 21 UWG ist die Unterscheidung von Geschäfts- und Betriebsgeheimnissen infolge der rechtlichen Gleichbehandlung belanglos. Soweit es sich aber um die Anwendung allgemeiner Vorschriften wie insbesondere der §§ 1 UWG, 826, 823 Abs. 1 BGB [cf par 4.2.2.5] handelt und ebenso de lege ferenda kann die Unterscheidung sehr wohl Bedeutung gewinnen, obwohl es hier wiederum letzten Endes weniger darauf ankommt, ob im Einzelfalle ein Geschäfts- oder ein Betriebsgeheimnis gegeben ist, als darauf, welche wirtschaftliche und wettbewerbliche Bedeutung das Geheimnis für das Unternehmen hat. Aber - diese Bedeutung ist ebensumeist bei Betriebsgeheimnissen erheblich größer als bei den bloßen Geschäftsgeheimnissen."

\(^9\) Cf Wise 4.18-4.19: "The writers and the few cases referring to know-how are in conflict as to whether know-how encompasses both secret and non-secret data, and whether it covers commercial and business organizational information, as well as technical and technological data. Some writers consider that know-how in German law has the same meaning as industrial and commercial trade secrets... Others attribute a broader scope to it. See further Wise 4.18-4.25 for a discussion of cases and commentaries referring to ‘know-how’ and the various meanings given to it; cf Pfister 9-10."
4.2.1.2.1 Information

According to German law, a trade secret consists of information.\textsuperscript{10} \textsuperscript{11} It is an intangible product of the human mind.\textsuperscript{12} While the trade secret may be embodied in a tangible object like a document or a machine, destruction of the latter will not necessarily destroy the secret as well.\textsuperscript{13}

4.2.1.2.2 Commercial or industrial applicability

The information must stand in association with a particular enterprise or industry.\textsuperscript{14}

4.2.1.2.3 Secrecy

To qualify as a trade secret, the relevant information must not be obvious or manifest \textit{(nicht offenkundig)}.\textsuperscript{15} It must be known by only a limited number of people,\textsuperscript{16} \textsuperscript{17}

\textsuperscript{10} This is implicit in the characterization of trade secrets by German commentators as facts \textit{(Tatsachen)} exhibiting certain characteristics - see Baumbach-Hefermehl 1297-1298; Emmerich 137; Gloy 380-383; Hubmann 305; Metzler 10; Nordemann 222; Von Gamm 987. Cf Wise (American commentator writing on German trade secrets law) 4.9-4.10 who specifically refers to 'secret information'.

\textsuperscript{11} Pfister 11-15 points out that knowledge \textit{(Kenntnis)} of a technical secret is not synonymous with the secret itself. Knowledge of the secret is a \textit{subjektive Potenz} that cannot be separated from the person, whereas the technical secret itself has an objective existence independent of the person with knowledge thereof.

\textsuperscript{12} See eg Baumbach-Hefermehl 1294: "Es ist ein... unkörperliches Rechtsgut, das einen selbständigen Vermögenswert darstellt..."; Pfister 1 (cf 11): "Das technische Geheimnis gehört zu den unkörperlichen, geistigen Gegenständen...".

\textsuperscript{13} Cf eg Pfister 30: "Die rechtliche Qualifikation eines geistigen Gutes als außersubjektiven Gegenstand betrifft das geistige Gut als solches und nicht seine konkrete Gestalt, in der es in die Welt tritt... Wird zB die einzige Skizze einer Erfindung vernichtet, hat aber der Inhaber die Erfindung noch im Kopf, so verliert sie nicht ihre Qualität als außersubjektiver Vermögensgegenstand." (The author is dealing here with an invention as subject of a technical secret).

\textsuperscript{14} Baumbach-Hefermehl 1298; Emmerich 137; Gloy 380-381; Metzler 10-11; Nordemann 222; Von Gamm 987.

\textsuperscript{15} Cf eg Baumbach-Hefermehl 1297-1299; Emmerich 137; Gloy 381; Metzler 11-13; Von Gamm 987-990; Wise 4.10ff.

\textsuperscript{16} \textit{BGH GRUR} 55 424 425 (Möbelpaste); Baumbach-Hefermehl 1297-1298; Emmerich 137; Gloy 381-382; Hubmann 305; Von Gamm 987; Nordemann 222.
which may include some of the owner's competitors, as long as those with knowledge of the secret are few in number and are not his or her most important rivals.\textsuperscript{18} To other parties the information must be inaccessible or not easily accessible.\textsuperscript{19} If a specialist in the field (\textit{Fachmann}) will only through laborious research be able to uncover the information, it is accessible with a sufficient degree of difficulty to qualify as a trade secret.\textsuperscript{20} If, on the other hand, any interested party can easily acquire the alleged secret by fair means - for instance by examining a marketed product - the information is \textit{offenkundig} and does not qualify as a trade secret.\textsuperscript{21}

It should be clear from the above-stated principles that German law upholds a relative, rather than an absolute, concept of secrecy.\textsuperscript{22} This relativity is also manifested in other ways. Thus it is not required that an alleged trade secret be secret in its entirety - it is sufficient if only certain important details thereof are inaccessible or accessible only with difficulty.\textsuperscript{23} Even the fact that an entrepreneur uses a well-known process and obtains good results with it, can be a trade secret as long as that utilisation is kept secret.\textsuperscript{24} The relativity of the secrecy concept is also apparent from the possibility of another person acquiring the secret by fair means, for instance by independent research and development.\textsuperscript{25}

Secrecy will be destroyed by \textit{inter alia} the following: disclosure of the information to so many people that it is impractical to keep it secret;\textsuperscript{26} by publication (even in a

\textsuperscript{17} It is not possible to lay down an exact number of persons who may know the information without disqualifying it as a trade secret. It has been suggested (cf Gloy 381; KraBer 1977 \textit{GRUR} 179) that the deciding factor is whether the owner of the trade secret exercises control over the number of persons.

\textsuperscript{18} Baumbach-Hefermehl 1298.

\textsuperscript{19} Baumbach-Hefermehl 1298-1299; Hubmann 305.

\textsuperscript{20} Cf \textit{ÖÖGH GRUR} 30 450; \textit{RGZ} 149 329 331; Baumbach-Hefermehl 1298; Gloy 381; Wise 4.11.

\textsuperscript{21} Cf \textit{RG GRUR} 39 733 735 (Fettsäure); \textit{BayOBLG GRUR} 91 694 (Geldspielautomat); Baumbach-Hefermehl 1299; Emmerich 137; Nordemann 222; Von Gamm 988; Wise 4.11.

\textsuperscript{22} Cf Pfister 26-27.

\textsuperscript{23} \textit{RG GRUR} 36 575; Baumbach-Hefermehl 1298.

\textsuperscript{24} \textit{BGH GRUR} 55 424 425 (Möbelpaste); Baumbach-Hefermehl 1298; Von Gamm 990; Wise 4.11 4.13. Cf Pfister 7-8.

\textsuperscript{25} Cf Pfister 15 who characterizes this situation as \textit{Doppelerfindung} (double invention).

\textsuperscript{26} Baumbach-Hefermehl 1298.
technical journal with a limited readership); and by publication of specifications when filing an application for a patent or registered design covering the essential aspects of the secret.

4.2.1.2. Geheimhaltungswille - owner’s will to preserve secrecy

The owner of the alleged trade secret must manifest a recognizable will to keep it secret. This will may be made known expressly, or may be deduced from the circumstances. In an employment context, the test as to whether an average employee would have understood the employer to have such a will, has been employed. The subjective Geheimhaltungswille may also be deduced from the clear existence of a Geheimhaltungsinteresse - that is, an objective interest in the secrecy of the information. In some instances there is a rebuttable presumption in favour of the presence of the Geheimhaltungswille. Some commentators say that a Geheimhaltungswille is not a requirement for the existence of a trade secret as such, but rather for criminal liability for the unauthorized disclosure of a trade secret (Geheimnisverrat).

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27 Baumbach-Hefermehl 1298, disagreeing with RGSt 40 406 407 (whether publication in a technical journal ends secrecy depends on the size of the readership); Nastelski 1957 GRUR 2; Von Gamm 989; Wise 4.10.

28 Cf Nastelski 1957 GRUR 2; Von Gamm 989; Wise 4.10. The publication of a patent application in a foreign country is likely to prevent the contents thereof to be a protectable trade secret in Germany; cf Wise 4.14.

29 Baumbach-Hefermehl 1298; Emmerich 137; Gloy 382-383; Hubmann 305; Nordemann 222; Von Gamm 990-991; Wise 4.14-4.15.

30 Baumbach-Hefermehl 1298; Gloy 382; Von Gamm 991; Wise 4.14.

31 Cf RGSt 29 430; Baumbach-Hefermehl 1298; Wise 4.14.

32 Baumbach-Hefermehl 1298; cf par 4.2.1.2.5.

33 Eg in the case of very complicated machines - RG 149 329 333 (Stiefeleisenpresse); Baumbach-Hefermehl 1298; Von Gamm 991. Such presumptions appear to be particularly prevalent in employer-employee relationships - Wise 4.14; cf Baumbach-Hefermehl 1298; Von Gamm 991.

34 Baumbach-Hefermehl 1298; Gloy 382. Cf further Pfister 27-28 who argues that a Geheimhaltungswille is not required for a technical secret to be a patrimonial asset (Vermögensgegenstand). So long as it remains inaccessible to others, the technical secret remains a Vermögensgegenstand, and the inventor may always later change his mind and decide to keep it secret and exploit it to the exclusion of others. Pfister concludes that the Geheimhaltungswille is a prerequisite for the legal protection of the secret, but not for its existence.
4.2.1.2.5 Geheimhaltungsinteresse - a legally protectable economic interest in the secrecy of the information

The owner of the alleged trade secret must have a legally protectable economic interest in the secrecy of the information.\(^{35}\) This will be the case if the secret information enhances the competitiveness of the owner's enterprise.\(^{36}\) Thus the owner will have a protectable economical interest in the continued secrecy of any fact that could, on its disclosure, profit his or her competitors or prejudice his or her own enterprise.\(^{37}\) Commentators\(^{38}\) have suggested that in deciding whether the Geheimhaltungsinteresse requirement has been met, the courts should not adopt an unduly strict approach.

On the one hand the objective Geheimhaltungsinteresse requirement serves as a check on the subjective Geheimhaltungswille requirement, ensuring that information will not be protected merely because the owner professes a desire to keep it secret, where no objective economical merit to do so exists.\(^{39} 40\) On the other hand the

\(^{35}\) Cf Baumbach-Hefermehl 1298; Emmerich 137; Gloy 383; Hubmann 305; Nordemann 222; Von Gamm 990; Wise 4.15. Cf, however, Pfister 27-28 who maintains that a technical secret is an asset in the patrimony of the inventor even without a Geheimhaltungsinteresse. He argues that a protectable economical interest is a requirement only for defending the secret against others. But even before a Geheimhaltungsinteresse can be demonstrated, the secret can eg form part of the inventor's estate for the purposes of insolvency proceedings or succession.

\(^{36}\) Baumbach-Hefermehl 1298: "Der Inhaber muß ein schutzwürdiges wirtschaftliches Interesse an der Geheimhaltung haben. Dies ist der Fall, wenn das Geheimgehaltene für die Wettbewerbsfähigkeit des Unternehmens Bedeutung hat..."; Gloy 383: "Das berechtigte Interesse darf... nicht engherzig beurteilt werden... Immer dort, wo die Geheimhaltung einer Tatsache eine spürbare Auswirkung auf die Wettbewerbsfähigkeit des Betriebes hat, ist das Geheimhaltungsinteresse zu bejahen"; Von Gamm 990: "Das zu schützende Interesse ist das 'des Unternehmens an der Erhaltung seiner Individualität entsprechenden, gerade ihm eigentümlichen Wettbewerbsfähigkeit'. Konkreter ausgedrückt: Das Unternehmen hat ein schützenswertes Interesse daran, daß keine geheimen Tatsachen bekannt werden, wenn das Bekanntwerden geeignet ist, den Wettbewerb des Konkurrenten zu steigern oder sonst den eigenen Betrieb zu schädigen."

\(^{37}\) Von Gamm 990; Wise 4.15.

\(^{38}\) Gloy 383; Von Gamm 990.

\(^{39}\) Baumbach-Hefermehl 1297-1298; Gloy 383; Von Gamm 990. There is indeed support for a Willenstheorie, according to which a trade secret is any information or fact that is not offenkundig, stands in association with a commercial or industrial enterprise, and in respect of which the owner has a Geheimhaltungswille. On the other hand, there is an Interessentheorie, which requires a legally protectable economic interest for the protectability of a trade secret. The prevailing view today holds that both Geheimhaltungswille and Geheimhaltungsinteresse must be present. This is sometimes called the Vereinigungstheorie (Metzler 16). See BGH GRUR 55 424 425 ( Möbelpaste); Baumbach-Hefermehl 1297; Metzler 14-18; Wise 4.9 fn 2; cf Nastelski 1957 GRUR 2; Tiedemann 1974 ZStW 1029ff.
objective presence of a Geheimhaltungsinteresse may help establish that the owner did indeed have a Geheimhaltungswille in circumstances where he or she did not expressly articulate it.  

4.2.1.2.6 Concreteness potential

According to Pfister a technical secret can only be a patrimonial asset (Vermögensgegenstand) if it can be embodied in a concrete form, for instance by means of writing or sketches, so that it may lead a separate existence from the person on whose ideas it is based. It is not required that the secret be in fact embodied in a concrete form - the possibility of its being so concretized is sufficient.

4.2.2 MISAPPROPRIATION

The various statutory provisions protecting trade secrets in German law define specific forms of conduct which, in the first instance, give rise to criminal liability. Civil (delictual) liability is also attached to these defined forms of conduct. Although delictual liability is not limited entirely to these instances, their significance is such that they need to be examined in some depth.

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40 The need for such an objective control is heightened by the fact that the UWG in the first place provides for criminal liability in the case of trade secret misappropriation. Cf Gloy 383: "Gerade im Hinblick auf den strafrechtlichen Charakter der §§ 17, 18 und 20 UWG ist damit ein Korrektiv geschaffen, welches eine objektive Überprüfung des Geheimhaltungswillens ermöglicht. Dieses Merkmal hat jedoch im wesentlichen die Funktion eines Willkürausschlusses. Der Unternehmer soll nicht berechtigt sein, aus willkürlichen subjektiven Erwägungen die Geheimhaltung verlangen, wenn dafür schlechthin kein begründetes Interesse gegeben ist. Das berechtigte Interesse darf jedoch nicht engherzig beurteilt werden"; Von Gamm 990: "Damit ist der strafrechtliche Schutz letzten Endes von objektiven, dem Willen des Unternehmensinhabers entrückten Gesichtspunkten abhängig, die im Prozeß der Richter unter alleiniger Verantwortung zu prüfen hat."

41 Baumbach-Hefermehl 1298.


43 Eg 13: "Eine Erfindung ist also dann ein außersubjektiver Gegenstand, wenn sie in irgend einer Weise außerhalb des Menschen durch Buchstaben, Ziffern, Skizzen usw. wiedergegeben und aufgrund der Darstellung so rezipiert werden kann, daß sie auch nach dem Tode des Erfinders weiter bestehen; der Erfinder kann sie weitergeben und vererben."

44 Pfister 30. He points out that should factual concretization be required, it would be too easy to prevent a secret invention from falling into an estate for insolvency proceedings. By eg simply destroying the only sketches in which the secret has been embodied, its existence as patrimonial asset would thus be terminated, only to be just as easily resurrected at a more convenient stage by re-embodiment in a concrete form.
4.2.2.1 Section 17(1) UWG

An employee, worker or apprentice/trainee who, during the subsistence of an employment relationship, communicates, without authorization, a commercial or industrial secret - entrusted or made accessible to him on the strength of that employment relationship - to someone for the purpose of competition, for the first-mentioned's own benefit (aus Eigennutz), for the benefit of a third person, or with the intention of causing harm to the owner of the business, commits a criminal act according to section 17(1). Such a person may be subjected to imprisonment of up to three years or to a fine.

Any employee can commit this crime - it does not matter whether he or she renders important or modest services, or whether he or she is remunerated or not. Company directors may also be liable in terms of this subsection. The legal rather than the factual duration of the employment relationship is decisive. The perpetrator will therefore not be able to evade liability by divulging the secret during vacation, sick

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45 The complete text of sec 17 UWG reads as follows:
"(1) Mit Freiheitsstrafe bis zu drei Jahren oder mit Geldstrafe wird bestraft, wer als Angestellter, Arbeiter oder Lehrling eines Geschäftsbetriebs ein Geschäfts- oder Betriebsgeheimnis, das ihm vermöge des Dienstverhältnisses anvertraut worden oder zugänglich geworden ist, während der Geltungsdauer des Dienstverhältnisses unbefugt an jemand zu Zwecken des Wettbewerbs, aus Eigennutz, zugunsten eines Dritten oder in der Absicht, dem Inhaber des Geschäftsbetriebes Schaden zuzufügen, mitteilt.
(2) Ebenso wird bestraft, wer zu Zwecken des Wettbewerbs, aus Eigennutz, zugunsten eines Dritten oder in der Absicht, dem Inhaber des Geschäfts- oder Betriebsgeheimnisses Schaden zuzufügen,
   1. sich ein Geschäfts- oder Betriebsgeheimnis durch
      a) Anwendung technischer Mittel,
      b) Herstellung einer verkörpertem Wiedergabe des Geheimnisses oder
      c) Wegnahme einer Sache, in der das Geheimnis verkörpert ist,
     unbefugt verschafft oder sichert oder
   2. ein Geschäfts- oder Betriebsgeheimnis, das er durch eine der in Absatz 1 bezeichneten Mitteilungen oder durch eine eigene oder fremde Handlung nach Nummer 1 erlangt oder sich sonst unbefugt verschafft oder gesichert hat, unbefugt verwertet oder jemandem mitteilt.
(3) Der Versuch ist strafbar.
(4) In besonders schweren Fällen ist die Strafe Freiheitsstrafe bis zu fünf Jahren oder Geldstrafe. Ein besonders schwerer Fall liegt in der Regel vor, wenn der Täter bei der Mitteilung weiß, daß das Geheimnis im Ausland verwertet werden soll, oder wenn er es selbst im Ausland verwertet."

46 Which has been dubbed Geheimnisverrat by German commentators - cf Baumbach-Hefermehl 1299ff; Emmerich 137ff; Gloy 384ff; Hubmann 305ff; Nordemann 224ff.

47 Baumbach-Hefermehl 1301-1302; Gloy 384.

48 Baumbach-Hefermehl 1298.
119

leave or whilst staying away from work without reason.49 There can be no criminal liability after termination of the employment relationship, even if this has been caused by breach of contract on the part of the employee.50 In exceptional cases delictual protection of trade secrets may survive the termination of the employment relationship despite the unambiguous wording of section 17(1).51

The requirement that the secret must have been confided or become accessible to the employee does not necessarily require conduct on the part of the employer, but the employment relationship must in some way have been the cause of the former’s knowledge of or access to the secret.54 It is furthermore not required that the perpetrator must have been expressly subjected to a duty of secrecy. He or she must, however, have known that the relevant information was secret.55 No liability is attached in the case of knowledge coincidentally obtained of the secret, but only if the coincidence would also have led to the same knowledge in the absence of any employment relationship.56

The secret must be communicated to someone, even to an agent of the employer, or to another employee - even one in a leading position - provided the last-mentioned had no access to it. This communication or disclosure may also take place by way of omission, where the employee - in breach of a contractual duty - neglects to prevent others from learning the secret. The secret is communicated for the

49 RGSt 50 131; Baumbach-Hefermehl 1300; Emmerich 138; Gloy 385; Hubmann 305; Metzler 24; Von Gamm 995.
50 BGH GRUR 55 402 (Anreißgerät); Baumbach-Hefermehl 1301; Von Gamm 995.
51 Cf par 4.4.1 below.
52 Cf Baumbach-Hefermehl 1300; Emmerich 138; Gloy 385; Hubmann 305; Nordemann 225; Von Gamm 993-994.
53 Baumbach-Hefermehl 1300.
54 Baumbach-Hefermehl 1300.
55 Baumbach-Hefermehl 1300.
56 RGSt 33 354; Baumbach-Hefermehl 1300.
57 Originally sec 17(1) forbade communication to others (an andere). The courts regarded communication to an agent of the employer not as communication to others, but rather as communication to the employer himself (RGSt 61 274). The text was altered to forbid communication to somebody (an jemand) to close the loophole - see Baumbach-Hefermehl 1301.
58 RG JW 36 2081; RGSt HRR 38 500; Baumbach-Hefermehl 1301.
59 Gloy 385; Von Gamm 995.
purposes of section 17(1) if it has been shared with another in a way that makes its exploitation possible, and a partial disclosure may be sufficient. The receiver must be able either to use the secret himself or to make it known to somebody else. In the latter case it is not necessary that he or she understands the secret, provided he or she can pass it on to another. It is not required that the receiver must already have used the secret or disclosed it to someone else - he or she must only be in a position to do so.

The disclosure must be unauthorized - if the employer has consented thereto, or if there was statutory justification or another ground of justification, no liability will ensue.

Furthermore, a subjective element pertaining to the aims of the perpetrator must also be present. Four alternative possibilities are listed in section 17(1). The first is disclosure of a trade secret for the purpose of competition. It does not matter whether the betrayal immediately enhances the competitive position of the receiver, or whether the trade secret is used to compete with the business from which it was taken. Nor does it matter whether the competition itself is permissible, or whether apart from the competitive purpose the perpetrator also wants to further other purposes, for instance scientific ones. Secondly, a disclosure for the perpetrator's own benefit (aus Eigennutz) may also give rise to liability. Any benefit, not necessarily

60 Baumbach-Hefermehl 1301.
61 RGSt 51 184-189; Baumbach-Hefermehl 1301.
62 Baumbach-Hefermehl 1301.
63 Baumbach-Hefermehl 1301-1302; Gloy 386; Von Gamm 996.
64 Gloy 386; Von Gamm 996.
65 An example of statutory justification is the duty to inform of planned crime according to sec 138 of the German criminal code - see Baumbach-Hefermehl 1301.
66 See in general Baumbach-Hefermehl 1302; Emmerich 139; Gloy 386; Hubmann 305; Metzler 25-26; Nördemann 225-226; Von Gamm 996-997.
67 RGSt 57 12; Baumbach-Hefermehl 1302; Von Gamm 997.
68 Von Gamm 997.
69 RGSt 51 187; Baumbach-Hefermehl 1302.
70 RGSt MuW 29 18; Baumbach-Hefermehl 1302.
a financial one, may qualify. It is sufficient if the perpetrator subjectively experiences his or her position as improved - an objective improvement is not required. In the third place, a disclosure for the benefit of a third party can fall foul of section 17(1), even in the absence of a competitive purpose, the perpetrator's own benefit, or a motive to harm the owner of the secret. An example could be an ideologically motivated disclosure of a trade secret, with the aim to benefit another state. Lastly, divulging a trade secret with a motive to harm the owner thereof, is also criminal conduct according to section 17(1). The intended harm need not be of a financial nature - it can also be an injury to interests of personality.

Criminal liability can only follow if the perpetrator commits the forbidden act with intention. This inter alia implies that the perpetrator must have knowledge of all the essential elements of the crime - mistake concerning one of them will exclude liability.

The forbidden act is completed as soon as the receiver obtains knowledge of the secret.

4.2.2.1.2 Section 17(2) UWG

According to section 17(2) the following constitute criminal acts:

1. the unauthorized obtaining or securing of trade secrets by
   (a) employing technical means;
   (b) making a physically embodied rendering of the secret; or
   (c) removal of an article in which the secret is embodied,
       for the purpose of competition, for the perpetrator's own benefit, for the
       benefit of a third person, or with the intention to harm the owner of the
       business; and

2. the unauthorized using or disclosing to someone else of a trade
   secret obtained by a disclosure according to section 17(1), or by the

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71 Consent to sexual intercourse may eg qualify as a personal benefit for the purposes of sec 17(1) - see RGSt 9 166; Baumbach-Hefermehl 1302; Nordemann 225.

72 Baumbach-Hefermehl 1302.

73 Baumbach-Hefermehl 1302.

74 Baumbach-Hefermehl 1302.

75 Baumbach-Hefermehl 1302; Gloy 386; Von Gamm 996.

76 Baumbach-Hefermehl 1302; Gloy 386. Dolus eventualis is sufficient - see Von Gamm 996.

77 Baumbach-Hefermehl 1302.
perpetrator's own or another's conduct according to section 17(2)(1).

4.2.2.1.2.1 Section 17(2)(1) UWG

Section 17(2)(1) forbids the surreptitious acquisition of trade secrets\textsuperscript{78} in certain defined forms. Industrial espionage in general is not prohibited.\textsuperscript{79} Use of the trade secret is not an element of this crime.\textsuperscript{80} On the other hand, the mere unauthorized acquisition of a trade secret is not, by itself, sufficient to constitute the forbidden conduct\textsuperscript{81} - it must be performed in one of three specified ways. In the first place, if such acquisition is effected by the employment of technical means, it will give rise to liability. Examples are the use of 'bugging' devices, cameras, photocopiers, tape recorders, etcetera.\textsuperscript{82} Secondly, trade secrets may not be obtained or secured by the making of physically embodied renderings thereof that would make it possible to divulge the secret - in part or in its entirety - to another person.\textsuperscript{83} Examples are the making of photocopies, photos, audio tapes, drawings, etcetera.\textsuperscript{84} In the third place the removal of an article, in which the secret is embodied, is visited by criminal sanction. This provision pertains to any conduct by which the perpetrator gains control over a physically embodied trade secret in order to use it or pass it on to another person.\textsuperscript{85}

For criminal liability to follow, the obtaining or securing of the secret must be unauthorized, that is, it must take place against the will of the owner of the trade secret.\textsuperscript{86} If the owner's consent - for instance to remove an article in which the secret is embodied - has been procured by deviousness, the conduct of the perpetrator will still be regarded as unauthorized.\textsuperscript{87}

\textsuperscript{78} The crime created by this subsection has been dubbed \textit{verbotenes Ausspähen} by German commentators - cf Baumbach-Hefermehl 1303; Emmerich 139; Hubmann 306; Metzler 27; Von Gamm 998.

\textsuperscript{79} Baumbach-Hefermehl 1303; Emmerich 140.

\textsuperscript{80} Baumbach-Hefermehl 1303.

\textsuperscript{81} Baumbach-Hefermehl 1303.

\textsuperscript{82} Baumbach-Hefermehl 1303; Von Gamm 999; Harte-Bavendamm 1990 \textit{GRUR} 662.

\textsuperscript{83} Baumbach-Hefermehl 1303.

\textsuperscript{84} Cf Baumbach-Hefermehl 1303; Harte-Bavendamm 1990 \textit{GRUR} 662.

\textsuperscript{85} Baumbach-Hefermehl 1303.

\textsuperscript{86} Baumbach-Hefermehl 1303; Von Gamm 998.

\textsuperscript{87} Baumbach-Hefermehl 1303.
The same subjective element that must be present in the case of disclosure of trade secrets, is also required for the surreptitious acquisition of trade secrets - it must be committed either with a competitive purpose, or for the perpetrator's own benefit, or for the benefit of a third party, or with the motive of harming the trade secret owner. Intention must be present and must cover all the elements of the prohibited conduct. Any person, including an employee during the term of his or her employment, can commit this crime.

4.2.2.1.2.2 Section 17(2)(2) UWG

Section 17(2)(2) prohibits the unauthorized use or disclosure of a trade secret which has been obtained by an unauthorized communication by an employee (as defined in section 17(1)) or by espionage (as defined in section 17(2)(1)), by either the perpetrator himself or another person. Any person, including an employee, can commit this offence. It is not required that the perpetrator knows the secret, nor that he or she commits the defined conduct with a competitive purpose, for own benefit, for the benefit of a third person, or with the motive of harming the trade secret owner. Whether the use or disclosure of a trade secret is unauthorized, must be determined with reference to circumstances extant at the time when the secret has been obtained. If the obtaining was unauthorized at that time, any further use or disclosure will also be unauthorized. This will, however, not be the case if the secret has become public without the perpetrator's conduct having in any way contributed thereto.

In the first situation dealt with in section 17(2)(2), that is the unauthorized use or disclosure of a trade secret which has been obtained by an unauthorized communication by an employee during the latter's term of employ, the actions of two persons combine to constitute the prohibited conduct. The communicating of the secret by the betraying employee must comply with all the elements of section 17(1),

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88 Baumbach-Hefermehl 1304.
89 Baumbach-Hefermehl 1303; Gloy 387.
90 See in general Baumbach-Hefermehl 1304ff; Emmerich 139ff; Hubmann 306; Metzler 30; Nordemann 226ff; Von Gamm 999ff.
91 Baumbach-Hefermehl 1304.
92 Baumbach-Hefermehl 1304.
93 RG 114 52 (Hosenträgerband); GRUR 36 573 579 (Albertus Stehfix); Baumbach-Hefermehl 1304.
94 Baumbach-Hefermehl 1304.
and the receiver of the secret must know this or at least consider the possibility thereof, if not when he or she receives the information, then at the latest when he or she uses or discloses it.\textsuperscript{95}

The second situation envisaged in section 17(2)(2) is the unauthorized use or disclosure of a trade secret which has been surreptitiously acquired either by the user/discloser's own conduct or by that of another person. It does not matter whether the secret is obtained directly from the business where it is in use, or via a third person, for instance someone who has bought a machine that is subject to a trade secret.\textsuperscript{96} Obtaining the secret process by which a certain machine was manufactured by buying and reverse engineering the machine, in order to use the secret for identical copying of the machine, has been held to be a violation of this provision.\textsuperscript{97} If a secret has been obtained in a fortuitous or blameless manner, there is no liability in terms of this subsection.\textsuperscript{98}

The secret must have been obtained or secured without authority. Use of a trade secret that has been obtained by authorized means, is not punishable in terms of this provision.\textsuperscript{99} Obtaining a secret will be unauthorized if it has been acquired in one of the ways described in section 17(2)(1), but is not confined to such instances. Unauthorized obtaining of a secret in violation of other statutory norms or general legal norms\textsuperscript{100} can also qualify. Examples of the former could be theft or duress.\textsuperscript{101} Examples of the latter are the obtaining of a trade secret by surreptitious means or under false pretences, or by researching it with means that are \textit{contra bonos mores}.\textsuperscript{102} In the final analysis the question remains simply whether the

\begin{itemize}
\item \textsuperscript{95}Baumbach-Hefermehl 1304. Von Gamm 1001 requires only intention on the part of the employee, and not the additional motive as required for liability under sec 17(1).
\item \textsuperscript{96}Baumbach-Hefermehl 1304-1305.
\item \textsuperscript{97}RG 149 329 (Stiefeleisenpresse); Baumbach-Hefermehl 1305.
\item \textsuperscript{98}RGSt 30 251; Baumbach-Hefermehl 1305.
\item \textsuperscript{99}Baumbach-Hefermehl 1305.
\item \textsuperscript{100}Ie when the conduct by which the secret is obtained is either gesetzeswidrig (in contravention of an act), or sittenwidrig (contra bonos mores) - cf Gloy 390; Von Gamm 1001.
\item \textsuperscript{101}Gloy 390; Von Gamm 1001-1002.
\item \textsuperscript{102}Von Gamm 1002.
\item \textsuperscript{103}The unauthorized acquisition of trade secrets in a manner that is \textit{contra bonos mores} is of special importance in the case where an ex-employee is involved. See Baumbach-Hefermehl 1305; Von Gamm 1002 and par 4.4.1 below.
\end{itemize}
secret has been obtained with authority or not, and any secret acquisition of the relevant information will be unauthorized.

If a third person gets access to a trade secret by employing an ex-employee of the trade secret owner, it must be independently established that the third person has obtained the secret in an unauthorized manner. It is not required that the ex-employee must have obtained the trade secret in an unauthorized way. Whether the conduct of the third party is unauthorized must be established with reference to all the circumstances. It would be unauthorized to obtain a competitor's trade secrets by systematically questioning his or her ex-employees, in order to use the secret to the competitor's detriment. This would also be the case if an employer orders his or her own employees to spy on the premises of a competitor.

Someone who has a right to know a trade secret (for instance a partner who has such a right in terms of the partnership agreement) does not obtain the secret in an unreasonable way for the purposes of this provision, even if he or she obtains it in an illegal manner. If in such a case the owner of the secret suffers patrimonial loss, there is no unlawfulness for the purposes of this provision.

The crime is constituted by the unauthorized use or disclosure of the trade secret. Before the secret has been used or divulged, there can be no liability in terms of this provision. Use is any commercial exploitation of the trade secret. A purely intellectual exploration of the application possibilities of a trade secret does not

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104 Cf Von Gamm 1002.
105 Baumbach-Hefermehl 1305.
106 RG GRUR 39 308 312; Baumbach-Hefermehl 1305.
107 Baumbach-Hefermehl 1305.
108 RG GRUR 37 559; RG GRUR 39 308 313; Baumbach-Hefermehl 1305.
109 RG GRUR 43 256; Baumbach-Hefermehl 1305.
110 ÖOGH ÖBL 72 73 74; Baumbach-Hefermehl 1305.
111 BayObLG GRUR 88 634; Baumbach-Hefermehl 1305.
112 If, however, there has been a breach of confidence it may be punished in terms of sec 18, or it may be contrary to competition policy in terms of sec 1 UWG. Cf Baumbach-Hefermehl 1305.
113 If a surreptitious acquisition of the secret took place, it may be punishable in terms of sec 17(2)(1) - cf Baumbach-Hefermehl 1306.
114 Baumbach-Hefermehl 1306; Hubmann 306; Von Gamm 1004; RGSt 40 406; RGSt 63 207.
constitute use, nor do steps taken to maintain or secure the secret. The use must be unauthorized. This does not mean that the use must conflict with a (statutory) legal norm. What is required, is that the use must conflict with the owner's interest to keep the information secret.

For criminal liability in terms of section 17(2)(2), intent must be present. This requires the perpetrator to have been aware of, or to have foreseen the following: the existence of the trade secret; that it has been obtained by an unauthorized disclosure in terms of section 17(1) or espionage in terms of section 17(2)(1) or a similar unauthorized manner; and that the use or divulging thereof was unauthorized.

4.2.2.2 SECTION 18 GESETZ GEGEN DEN UNLAUTEREN WETTBEWERB

Unauthorized use or disclosure to someone else - for the purpose of competition or for own benefit - of designs or instructions of a technical nature confided to the perpetrator in the course of trade dealings (particularly drawings, models, templates, clothes patterns, recipes), constitutes a crime in terms of section 18 of the German Unfair Competition Act. A contravention of this section may be punished by imprisonment of up to two years or by a fine.

The designs protected by this provision are any material serving as examples for the manufacture of new items, while instructions of a technical nature are written or oral instructions for technical processes (and thus excluding instructions in respect of, for instance, the pricing of goods or services). The drawings, models, templates, clothes patterns, and recipes enumerated in section 18 are examples, and not an exhaustive list of possibilities. Other items protected by section 18 include patent

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115 Baumbach-Hefermehl 1306.
116 le, his Geheimhaltungsinteresse - cf Baumbach-Hefermehl 1306.
117 Baumbach-Hefermehl 1307.
118 The complete text of sec 18 UWG reads: "Mit Freiheitsstrafe bis zu zwei Jahren oder mit Geldstrafe wird bestraft, wer die ihm im geschäftlichen Verkehr anvertrauten Vorlagen oder Vorschriften technischer Art, insbesondere Zeichnungen, Modelle, Schablonen, Schnitte, Rezepte, zu Zwecken des Wettbewerbes oder aus Eigennutz unbefugt verwertet oder an jemand mitteilt."
119 "Technical nature" is generally understood to refer only to "instructions", and not to "patterns"; cf Gloy 398.
120 This crime has been named Vorlagenfreibeuterei - design piracy - by commentators - cf Baumbach-Hefermehl 1312ff; Emmerich 142; Gloy 398; Krüger 151; Wise 4.77ff.
121 RGSt 45 385; KG GRUR 88 702; Baumbach-Hefermehl 1313.
122 Baumbach-Hefermehl 1313.
descriptions, furniture sketches, and computer programs. Technical instructions will normally pertain to scientific works, but may also pertain to artistic works like the scripts of plays or films.

Section 18 does not deal with the relationship between employers and employees - it requires a relationship between an enterprise and an outside party. Case law has limited the application of this section to relationships between different enterprises or business concerns. Commentators criticize this limitation. They argue that an individual who divulges designs or technical instructions confided in him by a business concern should also be subject to the provisions of section 18. He should not be exonerated merely because he acts in his own private capacity and not as part of a business concern.

Designs or technical instructions are confided to another party if they are entrusted - contractually or extra-contractually - to that party with the express or tacit obligation to utilise them solely in the interest of the confider. The confider may be the owner of the designs or instructions, or a third party to whom the owner has entrusted them.

Section 18 does not expressly require the designs or technical instructions to be trade secrets - the only requirement is that they must have been confided to someone in the course of trade dealings. The early case law has accordingly proceeded on the assumption that the designs and technical instructions of section 18 need not be trade secrets as understood in terms of section 17 - however, they could also not be

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123 BGH GRUR 60 554 (Handstrickverfahren); Baumbach-Hefermehl 1313.
124 RGSt 48 76.
125 Baumbach-Hefermehl 1313.
126 Baumbach-Hefermehl 1313; Gloy 398.
127 RG GRUR 39 308; RG GRUR 44 46; Baumbach-Hefermehl 1313; Metzler 38-39.
128 RGSt 48 78; cf Baumbach-Hefermehl 1313.
129 Cf Baumbach-Hefermehl 1313.
130 An example of extra-contractual confidence could be the case where patterns or technical instructions are confided to someone in the course of pre-contractual negotiations, but where there is a breakdown of the negotiations and no contract is concluded - cf Gloy 399.
131 Baumbach-Hefermehl 1314; Metzler 38.
132 Baumbach-Hefermehl 1314.
133 Eg RGZ 83 384 386; see further Von Gamm 1006 fn 198.
public knowledge (offenkundig). The Bundesgerichtshof\(^{134}\) has left the question open as to whether trade secrets are required, but again it has been decisive that designs which were offenkundig could not be confided to someone.\(^{135}\) Gloy\(^{136}\) is of the opinion that section 18 will almost always be protecting trade secrets, but that in exceptional cases the owner's Geheimhaltungswille\(^{137}\) may be absent, without the protection of section 18 being forfeited. Nordemann\(^{138}\) asserts that the designs protected by section 18 need not be trade secrets. He observes that the wrong prohibited by section 18 is a breach of confidence, and ventures the opinion that such a breach may be committed by a contractual party even if the relevant design has been described in a technical journal, is in use overseas, or is in some way too widely known to be described as a secret. In a similar vein, Arians\(^{139}\) and Krüger\(^{140}\) state that while the designs and technical instructions may not be offenkundig, it does not follow that the Geheimhaltungswille and Geheimhaltungsinteresse requirements have been met. The material protected by section 18 will therefore not necessarily be trade secrets for the purposes of section 17. Metzler,\(^{141}\) on the other hand, argues that designs and technical instructions will not be capable of protection under section 18, unless they also qualify as trade secrets for the purposes of section 17. He maintains that the requirements of absence of offenkundigkeit, and the presence of Geheimhaltungsinteresse and Geheimhaltungswille, must all be met before protection in terms of section 18 will be warranted.

Only unauthorized use or disclosure for competitive purposes or for own benefit are mentioned as constituting violations of this section - use or disclosure with the motive of

\(^{134}\) BGH GRUR 58 297 298 (Petromax 1); BGH GRUR 64 31 32 (Petromax 2); cf Baumbach-Hefermehl 1314; Metzler 38; Von Gamm 1006.

\(^{135}\) BGH 17 41 52 (Kokillenguß); BGH GRUR 60 554 (Handstrickverfahren); BGHZ 82 369 372 (Straßendecke); cf Baumbach-Hefermehl 1314; Von Gamm 1006.

\(^{136}\) 399. Cf BGH GRUR 64 31 (Petromax 2).

\(^{137}\) Par 4.2.1.2.4 above.

\(^{138}\) 223-224. Nordemann maintains that Offenkundigkeit has different meanings when referring to trade secrets and designs respectively: "Man nennt einerseits Geheimnisse, die nur einem eng begrenzten Personenkreis bekannt sind, 'nicht offenkundig' [referring to BGH GRUR 61 40 43 (Wurftaubenpresse)], während man bei Vorlagen unter 'offenkundig' nur solche Tatsachen versteht, die 'bereits in einer Weise an die Öffentlichkeit gelangt sind, die sie jedermann zugänglich machen'" [with reference to BGH GRUR 58 297 298 (Petromax l)].

\(^{139}\) In Oehler 369ff.

\(^{140}\) 163.

\(^{141}\) 39-41.
to harm somebody else is not referred to.\textsuperscript{142} It is also not required that the perpetrator use the designs or instructions in their entirety or identically. Partial use, or use of the designs or instructions in a modified form, will suffice.\textsuperscript{143}

The perpetrator can be any person, except for the employees of the complainant, because there are no trade dealings between employer and employee. The purpose of section 18 is protection against unlawful competition by outsiders.\textsuperscript{144} The employee of another employer can thus be a perpetrator where he or she breaches a confidence placed in him or her by the complainant.\textsuperscript{145}

The criminal law protection afforded by section 18 lasts as long as the duration of the relationship of confidence between the owner of the designs or technical instructions and the person confided in.\textsuperscript{146} In cases where the confidence arose in a contractual context, the discharge of the contract will not necessarily terminate the obligation of confidentiality. The view of eminent commentators\textsuperscript{147} is that the capacity of disposal over confidential and non-public designs or technical instructions remains solely the prerogative of the right-holder in respect thereof. If the designs or instructions become public due to the conduct of someone other than the person confided in, the latter is under no further obligation to respect the confidentiality.\textsuperscript{148} Apart from the requirement that the designs or instructions must (objectively) not be in the public domain, Baumbach-Hefermehl also emphasize\textsuperscript{149} that the right-holder must (subjectively) have the will to protect them (\textit{Bewahrungswille}).\textsuperscript{150}

\begin{footnotesize}
\begin{enumerate}
\item It may, however, be a violation of sec 826 \textit{BGB} (par 4.2.2.5 below). Cf Baumbach-Hefermehl 1314.
\item Cf BGH GRUR 60 554 (Handstrickverfahren); Baumbach-Hefermehl 1314.
\item Fn 127 above; RGSt 44 152; RGSt 48 12 13; Baumbach-Hefermehl 1315.
\item Baumbach-Hefermehl 1315.
\item RG JW 14 251; Baumbach-Hefermehl 1315.
\item Baumbach-Hefermehl 1315; cf Gloy 398.
\item Gloy 399.
\item 1315.
\item The parallel with the requirements for objective secrecy and a subjective \textit{Geheimhaltungswille} in the case of trade secrets for the purpose of sec 17 is obvious.
\end{enumerate}
\end{footnotesize}
4.2.2.3 SECTION 20 GESETZ GEGEN DEN UNLAUTEREN WETTBEWERB.\textsuperscript{151}

Section 20 of the German Unfair Competition Act attaches criminal law sanctions to four distinct types of conduct:\textsuperscript{152}

(a) attempted inducement of another to contravene section 17 or 18;\textsuperscript{153}
(b) the making of an offer to contravene section 17 or 18;\textsuperscript{154}
(c) the acceptance of such an offer;\textsuperscript{155} or
(d) declaring oneself willing to comply with a request to contravene section 17 or 18.\textsuperscript{156}

All these acts must be committed for competitive purposes (zu Zwecken des Wettbewerbes) or for the perpetrator’s own benefit (aus Eigennutz) to be punishable.

4.2.2.4 SECTION 20a GESETZ GEGEN DEN UNLAUTEREN WETTBEWERB

Section 20a makes section 5(7) of the German Criminal Code applicable to crimes committed in contravention of sections 17, 18 and 20. Section 5(7) of the Strafgesetzbuch\textsuperscript{157} provides that German criminal law will apply in the case of certain infringements of trade secrets (Betriebs- oder Geschäftsgeheimnisse) taking place in foreign territories. The secrets must be those of an enterprise or business concern situated in Germany or with its seat in Germany, or of an enterprise with its

\textsuperscript{151} The complete text of sec 20 UWG reads as follows:
"(1) Wer zu Zwecken des Wettbewerbes oder aus Eigennutz jemand zu einem Vergehen gegen die §§ 17 oder 18 zu verleiten sucht oder das Erbieten eines anderen zu einem solchen Vergehen annimmt, wird mit Freiheitsstrafe bis zu zwei Jahren oder mit Geldstrafe bestraft.
(2) Ebenso wird bestraft, wer zu Zwecken des Wettbewerbes oder aus Eigennutz sich zu einem Vergehen gegen die §§ 17 oder 18 erbietet oder sich auf das Ansinnen eines anderen zu einem solchen Vergehen bereit erklärt.
(3) § 31 des Strafgesetzbuches gilt entsprechend."

\textsuperscript{152} See the exposition by Baumbach-Hefermehl 1316; cf Emmerich 135; Metzler 43ff; Hubmann 307; Von Gamm 1011ff.

\textsuperscript{153} Sec 20(1).

\textsuperscript{154} Sec 20(2).

\textsuperscript{155} Sec 20(1).

\textsuperscript{156} Sec 20(2).

\textsuperscript{157} Sec 5(7) StGB reads as follows:
seat in a foreign country, but which is dependent on and forms a consortium with a
parent concern seated in Germany.\footnote{Cf Baumbach-Hefermehl 1319.} 

4.2.2.5 SECTION 19 GESETZ GEGEN DEN UNLAUTEREN WETTBEWERB AND
THE PRIVATE LAW PROTECTION OF TRADE SECRETS

Section 19\footnote{Sec 19 UWG reads as follows: "Zuiderhandlungen gegen die Vorschriften der §§ 17, 18 verpflichten außerdem zum Ersatze des entstandenen Schadens. Mehrere Verpflichtete haften als Gesamtschuldner."} creates a base for civil law, and more specifically delictual, liability for
trade secret infringement. It provides that contraventions of sections 17 and 18 give
rise to an obligation to compensate the damage caused thereby. The section also
makes provision for more than one debtor to be treated as joint wrongdoers. Commentators\footnote{Baumbach-Hefermehl 1316 1309; Metzler 9; Nastelski 1957 GRUR 2.} have opined that section 19 is both incomplete and superfluous. If the infringement took place with a competitive purpose, an action for damages may
also be founded on section 1 of the Gesetz gegen den unlauteren Wettbewerb.\footnote{Sec 1 UWG reads: "Wer im Geschäftlichen Verkehre zu Zwecken des Wettbewerbes Handlungen vornimmt, die gegen die guten Sitten verstoßen, kann auf Unterlassung und Schadensersatz in Anspruch genommen werden."} Section 1 is a general clause providing for an action for damages and/or an interdict against someone who - in the course of business dealings and for competitive purposes - commits an act that is contra bonos mores.\footnote{Cf Baumbach-Hefermehl 1309.} This section does not
require a specific form of fault, and either intent or negligence may be proved.\footnote{Baumbach-Hefermehl 1309.} In the absence of a competitive purpose, an action may be founded on section 826
of the Bürgerliches Gesetzbuch (the German Civil Code),\footnote{Sec 826 BGB provides: "Wer in einer gegen die guten Sitten verstoßenden Weise einem anderen vorsätzlich Schaden zufügt, ist dem anderen zum Ersatze des Schadens verpflichtet."} which is a general
delictual clause providing for an action for damages against someone who
intentionally causes damage to another in a way that is contra bonos mores.\footnote{This matter was left open by the Bundesgerichtshof (BGH 38 392 395 (Industrieböden), but there seems to be general agreement among commentators that sec 823 could found a civil action for trade secret infringement. Cf Baumbach-Hefermehl 1309; Wise 4.110. Nastelski 1957 GRUR 4. See} An
action for damages may also lie in terms of section 823(1) of the German Civil
Code,\footnote{Baumbach-Hefermehl 1309.} which provides that anyone who wrongfully and intentionally or negligently
interferes with or violates the life, physical person, health, freedom, property or other similar right (sonstiges Recht) of another, shall be liable for damages. The right at stake in the case of a trade secret infringement is generally taken to be the right to the business enterprise (das Recht am (eingerichteten und ausgeübten) Gewerbebetrieb), which could qualify as a sonstiges Recht for the purposes of section 823(1). Furthermore, the criminal provisions of sections 17 and 18 are so-called Schutzgesetze - protective laws - that could form a basis for private law protection in terms of section 823(2) of the Bürgerliches Gesetzbuch. Section 823(2) provides that someone who infringes the protection granted to another by a protective law, is under an obligation to compensate the damage caused thereby. In special circumstances, use of a trade secret that does not violate the provisions of section 17 or 18 may also give rise to delictual liability. An employee who - after termination of his or her service - uses or discloses trade secrets obtained in an unobjectionable manner during the subsistence of the employment relationship, may in special circumstances be held delictually liable, even though such conduct does not constitute a crime under sections 17 or 18. Delictual liability in terms of section 823 of the Civil Code could furthermore be attached to a merely negligent wrongdoing, and need not be limited to intentional wrongs like the criminal provisions of the Unfair Competition Act. The private law protection of trade secrets is thus wider than the criminal law protection afforded by sections 17 and 18 of the Unfair Competition Act.

4.2.2.6 SUMMARY

It can broadly be stated that the German Unfair Competition Act protects trade

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167 Sec 823(1) BGB provides: "Wer vorsätzlich oder fahrlässig das Leben, den Körper, die Gesundheit, die Freiheit, das Eigentum oder ein sonstiges Recht eines anderen widerrechtlich verletzt, ist dem anderen zum Ersatze des daraus entstehenden Schadens verpflichtet."

168 Cf Baumbach-Hefermehl 1309; see par 4.5.5.2 below.


170 Baumbach-Hefermehl 1308ff.

171 Baumbach-Hefermehl 1308 1310ff; par 4.4.1 below.

172 Baumbach-Hefermehl 1310.

173 Cf Baumbach-Hefermehl 1308-1312; Nastelski 1957 GRUR 4-5; Wise 4.109-4.112.
secrets against the following:

(a) unauthorized disclosure of trade secrets by serving employees in certain specified circumstances (section 17(1));
(b) the unauthorized obtaining or securing of trade secrets in certain specified ways (section 17(2)(1));
(c) unauthorized use or disclosure of trade secrets which have been obtained or secured in specified unauthorized ways (section 17(2)(2));
and
(d) the unauthorized use or disclosure of certain specified types of trade secrets in breach of a relationship of confidence (section 18).

Additionally, in cases not covered by the above-mentioned sections, protection may be sought under more general sections in the German Unfair Competition Act (section 1) and the German Civil Code (sections 823 and 826). To invoke the protection of these sections, the conduct complained of must either be contra bonos mores, or infringe a special right, or violate the protection afforded by a protective law, depending on the requirements of each specific section.

4.3 REMEDIES

4.3.1 DAMAGES

An action for damages will usually be appropriate when the danger of trade secret infringement cannot be averted any more and injunctive relief can thus serve no purpose.\textsuperscript{174} As noted,\textsuperscript{175} an action for damages in the case of a trade secret infringement may be based on section 19 of the Gesetz gegen den unlauteren Wettbewerb read in conjunction with sections 17 or 18; section 1 of the Gesetz gegen den unlauteren Wettbewerb; or sections 823(1), 823(2) or 826 of the Bürgerliches Gesetzbuch, provided the specific requirements of the particular sections have been met. If the claim for damages is based on section 823(1) or 823(2) of the Bürgerliches Gesetzbuch, proof of negligence on the part of the wrongdoer is sufficient - intent is not required.\textsuperscript{176} Where more than one person is involved in the same trade secret infringement, section 19 provides that they are to be treated as

\textsuperscript{174} Cf Ostertag and Ostertag 55-56: "Ist das Unheil nicht mehr gutzumachen, das Betriebsgeheimnis also durch einen Dritten widerrechtlich bekannt geworden, so ist - bei Verschulden - der Dritte zum Ersatz des Schadens verpflichtet. Der Schaden entsteht daraus, daß der Inhaber des früheren Betriebsgeheimnisses seine faktische Monopolstellung verloren hat."

\textsuperscript{175} Par 4.2.2.5 above.

\textsuperscript{176} Cf Nastelski 1957 GRUR 5.
joint wrongdoers.

As is the case with statutory intellectual property rights like patents or copyright, the computation of damages in the case of trade secret infringement may be approached in three different ways.\textsuperscript{177} Firstly, the quantum of the actual damage may be proved.\textsuperscript{178} In the second place, the quantum may be computed on the same basis as payment for a licence to use the trade secret.\textsuperscript{179} In such a case, it must be objectively - and abstractly - established what amount a reasonable licensor and licensee would have agreed upon.\textsuperscript{180} Thirdly, the infringer's profits may be used as a basis for computing the damages suffered by the trade secret owner.\textsuperscript{181} Ratio for the threefold method to compute damages, and especially the second method, is the peculiar difficulty to prove the quantum of damages in cases of this nature.\textsuperscript{182}

4.3.2 INTERDICT

Injunctive relief may take two forms: \textit{Unterlassung} and \textit{Beseitigung}. Fault is not a requirement for an interdict in any of its forms.\textsuperscript{183}

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\textsuperscript{177} Baumbach-Hefermehl 258ff 1309; cf 1315; \textit{BGH GRUR} 77 539 542 (Prozeßerrechner).

\textsuperscript{178} See Baumbach-Hefermehl 258.

\textsuperscript{179} See Baumbach-Hefermehl 258.

\textsuperscript{180} Baumbach-Hefermehl 258.

\textsuperscript{181} Baumbach-Hefermehl 259-260.

\textsuperscript{182} Baumbach-Hefermehl 258.

\textsuperscript{183} Cohn 162-163; Wise 4.116-4.117. Wise 4.117 voices the opinion that fault will normally be present. What the intended relevance of this remark is, is unclear, since it is established law that fault is not required for injunctive relief - see eg Cohn 162-163. Nastelski 1957 \textit{GRUR} 4 makes the following remarks concerning an interdict as civil remedy: "Der Unterlassungsanspruch setzt nur ein objektiv rechtswidriges Handeln voraus. Er ist daher auch dann gegeben, wenn dem Täter kein Verschulden, also weder Vorsatz noch Fahrlässigkeit zur Last fällt. Ebensowenig ist das Bewußtsein der Rechtswidrigkeit erforderlich. Wenn daher beispielsweise ein Angestellter während der Dauer des Dienstverhältnisses einem anderen Unternehmer ein Betriebsgeheimnis mitteilt und der andere Unternehmer es verwerten will oder verwertet, so ist gegen den Unternehmer die Unterlassungsklage gegeben, auch wenn er nicht gewußt hat, daß im Zeitpunkt der Mitteilung das Dienstverhältnis des Angestellten noch nicht beendet war. Es fehlt in diesem Falle der zur Bestrafung nach § 17 Abs. 2 erforderliche Vorsatz, und strafrechtlich ist es auch unerheblich, wenn der Unternehmer nachträglich den wahren Sachenverhalt erfährt. Gegenüber der Unterlassungsklage kann er sich damit jedoch nicht verteidigen."
4.3.2.1 UNTERLASSUNG

The purpose of the Unterlassungsanspruch\textsuperscript{184} is to prevent future wrongful infringements.\textsuperscript{185} Thus it is typically employed in two situations: (a) where an infringement has already taken place, and a danger exists that the same infringement will be repeated (Wiederholungsgefahr);\textsuperscript{186} and (b) where a threatening infringement is expected for the first time (Erstbegehungsgefahr).\textsuperscript{187} The basis for this type of injunctive relief against threatening trade secret infringement - as a species of unfair (unlawful) competition (unlauterer Wettbewerb) - is section 1 of the German Unfair Competition Act, which provides that a civil action for damages and/or an interdict shall lie against anyone who commits an act which is contra bonos mores for competitive purposes.\textsuperscript{188} An Unterlassungsanspruch may also be based on section 1004(l)2 of the Bürgerliches Gesetzbuch.\textsuperscript{189}

4.3.2.2 BESEITIGUNG

The purpose of an Beseitigungsanspruch\textsuperscript{190} is to ward off a wrongful infringement that has already begun.\textsuperscript{191} It is aimed at the elimination of the source of the infringement, in order to prevent a continuation of the infringement.\textsuperscript{192} Although no mention is made of a Beseitigungsanspruch in the Gesetz gegen den unlauteren Wettbewerb, it may be regarded as included in the Unterlassungsanspruch authorized in section 1.\textsuperscript{193} Alternatively, an application for Beseitigung could probably be based on section 1004(l) of the Bürgerliches Gesetzbuch.\textsuperscript{194} If the wrongdoer has objects and materials in his possession making wrongful interference

\textsuperscript{184} Cf in general Baumbach-Hefermehl 209ff; Emmerich 339ff; Nordemann 276ff.

\textsuperscript{185} Baumbach-Hefermehl 210.

\textsuperscript{186} Baumbach-Hefermehl 212ff.

\textsuperscript{187} Baumbach-Hefermehl 224ff.

\textsuperscript{188} Cf BGH 16 173 (Dücko-Geheimverfahren); BGH 38 292-293 (Industrieböden); RG 144 41-52 (Hosenträgerband); GRUR 39 733 735 (Farbsäure); Baumbach-Hefermehl 211 1308; Wise 4.115-4.116.

\textsuperscript{189} Cf Baumbach-Hefermehl 211.

\textsuperscript{190} See in general Baumbach-Hefermehl 226ff; Emmerich 350ff; Nordemann 282.

\textsuperscript{191} Baumbach-Hefermehl 226.

\textsuperscript{192} Baumbach-Hefermehl 226.

\textsuperscript{193} Baumbach-Hefermehl 226.

\textsuperscript{194} Cf Baumbach-Hefermehl 226.
with the applicant's trade secrets possible, the removal, disposal, or handing over thereof to the applicant will often be ordered. In theory two independent forms of relief, in practice an order for Beseitigung will frequently accompany an order for Unterlassung.

4.3.2.3 TEMPORARY RESTRAINING ORDER

Section 25 of the German Unfair Competition Act gives the courts a discretion to issue temporary restraining orders in unfair competition cases. The courts are given a considerably greater discretion in unfair competition cases than in other types of litigation, in so far as section 25 provides that a temporary restraining order may be issued even if the provisions of sections 935 and 940 of the German Civil Procedure Act (Zivilprozeßordnung) do not apply. Section 935 provides that a temporary order may be issued when there is cause for concern that by virtue of a change in the existing circumstances, a party's right may be frustrated or made substantially more difficult to establish. Section 940 provides that a temporary order may be issued with the purpose of resolving a temporary situation with regard to a disputed legal relationship, so long as such a resolution appears necessary to avert substantial harm in a continuing relationship, or to prevent threatened force, or for other reasons. The effect of section 25 of the Unfair Competition Act is thus that a temporary restraining order may be issued in unfair competition cases even if the applicant cannot show that one of these two recognized grounds for relief is present.

The court must nevertheless find sufficient justification to issue the order, carefully weighing up the interests of the parties, and with consideration to their conduct, and the practical effects of the order. According to section 945 of the Zivilprozeßordnung an applicant may be liable to the defendant for damages if the latter proves that the temporary restraining order was not a justifiable remedy at the time it was issued.


197 Sec 25 UWG reads: "Zur Sicherung der in diesem Gesetze bezeichneten Ansprüche auf Unterlassung können einstweilige Verfügungen erlassen werden, auch wenn die in den §§ 935, 940 Zivilprozeßordnung bezeichneten Voraussetzungen nicht zutreffen."

198 Cf in general Baumbach-Hefermehl 1348ff; Wise 4.135ff.

199 Cf Wise 4.137.

200 Thus where it was apparent that the applicant was wilfully protracting the litigation the court refused the application - 55 GRUR 434; cf Wise 4.137 fn 213.

201 Cf Wise 4.139.
4.4 SPECIAL PROBLEMS

4.4.1 EMPLOYERS AND EMPLOYEES

During the subsistence of the employment relationship, the employee is subject to several provisions of the Unfair Competition Act. As noted,\textsuperscript{202} Section 17(1) specifically prohibits the disclosure of trade secrets by serving employees in certain specified circumstances. Sections 17(2)(1) and 17(2)(2) are aimed at a wider class of potential wrongdoers, that may include employees. In terms of these subsections the obtaining or securing of trade secrets, and the use or disclosure thereof, are respectively prohibited, again in certain specified circumstances.\textsuperscript{203} \textsuperscript{204} Read in conjunction with section 19,\textsuperscript{205} these subsections provide a basis for civil relief against serving employees infringing the trade secrets of their employers. Civil law relief may, however, go wider than the ambit of section 17, as noted.\textsuperscript{206} Thus, while negligent infringement of trade secrets is not covered by section 17 (to name one example), it may fall foul of section 823(1) of the \textit{Bürgerliches Gesetzbuch}.\textsuperscript{207}

The position after termination of the employment relationship is more problematic. Two main scenarios can be distinguished here. The first is where the ex-employee has obtained the trade secrets of his or her former employer in a reasonable way in the course of his or her employment relationship with the ex-employer. The second is the case where the employee has obtained the trade secrets in an unreasonable way.

After the employer has left the employ of his or her employer, there is in principle no obligation on him or her to keep secret or abstain from using for his or her own benefit the knowledge and experience he or she has gained \textit{in a reasonable way in the course of his or her employment}.\textsuperscript{208} This principle also applies to matter in

\begin{itemize}
  \item \textsuperscript{202} Par 4.2.2.1 above.
  \item \textsuperscript{203} Par 4.2.2.1 above.
  \item \textsuperscript{204} Section 18 is not applicable to employees infringing the trade secrets of their own employers - par 4.2.2.2 above.
  \item \textsuperscript{205} Par 4.2.2.5 above.
  \item \textsuperscript{206} Par 4.2.2.5 above.
  \item \textsuperscript{207} Par 4.2.2.5 above.
  \item \textsuperscript{208} BGH GRUR 55 402 (Anreißgerät); BGH GRUR 55 424 (Möbelpaste); BGH GRUR 58 553 (Saugrohr); RG 65 333; GRUR 39 706 (Sperrholzlatten); RAG GR 44 46; Baumbach-Hefermehl 1300; Mes 1979 GRUR 585.
\end{itemize}
respect of which the former employer has the highest interest in continued secrecy.\textsuperscript{209} Even if the termination of the employment relationship has been caused by breach of contract on the part of the employee, the employee will in general not be \textit{criminally} liable for subsequent breaches of secrecy.\textsuperscript{210} In exceptional cases\textsuperscript{211} delictual protection of trade secrets obtained in a reasonable manner in the course of employment, may survive the termination of the employment relationship.\textsuperscript{212} As a general rule, an ex-employee's use of a trade secret obtained in an unobjectionable way will not constitute a violation of section 1 of the Unfair Competition Act or section 826 of the Civil Code,\textsuperscript{213} but a number of \textit{special circumstances} that may render the use of a reasonably obtained trade secret a violation of one or both of the two sections, have been identified in case law. These are the following:\textsuperscript{214}

(a) \textit{Abuse of a position of confidence}. As a general rule the relationship of confidence that may exist between employer and employee does not survive the termination of the employment contract, and can therefore not serve as a basis for obliging the ex-employee to continue respecting the confidentiality of the former employer's trade secrets.\textsuperscript{215} However, if the ex-employee has served in an unusually high position of confidence, his or her later use of trade secrets obtained in an unobjectionable way may violate competition policy\textsuperscript{216} and be wrongful.\textsuperscript{217} This will especially be the case if the importance of his position is reflected in high remuneration.\textsuperscript{218} All the circumstances must be considered and a careful weighing of the interests of the concerned parties is required to establish whether the utilisation of a trade secret obtained in an unobjectionable way constitutes a violation of section 1 of the \textit{Gesetz gegen den Unlauteren

\textsuperscript{209} RG JW 38 118; Baumbach-Hefermehl 1300.

\textsuperscript{210} BGH GRUR 55 402 (Anreißgerät); Baumbach-Hefermehl 1301.

\textsuperscript{211} Cf Baumbach-Hefermehl 1301 1310; Emmerich 143-144.

\textsuperscript{212} Baumbach-Hefermehl 1310; Nastelski 1957 GRUR 5.

\textsuperscript{213} BGH GRUR 63 367 (Industrieböden); BGH GRUR 64 31 32 (Petromax II); BGH GRUR 64 215 (Milchfahrer); Baumbach-Hefermehl 1310; cf Emmerich 143-144.

\textsuperscript{214} This discussion is based on the classification and analysis of Baumbach-Hefermehl 1311-1312.

\textsuperscript{215} Baumbach-Hefermehl 1311; Von Gamm 985-986.

\textsuperscript{216} Such use will be \textit{wettbewerbswidrig} - Baumbach-Hefermehl 1311.

\textsuperscript{217} RG GRUR 36 573 578 (Albertus Stehfix); RG GRUR 38 906 (Faltenrohrmaschine); Baumbach-Hefermehl 1311.

\textsuperscript{218} Baumbach-Hefermehl 1311.
Wettbewerb.\textsuperscript{219} The following factors\textsuperscript{220} are to be considered here: the duration of the employment, the position of the employee in the enterprise, the employee's in-service training, the competitive importance of the secret to the enterprise of the employer, the employee's personal contribution to the development of the secret, and the worthiness of protection of the employee's interest to utilise the secret. If the employee has served for a short period of time, his or her interest in utilisation of the secret will generally be rated lower than the interest of a long-serving employee.\textsuperscript{221} Thus - to cite an example from the Industrieböden case\textsuperscript{222} - the cumulative presence of the following circumstances would justify a duty of secrecy continuing after termination of the employment contract: where a leading employee, entrusted with an unusually high position of confidence, left the employer's enterprise after a relatively short period of time; and then used a trade secret which was extremely important for the competitive position of the employer; which trade secret had become accessible to him purely as a result of his confidential position; and where he neither contributed to the development of the secret in any way, nor had a reasonable interest in the utilisation of the secret for the development of his new career.

(b) \textit{Specific hostile measures.} The conduct of an employee who, whilst still in an employment relationship, prepares a competitive enterprise which he or she intends pursuing after leaving his current employer, is not \textit{per se contra bonos mores}.\textsuperscript{223} The following examples from case law give an idea of situations where civil relief could, however, be in order: where an employee in a leading position made preparations for the creation of a competitive enterprise long before leaving the service of his employer, and for this purpose appropriated - on the strength of his position of confidence - all the new experience of his

\textsuperscript{219} Baumbach-Hefermehl 1311. Mes 1979 GRUR 587 emphasizes the difficulty of this weighing-up process by pointing out that two main conflicting interests involved here are both granted protection by the German Constitution: "Daß diese Abwägung besonderes Gewicht hat und besondere Schwierigkeiten mit sich bringen kann, zeigt sich allein daran, daß Rechtsgüter von hohem Rang miteinander in Konflikt stehen, die beide mit Verfassungsrang ausgestattet sind. Das Grundgesetz garantiert sowohl in Artikel 14 das Eigentum [see par 4.5.4 below], als auch in Artikel 2, Abs 1 das Recht zur freien Persönlichkeitsentfaltung und insbesondere in Artikel 12 das Recht der Berufsfreiheit."

\textsuperscript{220} Cf Baumbach-Hefermehl 1311.

\textsuperscript{221} Baumbach-Hefermehl 1311.

\textsuperscript{222} BGH GRUR 63 367 370; cf Baumbach-Hefermehl 1311; Von Gam\textsuperscript{223} mm 985-986.

\textsuperscript{223} BGH GRUR 52 582 (Sprechstunden); BGH GRUR 55 402 405 (Anrei\textsuperscript{224} ßgerät); RG 144 41 49 (Hosenträgerband); Baumbach-Hefermehl 1311.
employer's enterprise;\textsuperscript{224} where a leading salesperson started to construct a prototype machine for an important customer whilst still himself in an employment relationship, the more so because in the process the salesperson used his employer's trade secret and induced other employees to commit breach of contract;\textsuperscript{225} where an employer had provoked the untimely ending of the employment relationship with the purpose of exploiting his former employer's trade secret which he had obtained in an unobjectionable way;\textsuperscript{226} and where an employee took almost the entire clientele of his employer - knowledge of which he had obtained in the course of employment - with him on leaving the latter's employ, thus destroying the economical foundation of the latter's enterprise.\textsuperscript{227} 228

(c) \textit{Contractual regulation.} The employer and employee can contractually agree that the employee will respect the confidentiality of specific trade secrets after termination of the employment relationship.\textsuperscript{229} As long as such contractual obligations pertain only to specific trade secrets, such agreements will not be impermissible restraints of trade.\textsuperscript{230} Wider contractual obligations, which effectively make it impossible for the ex-employee to pursue his or her chosen calling, will be subject to section 74 of the \textit{Handelsgesetzbuch}. This section requires agreements in restraint of trade between an employer and a departing employee to be in writing, and obliges the employer to pay, for the duration of the restraint of trade, compensation to the ex-employee amounting annually to at least half the amount of his remuneration last payable according to the employment contract.\textsuperscript{231} 232

\textsuperscript{224} RG \textit{GRUR} 36 573 578 (\textit{Albertus Stehfix}); cf Baumbach-Hefermehl 1311.

\textsuperscript{225} BGH \textit{GRUR} 83 179 181 (\textit{Stapelautomat}); cf Baumbach-Hefermehl 1311.

\textsuperscript{226} BGH \textit{GRUR} 55 402 405 (\textit{Anreißgerät}); cf Baumbach-Hefermehl 1312.

\textsuperscript{227} BGH \textit{GRUR} 64 215 (\textit{Milchfahrer}); cf Baumbach-Hefermehl 1312.

\textsuperscript{228} In all these instances, the appropriation of a trade secret appears to be only a co-determinant - and, on the face of things, possibly one of lesser importance - of the reprehensibleness of the employee's conduct.

\textsuperscript{229} Baumbach-Hefermehl 1312.

\textsuperscript{230} Cf Baumbach-Hefermehl 1312.

\textsuperscript{231} Sec 74 \textit{HGB} reads as follows:


(2) Das Wettbewerbsverbot ist nur verbindlich, wenn sich der Prinzipal verpflichtet, für die Dauer des Verbots eine Entschädigung zu zahlen, die für jedes Jahr des Verbots mindestens die Hälfte der von
Interestingly, some eminent German commentators\textsuperscript{233} regard the Anglo-American distinction\textsuperscript{234} between general knowledge and special knowledge - that is, in this context, trade secrets - as of no practical value for determining the ambit of the possible civil liability of an ex-employee for using trade secrets obtained in a reasonable way whilst still in the employ of his or her former employer.

In the second scenario to be considered in the post-employment context, use or disclosure of a trade secret will constitute a transgression of section 17(2)(2) where the employee has used one of the \textit{unreasonable} means of obtaining a trade secret enumerated in that section (read with sections 17(1) and 17(2)(1)). As noted,\textsuperscript{235} this section does not deal specifically with employment relationships; it follows that its protection is independent of any such relationship. In a case where an employment relationship was involved, the protection of trade secrets afforded by section 17(2)(1) will thus outlast the duration of the relationship.\textsuperscript{236} The crucial point is that the trade secret must have been obtained in an unreasonable way during the existence of the employment relationship, if later use thereof is to be actionable in terms of section 17(2)(2).\textsuperscript{237} In such a situation, commentators have pointed out,\textsuperscript{238} an ex-employee will more often than not raise the defence that he or she has obtained the secret reasonably in the course of his or her employment and that he or she is therefore free to utilise it. This gives rise to the difficulty of establishing a dividing line between the reasonableness and unreasonableness of the acquisition of trade secrets during the subsistence of an employment relationship. The general principle applicable appears to be that the ex-employee is free to exploit the secrets which have remained in his or her memory as a result of conduct which he or she was

\textsuperscript{232} Gaul 1988 \textit{WRP} 217 advocates a time limit of five years on these agreements, and bases his proposition inter alia on sec 12 of the German constitution (\textit{Grundgesetz}), that guarantees a basic right to occupational freedom (\textit{Berufsfreiheit}). Baumbach-Hefermehl 1312 point out that since there is no time limit to the general protection of trade secrets, a time limit on a contractual obligation to respect the confidentiality of trade secrets seems out of place.

\textsuperscript{233} Cf Baumbach-Hefermehl 1310. For an opposite view, see eg Mes 1979 \textit{GRUR} 591-592.

\textsuperscript{234} Par 2.4.1; 3.4.1 above.

\textsuperscript{235} Par 4.2.2.1.2.2 above.

\textsuperscript{236} Cf Baumbach-Hefermehl 1301.

\textsuperscript{237} Cf Baumbach-Hefermehl 1307; Mes 1979 \textit{GRUR} 585-586.

\textsuperscript{238} Baumbach-Hefermehl 1306.
permitted to do in his or her capacity as employee.\textsuperscript{239} Here circumspection in assessment is needed,\textsuperscript{240} since individuals vary widely in their capacity to remember.\textsuperscript{241} If the employee has surreptitiously made notes to aid his or her memory, the subsequent use of the secret may be unauthorized.\textsuperscript{242} The making of notes is not \textit{per se} an indication of unreasonableness,\textsuperscript{243} and is therefore not always impermissible, even if the notes are clearly intended for later use. Decisive in this regard will be whether the making of notes was permissible in terms of the will of the employer, regardless of whether his or her will was expressly stated (for instance in the terms of the employment contract) or was nevertheless clear by implication.\textsuperscript{244} Tracing drawings of machinery will be unauthorized even if the employee is permitted to view the drawings, the reason being that such drawings are made accessible for the purpose of utilisation in the course of employment, and not for copying.

In conclusion, it may be said that even though the delictual protection of trade secrets is in principle wider in ambit than the criminal protection provided for by section 17 of the German Unfair Competition Act, section 17 nevertheless exerts a strong limiting influence on the scope of delictual protection. The basic point of departure that the ex-employee should in principle be free to use the knowledge he or she has accumulated in the service of his or her previous employer, will only in special circumstances be departed from in cases where civil liability is sought.\textsuperscript{245} This

\textsuperscript{239} Baumbach-Hefermehl 1307.

\textsuperscript{240} Cf Baumbach-Hefermehl 1306: "Hier muß die Richter die Lebenserfahrung sprechen lassen. Freilich sind Begabung und Gedächtnis sehr verschieden."

\textsuperscript{241} Baumbach-Hefermehl 1306-1307 and examples cited.

\textsuperscript{242} Baumbach-Hefermehl 1307.

\textsuperscript{243} \textit{BGH GRUR} 60 294 (Kaltfließpreßverfahren); Baumbach-Hefermehl 1307.

\textsuperscript{244} Baumbach-Hefermehl 1307.

\textsuperscript{245} Cf the following remarks by Emmerich 143-144: "Das Problem konzentriert sich heute vor allem auf die Frage nach der Anwendbarkeit der Generalklausel (§ 1 UWG) auf einen 'Geheimnisverrat' durch Arbeitnehmer nach ihrem Ausscheiden bei dem Arbeitgeber jenseits der Fälle des § 17 II UWG. In diesen Fällen wäre es jedenfalls unzulässig, auf dem Wege über § 1 UWG in der Frage des zivilrechtlichen Geheimnisschutzes die dem § 17 UWG zugrundeliegenden gesetzgeberischen Wertungen zu überspielen. Wie schon ausgeführt... beruht nämlich die gesetzliche Regelung auf der Entscheidung des Gesetzgebers, daß sämtliche Beschäftigten nach ihrem Ausscheiden in der Verwertung ihrer Kenntnisse im Interesse ihres beruflichen Fortkommens grundsätzlich frei sein sollen, sofern sie ihre Kenntnisse nicht gerade auf unredliche Weise erlangt haben (§ 17 II UWG). Daraus folgt, daß einem Arbeitnehmer jenseits der Fälle des § 17 UWG eine Verwertung seiner Kenntnisse nach seinem Ausscheiden aufgrund des § 1 UWG nur auf Grund besonderer, zusätzlicher Umstände verboten werden darf." See further Kraßer in Jehoram (ed) 42-43; Nastelski 1957 \textit{GRUR} 5-8.
situation has been lamented by some authors, who are of the opinion that (for the purposes of civil law protection at least) the ex-employee is overprotected and the trade secret owner underprotected. The problem of an ex-employee utilising the trade secret of his or her former employer is essentially a classical conflict of interests. On the one hand, there is the employer's interest in the continued secrecy of his or her trade secret - on the other the ex-employee's interest in furthering his or her new career with all the knowledge and skill at his or her disposal. Where the employee has obtained the secret in an unreasonable way, the scale is tipped in favour of the employer. Where the employee has obtained the secret in a reasonable way, German criminal law clearly favours the employee. However, Nastelski argues persuasively that the interest of the ex-employee to further his or her chosen calling and the interest of the ex-employer in the continued secrecy of his or her trade secrets are not the only interests at stake. He admonishes that sight should not be lost of all the other employees remaining in service, who may all be adversely affected if damage is done to the employer's business by the departing employee. There are thus, Nastelski argues, apart from considerations of fairness, also economical and social reasons for extending the protection of trade secrets against departing employees beyond current limits.


247 Cf Nastelski 1957 GRUR 7-8.

248 Cf Baumbach-Hefermehl 1310; Mes 1979 GRUR 587 (see fn 219 above).

249 Cf Baumbach-Hefermehl 1310.

250 1957 GRUR 7.
4.4.2 INDUSTRIAL ESPIONAGE

The original text of the Gesetz gegen den unlauteren Wettbewerb did not attach criminal sanctions or delictual liability to industrial espionage. Section 17 dealt with only two types of trade secret infringements - betrayal by employees and use or disclosure by a wider category of possible wrongdoers. This position was changed in 1986 by the Zweites Gesetz zur Bekämpfung der Wirtschaftskriminalität, inserting the present section 17(2)(1), which prohibits the surreptitious acquisition of trade secrets in certain specified ways. This section appears to adequately cover industrial espionage in its most common forms. However, if the spy obtains knowledge of a trade secret and is able to retain it in his or her memory without using some technical means or without securing it in some concrete form, he or she will not be criminally liable. This will obviously only be possible in cases of either fairly uncomplicated trade secrets or exceptionally gifted spies, but points to a weakness in the legal protection against industrial espionage.

4.4.3 INNOCENT RECIPIENTS

As noted, intention is a requisite for criminal liability in terms of the various sections of the Gesetz gegen den unlauteren Wettbewerb protecting trade secrets, whereas for delictual liability negligence suffices. This raises the question of relief against a third party who innocently, but contrary to the will of the owner, acquires knowledge of a trade secret. Since an interdict may be granted in the absence of fault, it appears at first blush to be a suitable remedy for this type of situation. However, in an old case the Reichsgericht expressed the view, without holding so, that if a third party had been in good faith when he acquired the secret, an interdict would not be available against him when he later learned that it was the

251 See eg Baumbach-Hefermehl (12th ed 1978) 1441. For an in-depth analysis of arguments offered in favour of law reform under the old dispensation, see Krüger 103ff. For a discussion of protection against industrial espionage under the old dispensation, with the accent on matters of criminal procedure, see Kragler 1982 DB 98, and for a more comprehensive treatise Kragler 1ff. See further Tiedemann 1974 ZStW 1029ff.

252 155 1986 (BGBl I 721).

253 As noted in par 4.2.2.1.2.1 above; cf Metzler 8.

254 Cf par 4.2.2.1.2.1 above.

255 Par 4.2.2.1-4.2.2.4 above.

256 Par 4.3.2 above.

257 RG GRUR 39 308 (Filtersteine); cf Wise 4.121-4.122.
owner's secret. Henkels\textsuperscript{258} has suggested that a recipient in good faith could not be interdicted during the time he was unaware that he had acquired knowledge of the owner's trade secret, but once he had learned the true state of affairs an interdict could be issued against him. However, if he had incurred substantial expense in preparation for use of the secret whilst still in good faith, an interdict would not be available.\textsuperscript{259, 260}

4.4.4 DURATION OF PROTECTION

A question that remains unresolved is whether an interdict may be issued against a wrongdoer who has caused the trade secret to fall in the public domain against the will of the owner - this would imply that the legal protection of a trade secret can in certain circumstances outlast the existence of the secret itself. The Bundesgerichtshof\textsuperscript{261} has declined to express an opinion in this regard. Some German commentators\textsuperscript{262} are of the opinion that an interdict of limited duration may be appropriate - after a trade secret has fallen into the public domain - to deprive a misappropriator of the unfair competitive advantage gained. They seem to be of the opinion that the duration of the interdict should in such a case correspond with the length of time which the infringer would have required to prepare for the practical implementation of the relevant information, if he or she had not had unauthorized access thereto prior to its falling into the public domain.\textsuperscript{263}

It will be remembered that there is some measure of dispute as to whether section 18 of the Gesetz gegen den unlauteren Wettbewerb protects only designs that are trade secrets, or whether it also extends its protection to designs not strictly secret,

\textsuperscript{258} Henkels 56-57; cf Wise 4.122-4.123.

\textsuperscript{259} Wise 4.122 points out that Henkels refers only to interdicts restraining further use of trade secrets, and expresses the opinion that Henkels would probably have applied the same conclusion to interdicts prohibiting disclosure. Wise also comments on the similarity between Henkels' suggestions and first American Restatement sec 758 (cf par 3.4.3 above).

\textsuperscript{260} By way of analogy, the opinion of Henkels seems to harmonize well with the strong protection afforded to good faith by the Bürgerliches Gesetzbuch in the field of the law of things. (Secs 932-935 provide that in certain circumstances ownership is conferred to a person who obtained possession of a thing in good faith, even though the person from whom he obtained possession was not in a position to transfer ownership of the thing. Cf eg Baur 464-483; Goldmann 683-685; Wieling 111-117.)

\textsuperscript{261} BGH GRUR 60 554 555 (Handstrickverfahren); cf Wise 4.124-4.125.

\textsuperscript{262} Cf the authorities cited by Wise 4.125ff.

\textsuperscript{263} Wise 4.128 comments that these views are reminiscent of the English "springboard doctrine" (par 2.2.1.2.3; 2.4.4 above).
but confided to the alleged wrongdoer in a relationship of confidence.\textsuperscript{264} If the last-mentioned possibility were the correct one, the implication would obviously be that an interdict issued to protect such a design might be protecting subject matter that was not strictly secret.\textsuperscript{265}

An instance where injunctive relief may be awarded - after the secret has fallen into the public domain - against a party who was not responsible for the secret thus becoming public knowledge, is the case of identical or "slavish" copying (\textit{sklavische Nachahmung}). In the \textit{Wurftaubenpresse}\textsuperscript{266} case the \textit{Bundesgerichtshof} stated that even if the machine copied was not subject of a trade secret (any longer), the identical imitation thereof would still be wrongful in terms of the general clause against unfair competition in section 1 of the \textit{Gesetz gegen den unlauteren Wettbewerb}, and a plea for injunctive relief could be well founded in such a case.\textsuperscript{267}

\section*{4.5 LEGAL BASE OF TRADE SECRET PROTECTION IN GERMAN LAW}

\subsection*{4.5.1 CRIMINAL LAW}

As noted,\textsuperscript{268} the protection of trade secrets in German law is primarily a function of criminal law. Nastelski explains\textsuperscript{269} the pre-eminence of penal protection in this field on two grounds. In the first place, he points out, trade secrets are particularly prone to infringement by employees, and since they may frequently be impecunious, claims for damages would often bring little relief to the plaintiff. Furthermore, the ephemeral nature of trade secrets means that they may easily be destroyed by disclosure. In the light of these two considerations, Nastelski argues, the protection of criminal law, with its deterrent value, is appropriate.

\textsuperscript{264} Par 4.2.2.2 above.

\textsuperscript{265} Cf Wise 4.128-4.133.

\textsuperscript{266} \textit{BG GRUR} 61 40; cf Wise 4.134.

\textsuperscript{267} In such a case, trade secret misappropriation is not really the basis of liability - cf par 8.2.2.2.3.1 below.

\textsuperscript{268} Par 4.1; 4.2 above.

\textsuperscript{269} 1957 \textit{GRUR} 2.
4.5.2 DELICT

While it is abundantly clear that trade secret protection in German law is in the first instance a matter of criminal law, it is equally clear that trade secret protection is not confined to that sphere. The obvious private law corollary of the criminal law protection of trade secrets is the protection afforded by the law of delict.\(^{270}\) As noted,\(^{271}\) such protection may be based either on section 19 (in conjunction with sections 17 or 18) of the Gesetz gegen den unlauteren Wettbewerb, or section 1 of the same Act, or on sections dealing with general delictual liability in the Bürgerliches Gesetzbuch.

4.5.3 CONTRACT

Section 17(1) of the Gesetz gegen den unlauteren Wettbewerb deals specifically with a contractual relationship, namely that of employer and employee. The section defines fairly exhaustively conduct constituting unlawful trade secret infringement in such a relationship, and does not leave room for the parties to the employment contract to vary those statutory provisions in their agreement. During subsistence of the employment contract, the protection of trade secrets may thus be typified as *ex lege* in origin, rather than *ex contractu*. However, after termination of the contract, the employee is in principle free to use the trade secrets he or she has learnt whilst in the employ of his or her former employer.\(^{272}\) This is where a contractual agreement for the protection of those trade secrets may be of value to the employer who desires to ensure the continued secrecy of his or her trade secrets.\(^{273}\) As noted,\(^{274}\) such an agreement will be valid if it seeks to protect subject matter qualifying as trade secrets. An agreement that goes further to effectively hinder the ex-employee in practising his or her chosen calling, will be seen as a restraint of trade in terms of section 74 of the Handelsgesetzbuch, and will be void in the absence of agreed-upon compensation.\(^{275}\)

\(^{270}\) Cf Emmerich 15; Von Gamm 66.

\(^{271}\) Par 4.2.2.5 above.

\(^{272}\) Par 4.4.1 above.

\(^{273}\) Cf par 4.4.1 above; Nastelski 1957 *GRUR* 5. However, Mes 1979 *GRUR* 588 doubts the effectiveness of contractual protection in the light of statutory limitations on agreements in restraint of trade.

\(^{274}\) Par 4.4.1 above.

\(^{275}\) Cf par 4.4.1 above.
Outside the employment context, some sections of the German Act against Restriction of Competition - the Gesetz gegen Wettbewerbsbeschrankungen - are applicable to contractual agreements concerning certain types of trade secrets.\textsuperscript{276} Section 21 provides that section 20 shall be applicable to agreements on the transfer and use\textsuperscript{277} of statutorily unprotected inventive efforts, processes of production, construction, other technical efforts enlarging the art, or unprotected efforts in the field of plant breeding, advancing plant cultivation, in so far as such efforts constitute industrial trade secrets (Betriebsgeheimnisse). Section 20(1) provides that agreements concerning the acquisition or use of patents, registered designs, or protected seed varieties are invalid in so far as they impose on the acquirer or licensee any restrictions in his business conduct which go beyond the scope of the protected right. Restrictions pertaining to the type, extent, quantity, territory or period of exercise of such a right shall not be deemed to exceed its scope. Section 20(2) lists five types of contractual restrictions on the licensee or assignee that will be valid in so far as they do not extend beyond the expiration of the right acquired or in respect of which a licence is granted.\textsuperscript{278} Section 20(3) provides that, on application, the cartel authorities may approve an agreement of the type described in section 20(1), if the freedom of economic activity of the acquirer or licensee or other enterprises will not be unfairly restricted, and if competition in the market will not be substantially restrained. Lastly, section 1 of the Gesetz gegen Wettbewerbsbeschrankungen may also be applicable to contractual agreements concerning trade secrets. The section provides that agreements made for a common purpose by enterprises or associations of enterprises, and decisions of associations of enterprises, are invalid in so far as by restraining competition, they are likely to influence production or market conditions with respect to trade in goods or commercial services.\textsuperscript{279}

\textsuperscript{276} Cf KraBer in Jehoram (ed) 47; Wise 4.143ff.

\textsuperscript{277} These provisions are thus particularly applicable to licensing agreements. On the licensing of trade secrets in general, cf Ostertag and Ostertag 69-70; Wise 4.253ff.

\textsuperscript{278} These are the following:

- restrictions imposed upon the acquirer or licensee in so far as and so long as they are justified by an interest of the seller or licensor in a technically satisfactory exploitation of the protected right;
- obligations of the acquirer or licensee with regard to the price to be charged for the protected article;
- obligations of the acquirer or licensee to exchange experience (know-how) or to grant licences for improvements on, or applied uses of, an invention, in so far as these obligations correspond to like obligations of the patentee or licensor;
- obligations of the acquirer or licensee not to challenge the protected right; and
- obligations of the acquirer or licensee relating to the regulation of competition in markets outside the jurisdiction area of the Act.

\textsuperscript{279} Cf Wise 4.145.
As noted, section 18 of the Gesetz gegen den unlauteren Wettbewerb is applicable to situations where a relationship of confidence exists. Such a situation may arise in a contractual relationship, but also in the absence of a contract, for instance during pre-contractual negotiations. As in section 17(1), the section describes exhaustively the wrongs that can be committed in respect of trade secrets in these situations, and contractual agreements to the contrary seem to be out of the question.

4.5.4 PROPERTY

For the purposes of an enquiry whether trade secrets constitute property in the German legal system, the term 'property' must, it seems, be understood to signify at least three distinct concepts:

(a) property in its narrow, private law sense, that is, tangible things;
(b) intellectual property (Immaterialgüter); or
(c) property for the purposes of the Constitution (Grundgesetz).

The notion that a trade secret can constitute property in its narrow private law sense is easily refuted, since a trade secret is always an intangible asset, even though it may be embodied in a physical object. A property right in the sense of a real right (dingliches Recht), on the other hand, can in German law only exist in respect of tangible objects.

Whether a trade secret can constitute intellectual property, is dealt with below, when the notion of an independent subjective right to the trade secret is considered.

As to whether a trade secret can constitute property for the purposes of constitutional law, no unambiguous answer is gained from case law or commentators. Authors indicate that the protection of property (Eigentum) by the German Constitution is wide enough in principle to cover trade secrets. However, doubts have been expressed whether the trade secret in all its various guises should be regarded as an

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280 Par 4.2.2.2 above.
281 Par 4.2.1 above.
282 Sec 90 BGB; Müller 6-7; Scwab and Prütting 1; Wise 4.29ff.
283 Par 4.5.5.
284 Cf Stadler 36-37; Pfister 46-47; Hauck 246ff; Mes 1979 GRUR 587.
285 Sec 14(1) GG.
independent form of property for the purposes of constitutional law, and it has been suggested\textsuperscript{286} that it should rather be protected as an element of the business undertaking.\textsuperscript{287}

4.5.5 SUBJECTIVE RIGHT

The question here is whether a trade secret may be the object of a subjective right. In the first place it must be considered whether a trade secret can be the object of an independent subjective right, that is, whether there is room in the German system of subjective rights for an independent right to the trade secret as such. In the second place it must be considered whether a trade secret may be indirectly protected as an element of an object of some other subjective right.\textsuperscript{288}

4.5.5.1 SUBJECTIVE RIGHT TO THE TRADE SECRET

In the \textit{Dücko} decision\textsuperscript{289} it was held that once the inventor of a secret process had made his intention of economically exploiting it manifest, the invention ceased to be (the object of) a right attached to the personality of its owner. Where the owner had thus revealed that he considered this invention as a property asset and exploited it as such, the secret process indeed formed part of the business property, regardless of whether it was based on a patentable invention or not. It would thus fall into a bankrupt estate, since it would then represent an alienable property right.

In spite of the strong authority of the \textit{Dücko} decision that trade secrets constitute property, this proposition does not appear to enjoy general acceptance among the courts and commentators.\textsuperscript{290} Gerlach,\textsuperscript{291} for instance, asserts that the \textit{Dücko}
decision did not imply that a trade secret could be the object of a subjective right when holding that the owner had an Ausschlußrecht to the secret. While it is true that section 17 of the Gesetz gegen den unlauteren Wettbewerb is a Schutzgesetz for the purposes of section 823(2) of the Bürgerliches Gesetzbuch, this does not necessarily imply that a trade secret can be object of an absolute right. A Schutzgesetz need not protect an absolute right - it could also protect interests of for instance an economic nature. According to Gerlach, the Dücko decision must be understood to say that a trade secret is only an element of the broader right of the proprietor of a business to the unhindered operation of that business, and not that the secret is itself object of an absolute right. He finds further support for his view in the fact that the first user of a trade secret cannot enjoin an independent discoverer of the same secret from using it.

Kraßer notes that the argument that trade secrets may be protected in terms of section 823(1) of the Bürgerliches Gesetzbuch, presupposes that (unauthorized) disclosure or use of a trade secret can be regarded as an infringement of a subjective right. However, he cautions, the legal nature of trade secrets has not been adequately developed in this regard. Recognition of such a subjective right does not necessarily follow from sections 17 and further of the Gesetz gegen den unlauteren Wettbewerb - these provisions rather point only to a protected interest. If one should insist on talking of such a right, it should be clear that such an approach is a change in terminology rather than in substance, and cannot justify extension of the protection of trade secrets beyond that provided for in sections 17 and further. As regards the Dücko decision, Kraßer says that although the court recognized an exclusive right to a secret process, the court has yet to apply this argument to establish protection of a secret itself.

However, some authors argue persuasively in favour of the recognition of a subjective

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292 Cf par 4.5.5.2 below.

293 In Jehoram (ed) 42-43; cf Kraßer 1970 GRUR 587 594; Wise 4.43-4.44.

294 1970 GRUR 594: "§§ 17 ff UWG zwingen nicht zur Annahme eines subjektiven Rechts; sie deuten nur auf ein geschütztes Interesse, ein Rechtsgut hin."

295 Cf further Knieper 60-67 (cf Wise 4.32ff): a trade secret is similar to other property to which subjective rights exist. However, the absence of one essential element stands in the way of recognizing a subjective right to a trade secret, namely formal recognition by the German legal order; Troller 1958 GRUR (Ausl und Int Teil) 387: trade secrets are Immaterialgüter (intangible objects); but the possessor of such an intangible asset does not have a right thereto - he is rather in a factual situation to which the law attaches legal protection; Hauck 298ff; Stadler 40; Wise 4.27.
right to the trade secret. Mes, for instance, is of the opinion that a "verdinglichung" of a right to the trade secret will contribute to a more comprehensive and at the same time a more flexible protection of trade secrets. He does not regard the vulnerability of trade secrets to independent discovery by others as fatal for the recognition of a sonstiges Recht for the purposes of section 823(1) of the Gesetz gegen den unlauteren Wettbewerb, citing examples from German copyright and patent law in support. He cites the Dücko and Kokillenguß decisions as characterizing a trade secret as a patrimonial right with an operation of exclusivity against other legal subjects (ein Vermögensrecht mit Ausschließlichkeitswirkung). Mes asserts that the case law employs a double measure - on the one hand there is a tendency to treat a trade secret as object of a sonstiges Recht, but on the other hand this is only the case, he says, where it is unnecessary to protect a trade secret against misappropriation by an ex-employee.

In a similar vein, Henkels states that a trade secret is intellectual property, that is, the object of an incomplete property right giving the holder the capacity to use the secret, dispose thereof, and prevent third parties from acquiring, disclosing or using the secret without authorization. The last-mentioned capacity is not absolute, since the holder cannot, except by contract, prevent a third party who independently develops the same secret from using or disclosing it. He can furthermore not prevent

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296 1979 GRUR 584.

297 In respect of eg patent law, he points out (591) that before an inventor has obtained a patent, he has a right to his invention that is recognized as a sonstiges absolutes Recht for the purposes of sec 823(1) UWG, even though before issue of the patent he does not have the capacity to exclude third parties from using the invention.

298 BGH 17 41.

299 It would be more correct, it is submitted, to regard a trade secret as object of a patrimonial right rather than a right itself, but the German commentators do not seem to use the terminology in such a manner - cf the views of Hubmann and Pfister cited in fn 304 below.

300 Furthermore, he is of the opinion that for the purposes of public competition law, the lawmaker has made a trade secret a patrimonial asset by section 21 of the Gesetz gegen Wettbewerbsbeschränkungen. He also finds it significant that in eg the Prozeßrechner decision (BGH GRUR 77 539f) a method to calculate damages normally used in cases dealing with gewerbliche Ausschließlichkeitsrechte, viz the reasonable-payment-for-a-licence analogy (par 4.3.1 above), was used in a trade secret case.

301 For the purposes of sec 823(1) BGB - par 4.2.2.5 above.

302 In the final analysis, however, Mes says that it does not really matter whether an independent subjective right to the trade secret is recognized, or whether the trade secret is seen as an element of the right to an established and operating business enterprise - par 4.5.5.2 below.

303 35ff; cf Wise 4.36ff.
use or disclosure by an ex-employee (except by contract) unless special circumstances are present.304

4.5.5.2 TRADE SECRET AS ELEMENT OF THE OBJECT OF A SUBJECTIVE RIGHT

The right to an established and operating business enterprise (Recht am eingerichteten und ausgeübten Gewerbebetrieb) is regarded as one of the miscellaneous rights referred to in section 823(1) of the Bürgerliches Gesetzbuch.305 The question arises whether a trade secret can be an element of the object of this right. The courts have not yet spoken the final word on this issue,306 but most commentators seem to agree that infringement of a trade secret constitutes an infringement of the right to an established and operating business.307

Baumbach-Hefermehl state308 that an action for damages for trade secret misappropriation may be based on section 823(1) of the Bürgerliches Gesetzbuch, because such misappropriation constitutes an infringement of the right to the business enterprise (das Recht am Gewerbebetrieb). They regard309 the recognition in the Dücko decision310 of an Ausschlußrecht to a secret process

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304 Cf further Hubmann 305: A trade secret is to be regarded as an absolute right; Pfister 31ff 93: A technical secret is [object of cf] a subjective right, and specifically a patrimonial right (Vermögensrecht). This right is a sonstiges Recht for the purposes of section 823(1) of the Bürgerliches Gesetzbuch (93 167). As such, the technical secret deserves independent protection, and is not to be protected only in so far as it is employed in a business enterprise (83) - "Warum soll ein Geheimverfahren, nach Ansicht des Bundesgerichtshofe ein "Vermögensrecht", nur insoweit geschützt werden, als es in einem Gewerbebetrieb verwendet wird[?] Ein Geheimverfahren kann doch... von einem Unternehmen völlig losgelöst eine eigene Existenz, ein eigenes Schicksal haben. Verdienen der Privaterfinder oder der Arbeitnehmerfinder weniger Schutz? Ist immerhin der allgemeine Sonderschutz des Unternehmens zu rechtfertigen, weil dadurch Werte geschützt werden, die Nichtunternehmer nicht haben..., so ist es nicht zu rechtfertigen, einen einzelnen, selbständigen Vermögensgegenstand, der sowohl im Rahmen eines Betriebes als auch in der Hand eines Privaten einen erheblichen Wert darstellen kann, nur als Teil des Unternehmens zu schützen. Dabei ist allerdings zuzugeben, daß technische Geheimnisse praktisch in der Regel im Unternehmen von Bedeutung sind."

305 Baumbach-Hefermehl 77-78 80-82.

306 The question was left open in the Industrieböden case (BGH 38 392 395); cf Baumbach-Hefermehl 1309; Kraßer in Jehoram (ed) 43.

307 Cf Kraßer in Jehoram (ed) 43, especially fn 73.

308 1309.

309 1310.

310 Par 4.5.5.1 above.
(Geheimverfahren) as an exceptional case, denying emphatically\textsuperscript{311} that there is such a right to the trade secret giving the trade secret owner the capacity to exclude all third parties from using the secret. To determine wrongfulness when legal protection is founded on the trade secret as valuable element of the patrimony of the business enterprise, a balancing of interests is required.\textsuperscript{312} \textsuperscript{313} In the case of design piracy according to section 18 of the Gesetz gegen den unlauteren Wettbewerb,\textsuperscript{314} they say\textsuperscript{315} that the business undertaking is harmed in its reputation and clientele. The design piracy is an act of competition that is \textit{contra bonos mores} because it is founded on a misuse of confidence. No right of personality or property right of the proprietor is infringed.\textsuperscript{316}

\textsuperscript{311} With reference to the Handstrickverfahren case (BGH GRUR 60 554 557) and Kraßer 1977 GRUR 177 185.

\textsuperscript{312} 1310: "[A]n einem Betriebs- oder Geschäftsgeheimnis besteht kein Ausschlußrecht, das dem Erwerber ermöglicht, jedem Dritten die Benutzung des Geheimnisses zu verbieten... Für den unternehmensrechtlichen Schutz des Betriebsgeheimnisses als wertvoller Bestandteil des Betriebsvermögens kommt es für die Rechtswidrigkeit des Eingriffs auf eine \textit{Interessenabwägung} an, die bei einem früheren Beschäftigen, dessen Fortkommensinteresse besonders zu berücksichtigen ist, anders ausfällt als etwa bei einem ausgeschiedene Gesellschafter oder einem Betriebsinhaber."

\textsuperscript{313} See Baumbach-Hefermehl 74ff for further elucidation on the nature of the rights, interests and legal objects at stake in the German law of unlawful competition in general. They distinguish between a right to the undertaking (\textit{Recht am Unternehmen}) and the right to an established and operational business enterprise (\textit{Recht am eingerichteten und ausgeübten Gewerbebetrieb}). The \textit{Unternehmen} is a protected legal asset (\textit{ein geschütztes Rechtsgut}), but the right thereto is not an absolute subjective right, nor is it a \textit{sonstiges Recht} for the purposes of sec 823(1) BGB. The wrongfulness of an interference with the \textit{Unternehmen} can only be determined by a weighing up of interests. The \textit{Recht am eingerichteten und ausgeübten Gewerbebetrieb}, on the other hand, is recognized by the courts as a \textit{sonstiges Recht} for the purposes of sec 823(1) BGB. A direct infringement of this right will always (presumably in the absence of a ground of justification) be wrongful, and the implication is apparently that in such a case a balancing of interests is not called for. However, when dealing with the infringement of a trade secret as element of the business enterprise, and more specifically in an ex-employer-employee relationship, Baumbach-Hefermehl state (1310) that wrongfulness for the purposes of sec 823(1) BGB - which, as has been seen, means that relief must be based on an infringement of the \textit{Recht am eingerichteten und ausgeübten Gewerbebetrieb} - will entail a weighing up of interests.

\textsuperscript{314} Par 4.2.2.2 above.

\textsuperscript{315} 1313: "Durch die mißbrauchliche Verwendung einer Vorlage wird der Geschäftsinhaber nicht in seinem Persönlichkeitsrecht verletzt. Es wird auch nicht ein Eigentums- oder Ausschließlichkeitsrecht verletzt. Die Vorlagenfreibereitheit schädigt als Wettbewerbshandlung das Unternehmen an Ruf und Kundschaft. Diese Schädigung verstößt gegen die guten Sitten, weil sie auf einem Mißbrauch des Vertrauens Beruht."

\textsuperscript{316} In a similar vein, Gloy 402 states that trade secrets can be protected under section 823(1) of the \textit{Bürgerliches Gesetzbuch} as elements of the right to the business enterprise ("als Bestandteile des Rechts am Gewerbebetrieb"), adding that this protection does not have an absolute operation of exclusivity against all other legal subjects - rather a comprehensive balancing of interests is required in each particular case. Cf Metzler 186-187.
According to Von Gamm, the object of protection in section 17 of the Gesetz gegen den unlauteren Wettbewerb is the unhindered operation of the business enterprise (die ungestörte Ausübung des Gewerbebetriebes). The protection afforded by this section serves in the first place the undertaking (das Unternehmen), but also serves the public interest in so far as it protects the economy that is increasingly dependent on the securing of know-how. Section 17(1) furthermore involves the duty of fidelity of the employee during the existence of the employment relationship. Section 18 also protects the ungestörte Ausübung des Gewerbebetriebes in the individual interest of the proprietor as well as in the public interest. Here Von Gamm adds that section 18 forbids the striving to a competitive advantage by means of a breach of confidence.

Nastelski explains that whereas the courts initially only protected the (object of) the Recht am eingerichteten und ausgeübten Gewerbebetrieb in so far as there was a direct infringement of the business enterprise as such, protection was later also given against direct infringements of its various elements, to which the entire circle of competitive activities is regarded to belong. In this way trade secrets have also been brought under the protection of section 823(1) of the Bürgerliches Gesetzbuch.

It is noteworthy that both Mes and Nastelski regard the further development of the protection of the trade secret as (indirect) object of a subjective right in terms of section 823(1) of the Bürgerliches Gesetzbuch, as the best way to remedy the unsatisfactory position of the trade secret owner as against his former employee in

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317 986 998.
318 1005.
319 See further Von Gamm 65-68 on the legal interests protected by the UWG in general.


321 1979 GRUR 590ff.
322 1957 GRUR 6-7.
German law.\textsuperscript{323}

4.5.6 SYNTHESIS

In conclusion, the civil law protection of trade secrets in German law may be based either on delict (which is, to a certain extent, a by-product of criminal law provisions) or contract. There is some support in case law, as well as among commentators, for an independent subjective right to the trade secret, but according to the more generally accepted view, trade secrets are protected as an element of the business enterprise.

\textsuperscript{323} As noted in par 4.5.5.1 above.
CHAPTER 5

THE INTERNATIONAL GATT AGREEMENT
ON TRADE-RELATED ASPECTS OF
INTELLECTUAL PROPERTY RIGHTS (TRIPS)

The General Agreement on Tariffs and Trade (GATT) came into force in 1948\(^1\) and is currently subscribed to by over a hundred countries.\(^2\) It was borne out of a desire of economic policy-makers, after the second world war, to move away from economic nationalism toward international cooperation and interdependence.\(^3\) The GATT thus aims to liberalize world trade through the creation of a trading system based on open markets and fair competition secured through agreed multilateral rules.\(^4\) It has been described as a contract through which nations exchange access to their own domestic markets in return for access to the domestic markets of other nations.\(^5\) The GATT operates in three ways, namely:

(a) by determining the fundamental rules for trade governing the trade behaviour of governments through multilateral agreement;
(b) as a forum for trade negotiations where the trade environment is liberalized, markets are opened and the rules themselves examined and/or extended; and
(c) as a forum for the settlement of disputes between member states (as a type of international court).\(^6\)

Since the establishment of the GATT, eight rounds of multinational trade negotiations - the "GATT Rounds" - seeking to reduce tariff barriers and other measures inhibiting free trade, have taken place.\(^7\) At the conclusion in December 1993 of the latest of these rounds, the Uruguay Round, an Agreement on Trade-Related Aspects of

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\(^1\) Roper 1.
\(^2\) Roper 17.
\(^3\) Lortie viii.
\(^4\) Roper 3.
\(^5\) Roper 4.
\(^6\) Roper 3.
\(^7\) Roper 10.
Intellectual Property Rights (TRIPs) was adopted. 8

5.1 THE GATT TRIPS AGREEMENT

Covering most recognized intellectual property rights, 9 and subscribed to by 117 signatory countries, 10 the GATT TRIPS agreement is probably the most far-reaching international agreement ever reached on intellectual property rights. 11 The TRIPS agreement is the first multilateral agreement of this nature in which trade secret protection is dealt with in some detail. 12

Part I of the TRIPS agreement sets forth general provisions and basic principles. The agreement is founded on three key principles: 13

(a) Minimum standards for the protection and enforcement of intellectual property rights in signatory states are established. Signatory states are not prevented from enforcing higher standards, as long as these do not undermine the effect of the TRIPS agreement. 14

(b) Each signatory country must protect nationals of other signatory countries by granting them the rights set forth in the Agreement. 15

(c) Each signatory country must give nationals of other signatory countries treatment no less favourable than that given to its own nationals with regard to the protection of intellectual property. 16 In this way the ideal of non-discrimination between foreigners and nationals in signatory countries is promoted. 17 In addition, any advantage, favour, privilege or immunity with regard to the protection of intellectual property granted by a signatory country to the nationals of any other country

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9 Cf Correa 1994 EIPR 327.

10 Worthy 1994 EIPR 195.

11 Cf Correa 1994 EIPR 327.

12 Worthy 1994 EIPR 197.


14 Art 1(1) of the TRIPs agreement; cf Worthy 1994 EIPR 195.

15 Art 1(3); cf Worthy 1994 EIPR 195.

16 Art 3.

17 Cf Correa 1994 EIPR 327.
must be granted to the nationals of all other signatory countries. In this way the ideal of non-discrimination between nationals of different foreign countries is promoted.

Part II of the Agreement deals with the various intellectual property rights in succession. Section 7 deals with the protection of undisclosed information. It provides that such information shall be protected in signatory countries in so far as:

"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".

"A manner contrary to honest commercial practices" is defined to mean "at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition".

Part III of the TRIPs agreement sets forth the obligations of signatory countries to provide procedures and remedies under their national laws to ensure that intellectual property rights can be effectively enforced, by foreign right-holders as well as by their own nationals. Remedies which must be available for intellectual property

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18 Art 4; cf Blakeney 1994 EIPR suppl iii; Correa 1994 EIPR 327; Worthy 1994 EIPR 195.
19 Cf Correa 1994 EIPR 327.
20 Art 39.
21 Art 39(2). Art 39(3) makes provision for the protection of test data submitted to governments or government agencies to obtain marketing approval for pharmaceutical or agricultural chemicals.
22 In fn 10.
23 Cf Blakeney 1994 EIPR suppl iii; Worthy EIPR 197.
infringement must include injunctions,\textsuperscript{24} damages for infringement of an intellectual property right by "an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity";\textsuperscript{25} costs;\textsuperscript{26} and orders for destruction of infringing items as well as materials and implements the predominant use of which has been the creation of infringing items.\textsuperscript{27} In addition, the judicial authorities of signatory countries must have the authority to order prompt and effective provisional measures, *inaudita altera parte* where appropriate, to prevent infringement of any intellectual property right from occurring, or to preserve evidence in regard to alleged infringement.\textsuperscript{28}

The *TRIPs* Agreement contains transitional provisions\textsuperscript{29} allowing developing countries to delay implementation of most of the *TRIPs* rules for up to five years.\textsuperscript{30} Developed countries must comply with the provisions of the Agreement within one year of its coming into force.\textsuperscript{31} A Council for Trade-Related Aspects of Intellectual Property Rights will be established to monitor the operation of the Agreement and the compliance of signatory countries with their obligations thereunder.\textsuperscript{32} Non-compliance may give rise to a dispute settlement procedure under the integrated *GATT* dispute settlement procedure rules,\textsuperscript{33} and, ultimately, commercial retaliatory measures by the country whose nationals are affected by such non-compliance.\textsuperscript{34}

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\textsuperscript{24} Art 44.

\textsuperscript{25} Art 45(1).

\textsuperscript{26} Art 45(2); cf Worthy *EIPR* 197. Art 45(2) furthermore provides that "[i]n appropriate cases, Members may authorize the judicial authorities to order the recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity". No indication is given what would amount to such "appropriate cases".

\textsuperscript{27} Art 46.

\textsuperscript{28} Art 50.

\textsuperscript{29} Art 65.

\textsuperscript{30} Cf Blakeney 1994 *EIPR* suppl iv; Correa 1994 *EIPR* 327; Worthy 1994 *EIPR* 198.

\textsuperscript{31} Cf Blakeney 1994 *EIPR* suppl iv; Worthy 1994 *EIPR* 198.

\textsuperscript{32} Art 68.

\textsuperscript{33} Art 64; cf Blakeney 1994 *EIPR* suppl iv; Correa 1994 *EIPR* 327.

\textsuperscript{34} Cf Correa 1994 *EIPR* 327.
5.2 SIGNIFICANT ASPECTS OF TRADE SECRET PROTECTION UNDER THE TRIPS AGREEMENT

The following significant aspects of trade secret protection as envisaged by the GATT TRIPs Agreement deserve to be emphasized:

(a) The requirements of protectable undisclosed information are:
   (i) secrecy, which is defined in terms of information not being generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
   (ii) commercial value as a result of its secrecy; and
   (iii) reasonable steps by the person lawfully in control thereof, to keep it secret.

(b) The requirements for legal intervention are that (i) information meeting with the above-mentioned requirements, must be (ii) disclosed, used or acquired (iii) without consent of the person lawfully in control of the information (iv) in a manner contrary to honest commercial practices. A contractual or confidential relationship between the person in lawful control of the information and the infringer is not a prerequisite for liability. A "manner contrary to honest commercial practices" includes breach of contract, breach of confidence, and the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

(c) Not only must the unauthorized use or disclosure of trade secrets be subjected to legal sanction, but right-holders must also be able to prevent the unauthorized acquisition of trade secrets. One practical consequence of this provision should be, it is submitted, that legal action against industrial espionage will be possible before any unauthorized use has been made of the secret and before disclosure thereof to others.

(d) Damages must be available in the case of both intentional and negligent (and possibly even innocent\textsuperscript{35}) infringements.

(e) Orders for destruction must be capable of application not only to

\textsuperscript{35} Cf fn 26 above.
infringing items, but also materials and implements used to produce such items.

(f) Anton Piller-type orders must be available not only to preserve evidence, but also to prevent infringement from occurring.

5.3 IMPLICATIONS OF THE GATT TRIPS AGREEMENT FOR TRADE SECRET PROTECTION UNDER THE NATIONAL LAWS OF SIGNATORY COUNTRIES

The GATT itself, and agreements under its auspices, are agreements of member governments and member organisations inter se. Only members can enforce rights existing in terms of the GATT. Individuals and commercial enterprises cannot do so themselves.36 A trade secret owner whose trade secret has been misappropriated, will therefore not be able to rely directly on the provisions of the TRIPs agreement in trade secret litigation. However, since the signatory countries have committed themselves to grant nationals of other territories the degree of trade secret protection provided for in the TRIPs agreement, the trade secrets law of these countries - of which South Africa is one - should be adapted, where necessary, to provide (at least) the degree of trade secret protection agreed upon in the TRIPs agreement.37

36 Bucher 58; Roper 5.

37 Cf in general Meng in Sacerdoti (ed) 69ff.
CHAPTER 6

A COMPARISON OF ENGLISH, AMERICAN
AND GERMAN TRADE SECRETS LAW
AND THE GATT TRIPS AGREEMENT

6.1 INTRODUCTION

In the previous four chapters the protection of trade secrets in the positive law - with particular emphasis on private law - of three Western legal systems was outlined, as well as the trade secret protection required by the GATT TRIPS agreement. Attention was also given to the various possible legal foundations of trade secret protection in the three legal systems surveyed. In this chapter some of the results of the previous four chapters are compared, with the purpose of establishing the common ground between the three systems on the one hand, but also, on the other hand, to expose the differences between them, in juxtaposition with the requirements of the GATT TRIPS agreement where applicable. This comparison is undertaken in the belief that it will lead to a better understanding of South African trade secrets law, and suggest ways in which South African trade secrets law may be improved.¹

6.2 THE NATURE OF TRADE SECRETS

Different definitions and descriptions of trade secrets are to be found in the three legal systems, but if the requirements for the existence of a trade secret in the three systems are compared, a remarkable degree of commonality may be discerned. (i) In all three systems, as well as according to the definition employed in the TRIPS agreement, trade secrets consist basically of information with certain qualities.² (ii) In all three systems trade secrets are information capable of commercial or industrial application.³ (iii) In all three systems and the TRIPS agreement, secrecy or confidentiality is required.⁴ (iv) In American law, economic value is recognized as an

¹ Cf David and Brierley 6-8; Van Zyl Regsvergelyking 18-22; Zweigert and Kötz 13-27.
² Par 2.2.1.2.1; 3.2.1.2.1; 4.2.1.2.1; 5.1; 5.2 above.
³ Par 2.2.1.2.2; 3.2.1.2.2; 4.2.1.2.2 above.
⁴ Par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 5.1; 5.2 above.
element of trade secrets in so many words.\textsuperscript{5} In German law the same requirement is recognized, albeit under a different name. Thus the *Geheimhaltungsinteresse* requirement of German law means that the trade secret owner must have an economic interest - worthy of legal protection - in the secret.\textsuperscript{6} In the cadre of unfair competition law, this means that the secret must enhance the competitive position of the trade secret owner.\textsuperscript{7} In English law an economic value requirement is not given much prominence, probably because information without any economic value may also be protected by the action for breach of confidence. However, some *dicta* may be found indicating that economic value is a constitutive element of a trade secret.\textsuperscript{8} The *TRIPs* agreement requires commercial value stemming from secrecy.\textsuperscript{9} (v) American law sets the further requirement that the relevant information be the subject of *reasonable efforts on the part of the owner to maintain secrecy*,\textsuperscript{10} while German law requires the owner to have a *Geheimhaltungswille* in respect of his secret.\textsuperscript{11} Thus in American law the focus falls more sharply on the objectively observable conduct of the owner,\textsuperscript{12} while the focus of German law is more on the subjective will of the owner, which may be made known expressly or may be deduced from the circumstances. Also in English law there is authority for a subjective requirement.\textsuperscript{13} Some *dicta* in English case law can even be understood to make the subjective belief of the owner (or other person trying to protect an alleged trade secret) the decisive factor to determine secrecy, which notion is open to criticism.\textsuperscript{14} The *TRIPs* agreement, like American law, requires reasonable steps to keep the information secret.\textsuperscript{15} (vi) *Concreteness* or potential concreteness has also been required in American positive law\textsuperscript{16} and by a German commentator.\textsuperscript{17} By this requirement is
meant that a mere theory cannot be a trade secret - the idea must be sufficiently
developed to be usable, or capable of embodiment in a tangible form, so as to exist
separately from its owner.\(^1\)

6.2.1 THE MEANING OF SECRECY

Arguably the most fundamental element of a trade secret, namely secrecy, is also
rather elusive in terms of its precise content in all three of the legal systems
surveyed.\(^1\) In all three systems the content of secrecy is formulated negatively and
rather vaguely. Thus in English law information is said to be secret if it is not in the
public domain;\(^2\) in American law it is said that matters of public or general knowledge
cannot be secret;\(^3\) while in German law information will be secret if it is \textit{nicht
offenkundig} (not public).\(^4\) The similarity is obvious. In all three systems secrecy has
also been defined in terms of difficulty of access.\(^5\) The \textit{TRIPs} agreement defines
"secret" as

"not... generally known among or readily accessible to persons within the
circles that normally deal with the kind of information in question".\(^6\)

It is furthermore clear that in all three systems secrecy is a relative, not an absolute,
concept. Thus secrecy will not necessarily be excluded if the relevant information is
known to a limited number of people, which may include some of the alleged trade
secret owner's competitors.\(^7\) It is generally acknowledged that a second person may
discover the secret by fair means - for instance "double invention"\(^8\) - without
secrecy being destroyed as a matter of course, depending amongst other things on

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\(^1\) Par 4.2.1.2.6 above.
\(^2\) Par 3.2.1.2.6; 4.2.1.2.6 above.
\(^3\) Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3 above.
\(^4\) Par 2.2.1.2.3 above.
\(^5\) Par 3.2.1.2.3 above.
\(^6\) Par 4.2.1.2.3 above.
\(^7\) Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3 above.
\(^8\) Par 5.1; 5.2 above.
\(^9\) Par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3 above.
\(^10\) Cf par 2.2.1.2.3; 2.5.3 fn 286; 3.2.1.2.3; 3.5.3; 4.2.1.2.3; 4.5.5.1 above.
whether the second person elects to keep it secret or not\textsuperscript{27} (and in English and American law, reverse engineering is recognized as a lawful way for such a second person to acquire access to a trade secret).\textsuperscript{28} In all three systems, as well as according to the \textit{TRIPs} agreement, secrecy need only pertain to the secret as a whole, and some of its elements or constituent parts may be public.\textsuperscript{29}

Again, the three systems are in agreement that a wide enough disclosure or publication of the trade secret destroys secrecy and usually terminates the existence of the trade secret as an asset susceptible of legal protection.\textsuperscript{30} Interestingly, in all three systems a study of the protection of trade secrets also results in encounters with the protection of non-secret information by related branches of the law.\textsuperscript{31}

### 6.3 MISAPPROPRIATION

In theory three categories of trade secret misappropriation are possible - unauthorized acquisition, unauthorized use and unauthorized disclosure. This does not mean that any conduct falling in one of these three categories will necessarily give rise to liability. Each legal system has its own particular positive law rules which must be complied with before an interference with a trade secret will be judged an actionable misappropriation. In English law, the parameters of liability are largely drawn by the requirements of the action for breach of confidence.\textsuperscript{32} In American law, the ambit of protection is determined by the legal rules developed by the courts and, more recently, by the legislature concerning the tort of trade secret infringement.\textsuperscript{33} Lastly, in German law, liability is largely confined to specific forms of conduct exhaustively

\textsuperscript{27} Par 3.2.1.2.3 above.

\textsuperscript{28} Par 2.2.1.2.3; 3.2.1.2.3 above. In German law, reverse engineering will usually fall foul of the provisions of sec 17(2)(1) \textit{UWG}, and will then be unlawful - cf par 4.2.2.1 above.

\textsuperscript{29} Par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 5.1 above.

\textsuperscript{30} Par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3 above.

\textsuperscript{31} Eg in English law the possible protection of non-secret information by the springboard doctrine (par 2.2.1.2.3), by contract (par 2.2.2.1.1.1), and in employment relationships (par 2.4.1); in American law the granting of perpetual injunctions in certain jurisdictions (par 3.4.4; 3.5.2), the wide ambit of the employee’s duties during subsistence of the employment relationship (par 3.4.1), and the possible protection of information not amounting to a trade secret by contract (par 3.5.1); and in German law the granting of an interdict to prevent unlawful competition in the form of the slavish copying of a competitor’s products (par 4.4.4), and (possibly) some applications of sec 18 \textit{UWG} (par 4.2.2.2).

\textsuperscript{32} Par 2.1 above.

\textsuperscript{33} Par 3.1 above.
defined by statute, although the courts have some scope for extension of delictual liability beyond those confines.\textsuperscript{34}

When comparing the factual situations of trade secret interference in which liability can currently arise in the three legal systems, a number of conclusions may be drawn. In the first place, parties to a contract may - within the parameters imposed by the contract laws and other applicable laws of the respective legal systems - determine by agreement the circumstances under which unauthorized acquisition, use, or disclosure will be actionable.\textsuperscript{35} The situations where liability will be imposed \textit{ex lege}, and irrespective of whether the parties are in a contractual relationship or not, may be systematized as follows:

(a) Unauthorized \textit{acquisition} of a trade secret, for instance by industrial espionage, can give rise to liability in American and German law under certain circumstances. In American law it is required that the acquisition took place by improper means, such as theft, bribery, misrepresentation, breach of contract, inducement of breach of contract, or espionage.\textsuperscript{36} In German law unauthorized acquisition by the employment of technical means, the making of a physically embodied rendering of the secret, or by the removal of a physical article in which the secret is embodied, will be actionable if accompanied by one of a closed number of subjective motives or intentions.\textsuperscript{37} In English law it is, at best, highly uncertain whether a mere unauthorized acquisition of a trade secret may give rise to liability.\textsuperscript{38}

(b) In all three legal systems, the unauthorized \textit{use} or \textit{disclosure} of a trade secret can give rise to liability under certain circumstances:

(i) In English law, such use or disclosure will give rise to liability if an obligation of confidence was breached thereby.\textsuperscript{39} An

\textsuperscript{34} Par 4.1; 4.2.2.5 above.

\textsuperscript{35} Cf par 2.2.2.1.1; 2.5.1; 3.5.1; 4.5.3 above.

\textsuperscript{36} This is the position in states that have adopted the Uniform Trade Secrets Act - par 3.2.2 above. See further par 3.4.2 above.

\textsuperscript{37} Par 4.2.2.1; 4.4.2 above.

\textsuperscript{38} Par 2.4.2 above.

\textsuperscript{39} Par 2.2.2.2 above.
obligation of confidence may arise by way of express contract, implied contract or in equity.\(^{40}\) An obligation of confidence based on implied contract or equity may under special circumstances arise even in the absence of any contractual relationship between the parties. Typical examples of the latter are the case of unsuccessful pre-contractual negotiations, and the case where the infringer did not stand in direct contractual privity with the trade secret owner, but did stand in contractual privity with an intermediate person who stood in contractual privity with the trade secret owner.\(^{41}\) In the majority of cases the obligation of confidence will arise only if there was a contractual or fiduciary relationship between the parties.\(^{42}\) It is highly improbable that an obligation of confidence will be construed to arise simply because of the improper conduct of the alleged infringer, for instance in the case of industrial espionage.\(^{43}\)

(ii) In American law, unauthorized use or disclosure of trade secrets will give rise to liability in the following circumstances:\(^{44}\)

- where the secret has been obtained by improper means;\(^{45}\)

- where such use or disclosure will constitute a breach of confidence or a breach of a duty to keep the information secret or to limit its further use;

- where the user or discloser has obtained the secret from someone who he or she knows, or has reason to know, has obtained it by improper means or in breach of a duty owed to the trade secret owner; or

- where the user or discloser knows or has reason to know, before a material change in his or her position, that the relevant

\(^{40}\) Par 2.2.2.1 above.

\(^{41}\) Par 2.2.2.1.2 above.

\(^{42}\) Par 2.2; 2.2.2.1.3; 2.4.2; 2.4.3 above.

\(^{43}\) Par 2.4.2 above.

\(^{44}\) Par 3.2.2 above.

\(^{45}\) On the meaning of improper means, see again par 3.2.2 above.
information was a trade secret, and that it has been acquired by accident or mistake.

(iii) In German law unauthorized disclosure of trade secrets will give rise to liability:

- where the discloser is an employee who discloses his or her employer's trade secret during the existence of the employment relationship.\(^{46}\)

Furthermore unauthorized use or disclosure will give rise to liability under the following circumstances:

- where the user or discloser has obtained the secret by means of an unlawful disclosure by an employee;\(^{47}\)

- where the user or discloser has obtained the secret by the employment of technical means, the making of a physically embodied rendering of the secret, or by removal of a physical article in which the secret is embodied, or where he or she has obtained the secret from someone who has obtained it in such a manner;\(^{48}\) or

- where the user or discloser is an ex-employee using or disclosing his or her former employer's secret (obtained in an unreasonable manner in the course of employment) after termination of the employment relationship; or in exceptional cases - if special circumstances are present - where the user or discloser is an ex-employee using or disclosing his or her former employer's secret (obtained in an unobjectionable manner in the course of employment) after termination of the employment relationship;\(^{49}\) or

- where designs or instructions of a technical nature are used or

\(^{46}\) Par 4.2.2.1 above.

\(^{47}\) Par 4.2.2.1 above.

\(^{48}\) Par 4.2.2.1 above.

\(^{49}\) Par 4.4.1 above.
In conclusion the position may be summarized as follows: (a) In all three legal systems trade secrets are protected against use or disclosure in breach of confidence. (b) American and German law furthermore clearly afford protection against unauthorized use or disclosure where the secret has been obtained by improper means in the absence of any relationship of confidence. (c) These two systems also protect trade secrets against unauthorized acquisition by improper means. If American law and German law are compared, the approach of American law is more flexible and generic in nature. Thus the Restatement and Uniform Trade Secrets Act refer to "improper means" in general, then adding open-ended lists of examples. The German Unfair Competition Act, on the other hand, lists a closed number of statutorily defined types of conduct that will give rise to criminal liability, and although in principle civil liability is wider, the statutory crimes do appear to have limiting effect thereupon. Finally, in all three systems, if an ex-employee who has obtained his former employer's secret in a reasonable way, uses or discloses the secret, he may be liable on the strength of the unreasonableness of the use or disclosure itself. The protection afforded by German law in this regard is decidedly narrower in scope - at least in principle if not in practice - than that of the English and American systems.

The TRIPS agreement provides that secret information with commercial value shall be protected from unauthorized acquisition, use or disclosure in a manner contrary to honest commercial practices. "A manner contrary to honest commercial practices" is defined so as to include at least practices such as breach of contract, breach of confidence and inducement of breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

6.4 REMEDIES

In all three legal systems the interdict is an important remedy in trade secret cases,
and may take the form of either a temporary or a permanent order.\textsuperscript{55} In both the American and German systems special provisions facilitate the granting of interdicts in trade secret cases. Thus in American law, if it would be unreasonable to prohibit use by a potential infringer, an injunction may in exceptional circumstances be issued prohibiting use unless a reasonable royalty is paid to the trade secret owner.\textsuperscript{56} In German law, the strict requirements of the German Civil Procedure Act normally applicable to temporary restraining orders, are not applicable to such orders in unfair competition cases.\textsuperscript{57} The TRIPs agreement also provides that injunctive relief must be available.\textsuperscript{58} Furthermore, in all three systems, as well as according to the TRIPs agreement, the trade secret owner may apply for an order for delivery up or destruction of materials enabling the potential infringer to commit an infringing act.\textsuperscript{59} The Anton Piller type orders of English intellectual property law - that is, orders applied for \textit{in camera} and without notice to the defendant, to inspect premises and seize, copy or photograph evidentiary material indicative of the misappropriation - have furthermore been issued in trade secret cases.\textsuperscript{60} According to the TRIPs agreement, prompt and provisional measures, \textit{inaudita altera parte} where appropriate, shall be available to prevent infringement of trade secrets or to preserve evidence in regard to alleged infringement.\textsuperscript{61}

Damages may be awarded in all three systems, and according to the TRIPs agreement, for trade secret infringement.\textsuperscript{62} In both American and German law the quantum may be computed in terms of either the trade secret owner's loss, the infringer's profits or a reasonable royalty for use of the secret.\textsuperscript{63} If the remedy known as an account of profits in English law\textsuperscript{64} is also taken into consideration here, it can be concluded that the position is effectively very similar in English law.\textsuperscript{65}

\textsuperscript{55} Par 2.3.3; 3.3.3; 4.3.2 above.

\textsuperscript{56} Par 3.3.3 above.

\textsuperscript{57} Par 4.3.2.3 above.

\textsuperscript{58} Par 5.1 above.

\textsuperscript{59} Par 2.3.4; 3.3.4; 4.3.2.2; 5.1; 5.2 above.

\textsuperscript{60} Par 2.3.5 above.

\textsuperscript{61} Par 5.1; 5.2 above.

\textsuperscript{62} Par 2.3.1; 3.3.1; 4.3.1; 5.1; 5.2 above.

\textsuperscript{63} Par 3.3.1; 4.3.1 above.

\textsuperscript{64} Par 2.3.2 above. This remedy is also available in American law; see par 3.3.2 above.

\textsuperscript{65} Cf par 2.3.1 and 2.3.2 above.
6.5 SPECIAL PROBLEMS WITH TRADE SECRET PROTECTION

In all three systems certain aspects of the legal protection of trade secrets present more practical or conceptual difficulties than others, and to a large degree the same problem areas manifest themselves in all three systems. This can probably be ascribed to the same factual problems confronting all three systems. The systems do, however, vary in the effectiveness with which they deal with these problems, some systems providing significantly more comprehensive protection than others.

6.5.1 TRADE SECRET INFRINGEMENT BY FORMER EMPLOYEES AFTER TERMINATION OF THE EMPLOYMENT CONTRACT

Probably the most common scenario for trade secret infringement, the situation where an ex-employee infringes the trade secret after termination of the employment contract, is also one causing special difficulties in all three legal systems. In all three systems, the root of the problem is identified as the conflicting interests of, on the one hand, the former employer to have his or her trade secrets protected, and on the other, the former employee to utilise all the knowledge gained during his or her previous employment in promoting his or her current career.

In English and American law, the basic point of departure is that the ex-employee is not entitled to use or disclose the trade secrets of his or her former employer without authorization, while German law proceeds from the basis that the ex-employee is entitled to use the trade secrets that he or she has obtained in a reasonable manner during his or her employment. There can, however, be little doubt that many cases where ex-employees exploit their former employers' trade secrets, are instances where access to the secrets has been obtained in a reasonable manner, and it is clear that the Anglo-American systems provide a more comprehensive protection of trade secrets in this context. German law does recognize exceptions to the stated general rule, and certain factors have been identified as indicative of a case where protection will be extended to a trade secret obtained in a reasonable way.

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66 Par 2.4.1; 3.4.1; 4.4.1 above.
67 Par 2.4.1; 3.4.1 above.
68 Par 4.4.1 above.
69 Par 4.4.1 fn 246 above.
70 Par 4.4.1 above.
Thus English and American legal policy generally favours the trade secret owner, making exceptions in favour of the employee in certain cases; while German legal policy generally favours the employee, with the employer being protected in the presence of exceptional circumstances. In English and American law, most of the problems are generated by the rule requiring the drawing of a dividing-line between trade secrets (which are protected) and the former employee's general skill and knowledge acquired during his or her previous employment (which he or she is free to use). This rule is easily stated, but application thereof abounds with difficulties.71 The TRIPs agreement does not specifically refer to employment situations, but provides that acquisition, use or disclosure of undisclosed information contrary to honest commercial practices shall merit the intervention of the law.72 It remains to be seen whether, for instance, the unauthorized use of an ex-employee after termination of his or her employment of his or her former employer's trade secret, obtained in a reasonable way during the subsistence of the employment relationship, will be regarded as "contrary to honest commercial practices" or not.

6.5.2 ACQUISITION OF TRADE SECRETS BY INDUSTRIAL ESPIONAGE AND OTHER REPREHENSIBLE MEANS

The position of the person who obtains a trade secret by reprehensible means, but who stands in no relationship with the trade secret owner, reveals a striking difference between the three legal systems. The adherence to the strict requirements of the action for breach of confidence in English law has meant that it is doubtful whether any relief can be obtained against such a person in that legal system.73 In German law, comprehensive anti-industrial-espionage provisions have been inserted in the Unfair Competition Act as late as 1986. These provisions attach liability to the mere acquisition of trade secrets under certain specified circumstances. However, because a closed number of different types of conduct giving rise to liability are defined in the Act, some loopholes in the protection exist.74 The most complete protection against industrial espionage and other forms of trade secret acquisition by reprehensible means is afforded by the American law. Creative interpretation and application of the law by the judiciary have provided authority for a flexible protection against trade secret acquisition by improper means. This position has been entrenched by the

71 Par 2.4.1; 3.4.1 above.
72 Par 5.1; 5.2 above.
73 Par 2.4.2 above.
74 Par 4.4.2 above.
Uniform Trade Secrets Act. The TRIPs agreement does not specifically refer to industrial espionage, but it does provide that the acquisition of trade secrets contrary to honest commercial practices - which would arguably cover acquisition by means of espionage - shall merit the intervention of the law.

6.5.3 INNOCENT RECIPIENTS

The position of the person who receives a trade secret against the will of the owner, but not by way of a breach of confidence or (other) reprehensible means appears to be not quite resolved in English and German law. In English law, the basic rule seems to be that as long as such a receiver does not know, or should not have known, that the information has been disclosed to him or her in breach of confidence, no relief will be available against him or her. But once he or she acquires knowledge of the confidential character of the information, he or she becomes liable for subsequent use or disclosure thereof. If he or she has in good faith purchased the secret for value or substantially altered his or her position in reliance on the secret, commentators are in favour of a discretion on the part of the court to refuse relief against him or her. In the unenacted draft bill of the Law Commission an adjustment order was proposed to compel a trade secret owner, who has successfully obtained an injunction against such an bona fide receiver, to make a reasonable contribution to the latter’s expenses. In American law, the position in terms of the first Restatement is that an innocent receiver is not liable for use or disclosure until he or she acquires knowledge that the information is another’s trade secret and that it has been disclosed to him or her in breach of a duty towards the owner or by mistake. After receipt of this knowledge he or she may be liable for subsequent use or disclosure, unless he or she has in good faith paid value for it or materially altered his or her position, in which case the owner will have no redress against him or her. This position has largely been confirmed by the Uniform Trade Secrets Act, except in so far as it confers a discretion on the courts to issue an injunction against the innocent receiver who paid value or substantially altered his position, conditioning future use on payment of a reasonable royalty to the trade secret owner. In Germany, case law suggests that an interdict will not be available against a person who acted in good faith when he or she received the secret. It has been suggested by a commentator that the position should be similar to that under the American

\[75\] Par 3.4.2 above.

\[76\] Par 5.1; 5.2 above.

\[77\] Par 2.4.3 above.

\[78\] Par 3.4.3 above.
Restatement.\textsuperscript{79} The \textit{GATT TRIPs} agreement provides that in appropriate cases, members may authorize the judicial authorities to order the recovery of profits and/or payment of pre-established damages even where the infringer engaged in infringing activity without intention or negligence.\textsuperscript{80} While this provision does not seem to be mandatory - and no indication is given what would amount to "appropriate cases" - it may conceivably be applied to innocent recipients of trade secrets.

\textbf{6.5.4 DURATION OF LEGAL PROTECTION}

In all three systems, the basic point of departure appears to be that legal protection lasts as long as the trade secret remains secret. However, the possibility of injunctive relief outlasting the secrecy - and by implication the very existence - of the trade secret, is known to English and American law, and possibly also German law. In English law the "springboard doctrine" enables the courts to issue injunctions to eliminate the head-start unfairly gained by a trade secret infringer over his or her competitors.\textsuperscript{81} In some of the American states the courts have issued permanent injunctions indefinitely outlasting the trade secrets themselves. In other states the granting of injunctive relief after publication has been ruled out completely. In yet others an intermediate position has been adopted, granting "lead-time injunctions" - lasting only as long as is judged necessary to eliminate the infringer's unfair head-start over his or her competitors. The Uniform Trade Secrets Act has in essence endorsed the latter approach, also creating the possibility of an order making further use conditional on the payment of a reasonable royalty to the owner for a period no longer than the period for which the infringer's unfair competitive advantage could be expected to last.\textsuperscript{82} In German law, the position is unresolved. An interdict may, however, be granted against someone who reverse engineers a trade secret and then copies the product or performance in which it is embodied identically.\textsuperscript{83} The \textit{TRIPs} agreement provides that persons lawfully in control of undisclosed information shall have the possibility of preventing acquisition, use or disclosure of such information so long as such information is secret.\textsuperscript{84} It remains to be seen whether this provision

\begin{itemize}
\item \textsuperscript{79} Par 4.4.3 above.
\item \textsuperscript{80} Cf par 5.1 fn 26; 5.2 above.
\item \textsuperscript{81} Par 2.4.4 above.
\item \textsuperscript{82} Par 3.4.4 above.
\item \textsuperscript{83} Which is not purely a case of trade secret infringement, but also involves the unlawful trade practice of parasitic slavish copying. Par 4.4.4 above.
\item \textsuperscript{84} Par 5.1 above.
\end{itemize}
will be interpreted to exclude, for instance, lead-time interdicts.  

6.6 THE LEGAL FOUNDATION OF TRADE SECRET PROTECTION

Authority can be found for various possible legal foundations of trade secret protection in the three systems.

6.6.1 CONTRACT

In all three systems, trade secrets may be protected by express contract. This protection will be subject to the general contract law of each system, for instance in respect of covenants in restraint of trade. Particularly in English law, trade secret protection is frequently based on implied contract. In some instances implied contract appears to be a somewhat artificial explanation for protection; for instance where implied contractual terms are used to supplement or even replace express contractual terms, or where implied contractual terms are used to justify protection even in the absence of any contractual relationship between the parties. The phenomenon that the courts sometimes base their decisions on implied contract and sometimes on equity when faced with similar types of situations, further strengthens the impression that in certain situations implied contract is an artificial ratio for duties imposed ex lege on trade secret infringers. Protection based on implied contract is also known in American law, where authors have stated in so many words that contracts implied-in-law are really a legal fiction used to explain the desirable result of protection in certain situations.

6.6.2 EQUITY

In English law, protection is frequently based on equity. In certain types of situations it is used interchangeably with implied contract.

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85 It is submitted that (temporary) lead-time interdicts to neutralize a temporary head-start gained by the unlawful acquisition or use of another's trade secret, will probably not be excluded by this provision of the TRIPs agreement.

86 Par 2.2.2.1.1; 2.5.1; 3.5.1; 4.5.3 above.

87 Par 2.2.2.1.1.2 above.

88 Par 3.5.1 above.

89 Par 2.5.2 above.
6.6.3 DELICT

In English law, trade secrets are only indirectly protected by certain torts. The action for breach of confidence is evidently not generally considered to be a tortious remedy. Tort has, however, been proposed as a vehicle of law reform by the Law Commission.\(^\text{90}\) In American law, tort is the primary foundation for trade secret protection.\(^\text{91}\) In German law trade secret protection is in the first place a function of criminal law, with delict the primary private law counterpart thereof.\(^\text{92}\) In comparison, the American tort law protection of trade secrets appears wider in scope, more flexible and more adaptable to novel situations than trade secret protection by delict in German law. This is probably attributable to the fact that German law employs norms describing with a large degree of precision specific types of conduct which give rise to liability, whereas American law employs more generally defined norms which are more flexible and capable of wider application. The nature of the German norms can be ascribed to the fact that they were in the first place intended to determine when an alleged wrongdoer is criminally liable and should be punished. As noted,\(^\text{93}\) the delictual protection in German law is wider than the penal, but it appears that the penal norms nevertheless exert an inhibiting effect on the development of delictual protection. Especially in the case of the relationship between ex-employer and ex-employee, underlying policy considerations also influence the scope of protection,\(^\text{94}\) again promoting a more all-embracing protection of trade secrets in American law.\(^\text{95}\) In both American and German law, the delictual infringement of trade secrets is usually treated as a form of unlawful competition.\(^\text{96}\) American law knows exceptions indicating that trade secrets may also be protected outside the sphere of competition law,\(^\text{97}\) and at least one German commentator has argued that technical secrets should also be protected independently from the business enterprise.\(^\text{98}\)

\(^{90}\) Par 2.5.4 above.

\(^{91}\) Par 3.5.2 above; cf Kutner 305ff.

\(^{92}\) Par 4.5.1; 4.5.2 above.

\(^{93}\) Par 6.3 above.

\(^{94}\) Par 6.5.1 above.

\(^{95}\) Par 6.5.1 above.

\(^{96}\) Par 3.5.2; 4.1 above.

\(^{97}\) Eg El duPont de Nemours v Christopher 431 F2d 1012, 166 USPQ 421 (5th Cir 1970), 400 US 1024, 401 US 967 (1971) where there was no competitive relationship between plaintiff and defendant (par 3.2.2 above).

\(^{98}\) Pfister 83 - see par 4.5.5.1 fn 304 above.
6.6.4 PROPERTY

In all three systems there are *dicta* in the case law indicating that trade secrets may be regarded as a species of property, and authors advocating the recognition thereof.\(^99\) However, in both English and German law the prevalent view is that trade secrets are not property.\(^100\) In spite of strong *dicta* in the case law to the contrary, the most generally favoured view in American law appears to be that trade secrets are a type of property.\(^101\)

Arguments in favour of the recognition of property rights in trade secrets may be divided into two broad categories. On the one hand, there are those that rely on the ways in which the positive law is already dealing with trade secrets; on the other hand, those that cite the advantages that will follow from the recognition of trade secrets as property. Examples of the former are reliance on the facts that trade secrets may be assigned and licensed, may constitute trust property, may be taxed as personal property, may devolve by way of testate and intestate succession, etcetera.\(^102\) In the latter group are, for instance, the arguments that recognition of property rights in trade secrets will (in English law) promote protection against trade secret infringement in the absence of a relationship of confidence,\(^103\) or that it will (in German law) provide a basis for more satisfactory protection against infringement by an ex-employee.\(^104\)

6.6.5 THE TRADE SECRET AS OBJECT OF A SUBJECTIVE RIGHT

Closely related to the question whether a trade secret constitutes a type of property, is the question whether it is the object of a subjective right. Some German commentators, in particular, argue eloquently in favour of the recognition of a subjective right to the trade secret, either directly, or indirectly in the sense that the trade secret forms an element of the business enterprise, which is the object of a generally recognized subjective right. It is asserted, among other things, that such a recognition will facilitate the development of the delictual protection of trade secrets,

\(^{99}\) Par 2.5.3; 3.5.3; 4.5.4 above.

\(^{100}\) Par 2.5.3; 4.5.4 above.

\(^{101}\) Par 3.5.3 above.

\(^{102}\) Cf par 3.5.3 above.

\(^{103}\) Par 2.5.3 above.

\(^{104}\) Cf par 4.5.4, together with 4.5.5, above.
independently from the penal provisions of the German Unfair Competition Act. However, the majority of authors do not find it possible to adopt this construction, due to the restrictions imposed by the existing norms and dogmatic foundations of the German legal system.\textsuperscript{105}

\section*{6.6.6 OTHERS}

Authority exists in American law for trade secret protection based on unjustified enrichment.\textsuperscript{106} It has also been suggested by a commentator on the American law that the privacy of the business concern could provide a foundation for trade secret protection.\textsuperscript{107}

\textsuperscript{105} Par 4.5.5 above.

\textsuperscript{106} Par 3.5.4 above.

\textsuperscript{107} Par 3.5.5 above.
CHAPTER 7

THE NATURE OF TRADE SECRETS;
BASES OF LEGAL PROTECTION;
AND THE RIGHT TO THE TRADE SECRET

7.1 INTRODUCTION

In this chapter a number of conclusions are drawn concerning the nature of trade secrets, and the foundations of their protection by the law. The first step is to establish what the vital elements of protectable trade secrets are or should be. The next step is to obtain clarity on the various juridical bases on which the legal protection of trade secrets may be founded. In drawing these conclusions, recourse is had to insights gained by the comparative study of trade secret protection in the legal systems of three industrialized nations and under the GATT TRIPS agreement. However, since the objective is to facilitate an understanding of and the development of trade secret protection in South African law, these conclusions are stated so as to be compatible with the principles of South African law. In culmination, a case in favour of the recognition of a subjective right to the trade secret is argued.

7.2 ELEMENTS OF TRADE SECRETS

It is submitted that trade secrets protectable at law must exhibit the following characteristics.

7.2.1 INFORMATION

Trade secrets consist of information. It is true that a process, formula, recipe, or

\footnotesize{\textsuperscript{1}} Ch 2-6.

\footnotesize{\textsuperscript{2}} Cf par 2.2.1.2.1; 3.2.1.2.1; 4.2.1.2.1; 5.1; 5.2; 6.2 above.

\footnotesize{\textsuperscript{3}} Since the concept information is a cornerstone of the concept trade secret, it is perhaps necessary to obtain some clarity on the meaning of information. For the purpose of his doctoral thesis on Die regsbeskerming van inligting, Geldenhuys defines (59) information as follows: "Inligting is enige voorstelling van feite betreffende enige onderwerp of voorwerp, welke voorstelling-

(1) sinyliglik waarneembaar is of in 'n sinyliglik waarneembare vorm omskep kan word;
A machine is sometimes described as a trade secret, but on closer analysis it will be found that, in essence, a trade secret is always information. The information may be contained in a formula or recipe written on a piece of paper, or may be learnt by analysis of a tangible machine or product, but the trade secret protectable at law is an intangible thing. The intervention of the law to protect trade secrets should therefore not be dependent on interferences with tangible objects, for instance the stealing or destruction of a secret document or a piece of machinery. The law should already intervene if the intangible secret information is misappropriated, for instance if a document is read and the information therein memorized and carried off in the wrongdoer's head, or if photographs are taken of the machine that will enable the

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(2) 'n onstoflike en afsonderlike bestaan voer, verwyder van dit waarop die feite wat dit voorstel, betrekking het;
(3) oor die potensiaal beskik om 'n persoon, wat dit sintuiglik waarneem, op die hoogte te stel van die feite wat daardeur voorgestel word, selfs al sou dit waarop die feite betrekking het, glad nie, of nie op daardie oomblik, vir sodanige persoon sintuiglik waarneembare wees nie;
(4) oor die potensiaal beskik om 'n onbeperkte aantal kere gedupliseer te word, hetsy deur dieselfde voorstelling te kopieer of deur ander voorstellings van dieselfde feite saam te stel, en deur middel van die verskaffing van sodanige voorstellings aan een of meer persone, dit vir sodanige persone moontlik mak om op hoogte te kom van die feite wat daardeur voorgestel word, sonder dat die persoon wat dit verskaf, deur die verskaffing daarvan van enige kennis aangaande die feite wat deur sodanige voorstelling voorgestel word, afstand doen; en
(4) in die geval van 'n geestesvoorstelling, nie van 'n persoon weggeneem kan word sonder 'n ernstige inbreukmaking op die liggaamlike integriteit van die persoon wat sodanige voorstelling gevorm het nie."

Information is thus basically defined as a presentation of facts, and as to what facts are, Geldenhuys accepts (59) the following definition by the *Woordeboek van die Afrikaanse Taal*: "enigiets wat 'n individuele, konkrete bestaan het, dit sy subjektief of objektief beskou; iets wat deur regstreekse waarneming geken word; gebeurtenis, geestelik of fisies, wat werklik plaasgevind of ondervind is; voorval, hoedanigheid of verband waarvan die werklikheid uit die ondervinding blyk of met sekerheid afgelei kan word; gegewe wat metodes uit die ondervinding blyk of met sekerheid afgelei kan word; gegewe wat metodes i/d ervaring gekonstateer is en onafhanklik van die tyd, plek of die waarnemer bestaan".

The important point is - information is something with the potential to inform the receiver thereof (enlighten the receiver thereof /'tell' the receiver thereof something) about something else. Thus, it is submitted, a piece of furniture is not information, nor is it a fact (although according to the definition of facts accepted by Geldenhuys it probably is a fact). However, by observing the piece of furniture, a person can inform him- or herself about the characteristics thereof - its colour(s), its physical dimensions (by taking measurements), the materials used in its construction (by taking it apart), etc. The said person then has information about the piece of furniture. If he or she shares that information with a second person, receipt of the information informs the latter of the characteristics of the piece of furniture, even though he may not have had the opportunity to observe the piece of furniture firsthand. This explains why a competitor would go to great lengths to obtain the trade secret of a rival - the secret - as information - is something that can, on the acquisition thereof, inform the receiver about the process used by his rival to manufacture his unique product, or inform the receiver about the immensely successful marketing strategy of his rival, etc.

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(Cf eg the definition of trade secrets employed by the American Restatement (par 3.2.1.2.1 above).
owner or recipient of the photograph to build a similar machine.

7.2.2 COMMERCIAL OR INDUSTRIAL APPLICABILITY

Information must be capable of commercial or industrial application to qualify as trade secrets.\(^5\) This requirement is rarely given much prominence in case law, but is implicit in the very concept 'trade secret', and perhaps even more so in the German terms *Geschäftsgeminden* and *Betriebsgeheimnis*.\(^6\) This requirement must be formulated in terms of a potential to be applied in commerce and industry, rather than an actual application. Formulation in terms of an actual application in commerce or industry would mean that confidential trade information could only qualify as a trade secret once it was put to use by the owner - and this would be an undesirable state of affairs. A trade secret should be recognized - and protected - by the law also before it is put to use.

7.2.3 SECRECY

Information must be secret to qualify as a trade secret.\(^7\) The negatively formulated criterion used to determine secrecy in the English, American and German legal systems, namely that information is secret if it is not public knowledge or if it is not in the public domain,\(^8\) appears to be an acceptable point of departure. It is admittedly a vague criterion, but key concepts in the law are often vague and are nevertheless applied by the courts to good effect.\(^9\) Also acceptable is the slightly narrower formulation of the *GATT TRIPs* agreement, namely that secrecy means not "generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question".\(^10\)

\(^5\) Cf par 2.2.1.2.2; 3.2.1.2.2; 4.2.1.2.2; 6.2 above.

\(^6\) Cf par 2.2.1.2.2 fn 36; 3.2.1.2.2; 4.2.1.2.2 above.

\(^7\) Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 5.1; 5.2; 6.2; 6.2.1 above.

\(^8\) Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 6.2.1 above.

\(^9\) To cite just one example from the South African law of delict, few concepts can be more vague than the *boni mores* - the so-called legal convictions of the community - yet it has been employed by the courts to make delict a dynamic, adaptable branch of the law (cf eg Burchell 24-25).

\(^10\) Cf par 5.1; 5.2; 6.2.1 above.
It is clear that secrecy must be a relative concept. It is usually necessary for the trade secret owner to disclose the secret to others (employees, manufacturers, potential partners or clients, etcetera) in order to exploit it economically. Such disclosures will normally be made subject to obligations of confidence, but they nevertheless indicate that secrecy cannot be an absolute requirement. Furthermore, secrecy will not necessarily be destroyed if the secret is known to outsiders not bound by obligations of secrecy, and these outsiders may include some of the competitors of the trade secret owner. Examples would include instances where trade secrets have been acquired by double invention or reverse engineering.

Mention has been made, in the results of the comparative research presented in the previous chapters, of the phenomenon that non-secret trade information may in certain circumstances be protected. In principle, however, non-secret information should not constitute a trade secret, and if such information is protectable at law, such protection should not be based on the same legal grounds as the protection of true trade secrets.

Since absolute secrecy cannot be required, the problem arises of establishing the dividing-line between relative secrecy and non-secrecy. The problem is a conceptual one with crucial practical implications, since protectability of information as a trade secret hinges on the secrecy or otherwise of that information. When is trade information still relatively secret and therefore protectable, and when does it become non-secret and thus unprotectable (or protectable on other legal grounds)? If the relevant information is unknown and inaccessible to all the competitors of the owner of the information and all others who might make use thereof, it is not in the public domain and is therefore secret. If, on the other hand, it is known or accessible to all his major competitors and others who might make use thereof, it is public knowledge and not secret. Between these two extremes, the distinction between secrecy and non-secrecy is one of degree. Say the owner of an alleged trade secret has five competitors in the market. Four of the five know the alleged secret. Can the relevant information qualify as a trade secret vis-a-vis the fifth competitor? It is submitted that

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11 Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 5.1; 5.2; 6.2.1 above.
12 Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 6.2.1 above.
13 Cf eg par 2.2.1.2.3; 2.2.2.1.1.1; 2.4.1; 3.4.1; 3.5.2; 3.5.1; 4.2.2.2; 4.4.4; 6.2.1.
14 It is a terminological contradiction as well.
15 Non-secret information could inter alia be protected by contract (cf eg par 2.2.2.1.1.1; 3.5.1; 6.2.1); in terms of duties of good faith or fiduciary duties (cf eg par 2.4.1; 3.4.1; 6.2.1); as (other) forms of unlawful competition (cf eg par 3.5.2; 4.4.4; 6.2.1); or by statute (cf eg par 4.2.2.2; 6.2.1).
16 Fn 15 above.
in principle it can, but that a definitive answer cannot be given *in abstracto*. All factual circumstances must be considered, and secrecy must be objectively established on the facts. Thus, if the four competitors who know the alleged secret take steps to prevent others from gaining access to it, it may still not be readily accessible to the fifth competitor. It can then not be said to be in the public domain, and is therefore still secret. If, however, one of the four has published the allegedly secret information in a technical journal, it is readily accessible to the fifth competitor, and is - on the facts - not secret any more.

It is submitted that, in practical terms, secrecy boils down to difficulty of access.\(^\text{17}\) Thus if the alleged secret has been published, it is readily accessible. It is then also in the public domain and not secret. If access to the allegedly secret information can be gained by examining a product on the market, the difficulty of access must be assessed with reference to the amount of time and labour\(^\text{18}\) that an average competitor in the field will need to unravel the secret. If substantial, the information is not readily accessible and not (yet) in the public domain.\(^\text{19}\) If negligible, the information is in the public domain. Again, the dividing-line is not a clear-cut one, and it is probably impossible to be more specific. The decision must be based on a careful analysis of all the facts of the case, and will ultimately be in the discretion of the court. It must be emphasized, however, that if the relevant information is found to be secret, it does not follow as a matter of course that it is a trade secret - it must also comply with the other requirements discussed here.

### 7.2.4 THE OWNER’S WILL TO MAINTAIN SECRECY

This requirement appears in various guises in different legal systems and in the *GATT TRIPs* agreement.\(^\text{20}\) As noted,\(^\text{21}\) German law requires a subjective *Geheimhaltungswille* on the part of the trade secret owner. American law tends to focus more on the behaviour of the owner, in so far as it requires reasonable efforts

\(^{17}\) Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 5.1; 5.2; 6.2.1 above.

\(^{18}\) Cf eg the 'time and labour' test used in English law (par 2.2.1.2.3) above.

\(^{19}\) In such a case, the (secret) information may be (lawfully) obtained by reverse engineering - cf par 8.2.2.2.3 below. The length of time needed to reverse engineer such a secret will be of importance when the court must decide on the duration of legal protection - cf par 8.6.4 below.

\(^{20}\) Cf par 2.2.1.2.4; 3.2.1.2.4; 4.2.1.2.4; 5.1; 5.2; 6.2 above.

\(^{21}\) Par 4.2.1.2.4; 6.2 above.
on his part to maintain secrecy.\textsuperscript{22} It is submitted that American law really looks at
the same issue from a different angle - it looks for objective manifestations of the
owner's will to maintain secrecy. From a dogmatic point of view, the German angle
appears to be the purer of the two, identifying as it does the root of the issue - the
reason why the owner would take steps to guard the secrecy of his information. From
a practical point of view, the American angle highlights the need to examine the
behaviour of the trade secret owner to decide whether his secret merits protection or
not. Even if a subjective formulation is adopted requiring a will to maintain secrecy,
it will normally be necessary in court to prove that the owner has taken steps to
preserve secrecy, from which his subjective will may be deduced.\textsuperscript{23}

It is submitted that this is a necessary requirement. It is unthinkable that a court of
law will protect trade information if the owner thereof displayed no will to keep it
secret.

Some clarification is needed on the relationship between the objective requirement
of secrecy and the subjective requirement of the owner's will to maintain secrecy. The
owner's will to 'maintain secrecy' can never transform information that is not
objectively secret into a trade secret. In so far as authority may be found - in English
law for instance - that the subjective will or belief of a person is a decisive factor in
establishing secrecy,\textsuperscript{24} it is open to criticism. Secrecy must be objectively
established on the facts. The subjective will of the owner to keep the information
secret, as manifested in steps taken by him to preserve the secrecy, is best regarded
as an independent element of a trade secret that must be established separately.
Trade information that is on the facts (still) secret because it is not in the public
domain, may be judged unworthy of legal protection if the owner does not display a
will to keep it secret.

7.2.5 ECONOMIC VALUE

Trade secrets are usually required to have economic value.\textsuperscript{25} This requirement
ensures that a potential plaintiff does not call upon the courts to protect trivial secrets,
the "infringement" of which does not really affect the complainant's patrimony nor has

\begin{footnotesize}
\item[22] Par 3.2.1.2.4; 6.2 above; cf, however, Callmann 14.50 who requires an intention to maintain
secrecy (par 3.2.1.2.4 fn 72; 6.2 fn 12).

\item[23] Cf Joubert 1985 \textit{De Jure} 42.

\item[24] See par 2.2.1.2.3; 2.2.1.2.4; 6.2 above.

\item[25] Cf par 2.2.1.2.5; 3.2.1.2.5; 4.2.1.2.5; 5.1; 5.2; 6.2 above.
\end{footnotesize}
the potential to do so. In this sense, this requirement is in harmony with an established maxim of the law - *de minimis non curat lex*. This requirement is closely related to the requirement of commercial or industrial applicability. The secret will have economical value if it is capable of commercial or industrial application. Again, it should not be required that the economical value be already realized - it may be a potential value only to be fully realized when the secret is put to use.

### 7.2.6 CONCRETENESS OR POTENTIAL CONCRETENESS

A secret can only constitute a trade secret protectable at law, if it can lead an existence separate of its owner. To this end, it must be capable of being embodied in a concrete form,\(^\text{26}\) for instance in writing, a sketch, a diagram, a plan, a computer program, a model and so forth. It need not be reduced to a concrete form, but it must be capable of reduction to a concrete form.\(^\text{27}\) This characteristic of a trade secret is closely linked to the requirements of commercial or industrial applicability and economic value. If an idea is still so undeveloped and vague that it cannot lead an existence separate from its owner, it cannot be exploited for commercial or industrial use, and can therefore also have no economic value.

### 7.2.7 CONCLUSION: A DEFINITION OF A TRADE SECRET

As a synthesis of the requirements considered above, a trade secret may broadly be defined as secret information which is capable of commercial or industrial application, in respect of which the owner has the will to keep it secret, which has economic value, and which can lead an existence separately from that of its owner.

### 7.2.8 RELATED TERMINOLOGY

The definition of a *trade secret* adopted above incorporates what are submitted to be the minimum requirements of a trade secret *protectable at law*. Its relationship with terminology regularly encountered in case reports and literature on the legal protection of trade secrets needs some clarification.

\(^{26}\) Cf par 3.2.1.2.6; 4.2.1.2.6; 6.2.

\(^{27}\) Thus a simple trade secret may be exploited without, eg, being written down. If such a trade secret is orally confided to another, the latter can infringe it by eg unauthorized disclosure. Legal protection of such a secret will not be precluded simply because it has never been rendered in a concrete form. Cf the views of Pfister 30 (par 4.2.1.2.6 fn 44 above).
7.2.8.1 CONFIDENTIAL INFORMATION

Especially in English law, the terms \textit{trade secret} and \textit{confidential information} are frequently used together, often as apparent equivalents.\textsuperscript{28} However, in its widest sense confidential information is a much wider concept than trade secret. In the first place it includes not only information capable of commercial or industrial application, but also information relating to the private life of the individual or legal person.\textsuperscript{29} The latter category of confidential information belongs to the province of the law of privacy in South African law and must be distinguished from trade secrets.\textsuperscript{30} This does not mean, however, that confidential information which does indeed pertain to trade or industry is synonymous with the definition of trade secrets adopted above. Especially in English law, and particularly in cases concerning the alleged misappropriation of information in a relationship of (ex-)employer and (ex-)employee, different classes of confidential trade information are recognized, with trade secrets forming one of those classes. The different classes may receive different degrees of legal protection, and protection may be based on different legal grounds.\textsuperscript{31} Thus even confidential information relating to trade or industry may be a wider concept than the definition of trade secrets above.

7.2.8.2 KNOW-HOW

The term 'know-how' is frequently encountered in case law and commentaries,\textsuperscript{32} in Anglo-American law as well as in Continental legal systems, and some clarification of its position in trade secret terminology is needed. It is a rather imprecise term given various meanings by various users.\textsuperscript{33} For present purposes, three broad categories of usage may, it is submitted, be distinguished. First, know-how may refer to trade secrets; second, it may refer to knowledge or skills which are not trade secrets; and third, it may be used as a broader generic term including trade secrets as well as knowledge and skills which are not trade secrets.

\textsuperscript{28} Par 2.2.1.1.1; 2.2.1.2.3; 2.4.1 above.

\textsuperscript{29} The importance of confidential information as a term of legal significance stems from the English action for breach of confidence, which protects confidential trade information as well as confidential information of a personal nature - cf par 2.1 above.

\textsuperscript{30} Par 7.4.4.3 below.

\textsuperscript{31} Par 2.4.1 above; 8.6.1 below.

\textsuperscript{32} Cf par 2.2.1.1.3; 3.2.1.1.2; 4.2.1.1 above.

\textsuperscript{33} So much so that English commentators have referred to its "chameleonic nature" (cf par 2.2.1.1.3 above).
7.3 BASES OF LEGAL PROTECTION

Various possible foundations of trade secret protection in three foreign legal systems have been surveyed above.\(^{34}\) In the following paragraphs, a number of possible choices concerning the juridical base of trade secret protection in South African law will be considered. The insights gained from the comparative survey will be applied, with due recognition of the fundamental differences that may exist between the South African legal system and the three foreign systems.

7.3.1 CONTRACT AND DELICT

It can safely be assumed that there will in principle always be room for contractual protection of trade secrets.\(^{35}\) In practice, contractual regulation of trade secrets may frequently be the preferable course of action. The scope and importance of contract as a basis of trade secret protection vary between different legal systems on account of mainly two factors. First, and this concerns primarily protection by express contract, the boundaries will be drawn by legal rules limiting freedom of economic activity for reasons of public policy, particularly the rules regulating covenants in restraint of trade. Second, the degree to which protection may be said to be based on contract implied in law, will be limited by the extent to which \textit{ex lege} protection of trade secrets may in a given legal system be more satisfactorily explained with reference to another base, for instance delict. Thus an obligation to preserve secrecy said to originate in implied contract in one system, may be explained as arising in delict in another system.\(^{36}\)

Delictual protection of trade secrets may co-exist alongside contractual protection. Where the parties have not by agreement regulated their rights and obligations in respect of trade secrets, this should be done by the norms of the law,\(^{37}\) and more

\(^{34}\) Par 2.5; 3.5; 4.5; 6.6 above.

\(^{35}\) Cf par 2.5.1; 3.5.1; 4.5.3; 6.6.1 above.

\(^{36}\) Especially in English law, some applications of implied contract to protect trade secrets - notably in the absence of a factual contractual relationship or where the implied contract actually overrides an express contract - may appear artificial to a lawyer from another legal system, and he or she might prefer to explain such protection as tortious or delictual in nature (cf par 2.2.2.1.1.2; 6.6.1 above).

\(^{37}\) That is, by norms of the law other than the law of contract. In the contractual context the rights and duties of the parties are also regulated by the law, that is, by the law of contract. However, the parties may by an exercise of their will choose whether they wish to acquire rights and duties towards each other - whether to enter into a contractual relationship or not, and if yes, into what kind of contractual relationship, is after all their decision - and in this sense they may be said to regulate their rights and duties by agreement. The law of delict, on the other hand, confers rights and duties to the
particularly by the law of delict. This is the position, at least as far as private law is concerned, in the United States of America and in Germany. The position in English law is different - delictual protection does not play a major role, because of the very wide application of implied contract on the one hand, and the application of equity on the other. From a South African perspective, it appears more logical and satisfactory to confine the role of contract more or less to protection based to a certain degree on consensus between the relevant parties, and to base *ex lege* protection primarily on delict. On a practical level, too, delict is the better choice, promoting a wider-ranging and more flexible protection of trade secrets, independent of any real or fictitious contractual relationship between trade secret owner and infringer. This proposition is demonstrated by a comparison of the scope of practical trade secret protection in the English and American legal systems.

Where contractual and delictual protection of trade secrets co-exist in one legal parties *ex lege*, quite independent of their wishes. Cf, however, Neethling, Potgieter and Visser 6 fn 21.

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36 Cf Lubbe and Murray 1: "Contractual obligations are created by the agreement (or apparent agreement) of parties. Unlike many other obligations, they are supposed to arise voluntarily. An obligation based on delict, on the other hand, arises *ex lege* when a legal subject wrongfully and without adequate justification, intentionally or negligently, infringes a recognized interest of another to the detriment of that person" and 2: "In a capitalist, free-market economy, contractual obligations are perceived to provide the mechanism by which the process of production and exchange is undertaken voluntarily by individuals. The law of delict then governs situations where the individual freedom which is asserted to be central to such systems is violated."

39 Par 3.5.2; 6.6.3 above.

40 Par 4.5.2; 6.6.3 above.

41 Par 2.2.2.1.1.2; 2.2.2.1.2; 2.5.2; 2.5.4; 6.6.1; 6.6.2; 6.6.3 above.

42 Not all contractual protection can be explained with reference to consensus of the parties - in particular, the majority of implied terms are legal consequences of the conclusion of contracts, and are not the result of agreement. Cf in general Vorster esp 112-113 203. However, consensus remains an important reason why parties to a contract are legally bound to the terms of that contract - cf De Wet and Van Wyk 9ff; Christie 21ff; Joubert *Contract* 33 36ff; Kerr 3ff; Lubbe and Murray 1-2 28ff; Van der Merwe et al *Contract* 11ff.

43 *Ex lege* protection may also be of contractual origin in the case of implied in law terms. See fn 42. In South African law, this type of protection should, it is submitted, be confined to situations where trade secret owner and infringer are in fact in a contractual relationship. It should not - as has been done in English law - be extended to apply to situations where no contractual relationships exist, because such relationships will then have to be feigned. These latter situations should be the domain of delict.

44 Cf eg par 2.4.2; 3.4.2; 6.5.2; 2.5.4 above. Furthermore, more generally formulated, open-ended delictual norms appear to promote a more comprehensive protection than more rigidly codified delictual norms, as suggested by a juxtaposition of the American and German legal systems (cf eg par 6.5.1; 6.5.2; 6.6.3 above.)
system, they compliment each other, but also overlap to a degree. Where one infringing act gives rise to both contractual and delictual actions, the situation must be regulated by the general principles concerning a concurrence of claims.\textsuperscript{45}

7.3.2 DELICT AND PROPERTY

The relationship between delict and property\textsuperscript{46} as foundations of trade secret protection is an interesting one. Potentially they appear to be capable of harmonious co-existence, with a property perspective providing a clearer insight into the nature of the subject matter which is protected primarily by the norms of the law of delict. However, American law - the one system where ample authority may be found for both property and delict as bases of trade secret protection - shows that different results may be reached depending on which ground liability is based. Thus in decisions of jurisdictions leaning towards a property view of trade secrets, the focus tends to fall on the nature of the subject-matter; while in jurisdictions emphasizing the tort law aspects of trade secret protection, the focus is more on the conduct of the alleged wrongdoer. The importance of this division is not merely dogmatic in nature, but has very real practical consequences. Thus emphasis of the unreasonableness of the infringer's conduct may in the absence of a careful consideration of the protected subject-matter lead to the protection of information that is not secret. In particular, this may lead to perpetual injunctions being given against an infringer after the information has fallen into the public domain.\textsuperscript{47} A careful consideration of the subject-matter will in principle\textsuperscript{48} limit the duration of injunctive protection to the period during which the information is in fact secret.\textsuperscript{49}

It is submitted that the focus must fall on both the conduct of the alleged wrongdoer, and the nature of the subject matter for which protection is sought. The focus must fall on the conduct of the alleged wrongdoer, because only \textit{unreasonable}\textsuperscript{50}

\textsuperscript{45} On the topic of concurrence of claims in general, see Van Aswegen 230ff (on German law) 259ff (on English law) 285ff (on American law); cf further par 8.4 below.

\textsuperscript{46} "Property" can be understood to signify various things. Three potentially relevant meanings of property are explored in par 7.3.3 below. In the current paragraph, property is used in a wide sense, so as to include all three meanings discussed in par 7.3.3.

\textsuperscript{47} Cf par 3.5.2; 3.5.3 fn 318 above.

\textsuperscript{48} Subject to the idea that a limited 'lead-time injunction' may be granted to cancel out the unfair head-start obtained by the infringer - cf par 3.4.4; 6.5.4 above.

\textsuperscript{49} Cf par 3.5.3 (especially fn 318) above.

\textsuperscript{50} On the role of reasonableness in respect of delictual wrongfulness, see par 7.4.1.1 below.
acquisition, use or disclosure of trade secrets should lead to liability. Equally, however, the focus must fall on the nature of the subject matter, on two accounts. In the first place, if trade secrets law is to be regarded as an identifiable branch of the law, its subject-matter must be capable of identification. Secondly, and for practical purposes more importantly, the nature of the subject matter may be of assistance in determining the reasonableness or unreasonableness of the allegedly infringing conduct. Thus it may be said that appropriation of secret trade information without the owner’s consent should in principle\(^{51}\) be unreasonable, but exploitation of trade information in the public domain should in principle\(^{52}\) be reasonable.

One could therefore be tempted to conclude that the best way to achieve a balanced approach to trade secret protection, in which the focus falls sharply on the conduct of the wrongdoer as well as the nature of the trade secret, is to combine the delict and property approaches. However, circumspection is needed here. It should be borne in mind that property is a concept given different meanings in different branches of the law, in different legal systems, and by various legal scientists.\(^{53}\) It is therefore essential to obtain more clarity on property (in its various guises) as a potential basis of trade secret protection.

### 7.3.3 TRADE SECRETS AS PROPERTY

As noted,\(^{54}\) the question whether trade secrets constitute property is debated in all three the legal systems examined in the comparative study, and answers are given both in the affirmative and the negative. This divergence of opinion can partly be attributed to the fact that the term "property" is given different meanings by different jurists.

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\(^{51}\) I.e., in the absence of a special ground rendering such appropriation reasonable - see eg par 8.2.2.2 below.

\(^{52}\) I.e., in the absence of special circumstances rendering such appropriation unreasonable on other legal grounds - see eg fn 15 above.

\(^{53}\) For a striking juxtaposition of the meanings of property in respectively the American and German Constitutions, plus an assessment of implications for the South African situation after adoption of the Constitution of 1993, see Van der Walt 1994 *THRHR* 181 191-194. Note, too, how in German law a strict distinction is maintained between the constitutional law and private law concepts of property (or, more precisely ownership); whereas this is not the case in American law. Cf further Lewis 1992 *SAJHR* 389 392ff.

\(^{54}\) Par 2.5.3; 3.5.3; 4.5.4; 6.6.4 above.
First, property may be understood as basically corporeal (physical) things, immovable or movable. Exponents of this view may be found among the ranks of eminent South African authors. In common law systems the Blackstonian concept of property is a similar one, while the concept of property in German private (as opposed to public) law has a similar content. It should be immediately apparent that this concept of property is not wide enough to accommodate trade secrets, since a trade secret is in essence (intangible) information not to be equated with the document, product or other physical thing in which it may be embodied.

Second, however, property is understood by many to include much more than only physical things. Property has been given a particularly liberal meaning in America, where authors like Reich and Vandevelde have shown that property has been "de-physicalized" to include potentially any valuable interest. In South African law a

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55 Some exceptions - ie, forms of incorporeal property - may be recognized, but these are frequently rationalized as anomalies that do not distract from the validity of the premise that property is in principle corporeal things - see fn 56 below.

56 Thus the majority of modern authors writing on property law (cf Olivier, Pienaar and Van der Walt 13-15; Van der Merwe 21-22) or the doctrine of subjective rights (par 7.4.1 below) in other contexts (Du Plessis and Du Plessis 129; Neethling, Potgieter and Visser 45; Van der Merwe and Olivier 55; Van Zyl and Van der Vyver 408; Van der Vyver and Joubert 13) state that things are in principle corporeal objects. Accordingly they maintain a strict distinction between things and intellectual property (see par 7.4.1 below), and hence between real rights and intellectual property rights. South African positive law recognizes real rights on certain incorporeal things. Examples are usufructs on mineral rights, and rights of real security over mineral rights, leases or personal servitudes (cf Kleyn and Boraine 11; Olivier, Pienaar and Van der Walt 14). Some authors object to the recognition of these 'things' on dogmatic grounds: such recognition blurs the distinction between the different subjective rights - especially real and personal rights, since it implies that a subjective right can be the object of a real right - which is branded dogmatically unsound, and it is in conflict with the traditional conception of a real right as conferring direct physical powers over a thing in favour of a person. They prefer to treat these incorporeal things as exceptions that do not distract from the basic validity of the rule that things are corporeal (cf Olivier, Pienaar and Van der Walt 14; Van der Merwe 21-22). Others are of the opinion that no worthy purpose is served by denying - in the interest of pure dogma - the need experienced in modern South African legal practice for the recognition of such incorporeals (cf Kleyn and Boraine 13-14; Van der Vyver in Strauss (ed) 233-236 246). In Roman and Roman-Dutch law corporeal as well as incorporeal things were recognized. The latter can largely be equated with what is today known as rights. Intellectual property in its modern sense was unknown to those systems. Cf Kleyn and Boraine 9-10; Olivier, Pienaar and Van der Walt 13-14.

57 Blackstone (Vol 2) 1.

58 Sec 90 BGB; cf eg Müller 6-7; Scwab and Prütting 1.


60 1980 Buffalo LR 325ff; cf Van der Walt 1994 THRHR 181 191-192; Chaskalson 1993 SAJHR 404-406.
wide concept of property is propagated by, for instance, Kleyn and Boraine. They define a thing - object of a property right - as "anything whether corporeal or incorporeal, that is of use and/or value to man, and that is regarded as in commercio". These more liberal concepts of property appear sufficiently wide to accommodate trade secrets.

Third, the influence of constitutional law must be borne in mind. The (interim) South African Constitution guarantees the protection of rights in property. The Constitution of the Republic of South Africa Bill of 1996 provides that no-one may be deprived of property except in terms of law of general application, and no law may permit arbitrary deprivation of property. These concepts could undoubtedly be construed sufficiently widely to include trade secrets. Such an interpretation could be supported on utility grounds, since it would imply that trade secrets are to be protected against unreasonable interference by organs of the state. Another question altogether is whether such a wide constitutional law definition of property

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61 It may be added that although these authors give a definition of a thing wide enough to include intellectual property (par 7.4.1; 7.4.3 below), they restrict their text on the law of property to the subjects traditionally classified under the law of property. They do argue (30) that intellectual property rights may be things and as such objects of real rights (keep in mind that according to Roman and Roman-Dutch law rights were incorporeal things - fn 56 above). However, as far as could be ascertained, they never argue in so many words that a form of intellectual property itself - and not the right thereto - may be the object of a real right (cf the different categories of subjective rights par 7.4.1 below).

62 Cf par 7.4.1 below.


64 Sec 28. Cf in general Van der Walt in Van Wyk et al 455ff; Van der Walt 1994 THRHR 181ff.

65 Cl 25.

66 Cf Van der Walt in Van Wyk et al 490 (cf 493ff): "In constitutional theory the guarantee of property is usually interpreted widely to include... rights to incorporeal property such as intellectual property, [and] commercial interests such as goodwill." A case will be made below (par 7.4.3) that trade secrets are intellectual (immaterial) property, and it will also be noted (par 7.4.4.4) that in South African positive law trade secrets protection is usually a corollary of the legal protection of goodwill. Classification of intellectual property rights and the goodwill (which is itself categorized by eminent authors as the object of an intellectual property right - see 7.4.4.4 below) as property for the purposes of constitutional law should therefore imply that trade secrets are also property in that sense. Also Van der Walt 1993 SAPR/PL 315; cf Van Heerden and Neethling 15 fn 88 16; Lewis 1992 SAJHR 399.

67 In terms of sec 7(1) the third chapter of the Constitution - entrenching the fundamental rights which the 'rights in property' belong to - binds the legislative and executive organs of state. Cf Van der Walt in Van Wyk et al 494. The Bill of Rights in the Constitution of the Republic of South Africa Bill, 1996 applies to all law, and binds the legislature, the executive, the judiciary, and all organs of state (cl 8(1)). Furthermore, the provisions of the Bill of Rights also bind natural and juristic persons in so far as - taking into account the nature of the rights and the duties imposed by them - they can be applied to such persons (cl 8(2)).
would (or should) influence the private law concept meaning of property.\textsuperscript{68} In two developed countries with a long tradition of entrenched fundamental rights, developments in this regard followed divergent routes. Thus in the Federal Republic of Germany a strict distinction is maintained between a narrower private law meaning of ownership - confined to corporeal things - and a wider public law meaning.\textsuperscript{69} In American law, on the other hand, no such distinction is maintained, and a concept of property even wider than the German constitutional law meaning of ownership has developed.\textsuperscript{70} The greater accessibility of American sources of law to the average South African jurist - on account of language considerations - might mean that the South African courts would be more open to influence of the American example than the German one.\textsuperscript{71}

For obvious reasons a definitive exploration of the boundaries of the property concept cannot be attempted in this study. However, the question whether trade secrets are property cannot be avoided, and some tentative conclusions and suggestions in this regard will now be offered.

On the one hand, the recognition of trade secrets as property seems to be potentially beneficial for the development of legal protection of trade secrets. Thus American trade secrets law has probably benefited from widespread recognition of trade secrets as property in that system.\textsuperscript{72} On the other hand, the adoption of a wide, all-inclusive property concept is not necessarily always advantageous. In American law the property concept has been interpreted so liberally as to include not only trade secrets, but potentially any valuable interest.\textsuperscript{73} Commentators have suggested that this process has to a large extent rendered the very concept of property meaningless, forcing the courts to base property protection purely on public policy, rather than on

\textsuperscript{68} On the possibility of so-called horizontal application (ie application to private law relationships) of the Constitution in general, cf eg Van der Walt in Van Wyk et al 494-495; Van Heerden and Neethling 14; Van Aswegen 1994 \textit{THRHR} 450ff; Van der Vyver 1994 \textit{THRHR} 378ff; Basson 1994 \textit{THRHR} 501-502; Neethling and Potgieter 1994 \textit{THRHR} 516ff; Visser in Van Aswegen (ed) 26ff.

\textsuperscript{69} Cf Van der Walt 1994 \textit{THRHR} 192; Van der Walt 1993 \textit{SAPR/PL} 303.

\textsuperscript{70} Cf Van der Walt 1994 \textit{THRHR} 191-192.

\textsuperscript{71} Cf Van der Walt 1994 \textit{THRHR} 203; Van der Walt 1993 \textit{SAPR/PL} 315.

\textsuperscript{72} As noted, trade secret protection is generally more comprehensive in American law than in the other systems surveyed (par 6.5.1; 6.5.2; 6.6.3 above). The recognition of trade secrets as property has probably contributed to this situation (cf par 3.5.3 above, especially fn 305). On the other hand, the recognition of trade secrets as property also has the (opposite, yet equally beneficial) effect of keeping legal protection within reasonable bounds, resisting its indiscriminate extension to the protection of non-secret information (par 7.3.2 above).

\textsuperscript{73} See in general Vandevelde 1980 \textit{Buffalo LR} 325ff; cf Van der Walt 1994 \textit{THRHR} 181 191-192; Chaskalson 1993 \textit{SAJHR} 404-406.
the nature of the subject-matter for which protection is sought.\textsuperscript{74} Such a situation must, it is submitted, be avoided.\textsuperscript{75} It is not desirable that every decision taken by a court of law should be based purely on policy, with no reference to more or less fixed rules and principles. The existence of at least a measure\textsuperscript{76} of legal certainty - a measure of predictability - is surely in itself a worthy consideration of legal policy.\textsuperscript{77} To this end, it may be argued, legal policy itself dictates that certain distinctions be made, certain 'labels' be applied, and legal consequences to a certain degree be made dependent on these distinctions and labels.\textsuperscript{78}

\begin{footnotesize}
\begin{enumerate}
\item Vandevelde 1980 \textit{Buffalo LR} 325ff; cf Callmann Vol 2 14.9.
\item Some may welcome such a result - cf in respect of specifically trade secrets Callmann Vol 2 14.9: "[l]t is circular to reason that because something is called property it should be protected; when in fact it is the policy judgment that something ought to be protected that leads us to call it property in the first place. Thus we are required to reason from a policy basis, and not allowed to fall into habits of mechanical jurisprudence whereby a mere label (property) automatically implies a legal result (protectable)." However, for the reasons advanced in the main text, this attitude cannot be supported without qualification.
\item Absolute certainty and predictability is unattainable and undesirable since a legal system must remain flexible and adaptable enough to cope with novel situations and to dispense justice in individual cases - cf Van Aswegen 1993 \textit{THRHR} 194 and authorities cited.
\item Cf Van der Merwe 1992 \textit{SALJ} 619ff.
\item This may be stating the obvious, but the simple truth is: the law must make distinctions, it must attach labels, it must classify. And specific norms and principles must be developed on the basis of these distinctions. The specific rules must be in conformity with legal policy, and may be regarded as concrete expressions of legal policy, but they must exist, they must be there for the courts to apply. This does not mean, however, that legal policy is just a theoretical justification for rigid rules that are mechanically applied by the courts on the strength of their classification of the parties, conduct and objects in front of them. Although some cases in a developed legal system may be decided without explicit reference to legal policy, others may not. Some legal norms are formulated in an 'open-ended' manner to incorporate considerations of legal policy in their application - eg the \textit{boni mores} criterion for delictual wrongfulness, and the criterion for legal causation in the law of delict and criminal law - cf Van Aswegen 1993 \textit{THRHR} 180-182. When applying such norms, it will frequently be necessary to weigh considerations of policy. Furthermore, when courts are confronted by novel issues not yet catered for by existing legal rules, the courts will rely directly on the policy considerations underpinning the legal system - cf Van Aswegen 1993 \textit{THRHR} 182-186. The courts may even decide to change a legal rule that does not reflect compelling considerations of legal policy - cf Van Aswegen 1993 \textit{THRHR} 186. Policy considerations may also facilitate choices between conflicting rules applicable to the same set of facts - eg where more than one person has delictual claims for the same loss, or in cases of concurrence of delictual and contractual claims - cf Van Aswegen 1993 \textit{THRHR} 186-188. A balance must be achieved between the conflicting ideals of legal certainty on the one hand, and flexibility and justice in the individual case on the other. To this end both concrete norms and fluid policy considerations are indispensable. Cf Van Aswegen 1993 \textit{THRHR} 194: "[A] balance between the two competing ideals of legal certainty on the one hand and flexibility and justice in the individual case on the other, can best be achieved in the following way. Policy considerations should be seen as an inherent part of legal materials, often reflecting fundamental principles immanent in the legal system. Judicial law-making via the utilisation of policy considerations in the decisions is necessary and desirable, but is basically interstitial. It occurs where a plain and clear valid legal rule cannot, by means of the conscious, rational use of ordinary logical and deductive reasoning, furnish an answer. Policy considerations are then used, implying inductive and intuitive reasoning. The judge is then performing his or her most openly acknowledged law-making function. However, because the judge is not the
The objective should therefore be to apply the "property" label to trade secrets in a manner that would contribute to the development of the legal protection of trade secrets, without stretching the property concept so wide as to become meaningless. It is submitted that this objective is admirably served by the doctrine of subjective rights as recognized in South African law. In accordance with this doctrine, it will be argued below, trade secrets are intellectual property. As such, they are objects of intellectual property rights, and are distinguished from real rights - the rights to things, which basically correspond with the stricter, physical concept of property examined above. This classification recognizes, on the one hand, that trade secrets - like other forms of intellectual property - display some of the characteristics of property in its narrow, physical meaning. Thus trade secrets - like physical property - may be sold, may devolve by testate or intestate succession, may be subject to a trust, and may form part of the assets of a business for insolvency purposes. By way of analogy, it is furthermore possible to refer to both the possessor and owner of a trade secret. On the other hand, this classification does not obscure the fundamental differences between trade secrets and those forms of property that are the objects of real rights. Two such differences may be highlighted as examples. First, the same trade secret may be owned by more than one owner - with equal but competing rights - as a result of double invention or reverse engineering, whereas it is not possible for two or more persons to simultaneously acquire individual ownership of the same property in its narrow sense. Second, legal remedies available to protect property in its traditional narrow sense - like the mandament van spolie and the rei vindicatio - may not be suitable for the protection of trade secrets. To address these and other problems, it is necessary to develop a more effective system of protection for trade secrets. Such a system should be based on the principle that trade secrets are intellectual property, and should be designed to provide adequate protection against unauthorized disclosure, use or enjoyment of such secrets. By way of analogy, it is furthermore possible to refer to both the possessor and owner of a trade secret. On the other hand, this classification does not obscure the fundamental differences between trade secrets and those forms of property that are the objects of real rights. Two such differences may be highlighted as examples. First, the same trade secret may be owned by more than one owner - with equal but competing rights - as a result of double invention or reverse engineering, whereas it is not possible for two or more persons to simultaneously acquire individual ownership of the same property in its narrow sense. Second, legal remedies available to protect property in its traditional narrow sense - like the mandament van spolie and the rei vindicatio - may not be suitable for the protection of trade secrets. To address these and other problems, it is necessary to develop a more effective system of protection for trade secrets. Such a system should be based on the principle that trade secrets are intellectual property, and should be designed to provide adequate protection against unauthorized disclosure, use or enjoyment of such secrets.
of trade secrets, at least not directly.\textsuperscript{87}

\textsuperscript{87} The mandament van spolie and the \textit{rei vindicatio} may in certain instances be suitable for \textit{indirect} protection of trade secrets. The mandament van spolie is a remedy aimed at restoring unlawfully deprived possession to a possessor, in order to prevent people from taking the law into their own hands. It offers speedy, interim relief. The court does not evaluate the merits of the dispute between the parties - in this respect the mandament differs from the interdict where the applicant must prove that he has a clear right which is infringed or threatened with infringement. The applicant must prove that he was in possession and that an act of spoliation was committed by the respondent. Possession is physical control with the \textit{animus} to control the thing for own benefit. Spoliation is the unlawful deprivation of possession. Unlawfulness here does not denote the infringement of a right or the breach of a legal duty, as the determination thereof by the court would involve an evaluation on the merits. Unlawfulness for the purposes of the mandament simply means that possession has been deprived against the possessor's will and without recourse to the legal process (cf Kleyn 331; Kleyn 1986 \textit{De Jure} 10ff; Kleyn and Boraine 130; De Waal 1984 \textit{THRHR} 115; Sonnekus 1985 \textit{TSAR} 333ff; Van der Merwe 125; Olivier, Pienaar and Van der Walt 197-198. Cf Van der Walt 1983 \textit{THRHR} 238-239, 1984 \textit{THRHR} 435, 1988 \textit{THRHR} 288-292 who maintains that the purpose of the mandament is not to protect possession but to protect the public order against breaches of the peace; this view is adopted by Pienaar 150 152 to promote his view that the mandament may be used to protect confidential information. Van der Walt's view does not appear to have met with general approval (cf Kleyn and Boraine 130 fn 34), and in 1989 \textit{THRHR} 444ff Van der Walt himself promotes the notion that the mandament is aimed at the restoration of physical control over (corporeal) things. Cf further Harker 1988 \textit{SALJ} 198 who argues that in some cases the mandament is used not as a possessory remedy in private law, but is adapted for use in public law as a means to control the conduct of public authority).

Can the mandament be used - as suggested by Pienaar 150-153 - to restore the possession of a trade secret where the trade secret possessor has been deprived thereof? Although the mandament is normally used in cases where the possession of tangible things has been deprived, there is authority in South African law that it may also be used to restore the possession of intangible things. The physical control element of the possession of intangible things is satisfied when rights in connection with such intangibles are exercised (cf Kleyn 390ff; Kleyn and Boraine 137-138; Olivier, Pienaar and Van der Walt 186; Van der Merwe 122-123). However, Van der Walt 1989 \textit{THRHR} 444ff argues persuasively that even in cases of deprivation of so-called \textit{quasi} possession of incorporeals - which are in this context usually equated with rights - cf Kleyn 390ff; Kleyn and Boraine 137-138; Olivier, Pienaar and Van der Walt 186; Van der Merwe 122 - the mandament does not primarily restore the undisturbed exercise of a right, but rather the undisturbed control - albeit of a limited nature - over a physical thing.

If, for instance, an industrial spy has stolen a computer program or piece of machinery in which a trade secret is embodied, but has not yet managed to unravel the secret by reverse engineering, the secret can effectively be protected by having possession of the stolen item restored to the original possessor by the mandament. The position may be the same where possession of a stolen document containing a trade secret is restored before the thief or other party can commit the secret to memory - perhaps because of its complicated nature - or copy the contents onto another substrate. The trade secret is \textit{indirectly} protected in such cases. The possessor is deprived of possession of the physical thing - the disk containing the computer program, or the physical machinery itself, or the document - and it is possession of that physical thing that is restored by the mandament. In such a case, the secret itself - the intangible information - has really not yet been acquired by the outsider, and timely institution of the mandament prevents such acquisition.

However, if the infringer has already committed the trade secret to memory, or copied it unto his own materials, the trade secret owner's right to his secret cannot be protected by restoration of possession of the spoliated physical thing in which the secret was embodied. The misappropriated information cannot be "taken from" the infringer's mind and "returned" to owner. What is needed is a court order prohibiting the infringer from using or disclosing that information - that is, an interdict. This is not the province of the mandament. Similar arguments militate against the \textit{direct} protection of trade secrets.
7.3.4 ENRICHMENT

Situations could conceivably arise where someone is enriched by the use of a trade secret at the expense of the trade secret owner - who is in turn impoverished by that use - for no legally justifiable reason. An example could be where a trade secret owner discloses a trade secret to a minor (or other person with restricted contractual capacity) for certain limited purposes. If the minor then uses the secret in breach of the agreement, the trade secret owner would have no contractual remedy against him or her, and an action for undue enrichment appears apposite in principle. Another possibility may be gleaned from the American Matarese case. An inventor discloses his secret invention to someone else for the expressly stated purpose to interest the latter in buying the secret. If the negotiations fail and no contract is concluded, the inventor may have no contractual remedy against the other person if he proceeds to exploit the secret anyway. Again an action for undue enrichment springs to mind as a possible solution, as indeed employed in the Matarese decision. However, a couple of factors must be borne in mind here. Enrichment is a wide-ranging foundation of liability in American law, whereas the trend in South African positive law is to limit enrichment to specific historical condictiones and a limited number of modern enrichment actions with rather narrow fields of application. South African case law does not recognize a general enrichment action, as is the case in for instance German law. Furthermore, it appears uncertain whether the South African courts will regard the use of information as sufficient ground for enrichment liability in the light of the trend-setting decision in Nortje v Pool NO.

by the rei vindicatio, which is the remedy with which an owner recovers his property if it is in the possession of another (Kleyn and Boraime 273ff; Olivier, Plenaar and Van der Walt 126ff; Van der Merwe 347ff). Again, indirect protection of trade secrets by the rei vindicatio is possible, if for instance a stolen machine or product is vindicated before the secret is unravelled by reverse engineering or a stolen document is vindicated before the secret contained therein is memorized or copied.

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88 Par 3.5.4 above.

89 Cf De Vos 152.

90 Cf De Vos 153ff.

91 Cf De Vos 311ff.

92 De Vos 121ff; cf in general on enrichment in common law and civil law systems Zweigert and Kötz 575ff.

93 1966 3 SA 96 (A). In that decision a prospector who had discovered valuable mineral deposits on another's land, was denied an enrichment action for his expenses in bringing this knowledge to light. What was required was a tangible/physical improvement of the land. The mineral deposits had always been there, and although their discovery might have increased the market or production value of the land, it could not be regarded as an improvement of the land for enrichment purposes. Cf, however, the minority judgments - especially that of Ogilvie Thompson AJ 103-105, and criticism by De Vos 322ff.
sharp contrast with the law of undue enrichment, the South African law of delict is a
dynamic, adaptable branch of private law, based on wide general principles of
liability. It is submitted that South African courts will far more readily attach
delictual liability to the two scenarios sketched above, than to look at enrichment
to come to the aid of the trade secret owner. Furthermore, the generic requirements
of enrichment law that the one party must be enriched and the other impoverished implies that if enrichment can found relief in trade secret cases, it can only do so where there has been substantial use of the secret. An interdict to prevent use - generally the most valuable instrument of trade secret protection - will not be available on the ground of undue enrichment. On the whole, it appears rather unlikely that South African courts will base trade secret protection on undue enrichment rather than on delict.

7.3.5 CONCLUSION

The most logical and advantageous synthesis of trade secret protection bases from
a South African perspective may be stated as follows:

a) Contract and delict are equally valid, complimentary bases of trade
secret protection. Contractual protection should not be stretched too far by employing legal fictions. In the absence of protective measures based on consensus, protection should primarily be based on delict. In so far as contractual and delictual protection may overlap, the situation must be regulated by the general principles concerning concurrence of claims - this could mean that the plaintiff may in certain circumstances have a choice of basing his action either on contract or on delict.

b) An analogy between trade secrets and property provides useful insights into the nature of trade secrets. However, since the property concept can be understood in different ways, trade secrets are best classified as intellectual property.

c) Undue enrichment is of doubtful value as a base of trade secret protection.

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94 Cf eg Neethling, Potgieter and Visser 4 11-13.

95 The minor in the first scenario must be culpae capax if a delictual action is to be instituted against him - cf Neethling, Potgieter and Visser 114ff.

96 Cf De Vos 329ff.

97 Cf Joubert 1985 De Jure 40.
7.4 THE RIGHT TO THE TRADE SECRET

In the following paragraphs the case in favour of the recognition of a subjective right - and more specifically an intellectual property right - to the trade secret will be argued.

7.4.1 THE DOCTRINE OF SUBJECTIVE RIGHTS

The doctrine of subjective rights\textsuperscript{98,99} enjoys significant support among South African academics,\textsuperscript{100} and has been given a nod of approval by the Transvaal Division of the Supreme Court.\textsuperscript{101} The doctrine has been expounded in detail by

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\textsuperscript{98} The rights referred to in this doctrine are called \textit{subjective} rights because they are the rights of legal subjects - as will be explained in the main text presently. This slightly cumbersome term originated in the need in Dutch and Afrikaans to distinguish between \textit{law} and \textit{right}, both of which are known as \textit{recht} or \textit{reg} respectively in those languages. Thus law is known as \textit{reg in objektiewe sin} in Afrikaans, and right as \textit{reg in subjektiewe sin}; or, more concisely, \textit{objektiewe reg} and \textit{subjektiewe reg} respectively. Cf Van der Vyver in Strauss (ed) 212. The problem does not arise in English, and Boberg 38 favours a simple term 'right' instead of 'subjective right' (cf Van der Vyver in Strauss (ed) 201ff who uses the term 'private-law rights'). For the purpose of this study it was decided to use 'subjective right' to distinguish the rights referred to here from eg constitutional rights, procedural rights, etc (Van der Vyver's 'private-law rights' would have served this purpose equally well, but in this regard it was felt that 'subjective rights' would fit more naturally into the tradition of the \textit{subjektiewe reg} as it already exists in South African case law - eg \textit{Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk} 1977 4 SA 376 (T); cf Hawker \textit{v Life Offices Association of South Africa} 1987 3 SA 777 (C) 781 - and especially South African legal literature). Thus \textit{subjective rights} as used in the context of this study signify rights (a) in a private law context, and (b) with certain specific characteristics, as enumerated in the main text below. Furthermore, the term 'subjective right' was preferred because it was felt that a 'doctrine of rights' would be a rather blunt and meaningless appellation. Neethling, Potgieter and Visser, who give more prominence to the doctrine than most other authors on the law of delict, also use (43ff) the term 'subjective right'; and so, too, does Van der Walt 22. Cf Van Heerden and Neethling 79 fn 5.

\textsuperscript{99} The doctrine of subjective rights has its origins in the legal world of continental Western Europe - cf Du Plessis and Du Plessis 142. In the Anglo-American legal world, the concepts of rights and duties have been developed by especially the American jurist Hohfeld 1913 \textit{Yale LJ} 16ff, 1917 \textit{Yale LJ} 710ff. His system has been said to be perhaps not quite as consistent nor as comprehensively systematic as the doctrine of subjective rights - Du Plessis and Du Plessis 145; cf Van der Vyver in Strauss (ed) 206-208. Since the doctrine of subjective rights has received recognition of South African courts, and since the Hohfeldian system does not appear to open up important insights other than those opened up by the subjective rights doctrine (cf Van der Vyver in Strauss (ed) 208), it was deemed unnecessary to consider the Hohfeldian system in depth (cf, however, Van der Walt 1996 \textit{THRHR} 407-408).

\textsuperscript{100} Cf Joubert 1958 \textit{THRHR} 12ff 98ff; Neethling \textit{Privaatheid} 287ff; Neethling, Potgieter and Visser 43ff; Van der Merwe \textit{Beskerming van vorderingsregte} 138ff; Van der Merwe and Olivier 54ff; Van der Vyver in Strauss (ed) 201ff; Van der Walt 22; Van Heerden 154ff; Van Heerden and Neethling 79ff; Du Plessis and Du Plessis 123ff; Van Zyl and Van der Vyver 412ff; Van der Vyver and Joubert 8ff; Hosten et al 277-288; Geldenhuys 84ff; Venter 99ff 154ff.

\textsuperscript{101} \textit{Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk} 1977 4 SA 376 (T); cf Scott 1985 \textit{De Jure} 139.
and it is not intended to repeat everything that has been written on the topic here, nor to break any new ground in this respect. However, for the sake of clarity a brief exposition of the basics of the doctrine - in its current, adapted form - will be given. It will then be shown how the doctrine of subjective rights can contribute to a better understanding of trade secrets and a more comprehensive and systematic protection thereof.

The doctrine of subjective rights postulates that people, as legal subjects, are holders of subjective rights. The holder of a subjective right has a right to something, which right is enforceable against other people. Thus a subjective right is typified as a dual relationship. On the one hand, the right is a relationship between the person who is holder of the right - a legal subject - and the entity that is the object of the right - a legal object. At the same time, the right is also a relationship between the holder of the right and other people - that is, other legal subjects. The first-mentioned relationship confers powers of enjoyment, use and disposal on the legal subject in respect of the legal object. The content and limits of these

102 Cf the authors mentioned in fn 100 above.

103 The brief exposition of the doctrine of subjective rights offered here, focuses on the doctrine as developed and adapted by South African writers since Joubert. No attempt has been made to trace its history all the way back to its origins in the writings of continental legal philosophers like Dabin and Dooyeweerd. Cf in this regard Joubert 1958 THRHR 100ff; Van der Vyver in Strauss (ed) 201ff; Witte 1993 SALJ 543ff. The principles summarized here differ from the original expositions of the doctrine. Especially important for the concept of delictual wrongfulness has been the synthesis of the doctrine of subjective rights and the boni mores criterion - see Neethling, Potgieter and Visser 48; par 7.4.1.1 below. Cf Van der Walt 1995 THRHR 413-415 who regards the boni mores and the doctrine of subjective rights as "not entirely mutually compatible". Viewed more positively, it is submitted that a sensible and useful synthesis between the two has been attained in the South African law of delict, admirably suited to achieve a balance between legal certainty on the one hand, and flexibility and justice in the individual case on the other (cf the views of Van Aswegen 1993 THRHR 194 on the role of policy considerations, quoted in fn 78 above).

104 Neethling, Potgieter and Visser 43; Van Heerden and Neethling 80.

105 Neethling, Potgieter and Visser 43; Van der Merwe and Olivier 54; Van Heerden and Neethling 80.

106 Neethling, Potgieter and Visser 43; Van der Merwe and Olivier 54; Van der Vyver in Strauss (ed) 211; Van der Walt 22; Van Heerden and Neethling 80.

107 Neethling, Potgieter and Visser 43; Van der Merwe and Olivier 54; Van der Vyver in Strauss (ed) 211; Van der Walt 22; Van Zyl and Van der Vyver 415ff; Van Heerden and Neethling 80.

108 Neethling, Potgieter and Visser 43; Van der Merwe and Olivier 54; Van der Vyver in Strauss (ed) 211; Van der Walt 22; Van Heerden and Neethling 80; Van Zyl and Van der Vyver 418ff.

109 Joubert 1958 THRHR 110-111; Neethling, Potgieter and Visser 43-44; Van der Vyver in Strauss (ed) 211; Van der Walt 22; Van Heerden and Neethling 80; Van Zyl and Van der Vyver 415ff.
powers are determined by the norms of the law.\textsuperscript{110} The second relationship implies that the holder of a right may enforce his or her powers over the legal object against other legal subjects.\textsuperscript{111} A correlative duty rests on other legal subjects not to interfere with the relationship between the holder of the right and the object of his or her right.\textsuperscript{112} Again, the content and limits of the holder’s powers of enforcement, as well as the content and limits of the correlative duty of other legal subjects, are determined by the norms of the law.

Subjective rights are classified according to the legal objects to which they pertain. On this basis, subjective rights were traditionally divided into four categories: (a) real rights, pertaining to (tangible) things; (b) personality rights, pertaining to aspects of personality such as good name, physical integrity, honour, and privacy; (c) personal rights, pertaining to performances which may be juridically claimed from another on the strength of a legal obligation \textit{ex contractu}, \textit{ex delicto}, or from other sources; and (d) intellectual (immaterial)\textsuperscript{113} property rights, pertaining to intangible products of the human mind and endeavour which are situated outside the personality of the creator thereof, for instance an invention or a work of art.\textsuperscript{114} More recently a fifth category has been proposed,\textsuperscript{115} namely personal immaterial property rights, pertaining to intangible products of the human mind and endeavour which are connected with the personality, such as earning capacity and creditworthiness.

A subjective right comes into existence when the law recognizes and sanctions an individual interest as worthy of legal protection.\textsuperscript{116} Some interests, for instance the interests of legal subjects in the tangible things they own, have been thus

\begin{itemize}
\item \textsuperscript{110} Neethling, Potgieter and Visser 44; Van Zyl and Van der Vyver 420.
\item \textsuperscript{111} Neethling, Potgieter and Visser 44; cf Van Zyl and Van der Vyver 418.
\item \textsuperscript{112} Neethling, Potgieter and Visser 44; Van der Merwe and Olivier 54; Van der Vyver in Strauss (ed) 211; Van der Walt 22; Van Heerden and Neethling 80.
\item \textsuperscript{113} A substantial number of South African authors use the term \textit{immaterial property}, probably under the influence of the Afrikaans \textit{immaterieelgoedere}, and terminology employed in legal systems of continental Europe. Since the term \textit{intellectual property} is generally used in the legal systems of English-speaking countries, it is preferred here. A distinction is sometimes made between intellectual property and \textit{industrial} property. No such distinction is adopted for the purposes of this study - intellectual property is used here as a wider generic term inclusive of industrial property.
\item \textsuperscript{114} Joubert 113; Van der Merwe and Olivier 55; Van der Vyver in Strauss (ed) 231-232; Van Zyl and Van der Vyver 421ff.
\item \textsuperscript{115} Neethling 1987 \textit{THRHR} 316; Neethling and Le Roux 1987 \textit{Industrial LJ} 719; Neethling, Potgieter and Visser 45; cf Du Plessis and Du Plessis 130-131 136; Van der Vyver in Strauss (ed) 232-233; Van Heerden and Neethling 80.
\item \textsuperscript{116} Neethling, Potgieter and Visser 46; Van Heerden and Neethling 80.
\end{itemize}
transformed into rights almost since time immemorial. Other interests have only more recently been recognized, and in principle new ones may be identified as changing sociological and economical realities may dictate. To name an example, the right to privacy has only been recognized as an independent subjective right in relatively recent times.¹¹⁷ The transformation of privacy from an individual interest to the object of a subjective right has undoubtedly been precipitated by new and far-reaching threats to privacy posed by rapid technological developments,¹¹⁸ thus necessitating the intervention of the law. Thus new threats to an old interest may prove to be a catalyst for the recognition and protection of that interest and the concomitant transformation thereof into a subjective right. However, to qualify for such legal protection an interest must exhibit two qualities. Firstly, it must be of value.¹¹⁹ In the second place it must have a sufficient measure of independence to be capable of use, enjoyment and disposal (if possible).¹²⁰ It must, therefore, be susceptible of human control.¹²¹

A fundamental premise of the doctrine of subjective rights is that the infringement of such a right constitutes delictual wrongfulness.¹²² This is also the primary practical value of the doctrine - to determine whether an act harming another may be branded as wrongful or not. It has been shown¹²³ that a dual investigation is necessary to determine whether a subjective right has been infringed or not. First, it must be determined whether the conduct complained of factually disturbed the relationship

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¹¹⁷ Neethling *Privaatheid* 19 22 117 152ff 241 373ff.

¹¹⁸ Neethling *Privaatheid* 3ff 275.

¹¹⁹ Some writers - eg Joubert 1958 *THRHR* 112 - require economic value, but this view is criticized (cf Neethling, Potgieter and Visser 46 fn 75) mainly because some legal objects - notably personality objects - are said not to have economic value. However, no-one can contest that they are very highly valued by legal subjects - frequently much more so than other legal objects with undisputed economic value. The primary value of personality interests may perhaps best be described as sentimental in nature - cf Du Plessis and Du Plessis 130. The value requirement should therefore not be formulated exclusively in terms of economic value. Cf Geldenhuys 90; Van Heerden and Neethling 80 fn 11.

¹²⁰ Du Plessis and Du Plessis 130; Neethling *Personality* 14; Van Heerden and Neethling 80. (The objects of personality rights cannot be disposed of in so far as they cannot be transferred, or pass by way of succession - Neethling *Personality* 15. Van Niekerk 1990 *TRW* 28 has argued that there is no subject-object relationship between a legal subject and his interests of personality, and personality rights are therefore not subjective rights.)

¹²¹ Cf Geldenhuys 90-93.

¹²² *Universiteit van Pretoria v Tommie Meyer Films (Edms)* Bpk 1977 4 SA 376 (T) 387; Joubert 112; Neethling, Potgieter and Visser 47; Van der Walt 22; Van der Merwe and Olivier 50; Van Heerden and Neethling 81; cf Burchell 28 who postulates that "unlawfulness (or wrongfulness) involves the infringement of a legally-protected right or interest".

¹²³ Neethling, Potgieter and Visser 47ff.
between the legal subject and the legal object, that is, whether the holder of a subjective right was disturbed in the use, enjoyment and disposal of the object of his or her right.\textsuperscript{124} If so, this may be an indication that the conduct was wrongful. However, this indication is not necessarily conclusive, since the law condones certain factual interferences in the relationship between the legal subject and his or her legal object. It must therefore also be enquired\textsuperscript{125} whether the mentioned factual disturbance took place in a \textit{legally reprehensible way}, that is, in violation of a \textit{legal norm}.\textsuperscript{126} The relationship between the doctrine of subjective rights and legal norms is examined in the following paragraph.

\textbf{7.4.1.1 THE RELATIONSHIP BETWEEN THE DOCTRINE OF SUBJECTIVE RIGHTS AND LEGAL NORMS}

The concept of wrongfulness essentially refers to a \textit{juridical value judgment}\textsuperscript{127} over certain conduct in the light of the harmful results or potential harmful results thereof. In the law of delict, wrongfulness is usually determined with reference to a harmful result. In the case of the \textit{actio legis Aquiliae} (and the other two principal delictual actions - the action for pain and suffering and the \textit{actio iniuriarum}) the focus falls on a harmful result already caused. In the case of the interdict, the harmful result may not have materialized - it might only be imminently threatening. Because of this intimate link between a harmful consequence (actual or potential) and delictual wrongfulness, the perception that the infringement of an interest is the essence of wrongfulness can easily arise. However, it is submitted that this is incorrect. It is true that wrongfulness is inconceivable without at least a potential infringement of an interest, but interests may be infringed without wrongfulness being present, for instance where someone harms another in private defence or with the latter's consent.\textsuperscript{128} Therefore, the essence of wrongfulness is not the infringement of an

\textsuperscript{124} It is submitted that this first step does not deal directly with the delictual element of wrongfulness yet - rather, it concerns the elements established on the facts of the case, viz an act, damage, and factual causation (see par 8.2 on delictual elements). Thus, the relationship between a legal subject and the object of his right is factually disturbed if there is (a) \textit{an act which} (b) \textit{factually causes} (c) \textit{damage}. However, establishing this on the facts, is an essential preliminary step in the enquiry into wrongfulness. See par 7.4.1.1 below.

\textsuperscript{125} And this second step, it is submitted, is the essence of the enquiry into wrongfulness - see par 7.4.1.1 below.

\textsuperscript{126} Neethling, Potgieter and Visser 48; Van Heerden and Neethling 81.

\textsuperscript{127} Van der Merwe and Olivier 56-57; Van Aswegen 139; Visser 1991 \textit{THRHR} 782.

\textsuperscript{128} Cf eg Neethling, Potgieter and Visser 39.
interest, but rather the condemnation by the law of conduct infringing an interest in the light of all the circumstances.

If the law is seen as a system of norms, wrongfulness is fundamentally a violation of a norm; in a delictual context, specifically a violation of a norm of the law of delict. The approval and condemnation of the law finds expression in legal rules, that is, norms. The basic criterion used to determine the legal permissibility or otherwise of conduct, is the boni mores, the so-called legal convictions of the community. The boni mores is a criterion of objective

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129 That an interest has been infringed, is the essence of another delictual element, namely damage. Cf Neethling, Potgieter and Visser 198: "Damage is the diminution, as a result of a damage-causing event, in the utility or quality of a patrimonial or personality interest in satisfying the legally recognized needs of the person involved." Two other elements are also relevant here, namely the act (cf Neethling, Potgieter and Visser 21ff; par 8.2.1 below) and factual causation (cf Neethling, Potgieter and Visser 160ff; par 8.2.4 below). Legal causation (cf Neethling, Potgieter and Visser 169ff; par 8.2.4 below) is not yet relevant here, since it, like wrongfulness, is not established purely on the facts, but involves a juridical value judgment. Cf fn 124 above, fn 130 below. Cf further Visser and Potgieter 33: "In determining wrongfulness the real question is whether the infringement of interests is in violation of a legal norm. When damage is assessed, the law is concerned with the diminution in utility or quality of interests. It must be obvious that the violation of a legal norm (illegality) cannot be a prerequisite for any diminution, because the former is based on a legal evaluation whereas the latter is a quantitative phenomenon"; Visser 1991 THRHR 782-783 (emphasis added): "In die privaatreg word onregmatigheid (regskrenking) gesien as die feitelike aantasting van 'n individuele belang [cf, however, fn 124 above], op 'n regtens ongeoorloofde wyse... Onregmatigheid word geïdentificeer deur 'n ondersoek na die versteuring van die betrokke belang as gevolg van 'n menslike handeling in die lig van die relevante regsnorm wat enige onredelike versteuring verbied. Onregmatigheid is 'n abstrakte waardeoordeel wat niks kan veroorsaak nie maar wel 'n vereiste vir skuld is... Skade is die afname in die nuttigheid van 'n getroffe vermoens- of persoonlikheidsbelang by die bevestiging van die betrokke persoon se regserkende behoeftes... Skade word vasgestel deur die nuttigheid van iemand se vermoens- of persoonlikheidsbelange (na gelang die geval) voor en na 'n beweerde skadestigmende feit met mekaar te vergelyk."

130 The conduct complained of and its harmful result (if it has already materialized) or the probability of the occurrence of the harmful result (if a prohibitory interdict is applied for) are established on the facts. Wrongfulness, on the other hand, is not established purely on the facts, but involves a juridical value judgment over the (factually established) conduct in the light of the (factually established) harm caused thereby or potentially caused thereby. See Van der Merwe and Olivier 56-57.

131 Cf Hosten et al 3ff; Van der Merwe and Olivier 1; Van Zyl and Van der Vyver 2.

132 Cf Scott 1985 De Jure 134.

133 Incidentally, the view that wrongfulness - or unlawfulness - is constituted by the violation of legal norms, also holds good for criminal law - cf Snyman 91.

134 Cf in general Neethling, Potgieter and Visser 31ff 48; Boberg 33ff; Burchell 24ff; Van der Merwe and Olivier 58ff; Van der Walt 22-23.

135 What the content of the boni mores is in a given instance, is not determined by the public at large, but rather by the legal policy makers of the community, like the courts and the legislature. Cf Schultz v But 1986 3 SA 667 (A) 679; Burchell 28; Neethling, Potgieter and Visser 36-37; Van der Merwe and Olivier 58 fn 99.
Conduct conforming with the *boni mores* is reasonable in the eyes of the law, and thus lawful. Conduct conflicting with the *boni mores* is unreasonable in the eyes of the law, and thus wrongful. This is a very vague criterion, which is advantageous in the sense that it is flexible and adaptable to novel situations. Under the banner of the *boni mores*, the courts have the opportunity to invoke considerations of legal policy to find solutions to new legal problems or to improve existing legal rules that have proved unsatisfactory in the past. Thus the law can adapt to changing social and economic conditions. The *boni mores* has undoubtedly contributed to making the South African law of delict the dynamic and adaptable branch of the law that it is.\(^{137}\)

On the other hand, the vagueness of the *boni mores* can be a disadvantage in so far as it may cause uncertainty. Thus in many instances, more specific norms have crystallized as more concrete applications of the *boni mores*, making direct reference to the *boni mores* unnecessary, except in very involved or border-line cases.\(^{138}\) This, it is submitted, is the true niche of the application of the doctrine of subjective rights to establish wrongfulness today - it is a practical application of the *boni mores* criterion of wrongfulness.\(^{139}\)

The relationship between the *boni mores* and the doctrine of subjective rights, may be typified as one of *Grundnorm* and derivative norm. The *Grundnorm* of delictual wrongfulness is that conduct causing harm may not conflict with the *boni mores* - if it does, it is wrongful. From this basic norm flows the derivative norm that conduct *infringing a subjective right* is (in conflict with the *boni mores* and therefore) wrongful.\(^{140}\) Again it must be emphasized that the interference with the object of a subjective right is only an indication that conduct violates a legal norm and is therefore wrongful, since grounds of justification may be present. The grounds of justification are simply other norms - also concrete expressions of the *boni mores*.\(^{141}\)

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\(^{136}\) Cf Neethling, Potgieter and Visser 31-32; Boberg 33; Burchell 24; Van der Merwe and Olivier 57-58.

\(^{137}\) Cf eg Burchell 24; Neethling, Potgieter and Visser 40ff; Van Aswegen 1993 *THRHR* 171ff; Neethling in Van Aswegen (ed) 5; *Universiteit van Pretoria v Tommie Meyer Films (Edms)* Bpk 1976 4 SA 376 (T) 387.

\(^{138}\) Neethling, Potgieter and Visser 39ff 66-67; Van der Merwe and Olivier 58.

\(^{139}\) Cf Neethling, Potgieter and Visser 40. Cf Van der Walt 1995 *THRHR* 413-415 for a view that the doctrine of subjective rights and the *boni mores* are not entirely compatible, and the reaction in fn 103 above.

\(^{140}\) Another derivative norm flowing from the *boni mores* is that conduct in breach of a legal duty is wrongful - par 7.4.1.2 below.

\(^{141}\) Cf Neethling, Potgieter and Visser 66; Van der Walt 41.
- indicating that conduct harming another is reasonable in certain circumstances. Conduct interfering with the object of a subjective right, but complying with the requirements of a ground of justification, is therefore not in violation of a legal norm and thus lawful.

7.4.1.2 CRITICISM OF THE DOCTRINE OF SUBJECTIVE RIGHTS AND A JUSTIFICATION OF ITS USE IN THIS STUDY

The doctrine of subjective rights has received its share of criticism. Such criticism has been based on moral as well as utility grounds. To cite an example of an objection against the doctrine on moral grounds, it has been said\(^\text{142}\) that the doctrine is founded on a social philosophy of "arrogant subjectivism and individualism", which is the "origin of the selfishness, the social corruption and the moral bankruptcy that characterize twentieth century western society in general and contemporary South African society in particular". Thus a "fundamental paradigm shift" is advocated\(^\text{143}\) towards a "contextually sensitive, socially responsible and morally defensible system".\(^\text{144}\)

Not everyone will be convinced by this type of argument. The doctrine of subjective rights has after all been used by academics and the courts to develop legal rules regarded by many as instruments to serve justice.\(^\text{145}\) If a legal system contains unjust legal rules they should be identified and rooted out, and with the institution\(^\text{146}\) of a constitutional court in South Africa an instrument to facilitate such a process has been created. It is, however, unnecessary - and probably unrealistic - to blame the existence of unjust rules in the South African legal system on the doctrine of subjective rights, when such rules have in all probability been made by a legislature\(^\text{147}\) that gave no thought whatsoever to that doctrine, or if such rules perhaps emanate from a common law source older than the doctrine itself.

\(^{142}\) Van der Walt 1993 SAPR/PL 313.

\(^{143}\) Van der Walt 1993 SAPR/PL 313.

\(^{144}\) Cf Van der Walt 1993 SAPR/PL 316.

\(^{145}\) Eg the work on the theoretical foundations of the legal protection of personality interests by Joubert Grondslaar; of the legal principles applicable to unlawful competition by Van Heerden; and of the protection of privacy by Neethling (cf fn 100 above) - to mention just three examples based squarely on the doctrine of subjective rights.


\(^{147}\) Many of the South African legal rules criticized as unjust are statutory in origin - cf eg Dugard 1971 SALJ 181ff; Kahn 1989 SALJ 602ff especially 606-611; Forsyth 1988 SALJ 679ff; Mahomed 1985 Lesotho LJ 360; Neethling in Van Aswegen (ed) 3.
More convincing are arguments attacking the utility of the doctrine of subjective rights. The most important\(^{148}\) of these - for the present purpose - relates to the inability of the doctrine to explain all instances of delictual wrongfulness. In South African positive law wrongfulness is determined in some cases with reference to the breach of a legal duty, rather than the infringement of a subjective right.\(^{149}\) This fact could justify two possible conclusions - either the doctrine of subjective rights cannot explain all instances of delictual wrongfulness;\(^{150}\) or it can, but the relevant subjective rights at stake have not yet been identified in all cases.\(^{151}\) Some

\(^{148}\) Another point of criticism relates to possession and the *mandament van spolie*. Van der Walt 1990 *THRHR* 316ff has argued that the doctrine cannot explain the legal protection of possession by the *mandament van spolie* (on the *mandament* in general, see fn 87 above). Even a thief can recover possession of a thing with the *mandament*. If the doctrine of subjective rights postulates a subjective right for every legal remedy, as contended by Van der Walt 1990 *THRHR* 325, one must conclude that since a remedy - the *mandament* - is available to protect possession, possession must be a subjective right. The absurd result will be that the thief has a subjective right to the stolen thing in his or her possession. The alternative is to accept that although the *mandament* is available to the possessor, he or she does not have a subjective right. This will mean that the doctrine of subjective rights fails to explain the legal protection of possession by the *mandament*. In the light of the importance of possession in the law of property, this failure of the doctrine of subjective rights - so runs the argument - exposes a fundamental shortcoming of the doctrine, and indicates a need for (at least) its serious revision.

However, it must be borne in mind that the *mandament* is an *interim* remedy, and the court does not evaluate the merits of the dispute between the parties when considering an application for a spoliation order (cf fn 87 above). The granting or refusal of the *mandament* cannot be based on an investigation of the subjective rights of the parties, because that would require of the court a decision on the merits. By issuing a spoliation order, the court restores what is arguably the most primitive - and most basic - relationship of which the law takes cognizance - physical control. It does so without making any judicial value judgment over that physical control. The only value judgment made at this stage pertains to the act by which the physical control was terminated - if it took place against the will of the possessor and without recourse to the legal process, it qualifies as spoliation and the *mandament* may be granted. The subsequent suit on the merits is the setting for a judicial value judgment over the physical possession of the thing. This is the stage where the doctrine of subjective rights is of help. Thus if the owner proves his or her (subjective) right of ownership to the thing, and it transpires that the successful applicant for the spoliation order has no subjective right to the thing, it will be restored to the owner (cf again fn 87 above; Kleyn and Boraine 130-132; Olivier, Pienaar and Van der Walt 183). It is accordingly submitted that if the *interim* character of the *mandament* is kept in mind, one cannot realistically expect the doctrine of subjective rights to explain it. A conclusion that the doctrine is fundamentally flawed is therefore not justified by its inability to explain the protection of possession by the *mandament*. What the argument does demonstrate, is that a facet of private law cannot be explained satisfactorily by reference solely to the doctrine of subjective rights. The doctrine does have its limitations, but it is not necessarily fatally flawed.

\(^{149}\) Cf *Universiteit van Pretoria v Tommie Meyer Films (Edms)* Bpk 1976 4 SA 376 (T) 387; Van der Walt 21; Neethling, Potgieter and Visser 40; Boberg 30-34.

\(^{150}\) Cf Van Aswegen 144-147.

\(^{151}\) The question is therefore whether there is a corresponding right - even if as of yet still unidentified - for every legal duty recognized by the law. An affirmative answer is an attractive proposition - cf Joubert 1958 *THRHR* 112 - but it remains to be seen whether all the missing rights which must then be found to match the legal duties already recognized in our positive law, will still be identified. One of the instances where wrongfulness is based on breach of a legal duty, and where the
commentators\textsuperscript{152} - and the Transvaal Provincial Division of the Supreme court\textsuperscript{153} - appear to be comfortable with a dualistic system whereby the infringement of a right and breach of a legal duty are equally valid, independent criteria for the establishment of wrongfulness. Others are uneasy with the notion of wrongfulness in the absence of an infringed right, or reject such a proposition outright.\textsuperscript{154} Yet others question the validity of the subjective rights doctrine, and would elevate breach of a legal duty to the only criterion for wrongfulness.\textsuperscript{155}

If - as argued above\textsuperscript{156} - the principle that infringement of a subjective right is a practical application of the \textit{boni mores}, the principle that conduct breaching a legal duty is wrongful is simply another concrete application of the \textit{boni mores}.\textsuperscript{157} Therefore both the infringement of a subjective right and breach of a legal duty are violations of the delictual \textit{Grundnorm} - the \textit{boni mores} - and constitute wrongfulness. The fact that all instances of delictual wrongfulness cannot at present satisfactorily be explained in sole reliance on the doctrine of subjective rights, does not, it is submitted, invalidate legal research based on the premise that the doctrine is essentially sound and useful. The doctrine - like any other creation of the human mind - is not without its limitations. It is after all only a model of thought used to explain certain legal phenomena. It cannot be expected to explain all legal phenomena. However, it has proved useful to South African legal science in the past. And as a yardstick for the determination of delictual wrongfulness it has been

\textsuperscript{152} Cf Pretorius 229ff who contends (235) that it would be unrealistic to expect only one criterion of wrongfulness to accommodate all arising cases; cf Van der Walt 21; Neethling, Potgieter and Visser 40; Boberg 30-34; Van Aswegen 140ff; De Jager 1978 \textit{THRHR} 354-558; Pauw 1980 \textit{De Jure} 265ff.

\textsuperscript{153} \textit{Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk} 1976 4 SA 376 (T) 387.

\textsuperscript{154} Cf eg Joubert 1958 \textit{THRHR} 112.

\textsuperscript{155} Cf Du Plessis 1985 \textit{TRW} 96ff. In some older works on the law of delict the element of wrongfulness was approached from the angle of the 'duty of care' of English law, with no consideration of the infringement of rights as basis thereof - cf eg the definition of a delict given by McKerron 5: "The breach of a duty imposed by law, independently of the will of the party bound, which will ground an action for damages at the suit of any person to whom the duty was owed and who has suffered harm in consequence of the breach." However, in the light of all the recent literature on subjective rights and the recognition thereof in the \textit{Tommie Meyer} case (in 153 above), an author writing on delictual wrongfulness today cannot simply ignore the doctrine of subjective rights.

\textsuperscript{156} Par 7.4.1.1 above.

\textsuperscript{157} Cf Neethling, Potgieter and Visser 40.
accepted by the South African courts. It can therefore not be dismissed as simply a theory of a few idle academics. Incidentally, the very fact that the positive law and commentators recognize shortcomings of the doctrine, can be taken as a sign that it has come of age. It may once have been meant as a closed system explaining the entire private law reality on an infallible, rational basis, but this is certainly not the case any more. Today, the doctrine may be seen as one of the tools - albeit an invaluable one - at the disposal of the legal scientist and practitioner. This is perhaps even more graphically illustrated by the synthesis of the logic-based doctrine of subjective rights and the policy-based *boni mores* concept in the modern law of delict, to produce a criterion for wrongfulness that promotes legal certainty without sacrificing flexibility and adaptability.

It is submitted that if a study is undertaken of an emergent branch of the law of delict, the identification - where possible - of the legal objects and concomitant subjective rights protected by such a branch of the law, will instill in the study a clarity of thought and an orderliness of development that can hardly be attained in any other way. To ignore the legal object and its peculiar characteristics, and the right thereto and its characteristics, could conceivably result in aimless *ad hoc* development of the law, resulting in an incoherent body of loose norms.

### 7.4.2 THE SUBJECTIVE RIGHT TO THE TRADE SECRET

In the light of the foregoing, a case can be made out for the recognition of a subjective right to the trade secret. It is clear that in the factual reality many entrepreneurs and business concerns have very real individual interests in their trade secrets. This situation is probably as old as trade and commercial endeavours themselves. However, the technological advances of modern times pose new and more far-reaching threats to trade secrets, and highlight the need for legal recognition and protection. This raises the question whether a trade secret possesses the qualities necessary to qualify as the object of a subjective right. The question can be

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158 Cf Van der Walt 1995 *THRHR* 403ff.

159 Cf fn 103; par 7.4.1.1 above.

160 Cf Joubert *Grondslae* 117; Neethling *Privaatheid* 280; *Personality* 28; Van Heerden and Neethling 81-82.

161 A subjective right to the trade secret has already been propagated by others - cf Van Heerden and Neethling 1st ed (1983) 132-133; Du Plessis 1985 *MB* 68-69; Du Plessis in Neethling (ed) 91-92. The present contribution is aimed at the development of this theme in more depth.

162 Cf par 1.1 above.
answered in the affirmative. First, as has transpired clearly from the comparative legal research expounded above, a trade secret has economic value.\textsuperscript{163} It may be said to possess the requisite quality of scarceness. Indeed, the very significance of a trade secret for both its owner and his or her competitors stems from the fact that it is not accessible to many.\textsuperscript{164} In the second place, a trade secret exhibits the requisite qualities of independence, distinctness and definiteness to be capable of enjoyment, use and disposal. It has been shown that a trade secret consists of information that may lead an existence separate from both the mind of the person where it originated and the tangible object in which it may have been objectified.\textsuperscript{165} There can also be no doubt that a trade secret is capable of use, enjoyment and disposal by its owner. One may conclude that a trade secret is eminently suitable to serve as the object of a subjective right.

Mention must be made again of the objection of notably German writers that trade secrets cannot qualify as objects of subjective rights or property-like rights because the first owner of a trade secret has no legal recourse against a so-called double inventor who gains access to the same secret in a legally permissible manner by way of independent discovery or research.\textsuperscript{166} This argument should not carry much weight in South African law. The powers sprouting from any subjective right are always limited by the norms of the law, and the peculiar limitations to the powers of a trade secret owner should simply be regarded as inherent in the unique nature of trade secrets as legal objects, without posing a fundamental hurdle in the way of their recognition as objects of subjective rights. Furthermore, it may be noted that a similar situation is known in copyright law, where it is possible for two persons - working independently from each other - to come to the same result, and for each of them to acquire copyright in his or her own work - even though it is the same as the work of the other.\textsuperscript{167}

\textbf{7.4.3 THE RIGHT TO THE TRADE SECRET AS AN INTELLECTUAL PROPERTY RIGHT}

More specifically, if a subjective right to the trade secret is recognized, it can be

\textsuperscript{163} Par 7.2.5 above.

\textsuperscript{164} Par 7.2.3 above.

\textsuperscript{165} Par 7.2.1; 7.2.6 above.

\textsuperscript{166} Par 4.5.5.1 above.

\textsuperscript{167} Copeling 24 and authorities cited.
classified as an intellectual property right.\textsuperscript{168} It has been noted\textsuperscript{169} that a trade secret is an intangible product of the human mind and endeavour which can be expressed in an outwardly perceptible form. It complies with the accepted concept of intellectual property, which may be defined as the intangible products of human skills, or inventions of the human mind, situated outside the personality of the author and which are protected by the legal order.\textsuperscript{170} Classical examples of intellectual property are patents, copyrighted artworks or literary works, and trademarks.\textsuperscript{171} The legal protection of most of these legal objects is a relatively recent phenomenon.\textsuperscript{172} Most of the recognized intellectual property rights are protected by statute.\textsuperscript{173} This does not mean that new intellectual property rights may not be identified, nor that they need to be creatures of statute.\textsuperscript{174} There seems to be no reason militating against the recognition of the right to the trade secret as a (non-statutory) intellectual property right.\textsuperscript{175} Trade secrets law is, in fact, frequently discussed in treatises on intellectual

\textsuperscript{168} On intellectual property rights in general, see Van Heerden and Neethling 93ff.

\textsuperscript{169} Par 7.2 above.

\textsuperscript{170} Cf Domanski 1993 \textit{SA Merc LJ} 128: "The legal object of an immaterial-property right... is an intangible, incorporeal product of the human mind. This product exists outside and independently of its creator, and has an economic value"; Du Plessis and Du Plessis 130: "Immatiële goedere is niet-tasbare geestesprodukte van die mens, dit wil sé 'produkte' van menslike vindingrykheid" 134; Du Plessis in Neethling (ed) 89-90: "Die immateriëelgoederegeregte verskil van die ander subjektiewe regte op grond daarvan dat die regsobjek by 'n immateriëelgoedereereg 'n ontasbare onliggaamlike produk van die mens se geestesarbeid is wat buite die mens en onafhanklik van hom bestaan, en wat vermoënswaarde het"; Neethling, Potgieter and Visser 45: "intangible products of the human mind, intellect and activity which are expressed in one or other outwardly perceptible form"; Van der Merwe and Olivier 55: "ontstoflike goedere buite die mens geleë"; Van der Vyver 231: "the intangible expressions of human skills, or inventions of the human mind, embodied in a tangible agent and which are by law allotted to their author"; Van Zyl and Van der Vyver 408: "n Immateriële goed is 'n onstoflike menslike geestesproduk wat 'n regssubjek regtens teenoor ander subjekte toekom"; cf 424.

\textsuperscript{171} Cf Chisum and Jacobs 1.3ff; Dratler 1.6ff; Kintner and Lahr v.

\textsuperscript{172} Van der Vyver 236; Dratler 1.7ff.

\textsuperscript{173} South African examples are the Patents Act 57 of 1978; the Copyright Act 98 of 1978; the Trade Marks Act 194 of 1993; the Designs Act 195 of 1993; and the Plant Breeders' Rights Act 15 of 1976.

\textsuperscript{174} Cf Van Heerden and Neethling 99; Du Plessis in Neethling (ed) 91-92; Mostert 343-346.

\textsuperscript{175} Cf, however, Joubert 1985 \textit{De Jure} 34 and the reaction in par 7.4.4.6 below. Note, too, that some authors require intellectual property to be "embodied in a tangible agent" (cf Van Heerden and Neethling 95: "[T]he idea only becomes a real creation when it is in some way or the other expressed in a tangible agent so that it becomes externally perceptible"; further the definitions by Neethling, Potgieter and Visser 45 and Van der Vyver 231 quoted in fn 170 above); whereas it was argued above (par 7.2.6) that a trade secret need not be embodied in a tangible agent, it must only be capable of such embodiment. Certainly embodiment in a tangible form is a prerequisite for the protection of the majority of the recognized forms of intellectual property. However, it is submitted that it need not invariably be a prerequisite for the existence and protectability of intellectual property. Thus it may be argued that the goodwill of an undertaking - which is the object of a recognized intellectual property right (cf par 7.4.4.4.1 below) - is not necessarily always embodied in a tangible agent (cf Van Heerden
7.4.4 THE RIGHT TO THE TRADE SECRET DISTINGUISHED FROM SIMILAR RIGHTS

7.4.4.1 PATENT RIGHTS

Patent rights are intellectual property rights similar in many respects to trade secret rights. Both types of rights pertain to intangible products of the human mind and endeavour situated outside the human personality. Furthermore, patent rights always relate and trade secret rights frequently relate to inventions with industrial, commercial or agricultural applicability. Inventions which are secret and furthermore meet all the requirements of patentability may therefore qualify for protection either as trade secrets or as patents. Nevertheless, trade secret and patent rights can in general not simultaneously exist in the same subject matter for any significant period of time. A patent can only be obtained by filing an application accompanied by, or later supplemented by, a complete specification - describing the invention in detail and also disclosing the best method of performing the invention known to the applicant. This full disclosure will become open to public inspection after a prescribed period, usually upon publication of acceptance of the application in the patent journal. Thus as a rule the existence of a patent goes hand-in-hand

and Neethling 98). Programme-carrying signals, which may be the object of copyright (sec 2(g) Act 98 of 1978) are arguably also not embodied in a tangible agent. The true general requirement is not, it is submitted, that intellectual property must invariably be embodied in a tangible agent, but simply that it must be capable of leading an existence independent of the personality of the creator thereof - cf Joubert Grondslaan 21; Bainbridge 19-20; Dratler 1.3. Trade secrets meet this requirement - they can be shared with others, can be sold, can devolve by succession, etc. They need not, however, be embodied in a tangible agent - they may be transferred to other persons by the spoken word.

176 Eg Bainbridge 219ff; Chisum and Jacobs 3.1ff; Cornish 215ff; Dratler 4.1ff; Kintner and Lahr 129ff.

177 On South African patent law, see the Patents Act 57 of 1978; Burrell; cf Geldenhuys 100-102.

178 Cf Burrell 12ff.

179 Cf sec 25 Act 57 of 1978; Burrell 12ff.

180 Cf Burrell 35ff.


with its publication to the world, whereas the existence of a trade secret is dependent on the continued secrecy of the relevant information.

A further difference between patent and trade secret rights concerns the duration of legal protection. Patent protection lasts for a fixed period of time determined by statute, after which it falls into the public domain. Trade secret protection, on the other hand, lasts as long as the owner can successfully keep the information secret. The inventor whose invention meets the statutory requirements of patentability and is still secret, must therefore elect whether he or she desires patent or trade secret protection. He or she cannot have both. During its existence, patent protection is more absolute than trade secret protection in the sense that the patent owner can in principle enforce his or her rights against all infringers, and in principle no other legal subject can obtain rights to the same patent without his or her consent. In the case of a trade secret, on the other hand, a second inventor may, as noted, through independent research or discovery gain access to the same trade secret, and the first trade secret owner has no power to exclude the second inventor from so doing or from subsequent use or disposal of the secret.

It may be noted that two conflicting policy considerations appear to underlie the protection of both patents and trade secrets. On the one hand, it is considered beneficial to the economic and scientific advancement of the community that new technological and commercial developments fall into the public domain, enabling others to build thereupon. A monopoly on technology (like most monopolies) is in general regarded as detrimental to the general economic and scientific advancement of a community. On the other hand, it is seen as desirable that someone who has invested energy, time and money to produce a new invention, be rewarded for his or

\[183\] Cf Du Plessis 1985 MB 62. Provision is made for patents to be kept secret in certain exceptional cases; cf Burrell 123-125.

\[184\] Cf Knobel 1990 THRHR 489.

\[185\] 20 years - sec 46 of Act 57 of 1978; cf Burrell 2-3; Neethling 1992 (1) Codicillus 11.

\[186\] The idea is that, in return for absolute statutory protection for a specified time period, the inventor must then relinquish his invention into the public domain in order that others may also build thereupon. Cf Burrell 1.

\[187\] Cf Knobel 1990 THRHR 489.

\[188\] Cf Burrell 233ff 309ff.

\[189\] Cf par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 6.2.1; 7.2.3 above.

\[190\] Cf Burrell 1; Chisum and Jacobs 1.2 1.6-1.8; Dratler 1.4-1.6 1.76-1.80; in respect of copyright law Dean 1.1.
her efforts by enjoying the exclusive use and disposal thereof for at least a certain period of time. Such an award provides an incentive to inventors to go to all the trouble, with ultimate benefit, hopefully, to the general economic and scientific advancement of the community.\footnote{Cf Van Heerden and Neethling 241.} The positions concerning the scope and duration of legal protection of patents and trade secrets respectively may be seen as an effort of the law to balance these conflicting interests. In the case of patents, this balance favours 'strong' protection for a limited period; in the case of trade secrets, the law affords 'weaker' protection for a potentially unlimited time.\footnote{Cf Burrell 1; Chisum and Jacobs 3.6; Dratler 1.24 1.26 1.28 1.76-1.80 4.3.} In both cases, the inventor is rewarded for his or her efforts, without a situation being created where the invention can never lawfully fall into other hands.\footnote{Cf Mostert 1987 \textit{SALJ} 480 in respect of the following theories explaining the protection of intellectual property: (a) the \textit{natural law theory} (480), which is "based on the fundamental principle that what an individual created by his own effort and labour, belongs to him. This principle rests on the conviction that a person is entitled to the fruits of his own intellectual effort and that equity demands that he is entitled to reap where he has sown"; (b) the \textit{reward theory} (500) which "like the natural-law theory... is premised on the idea that the individual should be rewarded for his labour and effort, but the reward theory specifically takes into account the benefit to society in general which flows from the individual's effort. The theory is predicated on the premise that an individual should be rewarded for his creative efforts from which society generally benefits. The reward takes the form of the granting of an exclusive intellectual property right to the creator in his intellectual creation"; and (c) the \textit{incentive theory} (500), which "takes the emphasis on the interest of society one step further. The incentive theory rests on the conviction that if an individual's intellectual creation is protected by law, this will serve as an incentive for other creative individuals to produce intellectual works from which society will benefit."}{\footnote{Cf Copeling 1. The current Act in South Africa is the Copyright Act 98 of 1978. Cf further Geldenhuys 98-100.}}

7.4.4.2 COPYRIGHT

Copyright is another intellectual property right created and protected by statute.\footnote{Cf Copeling 1. The current Act in South Africa is the Copyright Act 98 of 1978. Cf further Geldenhuys 98-100.} Unlike the position with patent rights, copyright and trade secret protection may in given situations overlap, that is, the same material may be the object of both copyright and trade secret rights. Certain "artistic works"\footnote{As defined in sec 1 Act 98 of 1978.} like drawings and photographs, and certain "literary works"\footnote{As defined in sec 1 Act 98 of 1978.} like letters, reports, memoranda, written tables and compilations may all, for instance, be the object of copyright,\footnote{Sec 2 read with definitions of 'artistic works' and 'literary works' in sec 1.} and trade secrets may of course also be embodied in them. However, there are important differences between copyright and trade secret rights even where they pertain to the...
same material. The most obvious difference relates to the ways in which these rights may be infringed. What constitutes copyright infringement depends to a degree on the relevant category of copyrightable work, but typically includes conduct such as the unauthorized reproduction or publication of the copyrighted work. Trade secret rights are infringed by unauthorized acquaintance, use or disclosure of the trade secrets. Areas of overlap are apparent. Thus acquaintance with a trade secret can be made by copyright-infringing conduct such as the reproduction of a copyrighted document, or a trade secret can be disclosed by copyright-infringing conduct such as publication of a copyrighted work. But acquaintance can also be made with a trade secret by the mere reading and memorizing of the contents of a copyrighted document - actions which do not constitute infringements of copyright. A trade secret embodied in copyrightable matter can also be used in ways that constitute trade secret infringement, but do not constitute copyright infringement. Examples could be the use of a secret recipe, gleaned from a copyrighted document, to make a soft drink; or the implementation of secret marketing techniques, gleaned from a copyrighted document, in a business enterprise.

Apart from the more obvious differences mentioned above, and other differences that may exist, fundamental differences pertain to the objects of copyright and trade secret rights respectively. The traditional view has been that copyright law protects form rather than ideas. According to this view, copyright law does not protect original ideas but rather the original expression of ideas. More recently there has been recognition - also from the South African Appellate Division - that copyright protection does to a certain degree also extend to the protection of ideas. However, a mere idea cannot constitute the object of copyright. An idea must first be expressed in some statutorily prescribed outwardly perceptible form and the

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198 Sec 23 read with secs 6-11B; cf Copeling 24ff who states (24) that it is a general principle of copyright law that there can be no (direct) infringement of copyright without actual copying.

199 Par 6.3 above.

200 And trade secret protection in American law, and according to the GATT TRIPs agreement, is wide enough to render such acquisition actionable - cf par 3.2.2; 5.1; 5.2; 6.3 above.

201 Eg differences relating to defences available in the two respective fields. See Copeling 40ff for a discussion of defences peculiar to copyright law.


203 Galago Publishers (Pty) Ltd v Erasmus 1989 1 SA 276 (A) 283-285.

204 See Copeling 25; Dean 1.12; cf further Pistorius 1992 De Jure 166 169-175.

205 With the possible exception of broadcasts and programme-carrying signals - which must, however, meet other statutory requirements to be eligible for copyright; cf sec 2(2A) Act 98 of 1978.
majority of "works" are required by the Copyright Act\textsuperscript{206} to be "reduced to material form" - before they may be eligible for copyright protection. The object of copyright may therefore be said to consist of two components, the idea and the form of expression.\textsuperscript{207} Trade secrets law, on the other hand, definitely protects ideas,\textsuperscript{208} irrespective of the form in which they are expressed. As noted,\textsuperscript{209} trade secrets must be capable of embodiment in some concrete form, but it is not necessary that the secret be in fact so embodied. Even if a trade secret has never been reduced to some concrete form and has hitherto only existed in the mind of the inventor, it can be infringed by someone to whom he or she has orally confided it. It may be concluded that the object of copyright is in essence an idea \textit{expressed in one of a number of statutorily prescribed forms},\textsuperscript{210} whereas the object of the right to the trade secret is in essence certain types of information \textit{irrespective of its form of expression}. Seen in this light, it is perhaps more accurate to say that different \textit{aspects of the same material} may be objects of copyright and trade secret rights respectively, rather than to say that the same material may be the object of both copyright and trade secret rights.

The differences mentioned above distinguish copyright and trade secret rights in those cases where they pertain to the same material and where copyright and trade secret protection may overlap. Other differences between the objects of copyright and trade secret rights exclude such overlap in many cases. Thus trade secret protection does not, for instance, apply to copyrightable material that is not secret or not capable of industrial or commercial application.\textsuperscript{211} Similarly, copyright protection does not extend to trade secrets which are not embodied in materials that qualify as

\textsuperscript{206} Sec 2(2).

\textsuperscript{207} Cf Study guide for patent law and copyright law Unisa 1993 80; Copeling 1965 \textit{THRHR} 3ff.

\textsuperscript{208} There is a close link between \textit{idea} and \textit{information} (par 7.2.1 above) in this regard. A trade secret originates as an idea. By the time an idea is concrete enough to be applied in trade or industry, it constitutes protectable information. Seen from the perspective of an outsider, a trade secret is something the acquisition of which will \textit{inform} him of eg the method by which the trade secret owner manufactures a unique product or renders a unique service, the marketing strategy employed by him, etc. A trade secret may be said to consist of information based on an idea or ideas. Trade secrets law may therefore be said to protect ideas meeting certain requirements.

\textsuperscript{209} Par 7.2.6 above.

\textsuperscript{210} \textit{Contra} Copeling 1965 \textit{THRHR} 3ff who argues that copyright may exist in mere ideas as long as they have been expressed in an outwardly perceptible form. He proposes that the idea for a literary work can be the subject of copyright if it has only orally been communicated to another - and has therefore never been reduced to material form. The current position in South African positive law does not support Copeling's proposition - sec 2(2) Act 98 of 1978.

\textsuperscript{211} Par 7.2.2; 7.2.3 above.
"works" eligible for copyright in terms of the Copyright Act.  

Like patent rights, but unlike trade secret rights, the duration of copyright protection is coupled to a statutorily determined time limit. 

7.4.4.3 RIGHT TO PRIVACY 

Privacy is defined by Neethling as an individual condition of life in terms of which a certain measure of seclusion from others is maintained. This condition includes all the personal facts which an individual shields from acquaintance by outsiders, and in respect of which the individual has a will to prevent such acquaintance. This definition has been quoted with implicit approval by the South African Appellate Division. Privacy may be infringed by the unauthorized acquaintance with private facts or by the unauthorized disclosure thereof. There are interesting parallels between trade secrets and privacy as thus defined. First, both legal objects consist essentially of facts or information that are not generally known and which the relevant

212 Sec 2, which reads as follows:
"(1) Subject to the provisions of this Act, the following works, if they are original, shall be eligible for copyright -
(a) literary works;
(b) musical works;
(c) artistic works;
(d) cinematograph films;
(e) sound recordings;
(f) broadcasts;
(g) programme-carrying signals;
(h) published editions;
(i) computer programs.

(2) A work, except a broadcast or programme-carrying signal, shall not be eligible for copyright unless the work has been written down, recorded or otherwise reduced to material form.
(2A) A broadcast or a programme-carrying signal shall not be eligible for copyright until, in the case of a broadcast, it has been broadcast and, in the case of a programme-carrying signal, it has been transmitted by a satellite.

Some of the terms used in sec 2 are defined in sec 1.

213 Sec 3(2) Act 98 of 1978.

214 Privaatheid 287: "Privaatheid is 'n individuele lewenstoestand van afsondering van openbaarheid. Hierdie lewenstoestand omsluit al daardie persoonlike feite wat die belanghebbende self bestem om van kennismaking deur buitestaanders uitgesluit te wees en ten opsigte waarvan hy 'n privaathoudingswil het." Cf Neethling Personality 34; Neethling, Potgieter and Visser 333.

215 National Media Ltd v Jooste (not yet reported - case no 335/94 (A)) 13-14.

216 Neethling Personality 36 243ff; Neethling, Potgieter and Visser 333-334; Financial Mail (Pty) Ltd v Sage Holdings 1993 2 SA 451 (A) 462.
legal subject does not desire to be generally known.\textsuperscript{217} Second, these legal objects face similar threats, in so far as they are prone to unauthorized access and/or disclosure.\textsuperscript{218} In the third place, the threats to both trade secrets and privacy assume greater proportions, and the need for legal protection is felt far more acutely, with the rapid technological developments of modern times.\textsuperscript{219} Indeed, in English law, as noted,\textsuperscript{220} trade secrets and aspects of privacy are protected by one action, the action for breach of confidence.

From the perspective of the South African private law, there is - at least at first blush - a fundamental distinction between the two legal objects. A trade secret is information capable of application in commerce and industry, and is of real or potential economic value to its owner.\textsuperscript{221} The right to the trade secret, it follows, is a patrimonial right.\textsuperscript{222} Privacy, on the other hand, is an interest of personality, and the right to privacy is a personality right.\textsuperscript{223} In the structure of the South African law of delict, with its Romanistic foundations, trade secrets are therefore protected by the *actio legis Aquiliae*\textsuperscript{224} - the delictual action with which patrimonial loss is recovered; and privacy by the *actio iniuriarum*\textsuperscript{225} - the delictual action applicable when a

\textsuperscript{217} Cf in respect of privacy Neethling *Personality* 243ff; Neethling *Privaatheid* 287; Neethling, Potgieter and Visser 333. In respect of trade secrets, see par 7.2 above. Cf further Geldenhuys 110-111.

\textsuperscript{218} Cf in respect of privacy Neethling *Personality* 243ff; Neethling *Privaatheid* 315ff; Neethling, Potgieter and Visser 333ff. In respect of trade secrets, see 6.3 above.

\textsuperscript{219} Cf par 1.1 above, and in respect of privacy McQuoid-Mason 5ff; Neethling *Privaatheid* 2ff.

\textsuperscript{220} Par 2.1; 2.2.1.1.1 above.

\textsuperscript{221} Par 7.2 above.

\textsuperscript{222} Intellectual property rights, like real and personal rights, are classed as patrimonial rights. Personality rights are classed as non-patrimonial rights. Cf Du Plessis and Du Plessis 137; Van Zyl and Van der Vyver 429-430; Visser and Potgieter 47 85-86.

\textsuperscript{223} Cf eg *Jansen Van Vuuren v Kruger* 1993 4 SA 842 (A) 849; Neethling *Personality* 33ff 240; Neethling *Privaatheid* 287ff; Neethling, Potgieter and Visser 45; Van Heerden and Neethling 224 fn 5.

\textsuperscript{224} See par 9.3.1 below.

\textsuperscript{225} *Jansen Van Vuuren v Kruger* 1993 4 SA 842 (A) 849. McQuoid-Mason 253ff (cf 134) suggests that the *actio legis Aquiliae* can also lie for (negligent) infringements of privacy, provided the plaintiff can prove patrimonial loss - for instance (the cost of medical treatment after the suffering of) emotional shock as a result of an invasion of privacy. However, this does not mean that the right to privacy is not a personality right. The type of situation envisaged by McQuoid-Mason is simply one where an infringement of a personality right also gives rise to patrimonial loss. A concurrence of the *actio iniuriarum* and the *actio legis Aquiliae* is a possibility in such a situation - cf Neethling, Potgieter and Visser 250-251; Van der Merwe and Olivier 464.
220 personality right has been intentionally infringed.\(^{226}\)

However, the distinction between trade secrets and privacy has been complicated by the recognition by the South African courts of the privacy of a business organisation (whereas it was previously thought that only natural persons could have a right to privacy).\(^{227}\) Some writers have also suggested that the true ratio for the protection of trade secrets in certain cases could be found in the protection of the privacy of a business.\(^{228}\) Does a criterion exist by which the privacy of business organisations may be distinguished from trade secrets? A tentative distinction put forward by Neethling and Potgieter\(^{229}\) is that a trade secret consists of information with economic value, whereas the privacy of a business concern is said not to have economic value.\(^{230}\) Another difference concerns the requirement\(^{231}\) that a trade

\(^{226}\) Although the actions need not be mentioned by name in court, they are subject to differing principles (eg in respect of the form of fault required) and the distinction between the actions is therefore still of very real significance today. Cf Boberg 18; Burchell 19; Neethling, Potgieter and Visser 5-6; Van der Merwe and Olivier 15; Van der Walt 2.


\(^{228}\) In respect of American law, this opinion has been canvassed by Callmann Vol 2 14.11-14.12 - see par 3.5.5 above. In South African law, similar thoughts have been expressed by Dendy 1990 (19) BML 150.

\(^{229}\) 1994 THRHR 707; see also Van Heerden and Neethling 300 fn 153.

\(^{230}\) On the other hand, it may be argued that the facts constituting the privacy of a business concern (and probably most other personality interests) may have economic value. Thus, to cite two examples, the fact that a business concern is in financial straits (cf the facts of Financial Mail (Pty) Ltd v Sage Holdings 1993 2 SA 451 (A)) or that it was involved in malpractices (cf the facts of Janit v Motor Industry Fund Administrators (Pty) Ltd 1995 4 SA 293 (A)) can - if known to consumers - impact severely on the financial position of the business. Neethling and Potgieter's suggested distinction can be refined by stating that facts which constitute the privacy of a business concern do not have direct commercial value, whereas trade secrets do - see Neethling Personality 81. This does not necessarily take the matter any further. In the case of natural persons, it may be true that conduct infringing a personality right may cause non-patrimonial harm directly, and patrimonial loss indirectly (eg where a medical doctor is defamed, as a result of which he or she firstly suffers harm of a non-pecuniary nature in the form of a lowering of his or her good name, and secondly - indirectly - loss of an economic nature because of lost patient confidence). In the case of a business organisation, on the other hand, there can be such a direct link between its interests of personality and its performance in the market that it might arguably be unrealistic to say that infringement of its personality rights causes economic loss only indirectly. However, since the notion that privacy (or other interests of personality) may have economic value is in conflict with the traditional view of personality rights as non-patrimonial rights, it will not be further pursued here. The traditionally more prudent explanation is probably that the infringement of the privacy of a business organisation directly causes some non-patrimonial harm for which the actio iniuriarum may lie, and may indirectly cause patrimonial loss (eg in the form of a negative impact on the goodwill), for which the actio legis Aquilliae may be available.

\(^{231}\) Par 7.2.6 above.
secret must be concrete enough to exist independently of its owner. Thus a trade secret may continue to exist if the owner thereof dies (in the case of a natural person) or otherwise ceases to exist (in the case of a juristic person). It may, for instance, devolve by testate succession to the heir of the deceased owner, and may be exploited by the heir in another business enterprise. The privacy of the business concern, on the other hand, should be so intimately connected with that business that it cannot be meaningful independent of the existence of the business itself.\textsuperscript{232} \textsuperscript{233}

Be that as it may, the protection of trade secrets may in certain situations be a practical result of the protection of the privacy of a business concern. Thus legal action (for instance by the granting of an interdict\textsuperscript{234}) against the tapping of the telephones of a business, or the unauthorized invasion of its premises, and so forth, may be based on an infringement of privacy.\textsuperscript{235} In this way the right to the privacy of a business concern may be used as a shield against industrial espionage - with the practical effect of thus also protecting its trade secrets.

\textsuperscript{232} Privacy is, after all, the object of a personality right, and personality rights are understood to pertain to legal objects that are so intimately connected with the person that they cannot lead a separate existence from him or her - Joubert \textit{Grondslae} 121; Neethling \textit{Personality} 14-15. It is submitted that this principle should apply equally to the personality rights of juristic persons, and not only to those of natural persons. Thus, to refer again to the examples mentioned in fn 230 above, the privacy of the fact that a certain business enterprise is in financial straits, or is involved in malpractices, ceases to be a legally protectable interest once that business ceases to exist. In so far as a natural person who was involved in such a terminated business concern is still alive, such an individual may have a continued interest of personality in the privacy of the fact that he or she was in his or her personal capacity in financial straits or involved in malpractices.

\textsuperscript{233} The interim Constitution of South Africa (Act 200 of 1993) provides (sec 13): "Every person shall have the right to his or her personal privacy, which shall include the right not to be subject to searches of his or her person, home or property, the seizure of private possessions or the violation of private communications." The Constitution of the Republic of South Africa, 1996 provides (cl 14): "Everyone has the right to privacy, which includes the right not to have - (a) their person or home searched; (b) their property searched; (c) their possessions seized; or (d) the privacy of their communications infringed." Cf on constitutional rights to privacy in general Du Plessis and De Ville in Van Wyk et al 242ff. Du Plessis and De Ville contend (252) that the qualification of personal privacy in the interim Constitution is indicative of an intention not to grant constitutional protection to the privacy of juristic persons. However, this qualification has been omitted from the text of the Bill of 1996. See Bernstein \textit{v} Bester 1996 2 SA 751 (CC) on the constitutional right to personal privacy.

\textsuperscript{234} Cf par 8.5.4 below.

\textsuperscript{235} Cf Financial Mail (Pty) Ltd \textit{v} Sage Holdings 1993 2 SA 451 (A); Janit \textit{v} Motor Industry Fund Administrators (Pty) Ltd 1995 4 SA 293 (A). Thus further intrusions and/or disclosure of already acquired private facts - which may well include trade secrets - may be restrained. However, it is doubtful whether the use of a trade secret acquired by privacy-infringing conduct can be restrained in sole reliance on the right to privacy, if such use does not involve disclosure of the secret to third parties.
7.4.4.4 THE RIGHT TO THE TRADE SECRET AND THE LAW OF UNLAWFUL COMPETITION

7.4.4.4.1 The right to the trade secret and the right to goodwill

It will be seen\textsuperscript{236} that trade secret infringement is usually regarded as unlawful competition by the South African courts. The legal protection of trade secrets in South Africa has therefore largely developed in the cadre of unlawful competition law, which forms part of the law of delict.\textsuperscript{237} The most important subjective right generally protected by unlawful competition law is the entrepreneur's right to the goodwill of his enterprise (\textit{die reg op die werfkrag}).\textsuperscript{238} Goodwill in this sense\textsuperscript{239} has been described as "the attractive force which brings in custom".\textsuperscript{240} The right to goodwill, pertaining as it does to an intangible creation of the human intellect and endeavour, has been classed as an intellectual property right.\textsuperscript{241}

The majority of trade secret infringements (actual or imminent) that come before the courts also constitute infringements (actual or imminent) of the goodwill of a business enterprise. Even a very superficial analysis of case law will show this\textsuperscript{242} An entrepreneur whose trade secret is misappropriated, may seek relief on the basis of an infringement of either the right to the trade secret or the right to goodwill. However, although the majority of trade secret infringements also infringe the goodwill, this is by no means always the case. A pertinent example of trade secret infringement that does not affect goodwill, would be where an inventor has developed a trade secret which he does not intend exploiting himself, but which he intends selling to an entrepreneur who would be interested to employ the secret in the latter's business. Such an inventor may have no business enterprise and thus no goodwill

\textsuperscript{236} Par 9.3.1 below; cf Van Heerden and Neethling 229ff.

\textsuperscript{237} Van Heerden and Neethling 62ff; Boberg 149ff; Neethling, Potgieter and Visser 297ff; Van der Merwe and Olivier 382ff.

\textsuperscript{238} Van Heerden 197ff 203ff; Van Heerden and Neethling 93ff; Neethling, Potgieter and Visser 298; Van der Merwe and Olivier 383; Dreyer 90; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ggwano (Pty) Ltd 1981 2 SA 173 (T) 182; Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk 1977 4 SA 376 (T) 386; Becker & Co (Pty) Ltd v Becker 1981 3 SA 406 (A) 416.

\textsuperscript{239} The word is also used in other contexts; cf Van Heerden and Neethling 103ff; Van Heerden 207ff.

\textsuperscript{240} Inland Revenue Commissioners v Müller & Co's Margarine Ltd 1901 AC 217 224; cf Van Heerden and Neethling v 95 103.

\textsuperscript{241} Van Heerden 203ff; Van Heerden and Neethling 94ff; Neethling, Potgieter and Visser 298 In 223; Van der Merwe and Olivier 383.

\textsuperscript{242} Cf par 9.3.1 below.
that may be infringed.\textsuperscript{243} The trade secret is nevertheless a valuable asset in his patrimony, and if it is misappropriated before he can sell it to an entrepreneur, he should be able to obtain an interdict or damages (depending on whether the secrecy has been destroyed by the thief or not). Since the inventor does not have a goodwill, the wrongfulness of the misappropriator's conduct cannot be based on the infringement of the right to goodwill. To deny such an inventor legal relief, would be patently unjust. Wrongfulness in such a case must be based on the infringement of a subjective right to the trade secret itself.\textsuperscript{244} \textsuperscript{245} It can therefore be concluded that a trade secret infringement may result in an infringement of goodwill in many instances, but that an infringement of goodwill is not a prerequisite for liability for the misappropriation of a trade secret.

7.4.4.4.2 The right to the trade secret and the right to the business enterprise or undertaking

The right to goodwill is not the only subjective right that must be considered regarding the protection of trade secrets in the context of unlawful competition. Influential German authors regard an infringement of a trade secret as an infringement of the right to the business enterprise.\textsuperscript{246} Recently, the view that the right to the undertaking is the subjective right infringed in unlawful competition cases has been argued in South Africa by Domanski.\textsuperscript{247} The right to the undertaking is seen as an

\textsuperscript{243} See in general Van Heerden and Neethling 112-116 142-145. An example could be a housewife who discovers that adding certain ingredients to washing powder increases its efficiency dramatically. She has no right to goodwill, for the simple reason that she has no business enterprise. Her secret is, however, an asset with which she can reap considerable financial benefits if she can sell it to a manufacturer of washing powder. See Knobel in Neethling (ed) 77 fn 44; Knobel 1990 \textit{THRHR} 493 fn 45; Van Heerden and Neethling 225 fn 11.

\textsuperscript{244} The wrongfulness of such conduct could conceivably also be based on an infringement of the right to earning capacity, depending on how this right is construed - see par 7.4.4.6 below.

\textsuperscript{245} Also where a trade secret owner does have a business enterprise and a right to goodwill, his or her trade secret can be infringed by a wrongdoer who is not a competitor in the same trade. An example could be the case of an industrial spy - who is not a competitor of the trade secret owner - misappropriating the secret; cf the American \textit{Christopher} case (par 3.2.2 above). Instances of trade secret infringement out of a competition context have also featured in South African case law; see par 9.3.1.2.2 below; Van Heerden and Neethling 224. In such a case an application for an interdict could probably be based on the threat that the right to goodwill of the trade secret owner might eventually be infringed (cf Van Heerden and Neethling 145) - however, legal relief can be based more satisfactorily on the direct infringement of the right to the trade secret itself.

\textsuperscript{246} Par 4.5.5.2 above; cf Van Heerden 44ff on the right to the undertaking in German law, and 183ff 189ff for a theoretical analysis of the right to the undertaking.

\textsuperscript{247} 1993 \textit{SA Merc LJ} 127ff; cf Pienaar 86-88.
intellectual property right,248 but authors differ as to the various components of the legal object of this right. Some249 include corporeal property such as buildings, stock, and equipment; rights from, for instance, contracts with suppliers and employees; and immaterial interests like goodwill.250 According to others251 the undertaking as legal object consists of a collection of only immaterial things, like rights, legal relationships and factual relationships. Domanski, associating himself with the latter group, goes further by postulating252 that the undertaking consists of an "assemblage of disparate components, all of which are rights of one kind or another". The advantage of recognizing the right to the undertaking as the right infringed by unlawful competition, argues Domanski,253 is that it allows wider legal protection than the right to goodwill. Thus where a new business has not yet acquired a goodwill, relief can still be obtained against competitive acts infringing the right to the undertaking. However, Domanski states254 that liability for unlawful competition can only arise if the plaintiff's right to the undertaking was infringed by a competitor in trade,255 and if the performance of the undertaking in the market was adversely affected.

The same arguments advanced above256 in support of the view that trade secrets cannot adequately be protected under the right to goodwill, are also applicable to the right to the undertaking. Again, the inventor of a trade secret who has no business enterprise will go unprotected if protection is based solely on a subjective right to the undertaking. Protection of trade secrets outside the competitive context can only be based on a right to the trade secret itself. Similarly, protection of trade secrets in a competitive context can still be explained most satisfactorily by the recognition of the

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248 Cf Van Heerden 189ff; Van Heerden and Neethling 88ff; Domanski 1993 SA Merc LJ 140-141. The right to the undertaking was once regarded as a personality right, surprisingly also by Kohler 22, father of the concept of intellectual property rights - cf Van Heerden 183ff; Van Heerden and Neethling 86-87. This proposition is convincingly refuted by Van Heerden 187 and Van Heerden and Neethling 87, pointing out that the undertaking has economic value and is not inseparably bound to the personality of the entrepreneur.

249 See the authors cited by Van Heerden and Neethling 88 fn 70.

250 Cf Van Heerden and Neethling 88 fns 73 and 74 for criticism of this concept.


252 137.

253 141-142.

254 140-141.

255 Cf, however, Van Heerden 66 who states that in German law the right to the undertaking has not only been considered in cases arising in a competitive context.

256 Par 7.4.4.4.1.
right to the trade secret, the infringement of which would usually also result in an infringement of the subjective right protected by the law of unlawful competition, whether it be the right to the goodwill or the right to the undertaking.

7.4.4.5 RIGHTS TO TRADE MARKS AND SIMILAR LEGAL OBJECTS

The trade names used by the entrepreneur to individualize his or her undertaking, and the trade marks, "get-up" and service marks used to individualize his or her products or services, are also the objects of intellectual property rights. The primary function of these legal objects is to distinguish an entrepreneur's business, products or services from similar businesses, products or services of competitors. They may furthermore fulfil quality-indicating and advertising functions.

Van Heerden and Neethling accordingly recognize two types of subjective rights to trade marks and the like - the right to the distinctive mark and the right to the advertising mark. From this follows a basic distinction between respectively trade marks and

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257 Interestingly, Domanski himself - perhaps unwittingly - lends support to a right (admittedly not necessarily a subjective right - although it is difficult to conceive of a different type of right in this context) to the trade secret. He mentions (133 fn 38) "the misappropriation by a trade rival of secret formulations or know-how belonging to a newly-formed pharmaceutical company as yet unknown to the public" as an example of a situation where protection against unreasonable competitive conduct may be based on an infringement of the right to the undertaking, but not on an infringement of the right to goodwill. If, as Domanski contends, all the components of the undertaking (as legal object) are rights, the implication is inescapable that the secret formulations or know-how in the example are also the objects of rights.

258 It is not necessary to decide here which of the two postulated rights is the better foundation of the law of unlawful competition. For the purposes of this study it is sufficient to show that neither of them is the primary foundation of trade secret protection, and that trade secret protection cannot be confined to the competition context. See Van Heerden and Neethling 88ff for a critical evaluation of the right to the undertaking; and Domanski 133ff for a critical evaluation of the right to goodwill. It should be noted, however - as Domanski 143 concedes - that the right-to-goodwill "formulation of Van Heerden and Neethling has gained a strong foothold in our law, and it would be difficult at this stage to persuade our courts to forsake it".

259 Cf Van Heerden and Neethling 106ff.

260 Cf Van Heerden and Neethling 107; cf Webster and Page 19ff.

261 Cf in respect of especially trade marks, Mostert 312ff; Rutherford in Neethling (ed) 55ff. The advertising function of a trade mark is regarded by modern commerce as its most important economic function; see Rutherford in Neethling (ed) 56 and authorities quoted. The advertising and quality-indicating values of eg a trade mark are dependent on its distinguishing function; cf Mostert 316-317.

262 The object of the right to the distinctive mark is identified by Van Heerden and Neethling 108 as the distinguishing value of the mark in connection with the entrepreneur's business, product or service. The 'right to the advertising image' (die reg op die reklamebeeld) was originally championed by Mostert and is a concept wider than the right to the advertising mark. Mostert 1982 SALJ 424 defines the advertising image as "every name, mark, symbol or character that is identified with a particular product, business, or person, and that harbours potential advertising value and possible goodwill for products or businesses of other entities in various other unrelated fields of commerce";
the like, and trade secrets. In order to distinguish or advertise businesses, products or services, distinctive and advertising marks must come to the attention of potential customers and clients. They cannot fulfil their functions in secrecy. A trade secret, on the other hand, is only of value if it remains secret.

Information about a (potentially) distinctive or advertising mark can in certain circumstances be a trade secret. If, for instance, a label is designed for use on a new product to be launched, information concerning the appearance of the label, and the product in connection with which it is to be used, may well constitute trade secrets. As soon as the product is released on the market with the label, the trade secret comes to an end. It may be argued that before the label is used to distinguish the relevant product from similar ones - which can only happen once the product is launched and the mentioned trade secret has therefore been terminated - no right to the distinctive or advertising mark has come into existence. Certainly there can be no statutory protection in South African law before registration as, for instance, a trade mark. However, an as yet unregistered and unused distinctive or advertising mark could possibly be protected from misappropriation by the common law (Aquilian) action for unlawful competition. Passing off and leaning on are two forms of unlawful competition which may be relevant here. Passing off occurs when an entrepreneur misleads the public that his or her business, product or service is that of a competitor by copying the latter's distinctive marks, thus frustrating the distinguishing function of the marks. Leaning on occurs when an entrepreneur misappropriates the advertising value of another's trade marks, trade names and service marks to promote his or her own products or services. In so far as the application of the Aquilian action to remedy these delicts may be regarded as common law protection of the rights to the distinctive and advertising marks,

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263 Par 7.2.3 above.

264 Cf eg Van Heerden and Neethling 172.

265 Cf sec 33 of the Trade Marks Act 194 of 1993.

266 Cf Van Heerden and Neethling 149 163ff.

267 Cf Van Heerden and Neethling 201ff; Mostert 1986 THRHR 173ff; Mostert 383ff.

268 Cf Van Heerden and Neethling 106ff 166 216. It is of importance in this regard that neither the present Trade Marks Act 194 of 1993 (sec 33), nor its predecessor, Act 62 of 1963 (sec 43), affects the right of any person to bring common law actions (the Act of 1963 specifically mentioned the action
partial overlap with trade secret protection is possible. However, such overlap will be limited to situations where the relevant distinctive and advertising marks are still kept secret and have not yet been used. 269

7.4.4.6 THE RIGHT TO EARNING CAPACITY

The precise content and status of the right to earning capacity in private law is uncertain. 270 In respect of the nature of earning capacity, divergent views have been for passing off (against any other person; cf Van Heerden and Neethling 196-197; Webster and Page 255. Cf, however, Webster and Page 413-414 who maintain - relying on English and South African case law - that the passing-off action does not protect rights to trade marks and similar symbols, but rather the right to goodwill.

Van Heerden and Neethling 172 state that one cannot acquire a right to a distinctive mark before it is actually used in connection with a product on the market, since it cannot have any distinguishing value before it is thus used. On the other hand, one could argue that a distinctive mark can indeed have a (potential) distinguishing value before it is used, and that it is just as wrongful to misappropriate the distinguishing value of such a mark before the owner has had the opportunity of using it to distinguish his goods or services, than if it is misappropriated after he has already begun to do so. This is not passing off in its traditional sense, since the misappropriator is not misleading the public that his product or service is that of another (see Van Heerden and Neethling 172), but it is arguably a wrongful misappropriation of the distinctive mark since the misappropriator makes it impossible for the real owner of the mark to use it to distinguish his own products or services. Cf Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd, Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 3 SA 152 (C).

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270 In Hawker v Life Offices Association of South Africa 1987 3 SA 777 (C) 780 a "subjective right to exercise a chosen calling without unlawful interference from others" was recognized. According to Neethling 1987 THRHR 321 this formulation is inaccurate in so far as such a liberty (to exercise a chosen calling) is said not to qualify as the object of a subjective right - a right to earning capacity is therefore preferred. (Whatever the true nature of this right in the context of private law, a right freely to engage in economic activity has since been entrenched as a fundamental human right in South African constitutional law - see par 8.6.1 below.) In the Hawker case it was stated (780) that the right to exercise a chosen calling without unlawful interference from others does not solely relate to factors of personality, but also has a monetary component; while in Dippenaar v Shield Insurance Co Ltd 1979 2 SA 904 (A) 917 it was said that "the capacity to earn money is considered to be part of a person's estate". However, it is submitted that the capacity to earn - as opposed to the earnings which may result from the exercise of such capacity - cannot be part of a person's estate. Thus it cannot for instance devolve by testate or intestate succession. It can also not be sold to another. (Some authors have suggested that a person can 'trade' with his or her earning capacity, citing for instance a person securing employment with a new employer by offering his earning capacity in return for remuneration, and even a prostitute 'trading', not with her body, but rather with her earning capacity (eg Neethling 1987 THRHR 319; 1990 THRHR 103; Neethling, Potgieter and Visser 46 fn 70; cf however Van der Merwe and Olivier 183 fn 11; Wiehahn 192). It is submitted that these constructions are artificial. In both examples the relevant person is simply offering services for remuneration. It is true that the services offered may be more attractive than the services offered by other individuals on account of eg the relevant person's academic and professional qualifications, experience, intelligence, health, appearance, etc, which are all factors that may co-determine the person's earning capacity. Nevertheless, neither these characteristics, nor the earning capacity influenced thereby, are 'sold' to the other party.) Certainly an infringement of a person's earning capacity can result in a diminution of his or her estate, but so can eg infringements of the bodily integrity or the good name - which are not generally considered to be assets in a person's estate. It is submitted that the above-mentioned dicta in the Hawker and Dippenaar cases must simply be understood to mean that an exercise of earning
put forward. According to one view, earning capacity is a facet of personality. According to another view, it is so-called personal immaterial property - an intangible patrimonial asset which is bound up with the human personality. Both personality interests and personal immaterial property cannot exist separately from the person of the legal subject - they cannot be transferred to other legal subjects, and lapse (at the latest) at the death of the legal subject. A trade secret, on the other hand, can exist separately from its owner - it can therefore be transferred to other legal subjects, and may continue to exist after the death of the (original) owner. It follows that although a trade secret owner can generate an income by exploiting his or her trade secret, the trade secret does not form part of his or her earning capacity. If the view that earning capacity is not a facet of personality (or perhaps a personality interest) is correct, an infringement of a trade secret may also result in an infringement of the earning capacity of the trade secret owner, just as an
capacity can cause patrimonial gain, and an infringement of earning capacity can cause patrimonial loss. Trade secrets, on the other hand, definitely fall into the owner’s estate - they may devolve by testate and intestate succession, and may be sold, etc.

Apart from the two views dealt with in the main text, see further Van der Merwe and Olivier 186 fn 28 who ask the question whether a diminution of earning capacity is not a type of loss resulting from the infringement of one of the four more generally accepted subjective rights (par 7.4.1 above), rather than the infringement of an independent subjective right itself - a skadepos rather than a regskenking. Thus they show that a loss of earning capacity can result from the infringement of personality rights, real rights, intellectual property rights and personal rights.

Van der Walt Sommeskadeleer 289, "Book review" 1990 THRHR 141-142; cf Wiehahn 191-193 on the capacity to work.

Neethling, Potgieter and Visser 45-46; Neethling Personality 19ff; Van Heerden and Neethling 112ff.

Cf par 7.4.1; 7.4.4.3 above.

Cf Neethling, Potgieter and Visser 45 fn 70; Neethling Personality 20-21; Van Heerden and Neethling 113.

Cf par 7.2.6; 7.4.4.3 above.

Thus protagonists of the view that earning capacity is personal immaterial property, argue that the destruction of an advocate’s library may infringe his earning capacity - cf Neethling, Potgieter and Visser 45 fn 70; Neethling Personality 20 fn 173; Van Heerden and Neethling 113 fn 129. If this is correct, one may argue by way of analogy that the destruction (eg by publication) of a trade secret infringes the earning capacity of the trade secret owner. If, on the other hand, the capacity to earn is a facet (or perhaps interest) of personality, the destruction of the advocate’s library does not interfere with his earning capacity, unless he suffers a personality infringement which does interfere with his capacity to earn - eg a nervous breakdown - as a result of the destruction. The patrimonial loss suffered as a result of the loss of the use of his books, can - since it is the result of an unreasonable interference with the advocate’s powers of use, enjoyment and disposal over the library in terms of his property right thereto (par 7.4.1 above) - still be recovered. By way of analogy, the patrimonial loss suffered by the trade secret owner as a result of the deprivation of the full use of his trade secret, can be recovered since it results from an infringement of his intellectual property right to the trade secret itself. Just as the protection of property rights to tangible things does not depend on the exact nature -
infringement of a trade secret may also result in an infringement of the goodwill of an undertaking. However, just as proof of an infringement of goodwill is not necessary to establish trade secret infringement, proof of an infringement of earning capacity is similarly not necessary to prove trade secret infringement.

7.4.4.7 THE RIGHT TO INFORMATION

A subjective right to information has been championed in South Africa by Du Plessis. Since trade secrets consist essentially of information, recognition of a subjective right to information could conceivably provide a basis for the legal protection of trade secrets. It is therefore necessary to consider the notion of a right to information and its relevance for trade secret protection.

According to Du Plessis, information can be divided into two categories - public and personal. Public information consists of facts concerning phenomena such as acts of government, growing inflation, maladministration, and the planning of a road. These facts make it possible for the individual to evaluate the actions of the state positively or negatively. Personal information comprises all the facts concerning an individual's personal life, which he or she may not wish to disclose to everybody. Public information is protected by public law subjective rights (publieke subjektiewe regte), whereas personal information is protected by

or indeed the judicial recognition - of a right to earning capacity, so the protection of the intellectual property right to the trade secret is also independent of the right to earning capacity.

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278 Par 7.4.4.4.1 above, cf par 7.4.4.4.2.

279 Neethling 1990 THRHR 104-105 has proposed a subjective right to the correct information. However, the proposed right has as its object a performance of another - viz to furnish the correct information - and not information per se. It is advocated as the subjective right infringed by an actionable misrepresentation, and need not be considered here.

280 13ff.

281 Du Plessis 13.

282 Du Plessis 33 423.

283 Du Plessis 14, cf 423.

284 It should be noted that, according to these definitions, 'public information' does not necessarily mean information that is in the public domain, ie not secret. Du Plessis's 'public information' may be secret or public knowledge - the same is true of her 'personal information'.


286 Du Plessis's concept of public subjective rights is built on the work of Venter - cf Du Plessis 30ff. Venter 155 defines a subjective right in general as the legally protected claim of a legal subject to a legal object - die regsbeskermde aanspraak wat 'n regsubjek op 'n bepaalde regsobjek het. For Venter
(private law) subjective rights - mainly the right to privacy. However, Du Plessis contends that it is not always possible to distinguish between personal and public information, and therefore she proposes an 'alternative' subjective right to information, comprising both personal and public information. This right may be enforced against both private individuals and organs of the state, and comprises a twofold claim (aanspraak) - to the disclosure of public information, and the protection of personal information. Du Plessis's postulated right to information does not open up new insights regarding the protection of trade secrets, because her concept of personal information appears to correspond with the legal object of the right to privacy, and the comments made above concerning trade secrets and privacy also apply here. Since her public subjective right to public information comprises a claim to the disclosure of such information by the state, it does not furnish a basis for the protection of trade secrets. Her "alternative subjective right" to information appears to be no more than a combination of the (private law) subjective right to personal information and the public subjective right to public information, and does not seem to take the matter any further as far as the protection of trade secrets.

158 The important characteristic of a legal object is that it must have the function of regulating the community ('n gemeenskapsordenende funksie). From these premises he identifies (159ff) a number of legal objects worthy of protection in public law and promotes (162-163) a system of public subjective rights in respect of those legal objects. These are categorized into material public subjective rights (materiële publieke subjektiwre regte) and immaterial public subjective rights (immateriële publieke subjektiwre regte). The first category comprises public real rights (publieke saaklike regte), public rights to the maintenance of certain conditions or situations (publieke handhawingsregte), and public intellectual property rights (publieke immateriële goedereregte) - the latter pertaining to inter alia state symbols like the national flag and the national anthem. Du Plessis contradicts herself when identifying the legal object of the public subjective right protecting public information. At 32-33 she states that the legal object is public information. However, at 36 she classes this right as one of Venter's publieke handelingsregte, where the legal object of the right is an act of the state - in this case the disclosing of public information. It may be noted that Venter's publieke handelingsregte are akin to the personal rights in the (traditional, private law) system of subjective rights, in so far as they also have performances as legal objects. Cf Du Plessis and Du Plessis 164-167; Wiechers in Strauss (ed) 270ff.

287 Du Plessis 16-22 424.

288 36-37 408.

289 Du Plessis 36.

290 This matter has been addressed by sec 23 of the Constitution of the Republic of South Africa (Act 200 of 1993), which guarantees every person a right of access to all information held by organs of the state in so far as such information is required for the exercise or protection of any of his or her rights. The Constitution of the Republic of South Africa Bill, 1996 provides (cf 32) that everyone has the right of access to any information held by the state, or any information held by another person that is required for the exercise or protection of any rights.

291 Du Plessis 37 408.

292 Par 7.4.4.3.
is concerned. By redefining Du Plessis's concept of personal information to include information applicable to trade and industry, trade secrets may also be protected under a wide all-embracing right to information. However, such a step will run counter to the conviction expressed above that meaningful development of the law requires dissimilar things to be kept distinct.

The opinions of two South African authors, both denying the feasibility of a subjective right to information, also merit consideration here. Joubert shows that intellectual property law protects ideas complying with certain requirements. Thus ideas are protected by, for instance, patent law, model law, trade marks law and so on. Joubert emphasizes that not all ideas are protected - only ideas complying with certain criteria. Without clarifying the relationship between ideas and information, he states that only confidential information may be protected by the law, mainly by the law of contract and the law of delict in so far as it protects goodwill (werfkrag). However, information - also confidential information - does not constitute the object of an intellectual property right ('n immateriële regsgoed) in South African law. According to Joubert it is primarily the confidentiality, rather than the information, that is protected. The objection against an intellectual property right to information is that such a right will confer a monopoly over information - whereas it is apparent, says Joubert, that the law does not confer such a monopoly over information. The law protects the confidentiality of confidential

\[293\] Par 7.3.3.

\[294\] 1985 De Jure 35-36.

\[295\] Joubert 35 supports the traditional view that copyright law does not protect ideas per se, but rather the product (of the ideas) against copying. Cf par 7.4.4.2 above.

\[296\] 1985 De Jure 36.

\[297\] 1985 De Jure 42, cf 36.

\[298\] 1985 De Jure 38ff.

\[299\] 1985 De Jure 40ff.

\[300\] 1985 De Jure 37-38, citing Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 1 SA 209 (C) - cf, however, the discussion in par 9.3.1.2.2 below. However, Joubert states (36) that nobody can acquire an exclusive right (alleenreg) to an idea, information or knowledge, except in terms of intellectual property law (which he presumably sees as the traditional fields of patent law, copyright law, trade marks law, etc). Is the implication that in terms of intellectual property law subjective rights may be acquired to certain narrowly defined classes of information?

\[301\] 1985 De Jure 36-37.

\[302\] 1985 De Jure 37.
information, and will prohibit someone who has obtained information in confidence from the plaintiff to disclose or use it. But third parties who have acquired the information independently from the plaintiff - so the argument goes - will not be prohibited to disclose or use it. Furthermore, legal policy does not justify the protection of information if it does not qualify for protection under patent law. If a patent application is denied because an invention does not meet the requirements for patentability, the invention should then not be protected *qua* information.\(^\text{303}\)

Joubert's objections against the recognition of intellectual property rights to confidential information are unconvincing. It is true that the law does not confer a monopoly over trade secrets. But nor does it confer an absolute monopoly over, for instance, the object of copyright.\(^\text{304}\) Thus, the Copyright Act\(^\text{305}\) limits the monopoly of the copyright owner by making provision for a number of statutory defences against his claims.\(^\text{306}\) Furthermore,\(^\text{307}\) two persons, working independently from each other, may come to the same result and nevertheless acquire copyright in their own work. It is furthermore not true that the law will not prohibit all third persons who acquire confidential information independently from the plaintiff, from using or disclosing it. Thus the law may visit the industrial spy with legal sanction.\(^\text{308}\) The fact that, for instance, the double inventor may use a trade secret with impunity does not prove that there is no intellectual property right to confidential information - it merely shows that a reasonable interference with a legal object does not constitute wrongfulness\(^\text{309}\) - or, phrased differently, the "monopoly" over confidential information is limited by defences recognized by the law against the claims of the holder of the right. Furthermore, as noted,\(^\text{310}\) legal policy does *not* object to the existence of trade secret protection next to patent protection. The recognition of an intellectual property right to confidential trade information can therefore not be opposed for reasons of legal policy.

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\(^{303}\) 1985 *De Jure* 37.

\(^{304}\) Du Plessis et al *Patent law and copyright law* (Study guide Unisa 1993) 103.

\(^{305}\) Act 98 of 1978.

\(^{306}\) Secs 12-19B.

\(^{307}\) As noted in par 7.4.2 above.

\(^{308}\) Par 6.5.2 above.

\(^{309}\) Par 8.2.2.2.2 below.

\(^{310}\) Par 7.4.4.1 above.
Geldenhuys\textsuperscript{311} postulates three requirements that must be met before an entity may serve as a legal object:\textsuperscript{312} (a) it must be of value and capable of fulfilling a need of a legal subject; (b) it must be susceptible of allocation to a particular legal subject to the exclusion of others - which implies that it must not be generally available to all, it must be susceptible of human control, and it must be sufficiently independent that enjoyment and disposal thereof is possible; and (c) allocation of the object to a legal subject must fulfill the function of regulating the community. Testing information against these requirements, he finds that not all information is of value to legal subjects, but certain classes of information - like trade secrets - are.\textsuperscript{313} Furthermore, some information is freely available to everybody, but certain information - like a trade secret - is not. Not all information is susceptible of human control, but some information - for instance a trade secret - is.\textsuperscript{314} In this regard Geldenhuys emphasizes that control over information can also be accomplished in ways other than by controlling access to the relevant information. Thus information may also be controlled by exercising control over the use thereof. The implication is that non-secret information may also serve as a legal object, as long as the use thereof can be controlled by a legal subject. Referring to the requirement that an entity must be sufficiently independent that enjoyment and disposal thereof is possible, Geldenhuys states that only information delineated so clearly that no doubt can exist as to what information is included and what excluded, can qualify as a legal object. Finally, Geldenhuys\textsuperscript{315} is of the opinion that information complying with all the mentioned requirements, may nevertheless not qualify as legal objects if allocation thereof to a legal subject would not fulfil the function of regulating the community. As example he mentions\textsuperscript{316} a trade secret that is used to supply illegal drugs for the black market. Geldenhuys concludes\textsuperscript{317} that information in general cannot be a legal object, and therefore there can be no subjective right to information as such. However, certain categories of information - which do not form a \textit{numerus clausus} - qualify as objects of subjective rights. He then identifies\textsuperscript{318} a number of subjective rights which, in his opinion, pertain to such categories of information. These are: copyright, patent rights,
trademark rights, design rights, plant breeders’ rights, heraldic rights, the right to the trade secret, the right to goodwill, the right to privacy, the right to identity, and the right to the good name or reputation.

The main thrust of Geldenhuys’s argument is, it is submitted, most convincing. One can conclude that although information is without a doubt one of the most valuable commodities in contemporary societies, the adoption of a subjective right to information *per se* is not justified. The legal protection of information should be built on the identification and delineation of specific categories of information that merit such protection, and the development of rules and principles suited to deal with their unique characteristics. This study is meant to contribute to this process in respect of one such category, namely trade secrets.
CHAPTER 8

A MODEL FOR THE PROTECTION OF TRADE SECRETS IN SOUTH AFRICAN LAW

8.1 INTRODUCTION

The purpose of this chapter is to present a theoretical model for the legal protection of trade secrets in South African law. It is endeavoured to make this model comply with three requirements:

(a) It must be fully compatible with the general principles of South African law, as embodied in particularly the Constitution, the law of delict and the law of contract;

(b) it must profit from insights gained from the comparative legal results presented in previous chapters, emulating the strengths and avoiding the weaknesses of the legal protection of trade secrets in other legal systems where possible; and

(c) it must not promote results at variance with the provisions of the GATT TRIPs agreement.

The objectives intended to be served by the development of this model are twofold. First, it is intended to serve as a basis for a critical evaluation of the existing recognition and protection of trade secrets in the South African positive law. Second, it suggests answers to some questions concerning trade secret protection which have not yet enjoyed the attention of South African courts or the legislature, but may well do so in future.

First, the focus falls on trade secret protection by the law of delict and the law of contract. Second, some thoughts concerning a concurrence of delictual and contractual claims are set forth. Third, applicable remedies are considered. Finally, ways are suggested to deal with a number of specific problems with trade secret protection. Whenever appropriate, implications of the recognition of a subjective right to the trade secret will be highlighted.

8.2 DELICTUAL PROTECTION OF TRADE SECRETS

The generalising approach of the South African law of delict allows it to deal with any
novel wrongful act which may be committed in regard to trade secrets.\(^1\) Since a trade secret is an asset with economic value,\(^2\) and forms part of the patrimony of the owner thereof, the appropriate delictual action to recover damages for trade secret infringement is the *actio legis Aquiliae*.\(^3\) Aquilian liability is in principle recognized for the causing of *any type* of patrimonial loss, provided the plaintiff can establish\(^4\) five elements, namely an act, wrongfulness, fault, causation, and damage.\(^5\) If an interdict is applied for to prevent or put an end to wrongful conduct, two of these elements must be proved, namely an act and wrongfulness.\(^6\)

### 8.2.1 ACT

For the purposes of the law of delict, an act is defined as voluntary, human conduct.\(^7\) Conduct is voluntary if it is susceptible to control of the will of the person involved; it need, however, not be willed or desired.\(^8\) An act may take the form of either a commission or an omission.\(^9\) As noted,\(^10\) a subjective right is infringed by a factual disturbance of the relationship between the legal subject and the object of his right, in a way that violates a legal norm and is thus legally impermissible. Any voluntary human commission or omission that can disturb the relationship between the trade secret owner (or other right-holder, such as a licensee) and the trade secret is therefore relevant. It is apparent from the comparative research presented above,\(^11\)

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\(^1\) Neethling 1992 (1) *Codicillus* 12.

\(^2\) Par 7.2.5 above.

\(^3\) Neethling, Potgieter and Visser 8ff.

\(^4\) Elements not in dispute in a particular lawsuit need not be proved by the plaintiff. South African law knows instances of strict liability, i.e., liability without fault (cf e.g., Neethling, Potgieter and Visser 341ff), which need not be considered here.

\(^5\) Cf Boberg 24-25; Burchell 23; Neethling, Potgieter and Visser 4; Van der Merwe and Olivier 15-16 24; Van der Walt 20.

\(^6\) See par 8.5.4 below.

\(^7\) Cf Burchell 36-37; Neethling, Potgieter and Visser 21; Van der Merwe and Olivier 25; Van der Walt 57.

\(^8\) Cf Neethling, Potgieter and Visser 22; Van der Merwe and Olivier 25.

\(^9\) Cf Boberg 210ff; Burchell 37; Neethling, Potgieter and Visser 21-22 26-28; Van der Merwe and Olivier 29ff; Van der Walt 58-59.

\(^10\) Par 7.4.1 above.

\(^11\) Cf par 2.2.2.2; 3.2.2; 4.2.2; 5.1; 5.2 above.
that three categories of conduct can comply with these requirements: (a) the gaining of access to or acquisition of the secret; (b) the use thereof; and (c) the disclosure thereof. Due to the generalizing approach of the South African law of delict, these three categories of conduct should all be scrutinized by the law, and if accompanied by the other delictual elements, liability must ensue.

8.2.2 WRONGFULNESS

Wrongfulness is essentially a juridical value judgment over an act in the light of the harmful result caused (or potentially caused) thereby. An act which is judged according to the norms of the law of delict - objectively unreasonable, is wrongful for the purposes of the law of delict.

8.2.2.1 THE CRITERION OF WRONGFULNESS

As noted, the basic norm of delictual wrongfulness is the *boni mores* - the legal...
convictions of the community. Conduct in conflict with the *boni mores* is wrongful. In the application of the *boni mores* criterion, legal policy considerations play an important role. In particular, the *boni mores* must be permeated by the values upheld by the South African Constitution. The open-endedness of this basic norm - its suppleness and lack of rigidity - enables the South African law of delict to adapt to novel situations, to keep pace with changing sociological and economical conditions.

The very same qualities that make the *boni mores* such an extraordinarily useful general criterion for delictual wrongfulness, may limit its usefulness in specific instances. Its vagueness makes it difficult to apply with predictability and consistency.

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22 Act 200 of 1993. In the interpretation of any law, and in applying and developing the common law and customary law, the courts must have due regard to the spirit, purport and objects of chapter 3 of the Constitution, in which certain fundamental human rights are entrenched (sec 35(3)). In interpreting chapter 3, the courts must promote the values which underlie an open and democratic society based on freedom and equality (sec 35(1)). Cf Van Heerden and Neethling 13-16; Visser in Van Aswegen (ed) 26ff. The interim Constitution does not expressly make the fundamental rights binding on natural and juristic persons, thus giving rise to conflicting court decisions, and opinions in the literature, on the horizontal application (ie between citizens, as opposed to so-called vertical application between the state and citizens) of the fundamental rights - cf eg *Potgieter v Kilian* 1996 2 SA 276 (N) 297ff; *Du Plessis v De Klerk* case no CCT 8/95; authors mentioned in par 7.3.3 fn 68 above.

The Bill of Rights in the Constitution of the Republic of South Africa Bill, 1996 applies to all law, and binds the legislature, the executive, the judiciary, and all organs of state (cl 8(1)). Furthermore, the provisions of the Bill of Rights also bind natural and juristic persons in so far as - taking into account the nature of the rights and the duties imposed by them - they can be applied to such persons (cl 8(2)). In applying the provisions of the Bill of Rights to natural and juristic persons, a court must - to give effect to a right entrenched in the Bill - apply, or where necessary develop, the common law to the extent that legislation does not give effect to that right (cl 8(3)(a)). A court may - in applying the provisions of the Bill of Rights to natural and juristic persons - develop rules of the common law to limit the relevant right, provided the limitation is in accordance with section 36(1) (cl 8(3)(b)). Clause 36(1) provides that the rights in the Bill of Rights may be limited only in terms of law of general application, and only to the extent that the limitation is reasonable and justifiable in an open and democratic society based on human dignity, equality, and freedom, taking into account all relevant factors including - the nature of the right; the importance of the purpose of the limitation; the nature and extent of the limitation; the relation between the limitation and its purpose; and less restrictive means to achieve the purpose. Juristic persons are entitled to the rights in the Bill of Rights to the extent required by the nature of the rights and of the juristic persons (cl 8(4)). When interpreting the Bill of Rights, a court, tribunal or forum must promote the values that underlie an open and democratic society based on human dignity, equality and freedom; must consider international law; and may consider foreign law (cl 39(1)). When interpreting any legislation, and when developing the common law or customary law, every court, tribunal or forum must promote the spirit, purport, and objects of the Bill of Rights (cl 39(2)). The Bill of Rights does not deny the existence of any other rights or freedoms that are recognized or conferred by common law, customary law or legislation, to the extent that they are consistent with the Bill (cl 39(3)).

23 Par 7.4.1.1 above.
to specific factual situations. Thus more concrete norms tend to develop from the ground-norm of the *boni mores*, by which the delimitation of wrongfulness and lawfulness may be performed. According to current dogma, these norms are either formulated with reference to subjective rights, the infringement of which constitutes wrongfulness; or they are expressed directly in the form of legal duties, the breach of which constitutes wrongfulness.

Wrongfulness in the case of trade secret misappropriation is constituted by an infringement of the subjective right to the trade secret. A more concrete norm of delictual wrongfulness applicable to trade secret misappropriation, may therefore be formulated as follows: *Any act that interferes with the powers of use, enjoyment and disposal exercised in respect of a trade secret by someone with a subjective right to that trade secret, is, in the absence of legal grounds justifying such interference, wrongful.*

Trade secret misappropriation usually takes place in a context of trade competition, but can also occur outside such a context. If it does take place in a competitive context, it may constitute a form of unlawful competition, and the plaintiff's right to goodwill may be infringed in such a case. However, it is not necessary to prove the infringement of the right to goodwill to establish the wrongfulness of such misappropriation - proof of infringement of the right to the trade secret is sufficient.

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24 In the context specifically of unlawful competition law, this situation is formulated by Van Heerden and Neethling 127 as follows: "One cannot find fault with the *boni mores* as a general criterion for wrongfulness in our law. On the contrary, the pliability or open-endedness of this yardstick definitely has the practical function and value in that it provides the judge with a mandate to ascertain - by making a value judgment - which interests are worthy of legal protection and what the extent of such protection should be (inter alia therefore the extent and limits of a particular subjective right), in this process adapting such protection to changes in social and economic relations as well as developments in culture and technology. On the other hand, this criterion is so vague and wide that it does not in itself provide a rational yardstick for the delimitation of the right to goodwill in the area of conflicting interests of competitors. A particular concretisation of the *boni mores* test in the competitive struggle - if at all possible - thus seems to be called for."

25 Par 7.4.1.1; 7.4.1.2 above.

26 Par 7.4 above.

27 Cf par 7.4 above.

28 Par 7.4.4.4.1 above.

29 Par 7.4.4.4 above; Van Heerden and Neethling 146 fn 181: "[I]t is often unnecessary to apply the competition principle (or *boni mores* test) in regard to indirect infringements of goodwill. This will be the case where the infringement of goodwill flowed from the infringement of another, independent right of the prejudiced competitor, such as the right to the trade secret..., ie from the infringement of rights which are also of significance outside the context of the law of unlawful competition. Under these circumstances the unlawfulness of the infringement of the other subjective right is of a continuous nature, so that the ensuing infringement of goodwill must also be considered unlawful"; cf 228 fn 40.
It bears repetition that the delictual norm that infringement of the right to the trade secret is wrongful, is a concretization of the ground-norm of delictual wrongfulness, namely that conduct in conflict with the legal convictions of the community - the *boni mores* - is wrongful. In novel or borderline situations the courts can therefore always fall back on the *boni mores* to solve particularly difficult questions of wrongfulness.\(^{30}\) In applying the *boni mores* criterion, a careful balancing of the conflicting interests of the parties involved must be performed. As noted, considerations of legal policy play an important role in this process, and in particular, the decision of the court must reflect the values upheld by the South African Constitution.

### 8.2.2.2 GROUNDS OF JUSTIFICATION

As noted, an act that interferes with the powers of use, enjoyment and disposal exercised in respect of a trade secret by someone with a subjective right to that trade secret, is only wrongful *in the absence of legal grounds justifying such interference*. Such grounds, usually called grounds of justification, are delictual norms indicating that damage-causing conduct is condoned by the *boni mores* in certain situations, and is therefore lawful.\(^{31}\) Grounds indicating that interference with another’s trade secret is lawful, are the following:

#### 8.2.2.2.1 Consent

If a person with a right to a trade secret consents\(^{32}\) to interference with the secret - whether by acquisition, use, or disclosure thereof - such interference will be legally permissible and thus lawful. Phrased differently, legal policy dictates that a person who has obtained a subjective right to a trade secret - whether by use of his or her own talents to develop such a trade secret, by buying it, or whatever lawful reason - is in principle entitled to use, enjoy and dispose of the secret as he or she wishes. If someone else interferes with this capacity of the latter, such conduct is in principle *contra bonos mores* and thus wrongful. If, however, he or she has consented to such

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\(^{30}\) Cf Neethling, Potgieter and Visser 40-43.

\(^{31}\) In the parlance of the doctrine of subjective rights, grounds of justification are grounds indicating that a factual disturbance of the relationship between the subject of a subjective right and the object of his right does not violate a legal norm in a particular situation, and is therefore not wrongful (cf par 7.4.1.1 above). In the context of the right to the trade secret, such grounds indicate that conduct factually interfering with the powers of use, enjoyment and disposal exercised in respect of a trade secret by someone with a subjective right to that trade secret, does not violate a delictual norm - is therefore not in conflict with the *boni mores* - and is therefore lawful. On grounds of justification in general, cf Burchell 67; Neethling, Potgieter and Visser 66ff; Van der Merwe and Olivier 70ff; Van der Walt 40ff.

\(^{32}\) Cf in general Neethling, Potgieter and Visser 90ff; Boberg 724ff; Burchell 68ff; Van der Merwe and Olivier 89ff; Van der Walt 50ff.
conduct, his or her capacity to dispose of the secret according to his or her will is not violated, and the conduct is then not condemned by the *boni mores* and is therefore lawful.

Consent is the most important ground of justification in respect of trade secrets, since it is frequently necessary for someone who has a subjective right to a trade secret to authorize another to acquire and/or use the secret. An employer might, for instance, need to disclose his or her trade secret to employees and authorize them to use the secret in the performance of their duties. Similarly, an entrepreneur might have to disclose his or her trade secret in the course of pre-contractual business negotiations. In such situations the consent will as a rule be confined in its ambit to certain specified acts. Thus the employees will probably be authorized to use the secret in the business of the employer, but not in their own private interest, nor will they be authorized to disclose the secret to third parties. The natural or juristic person to whom a trade secret is disclosed in the course of pre-contractual business negotiations, will probably only be authorized to consider the secret for the purpose of the relevant business decision. Only conduct covered by the ambit of the consent will be lawful.

The requirements and some of the characteristics of consent as a ground of justification are the following: Consent must be freely or voluntarily given.\(^{33}\) The person giving the consent must be capable of volition.\(^{34}\) He or she must have full knowledge of the extent of the prejudice he or she is consenting to.\(^{35}\) He or she must also fully appreciate, that is, understand, the nature and extent of the prejudice.\(^{36}\) He or she must in fact subjectively consent to the prejudice,\(^{37}\) and such consent must be permitted by the legal order.\(^{38}\) The giving of consent is a unilateral act and may take place expressly or tacitly.\(^{39}\)

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\(^{33}\) Neethling, Potgieter and Visser 93; Boberg 724; Burchell 68; Van der Merwe and Olivier 92; Van der Walt 52-53.

\(^{34}\) Neethling, Potgieter and Visser 94; cf Boberg 731; Burchell 68; Van der Merwe and Olivier 91; Van der Walt 54.

\(^{35}\) Neethling, Potgieter and Visser 94; Van der Merwe and Olivier 92; Van der Walt 51-52; Burchell 69.

\(^{36}\) Neethling, Potgieter and Visser 95; Burchell 68; Van der Walt 52.

\(^{37}\) Neethling, Potgieter and Visser 95; Boberg 725; Van der Merwe and Olivier 90; Van der Walt 52.

\(^{38}\) Neethling, Potgieter and Visser 96; Burchell 69; Van der Merwe and Olivier 92ff; Van der Walt 54; cf Boberg 740ff.

\(^{39}\) Neethling, Potgieter and Visser 91; Van der Merwe and Olivier 89-90; Van der Walt 51 54.
8.2.2.2.2 Double invention

If somebody through independent research, development, or discovery obtains the same trade secret that is already held by another (the first owner), he or she is in principle free to enjoy and dispose of the secret as he or she wishes. If he or she uses or discloses the secret without the consent of the first owner, he or she commits no wrongful act. Because he or she used his or her own talents and energy in a reasonable manner to obtain the secret, his or her conduct is not condemned by the *boni mores*. Legal policy is equally in favour of the double inventor enjoying the fruits of his or her own labour, as it is in favour of the first owner doing so. The position of the first owner may be contrasted with the inventor who has chosen to register a patent on his or her invention. Legal policy dictates that he or she be awarded exclusive rights to his or her patent for a prescribed period of time, in return for describing the patent so that it may become part of the public domain when the protection period has expired. In contrast, the first trade secret owner tries to keep his or her invention out of the public domain, and if he or she succeeds, no one else will ever be able to build thereupon. In this case, it is submitted, legal policy dictates that the holder of the right be protected against unfair infringements, but by not describing his invention in a patent application, he or she runs the risk that someone may by fair means obtain the same secret. According to current policy dictates the law will not protect him or her against that risk. And the most obvious way in which a second person can obtain a trade secret in a manner that will not be condemned by the *boni mores*, is by doing exactly what the first owner did - using his or her own talents, and investing his or her own energy, time and money to discover or invent the secret. This is thus an unusual situation where the law awards two (or more) legal subjects equally strong subjective rights to the same legal object. They can enforce these rights against others, but not against each other. It follows that in an action for trade secret infringement, it would be a complete defence for the defendant to show that he or she has by independent research, development or discovery obtained the secret. The defence renders his or her subsequent use or disclosure of the secret lawful. The defendant is exercising his or her own subjective

43 Cf par 2.2.1.2.3; 2.5.3 fn 286; 3.2.1.2.3; 3.5.3; 4.2.1.2.3; 4.5.5.1; 6.2.1 above; cf Joubert 1985 *De Jure* 43.

41 Cf par 7.4.4.1 above.

42 As has been noted in par 7.4.2 above, a similar situation is possible in the case of copyright.

43 Cf, in particular, the exposition in the (first) American Restatement of the law of torts, sec 757 comment (b) where it is recognized that independent invention by a second person does not necessarily destroy the secrecy of the trade secret in the hands of the first inventor. This view is eminently reasonable, since the second inventor may - like the first one - protect the secrecy of the invention in order to exploit it.
right, and the extent of the plaintiff's subjective right as against the defendant is accordingly limited thereby. Both plaintiff and defendant can enforce their rights against unreasonable interference by others. This position accommodates policy considerations favouring the general economic and scientific advancement of the community.44 Both inventors are rewarded for their efforts, without a situation being created where the invention can never lawfully fall into the hands of others who may build thereupon. One situation where a double inventor will act wrongfully, however, is where he or she uses or discloses the secret with the sole motive of harming the other trade secret owner.45

8.2.2.2.3 Reverse engineering

Reverse engineering is the term coined to the process whereby someone obtains a trade secret by analysis of the product in which the secret is embodied. In English and American law reverse engineering is generally accepted as a complete defence against an action for trade secret infringement.46 It is submitted that this is another instance where subsequent use or disclosure of the trade secret is not condemned by the boni mores. If the trade secret owner can only exploit his or her trade secret by placing a product in which that secret is embodied on the market, he or she must run the risk of having the secret discovered by reverse engineering. The law will not shield him or her from that risk - unless he or she has obtained a patent right to the invention. Some trade secrets are inherently short-lived, and the value of such secrets to the owner is usually situated in the head-start in production and/or marketing he or she gains over his or her competitors, who must first obtain the secret by reverse engineering, and implement it, before they can compete on an equal footing. The competitor who reverse engineers a trade secret does not go to the same amount of trouble as the double inventor, but he or she must nevertheless use his or her own talents and invest his or her own energy, time and money. He or she will therefore not be penalized for subsequent use of the secret by the boni mores. Thus the trade secret owner is rewarded for his or her efforts by protection of the law for (at least)47 the length of time it takes his or her most astute competitor to reverse engineer the secret, while the latter is rewarded for his or her efforts by

44 Par 7.4.4.1 above.

45 See par 8.2.2.3 below on the role of motive in the determination of wrongfulness.

46 Cf par 2.2.1.2.3; 2.5.3 fn 286; 3.2.1.2.3; 6.2.1 above; Coleman Trade secrets 25. In German law, reverse engineering will probably fall foul of the provisions of sec 17(2)(1) UWG - cf par 4.2.2.1; 6.2.1 fn 28 above.

47 If the person who obtained the secret by reverse engineering elects to preserve the secrecy thereof, the legal protectability of the trade secret is not necessarily terminated - see the main text below.
subsequent use of the secret with impunity. The legal position is further in accordance with policy considerations of economic expediency in the sense that a lawful manner is recognized whereby a trade secret can fall into the hands of others who may further build thereupon.

A defendant in a trade secret misappropriation case should not be able to rely on reverse engineering executed by somebody else. It cannot be a valid defence, for instance, for a defendant who has obtained a trade secret by industrial espionage, to show that another competitor of the trade secret owner has reverse engineered the secret and is already using it in competition with the original owner. If the competitor who reverse engineered the secret uses it without disclosing it, it may still be a trade secret. In such a case the original owner will still be able to enforce his or her rights against the industrial spy in the example. He or she still has a subjective right to the secret, and only the competitor who has reverse engineered the secret is now holding the same right (in a position analogous to that of double inventors) and may now use the secret with impunity.

A prerequisite for successful reliance on the defence of reverse engineering should be that the reverse engineered product must have been obtained in a manner that does not infringe the trade secret owner’s rights. If an industrial spy steals a prototype from the trade secret owner’s production plant, and then reverse engineers the prototype, his or her conduct remains legally reprehensible and thus wrongful. Reverse engineering a product that is bought on the open market, on the other hand, is lawful.

8.2.2.2.3.1 Reverse engineering and the identical copying of a competitor’s product

It is important to note that if someone reverse engineers a trade secret and then proceeds to market a product identical to the trade secret owner’s product in which that secret is embodied, such conduct may in certain circumstances be wrongful. This would not be because the acquisition of the secret was conducted in a wrongful manner - as shown, discovery of a trade secret by reverse engineering is lawful. The legal reprehensibleness of such conduct would relate to the parasitic copying of the trade secret owner’s product, instead of incorporating the discovered secret in a

48 Par 7.4.4.1 above.

49 If, however, the person who acquired the trade secret by reverse engineering caused it to fall into the public domain, this fact may be relied upon by another sued for alleged infringement of that same (former - since secrecy has been destroyed) trade secret.

50 This form of unlawful competition is also known as prestasie-aanklamping. Cf Van Heerden and Neethling 242ff; Du Plessis in Neethling (ed) 1990.
product differing sufficiently from that of the trade secret owner to have an own identity in the market. Van Heerden and Neethling\textsuperscript{51} have argued that the identical or substantially identical copying\textsuperscript{52} of the product of a trade rival constitutes unlawful competition. The subjective right infringed in such a case would be the right to goodwill,\textsuperscript{53} not the right to the trade secret. However, the South African courts appear to require some additional factors indicating the legal reprehensibleness of the defendant's conduct, before the identical copying of a rival's product will be branded wrongful. For instance in the leading case, \textit{Schultz v Butt},\textsuperscript{54} the defendant went further than the mere copying of the hull of the boat marketed by the plaintiff. He actually made a mould of the hull of one of the defendant's boats to facilitate exact reproduction of the hull, and then 'added impudence to dishonesty'\textsuperscript{55} by applying for a design registration on the hull. In the light of these factors the court was prepared

\textsuperscript{51} They maintain (240ff) that while ideas in the public domain may - in the absence of specific statutory or common law prohibition - freely be used by competitors, the identical copying of a competitor's performance (ie product or service) is in principle wrongful. Such conduct is in conflict with the \textit{competition principle}, which has been adopted by these authors as a concretization of the \textit{boni mores} (cf par 7.4.1.1 above) in unlawful competition cases, and which has also received recognition of the courts - cf \textit{Van der Westhuizen v Schultz} 1992 4 SA 866 (O) 873-874; \textit{Payen Components SA Ltd v Bovic Gaskets CC} 1994 2 SA 464 (W) 474. The competition principle requires that the competitor who delivers the best or most reasonable performance must achieve victory, while the one rendering the weakest performance must suffer defeat. The merits of a competitor's performance must therefore be decisive in the competitive struggle. Competitive conduct that infringes another's goodwill but which is not based on the merits of the competitor's own performance, will therefore in principle be wrongful. In the case of identical copying, the copier is said not to rely on the merits of his own performance, but rather on the merits of the performance of another. His conduct is therefore in conflict with the competition principle and thus wrongful. Exceptions to this principle are recognized. Thus in a situation of so-called 'functional necessity', ie where the entrepreneur cannot in any other way produce a competitive performance than by identically copying his rival's performance, such copying will be lawful. Also, if the plaintiff's performance is not sufficiently unusual to have a 'competitive own identity', identical copying will be lawful. Cf Neethling 1991 \textit{THRHR} 555-566; 1992 \textit{THRHR} 136-138; 1993 \textit{SALJ} 711ff; cf Dean 1990 \textit{BML} 190. On the competition principle in general, see Van Heerden 168-172; Van Heerden and Neethling 128-134; Van Heerden in Neethling (ed) 6ff.

\textsuperscript{52} In emulation of German law, Van Heerden and Neethling 242ff distinguish between the direct or immediate adoption of a competitor's performance (\textit{unmittelbare Leistungsübersnahme}) and the identical or substantially identical duplication thereof (\textit{identisches Nachmachen}). The \textit{Schultz} case (fn 54 below) is seen as an example of the former category, and the \textit{Bress designs} (fn 57 below) case as an example of the latter. However, they concede (247) that the two classes may be very difficult to distinguish in practice, and should in any rate not be treated differently as a matter of principle, both being in conflict with the competition principle (fn 51 above).

\textsuperscript{53} Par 7.4.4.4.1 above. Statutory intellectual property rights - like copyright - may also possibly be infringed - cf eg \textit{Schultz v Butt} 1986 3 SA 667 (A); \textit{Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd} 1991 2 SA 455 (W); Dean 1990 \textit{BML} 159ff 187ff.

\textsuperscript{54} 1986 3 SA 667 (A).

\textsuperscript{55} 683.
to find the identical copying wrongful. And in *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd* the court did not regard the disassembling of a piece of furniture to reveal the structure of its frame and the subsequent copying thereof as wrongful *per se*. However, in the light of the defendant’s *improper motive*, the court determined that his conduct amounted to unlawful competition. In the absence of such factors as those in the *Schultz* and *Bress Design* cases, even identical copying of a competitor’s products will probably be lawful according to the current South African positive law.

8.2.2.2.4 Statutory authority and official capacity

A natural or juristic person may be authorized by statute to acquire, use or disclose a trade secret without the consent of the person with a subjective right to that secret, and certain officials may be authorized by the legal order (whether by statute or the common law) to do so when acting in their official capacity.

8.2.2.2.5 Public interest

Some factual interferences with trade secrets may be objectively reasonable and therefore lawful because they are justified in the public interest. Examples could be the acquaintance with or disclosure of trade secrets which are used (or are capable of use) in ways that endanger the safety of the state or promote crime. In such a case the interest served is more valuable than the one violated, and the conduct is not condemned by the *boni mores*.

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56 Cf further Boberg 1986 *BML* 64 and the interpretation of the *Schultz* case in *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd* 1991 2 SA 455 (W) 474A-D.

57 1991 2 SA 455 (W) 474.

58 The defendant’s sole or dominant purpose was to harm the plaintiff, rather than to promote his own interests. Cf par 8.2.2.3 below.

59 475.

60 Cf Van Heerden and Neethling 251ff; Dean 1990 *BML* 159ff 187ff.

61 Cf Neethling, Potgieter and Visser 97-99 on statutory authority as ground of justification.

62 Cf Neethling, Potgieter and Visser 99-100 on official capacity as ground of justification.

63 Cf Gurry 325ff.

64 Cf Knobel 1990 *THRHR* 495.
Apart from the above-mentioned grounds of justification, a defendant in trade secret litigation may prove the lawfulness of his or her conduct by showing that the alleged trade secret in question does not meet the requirements for a trade secret protectable at law. He or she may show that the relevant information is not really secret, for instance, by proving that it has been published; or that the secret does not really have any economic value - such a defence could arguably be an application of the rule *de minimis non curat lex*; or that the secret is not capable of commercial or industrial application; or that the plaintiff’s conduct in the past is irreconcilable with a will on the part of the latter to keep the alleged trade secret confidential; or that the secret is not sufficiently concrete to exist separately from the personality of the plaintiff. A successful reliance of any of these defences will also exclude wrongfulness, but they operate on a different level than the grounds of justification enumerated above. The defences mentioned in this paragraph are aimed at disproving the existence of a trade secret. If successful, they eliminate wrongfulness on the ground that there was in fact no subjective right to be infringed. The grounds of justification mentioned above acknowledge the existence of a trade secret, but - as noted - render the factual interference with the powers of use, enjoyment and disposal exercised in respect of a trade secret by a person with a subjective right to that secret, legally permissible - and therefore lawful - because of the presence of special circumstances. The distinction is of importance in so far as it may determine who bears the onus of proof. When raising one of the defences mentioned in this paragraph, the defendant is trying to cast doubt on the allegations made by the plaintiff, and the defendant then carries a mere evidentiary burden. When raising one of the grounds of justification mentioned above, he or she is making fresh allegations, and may then be saddled with a full onus of proof in respect of those allegations.

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65 Cf par 7.2.3 above.
66 Cf par 7.2.5 above.
67 Cf par 7.2.2 above.
68 Cf par 7.2.4 above.
69 Cf par 7.2.6 above.
70 Par 8.2.2.2.1-8.2.2.2.5.
71 Cf Schmidt 34ff; Schmidt and Zeffert LAWSA Vol 9 (1979) 336. The form in which the pleadings are drafted, influences this matter. If the defendant’s plea is one of confession and avoidance, eg he admits that he has used the trade secret, but avers that he had obtained the owner’s consent, he is saddled with a full onus, cf Minister of Law and Order v Monti 1995 1 SA 35 (A).
8.2.2.3 THE ROLE OF MOTIVE

The enquiry into wrongfulness is an objective one and subjective factors, that is, factors relating to for instance the defendant's thoughts and emotions, are normally not taken into account. However, it is a well-established principle in the law of delict that in certain cases the defendant's motive may be taken into account - with other relevant factors, especially the relative weights of the interests promoted by the defendant's conduct and the interests harmed thereby - to determine whether his or her conduct was wrongful. Motive can conceivably play an important role in connection with especially the defences of double invention and reverse engineering. A simple scenario may be used for illustrative purposes. If X reverse engineers Y's trade secret and then discloses it to all Y's major competitors with the sole or dominant motive of harming Y, X's conduct is wrongful. At first blush X is simply exercising his right obtained by reverse engineering, but in the light of his motive - and the matter will be more clear-cut if it can be shown that X has not advanced any lawful interest of his own or only relatively insignificant interests of his own - this is not the case. His conduct is contra bonos mores and thus wrongful. The same conclusion will be reached if a double inventor should disclose the secret with the sole or dominant motive of harming the original trade secret owner, especially if he or she is not advancing significant lawful interests of his or her own.

However, it should be noted that a motive to destroy the competition by recognized competition tactics, need not necessarily colour an act wrongful. The law does not necessarily frown on severe competition, depending on the manner in which it is

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72 Cf Neethling, Potgieter and Visser 36-38; Van der Walt 21.

73 Notably in the so-called field of neighbour law, but also in other fields - cf Burchell 63ff; Neethling, Potgieter and Visser 104ff; Van der Merwe and Olivier 64ff; Van Heerden and Neethling 135ff; Van der Walt 41ff.

74 Motive must not be confused with intent. Intent is a technical legal term for a form of fault, and is present when an accountable wrongdoer directs his or her will at a result which he or she is causing in a wrongful manner, while he or she knows that his or her conduct is wrongful. Motive simply refers to the subjective reason why someone acts in a certain way; cf Neethling, Potgieter and Visser 38 fn 36; Van der Walt 61-62; Boberg 269.

75 Cf Neethling, Potgieter and Visser 109; Van der Merwe and Olivier 68-69; Van der Walt 42; Van Heerden and Neethling 136-137.


77 Some will call this type of situation an abuse of right, but it is probably more accurate to say that X's conduct has exceeded the limits the law places on his right. Cf Burchell 64ff; Neethling, Potgieter and Visser 105 fn 437; Van der Merwe and Olivier 67-68; Van der Walt 42; Van Heerden and Neethling 135.

78 Cf Van Heerden and Neethling 139-140.
conducted. Thus if Q reverse engineers R's trade secret and then exploits it in his own products with the declared motive of dealing R a fatal blow on the market-place, his conduct will not necessarily be wrongful. If Q's primary motive is to gain the upper hand in the market, to which end he has the secondary motive to eliminate, if possible, his competition, his conduct will not be unreasonable. If his sole or dominant motive, on the other hand, is to harm R - that is, sheer malice - his conduct may be wrongful.\(^79\) Again, it is important not to consider the defendant's motive in isolation, but rather in conjunction with all other relevant factors - especially the relative weights of respectively the interests promoted and the interests harmed by the defendant's conduct.\(^80\)

8.2.3 FAULT

Whereas the enquiry into wrongfulness concerns the question whether conduct is objectively reasonable or unreasonable in the light of the harmful consequences caused or potentially caused thereby, the enquiry into the element of fault\(^81\) concerns the question whether a person whose conduct has thus been found to be wrongful, can be blamed for that conduct by the law in the light of the person's mental disposition and standard of care observed at the time of the wrongdoing.\(^82\) Two forms of fault are recognized, namely intention and negligence. A wrongdoer acts intentionally if his or her will is directed at the result which he or she causes whilst conscious of the wrongfulness of his or her conduct.\(^83\) A wrongdoer acts negligently if the reasonable person\(^84\) in his or her position would have foreseen the possibility of his or her conduct harming another and would have taken steps to prevent or minimize such harm, but the wrongdoer failed to take such steps.\(^85\) Fault - in either of its two forms - can only be imputed to a wrongdoer who is accountable, that is,

\(^79\) Cf Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd 1991 2 SA 455 (W).

\(^80\) Cf Van Heerden and Neethling 139-140, who also point out that it may be very difficult to establish whether the primary motive of a competitor is to harm a rival or to promote his own interests.

\(^81\) Cf in general Boberg 268ff; Burchell 30ff 85ff; Neethling, Potgieter and Visser 113ff; Van der Merwe and Olivier 110ff; Van der Walt 60ff.

\(^82\) Cf Boberg 268; Neethling, Potgieter and Visser 113; Van der Merwe and Olivier 110 115 126; Van der Walt 60.

\(^83\) Cf Boberg 268; Burchell 30-31; Neethling, Potgieter and Visser 116; Van der Merwe and Olivier 115; Van der Walt 62.

\(^84\) Or, according to the traditional formulation, the reasonable man - the *diligens paterfamilias*.

\(^85\) Cf Kruger v Coetzee 1966 2 SA 428 (A) 430; Boberg 274; Burchell 31 86; Neethling, Potgieter and Visser 122; Van der Merwe and Olivier 128; Van der Walt 68.
who has the mental ability to distinguish between right and wrong and act in accordance with such appreciation. 86

Both forms of fault can found Aquilian liability, 87 but negligence is the applicable form of fault in the majority of cases in which the actio legis Aquiliae is instituted. 88 Logically, since liability in the case of trade secret misappropriation is Aquilian, proof of either intention or negligence should be sufficient in trade secret infringement cases. Such a position would also be in conformity with the provisions of the GATT TRIPs agreement in this regard. 89

However, some authors - writing on unlawful competition in general or trade secret misappropriation in particular 90 - have suggested that intention is always a prerequisite for liability. Others 91 might concede the correctness in principle of the view that negligence should also be sufficient, whilst doubting the practical relevance thereof in this part of the law. A third group 92 is clearly of the opinion that both intention and negligence should found liability. It will be seen 93 that the reported case law seems to have dealt mainly - if not exclusively - with intentional trade secret misappropriation thus far. This raises the question whether the negligent infringement of trade secrets is a realistic possibility in practice, or whether it is simply of academic interest.

It is submitted that negligence as a form of fault may be of great practical importance in the field of trade secret misappropriation. The most important substantiation for this statement must be sought in the nature of intent as form of fault. Intention comprises two elements, namely direction of the will at a certain result and, secondly, consciousness of wrongfulness. 94 The second element, consciousness of

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86 Cf Boberg 268; Burchell 29 83; Neethling, Potgieter and Visser 114; Van der Merwe and Olivier 112; Van der Walt 60.
87 Boberg 268; Burchell 30; Neethling, Potgieter and Visser 11; Van der Merwe and Olivier 227.
88 Boberg 269; Burchell 30.
89 Cf par 5.1; 5.2 above.
90 Boberg in Neethling (ed) 20ff; Boberg 149; Pienaar 7 113ff; cf Burchell 1978 BML 122.
91 Domanski 1993 THRHR 433.
93 Par 9.3.1.3 below.
94 Minister of Justice v Hofmeyr 1993 3 SA 131 (A) 154; Dantex Investment Holdings (Pty) Ltd v Brenner 1989 1 SA 390 (A) 396; Neethling, Potgieter and Visser 116-120.
wrongfulness, may readily be absent when trade secrets are infringed. An ex-employee may, for instance, not realize that certain information imparted to him by his former employer during subsistence of the service contract was a trade secret of the latter. If the ex-employee then discloses the information to his new employer, not realizing that such conduct is wrongful, he has no intent in its legal sense. Should this mean that the former employer cannot institute an action for damages against him (or against the new employer if he now makes use of the information not knowing that his conduct is wrongful)? It is submitted that it should not. If the reasonable person in the position of the ex-employee (or/and new employer) would have realized that the information was a trade secret, and would have taken steps not to harm the former employer damage by disclosing the secret without authorization, the ex-employee (or/and new employer) was/were negligent. According to general delictual principles the Aquilian action should then be available to the former employer to obtain damages for the negligent infringement of his trade secret. Recognition of delictual liability for negligent trade secret infringements will therefore have the important practical consequence that a trade secret infringer who for some reason is not conscious of the wrongfulness of his or her conduct, will not escape delictual liability if it can be shown that the reasonable person in his or her position would have had consciousness of wrongfulness.

A second situation where negligence may conceivably play an important role in trade secret litigation, could be where the trade secret owner has disclosed his or her secret to another in confidence, and the latter fails to take the steps which the reasonable person in that position would have taken to prevent others to acquaint themselves with the secret, with the result that a third person indeed acquires the secret against the will of the owner thereof. The trade secret owner should have a delictual action against such a negligent discloser.

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95 This example presupposes a situation where the secrecy of the trade secret cannot be preserved by interdicting the ex-employee and his or her new employer any more (cf par 8.5.4; 8.6.4 below). If it is not to late to save the secret by an interdict, the latter would be a more advantageous remedy than an action for damages, and the question of fault need not arise in such a case (par 8.5.4 below).

96 Cf Knobel 1990 THRHR 498-499; Copeling 1968 THRHR 192; in respect of unlawful competition generally Van Heerden and Neethling 70.

97 Cf Knobel 1990 THRHR 499. However, in such cases the trade secret owner and the negligent discloser will normally be in a contractual relationship, and the trade secret owner may frequently prefer to use a contractual remedy against the negligent discloser. If secrecy can still be preserved by court orders restraining the discloser and the third person from further disclosure, an interdict will be the more advantageous remedy - in which case fault need not be proved (par 8.5.4 below).
8.2.4 CAUSATION

To succeed with an action for damages *ex lege Aquila*, a causal link between the wrongful act or conduct and the damage must be established.\(^98\) In the first place, *factual causation* must be established, that is, the plaintiff must show on the facts that the act caused the damage. Being a factual issue, factual causation is established in a court of law by way of evidence.\(^99\) In a trade secret misappropriation case, the plaintiff must show that the misappropriation of the trade secret was the factual cause of the patrimonial loss\(^100\) suffered by him or her.

If a factual causal link between the trade secret misappropriation and the patrimonial loss has been established, there must according to general principles also be a legal causal link between the said misappropriation and the said loss.\(^101\) *Legal causation* concerns the question whether the nexus between the conduct of the wrongdoer and the damage factually caused thereby, is sufficiently close that the wrongdoer can on legal policy grounds be held liable for the causing of that damage. If the damage is "too remote", the wrongdoer will not be held liable, although his or her conduct factually caused that damage. Various theories have been advanced as criteria or tests to determine whether damage is too remote for legal causation to be present.\(^102\) The most widely accepted of these in cases of patrimonial loss appears to be reasonable foreseeability.\(^103\) A legal causal connection can according to this test only exist between conduct and (factually caused) consequences that were

\(^{98}\) Cf in general Boberg 380ff; Burchell 32-34 114ff; Neethling, Potgieter and Visser 159ff; Van der Merwe and Olivier 196ff; Van der Walt 94ff; Pienaar 127ff.

\(^{99}\) The courts profess to use the *conditio sine qua non* test to establish factual causation - cf eg *Minister of Police v Skosana* 1977 1 SA 31 (A) 33 35 44; *S v Daniëls* 1983 3 SA 275 (A) 331; *S v Mokgethi* 1990 1 SA 32 (A) 39; *International Shipping Co (Pty) Ltd v Bentley* 1990 1 SA 680 (A) 700. Thus an act is the (factual) cause of a particular harmful result if the act cannot be mentally eliminated without the result also disappearing - the act is then a *conditio sine qua non* for the realization of that result. However, commentators have argued that the *conditio sine qua non* is not really a scientific test, but rather a way of formulating an already pre-determined causal relationship between a cause and a consequence - cf Neethling, Potgieter and Visser 162ff and authorities cited. Viewed in this way, a test is not needed to establish a factual issue like factual causation - what is needed, is simply evidence showing that the conduct complained of caused the damage complained of.

\(^{100}\) Par 8.2.5 below.

\(^{101}\) Boberg 439ff; Burchell 32-34 119-122; Neethling, Potgieter and Visser 169ff; Van der Walt 98-104.

\(^{102}\) Cf Neethling, Potgieter and Visser 172ff; Boberg 439ff; Burchell 119ff; Van der Walt 98ff.

\(^{103}\) Cf eg Boberg 445; Van der Walt 103.
reasonably (objectively) foreseeable. However, the current approach of the courts\textsuperscript{104} is a flexible one, in terms of which none of the theories of legal causation is regarded as suitable to establish legal causation in all cases. Whether a sufficiently close nexus between act and consequence exists, is determined with reference to policy considerations based on reasonableness, fairness and justice. Existing criteria (theories) of legal causation may play a subsidiary role in determining legal causation by means of the flexible criterion.

In trade secret misappropriation cases, the plaintiff must therefore show that there was a sufficiently close nexus between the patrimonial loss factually caused by the defendant's misappropriation of the farmer's secret and the latter's conduct that liability for that loss may - with reference to policy considerations based on reasonableness, fairness and justice - be imputed to the defendant.

8.2.5 DAMAGE

To succeed with an action for damages \textit{ex lege Aquilia}, the plaintiff must prove that he suffered damage in the form of patrimonial loss.\textsuperscript{105} The existence and quantum\textsuperscript{106} of patrimonial loss are established by a comparative method.\textsuperscript{107} In the

\begin{footnotesize}
\begin{enumerate}
\item[104] \textit{S v Mokgethi} 1990 1 SA 32 (A); \textit{International Shipping Co (Pty) Ltd v Bentley} 1990 1 SA 680 (A); cf Neethling, Potgieter and Visser 191-195; Van Heerden and Neethling 71; Burchell 121-122; Van der Walt 102-104.
\item[105] Cf Pienaar 73. Patrimonial loss is defined by Visser and Potgieter 42 as: "[T]he diminution in the utility of a patrimonial interest in satisfying the recognized needs of the person entitled to such interest. It may also be defined as the loss or reduction in value of a positive asset in someone's patrimony or the creation or increase of a negative element of his patrimony (a patrimonial debt)"; cf Neethling, Potgieter and Visser 206. Cf further Boberg 476: "[Patrimonial] loss is the diminution in the plaintiff's patrimony (his \textit{interesse} or \textit{id quad interest}), and it is represented by 'die verskil tussen die vermoënsposisie van die benadeelde vóór die onregmatige daad en daarna... Skade is die ongunstige verskil wat deur die onregmatige daad ontstaan het' (\textit{Santam Versekeringsmaatskappy Bpk v Byleveldt} 1973 2 SA 146 (A) at 150...). Because a delict may diminish an estate not only by reducing its value but also by preventing its value from increasing, damage is not confined to actual losses or expenses (\textit{damnum emergens}), but includes also the deprivation of a financial benefit that would otherwise have accrued (\textit{lucrum cessans}); Van Aswegen 160: "Vermoënskade, finansiële verlies of vermoënsvermindering word... omskryf as, of liever gelykgestel aan, die verskil tussen die eiser se huidige vermoënsposisie en die posisie waarin hy sou gewees het indien die skadestigende gebeurtenis (in huidige verband die delik) nie pleasgevind het nie. Hierdie omskrywing, wat skade gelykstel aan 'n geldsom wat by wyse van 'n vergelykingsmetode vasgestel word, staan bekend as die sommeskadeleer... of die 'method of difference'. Dit dien nie alleen as definisie of omskrywing van skade nie, maar ook as maatsstaf vir die bepaling van die omvang daarvan, wat natuurlik tegelyk die kwantisering of berekening van die skadevergoedingsbedrag behels... [D]it druk meteen ook die doel van deliktuele skadevergoeding uit, naamlik om die benadeelde in die vermoënsposisie te plaas waarin hy sou gewees het indien die delik nie gepleeg is nie."
\item[106] Cf Van Aswegen 160, quoted in fn 105 above.
\end{enumerate}
\end{footnotesize}
case of patrimonial loss already suffered, the (actual) patrimonial position of the plaintiff after perpetration of the delict is compared with the hypothetical patrimonial position the plaintiff would have been in, had the delict not taken place. The difference between the two positions constitutes the plaintiff's patrimonial loss. Prospective loss, on the other hand, can only be assessed with reference to two hypothetical patrimonial positions. The hypothetical patrimonial position the plaintiff would have been in, had the delict not been committed, is compared with his or her hypothetical future patrimonial position that will probably ensue in the light of the commission of the delict.

In cases of trade secret misappropriation, patrimonial loss will usually take the form of a loss of profit - already suffered and/or prospective - resulting from the deprivation of the plaintiff (the owner or licensee) of the power to exploit the secret. Such loss may arise in a competitive context, but it may also be caused by non-competitors. In a context of unlawful competition, the plaintiff's loss of profit will usually flow from his or her loss of trade or custom, in that clients or potential clients deal with the defendant instead of with him or her. His or her patrimonial position is thus adversely affected because - as a result of the defendant's misappropriation of his or her trade secret and the latter's use or disclosure thereof - he or she is unable to exploit the secret in enhancing his or her goodwill as effectively as before. If the secret was misappropriated by a non-competitor, the plaintiff's loss of profit may consist of the loss of royalties which he or she could have earned by way of licensing agreements, or the 'purchase price' he or she could have obtained by selling all the

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107 Potgieter and Visser 59; Neethling, Potgieter and Visser 209.

108 This method is generally known as the sum-formula approach (sommeskadeleer) - cf Visser and Potgieter 59-67; Neethling, Potgieter and Visser 209-210. It has been suggested that many forms of patrimonial loss already suffered are probably best assessed by comparing the plaintiff's actual patrimonial position before the delict with his actual patrimonial position after the delict, thus employing a so-called concrete approach - cf Visser and Potgieter 66-67; Neethling, Potgieter and Visser 210. A loss of profit can, however, not be assessed in such a manner - cf Visser and Potgieter 63; Neethling, Potgieter and Visser 210. Where a loss of profit has already been suffered, the (actual) patrimonial position of the plaintiff after perpetration of the delict must be compared with the hypothetical patrimonial position the plaintiff would have been in, in the light of the profit that he would probably have made, had the delict not taken place. A future loss of profit is prospective loss, and must therefore be assessed by comparing two hypothetical positions as explained in the main text above. Since patrimonial loss caused by trade secret misappropriation will usually take the form of loss of profit, it is submitted that a concrete comparative method will rarely be apposite in trade secret cases.

109 Cf Visser and Potgieter 63.

110 Cf Knobel 1990 THRHR 499.

111 Cf par 7.4.4.4.1 above; 9.3.1.2.2 below.

112 Cf Van Heerden and Neethling 72; Visser and Potgieter 345 fn 112; Knobel 1990 THRHR 499.
rights to the secret to another. The loss of profit may also flow from the deprivation of the power to exploit the trade secret in a business enterprise yet to be launched.

Commentators\textsuperscript{113} have alluded to the difficulty - if not impossibility - to establish with mathematical accuracy the exact quantum of damage in unlawful competition cases in general. The same can be said about trade secret misappropriation cases, whether the misappropriation occurred in a context of unlawful competition or not. The reason for this situation lies in the extremely speculative nature of profits that might have been made, but were not made because of the defendant's wrongful conduct. Van Heerden and Neethling\textsuperscript{114} submit that the courts should not require precise proof of the exact extent of damage in unlawful competition cases. On the probabilities revealed by the evidence, the courts should assess the loss and make an award \textit{ex aequo et bono}. Their submission is fully supported in so far as trade secret litigation is concerned, and the position should be no different if trade secret misappropriation occurs outside a competitive context, since the difficulties militating against the determination of the exact quantum of damages are similar in such instances.

In the light of the elusiveness of the exact quantum of patrimonial loss caused by trade secret infringement, it is submitted that South African courts will do well to emulate other legal systems\textsuperscript{115} where the quantum is determined with reference to a reasonable royalty for use of the secret. Significantly, provision has been made in related branches of intellectual property law for the quantum of damages to be based on the amount of a reasonable royalty for use.\textsuperscript{116}

The quantum of the damage may be influenced by various factors. What the misappropriator does with the trade secret may play a role. If the infringing conduct consists of the unauthorized acquisition of the trade secret and the subsequent use thereof in a competing business, while keeping the misappropriated information secret from other competitors in the same field, the quantum of the loss will tend to be smaller than in a situation where the infringer disclosed the secret to all the major competitors of the plaintiff, thereby effectively destroying the secret. Some trade secrets obviously have the potential to generate greater profits for the persons exploiting them than others, and this fact should be reflected in the quantum of

\textsuperscript{113} Van Heerden and Neethling 72; Visser and Potgieter 345-346.

\textsuperscript{114} 72; cf Potgieter and Visser 346.

\textsuperscript{115} Cf par 2.3.1; 3.3.1; 4.3.1 above.

\textsuperscript{116} Cf sec 65(6) of the Patent Act 57 of 1978 (as amended by Act 76 of 1988) and sec 24(1A)-(1C) of the Copyright Act 98 of 1978 (as amended by Act 125 of 1992). Cf sec 43(3)(d) of the Trade Marks Act 194 of 1993 and sec 35(3)(d) of the Designs Act 195 of 1993 which provide that the court may grant the proprietor a reasonable royalty \textit{in lieu of damages}. 

damages awarded. In this regard the fact that many trade secrets can at the most give their owners a temporary head-start over competitors, should also be borne in mind when a monetary value must be placed on the deprivation of the power to fully exploit such a secret.\textsuperscript{117}

8.3 CONTRACTUAL PROTECTION OF TRADE SECRETS

8.3.1 EXPRESS CONTRACT

Trade secrets may be protected by express contractual provisions.\textsuperscript{118} Such provisions will frequently be expressed in restraint of trade agreements in employment contracts.\textsuperscript{119} Express contractual agreements protecting trade secrets may also be entered into by actual or potential customers\textsuperscript{120} or parties to trade secret licensing agreements. The common denominator in all these instances is the entrusting of the trade secret by the trade secret owner to another person for limited purposes, for instance to enable his or her employee to execute his or her duties; to persuade a potential customer to do business with him or her; or to receive royalties from a licensee. The purpose of express contractual protection of trade secrets in such instances is always to impose a duty on the receiver of the secret not to use the secret for other purposes than those envisaged by the owner, nor to disclose the secret to other parties.

Before the decision of the Appellate Division in \textit{Magna Alloys and Research (SA) (Pty) Ltd v Ellis},\textsuperscript{121} agreements in restraint of trade were regarded as \textit{prima facie} void and hence unenforceable. If, however, the covenantee - that is, the party seeking to restrain the other - could prove that the restraint agreement was reasonable between the parties and not contrary to the public interest, the courts would enforce

\textsuperscript{117} This suggestion is inspired by the \textit{springboard doctrine} of English law and the so-called \textit{lead-time interdicts} of American law (cf par 2.4.4; 3.4.4 above). It is submitted that just as the time limitation on the value of many trade secrets is of cardinal importance when the duration of an interdict is determined, it cannot be disregarded when the quantum of loss must be determined in an action for damages. Cf the American Uniform Trade Secrets Act sec 3 Commissioners' comment (par 3.3.1 above); Milgrim Vol 3 15.214 (par 3.3.1 fn 132 above); Van Heerden and Neethling 233; Visser and Potgieter 345 fn 112; Knobel 1990 \textit{THRHR} 492 fn 43 500.

\textsuperscript{118} Frequently a wise option for the trade secret owner - cf Delport 1982 \textit{BML} 188-189; Knobel 1990 \textit{THRHR} 490 fn 22.

\textsuperscript{119} Domanski 1993 \textit{THRHR} 240; cf in general Christie 432ff; Christie \textit{LAWSA} Vol 5 (1994) 216-217; Joubert \textit{Contract} 144ff; Kerr 503ff; Lubbe and Murray 236ff; Van der Merwe et al \textit{Contract} 155ff.

\textsuperscript{120} Cf Domanski 1993 \textit{THRHR} 240.

\textsuperscript{121} 1984 4 \textit{SA} 874 (A).
such an agreement. The covenantee could prove the reasonableness of the restraint by showing that it protected a *proprietary interest*,\(^{122}\) of which two classes were recognized as worthy of protection, namely trade secrets and trade connections.\(^{123}\) In the *Magna Alloys* case\(^ {124}\) the basic premise concerning agreements in restraint of trade was reversed. Restraint agreements were held to be in principle enforceable, and such an agreement would only be unenforceable if the person sought to be restrained - the covenantor - could show the restraint to be contrary to the public interest or public policy. The applicable principles were further elucidated by the Appellate Division in *Basson v Chilwan*.\(^ {125}\) It was stated\(^ {126}\) that a restraint is against public policy if its effect would be unreasonable. The reasonableness of the restraint must be determined with reference to the broad interests of the community and the interests of the contracting parties. As far as the broad community interests are concerned, two considerations are relevant - agreements should be honoured; and unproductivity must be discouraged. As far as the parties themselves are concerned, a restraint is unreasonable if it restricts a party's freedom of economic activity without serving a protectable interest of the other party. In this regard the courts have continued to determine the reasonableness of restraint agreements by asking whether they protect proprietary interests in trade secrets or trade connections.\(^ {127}\) Whether a restraint of trade agreement purporting to protect a trade secret will be enforced by the courts or not, will therefore depend on whether the person seeking to enforce it does indeed have a trade secret, and that the restraint is not wider than is necessary to protect the secret - if it is, the court may order partial enforcement.\(^ {128}\) The reasonableness of the restraint must be determined with reference to the circumstances pertaining at the time enforcement is sought - not with

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\(^{122}\) This rule applied particularly where the contracting parties were regarded as dealing on an unequal footing, eg in the case of employer and employee - cf Van Heerden and Neethling 25. The rule has, however, also been applied to an agreement between parties dealing on an equal footing - *Ackermann-Göggingen Aktiengesellschaft v Marshing* 1973 4 SA 62 (C); Van Heerden and Neethling 26 fn 72.

\(^{123}\) Cf Van Heerden and Neethling 25-26 and authorities cited.

\(^{124}\) 878-879; cf Van Heerden and Neethling 26ff.

\(^{125}\) 1993 3 SA 742 (A).

\(^{126}\) 767; cf Christie *LAWSA* Vol 5 (1994) 216.


\(^{128}\) Cf eg *Sibex Engineering Services (Pty) Ltd v Van Wyk* 1991 2 SA 482 (T).
reference to the circumstances pertaining at the time the agreement was entered into.129

The main practical difference brought about by the Magna Alloys case is that the onus of proof is now on the party opposing the restraint agreement to prove that it is unreasonable - whereas previously the onus was on the party seeking to enforce the agreement to prove that it was reasonable. This means that the alleged trade secret infringer must prove that the alleged trade secret owner had no secret to protect or that he or she (the alleged infringer) had no access to the secret - whereas previously the alleged trade secret owner had to prove the existence of his secret. It could be argued, in the light of the entrenchment of the right to free economic activity as a fundamental right in the Constitution,130 that the onus of justifying a limiting of this fundamental right by a restraint of trade should rest on the covenantee - thus reverting to the position before Magna Alloys.131 However, in Waltons Stationery Co (Edms) Bpk v Fourie132 it was held that the relevant section133 of the Constitution does not exclude agreements in restraint of trade and that Magna Alloys still states the law correctly.134

The shift in onus brought about by the Magna Alloys case means that it should now be easier to protect trade secrets by way of express contractual provisions than it was before. It also means that it should be easier to succeed with a claim based on express contract than it would be to succeed with a delictual claim, since in order to establish wrongfulness, the plaintiff/trade secret owner in a delictual claim must prove the existence and the infringement of his or her trade secret.

129 Magna Alloys and Research (SA) (Pty) Ltd v Ellis 1984 4 SA 874 (A) 898; Sibex Engineering Services (Pty) Ltd v Van Wyk 1991 2 SA 482 (T) 503.

130 Sec 26 Act 200 of 1993: "Every person shall have the right freely to engage in economic activity and to pursue a livelihood anywhere in the national territory." The Constitution of the Republic of South Africa Bill, 1996 protects the right of all citizens to choose their trade, occupation or profession freely (cl 22). The Bill also provides in this regard that the practice of a trade, occupation or profession may be regulated by law. The right freely to choose trade, occupation or profession appears to be narrower in scope than the right to freedom of economic activity protected in the interim Constitution.

131 Cf Grové 1994 De Jure 396; Van Heerden and Neethling 15 fn 90.

132 1994 4 SA 507 (O) 511.

133 26.

134 Cf Woker 1994 SA Merc LJ 329ff; Rautenbach and Reinecke 1995 TSAR 551ff; Van Heerden and Neethling 27 fn 84.
8.3.2 IMPLIED CONTRACT

Where parties stand in a contractual relationship, trade secrets may in the absence of express contractual terms protecting trade secrets, be protected by implied contractual terms. During the subsistence of a contract of service, there is an implied contractual obligation on the employee to preserve the secrecy of the employer's trade secrets. This obligation is a corollary of the employee's duty of good faith, also called the duty of fidelity or the duty to further the employer's business interests. This duty is one of the so-called naturalia of the service contract. This means that the term is implied by the law as a matter of course and without reference to the actual intention or conduct of the contracting parties. Such a term may, subject to some qualification, be excluded by the parties, and in that sense their intention is not completely irrelevant. However, such a term does not originate in contractual consensus - it is imposed by the law from without.

Implied terms may also be of another type, sometimes referred to as tacit terms. Such a term derives - or is said to derive - from the common intention of the parties but is not expressed by them. It is inferred or deduced from the express terms and surrounding circumstances of the contract. The test as to whether a tacit term can be implied is the so-called 'innocent bystander' test expressed as follows in the English decision Reigate v Union Manufacturing Co (Ramsbottom): "You must only imply a term if it is necessary in the business sense to give efficacy to the contract; that is, if it is such a term that you can be confident that if at the time the contract was being negotiated someone had said to the parties: 'What will happen in such a case?' they would have both replied: 'Of course, so-and-so. We did not trouble to say that; it is too clear.'" Such a term protecting a trade secret may be implied into an existing contract. Furthermore, the possibility exists of a contract protecting a trade secret being implied where parties stand in certain relationships, for instance during pre-contractual negotiations.

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136 Cf Gibson 218-220; Grogan 41; Rycroft and Jordaan 61; Van Jaarsveld and Vivier 652-653.

137 Cf Christie 183ff; Joubert Contract 65-66; Kerr 283ff ('residual provisions'); Lubbe and Murray 422-425; Van der Merwe et al Contract 196-197; Alfred McAlpine & Son (Pty) Ltd v Transvaal Provincial Administration 1974 3 SA 506 (A).

138 Cf Christie 194ff; Kerr 269ff; Joubert Contract 66ff; Lubbe and Murray 417-419; Van der Merwe Contract 197ff.

139 118 LT 479 483.

8.4 CONCURRENCE OF CLAIMS

It is recognized in South African law that contractual remedies and the actio legis Aquiliae may concur in situations where breach of contract at the same time constitutes a delictual act causing patrimonial loss. However, the actio legis Aquiliae is only available alongside the contractual action if the conduct complained of constitutes an infringement of both the plaintiff’s contractual rights and a right which he or she has independently of the contract.\(^{141}\) The right to the trade secret is precisely such a right. It is an intellectual property right and exists independently of contract.\(^{142}\) Conduct breaching a contractual term protecting a trade secret against unauthorized use or disclosure, will also - quite independently of any contractual relationship between the parties - constitute an infringement of the right to the trade secret, and will therefore also be wrongful\(^ {143}\) for delictual purposes.

8.5 REMEDIES

8.5.1 DAMAGES

An action for damages may be founded in delict or contract. The requirements for a delictual action for damages have been discussed above.\(^ {144}\) The trade secret owner who wishes to claim damages for breach of contract\(^ {145}\) must prove:\(^ {146}\)

(a) a breach of contract - in this context breach of an express or implied

\(^{141}\) Van der Walt 7; Lillicrap, Wassenaar and Partners v Pilkington Brothers (SA) (Pty) Ltd 1985 1 SA 475 (A) 499; Neethling, Potgieter and Visser 253; cf Van Aswegen 1992 THRHR 273: “In effek word dus vir die erkenning van sameloop tussen kontrakbreuk en delik vereis dat, naas inbreuk op die vorderingsreg oftewel verbreking van ’n kontraktuele verpligting, die optrede van die dader boonop of ’n ander subjektiewe reg moet skend, of ’n regsplig wat onafhanklik van dié kontrak bestaan, moet verbreek”; Van Aswegen 293. Both Van Aswegen 298, 1992 THRHR 277 and Midgley 1993 SALJ 76-78 are of the opinion that the true test is to mentally substitute an invalid agreement for the valid contract and then to enquire whether delictual liability may still ensue. According to this view it is unnecessary to eliminate the factual circumstances surrounding the contract or the relationship formed by the contract; only the validity of the contract need be eliminated in the enquiry into the concurrence question.

\(^{142}\) See par 7.4.2; 7.4.3 above; Van Heerden and Neethling 235 fn 79.

\(^{143}\) Unless a ground of justification was present.

\(^{144}\) Par 8.2.1-8.2.5.

\(^{145}\) Cf in general Van der Merwe et al Contract 296-315; Christie 639-656; De Wet and Van Wyk 222-234; Joubert Contract 246-264; Kerr 573-645; Lubbe and Murray 594-644.

\(^{146}\) This exposition is based on Van der Merwe et al Contract 296. Cf Joubert Contract 246-247; Kerr 573.
contractual term protecting the plaintiff's trade secret - by the other party to the contract;
(b) damage;
(c) a causal connection between the breach of contract and the damage; and
(d) that for the purpose of the law, the damage is close enough to the breach of contract, in that it was reasonably foreseeable or agreed to by the parties to the contract.

8.5.2 ACCOUNT OF PROFITS

As noted, in other legal systems the quantum of a trade secret owner's loss may be determined with reference to the infringer's profits. This can obviously only be done if the amount of such profits is known. In this regard the remedy of English law, whereby the defendant is ordered to render an account of profits, appears to offer a solution. However, South African courts are unwilling to issue such an order, and it has been abolished or is of suspect status in the case of statutory intellectual property rights. Van Heerden and Neethling argue that this remedy is

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147 Par 6.4 above.

148 Note, however, that in English law the account of profits is an independent remedy alternative to an action for damages - see par 2.3.2 above; cf Copeling 61; and not an aid for the determination of damages as suggested here.

149 In Rectifier and Communication Systems (Pty) Ltd v Harrison 1981 2 SA 283 (C) - a case that dealt with confidential information - Watermeyer JP said (286): "If a claim for an account of profits and payment thereof is permissible in the field of South African patent, trade-mark and copyright law, a matter upon which I express no opinion, [see in this regard fn 150] it has not to my knowledge been extended... to claims under the lex Aquilia like the present. It would seem to be wrong in principle and no authority for such an extension has been quoted." Cf Montres Rolex SA v Kleynhans 1985 1 SA 55 (C); Victor Products (SA) (Pty) Ltd v Lateuliere Manufacturing (Pty) Ltd 1975 1 SA 961 (W) 963; John Waddington Ltd v Arthur E Harris (Pty) Ltd 1968 1 SA 38 (T) 48; William Lasar v Sabon Precision Machine Co (Pty) Ltd 1954 2 PH A37 (W); Peter Jackson (Overseas) Ltd v Rand Tobacco Co (1936) Ltd 1938 TPD 450 457; Crossfield & Son Ltd v Crystallizers Ltd 1925 WLD 216 224; Van Heerden and Neethling 72-74; Visser and Potgieter 346 fn 124.

150 In respect of copyright, sec 24(1) of the Copyright Act 98 of 1978 originally provided: "Subject to the provisions of this Act, infringements of copyright shall be actionable at the suit of the owner of the copyright, and in any action for such infringement all such relief by way of damages, interdict, accounts, delivery of infringing copies or plates used or intended to be used for infringing copies or otherwise shall be available to the plaintiff as is available in any corresponding proceedings in respect of infringements of other proprietary rights" (emphasis added), and sec 24(2) provided: "Where in an action for infringement of copyright it is proved or admitted that an infringement was committed but that at the time of the infringement the defendant was not aware and had no reasonable grounds for suspecting that copyright subsisted in the work to which the action relates, the plaintiff shall not be entitled under this section to any damages against the defendant in respect of the infringement but shall be entitled to an account of profits in respect of the infringement whether any other relief is granted under this section or not." Some authorities were of the opinion that the "accounts" referred
necessary in South Africa because of the enormous practical difficulties confronting a plaintiff in establishing the quantum of damage in an unlawful competition case, and that it should be incorporated into our law by way of legislation. However, in the light of the practical difficulties experienced in English law with the remedy, and the general trend in South African intellectual property law of abolishing it, it is doubtful whether this proposal deserves support.

In sec 24 were not the independent remedy of English law (par. 2.3.2 above), but a "procedural remedy, designed merely to assist a plaintiff in proving his damages in cases where the extent of these damages is something peculiarly within the knowledge of the defendant" - Copeling 62; Rutherford 1980 MB 100; for a different opinion, cf Dean 1985 SALJ 103. However, sec 24(2) provided that an account of profits would be available if at the time of the infringement the defendant was not aware and had no reasonable grounds for suspecting that copyright subsisted in the work to which the action related - thus where the defendant had no fault. Since a claim for damages must be based on fault, it appears that sec 24(2) envisaged a remedy independent from damages. Be that as it may, an account of profits as remedy for copyright infringement was removed from sec 24(1) of the Copyright Act by the Copyright Amendment Act 125 of 1992. Sec 24(2) was also amended and now reads: "Where in an action for infringement of copyright it is proved or admitted that an infringement was committed but that at the time of the infringement the defendant was not aware and had no reasonable grounds for suspecting that copyright subsisted in the work to which the action relates, the plaintiff shall not be entitled under this section to any damages against the defendant in respect of the infringement." An account of profits is therefore not available for copyright infringement any more.

In respect of patents law, sec 65 of the Patents Act 57 of 1978 does not provide for an account of profits. In Frank & Hirsch (Pty) Ltd v Rodi & Wienenberger Aktiengesellschaft 1960 3 SA 747 (A) an account was ordered in the court a quo and the point was not considered but the order was confirmed on appeal. Subsequently, the Patents Amendment Act 76 of 1988 introduced a new sec 65(6) providing that damages may be calculated on the basis of a reasonable royalty. Burrel 380 concludes that an account of profits does not seem to be available in modern South African law for patent infringement unless there is a fiduciary relationship between the parties or where one party is under a duty, imposed by contract or statute, towards the other.

In respect of trade marks law, it was held in Montres Rolex SA v Kleynhans 1985 1 SA 55 (C) that an account of profits is not available in trade mark infringement proceedings in South Africa - cf Webster and Page 467. Sec 34 of the Trade Marks Act 199 of 1993, while allowing inter alia a reasonable royalty in lieu of damages and an enquiry into damages, does not make provision for an account of profits.

In respect of designs law, an account of profits was an available remedy in terms of sec 24(1) and (2) of the Designs Act 57 of 1967 - cf Rutherford 1980 MB 104-105. However, sec 35 of the new Designs Act 195 of 1993 makes no provision for this remedy.

151 73-74.
152 See par. 2.3.2 above.
153 Note that the GATT TRIPS agreement makes provision (art 45(2)) for a recovery of profits to be authorized "in appropriate cases" (which are not defined) even in the case of innocent infringements. However, the provision is not phrased in mandatory terms. Cf par 5.1 fn 26 above.
8.5.3 ENQUIRY INTO DAMAGES

Another remedy that can be helpful in the determination of the quantum of damages, is the enquiry into damages - that is, where the court itself does not determine the loss but directs an official to do so. In a trade secret case, Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd, Nicholas J felt that an order for an enquiry into damages was not apt under South African procedure, where the trial judge alone decides all the issues in the action. However, in a more recent case dealing with trade mark infringement, Montres Rolex SA v Kleynhans, Seligson AJ had no difficulty in accepting the remedy, since it "is directed to a determination of the damages actually sustained by the plaintiff, can serve a useful purpose and is not inconsistent with any fundamental tenet of our legal system". The Trade Marks Act and the Designs Act now make express provision for an enquiry into damages to be ordered in trade mark and designs litigation respectively. In the light of this recognition in other branches of intellectual property law, and the difficulty to establish the quantum of damages in trade secret cases, it is submitted that an order for an enquiry into damages can be useful in trade secret cases. Ideally, an order for an enquiry into damages can be made in conjunction with a decision that the quantum should be established with reference to a reasonable royalty for use of the secret.

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154 Cf Van Heerden and Neethling 73; par 2.3.1 above (English law).
155 1977 1 SA 316 (T) 328; Van Heerden and Neethling 73; Burrell 379.
156 1985 1 SA 55 (C) 68-69.
157 The court was, however, not prepared to order an enquiry into damages in motion proceedings - 69-70.
158 Sec 34(4) of the Trade Marks Act 194 of 1993 provides: "For the purposes of determining the amount of any damages or reasonable royalty to be awarded under this section, the court may direct an enquiry to be held and may prescribe such procedures for conducting such enquiry as it may deem fit."
159 Sec 35(4) of the Designs Act 195 of 1993 provides: "For the purposes of determining the amount of any damages or reasonable royalty to be awarded under this section, the court may direct an enquiry to be held and may prescribe such procedures for conducting such enquiry as to it may seem fit."
160 Par 8.2.5 above.
161 This is indeed the position according to the current trade marks and designs law - see fns 158 159 above. According to the new Trade Marks Act and Designs Act a reasonable royalty is awarded in lieu of damages, but it is submitted that there is no reason in principle why an enquiry into damages cannot be combined with an order directing that damages in the case of trade secret infringement should be determined on the basis of a reasonable royalty.
8.5.4 INTERDICT

The interdict is a remedy aimed at the prevention of wrongful conduct.\textsuperscript{162} It can take the form of a prohibitory or a mandatory court order. The former prohibits the committing or continuing of a wrongful act; the latter requires positive conduct of the wrongdoer to terminate the continuing wrongfulness of an act that has already been committed.\textsuperscript{163} The interdict may also be obtained to enforce an order for specific performance of a contractual obligation.\textsuperscript{164}

An interdict may be final or temporary.\textsuperscript{165} The requirements for the granting of a final interdict are the following:\textsuperscript{166}

(a) a clearly established\textsuperscript{167} right on the part of the applicant;
(b) an act of interference with such right actually committed or reasonably apprehended; and
(c) the unavailability of any other remedy by which the applicant may be protected with the same result.

The requirements for the temporary (interim or interlocutory)\textsuperscript{168} interdict have been

\textsuperscript{162} Neethling, Potgieter and Visser 248-249; Van Heerden and Neethling 74; Van Aswegen 106; Van der Merwe and Olivier 250; Van der Walt 105; Prest 2-3.

\textsuperscript{163} Neethling, Potgieter and Visser 248; Van Heerden and Neethling 74; Van Aswegen 106; Van der Merwe and Olivier 250; Van der Walt 105.

\textsuperscript{164} Cf Van der Merwe et al Contract 278; Christie 628-630; Joubert Contract 223; Kerr 546; Lubbe and Murray 544-545; Van Aswegen 119-120.

\textsuperscript{165} Van Heerden and Neethling 75; Van der Walt 105; Prest 46.

\textsuperscript{166} Prest 27 47-51. The \textit{locus classicus} in South African case law is \textit{Setlogelo v Setlogelo} 1914 AD 221 227 - cf Prest 37ff; and the exposition by South African courts of the three requirements follows Van der Linden \textit{Koopmans Handboek} 3 1 4 7 - cf Prest 25ff 38-42; Neethling, Potgieter and Visser 249 fn 23; Van der Merwe and Olivier 251ff; Van Heerden and Neethling 75 fn 174. Where an interdict is granted to effect specific performance of a contractual obligation, an adaptation of these requirements may be necessary - cf Van der Merwe et al Contract 275; Christie 514-518; Lubbe and Murray 544-545; Van Aswegen 120.

\textsuperscript{167} The requirement is usually cited as "a clear right". The correct interpretation is probably that the word "clear" does not qualify "right", but rather indicates that the right must be clearly established, that is, it must be proved on a balance of probabilities - see Prest 47 and authorities cited.

\textsuperscript{168} Prest 2 fn 2: "In South Africa, as in England, the words interlocutory and interim are used interchangeably. Strictly speaking an interlocutory injunction is a provisional order granted at an early stage in the proceedings before the matters in issue are finally disposed of in subsequent proceedings. An interim (or temporary) interdict remains in force only for a fixed time, ie until a named day or hour."
formulated as follows:

"[T]he applicant for such temporary relief must show -
(a) that the right which is the subject matter of the main action and which he seeks to protect by means of interim relief is clear or, if not clear, is prima facie established, though open to some doubt;
(b) that, if the right is only prima facie established, there is a well-grounded apprehension of irreparable harm to the applicant if the interim relief is not granted and he ultimately succeeds in establishing his right;
(c) that the balance of convenience favours the granting of interim relief; and
(d) that the applicant has no other satisfactory remedy."

From the positive law requirements for the interdict - in both its final and interim forms - it is clear that in a delictual context, two elements must be present before this remedy can be granted, namely an act already committed or imminent, and wrongfulness - expressed in terms of the infringement or threatening infringement of a right. Fault is not a requirement for the interdict, neither in the form of intention, nor negligence. This position is in keeping with the nature of the interdict - it is

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169 By Corbett J in LF Boshoff Investments (Pty) Ltd v Cape Town Municipality; Cape Town Municipality v LF Boshoff Investments (Pty) Ltd 1969 2 SA 256 (C). This statement of the requirements is "representative of what has become the almost standard formulation of the requirements" - Prest 54; cf Van Heerden and Neethling 76.

170 Indeed, the authors of textbooks on the law of delict usually phrase the requirements for the interdict in terms of delictual elementology rather than quoting the formulation adopted by the courts as set forth above - cf Neethling, Potgieter and Visser 249; Van der Merwe and Olivier 251ff; Van der Walt 105-106. Cf also Van Heerden and Neethling 75; Van Aswegen 106.

171 Cf Neethling, Potgieter and Visser 249; Van Heerden and Neethling 75; Van der Merwe and Olivier 253; Van der Walt 106; Van Aswegen 106 fn 7. Neethling, Potgieter and Visser 249 (cf Van Heerden and Neethling 75 fn 180) are of the opinion that wrongfulness may for the purposes of the interdict also be constituted by the breach of a legal duty. This view deserves support. In accordance with the premise adopted in par 7.4.1.1 and 8.2.2 above, wrongfulness is essentially the violation of a legal norm, which norm may in the law of delict be expressed with reference to either infringement of a subjective right or breach of a legal duty.

172 As is clear from the exposition of requirements set forth above - see further Neethling, Potgieter and Visser 249; Van Heerden and Neethling 74-75; Van der Merwe and Olivier 259; Van der Walt 105; Neethling and Potgieter 1991 SALJ 35 and case law cited. Boberg in Neethling (ed) 21-22 (cf Boberg 152) suggests that in unlawful competition cases intention is a prerequisite for wrongfulness. An implication of Boberg's argument - as spelled out by himself 21-22 - is that intention must be proved before an interdict will be granted in unlawful competition cases "because, although fault is not required, wrongfulness certainly is, and the defendant's conduct will not be wrongful unless he acted with dolus". This argument has been refuted - see Neethling and Potgieter 1991 SALJ 36-38; Van Heerden and Neethling 140-142 - inter alia on the ground that since consciousness of wrongfulness is an element of intent, the enquiry into the presence of intent can in a given case only begin after wrongfulness has already been established. Intent can therefore not be a co-determinant of wrongfulness.
a preventive, rather than compensatory, remedy.\textsuperscript{173}

The interdict is the most useful remedy in trade secret litigation.\textsuperscript{174} An action for damages can only be instituted once damage has materialized.\textsuperscript{175} The implication is that such an action will usually only be applicable after the trade secret has fallen into the public domain - and has thus been destroyed. The interdict is the remedy with which a trade secret, which has fallen into the wrong hands but has not yet been published, can be saved from destruction. In such a case it may be necessary for an interdict to be granted in both its prohibitory and mandatory forms. Thus the respondent will on the one hand be ordered to abstain from further use or disclosure of the trade secret, and will on the other hand be compelled to deliver up\textsuperscript{176} or to destroy any materials in his or her possession that might enable him or her to commit further infringements of the secret.

Furthermore, since fault is not a requirement for the interdict, an innocent recipient of a trade secret may be interdicted from using or disclosing it. This may only happen if the recipient's possession of the secret is, although innocent, nevertheless wrongful. An example would be where someone receives an employer's trade secret through an unauthorized disclosure by an employee without notice that it is a secret and in circumstances where the reasonable person would also not have realized that his or her acquaintance with the secret was unauthorized. Although fault is absent, the recipient's possession of the secret is nevertheless wrongful - since it already infringes the owner's subjective right to his or her trade secret - and moreover creates the risk of further infringements of the trade secret owner's right. The recipient can therefore be interdicted from using or disclosing the secret.\textsuperscript{177}

\textbf{8.5.5 DELIVERY UP}

The remedy known as delivery up was developed in English law to deal with the situation where a defendant who has committed an infringement of intellectual property, remains in possession of items enabling him or her to commit further


\textsuperscript{174} Cf in respect of unlawful competition Van Heerden and Neethling 74.

\textsuperscript{175} Cf eg Boberg 475; Kerr 573.

\textsuperscript{176} Since such an order for "delivery up" is sometimes regarded as an independent remedy, it will be considered under a separate title in par 8.5.5 below.

\textsuperscript{177} See further par 8.6.3 below.
infringements. The remedy orders the handing over or destruction of such items.\textsuperscript{178}

Orders for delivery up have been granted by South African courts in intellectual property cases,\textsuperscript{179} and South African intellectual property rights legislation\textsuperscript{180} have also made provision for the granting of the remedy.\textsuperscript{181} Kelbrick argues\textsuperscript{182} persuasively that an order for delivery up in South African law is a form of mandatory interdict, and as such has a firm basis in the common law.\textsuperscript{183} Where a trade secret infringer is still in possession of articles enabling further infringements of the trade secret owner's rights, an order for delivery up should therefore be competent relief in combination with a prohibitory interdict restraining the infringer from further use or

\textsuperscript{178} Cf Kelbrick 1987 \textit{MB} 12; par 2.3.4 above.

\textsuperscript{179} See Kelbrick 1987 \textit{MB} 14-18 for a historical overview of orders for delivery up - primarily in trade mark but also in unlawful competition litigation - in South African law. An order for delivery up was, inter alia, confirmed in \textit{Schultz v Butt} 1986 \textit{3 SA} 667 (A) (cf the decision in the court \textit{a quo} - \textit{Butt v Schultz} 1984 \textit{3 SA} 568 (E) 570-571 583). Kelbrick 1987 \textit{MB} 16 shows that the order in \textit{Schultz v Butt} could not have been based on sec 24(1) of the Copyright Act 98 of 1978, since that section does not make provision for delivery up to any person other than the plaintiff, whereas the court ordered delivery up to the deputy sheriff. The conclusion is that the order for delivery up was viewed as competent relief in the case of unlawful competition.

\textsuperscript{180} Sec 24 (1) of the Copyright Act 98 of 1978 (as amended by Act 125 of 1992) provides: "Subject to the provisions of this Act, infringements of copyright shall be actionable at the suit of the owner of the copyright, and in any action for such an infringement all such relief by way of damages, interdict, delivery of infringing copies or plates used or intended to be used for infringing copies or otherwise shall be available to the plaintiff as is available in any corresponding proceedings in respect of infringements of other proprietary rights" (emphasis added); cf Kelbrick 1987 \textit{MB} 21. Sec 65(3) of the Patents Act 57 of 1978 provides: "A plaintiff in proceedings for infringement shall be entitled to relief by way of - ... (b) delivery up of any infringing product or any article or product of which the infringing product forms an inseparable part"; cf Burrell 378; Kelbrick 1987 \textit{MB} 21. Sec 34(3) of the Trade Marks Act 194 of 1993 provides: "Where a trade mark registered in terms of this Act has been infringed, the court may grant the proprietor the following relief, namely - ... (b) an order for removal of the infringing mark from all material and, where the infringing mark is inseparable or incapable of being removed from the material, an order that all such material be delivered up to the proprietor." Sec 35(3) of the Designs Act 195 of 1993 provides: "A plaintiff in proceedings for infringement shall be entitled to relief by way of - ... (b) surrender of any infringing product or any article or product of which the infringing product forms an inseparable part."

\textsuperscript{181} Writers also assume that an order for delivery up is competent relief in South African courts - cf Van Heerden and Neethling 195; Webster and Page 323-326 469; Neethling (1993) \textit{LAWSA} 274; see further Kelbrick 1987 \textit{MB} 16-17.

\textsuperscript{182} 1987 \textit{MB} 18-20.

\textsuperscript{183} See further Kelbrick's convincing criticism (1987 \textit{MB} 17-18) of the use of the term "delivery up" as component of Anton Piller type orders (par 8.5.6 below). She shows that a true order for delivery up cannot be granted on an interim basis - as Anton Piller orders invariably are - since an order for delivery up finally disposes of the infringing articles. An order for "delivery up" as component of an Anton Piller order can therefore only be an order for interim attachment. Any doubt that might have been expressed about the competence of an order for "delivery up" as component of an Anton Piller order, does therefore not affect the validity of an order for delivery up in its true sense, ie as a form of (final) mandatory interdict.
An order for delivery up should always be formulated in such a manner so as to minimize the defendant's financial loss.

8.5.6 ANTON PILLER-TYPE ORDERS

The so-called Anton Piller order is an extraordinary remedy aimed at the preservation of evidence. Typically it is obtained ex parte without notice to the defendant, and authorizes entry of the premises of the latter for the purpose of inspecting and removing documents and other articles of evidential value to prevent their destruction or concealment before the case comes to trial or the stage of discovery. Conceived in English law, Anton Piller-type orders were soon granted by South African courts. However, the desirability of these orders were questioned especially on account of their potential for misuse. Conflicting decisions rendered the scope and even the availability of Anton Piller orders in South Africa.

184 Cf Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 183; Prok Africa (Pty) Ltd v NTH (Pty) Ltd 1980 3 SA 687 (W) 688-689 692; Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 1 SA 209 (C) 211, in which orders for delivery up were asked but not considered by the court. In Schultz v Butt 1986 3 SA 667 (A) 688 - not a trade secret case - an order for delivery up was granted; cf Butt v Schultz 1984 3 SA 568 (E) 570 583. Cf Knobel 1990 THRHR 500.

185 Kelbrick 1987 MB 22 suggests that "the British form of order, in which the defendant is always given the option of himself erasing the mark or otherwise destroying the goods rather than delivering the items concerned to the plaintiff, should be followed in South Africa. This will offer the defendant the opportunity to minimize any financial loss he may suffer. Safeguards to protect the plaintiff must then be included in the order and he should be afforded the opportunity of either supervising the erasure or destruction by the defendant or having these actions confirmed on oath, should the defendant elect to deal with the relevant items himself". Cf the English breach of confidence case Peter Pan Manufacturing Corporation v Corsets Silhouette Ltd [1963] 3 ALL ER 402, where the defendants were given the option of destroying - unstitching - the objectionable garments themselves, since the garments had been made of expensive materials which could possibly have been salvaged - see Kelbrick 13.

186 So named after the pioneering English decision in Anton Piller KG v Manufacturing Processes Ltd [1976] 1 All ER 779 (CA). Cf Pienaar 153ff; par 2.3.5 above.

187 See Prest 183-184.

188 The first reported South African case was Roamer Watch Co SA v African Textile Distributors also t/a MK Patel Wholesale Merchants and Direct Importers 1980 2 SA 254 (W). Cf Prest 183; Erasmus 1984 SALJ 324. However, Anton Piller orders had already been issued prior to the Roamer Watch case - see Erasmus 1984 SALJ 332.

189 Cf eg Economic Data Processing (Pty) Ltd v Penreath 1984 2 SA 605 (W) 606-607: "The Anton Piller, that is the local variety, has developed into a secretly obtained search warrant by means of which a person's premises can be invaded and turned inside out to look for papers and documents and other material which the applicant believes to be relevant to some action (its nature depending on what he discovers) which he will still institute"; 608 where the Anton Piller type order is described as a "combination of a search warrant, a wide discovery in anticipando and an interrogatio in jure", cf Prest 184-185; Erasmus 1984 SALJ 342ff; Pienaar 159ff.
African law uncertain.  

In *Shoba v Officer Commanding, Temporary Police Camp, Wagendrift dam; Maphanga v Officer Commanding, South African Police Murder and Robbery Unit, Pietermaritzburg* the Appellate Division has now settled the matter. Corbett CJ held that *Anton Piller* orders directed at the preservation of evidence should be accepted as part of South African legal practice, and continued:

"[A]n applicant for such an order, obtained in camera and without notice to the respondent, must prima facie establish... the following: (1) That he, the applicant, has a cause of action against the respondent which he intends to pursue; (2) That the respondent has in his possession specific (and specified) documents or things which constitute vital evidence in substantiation of applicant's cause of action (but in respect of which applicant cannot claim a real or personal right); and (3) That there is a real and well-founded apprehension that this evidence may be hidden or destroyed or in some manner be spirited away by the time the case comes to trial or to the stage of discovery.

I have used the words 'vital evidence' in the sense of being evidence of great importance to the applicant's case. In the case of *Ex parte Matshini* 1986 (3) SA 605 (E) it was held that in order to obtain an *Anton Piller* order the applicant would have to show that the evidence was 'essential' or 'absolutely necessary' in order for him to prove his claim and that its non-availability at the trial would result in the administration of justice being defeated (at 613A-C). This poses too stringent a test. The Court to which application is made for such an *Anton Piller* order has a discretion whether to grant the remedy or not and, if it does, upon what

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190 Cf eg Economic Data Processing (Pty) Ltd v Penreath 1984 2 SA 605 (W); Cerebos Food Corporation Ltd v Diverse Foods SA (Pty) Ltd 1984 4 SA 149 (T); Trade Fairs and Promotions (Pty) Ltd v Thomson 1984 4 SA 177 (W); Network Video (Pty) Ltd v Universal City Studios Inc 1984 4 SA 379 (C); Jaffa v Minister of Law and Order 1991 2 SA 286 (A); see further Beck 1985 THRHR 203; Beck 1986 SALJ 184; Coetzee 1985 SALJ 634; Erasmus 1991 SALJ 379ff; Van Heerden and Neethling 76; Domanski 1993 THRHR 438-439; Knobel 1990 THRHR 501.

191 1995 4 SA 1 (A); cf Erasmus 1996 SALJ 1.

192 At least in so far as Anton Piller orders for the preservation of evidence are concerned - *Shoba* case 15. Anton Piller-type orders have on occasion been formulated to go further than mere preservation of evidence, but the court refrained from expressing a view on such orders. In *Dabelstein v Hildebrandt* 1996 3 SA 42 (C) it was held that properly granted Anton Piller orders are not unconstitutional.

193 15.

194 15-16.
terms. In exercising this discretion the Court will pay regard, inter alia, to the cogency of the prima facie case established with reference to the matters listed (1), (2) and (3) above; the potential harm that will be suffered by the respondent if the remedy is granted as compared with, or balanced against, the potential harm to the applicant if the remedy is withheld; and whether the terms of the order sought are no more onerous than is necessary to protect the interests of the applicant.  

It is submitted that Anton Piller orders may serve a useful purpose in trade secret misappropriation litigation, and that this latest authoritative statement of the law by the Appellate Division signifies a healthy development. The granting of Anton Piller-type orders in intellectual property cases will furthermore give effect to the provision of the GATT TRIPS agreement that the judicial authorities of signatory countries must have the authority to order prompt and effective provisional measures, inaudita altera parte where appropriate, to preserve evidence in regard to alleged intellectual property infringements. However, because of its enormous potential of harm, such an order must always be carefully confined within certain limits to prevent abuse thereof. Particularly relevant in the context of trade secret litigation is the possibility that execution of an Anton Piller order may enable a plaintiff - in the process of attempting to prevent the destruction or concealment of evidence of the defendant's infringement of his or her trade secret - to discover the trade secrets of the latter.

195 Corbett CJ further held (16) that in so far as the decisions in the Economic Data, Cerebos Food and Trade Fairs cases (fn 190 above) are in conflict with the principles set forth in the Shoba case, those judgments must be taken to be overruled.

196 Cf Domanski 1993 THRHR 438-439: "[T]he drastic relief which that remedy provides has a vital role to play in the protection of trade secrets. When the owner of confidential documents or materials becomes aware that they have come into possession of another (for example, a trade rival) without his authorization, an urgent ex parte application to court for an order directing the deputy sheriff to seize and hold the confidential matter is the only summary procedure currently available in our law for ensuring the recovery and preservation of that matter"; Pienaar 164-165; in general Erasmus 1984 SALJ 344-345; Prest 186-187 196-197 207-208.

197 Par 5.1; 5.2 above.


199 Cf Prest 183; Knobel 1990 THRHR 501 fn 105.
8.6 SPECIFIC PROBLEMS WITH THE PROTECTION OF TRADE SECRETS

In the three foreign legal systems researched, certain situations posing specific problems with the legal protection of trade secrets have been identified. In the following chapters, it will be endeavoured to show how some of these problems may be solved - or, at the least, how the search for solutions may be guided - by an application of general principles of South African law, in the light of insights gained from comparative legal research and the recognition of a subjective right to the trade secret.

8.6.1 TRADE SECRET INFRINGEMENT BY FORMER EMPLOYEES AFTER TERMINATION OF THE EMPLOYMENT CONTRACT

It has become clear from the comparative study that the situation where a former employee uses or discloses the trade secret of his or her former employer after termination of the employment contract - without authorization to do so, but where he or she is not breaching a valid covenant in restraint of trade - poses special problems to the courts. It is submitted that this thorny problem must be approached in three steps.

The first step is to establish whether the allegedly misappropriated information really is a trade secret. This must be established by applying the normal requirements of a trade secret. During the subsistence of the employment relationship it may not be so crucial - from a practical point of view - to establish whether information allegedly misappropriated by the employee really is a trade secret. This is because the duty of good faith implied into the employment contract provides a much wider base for legal action against misconduct of the employee during the subsistence of the employment relationship. However, once the employment relationship is

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200 Par 2.4; 3.4; 4.4; 6.5 above.

201 Cf 2.4.1; 3.4.1; 4.4.1; 6.5.1 above.

202 Par 8.3.1 above.

203 As set out in par 9.2 above.

204 Thus the employee must also further the business interests of the employer, avoid a clash between his or her personal interests and the business interests of the employer, may not use his or her employment to make a secret commission or profit, and may not misappropriate the employer's property. During the subsistence of the employment relationship, unauthorized use or disclosure of information regarded by the employer as confidential, may therefore result in liability even if such information does not quite comply with all the requirements of a trade secret. The unreasonableness
terminated, it becomes crucial to know whether the allegedly misappropriated information is in fact a trade secret, since the reasonableness or otherwise of the employee’s conduct must now be determined by enquiring whether he or she has infringed the employer’s right to the trade secret.205 In this phase, a distinction must be made between the employer’s trade secrets - which the ex-employee may not use after termination of the employment contract; and the general knowledge and skills acquired by the latter during his or her employment - which he or she is free to use.206

If the information is a trade secret, the second step is to enquire whether the employee gained access thereto in a reasonable or unreasonable manner.207 An example of reasonable acquisition would be where the employer disclosed it to the employee in the course of the employment relationship. On the other hand, any acquisition of the secret contrary to the will of the employer, would in principle be

205 Liability is now - in the absence of a valid covenant in restraint of trade - dependent on the intrinsic nature of the information, rather than the relationship between the parties. Even if an agreement in restraint of trade has been reached, the nature of the information remains important - the restraint of trade will more readily be deemed valid if the ex-employer can show that it does indeed protect a trade secret (par 8.3.1 above).

206 Par 2.4.1; 3.4.1; 6.5.1 above. This distinction, serving as it does as a touchstone for liability, has been criticized by some commentators as unworkable - cf Baumbach-Hefermehl 1310 (par 4.4.1 fn 233 above); Van Heerden and Neethling 237. However, it is submitted that the general idea behind the application of this distinction is sound. Nobody can quarrel with the notion that an ex-employee should in principle not be restrained from using his or her acquired skills and knowledge - in so far as these are not trade secrets of his or her ex-employer - in his or her new profession. It is therefore clearly necessary, in a case of alleged trade secret infringement by an ex-employee, to determine whether the information used by the latter was indeed a trade secret, or merely general knowledge and/or skills acquired in the course of employment. The problems encountered by the courts, it is submitted, do not relate to the validity of the distinction itself, but to the way in which it is applied. Commentators on English law have expressed an opinion that in the context of terminated employment relationships trade secrets seem to be defined differently than in other cases (par 2.4.1 above). Such an approach would be an unnecessary complication of the issue. A better approach, it is submitted, would be to adopt a uniform definition of protectable trade secrets valid for post-employment as well as other situations, but then to recognize openly that in the post-employment context specific policy considerations are operative that may nevertheless - in the light of a careful balancing of conflicting interests and policy considerations - exclude the protection of the employer’s trade secret in certain circumstances: see the main text below.

207 The importance of this intermediary step in the post-employment context is particularly evident from German law - see par 4.4.1 above.
The third step is to determine whether the unauthorized use or disclosure of the trade secret after the termination of the employment contract was reasonable or not. The outcome of this enquiry will partially depend on the outcome of the enquiry conducted during the second step. If the employee's acquisition of the secret during the subsistence of the employment relationship was already unreasonable, there is in principle also no justification for his or her unauthorized use or disclosure thereof after termination of the employment relationship. Such use or disclosure infringes the former employer's right to the trade secret and is wrongful.

If, on the other hand, the employee obtained the secret in a reasonable way in the course of employment, and then uses or discloses it without authorization after termination of the employment relationship, the matter is not disposed of as simply. It is in this type of situation where the conflicting interests are more equal in importance, and the balancing process to be performed by the court accordingly more difficult. Here the ex-employee's knowledge of the employer's trade secret - which was, after all, acquired in accordance with the will of the employer - may well be his or her most valuable asset in the pursuance of a vocation. The employee may therefore be severely handicapped in seeking new employment, or starting out on his or her own, if he or she may not use this knowledge. The higher the position of confidence the employee served in during the subsistence of the employment relationship, the more difficult may his position be after termination of the relationship. Conflicting policy considerations also play a prominent part here. On the one hand, it is deemed beneficial to the general economic advancement of the community that an inventor should - at least for a certain time period or under certain circumstances - be allowed to enjoy the exclusive use of the fruits of his or her labour. In this way, there is an incentive to invent new things, which is beneficial to the general economic advancement of society. This would imply that the owner of a trade secret should be protected against the misappropriation of his or her secret. On the other hand, legal policy strongly favours the liberty of the individual to the unfettered pursuit of the

206 Cf par 4.4.1 above.

209 Cf par 7.4.4.1 above where the different ways in which this policy consideration find application in respectively patent law and trade secrets law, are discussed. See further par 8.3.1 above on the policy considerations underlying the reasonableness or otherwise of covenants in restraint of trade.

210 This proposition would be strengthened if trade secrets (or intellectual property in general) were to be recognized as property for the purposes of Constitutional law (see again par 7.3.3 above).
vocation of his or her choice.\textsuperscript{211} This would imply that in seeking a new vocation, the ex-employee should be subjected to as few limitations as possible.

Ideally every decision should strive to satisfy both these opposing policy considerations. However, to see the situation as a choice between two individuals, each backed by strong but conflicting considerations of legal policy, may actually be an oversimplification. Sight must not be lost of the other employees\textsuperscript{212} of the trade secret owner, whose job security might be threatened if the ex-employee is allowed to use the secret.\textsuperscript{213} Any negative impact on the business of their employer could adversely affect their position. If the employers's business depends so heavily on the secret that it will be crippled by disclosure of the secret, the freedom of all the other employees to pursue their chosen callings may be threatened. In such a case, the legal policy consideration that everybody should be free to pursue the calling of his or her choice, operates in two directions, both in favour of the ex-employee and against him or her (in favour of the other employees remaining in the employ of the trade secret owner).

Again, it is submitted, no hard and fast rules can in advance be laid down, and the court should have a discretion to dispense justice on the facts before it. Bearing this in mind, a number of guidelines are proposed that will, it is submitted, accommodate the conflicting individual interests and policy considerations as far as possible. As a point of departure, any decision must strive to respect and protect the employer's right to his or her trade secret. Such an approach will be in conformity with both the doctrine of subjective rights as a recognized yardstick for the determination of wrongfulness, and policy considerations in favour of the inventor reaping the benefits of his labour. It would also be, it is submitted, in accordance with the basic tenor of the provisions regarding trade secret protection in the \textit{GATT TRIPs} agreement.\textsuperscript{214} Only in cases where the ex-employee will be significantly handicapped in his or her freedom to choose a new vocation, should the possibility arise that use of the secret may be lawful. However, it should be emphasized that all factors must be taken into

\textsuperscript{211} Thus the (interim) Constitution Act 200 of 1993 provides (sec 26(1)): "Every person shall have the right freely to engage in economic activity and to pursue a livelihood anywhere in the national territory"; cf Van Heerden and Neethling 13-16. The Constitution of the Republic of South Africa Bill, 1996 protects (cl 22) the right of all citizens to choose their trade, occupation or profession freely. A "subjective right to exercise a chosen calling without unlawful interference from others" has also been recognized in private law (\textit{Hawker v Life Offices Association of South Africa} 1987 3 \textit{SA} 777 (C) 780; see par 7.4.4.6 fn 270 above).

\textsuperscript{212} Assuming that the trade secret owner has other people in his employ. To some businesses these considerations will obviously not apply.

\textsuperscript{213} Cf the arguments of Nastelski 1957 \textit{GRUR} 7 (par 4.4.1 above).

\textsuperscript{214} Cf par 5.1; 5.2 above.
account, and all conflicting interests and policy considerations carefully weighed. Factors taken into account in other legal systems include: the duration of employment - the longer the period of service, the more worthy of protection the employee's interest to use the knowledge acquired; the employee's personal contribution to the development of the secret - the greater the contribution the more worthy of protection his or her interest in using it; the employee's position in the employer's business - if he or she acquired knowledge of the secret because he or she served in an unusually high position of confidence, use of the secret after termination of the employment relationship will rarely be justified; the competitive importance of the secret to the enterprise of the employer - the greater its importance, the slimmer the employee's chances of using it with impunity; whether the employer impressed on the employee the confidentiality of the information - if he or she did, the employee's case is weakened.

If the ex-employee's use of the secret will not cause the owner significant financial loss, such use may be reasonable according to the *boni mores*, depending on the type of factors mentioned above. If use by the ex-employee will cause the owner serious financial loss, such use should only be lawful - if at all - in highly unusual circumstances. In such cases, it might be a good idea for the court to have a discretion to order the ex-employee to pay the owner a reasonable royalty for use of the secret. If use of the secret by the ex-employee has the potential of crippling the owner's business, such use should be wrongful. If, as envisaged above, the careers of other employees are at stake, use by the ex-employee can hardly be reasonable according to the *boni mores*. Use by the ex-employee may only be reasonable, it is submitted, if he or she does not endanger the existence of the secret by disclosure. Thus, if the balance swings in favour of the employee using the secret according to the principles set out above, he or she may, for instance, disclose the secret - or parts thereof - to his or her own employees in so far as it is necessary to exploit the secret. His or her employees must, in such a situation, be bound by an obligation of confidence not to divulge the secret to others. The ex-employee may not publish the secret in a scientific journal, or for that matter, in patent specifications in an application for a patent. Such misappropriation would not further his or her interest to follow his chosen calling in a reasonable manner - taking into account the interests of the former employer - and would be wrongful.

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215 Cf Van Heerden and Neethling 236.

216 Cf par 2.4.1; 3.4.1; 4.4.1; 6.5.1 above; see also Van Heerden and Neethling 238.

217 Viewed from another angle, the employee's knowledge that the information is a trade secret may be a factor pointing towards the wrongfulness of his appropriation thereof. Cf in general on knowledge as a factor indicating wrongfulness Neethling, Potgieter and Visser 38 283ff.

218 In analogy to the proposed position with innocent recipients - par 8.6.3 below.
Protection of trade secrets in a post-employment context can be effected by contract.²¹⁹ The law of contract balances the conflicting policy considerations mentioned above by allowing restraint of trade agreements reasonably protecting proprietary interests in trade secrets, whilst disallowing agreements aimed purely at the elimination of competition.²²⁰

8.6.2 ACQUISITION OF TRADE SECRETS BY INDUSTRIAL ESPIONAGE AND OTHER REPREHENSIBLE MEANS

Viewed from the perspective of the subjective rights doctrine and general delictual principles, the acquisition of trade secrets by reprehensible means²²¹ - and specifically by industrial espionage - need not present special problems. In the absence of the owner's consent or another ground of justification, the acquisition of a trade secret infringes the right to the trade secret and is therefore wrongful. Such acquisition impairs the secret in the sense that it is now known to somebody else, and poses the threat of further infringements by unauthorized use and even destruction by unauthorized disclosure. An interdict restraining use or disclosure, combined with an order for delivery up or destruction of infringing materials in the respondent's possession, can therefore be sought. If unauthorized use or disclosure has already followed the unauthorized acquisition, damages may be claimed with the actio legis Aquiliae - provided the additional elements of fault, damage and causation can be proved.

From this perspective, it is not necessary to prove a relationship of confidence between the alleged infringer and the trade secret owner. Therefore the difficulties experienced by English law²²² to deal with industrial espionage are sidestepped. Furthermore, because liability rests on general principles, the positive law limitations to liability applicable in German law²²³ are irrelevant here. The practical result reached by the above analysis is similar to the generally satisfactory position in American positive law,²²⁴ with the added advantage that it is based on principles

²¹⁹ Par 8.3 above.

²²² Cf the discussion in par 8.3 above. Note particularly the consideration of the influence of sec 26 of the Constitution, Act 200 of 1993.

²²¹ Cf par 2.4.2; 3.4.2; 4.4.2; 6.5.2 above.

²²² Cf par 2.4.2 above.

²²³ Cf par 4.4.2; 6.5.2 above.

²²⁴ Par 3.4.2 above.
compatible with the South African law of delict. It is also in accordance with the GATT
TRIPs agreement, according to which natural and legal persons lawfully in control of
undisclosed information shall have the possibility of preventing others from acquiring
such information without their consent in a manner contrary to honest commercial
practices.\(^{225}\)

8.6.3 INNOCENT RECIPIENTS

The legal position of innocent recipients of trade secrets may also be resolved by the
recognition of a subjective right to the trade secret and an application of general
delictual principles. If somebody receives a trade secret without the consent of the
trade secret owner, such receipt will, in the absence of other defences excluding
wrongfulness, be wrongful. It infringes the owner’s subjective right to the trade secret,
and poses the threat of further infringements by unauthorized use or disclosure. Such
acquisition is therefore, judged objectively,\(^{226}\) unreasonable. An interdict may thus
be granted against the innocent recipient, restraining unauthorized use or disclosure,
and ordering delivery up or destruction of infringing materials. The recipient’s absence
of fault\(^{227}\) does not affect this position, because fault is not a requirement for the
granting of an interdict.\(^{228}\) An action for damages, on the other hand, will not lie
against an innocent recipient because fault - in the form of either intention or
negligence - is a requirement for Aquilian liability.\(^{229}\) As soon as the recipient
acquires knowledge that the information is a trade secret received against the owner’s
will, he or she may also be liable for damages for subsequent use or disclosure of the
secret. This is because he or she will then have fault, either in the form of intention
-directing his or her will at the wrongful use or disclosure of the secret, now knowing
that it is wrongful; or negligence - the reasonable person in his or her position would
have foreseen that such use or disclosure could be wrongful and cause harm to the

\(^{225}\) Par 5.1; 5.2 above.

\(^{226}\) We are here concerned with the \textit{objective} reasonableness or otherwise of conduct because the
inquiry into wrongfulness is essentially an objective one - cf par 8.2.2 above. (Judged more
subjectively, the recipient’s conduct is reasonable in the sense that he acts without fault - cf par 8.2.3
above. An action for damages will therefore not lie against the innocent recipient.)

\(^{227}\) In the sense that he did not know that the relevant information was a trade secret received
against the owner’s will (thus no consciousness of wrongfulness and therefore no intention - cf par
8.2.3 above), nor would the reasonable person in the same position have foreseen such a possibility
and taken appropriate steps to prevent harm (thus no negligence - cf par 8.2.3 above).

\(^{228}\) Par 8.5.4 above.

\(^{229}\) Par 8.2 above.
owner, and would accordingly have acted differently to prevent such harm.\textsuperscript{230}

It will be noted that the solution suggested here differs from the positions in both English\textsuperscript{231} and American law,\textsuperscript{232} where the innocent recipient enjoys immunity until the moment he or she acquires knowledge that the information is another's trade secret and that he or she has received it against the owner's will. In South African law, fault is not a requirement for the interdict, and since the innocent receipt of the secret already infringes the subjective right of the owner and poses the threat of more serious infringements - including the possibility of complete destruction of the secret by unauthorized disclosure - an interdict is, it is submitted, appropriate relief.\textsuperscript{233}

One issue remains for consideration, namely the position of an innocent recipient who has in good faith paid value for the secret, or materially altered his or her position. Is an interdict appropriate in such a case? The problem, it is submitted, is again centred on the element of wrongfulness. The innocent receipt of the secret clearly disturbs the relationship between the trade secret owner and the object of his or her right, but in this case unreasonableness or norm violation is not so easy to establish. The problem here is again one of conflicting interests. The trade secret owner stands to lose his or her secret or a measure of its economical value. The innocent recipient stands to lose his or her financial investments made in good faith on the strength of his or her innocent receipt of the secret. The objective reasonableness or not of the innocent recipient's conduct, and hence the availability or not of an interdict against him or her, must hinge on the outcome of the balancing of these interests. It is submitted that no hard and fast rules can be made according to which this balancing may be done. The court must have a discretion in this regard, and the outcome must depend on the particular facts before the court. An important factor to be considered by the court, it is submitted, is the relative weight of the respective economic values of the interests of the two parties. Thus, the estimated financial loss that the trade secret owner would suffer if he or she were denied an interdict, must be compared to the estimated financial loss that the innocent recipient would suffer if the interdict were granted. If there is a significant discrepancy between the two, the decision should favour the party who stands to lose most. If the two parties stand to suffer similar financial losses, the court must exercise its discretion with regard to all other factors that may in the given situation be of importance. Whatever the outcome in a given case, considerations of reasonableness and fairness may dictate that some

\begin{footnotes}
\item[230] Cf par 8.2.3 above.
\item[231] Par 2.4.3 above.
\item[232] Par 3.4.3 above.
\item[233] See Van Heerden and Neethling 232.
\end{footnotes}
relief be granted to the unsuccessful party. Here, it is submitted, South African law can borrow from both American law\textsuperscript{234} and the proposals of the English Law Commission.\textsuperscript{235} Thus if the trade secret owner has successfully applied for an interdict, it appears reasonable that the court should have a discretion to order such a trade secret owner to make a reasonable contribution to the innocent recipient's expenses. Whether such a contribution will be appropriate, should inter alia depend on whether the innocent recipient has any remedies against intermediate parties. Where, for instance, an intermediate party holds the secret under an obligation of confidence owed to the owner of the secret, and then discloses the secret without informing the recipient that it is another's secret disclosed in breach of confidence, the innocent recipient, may - depending on the facts - have delictual and/or contractual remedies against that intermediate party. In such a case, the innocent recipient should claim his or her losses from the intermediate party, and a contribution by the trade secret owner would in such a case usually be inappropriate.

If the court deems it inappropriate to restrain the innocent recipient from using the secret, it appears reasonable that the court should have the discretion to order such a recipient to pay the owner a reasonable royalty for that use, as is provided for in the American Uniform Trade Secrets Act.\textsuperscript{236} Whether such an order would be appropriate, would inter alia depend on whether or not the trade secret owner can adequately recover his or her loss by an action for damages against an intermediate party who was at fault.

Since a trade secret is more likely to fall in the public domain - and thus be destroyed - in the case of disclosure than in the case where the recipient chooses to use the secret without disclosing it to others, an interdict to restrain unauthorized disclosure by an innocent recipient should rarely be denied. In the case of disclosure, the trade secret owner generally stands to lose much more by denial of the interdict than what the innocent recipient stands to lose if the interdict is granted.

If the innocent recipient materially alters his or her position only after he or she has learnt that the relevant information is another's secret disclosed against the latter's will, he or she must bear the blame for his or her own losses if he or she is then interdicted from using the secret. In such a case, no considerations of policy exist in favour of the granting of financial relief of the type just discussed to such a recipient.

\textsuperscript{234} Par 3.4.3 above.

\textsuperscript{235} Par 2.4.3 above.

\textsuperscript{236} Cf par 3.4.3 above.
8.6.4 DURATION OF LEGAL PROTECTION

It has transpired from the comparative research,\(^{237}\) and especially from a study of American law,\(^{238}\) that differences of opinion exist on how long the duration of an interdict restraining use of a trade secret should be. The acceptance of a subjective right to the trade secret\(^{239}\) facilitates the making of a principled choice in this regard. From this perspective the main objective of trade secrets law is to protect the right to the trade secret. And since the right to the trade secret is extinguished when the 'secret' is no longer secret, it follows that in principle an interdict cannot restrain use of a trade secret after it has fallen into the public domain. Stated quite simply, no subjective right exists to be protected in such a situation. The possibility of a permanent interdict restraining use of a trade secret after it is in fact not a trade secret any more,\(^{240}\) can thus be rejected outright. After all, the function of the interdict is not to punish, but to prevent wrongful conduct.

However, this does not necessarily imply that an interdict may never outlast the secrecy, and thus the very existence of a trade secret. In this regard the English "springboard doctrine"\(^{241}\) and the American "lead-time" injunctions\(^{242}\) are instructive. The economic value of a trade secret to its owner is often of a temporary nature, frequently existing purely in a temporary head-start over competitors in production and marketing. This will always be the situation in a case where marketing a product in which the secret is embodied will enable competitors to unravel the secret by reverse engineering. If one competitor acquires the secret in a wrongful manner, the trade secret owner's head-start over him or her is erased. In the parlance of English law, such a competitor uses his or her unfair tactics as a "springboard" to obtain an unfair advantage in the market. In such a case, an interdict restraining use indefinitely would be inappropriate, and the interdict should be of such a duration that it prevents the infringer from gaining the unfair head-start. The duration of the interdict must therefore be computed with reference to the estimated time that it will take other competitors to lawfully gain access to the secret by reverse engineering - the "lead time" which the trade secret owner should enjoy in the market by virtue of

\(^{237}\) Cf par 2.4.4; 3.4.4; 4.4.4; 6.5.4 above.

\(^{238}\) Par 3.4.4 above.

\(^{239}\) Par 7.4 above.

\(^{240}\) As is the case in American cases of the Shellmar persuasion - cf par 3.4.4 above.

\(^{241}\) Par 2.2.1.2.3; 2.4.4 above.

\(^{242}\) Par 3.4.4 above.
his or her trade secret. If the secret then falls into the public domain before the estimated "lead time" has expired, the interdict will outlast the secret for a limited period of time. If the infringer himself caused the trade secret to fall into the public domain, the trade secret owner will be able to institute the Aquilian action against him to recover his or her damage. In such a case, the wrongful act is complete, and the interdict, with its preventive function, is not available.

It must be emphasized that the above-stated principles do not imply that interdicts in trade secret cases must always be of limited duration. If, in the particular circumstances of the case, the probability of protecting the relevant trade secret indefinitely by an interdict unlimited in duration is good, such an interdict should be granted. If, on the other hand, in the circumstances of the case the probability of protecting the relevant trade secret indefinitely by an interdict unlimited in duration is remote - because the probability is good that the trade secret will in any case fall into the public domain relatively soon after the infringement by the defendant, the interdict must be limited in time to the period that may reasonably be expected to be sufficient for the secret to fall into the public domain. To determine which one of the two situations is present, must be decided on the facts, and particularly by considering the nature of the secret and the nature of the field of competition in which it is applied. Thus, to juxtapose extremes, the probability of indefinitely protecting a trade secret concerning a recipe or manufacturing process which cannot be unravelled by reverse engineering of a product on the market, is good - whereas the probability of so protecting a trade secret which can be unravelled by reverse engineering of a marketed product is low. Similarly, the probability of protecting a trade secret indefinitely by a perpetual interdict is far better in a field where competitors are few and far between, than in a fiercely competitive field where rivals keep a close watch on each other and immediately attempt reverse engineering of new competing products in order to keep up with the competition. It is submitted that only in those cases where it is clear from all the circumstances that the defendant's misappropriation of the trade secret will only give him or her a temporary head-start over the rest of the competition (or at least a significant proportion thereof), that interdicts must be limited in time to neutralize that wrongfully gained advantage.

243 It should be emphasized that the unfair advantage gained by the infringer over the other competitors is not the ratio for the trade secret owner's taking legal action. The basis of the owner's interdict against the infringer is the latter's imminently wrongful conduct against the owner him- of herself, in the sense that the (fair) advantage in the market gained by the owner by invention of the trade secret, is now erased by the unfair tactics of the infringer. It is the owner's subjective right that is infringed, not the rights of the other competitors. The reference to the unfair head-start over the other competitors is made purely to determine the duration of the legal protection.

244 Cf par 3.4.4 fn 229 above.
CHAPTER 9

THE RECOGNITION AND PROTECTION OF TRADE SECRETS IN SOUTH AFRICAN POSITIVE LAW

9.1 INTRODUCTION

In this chapter the recognition and protection of trade secrets in the South African positive law, and specifically case law,¹ are examined. Where deemed necessary, the position is evaluated in the light of the theoretical model of trade secret protection presented in the previous chapter, and the subjective right to the trade secret.² In so far as specific issues concerning trade secret recognition and protection, which have featured in other legal systems, have not yet been addressed by our courts, the previous chapter may be consulted for suggested ways of dealing with them. General principles concerning the various remedies which might be applicable in trade secret cases have also been dealt with in the previous chapter.³

9.2 ELEMENTS OF A PROTECTABLE TRADE SECRET⁴

It is difficult to find a comprehensive definition of a trade secret in South African case law.⁵ However, it is possible to piece together from the various cases the characteristics of a protectable trade secret. These are the following:

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² Par 7.4 above.

³ However, some specific problems concerning the application of the interdict in South African trade secret cases will be dealt with in this chapter (par 9.4.2 below).

⁴ Cf in general par 7.2 above.

⁵ Cf Leon 1982 De Rebus 381: "It is interesting to note that in no South African case is there actually an attempt at definition, no doubt owing to the judicial desire to keep this branch of the law as fluid as possible"; Domanski 1993 THRHR 230.
9.2.1 INFORMATION

In the first place, one is left in no doubt that trade secrets consist of information. Well nigh every decision dealing with trade secrets typifies them as information. The term confidential information is frequently used - more frequently than the concept trade secret itself - usually as a wider concept of which trade secrets are a species.7

9.2.2 COMMERCIAL OR INDUSTRIAL APPLICABILITY

Although it may be difficult to find a dictum in the reported case law expressly stating that only information that is capable of commercial or industrial application may be protectable as trade secrets, it is nevertheless clear by implication that this is indeed the case - so much so that it is described by Van Heerden and Neethling9 as self-evident.10

9.2.3 SECRECY

The requirement of secrecy, or confidentiality as it is often referred to, frequently receives scrutiny in case law. The South African courts have been deeply influenced by English law in this regard, and English precedents are usually cited as authority for discussions of secrecy or confidentiality. The basic formulation of secrecy adopted is the well-known one of English law12 that confidential information is information that is not in the public domain,13 or as it is frequently stated,14 "it must not be

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6 Cf in general par 7.2.1 above.
7 Cf Domanski 1993 THRHR 232; see par 7.2.8 above on terminology.
8 Cf in general par 7.2.2 above.
9 225.
10 Cf par 7.2.2 above.
11 Cf in general par 7.2.3 above.
12 Cf par 2.2.1.2.3 above; cf further par 7.2.3 above.
14 Schultz v Butt 1986 3 SA 667 (A) 680; Van Castricum v Theunissen 1993 2 SA 726 (T) 730 731; Sibex Construction (SA) (Pty) Ltd v Injectaseal CC 1988 2 SA 54 (T) 64; Cambridge Plan AG v Moore 1987 4 SA 821 (D) 845; Aercrete SA (Pty) Ltd v Skema Engineering Co (Pty) Ltd 1984 4 SA 814 (D) 822; Easyfind International (SA) (Pty) Ltd v Instaplan Holdings 1983 3 SA 917 (W) 927; Harchris Heat
something which is public property or public knowledge.\textsuperscript{15} A relative concept of secrecy\textsuperscript{16} is employed. Thus information has been found to be secret or confidential if only available to a limited number of persons.\textsuperscript{17} Following English law,\textsuperscript{18} our courts have also held that information may be secret "as a whole" even though the "constituent parts" from which it has been assembled may be individually in the public domain.\textsuperscript{19} Especially in this context, it is clear that information will be secret if it can only be produced by somebody who goes through the same process of expenditure of time, labour and effort as that gone through by the owner of the information.\textsuperscript{20} It is also recognized that secrecy is not necessarily destroyed if the information is also known to some competitors of the trade secret owner.\textsuperscript{21} Secrecy must be objectively determined.\textsuperscript{22}

\textit{Treatment (Pty) Ltd v Iscor} 1983 1 SA 548 (T) 551; \textit{Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd} 1977 1 SA 316 (T) 321 322 323; \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd} 1968 1 SA 209 (C) 214. See further Van Heerden and Neethling 225; Neethling 2 (1993) LAWSA 281.

\textsuperscript{15} This phrase is a quotation from the English \textit{locus classicus} \textit{Saltman Engineering Co Ltd v Campbell Engineering Co Ltd} [1948] 65 RPC 203 (CA), 1963 3 All ER 415; cf par 2.2.1.2.3 above.

\textsuperscript{16} Cf par 7.2.3 above.

\textsuperscript{17} \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd} 1968 1 SA 209 (C) 221: "[T]he fact that the information is distributed upon a confidential basis to a limited class of persons prevents it... from becoming public property capable of being used or imitated by rival traders." Cf \textit{Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd} 1981 2 SA 173 (T) 194 where a production process was found not to be confidential because there was "no evidence that the production sequence was kept secret or limited to certain employees only; all employees and visitors had access to the plant. The various units used in the process were more or less openly used in \[the\] factory". Cf Van Heerden and Neethling 225; Knobel 1990 \textit{THRHR} 491; Pistorius and Visser 1993 SA Merc LJ 344.

\textsuperscript{18} Par 2.2.1.2.3 above.

\textsuperscript{19} Eg \textit{Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd} 1977 1 SA 316 (T) 323-326; \textit{Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd} 1981 2 SA 173 (T) 191-192; \textit{Harchris Heat Treatment (Pty) Ltd v Iscor} 1983 1 SA 548 (T) 550-551; cf \textit{Meter Systems Holdings Ltd v Venter} 1993 1 SA 409 (W) 429.

\textsuperscript{20} Cf eg the authority quoted in fn 19; \textit{Van Castricum v Theunissen} 1993 2 SA 726 (T) 731. Note that the origin is again English case law - cf par 2.2.1.2.3 above. In this regard, the "springboard doctrine" of English law has also received recognition in South African courts - see par 2.2.1.2.3 above; par 9.4.2.2 below.

\textsuperscript{21} \textit{Sibex Engineering Services (Pty) Ltd v Van Wyk} 1991 2 SA 482 (T) 502; cf Van Heerden and Neethling 225 fn 14; Knobel 1990 \textit{THRHR} 491 fn 30. Domanski 1993 \textit{THRHR} 242 brands this a "questionable proposition" - it is, however, perfectly in consonance with the position in the foreign legal systems surveyed in this study - see par 2.2.1.2.3; 3.2.1.2.3; 4.2.1.2.3; 6.2.1 above. Cf further par 7.2.3; 8.2.2.2.2; 8.2.2.2.3 above.

\textsuperscript{22} This is apparent from the way in which the inquiry into the presence or absence of secrecy is performed in cases such as \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd} 1968 1 SA 209 (C) 221; \textit{Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd} 1977 1 SA
9.2.4 THE OWNER'S WILL (OR STEPS TAKEN) TO MAINTAIN SECRECY

*Dicta* may be found in case law indicating that the owner of confidential trade information must have the will to maintain the secrecy thereof before it will qualify for legal protection. Most of these statements focus on the presence or absence of steps taken by the owner to preserve secrecy, but some refer to the subjective will or

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316 (T) 321-325; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 194; Harchris Heat Treatment (Pty) Ltd v iscor 1983 1 SA 548 (T) 550-551; Schultz v Butt 1986 3 SA 667 (A) 680 - cf Knobel 1990 THRHR 491 in 32; Van Heerden and Neethling 225. In Van Castricum v Theunissen 1993 2 SA 726 (T) 732 Roos J expressly stated that the test is objective. However, strangely enough, this statement was preceded by a quotation from the English decision in *Thomas Marshall (Exports) Ltd v Guinle* [1978] 3 All ER 193 (Ch) 209-210 which, as noted (par 2.2.1.2.3), is authority for a subjective test. The same passage was quoted in *Multi Tube Systems (Pty) Ltd v Ponting* 1984 3 SA 182 (D) 186. It is submitted that whereas a subjective element does enter the enquiry in so far as a trade secret will only be protected if the owner had the will to keep it secret (par 9.2.4 below; cf par 7.2.4 above), the information must nevertheless objectively be secret as well. The correct position in this regard, it is submitted, was stated in *SA Historical Mint (Pty) Ltd v Sutcliffe* 1983 2 SA 84 (C) 89: "One cannot protect what is ordinary general information by telling the employee that it is a trade secret: that cannot alter the quality of the material" and *Petre & Madco (Pty) Ltd t/a T-Chem v Sanderson-Kasner* 1994 3 SA 850 (W) 858: "It is trite law that one cannot make something secret by calling it secret. Facts must be proved from which it may be inferred that the matters alleged to be secret are indeed secret". The *Thomas Marshall* test of secrecy should therefore not be followed in our law - see again par 2.2.1.2.3 above for criticism by an English commentator; cf par 7.2.4 above.

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23 Cf in general par 7.2.4 above.

24 Eg *Cerebos Food Corporation Ltd v Diverse Foods SA (Pty) Ltd* 1984 4 SA 149 (T) 154: "All information and data collated and assimilated by the applicant through its investigations and research are contained in a comprehensive set of documents, the highly confidential nature of which the applicant has at all stages impressed on all its employees" (emphasis added); *Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 3 SA 152 (C) 153: "The decision was taken in secrecy and the confidential nature of their assignments was firmly impressed on the printers, and the marketing and advertising agents"; *Prok Africa (Pty) Ltd v NTH (Pty) Ltd* 1980 3 SA 687 (W) 690: "[W]hen Abbey devices are advertised, simple line drawings are used and there is no attempt to produce accurate details or drawings. In particular, no technical details are furnished as these are a matter of confidentiality between the applicants and their customers or their distributors or agents... [T]he applicants allege that the technical brochure contains confidential information ... and for that reason is not freely distributed by them. It is supplied in confidence to certain distributors, agents and customers... *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 2 SA 173 (T) 324: "I do not think that the process for which protection is sought in the instant case is confidential. There is no evidence that the production sequence was kept secret or limited to certain employees only; all employees and visitors had access to the plant. The various units used in the process were more or less openly used in Atlas' factory" - note how the absence of steps taken to keep the relevant information secret was here taken to establish that the information was not protectable. Cf *Northern Office Micro Computers (Pty) Ltd v Rosenstein* 1981 4 SA 123 (C) 126 where the respondent averred - unsuccessfully - that the conduct of the applicant showed that he did not regard the relevant computer program as a trade secret. Cf Delport 1982 BML 165; Joubert 1985 *De Jure* 42: "[D]ie inligting moet deur die aanspraakmaker as vertroulik behandel word. Dit kan hy uitdruklik, maar ook stilswyend doen deur byvoorbeeld die vertroulike inligting binne 'n kring belanghebbendes te probeer hou en die bekendmaking van die inligting buite daardie kring te beperk en te beskerm"; Pistorius and Visser 1993 *SA Merc LJ* 344.
wish of the owner to maintain secrecy. In practice, this requirement may be employed negatively, in the sense that the defendant or respondent may raise the absence of a will to keep the information secret as a ground on which the alleged secret does not merit protection, rather than the plaintiff or applicant citing his will (as evidenced by steps taken) to keep it secret as a reason why the information is deserving of protection.

9.2.5 ECONOMIC VALUE

Explicit statements requiring trade information to be valuable to qualify for legal protection, may be found in the case law. It is clear that the required value must be of an economic nature. It must be objectively established. Sometimes the

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25 Cf Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 325; Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) 126 where the respondent averred - unsuccessfully - that the applicants did not regard the relevant information as a trade secret; Knobel 1990 THRHR 491-492; Van Heerden and Neethling 225 fn 13; Domanski 1993 THRHR 230.

26 See par 7.2.4 above on the relationship between objectively discernable steps to preserve secrecy and a subjective will to preserve secrecy.

27 Cf eg Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) 126.

28 In such a situation, the absence of steps to protect secrecy may probably be construed as tacit consent by the owner to use or disclosure of the information, which consent will - as a ground of justification (par 8.2.2.2.1 above) - exclude the wrongfulness of such use or disclosure - cf Knobel 1990 THRHR 491 fn 35.

29 Cf in general par 7.2.5 above.

30 Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 194: "That which is sought to be protected should... not only differ from what was previously generally known, but be of value as well." In SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 90 authority was quoted stating that business information which is not necessarily new, novel or unique, but which is nevertheless not generally available, "qualifies for treatment as a trade secret if it has value to the business"; and in Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 325 the court found that the plaintiff's production process was not only confidential, it was also "a great commercial success". Cf Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 428; Kemp, Sacs & Nell Real Estate (Edms) Bpk v Soll 1986 1 SA 673 (O) 692 where the court asked whether allegedly confidential information was "uit 'n mededingingsoogpunt van waarde"; Butt v Schultz 1984 3 SA 568 (E) 577 and Schultz v Butt 1986 3 SA 667 (A) 680; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 187; Easyfind International (SA) (Pty) Ltd v Instaplan Holdings 1983 3 SA 917 (W) 929; Crown Cork & Seal Co v Rheem SA (Pty) Ltd 1980 3 SA 1093 (W) 1101-1102; Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689-691. Cf Van Heerden and Neethling 225; Knobel 1990 THRHR 492; Pistorius and Visser 1993 SA Merc Lj 345.

31 Cf Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 325 where the court found that the plaintiff's production process was "a great commercial success"; Kemp, Sacs & Nell Real Estate (Edms) Bpk v Soll 1986 1 SA 673 (O) 692 where the court asked whether allegedly confidential information was "uit 'n mededingingsoogpunt van waarde". The examples quoted thus highlight the value of a trade secret to the entrepreneur in a competitive context. However, it is submitted that a
focus falls on the value of the secret to the owner thereof; sometimes on the (potential) value thereof to the owner's competitors. It is submitted that this is merely a case of two sides to the same coin. The value or potential value of the trade secret to the owner's competitors is a correlate of the value of the secret to the owner.

In a number of cases the value or usefulness of information was apparently used to determine whether the information was confidential or not. It is submitted that economic value or usefulness cannot be a determinant of secrecy. Secrecy simply concerns the question whether information is known or accessible to a restricted number of persons. The value of the information cannot help determine this. Thus

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32 Cf Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689; Van Castricum v Theunissen 1993 2 SA 726 (T) 732; Van Heerden and Neethling 225; Knobel 1990 THRHR 492.

33 Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 187.

34 Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689 691; Butt v Schultz 1984 3 SA 568 (E) 577.

35 In Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689 Marais J said: "The difficult question in each case would be to decide what information gleaned by an employee is to be regarded as disclosable as being harmless or general knowledge and what items are confidential or secret. The dividing line may move from case to case, according to what is the general practice or convention in the category of trade or manufacture in which the plaintiff falls, with particular reference to existing or potential competitors of his. If, however, it is objectively established that a particular item of information could reasonably be useful to a competitor as such, i.e. to gain an advantage over the plaintiff, it would seem that such knowledge is prima facie confidential as between an employee and third parties and that disclosure would be a breach of the service contract. If use has in fact been made of it in an effort to harm the business interests of the plaintiff the presumption would be even stronger that the employer and the employee, who in the course of his employment obtain knowledge of it, intended it to be treated as confidential information not to be divulged to third parties"; and at 691: "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" (emphasis added). Cf Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 187: "[T]he information... was, at the lowest, prima facie confidential in that it was of great value to the applicant, its disclosure was detrimental to the applicant and first respondent must have appreciated that he was under a duty to his employer... not to disclose this information to others because it would harm applicant" (emphasis added). In Butt v Schultz 1984 3 SA 568 (E) 577 the following words from the Coolair Ventilator case were quoted with implicit approval: "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", and Mullins J added that "the same considerations apply to cases where trade information is obtained from sources other than through an employee".
economic value is an element of a protectable trade secret, but it is not an element or determinant of secrecy.\(^{36}\)

### 9.2.6 CONCRETENESS OR POTENTIAL CONCRETENESS\(^{37}\)

Again, although it may be difficult to find specific dicta requiring trade secrets to be concrete or potentially concrete, this proposition is nevertheless implicit in the decided cases. It stands to reason that a trade secret can only be protected if it has the potential to lead an existence separate from the personality of its owner.\(^{38}\) On the other hand, case law does not require - correctly, it is submitted - that a trade secret be reduced to some material form before it can qualify for legal protection. Thus the requirement is potential, not necessarily actual, concreteness.\(^{39}\)

### 9.2.7 SYNTHESIS AND EXAMPLES\(^{40}\)

A trade secret protectable in South African law may therefore be broadly defined as secret information which is capable of commercial or industrial application, in respect of which the owner has the will to keep it secret, which has economic value, and which can lead an existence separate from its owner.\(^{41}\) Examples of trade secrets


\(^{37}\) Cf in general par 7.2.6 above.

\(^{38}\) Cf par 7.2.6; 7.4.4.3 above.

\(^{39}\) See par 7.2.6 above.

\(^{40}\) Cf in general par 7.2.7 above.

\(^{41}\) It will be noted that this definition is in conformity with the views adopted in par 7.2.7 above. Cf Van Heerden and Neethling 223-224: "A trade secret may be described as trade, business or industrial information belonging to a person (usually an entrepreneur) which has a particular economic value and which is not generally available to and therefore known by others" - accordingly they postulate (225) three requirements for a protectable trade secret, viz secrecy (including a subjective element in so far as the proprietor must have the will to keep the information secret - fn 13), potential application in trade or industry, and economic value. Cf further Pistorius and Visser who state the requirements of a trade secret as follows: the information must be treated as confidential and be known to a closed circle; it must have been developed by the owner for his or her own benefit; and it must be valuable or useful to the owner. Van Heerden and Neethling 226 fn 18 express the opinion that the requirement postulated by Pistorius and Visser that the information must have been developed by the owner for his or her own benefit, should merely be taken into account when determining the economic value of the information. In the opinion of the present writer it should not be seen as an element of a trade secret. However, it may be necessary for a trade secret owner to aver this fact, not to show that the information is a trade secret, but to show that he or she is the owner thereof and therefore has locus standi.
recognized in South African case law include information relating to or contained in manufacturing processes,\textsuperscript{42} a furnace for the heat treatment of metals,\textsuperscript{43} computer software,\textsuperscript{44} an unpublished trade mark,\textsuperscript{45} credit records,\textsuperscript{46} and customer lists.\textsuperscript{47}

\section*{9.3 BASES OF LEGAL PROTECTION}

In South African case law, the protection of trade secrets has been based mainly on two grounds: delict and contract.\textsuperscript{48}

\subsection*{9.3.1 DELICT}

It is clear from case law that the infringement of a trade secret is actionable in terms of the \textit{actio legis Aquiliae}. The seminal decision was \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd}.\textsuperscript{49} The plaintiff, a credit bureau, compiled certain credit records which were then distributed to subscribers on a confidential basis. The defendant obtained copies of these credit records in an unauthorized way and distributed information contained therein to its own subscribers. The plaintiff claimed inter alia damages from the defendant. The claim was based on two grounds. In respect of the issue of written reports the claim was based on infringement of copyright; in respect of the issue of verbal reports it was based on

\footnotesize
\begin{itemize}
\item \textsuperscript{42} Eg \textit{Multi Tube Systems (Pty) Ltd v Ponting} 1984 3 SA 182 (D); \textit{Harvey Tiling Co (Pty) Ltd v Rodomac} 1977 1 SA 316 (T).
\item \textsuperscript{43} \textit{Harchris Heat Treatment (Pty) Ltd v ISCOR} 1983 1 SA 548 (T); cf, however, \textit{South African Iron and Steel Industrial Corporation Ltd v Harchris Heat Treatment (Pty) Ltd} 1987 4 SA 421 (A).
\item \textsuperscript{44} \textit{Northern Office Micro Computers (Pty) Ltd v Rosenstein} 1981 4 SA 123 (C).
\item \textsuperscript{45} \textit{Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd, Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd} 1972 3 SA 152 (C).
\item \textsuperscript{46} \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Ltd} 1968 1 SA 209 (C).
\item \textsuperscript{47} \textit{Van Castricum v Theunissen} 1993 2 SA 726 (T).
\item \textsuperscript{48} Another ground is the breach of the fiduciary duty of a company director - cf \textit{Sibex Construction (SA) (Pty) Ltd v Injectaseal CC} 1988 2 SA 54 (T); Havenga 388-394; Domanski 1993 \textit{THRHR} 447-448. The basis of this liability is generally accepted to be of a \textit{sui generis} nature, rather than contractual or delictual. Du Plessis 1993 \textit{THRHR} 11 submits that the basis of liability should be the \textit{actio legis Aquiliae} - cf however Havenga 314-331. See further par 7.3 above for a consideration of other potential grounds of protection.
\end{itemize}
another right which had not been specified in the pleadings. It was this alleged right that formed the subject-matter of the decision on exception.

Counsel for the plaintiff argued that where material was the subject of a contractually imposed "confidence", the owner had a remedy at common law for "breach of confidence" against any person who, knowing of the confidence, verbally reproduced the material. Noting that the term "breach of confidence" was derived from English law, Corbett J briefly surveyed the ambit of the English action for breach of confidence. Stating that the application of the action for breach of confidence in English law was interesting and informative as showing the basis upon which another legal system might have provided a remedy for the plaintiff, Corbett J nevertheless said that it was not directly relevant to the problem confronting the court, namely whether the plaintiff's allegations disclosed a cause of action in South African law. Corbett J found that a remedy similar to the English action for breach of confidence was unknown to South African law. He furthermore commented on the difficulty to ascertain the juridical basis of the action for breach of confidence in English law, noting that although tort would seem to be the most appropriate niche, neither the English courts nor leading English authors appear to have classified the action in such a way. He took cognizance of the fact that in American law the action was apparently regarded as a tortious remedy, and proceeded to consider the two possible bases advanced by plaintiff's counsel for a claim in the South African law of delict. The first of these was that the information contained in the credit records constituted incorporeal property in the plaintiff's hands, and that the unlawful use thereof constituted a delict. Corbett J rejected this proposition.

The second suggested basis for the plaintiff's claim was "the form of delictual liability,

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52 213.
51 213-214.
52 214.
53 214-215.
54 215.
55 215.
56 215ff.
57 216.
58 This aspect of the decision is discussed in par 9.3.1.2.2 below.
in our law often referred to as 'unlawful interference with trade or business'”.\textsuperscript{59} This proposition Corbett J accepted, and, citing Geary & Son (Pty) Ltd v Gove,\textsuperscript{60} he made the following important remarks\textsuperscript{61} concerning the basis of liability:

"[T]he basis of a plaintiff's action for wrongful interference by a competitor with his rights as a trader is clearly stated to be Aquilian. The significance of this is that it means that, while such an action must satisfy all the requirements of Aquilian liability, the broad and ample basis of the Lex Aquilia is available in this field for the recognition of rights of action even where there is no direct precedent in our law”.

He furthermore made the following all-important statement\textsuperscript{62} on the liability for the unauthorized use of confidential information:

"[W]ithout attempting to define generally the limits of lawful competition, it seems to me that where, as in this case, a trader has by the exercise of his skill and labour compiled information which he distributes to his clients upon a confidential basis (i.e. upon the basis that the information should not be disclosed to others), a rival trader who is not a client but in some manner obtains this information, and well knowing its nature and the basis upon which it was distributed, uses it in his competing business and thereby injures the first mentioned trader in his business, commits a wrongful act vis-a-vis the latter and will be liable to him in damages. In an appropriate case the plaintiff trader would also be entitled to claim an interdict against the continuation of such wrongful conduct... [T]he fact that information is distributed upon a confidential basis to a limited class of persons prevents it, in my view, from becoming public property capable of being used or imitated by rival traders. In such circumstances the conduct of a rival trader who obtains and, well knowing the position, uses the information to advance his own business interests and activities amounts to a deliberate misappropriation and filching of the products of another's skill and labour. Such conduct must, in my view, be regarded as dishonest and as constituting a fraud upon the compiler of the information. I consider that... our Courts should treat this as constituting unlawful competition and as being actionable at the suit of the trader damnedified thereby... [T]he conduct of the trader misappropriating the information would amount to an infringement of the rights of the compiler thereof to

\textsuperscript{59} 216.

\textsuperscript{60} 1964 1 SA 434 (A).

\textsuperscript{61} 218.

\textsuperscript{62} 221-222.
carry on his trade and attract custom without unlawful interference from competitors; and the damage suffered would normally consist of the loss of customers or potential customers who have been induced by such conduct to deal with his competitor rather than with the compiler himself. Bearing in mind the Aquilian character of a claim based upon such conduct, it seems to me that the suffering of damage in this form and its causal connection with the acts of unlawful competition are essential ingredients of the claimant's cause of action."

The exception against the plaintiff's claim was upheld because the particulars of claim contained no allegation that the plaintiff and the defendant had carried on business in competition with each other or that the defendant had used the purloined information in a competing business. Corbett J regarded such an allegation as essential, because it would in his opinion furnish part of the causal connection between the conduct complained of and the damage suffered by the plaintiff. However, Corbett J's important judgment laid a firm foundation for the recognition of Aquilian liability for the misappropriation of trade secrets.

In Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd the Dun and Bradstreet case was cited with approval. Diemont J emphasized that the basis of the action was Aquilian and that the absence of a direct precedent was not in itself fatal provided the requirements of Aquilian liability were satisfied.

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63 222.
65 161.
66 Domanski 433 remarks that certain passages in Diemont J's judgment (160-161) appear to confuse or even equate the English action for breach of confidence with the delictual action for unlawful competition in South African law. Domanski submits that these remedies derive from completely distinct juridical grounds of trade secret protection, and are not equivalent. The statement that the two remedies are not to be confused or equated, deserves support. However, it is submitted that Diemont J's judgment did not necessarily confuse or equate the two. It is true that Diemont J started with a consideration of the English action for breach of confidence, but in this regard he did not add anything to what Corbett J had already said in his judgment in Dun and Bradstreet - compare 160-161 of Diemont J's judgment with 213-214 of Corbett J's judgment. That Diemont J quoted the applicant as averring that the equivalent remedy to the action for breach of confidence could be found in the form of delictual liability for "unlawful interference with business", need not carry too much weight in this regard. After all, Diemont J embraced (161) the same parameters of liability as those recognized by Corbett J: viz, that the requirements of Aquilian liability must be satisfied, and that criteria such as fairness and honesty in competition must be given due recognition - see par 9.3.1.2.1 below.
In *Prok Africa (Pty) Ltd v NTH (Pty) Ltd*[^67] it was again confirmed that the remedy for the misappropriation of confidential information was Aquilian. Moreover, Goldstone AJ decided that the Aquilian action was not only available to the owner of confidential information, but also to someone who had the right to use such information in the capacity of exclusive licensee of the owner.

In *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd*[^68] Van Dijkhorst J declared[^69] categorically:

"A delictual action on "breach of confidence" can only be a manifestation of the Aquilian action on unlawful competition."

In *Schultz v Butt*[^70] the Appellate Division had the opportunity to consider the protection of trade secrets or confidential information by the Aquilian action. The plaintiff in that case was the manufacturer of a catamaran-type boat with a unique hull which he had developed over a long period of time and with considerable expenditure of time, labour and money. The defendant acquired one of the plaintiff's hulls, made a mould thereof, and used this mould to make boats with hulls substantially identical to those of the plaintiff. The boats thus made he sold in competition with the plaintiff, and he even went so far as to obtain a registration of the design of the hull with the Registrar of Designs. The decision in the court a quo was apparently based[^71] inter alia on the application of principles extracted from classical English cases on breach of confidence[^72]. Nicholas AJA, who delivered the judgment of the Appellate Division, found[^73] that the design of the plaintiff's hulls was in the public domain - there was nothing confidential about it. The plaintiff could therefore not succeed with an action based on the misuse of confidential information[^74]. Before coming to this conclusion, however, Nicholas AJA made some important remarks concerning the basis of the

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[^69]: 191.

[^70]: 1986 3 SA 667 (A).

[^71]: Cf the decision of the court a quo - *Butt v Schultz* 1984 3 SA 568 (E) 577-579; the decision of the Appellate Division at 679; Domanski 439.

[^72]: *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* [1948] 65 RPC 203 (CA), 1963 3 All ER 415; *Terrapin Ltd v Builders' Supply Co (Hayes) Ltd* 1960 RPC 128.

[^73]: 680.

[^74]: The plaintiff was successful with his claim in so far as it was based on the slavish copying of his product by the defendant. See par 8.2.2.2.3.1 above.
protection of confidential trade information in South African law. Pointing out that the action for breach of confidence known to English law had been held in the Dun and Bradstreet case not to form part of South African law, he added:

"[T]hat does not mean that the misuse of confidential information in order to advance one's own business interests and activities at the expense of a competitor's may not constitute a wrongful act in the context of an action for unlawful competition."

In the light of the case law surveyed above, there can be no doubt that the protection of trade secrets against delictual violations is firmly entrenched as a species of Aquilian liability. A very important implication is that the generalising approach of the South African law of delict allows any novel wrongful act which may be committed in respect of trade secrets to be dealt with. To succeed with a delictual action for damages in the case of a trade secret infringement, the owner must prove the following elements: an act; wrongfulness; fault; causation and harm. Frequently, the interdict is a more appropriate remedy on account of its preventive function. To obtain an interdict to prevent or stop trade secret infringement, the owner must prove two of these elements: an act, actual or imminent; and wrongfulness. General principles applicable to the five delictual

75 679.

76 Earlier in the judgment - at 678 - Nicholas AJA made it clear that the action for unlawful competition was the Aquilian action.

77 See further Rectifier and Communication Systems (Pty) Ltd v Harrison 1981 2 SA 283 (C) 286; 288 289; Harchris Heat Treatment (Pty) Ltd v Iscor 1983 1 SA 548 (T) 555; Kemp, Sacs & Nell Real Estate (Edms) Bpk v Soll 1986 1 SA 673 (O) 691; Sibex Construction (SA) (Pty) Ltd v Injectaseal CC 1988 2 SA 54 (T) 63; Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 426; Van Castricum v Theunissen 1993 2 SA 726 (T) 732 735; cf Van Heerden and Neethling 229ff; Domanski 430ff.

78 Par 8.2 above; Van Heerden and Neethling 64.

79 Cf again Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 1 SA 209 (C) 218: "The significance of this is that it means that, while such an action must satisfy all the requirements of Aquilian liability, the broad and ample basis of the Lex Aquilia is available in this field for the recognition of rights of action even where there is no direct precedent in our law"; Neethling 1992 (1) Codicillus 12.

80 Par 8.2 above.

81 Cf eg Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ggwano (Pty) Ltd 1981 2 SA 173 (T); Easyfind International (SA) (Pty) Ltd v Instaplan Holdings 1983 3 SA 917 (W); Harchris Heat Treatment (Pty) Ltd v Iscor 1983 1 SA 548 (T); Prok Africa (Pty) Ltd v NTH (Pty) Ltd 1980 3 SA 687 (W); Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 3 SA 152 (C).

82 Par 8.5.4 above.

83 Par 8.5.4 above.
elements, and theoretical applications in trade secret protection, have been stated in
the previous chapter. In the following paragraphs, the way in which the delictual
elements have been dealt with in South African trade secret cases, is examined.

9.3.1.1 ACT

Dicta can be found in case law that three types of voluntary, human conduct in
respect of trade secrets can potentially give rise to liability: acquisition, use and
disclosure.

84 Par 8.2.1-8.2.5.

85 Cf in general par 8.2.1 above.

86 See the requirements of an act for the purpose of the law of delict, par 8.2.1 above.

87 Eg Easyfind International (SA) (Pty) Ltd v Instaplan Holdings 1983 3 SA 917 (W) 927: "To my
mind the simple practical guide in cases of appropriation of confidential documents or ideas is the
commandment 'Thou shall not steal'; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 90-91:
"There is not... a general duty burdening an employee... not to compete with the company that formerly
employed him. But in the process of competing he may not 'steal' what is the company's property -
its trade secrets or confidential internal business information"; Stellenbosch Wine Trust Ltd v Oude
Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 3 SA 152 (C) 162.
Cf Van Heerden and Neethling 228 fn 36; Knobel 1990 THRHR 494 fn 53. In accordance with the
views adopted above (par 8.2.1; 8.2.2.1) a mere acquisition of a trade secret - ie in the absence of
subsequent use or disclosure thereof - can already infringe the right to the trade secret and thus be
wrongful. However, where such wrongful acquisition has not been followed by wrongful use or
disclosure, the plaintiff may find it difficult to prove patrimonial loss (cf par 8.2.5 above). In such a case
an action for damages will not readily lie - however, the wrongful acquisition of the trade secret should
found a successful application for an interdict (cf par 8.5.4 above).

88 Cf eg Schultz v Butt 1986 3 SA 667 (A) 679; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn
Ghwano (Pty) Ltd 1981 2 SA 173 (T); Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit
Bureau (Cape) (Pty) Ltd 1968 1 SA 209 (C); Harchris Heat Treatment (Pty) Ltd v Iscor 1983 1 SA 548
(T); Prok Africa (Pty) Ltd v NTH (Pty) Ltd 1980 3 SA 687 (W); Stellenbosch Wine Trust Ltd v Oude
Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 3 SA 152 (C). Cf
Van Heerden and Neethling 228; Knobel 1990 THRHR 494 fn 51.

89 Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 185 187; cf Coolair Ventilator Co
(SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689 691. See further Van Heerden and Neethling 228.

90 The position is essentially in accordance with the provisions of the GATT TRIPs agreement (par
5.1; 5.2 above) and the view adopted above (par 8.2.1) in the light of a comparative study of other
legal systems.
9.3.1.2 WRONGFULNESS

9.3.1.2.1 The general criterion for wrongfulness

In the *locus classicus* on Aquilian liability for trade secret infringement, *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd*, the emphasis fell on the criteria of *fairness and honesty in competition*. In this regard Corbett J said:

"Fairness and honesty are themselves somewhat vague and elastic terms, but, while they may not provide a scientific or indeed infallible guide in all cases to the limits of lawful competition, they are relevant criteria which have been used in the past and which, in my view, may be used in the future in the development of the law relating to competition in trade."

In *Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd* the importance of the criteria of fairness and honesty in trade was again emphasized.

The judgment in *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* is of particular importance for the field of unlawful competition law. Van Dijkhorst J found "fairness and honesty" to be unsatisfactory standards for the determination of wrongfulness, and stated that the true criterion is the general one for delictual

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91 Cf in general par 8.2.2 above.
92 Cf in general par 8.2.2.1 above.
93 1968 1 SA 209 (C); see par 9.3.1 above.
94 218, following *Geary & Son (Pty) Ltd v Gove* 1964 1 SA 434 (A) 440-441 and *Combrinck v De Kock* 5 SC 405 409.
95 218-219. Cf Van Heerden and Neethling 121-122; Delport 1982 *BML* 186; Domanski 1993 *THRHR* 431; Pienaar 54ff.
96 1972 3 SA 152 (C) 161. Diemont J added at 161: "It must be conceded that these phrases, fairness in competition and honesty in trade, have an old-fashioned ring about them which may cause the cynic in business to smile, but it is right that the Courts should have regard to and emphasize these virtues. Moreover the phrases are somewhat elastic, as difficult to apply in some cases as the concept of the reasonable man is difficult to apply. Nevertheless, if our law is to develop and is to offer the commercial man protection from unlawful interference in his business, the Courts will not disregard the words fairness and honesty". Cf Van Heerden and Neethling 120-121; Delport 1982 *BML* 186.
97 1981 2 SA 173 (T).
wrongfulness - the *boni mores* or "general sense of justice of the community". In determining and applying this norm in a particular case, the interests of the competing parties must be weighed, while "the morals of the market place" and the "business ethics of that section of the community where the norm is to be applied" must also be considered.

In *Schultz v Butt* Nicholas AJA reconciled the "fairness and honesty" and the *boni mores* criteria:

"In judging of fairness and honesty, regard is had to *boni mores* and to the general sense of justice of the community... Van der Merwe and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* 5th ed at 58 note 95 rightly emphasize that 'die regsgevoel van die gemeenskap opgevat moet word as die regsgevoel van die gemeenskap se regsbeleidmakers, soos Wetgewer en Regter'. While fairness and honesty are relevant criteria in deciding whether competition is unfair, they are not the only criteria... [Q]uestions of public policy may be important in a particular case, eg the importance of a free market and of competition in our economic system."

One may thus conclude that the general criterion for the determination of wrongfulness in cases of trade secret infringement is the same as the general criterion for wrongfulness in the law of delict in general - the so-called legal convictions of the community or *boni mores*. Van Heerden and Neethling point

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99 188.

100 188-189: "[T]he 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 that section of the community where the norm is to be applied, are of major importance in its determination."

101 1986 3 SA 667 (A).

102 679. Cf Van Heerden and Neethling 125-126; Van Heerden in Neethling (ed) 9; Domanski 1993 *THRHR* 440.

103 See further *Van Castricum v Theunissen* 1993 2 SA 726 (T) 732; *Sibex Construction (SA) (Pty) Ltd v Injectaseal CC* 1988 2 SA 54 (T) 63; *Easyfind International (SA) Pty Ltd v Instaplan Holdings* 1983 3 SA 917 (W) 929-931 (dishonesty); *Harchris Heat Treatment (Pty) Ltd v ISCOR* 1983 1 SA 546 (T) 554 ("applying, as the criterion of unlawfulness, the norms of justice and fair play demanded by public policy"); *Prok Africa (Pty) Ltd v NTH (Pty) Ltd* 1980 3 SA 687 (W) 696-697; *Wilorose Timbers (Pty) Ltd v CE Westergaard (Pty) Ltd* 1980 2 SA 287 (W) 290 (dishonesty) 292 ("unfair and dishonest competition").

104 Cf par 7.4.1.1; 8.2.2.1 above; Neethling, Potgieter and Visser 31ff; Boberg 33ff; Burchell 24; Van der Merwe and Olivier 58ff; Van der Walt 22-23.
out\(^{105}\) that when this yardstick is applied to the field of commercial competition generally, the following factors may be taken into account: the fairness and honesty of the conduct; the morals and business ethics of the economic trade sector involved; the protection that already extends to the area concerned in case law; the importance of a free market and strong competition in our economic system; the question whether the parties are trade rivals; conventions with other countries; and the motive of the perpetrator.

The flexibility of the *boni mores* as basic norm of delictual wrongfulness enables the law of delict to cope with novel situations where no precedents exist in the positive law.\(^{106}\) More concrete delictual norms - expressed either in terms of infringement of subjective rights or breach of legal duties - develop from the *boni mores* to serve as more concrete measures of wrongfulness in specific factual situations.\(^{107}\) Arguments in favour of the recognition of a subjective right to the trade secret - the infringement of which may serve as a more concrete measure of wrongfulness in trade secret misappropriation cases - were presented above.\(^{108}\) In the following paragraph it is established what authority for this proposition exists in South African case law.

9.3.1.2.2 The infringement of a subjective right as touchstone of wrongfulness in cases of trade secret misappropriation\(^{109}\)

In *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd*\(^{110}\) two possible bases were advanced by the plaintiff’s counsel for his delictual claim. The first was that the information contained in the credit records constituted incorporeal property in the plaintiff’s hands, and that the unlawful use thereof constituted a delict. Corbett J rejected\(^{111}\) this proposition, stating that, except in a somewhat loose sense, such information could not be regarded as property, nor could the plaintiff found a cause of action upon an alleged invasion of his rights of property in such information. The second suggested basis for the plaintiff’s claim was “the form of delictual liability, in our law often referred to as

\(^{105}\) 126.

\(^{106}\) Par 8.2.2.1 above.

\(^{107}\) Par 7.4.1.1; 7.4.1.2; 8.2.2.1 above.

\(^{108}\) Par 7.4.

\(^{109}\) Cf in general par 7.4; 8.2.2.1 above.

\(^{110}\) 1968 1 SA 209 (C); see par 9.3.1 above for a summary of the facts.

\(^{111}\) 216.
"unlawful interference with trade or business". This proposition Corbett J accepted. He took it as well established that every person had the "right" - "liberty" would perhaps be a more correct term - to carry on his trade without wrongful interference from others, including competitors. The main difficulty was to determine the dividing line between lawful and unlawful interference with the trade of another. In this regard the "right to attract custom" deserved consideration. However, competition by a rival trader would necessarily to some degree result in a diversion of such custom to the rival trader, and such interference would not necessarily be wrongful. It could be rendered wrongful by the manner in which the rival conducted his trade. Observing that the conduct of the defendant in the present case did not fall in one of the recognized forms of unlawful competition, and that the question whether or not it constituted unlawful competition was to his knowledge res nova in our law, Corbett J proceeded to consider whether there was "any broad criterion of unlawfulness by which the competition in question [could] be tested". This led to the criterion of "fairness and honesty in competition". Corbett J then formulated a new rule, namely that where a trader has by the exercise of his skill and labour compiled information which he distributes to his clients upon a confidential basis, a rival trader who is not a client but in some manner obtains this information, and well knowing its nature and the basis upon which it was distributed, uses it in his competing business and thereby injures the first mentioned trader in his business, commits a wrongful act vis-a-vis the latter and will be liable to him in damages or be subjected to an interdict.

It will be noted that the recognition of the "right to carry on trade and attract custom without unlawful interference from competitors" did not really facilitate formulating the essence of wrongfulness in this case. Pienaar has pointed out that circular reasoning was involved. To find out whether the misappropriation of confidential information was unlawful, one had to determine whether it was a form of unlawful competition. But how was one to determine when competition was unlawful? Since interference with trade or goodwill is the life of all competition, the court was led away to the vague criterion of fairness and honesty. The end-result was that the court formulated a new norm of delictual liability, applicable to a narrowly defined type of

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112 216.
113 216; cf 221.
114 Cf par 7.4.4.4.1 above on the right to goodwill.
115 217.
116 218-219; cf par 9.3.1.2.1 above.
117 41; cf 39.
conduct.

It is submitted that the process analyzed above is typical of the extension of delictual liability to a new field. First the law is confronted by a novel factual situation not covered by existing concrete delictual norms. Thus there is no recognized subjective right at stake, the infringement of which would constitute wrongfulness; nor has a legal duty - the breach of which would constitute wrongfulness - been recognized by the law to apply to the new situation. This forces the court to fall back on the vague, adaptable, general norm of wrongfulness. At this stage of the development of our law of delict we know this norm to be the *boni mores*. When the *Dun and Bradstreet* case was decided, the criterion in vogue in the context of trade competition was *fairness and honesty*. The functions of the two criteria are the same: to serve as a touchstone for a policy-based decision on what is juridically right and wrong - lawful and wrongful - in the new situation. Thus a new delictual norm is born. Such a new norm may be very limited in its scope, since judges are usually understandably loath to formulate new rules of any wider application than is absolutely necessary to decide the relevant case. Note how the norm formulated in *Dun and Bradstreet* is restricted to a situation where the rival trader knows the nature of the information and the basis on which it was distributed by the compiler thereof. In a next case the norm may be expanded somewhat, made applicable to a somewhat different situation, and if this process is repeated a few times, a new body of law develops gradually. However, the legal analyst can often make a valuable contribution to such development if an emergent subjective right that might lie at the root of the process can be identified. Once this has been done, it is possible to formulate the applicable norm of delictual wrongfulness in terms of the infringement of that right. Such a norm has the advantage of being of much wider

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118 Cf Neethling, Potgieter and Visser 40-43.

119 Cf par 7.4.1.1; 7.4.1.2; 8.2.2.1; 9.3.1.2.1 above.

120 See the development of the general criterion for wrongfulness in this field, and the ultimate reconciliation of the *boni mores* and the fairness and honesty criteria, outlined in par 9.3.1.2.1 above.

121 Its application was furthermore limited by the court requiring (222) an allegation that the parties to the dispute are competitors in trade (cf the discussion of *Harchris Heat Treatment* (Pty) Ltd v *ISCOR* 1983 1 SA 548 (T) below). Note how the narrow scope of the decision in *Dun and Bradstreet* is criticized by Copeling 1968 *THRHR* 191.

122 This has indeed happened in the field of the delictual protection of trade secrets: in *Prok Africa (Pty) Ltd v NTH (Pty) Ltd* 1980 3 SA 687 (W), for instance, legal protection was extended to a plaintiff who was a licensee rather than the owner of the trade secret (par 9.3.1 above), and in *Harchris Heat Treatment (Pty) Ltd v ISCOR* 1983 1 SA 548 (T) protection was extended to a situation where the defendant was not a rival trader of the plaintiff (main text in this paragraph below).

123 Cf par 7.4.1.2 above.
application than the casuistic type norm like the one formulated in the *Dun and Bradstreet* case, yet it is more precise and capable of more predictable application than the *Grundnorm* of the *boni mores*.

It is submitted that the subjective right at stake here is the right to the trade secret itself as a *species* of intellectual property. The delictual norm which then emerges to determine the wrongfulness of a trade secret misappropriation is simply that conduct infringing the right to the trade secret is wrongful. Is adoption of such a view precluded by Corbett J's rejection of the proposition that confidential trade information can constitute property? It is submitted that it is not. Apart from considerations of policy and logic in favour of the recognition of an intellectual property right to the trade secret, the following reasons may be cited: the authority on which the rejection of the property notion was based is not convincing; aspects of Corbett J's own judgment point towards the recognition of confidential trade information as an asset which must logically be taken to be object of a right, and subsequent case law contains *dicta* indicating that trade secrets are property or something akin to property. These points will now be dealt with separately.

In the first place, the authority on which the rejection of the proposition that trade secrets are incorporeal property was based, is unconvincing. Corbett J referred firstly to the view that a personal right flowing from contract is incorporeal property, and that such property enjoys protection in so far as a delictual action is available for the intentional interference by a third party in contractual relations. However, *in casu* no interference with contractual relations was involved, and an invasion of (incorporeal) property in the sense of an interference with personal rights could therefore not be a basis for the current action. Noting that the contention on behalf of the plaintiff was that the confidential information itself was property, Corbett J said simply this claim was unfounded. He did not deem it possible, "except in a somewhat loose sense", to regard such information as property at common law;

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124 See again par 7.4 for arguments for the recognition of a subjective right to the trade secret, and specifically 7.4.4.4.1 on the relationship between the right to the trade secret and the right to goodwill.

125 Cf par 8.2.2.1 above. See par 7.4.1; 7.4.1.1 above on the infringement of a subjective right in general.

126 Cf par 7.4.4.1 above.

127 215.

128 As noted in par 7.3.3, rights are regarded as incorporeal property.

129 Cf in general Neethling, Potgieter and Visser 293ff; Van der Merwe and Olivier 370ff.

130 Cf par 7.3.3 above for a consideration of possible meanings of the concept "property" when used in conjunction with trade secrets.
nor did he believe that the plaintiff could found a cause of action on an alleged invasion of his rights of "property" in such information.\textsuperscript{131} The only authority cited for this denial was the old case of \textit{Nelson and Meurant v Quin & Co.}\textsuperscript{132} In that case the court refused an application for a perpetual interdict restraining the publication of certain private letters by a third party who had in some way come into possession thereof. Counsel for the applicant based the application solely on the ground of the sender's alleged "right of property" in the contents of the letters.\textsuperscript{133} Noting that to succeed with that contention, the plaintiff would have to show that "every person has a clear and undoubted right of property in his own compositions, to the extent of being entitled to prevent every one else from multiplying copies of such compositions, whether they be of a purely literary character or not, and whether they have been communicated to others or not",\textsuperscript{134} De Villiers CJ found\textsuperscript{135} that no such right had been established. It is submitted that the \textit{Nelson and Meurant} case may be regarded as authority for nothing more than the view that no right of property exists in the contents of a private letter - which was not shown to have any commercial value or to contain any information that could be used in trade or industry. To cite the case as authority for a denial of any right of property in a trade secret - information that is confidential, is capable of industrial or commercial application and which consequently has economic value - is, it is submitted, not convincing.\textsuperscript{136} It may be noted, incidentally, that according to current copyright law a letter may be the subject of copyright and the author may then prevent the making of copies or publication thereof.\textsuperscript{137} If the \textit{Nelson and Meurant} case were to be decided today, its outcome would probably have been completely different, and the court would probably have held that the contents of the letters were the object of an intellectual property right - copyright. Be that as it may, it is submitted that the court in \textit{Dun and Bradstreet} did not seriously consider the possibility that a trade secret could be the object of an intellectual property right similar to - although not statutory in origin - copyright or patent rights. Seen in this light, the denial of any property right in confidential trade information in the \textit{Dun and Bradstreet} case should not be taken as the definitive word

\textsuperscript{131} 216.

\textsuperscript{132} 1874 Buch 46.

\textsuperscript{133} 50.

\textsuperscript{134} 51.

\textsuperscript{135} 56.

\textsuperscript{136} Cf Pienaar 41-42.

\textsuperscript{137} Cf the definition of "literary work" sec 1 Act 98 of 1978; cf Copeling 8.
In the second place, certain *dicta* in the *Dun and Bradstreet* case can - in spite of the express denial that any property rights exist in confidential information - hardly be interpreted to mean anything other than that trade secrets are some form of property. Consider the following extract from the decision:

"[T]he fact that information is distributed upon a confidential basis to a limited class of persons prevents it, in my view, from becoming public property capable of being used or imitated by rival traders. In such circumstances the conduct of a rival trader who obtains and, well knowing the position, uses the information to advance his own business interests and activities amounts to a deliberate misappropriation and filching of the..."
As products of the skill and labour of the plaintiff, such confidential information is obviously some asset to which the positive law extends protection. From the perspective of the doctrine of subjective rights the logical conclusion is that such information is the object of a subjective right.

In the third place, case law decided after the Dun and Bradstreet case shed new light on the question whether a trade secret can be property or something akin to property. In Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd Diemont J said that the conduct of a competitor who filches from a rival information which he knows is secret and confidential, and which has been developed by the rival's skill and industry

"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 trade of another; both types of conduct are in my view actionable, and fall within the principles of the Lex Aquilia."

This analogy between the misappropriation of a trade secret and the theft of merchandise from a shop is most interesting. Together with Diemont J's clear words that the filching of a trade secret amounts to the appropriation of a business asset, this analogy clearly suggests that a trade secret is a type of property (or something

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140 Consider, furthermore, the following quotation (220) from the American case International News Service Associated Press v Associated Press 248 US 215 (1918) and Corbett J's subsequent comments: "Regarding news matter as the mere material from which two competing parties are endeavouring to make money, and treating it therefore, as quasi property for the purposes of their business because they are both selling it as such, defendant's conduct differs from the ordinary case of unfair competition in trade principally in this that, instead of selling its own goods as those of a competitor, it substitutes misappropriation in the place of misrepresentation, and sells complainant's goods as its own." This decision is particularly apposite in the present case. Here the gravamen of the case is that information garnered by the plaintiff by means of its skill, labour and money and intended to be sold to its customers has been misappropriated by the defendant and used in its own business. The allegation, in effect, is that defendant is 'endeavouring to reap where it has not sown'. On the facts, however, this case is a stronger one than the International News Service case in that, unlike the news garnered in that case, the information collected by plaintiff and published in "Credit Records" constituted a literary work (so it is alleged) and was not made public property by general publication.

141 Par 7.4.1 above.

142 1972 3 SA 152 (C) 161.

143 162.

144 These words were quoted with approval in the Atlas Organic Fertilizers case 1981 2 SA 173 (T) 185. Cf Pienaar 85-86.
analogous to property) after all.

In *Prok Africa (Pty) Ltd v NTH (Pty) Ltd* \(^{145}\) Goldstone AJ accepted\(^{146}\) the view expressed in *Dun and Bradstreet* that the relevant wrong was not an invasion of rights of property, but rather the unlawful infringement of a competitor’s right to be protected from unlawful competition. However, later in the judgment Goldstone AJ referred\(^{147}\) to a licensee of the owner of confidential information as being "in lawful possession" of the information. He also cited\(^{148}\) with apparent approval the passage from the *Stellenbosch Wine Trust* case where Diemont J drew an analogy between the misappropriation of a trade secret and stealing goods from a shop. Of the confidential information in the "possession" of the licensee he then said\(^{149}\) the following:

"In the present case the *business asset* was not acquired by the skill and industry of the [exclusive licensee]. However, it was acquired at the expense of the [exclusive licensee who] has acquired the information from [the owner] in terms of the licence agreement. *It has thus become a business asset of the [licensee] no less than if [the latter] had acquired it by [his] own skill and industry.*"

Again, the references to "possession" and "business asset" leaves one with a very strong impression that despite express protestations to the contrary, a trade secret is indeed something akin to property. Similar *dicta* categorizing trade secrets as property can be found in several other cases.\(^{150}\)

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\(^{145}\) 1980 3 SA 687 (W).

\(^{146}\) Citing the *Dun and Bradstreet* case 215-216. Cf the criticism by Pienaar 39-40.

\(^{147}\) 696.

\(^{148}\) 162.

\(^{149}\) 698; emphasis added.

\(^{150}\) *Crown Cork & Seal Co v Rheem SA (Pty) Ltd* 1980 3 SA 1093 (W) 1100: "No less in South Africa than in England does the conflict arise between the need to protect a man’s property from misuse by others, *in this case the property being confidential information*, and the need to ensure that a litigant is entitled to present his case without unfair halters*; cf 1095: *[T]he principles are in conflict. The one relied upon by the second plaintiff is that it has property in confidential documents, confidential in the sense that they are not the subjects of public knowledge and such that a reasonable businessman might wish to keep to himself... and that merely because there is an action in progress they should not be available to a competitor for possible misuse, but that its *proprietary rights* should be protected. The other principle, relied upon by the defendants, is that no limits should be placed upon their procedural rights in terms of the Rules to make full use of relevant documents in the second plaintiff’s possession in order to present their defence without being hampered at all*; cf 1101; *SA Historical Mint (Pty) Ltd v Sutcliffe* 1983 2 SA 84 (C) 90-91: "There is not and cannot be a general duty burdening an employee... not to compete with the company that formerly employed him. But in the process of competing he may not 'steal' what is the company’s property - its trade secrets or
An exceptionally important decision in this context was given in Harchris Heat Treatment (Pty) Ltd v ISCOR. O'Donovan J unequivocally characterized the trade secret misappropriated in that case as "intellectual property belonging to the plaintiff". What makes the Harchris case furthermore really significant, is the fact that the plaintiff and defendant in the case were not competitors in trade. The wrongfulness of the defendant's misappropriation of the relevant trade secret could therefore not be based on unlawful competition. O'Donovan J held:

"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, at least 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."

The importance of these insights in the Harchris case can hardly be over-emphasized. The whole issue of the legal protection of trade secrets is thereby placed in proper perspective. The insistence in the Dun and Bradstreet case on an allegation that the parties are competitors in trade was - it is submitted

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151 1983 1 SA 548 (T). On appeal the decision was reversed on the facts - South African Iron and Steel Industrial Corporation Ltd v Harchris Heat Treatment (Pty) Ltd 1987 4 SA 421 (A). The majority of the court found it unnecessary to consider the questions of law raised in the court a quo; while the two dissenting judges of appeal were of the opinion that the court a quo had not erred in its findings of fact or on the law.

152 555, emphasis added.

153 222; see fn 121 above; cf Delport 1982 BML 166-167 - a contribution published before the Harchris decision was reported.
correctly\textsuperscript{154} - not followed. The \textit{Harchris} decision highlights the fact that trade secrets may be misappropriated - and are therefore in need of legal protection - also outside a context of unlawful competition. Certainly the majority of cases of trade secret misappropriation will take place in a competitive context, and loss will therefore frequently manifest itself as an infringement of the goodwill of the plaintiff's undertaking.\textsuperscript{155} However, the \textit{Harchris} case illustrates clearly that this is not invariably the case. The need to recognize and protect an independent subjective right to the trade secret becomes apparent,\textsuperscript{156} and the nature of that right is identified as an intellectual property right. Equally important is the insight that having an intellectual property right to a trade secret entitles the trade secret owner to exploit it by attracting custom - and expanding the goodwill of an undertaking - \textit{or in other ways}. As an example, consider the case of an inventor who wants to exploit his trade secret by selling a licence for its use to someone else. If such an inventor does not have a business enterprise of his own, it stands to reason that he cannot base a delictual action for misappropriation of that trade secret on unlawful competition. However, his trade secret is a valuable asset to him just as it may be to the proprietor of a business enterprise. Legal protection must therefore be based on an infringement of his intellectual property right to the trade secret.\textsuperscript{157} And the way for such protection has now been opened by the \textit{Harchris} decision.

Finally, mention should be made of the poignant statement of Schutz AJ in \textit{Easyfind International (SA) (Pty) Ltd v Instaplan Holdings}:\textsuperscript{158}

"To my mind the simple practical guide in cases of appropriation of confidential documents or ideas is the commandment 'Thou shalt not

\textsuperscript{154} Cf Van Heerden and Neethling 224 225 In 10; Du Plessis 1985 \textit{MB} 66; Domanski 1993 \textit{THRHR} 432 437.

\textsuperscript{155} Par 7.4.4.4 above.

\textsuperscript{156} As advocated in par 7.4 above. See especially par 7.4.4.4.1.

\textsuperscript{157} See par 7.4.4.4.1 above. Cf Du Plessis 1985 \textit{MB} 66-67 who comments on the \textit{Dun and Bradstreet} case as follows: "It is seen as an unnecessary limitation that the court should tie the granting of a remedy to a situation of competition. A situation is not inconceivable where information compiled by a person (not necessarily a trader) by expending skill, labour and money is appropriated by another (again not necessarily a trader) and used to the detriment and loss of the first person. However, the court does not appear to envisage a wider basis at all... The reason for this unnecessary limitation is apparent, namely because the right which has been infringed was seen by the court as the plaintiff's right to the goodwill. The right to goodwill will be impinged upon by deeds of unfair competition. The court would probably have been prepared to grant a wider remedy if it had seen the plaintiff's right as an immaterial property right, viz a right to incorporeal property in the form of confidential information. Such a right would incorporate the exclusive power to use and exploit, or authorise others to use and exploit, the incorporeal property, and conversely, to prevent the unauthorised use and exploitation thereof by others."

\textsuperscript{158} 1983 3 SA 917 (W) 927; quoted with apparent approval in \textit{Aercreta SA (Pty) Ltd v Skema Engineering Co (Pty) Ltd} 1984 4 SA 814 (D) 822.
steal'. I hope that by saying this I do not call down on me the wrath of the doctors. I can already see what they may say. The word 'unscientific' may figure. But I do not see that simple practical test as being in conflict with the more elaborate definitions which may be needed in cases of complication. What is clearly established in our law is that it is unlawful for a servant to take his master’s confidential information or documents and use them to compete with the master."

Again the analogy of theft is applied to trade secret misappropriation. Obviously a trade secret can normally not literally be stolen in the sense of removal from the possession of the owner. However, the misappropriation of a trade secret should - as pointed out by Schutz J - receive similar condemnation from the law than that given to theft. Again, the logical way to accomplish this is to recognize that a trade secret is indeed intellectual property, and that its unauthorized acquaintance is already wrongful because a subjective right to the secret itself is infringed. There is then no need to establish first that the goodwill of the trade secret owner’s enterprise (if any) has also been adversely affected before a conclusion of wrongfulness can be made.

9.3.1.2.3 Synthesis

Although some important cases deny that trade secrets are property, many others contain dicta indicating that secrets are property or something akin to property, and in the Harchris decision a trade secret is expressly classified as intellectual property. A trade secret is therefore the object of an intellectual property right. Wrongfulness in the case of trade secret misappropriation is thus constituted by the infringement of the subjective right to the trade secret. Trade secret misappropriation is not confined to a context of trade competition. If trade secret misappropriation does take place in a competitive context, it constitutes a form of unlawful competition, and in such a case the plaintiff’s right to goodwill may be infringed in addition to his right to the trade secret. The delictual norm that the infringement of the right to the trade secret is wrongful, is a concretization of the basic criterion of delictual wrongfulness, the boni mores. The boni mores can therefore be used directly to solve particularly difficult questions of wrongfulness in novel or borderline situations. In applying the boni mores criterion, a careful balancing of the conflicting interests of the parties

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159 In rare cases it may be possible - eg if the secret is written down on a piece of paper, the contents of which are so intricate that the owner cannot retain them in his memory. If the physical piece of paper is stolen in such a case, the secret - the information - will simultaneously be removed from the owner's 'possession'.

160 Cf par 7.4.3 above. This view is shared by Van Heerden and Neethling 224; Du Plessis 1985 MB 68-69; Du Plessis in Neethling (ed) 91-92; Knobel 1990 THRHR 492. For a contrary view see Joubert 1985 THRHR 37-38. Cf further Domanski 1993 THRHR 230-231 442-443; Geldenhuys 109; Pienaar 31 ff 168.
involved must be performed, and regard must be had to policy considerations like fairness and honesty in trade and the values upheld by the South African Constitution.\footnote{Cf par 8.2.2.1 above.}

9.3.1.3 FAULT\footnote{Cf in general par 8.2.3 above.}

Since the appropriate delictual action for trade secret infringement is the Aquilian action, proof of either intention and negligence should be sufficient to found liability.\footnote{See par 8.2.3 above. This would also be in conformity with the relevant provisions of the GATT TRIPS agreement - see par 5.1; 5.2 above.} However, this is not borne out quite unambiguously by case law.\footnote{Cf Domanski 433; Knobel 1990 THRHR 498; cf in respect of unlawful competition generally Van Heerden and Neethling 69; Boberg 149ff.}

In formulating important guidelines on delictual liability for the misappropriation of a trade secret, the court in the Dun and Bradstreet case\footnote{1968 1 SA 209 (C) 221 - quoted in par 9.3.1 above.} employed language suggesting that it had only intentional infringements in mind.\footnote{Eg: "[A] rival trader who is not a client but in some manner obtains this information, and well knowing its nature and the basis upon which it was distributed, uses it...”; "[T]he conduct of a rival trader who obtains and, well knowing the position, uses the information to advance his own business interests and activities amounts to a deliberate misappropriation and filching of the products of another's skill and labour.” Cf Van Heerden and Neethling 232 fn 64.} However, sight should not be lost of Corbett J's clear statement\footnote{221, quoted in par 9.3.1 above.} that he was not attempting to define generally the limits of unlawful competition. Was he attempting to define the limits of liability for trade secret misappropriation, or was he merely dealing with the legal problem presented by the case before him? In other words, must the decision be understood to say that only intentional trade secret infringement can give rise to delictual liability; or simply that intentional trade secret infringement can give rise to delictual liability, without voicing an opinion on negligent trade secret infringement? It should be noted that the plaintiff's particulars of claim averred that the defendant had, well knowing that the relevant information had been kept in confidence, obtained it, reproduced portions thereof and issued written and verbal reports based thereupon to his subscribers.\footnote{See the Dun and Bradstreet case 210.} Thus it appears that the plaintiff's particulars of claim fixed the issues on an intentional infringement, and that it was unnecessary for the court to
consider negligent infringement. Seen in this light, the *Dun and Bradstreet* case cannot be cited as unambiguous authority for the proposition that only intentional trade secret infringement is actionable. The same argument is applicable to the *Stellenbosch Wine Trust* case,\(^{169}\) where the language of the court\(^ {170}\) can again, at first blush, be interpreted as authority that only intentional trade secret infringement is actionable, but where the applicant had claimed in his founding affidavit\(^ {171}\) that his "secret and confidential information... was appropriated and used by respondent with the *deliberate intention* of injuring applicants in their business and trade".

In *Van Castricum v Theunissen*,\(^ {172}\) on the other hand, Roos J stated clearly that since a claim for damages in the case of misappropriation of confidential information will be based on the *lex Aquilia, culpa* on the part of the wrongdoer will suffice to found liability. It is submitted that this statement is correct, being in line with accepted general principles of the law of delict.\(^ {173}\)

It was argued above\(^ {174}\) that liability for trade secret misappropriation can in principle be based on negligence in cases where a finding of intention is ruled out due to the absence of consciousness of wrongfulness on the part of the wrongdoer. This proposition is not entirely without positive law support, since precisely such a situation was, it is submitted, envisaged in *Van Castricum v Theunissen*.\(^ {175}\) The first respondent was an ex-employee who took information regarded as confidential by her former employer with her on leaving the latter's employ. She subsequently used that information while working for her new employer, who was a competitor of her former employer. The first respondent denied that the relevant information was confidential, but the court held that it was. In such a situation, Roos J said,\(^ {176}\) the first respondent's denial that the information was in fact confidential did not create a *bona

\(^{169}\) 1972 3 SA 152 (C) 162.

\(^{170}\) 162 (emphasis added): "[T]he trader who filches information from a competitor, information which he *knows* to be secret and confidential... 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 a *deliberate* misappropriating of a business asset." These words were quoted with approval in the *Atlas Organic Fertilizers* case 1981 2 SA 173 (T) 185.

\(^{171}\) 154 of the report.

\(^{172}\) 1993 2 SA 726 (T) 735.

\(^{173}\) See again par 8.2.3 above.

\(^{174}\) Par 8.2.3.

\(^{175}\) 1993 2 SA 726 (T) 735.

\(^{176}\) 735.
fide dispute of fact, inter alia because a claim for damages would be based on the lex Aquilia - so that culpa on the part of the first respondent would suffice.

The implication is obviously that, in an action ex lege Aquilia, the first respondent would not necessarily succeed with a defence of absence of consciousness of wrongfulness, since her liability could be based on negligence. It should be noted that the decision in the Van Castricum case concerned an application for an interdict, so that Roos J’s dicta regarding fault were strictly obiter, but the decision does at least offer persuasive force to the argument that negligence is a sufficient form of fault for Aquilian liability in the case of trade secret misappropriation.

9.3.1.4 CAUSATION

In the Dun and Bradstreet case Corbett J regarded an allegation that the plaintiff and the defendant carried on business in competition with one another as essential for the plaintiff's claim, "not only because of the basis advanced for plaintiff's claim, viz interference with its trade arising from unlawful competition, but also because it furnishes part of the causal connection between the conduct complained of and the damage suffered by the plaintiff". Presumably it was meant that only a trade competitor can cause "loss of custom" by unfair competition tactics. In the Dun and Bradstreet case the plaintiff carried on his trade in Johannesburg and "elsewhere in the Republic", while the defendant carried on his trade in Fish Hoek. It was not clear whether their spheres of business activity overlapped or not. In this light the court was unable to determine whether the loss of custom allegedly suffered by the plaintiff was caused by the defendant's unfair competition, or was perhaps caused in other ways.

The Dun and Bradstreet case thus demonstrates how proof that the parties to trade secret litigation are trade competitors may help establish a factual causal nexus between the plaintiff's damage - which will in such a case have manifested itself as a loss of goodwill - and the trade secret misappropriation by the defendant. However, it has been shown that trade secret infringement can also be perpetrated by non-competitors, and that trade secret protection is not dependent on the law of unlawful competition. Where trade secret misappropriation has taken place outside a competitive context, patrimonial loss can also be suffered - although it need not take

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177 Cf in general par 8.2.4 above.

178 1968 1 SA 209 (C) 222.

179 Cf par 8.2.4 above on the distinction between factual and legal causation.

180 Par 9.2.1.2.2; 7.4.4.4 above.
the form of loss to goodwill - and in such a case the insight gained from the *Dun and Bradstreet* case on the determination of causation will not apply.

Legal causation does not appear to have enjoyed the attention of the courts in trade secret cases reported thus far.\(^{181}\) This can probably be attributed to the fact that legal causation is in general only expressly considered in the type of case where a chain of successive harmful consequences manifests itself, and the court is then called upon to decide for which of the consequences the defendant may be held liable. Such cases do not appear to have cropped up in the field of trade secret litigation yet. It must also be borne in mind that the majority of trade secret cases involve applications for interdicts, for which causation need not be established.\(^{182}\)

### 9.3.1.5 PATRIMONIAL LOSS\(^{183}\)

Recognition exists in case law that patrimonial loss may result from the deprivation of the plaintiff (the owner or licensee) of the power to exploit the secret.\(^{184}\) In a context of unlawful competition, the plaintiff's loss of profit will usually flow from his or her loss of trade or custom, in that clients or potential clients deal with the defendant instead of with him or her.\(^{185}\)

### 9.3.2 CONTRACT\(^{186}\)

#### 9.3.2.1 EXPRESS CONTRACT\(^{187}\)

A study of reported South African case law shows that express contractual provisions protecting trade secrets are frequently expressed in restraint of trade agreements in

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\(^{181}\) Cf Van Heerden and Neethling 71 in respect of unlawful competition cases in general.

\(^{182}\) Cf par 8.5.4 above; 9.4.2 below.

\(^{183}\) Cf in general par 8.2.5 above.

\(^{184}\) Cf *Harchris Heat Treatment (Pty) Ltd v ISCOR* 1983 1 SA 548 (T) 555: "Loss will, at least *prima facie* be occasioned by the unlawful deprivation of the owner of the trade secret of the right to exploit it, whether by attracting custom, or in other ways"; Knobel 1990 *THRHR* 499 fn 91.

\(^{185}\) *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* 1968 1 SA 209 (C) 221-223; cf Van Heerden and Neethling 72; Visser and Potgieter 345 fn 112; Knobel 1990 *THRHR* 499.

\(^{186}\) Cf in general par 8.3 above.

\(^{187}\) Cf in general par 8.3.1 above.
employment contracts. General principles applicable to such agreements have been stated in the previous chapter. Express contractual agreements protecting trade secrets concluded between actual or potential customers have also enjoyed the attention of the courts.

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188 Cf eg Sibex Engineering Services (Pty) Ltd v Van Wyk 1991 2 SA 482 (T); Domanski 1993 THRHR 240.

189 Par 8.3.1.

190 These principles have been stated and applied in trade secret cases. Cf eg Sibex Engineering Services (Pty) Ltd v Van Wyk 1991 2 SA 482 (T) where the majority and minority judgments were substantially unanimous on the principles to be applied - 486 (majority): "In general,... as was said in Sunshine records [1990 4 SA 782 (A) 794], it would 'be contrary to the public interest to enforce an unreasonable restriction on a person's freedom to trade'. The fact that a party does not have any interest in the enforcement [in casu in the sense of seeking to protect trade secrets - see 487] would obviously establish that the restraint is unreasonable"; 502-503 (minority): "A contractual restraint curtailing the freedom of a former employee to do the work for which he is qualified will be held to be unreasonable, contrary to the public interest and therefore unenforceable on grounds of public policy if the ex-employee (the covenantor) proves that at the time enforcement is sought, the restraint is directed solely to the restriction of fair competition with the ex-employer (the covenantee); and that the restraint is not at that time reasonably necessary for the legitimate protection of the covenantee's protectable proprietary interests, being his goodwill in the form of trade connection, and his trade secrets. If it appears that such a protectable interest then exists and that the restraint is in terms wider than is reasonably necessary for the protection thereof, the Court may enforce any part of the restraint that nevertheless appears to remain reasonably necessary for that purpose"; 505-506 (minority - Stegmann J): "[I]n order to prove that the enforcement of a contractual obligation by which he has curtailed his freedom to work would be unreasonable and contrary to public policy, a former employee has to do nothing more than to prove that his former employer, seeking to enforce the restraint, has no trade connection and no trade secrets to protect; or, if he has, that the restraint is such that its enforcement would not serve to protect him. Alternatively he may show, if he can, that the restraint is wider than is reasonably necessary for the protection of the former employer's trade connection and trade secrets." However, the majority found (487-488) on the facts that there were no trade secrets to protect and that the restraint agreement could not be enforced; while the minority judge found (509) that the covenantor had not discharged the onus of proving that the covenantee had no trade secret to protect or that the former had no access to such secrets, and that the restraint was therefore enforceable. Cf Lewis 1991 Annual Survey 49: "It should be noted that there is no apparent dissension in the judgments on the principles to be applied to determine whether a restraint on an erstwhile employee is unenforceable: Stegmann J differed only in his interpretation of the facts. In view of the uncertainty as to the principles to be invoked in determining whether a restraint of trade is contrary to the public interest, the discussion of these issues by Stegmann J is most useful"; Domanski 1993 THRHR 241-242 who is apparently of the opinion (242) that the majority and minority judgments differ in principle as well.

191 Cf Aercrete South Africa (Pty) Ltd v Skema Engineering Co (Pty) Ltd 1984 4 SA 814 (D); cf Domanski 1993 THRHR 240.

192 Cf par 8.3.1 above for other possibilities.
9.3.2.2 IMPLIED CONTRACT

During the subsistence of a contract of service, there is an implied contractual obligation on the employee to preserve the secrecy of the employer’s trade secrets. This obligation is a part of the employee’s wider duty of good faith, also called the duty of fidelity or the duty to further the employer’s business interests. After termination of the service contract, there is still a duty on the ex-employee not to use or disclose the former employer’s trade secrets, and there are clear dicta in the case law that the origin of this duty may be an implied contractual term. Thus in Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg, which has been described as "undoubtedly the leading case under this head", Marais J said the following:

"[I]t must be presumed that every employer who has trade competitors would, if asked the question, say: 'But, of course, my employees are under a duty to me not to disclose information which can harm my business,' and the employees would confirm that such a term is implied in their contracts of service. If an employee or ex-employee breaches this

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193 Cf in general par 8.3.2 above.
194 Since the protection of trade secrets in South African case law by implied contractual terms has thus far featured only in an employment or ex-employment context (cf Domanski 1993 THRHR 233), the discussion will centre around the service contract. It is, however, conceivable that terms protecting trade secrets may also be implied into other contracts, or that a contract protecting a trade secret may be implied where parties stand in certain relationships, for instance during pre-contractual negotiations - cf par 8.3.2 above.
195 Cf eg Pelunsky & Co v Teron 1913 WLD 34 38; Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 690-691; Premier Medical and Industrial Equipment (Pty) Ltd v Winkler 1971 3 SA 866 (W) 867-868; Harvey Tiling Co (Pty) (Ltd) v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 322; Allied Electric (Pty) Ltd v Meyer 1979 4 SA 325 (W) 335; Freight Bureau (Pty) Ltd v Kruger 1979 4 SA 337 (W) 339-340; Rectifier and Communication Systems (Pty) Ltd v Harrison 1981 2 SA 283 (C) 286 287; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 94.
196 Cf Gibson 218-220; Grogan 41; Rycroft and Jordaan 61; Van Jaarsveld and Vivier 652-653. See par 8.3.2 above on the nature of this duty.
197 Cf eg Van Castricum v Theunissen 1993 2 SA 726 (T) 736: "The duty to preserve confidential information is not merely limited to the existence of the contractual relationship of employer and employee, but extends to the period after [termination] of such contractual relationship."
198 1967 1 SA 686 (W).
199 Domanski 1993 THRHR 234. See also Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 190 where the Coolair Ventilator case was cited as authority for the following statement: "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." Cf Delport 1982 BML 187 188 fn 25; Leon 1982 De Rebus 379; Pistorius and Visser 1993 SA Merc LJ 331.
200 689, emphasis added.
term he is liable to be interdicted from continuing to do so and to be made to compensate for damages caused... [D]isclosure would be a breach of the service contract."

In *Meter Systems Holdings Ltd v Venter*, it was explicitly stated that 
"[t]he information received in confidence by an employee whilst in employment with a particular employer remains protected by a legal duty, implied by the contract of employment, which continues to prohibit disclosure of such information after the termination of the relationship of employer and employee."  

However, if one delves a bit deeper, inconsistencies are unearthed. While the courts delineate with a fair measure of precision the duties of the employee in connection with his employer’s trade secrets, the legal basis of those duties are rarely articulated in an unambiguous manner. This situation makes it exceedingly difficult to decide whether some of the reported South African trade secret cases were based on contract or on delict. It is submitted that if the reported case law is analyzed, the mere fact that the parties to trade secret litigation were formerly in a contractual relationship of employer and employee, does not necessarily justify a conclusion that the decision was based on implied contract. On the contrary, closer perusal of the cases often suggests that liability was delictual.

The decision in *Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg*, which has been described as the leading authority for trade secret protection based on implied contractual terms may serve as an example. On the one hand, as seen above, *dicta* in the judgment indicate clearly that protection may be based on an implied contractual term. However, later in the judgment the reader encounters words with a strong ring of delictual liability to them:

"It seems to me that an employer is entitled to be protected from unfair competition, as it is called in American law, brought about by confidential information of his business having been conveyed to a trade rival by an

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201 1993 1 SA 409 (W) 428-429.

202 Cf also *Beeton v Peninsula Transport Co (Pty) Ltd* 1934 CPD 57-58.


204 As apparently suggested by Domanski 1993 *THRHR* 237; Pistorius and Visser 1993 *SA Merc LJ* 331.

205 1967 1 SA 686 (W).

206 See fn 199 above.
employee or ex-employee";\(^{207}\) and
"[A] prima facie case has been established that... Liebenberg (first respondent) unlawfully pretended to continue his employment relationship with the applicant company with the intention of gaining confidential knowledge of the applicant's business affairs; that he \textit{mala fide} and unlawfully used trade and business information obtained as an employee of the applicant in order to promote the interests of a rival enterprise; that through the agency of Liebenberg, the second respondent identified itself with this unlawful conduct and must share responsibility for it; and that the applicant is entitled to protection from such an invasion of its rights and to compensation for any damage it has suffered."\(^{208}\)

The delict-like tenor of these words speaks for itself. Furthermore, it is difficult to see how the second respondent - who was in no way party to a contractual relationship with the applicant - could 'share responsibility' for the first respondent's misappropriation unless the liability was founded in delict. Thus even the case which has been regarded as the South African \textit{locus classicus} for the protection of trade secrets by implied contractual obligation, does not, on closer analysis, seem to offer unambiguous authority for the proposition after all. Similar ambiguity is a feature of other cases.\(^{209}\)

It is submitted that this situation can at least partially be explained by the pervasive influence of English law on this part of South African law. English precedents are freely cited in well nigh every South African case dealing with the legal protection of trade secrets. As seen,\(^{210}\) the English action for breach of confidence encompasses liability both in and out of contractual contexts. Liability in terms of that action in situations where no contractual relationship exists, appears - at least from the perspective of a South African lawyer - to have the attributes of delictual liability. It is, however, not characterized as such by the English courts, and is either based on equity or sometimes even on a contractual obligation implied by the law into a situation where no contractual relationship existed on the facts.\(^{211}\) Direct reliance

\(^{207}\) 691.

\(^{208}\) 692.

\(^{209}\) Eg Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) - cf Domanski 1993 THRHR 236; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) - cf Domanski 1993 THRHR 237; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) - cf Domanski 1993 THRHR 238.

\(^{210}\) Par 2.2.2.1.1; 2.2.2.1.2 above.

\(^{211}\) Cf par 2.2.2.1.1; 2.2.2.1.2; 2.5 above.
on English precedents has therefore probably contributed to obscure the true foundations of some South African trade secret cases, notably cases where a contractual relationship - and particularly one of employer and employee - was present at least at some stage during the events giving rise to the litigation.\textsuperscript{212}

The decision in \textit{Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd}\textsuperscript{213} may serve as illustration here. In this case an employee left the employ of his employer and - using a secret manufacturing process, the development of which he contributed to in the course of his employment - he started to manufacture roof tiles in competition with the former employer. The latter successfully applied for an interdict to restrain the former from using the secret. Nicholas J opened his exposition of the law to be applied in the case by stating that the parties were agreed that the applicable legal principle was the one formulated as follows in the classical \textit{Saltman Engineering} case\textsuperscript{214} of English law:

"The... claim is based on breach of confidence, in respect of which a right may be infringed without the necessity of there being any contractual relationship... If two parties make a contract, under which one of them obtains for the purpose of the contract or in connection with it some confidential matter, even though the contract is silent on the matter of confidence the law will imply an obligation to treat that confidential matter in a confidential way, as one of the implied terms of the contract; but the obligation to respect confidence is not limited to cases where the parties are in contractual relationship."

He proceeded to quote\textsuperscript{215} \textit{dicta} supporting both contractual\textsuperscript{216} and non-contractual protection of trade secrets,\textsuperscript{217} and then simply stated\textsuperscript{218} that it was not disputed that the defendant, "as a former employee of [the plaintiff] was under a general duty of good faith not to take or use for the benefit of himself or [the company he had formed] information confidential to [the plaintiff]". Thus, although authority for both contractual and non-contractual protection is cited in immediate juxtaposition, no

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\textsuperscript{212} In cases where the parties did not enter into contractual relationships, the true foundation is usually pointed out to be delict - cf the case law mentioned in par 9.3.1 above.
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\textsuperscript{213} 1977 1 SA 316 (T).
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\textsuperscript{214} See par 2.2.2.1.2 above.
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\textsuperscript{215} 321-322.
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\textsuperscript{216} From the \textit{Coolair Ventilator} case 1967 1 SA 686 (W).
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\textsuperscript{217} From the English \textit{Saltman Engineering} case; see par 2.2.2.1.2 above.
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\textsuperscript{218} 322.
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choice was made indicating on which base the decision was founded. This has led to uncertainty among commentators as to whether the Harvey Tiling case was based on breach of an implied term of the employment contract or on delict. The courts, on the other hand, have interpreted Harvey Tiling as applying delictual principles.

Could it be that after termination of the contractual relationship between employer and employee, protection must be based either on express contract or on delict, and not implied contract? It does seem a bit artificial to base protection of a trade

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219 Thus the Harvey Tiling case is discussed by Joubert under the rubric "Law of Agency" 1977 Annual Survey 112, and under "Delict" by Burchell 1977 Annual Survey 177-178 (at 178 he says that it is "not certain whether Nicholas J regarded the basis of the action as delict or breach of a fiduciary duty"). Cf further Domanski 1993 THRHR 445: "To attempt to identify the basis upon which the interdict was granted, is no easy task... Th[e] language [employed in the particulars of claim] suggests a cause of action founded on delictual liability for unlawful competition. But the reported judgment mentions neither this cause of action, nor any of the cases (other than the Stellenbosch Wine Trust case) which are associated with it. More's the pity, for the same result could easily have been achieved by the application of Aquilian principles. Instead, counsel were agreed that the applicable legal principle was breach of confidence... [T]he question of whether or not this concept exists in our law was not addressed; nor was there any reference to Corbett J's discussion of the topic in the Dun and Bradstreet case [see par 9.3.1 above]. Nicholas J went on to quote a passage from the Coolair Ventilator case. That passage, together with a statement which occurs shortly afterwards [322 - that the former employee was under a "general duty of good faith"], suggests that the court considered the legal basis of liability to be the breach of an implied term in the contract of service... One may tentatively conclude that the basis of the court's decision was a hybrid of the equitable doctrine of breach of confidence and the breach of an implied term in the contract of service"; Du Plessis 1985 MB 67. Note again that the English action for breach of confidence can be said to contain contractual and non-contractual elements (par 2.2.2.1 above), and the South African lawyer would be tempted to classify the latter as delictual - the Americans have indeed classified breach of confidence as a tort. From a perspective coloured by familiarity with South African legal principles, the English action for breach of confidence may therefore itself be regarded as a hybrid remedy. Cf further Van Heerden and Neethling 239 fn 111 who are of the opinion that the case was based on the English action for breach of confidence, while "the same result could have been reached by an appeal to an implied term of the contract of service and the general principles of the law of delict".

220 In the Atlas Organic Fertilizers case 1981 2 SA 173 (T) 185, Van Dijkhorst J allowed that "[t]here is some uncertainty as to whether the judgment in the Harvey Tiling Co case is based on delict or on breach of fiduciary duty (on the basis of an implied term in the contract of employment)", but concluded that the particulars of claim indicate that the basis of the action was delictual. In Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 429-430 Stegmann J understood the Harvey Tiling case to apply South African delictual principles. Finally, in Schultz v Butt 1986 3 SA 667 (A) 679 Nicholas AJA embraced the opportunity to shed light on his own decision in Harvey Tiling and stated that although there was no statement in the summons to that effect, it is clear that the cause of action was unfair competition. (Domanski 1993 THRHR 434 fn 78 is apparently not prepared to accept this ex post facto explanation.)

221 Which presupposes the presence of a valid restraint of trade agreement (which, it is submitted, effectively creates a new contractual relationship between the parties - albeit on a far more limited basis than before - for the duration of the restraint).

222 Cf Rycroft and Jordaan 61 fn 384: "The duty not to disclose confidential information may extend beyond the life of the contract of employment... Subsequent disclosure may be prevented either in terms of a restraint of trade provision in the contract, or on the basis of unlawful competition."
secret on an implied term where the contractual relationship has been terminated. It is submitted that the dogmatically purer view is probably that the duty imposed on the ex-employee is delictual in origin, and is simply the correlate of the ex-employer's subjective right to his trade secret.\(^{223}\) On the other hand, the pragmatically more prudent view - in the light of the clear dicta from the case law quoted above - is probably that trade secret protection may after termination of the employment relationship be based either on delict or implied contractual terms.

### 9.3.3 CONCURRENCE OF DELICTUAL AND CONTRACTUAL CLAIMS

Principles applicable to a concurrence of delictual and contractual claims have been set forth above.\(^{224}\) No decided trade secret case was encountered in which an articulated choice between delictual and contractual remedies was made in a concurrence situation.

### 9.4 SPECIAL PROBLEMS

#### 9.4.1 THE POSITION OF EMPLOYEES AND EX-EMPLOYEES USING THE EMPLOYER'S TRADE SECRETS\(^{225}\)

The South African case law clearly reflects the high incidence of trade secret misappropriation in the context of extant or discontinued employer-employee relationships.\(^{226}\) If an employee still in the employ of the trade secret owner discloses or uses the trade secret in an unauthorized manner, the trade secret owner may base legal proceedings against the employee on express contract (if the service contract contains a term or terms providing for the protection of the employer's trade secrets),\(^{227}\) implied contractual terms,\(^{228}\) or delict.\(^{229}\) Where the employee has already left the employ of the trade secret owner and then uses or discloses the secret without authority, the latter's remedies are based on express contract (if the

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\(^{223}\) Cf par 7.3.1; 7.3.5 above.

\(^{224}\) Par 8.4.

\(^{225}\) Cf in general par 8.6.1 above.

\(^{226}\) Cf in general Van Heerden and Neethling 234ff; Domanski 1993 THRHR 233.

\(^{227}\) Par 9.3.2.1 above.

\(^{228}\) Par 9.3.2.2 above.

\(^{229}\) Cf par 9.3.1 above; Van Heerden and Neethling 234-235.
service contract contained a valid restraint of trade agreement), (possibly) implied contract, and delict.

Following English law, the courts have held that a distinction must be made between the employer's trade secrets and the employee's general knowledge and skills acquired in the course of his or her employment. The former may not be used or disclosed without the employer's consent; whereas the latter may be used or disclosed after termination of the contract of employment. According to

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230 Par 9.3.2.1 above.

231 Par 9.3.2.2 above.

232 Par 9.3.1 above.

233 Cf par 2.4.1 above.


235 In Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 690-691 and Allied Electric (Pty) Ltd v Meyer 1979 4 SA 326 (W) 335 (cf Domanski 1993 THRHR 236) a distinction is made, following the English case United Indigo Chemical Co Ltd v Robinson (1932) 19 RPC 179, between use and disclosure of the information in this regard. Thus the ex-employee may not be restrained from using the information in his own business, but he may be restrained from disclosing it to others. In Faccenda Chicken Ltd v Fowler [1986] All ER 617 (CA) 627 the English Court of Appeal preferred "to leave open... for further examination on some other occasion the question whether additional protection should be afforded to an employer where the former employee is not seeking to earn a living by making use of the body of skill, knowledge and experience which he has acquired in the course of his career, but is merely selling to a third party information which he acquired in confidence in the course of his former employment". Cf Coleman 15: "But should the balance of probabilities be so very different when an employee no longer seeks to earn his living from his knowledge and skill, but merely capitalises on it? Is there really a difference between earning one's living from using information and living off the proceeds of a one-off sale? Is the latter more akin to industrial espionage than earning an honest day's pay for an honest day's toil?" In Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 428 no distinction is made between use and disclosure in this regard. It is submitted that since the type of information at stake here does not amount to real trade secrets, use or disclosure after termination of the employment relationship should in principle not be lawful. The only situation in which different treatment may be warranted is where the ex-employee discloses such information to a rival of the employer with the sole motive of harming the former, especially if the employee obtains no other advantage from the disclosure - in such a case disclosure may well according to general delictual principles be wrongful - cf Neethling, Potgieter and Visser 38; par 8.2.2.3 on the role of motive in the determination of wrongfulness. It is not inconceivable that use of such information may also be made with the sole motive of harming the employer - in which case such use may also be wrongful - but the likelihood of this happening is probably far smaller.

236 Cf eg Harvey Tiling (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 326; Atlas Organic Fertilizers (Pty) Ltd v Pikewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 192-194; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 91; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 184;
which criteria is this distinction to be made? Individual judgments may not be equally clear on this, but a composite view gained by an overview of the relevant case law reveals that the criteria used to distinguish trade secrets are the elements of protectable trade secrets discussed above, especially secrecy, a will on the part of holder of the right - or steps taken by him or her - to keep the relevant information secret, and economic value.

In Knox D'Arcy Ltd v Jamieson Stegmann J made a distinction between trade secrets in a strict sense, and information which does not qualify as trade secrets, but which must nevertheless be treated as confidential by the employee in the discharge of his general duty of good faith to his employer. Trade secrets may not be used by the employee except for the benefit of the employer, even after termination of the employment contract. The second category of information may

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Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 428 430.

237 Par 9.2 above. The judgment in Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) was a model of clarity in this respect. At 193 Van Dijkhorst J dealt with the principle that the employee could not be restrained from using his acquired general knowledge and skill after termination of the service contract; and quoted authority indicating how difficult it could be to distinguish between the employer's protectable confidential information and the employee's acquired general knowledge and skill. Then, at 194, Van Dijkhorst J turned to the facts of the case before him to decide whether the relevant information merited protection: "Bearing in mind the principles and dicta set out above I have to determine whether public policy requires that the actions of Pikkewyn in setting up a production process in competition with Atlas were unlawful. Firstly, I do not think that the process for which protection is sought in the instant case is confidential." The judge then pointed out that there was no evidence that the production sequence was kept secret or limited to certain employees only, all employees and visitors had access to the plant, and the various units used in the process were more or less openly used in the factory. Furthermore, there was no evidence that the process was valuable enough. Note how the elements of secrecy, will or steps taken to preserve secrecy, and economic value were employed to determine whether the information was protectable.

238 Cf Van Castricum v Theunissen 1993 2 SA 726 (T) 730-732; Bonnet v Schofield 1989 2 SA 156 (D) 159; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 184; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 89-91; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 194; Premier Medical and Industrial Equipment (Pty) Ltd v Winkler 1971 3 SA 866 (W) 869-870.

239 Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 194. Cf Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) 126 where the respondent averred - unsuccessfully - that the applicants did not regard the relevant information as a trade secret.

240 Cf Van Castricum v Theunissen 1993 2 SA 726 (T) 732; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 187; SA Historical Mint (Pty) Ltd v Sutcliffe 1983 2 SA 84 (C) 90; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 2 SA 173 (T) 194; Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg 1967 1 SA 686 (W) 689.

241 1992 3 SA 520 (W).

242 Following the English Faccenda Chicken case - par 2.4.1 above.

243 On the duty of good faith, see par 8.3.2; 8.6.1; 9.3.2.2 above.
during subsistence of the service contract only be used for the benefit of the employer, but after termination of the contractual relationship the employee is free to use such information - in so far as it remains in his head and has become part of his own skill and knowledge - for his own purposes. In the **Meter Systems** case\(^2\) Stegmann J again confirmed the validity of the distinction between trade secrets and other information which must be treated as confidential only during the subsistence of the employment contract.

Criticism has been levelled at the distinction adopted in *Knox D'Arcy* and *Meter Systems*. Van Heerden and Neethling\(^2\) point out that no practical criteria were supplied according to which trade secrets and the employer's other confidential information may satisfactorily be distinguished. The susceptibility of the information to "remain in the employee's head" cannot be such a criterion, since true trade secrets may also conceivably remain in the employee's head. Pistorius and Visser\(^2\) maintain that the protectability of trade secrets depends on the nature of the secrets, rather than on the duration of the employment contract. They say that the employee's obligation not to disclose the employer's trade secrets terminates only when the information ceases to be of a confidential nature, and not with the termination of the contractual relationship. One cannot but agree with Van Heerden and Neethling that satisfactory criteria to distinguish the two categories were not given. (These criteria are - as noted - the elements of secrecy, the owner's will and steps taken to preserve secrecy, economic value, and so forth.) That the susceptibility of the information to remain in the employee's head cannot be such a criterion, also stands to reason. And the submission by Pistorius and Visser that protection of trade secrets depends (inter alia) on the secrecy thereof, is one of the fundamental tenets of this study.

\(^2\) 1993 1 SA 409 (W) 430-432.

\(^2\) 237: "It is difficult to see on which grounds a distinction is or can be made between trade secrets (as confidential information) and other confidential information - Stegmann J gave no indication as to the criterion(s) to be employed. Indeed, it seems that even information which may correctly be classified as trade secrets..., may as a result of many years of experience, involvement in the development of the secret and above average intelligence also 'be carried away in the employee's head after the employment has ended'. Does this information then cease to be a trade secret?"

\(^2\) 1993 SA *Merc LJ* 343-344: "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 it for her own benefit depends upon the intrinsic nature of the information; this duty does not terminate with the contract of employment... The (former) 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"; cf Van Heerden and Neethling 237-239.

\(^2\) Cf Van Heerden and Neethling 237-238 who emphasize confidentiality (secrecy) and economic value; Pistorius and Visser 1993 SA *Merc LJ* 344-345.
Nevertheless, it is submitted that the distinction made in *Knox D'Arcy* is a valid one and may shed light on the basis of trade secret protection in the context of employment contracts. Unauthorized use or disclosure by the employee of the employer’s trade secrets during the subsistence of the contractual relationship is, inter alia, a breach of his or her duty of good faith implied in the service contract. However, the duty of good faith entails more than a duty to respect the employer’s trade secrets. Thus the employee must further the interests of the employer - and he or she is for instance not allowed to compete with the latter. Say the employer is a merchant in certain goods which he obtains from one single supplier. This information, and the information about the identity, address, telephone number, etcetera of the supplier may not be a secret. Nevertheless, if *during the subsistence of the contract of employment*, the employee uses this information to obtain merchandise from the same supplier to sell for a private profit in his spare time, such employee will be in breach of his duty of good faith and the employer will have contractual remedies against him. However, once the contractual relationship is terminated, the employee’s implied duty of good faith is, it is submitted, probably also terminated. The ex-employee is now entitled to compete with his former employer and in so doing he may use his general knowledge and skill acquired in the course of his employment, but not the trade secrets of his former employer. Therefore no basis remains on which use of the non-secret information in the example cited above can give rise to liability, since that information is not - like a trade secret -

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248 Cf Larkin 1992 *Annual Survey* 269.

249 It is also a delict committed against the employer, on the basis of an infringement of the latter’s subjective right to the trade secret.

250 Cf par 8.3.2; 8.6.1; 9.3.2.2 above.

251 Cf Grogan 40-42; Rycroft and Jordaan 59-62; Van Jaarsveld and Viviers 651-653; Van Jaarsveld and Van Eck 118ff.

252 Cf Grogan 40; Rycroft and Jordaan 60-61 especially fn 381; Van Jaarsveld and Viviers 651-652; Van Jaarsveld and Van Eck 123 and case law cited.

253 Cf *Premier Medical and Industrial Equipment (Pty) Ltd v Winkler* 1971 3 SA 866 (W) 868.

254 Two possible exceptions may be considered: (a) Such information may possibly be protected by an express contractual agreement in restraint of trade. However, the position is not entirely clear. In the *Meter Systems* case 1993 1 SA 409 (W) 426 Stegmann J stated that “the parties to a contract are free to define ‘confidential information’ in such a manner as they may seem fit for the purposes of their contract... [They] are free to make such agreements as they choose to determine the extent of the protection to be enjoyed by confidential information, as defined by them, against use or disclosure by a party to the contract, both during subsistence of the main terms of the contract and after termination of its main provisions... Of course these contractual freedoms are subject to the ordinary rules of the law of contract relating to voidness or unenforceability... for reasons of vagueness, or illegality, or infringement of public policy and so on”. The question is, will the courts enforce a restraint of trade defining information - which is not really a trade secret according to the objective criteria recognized by the positive law - as confidential? In *Faccenda Chicken Ltd v Fowler* [1986] All
protectable on account of its intrinsic nature. This explains, it is submitted, why such information may freely be used by the ex-employee after termination of the service contract, while trade secrets may not. Liability for the misappropriation of non-secret information is dependent on the relationship between the parties, but largely independent of the nature of the information; whereas liability for the use of trade secrets is largely independent of the relationship between the parties, but dependent on the nature and characteristics of the information.\(^{255}\)

Why should the courts require that information which is not a trade secret, but which the employee has acquired in the course of his employment, may only be used with impunity by the ex-employee in so far as he carries that information away in his head - but not if the ex-employee has carefully made notes or copies of the information, or deliberately memorized it in its entirety, whilst still in the service of the employer?\(^{256}\) If the information is not protectable on account of its intrinsic nature, and if the employee's duty of good faith has been terminated with the service contract, what difference can the making of notes or deliberate memorizing make?

Two explanations may be considered. On the one hand, liability may probably be based on the breach of good faith which took place during the subsistence of the contract - that is, when the list-making, copying or memorizing took place. Thus, although relief may be obtained against the employee after termination of the contractual relationship, it is still founded on a breach of implied duty that took place during the subsistence of that relationship.

A second explanation relates to the fact that secrecy of a trade secret may relate to the information "as a whole". Thus, as noted above,\(^{257}\) information may be a secret

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\(^{255}\) Cf par 8.6.1 above.

\(^{256}\) Cf Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 428; Knox D'Arcy Ltd v Jamieson 1992 3 SA 520 (W) 527; Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 327; Van Heerden and Neethling 238 fn 104; Knobel 1990 THRHR 497.

\(^{257}\) Par 9.2.3; cf 7.2.3 above.
"as a whole" even though the "constituent parts" from which it has been assembled may be individually in the public domain. Thus a customer list may be secret though the individual entries in it are not, and a production line may be secret though the individual elements thereof are not. Because such "constituent parts" of the secret are themselves not secret, the employee may after termination of the service contract use such individual pieces of information as he or she may remember. However, since the assembled whole is a trade secret, he or she may never make unauthorized use thereof - even if the information as a whole can be carried away in his or her head after termination of the service contract. Viewed in this way, the making of lists, notes or copies or the deliberate memorization of information are pointers indicating that the employee is not merely using his or her general knowledge and skills, but is endeavouring to use the information as a whole - that is, the trade secret of the former employer. In the case of misappropriation of such a trade secret, a "lead-time interdict"\textsuperscript{258} is particularly apposite, since the duration of the ex-employee's "springboard" or unfair advantage corresponds with the time it would have taken him or her to go through the same process as that gone through by the trade secret owner to compile the trade secret from its individual parts. The purpose of an interdict in such a case should be to deprive the ex-employee from the savings in time and effort gained by the misappropriation of the secret, in order to restore to the trade secret owner the advantage he or she lawfully deserves.

It has been submitted by South African authors\textsuperscript{259} that even if specific information qualifies as a trade secret, unauthorized use thereof by the ex-employee may in special circumstances be justified by the \textit{boni mores}. The court must weigh up the conflicting interests of the employer and the ex-employee and decide in the light of the circumstances of the case and relevant policy considerations whether use of the trade secret by the ex-employee is nevertheless reasonable and thus lawful.\textsuperscript{260} It is submitted that this proposition deserves support, but that only in highly unusual cases should an ex-employee be allowed to use the true trade secrets of the former employer.

\textsuperscript{258} Cf par 8.6.4 above; 9.4.2.2 below.

\textsuperscript{259} Cf Van Heerden and Neethling 237-238: "It is proposed that the protection of trade secrets in regard to an ex-employee should be approached in the following manner. First of all it must be determined, with reference to the requirements of \textit{confidentiality} and \textit{economic value}, whether the information concerned actually constitutes a trade secret... If the information does not constitute a trade secret, the ex-employee is free to utilise it in a competing undertaking irrespective of whether he carried it away in his head or by other means. On the other hand, if the information is found to be a trade secret, it is in principle protected against appropriation by the ex-employee, unless the latter can show that his use of the trade secret is nonetheless \textit{justified}. Whether such justification is present, can only be answered by a careful weighing up of the conflicting interests of the employer and ex-employee, employing the criterion of reasonableness or the \textit{boni mores} in the light of all the relevant circumstances of the case"; Knobel 1990 \textit{THRHR} 497-498; par 8.6.1 above.

\textsuperscript{260} For an enumeration of factors which may be taken into account, and policy considerations at stake, see par 8.6.1 above.
employer with impunity, and then only in situations where the ex-employee acquired the secret in a reasonable manner in the course of his or her service before the employment relationship was terminated. Guidelines applicable to this type of situation were suggested above.261

9.4.2 APPLICATION OF THE INTERDICT IN TRADE SECRET CASES

9.4.2.1 REQUIREMENTS262

According to Harms263 the allegations essential for an application for an interdict protecting confidential information are:

(a) The plaintiff must have an interest in the confidential information. This normally, but not necessarily, requires that he must be the 'owner' of the information;264

(b) the information must be of a confidential nature;

(c) there must be a relationship between the parties that imposed a duty on the defendant to preserve the confidence of information imparted to him - the most common example of which is the relationship between employer and employee;265 or the plaintiff may also rely on the fact that the defendant is his trade rival and has obtained information in an improper manner;266

(d) the defendant must have had knowledge of the confidentiality of the information and its value;267

(e) improper possession or use of that information, whether as a springboard or otherwise;268 and

261 Par 8.6.1.

262 Cf in general par 8.5.4 above.

263 73-74.

264 Citing the Prok Africa case 1980 3 SA 687 (W) 696.

265 Citing the Multi Tube Systems case 1984 3 SA 182 (D) and the Aercrete case 1984 4 SA 814 (D) 822.

266 Citing Dun and Bradstreet 1968 1 SA 209 (C).


268 Citing the Multi Tube Systems case 1984 3 SA 182 (D) and the Harvey Tiling case 1977 1 SA 316 (T).
(f) damages suffered, if any.\textsuperscript{269}

The first five of these 'essential elements' were quoted in \textit{Van Castricum v Theunissen}.\textsuperscript{270} In the \textit{Multi Tube Systems} case\textsuperscript{271} - in which application was made for an interim interdict, Broome J stated that the applicant had to establish the following elements:

(a) that confidential information exists;
(b) a relationship between the applicant and the respondent in terms of which information was made known or became discoverable;
(c) express or implied knowledge of its confidentiality and value; and
(d) revelation or disclosure to the potential or actual detriment of the applicant.

A number of comments can be made in connection with these expositions of so-called essential allegations or elements. First, it is not always necessary to allege the existence of some relationship between trade secret owner and trade secret misappropriator.\textsuperscript{272} Harms' formulation is closer to the truth than the \textit{Multi Tube Systems} case, in so far as it is stated that the plaintiff may also rely on the fact that the defendant is his trade rival and has obtained information in an improper manner. However, in the light of the \textit{Harchris Heat Treatment} case,\textsuperscript{273} it is not necessary to show that the defendant is a trade rival. The necessary allegation in this regard is simply that the information is a trade secret and was obtained under a duty of confidentiality, or in an improper manner.\textsuperscript{274}

In the second place, knowledge - on the part of the misappropriator - of the confidentiality and value of the information should not be required. In so far as this 'element' can be understood to refer to intent, it is out of place, since fault is not a requirement for an interdict.\textsuperscript{275} In so far as it may be understood to be a factor

\textsuperscript{269} No authority cited.

\textsuperscript{270} 1993 2 SA 726 (T) 730.

\textsuperscript{271} 1984 3 SA 182 (D) 185-186.

\textsuperscript{272} See par 9.4.4 below.

\textsuperscript{273} 1983 1 SA 548 (T); cf par 9.3.1.2.2 above.

\textsuperscript{274} Cf par 9.3.1.2; 8.2.2; 8.5.4 above.

\textsuperscript{275} Cf par 8.5.4 above. Some trade secret cases may be interpreted as requiring fault for the interdict - cf eg \textit{Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd} 1972 3 SA 152 (C) 164; \textit{Van Castricum v Theunissen} 1993 2 SA 726 (T) 730 736; \textit{Multi Tube Systems (Pty) Ltd v Ponting} 1984 3 SA 182 (D) 185-186 187. However, in the light of the weight of authority that fault is not a requirement for the interdict (cf par 8.5.4) above,
pointing towards the presence of wrongfulness, proof of such knowledge may strengthen the applicant's case, but it should not be regarded as an essential allegation. As argued above, a trade secret owner's subjective right may be infringed also by a wrongdoer who does not know that the information he or she has received is a trade secret, and the owner must be able to obtain an interdict to prevent or stop infringement by such a wrongdoer.

Lastly, since the purpose of the interdict is to prevent damage, the applicant need not allege that the respondent has already used or disclosed the secret, nor that damage has already been caused. He or she need only allege a reasonable possibility of unauthorized use or disclosure to his or her potential detriment. Proof that the respondent has already wrongfully used or disclosed the secret may conceivably strengthen the applicant's case. But if such use or disclosure was extensive enough to destroy the secrecy of the information, the interdict will not be available any more. Since the secret has been destroyed, the wrongful causing of harm cannot be prevented any more, and the appropriate remedy in such a situation is an action for damages.

9.4.2.2 DURATION OF AN INTERDICT

The springboard doctrine of English law has received recognition by South African courts. It has been accepted that if misappropriation of confidential information gives the misappropriator only a temporary head-start over other competitors, the interdict must be granted for a period no longer than necessary to deprive the misappropriator of this advantage. This was made particularly clear in

these cases should not be followed in this respect. Cf further par 9.3.1.3 above.

276 Subjective factors, such as the wrongdoer's knowledge, may sometimes be taken into account to establish wrongfulness - see Neethling, Potgieter and Visser (especially fn 41) 56 fn 119 283-284; Knobel 1987 THRHR 484.

277 Par 8.6.3.

278 Cf in general par 8.6.4 above.

279 Cf par 2.2.1.2.3; 2.4.4 above.

280 Cf eg Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd 1977 1 SA 316 (T) 324; Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Gwano (Pty) Ltd 1981 2 SA 173 (T) 191-192; Multi Tube Systems (Pty) Ltd v Ponting 1984 3 SA 182 (D) 189-190; Aercrete South Africa (Pty) Ltd v Skema Engineering Co (Pty) Ltd 1984 4 SA 814 (D) 822; Butt v Schultz 1984 3 SA 568 (E) 578-579; Knox D'Arcy Ltd v Jamieson 1992 3 SA 520 (W) 528-529; Meter Systems Holdings Ltd v Venter 1993 1 SA 409 (W) 430; Van Castricum v Theunissen 1993 2 SA 726 (T) 731. See further Van Heerden and Neethling 233; Delport 1982 BML 186; Ferreira 1985 Obiter 145-146; Joubert 1985 THRHR 110-111; Knobel 1990 THRHR 492 fn 43; Pienaar 27ff.
Multi Tube Systems (Pty) Ltd v Ponting: 281

"[W]hat has to be prevented is the recipient of the confidential information enjoying an advantage over the general public, and it is this initial impetus that constitutes the advantage and that he will be deprived of by way of interdict... [T]he unfair advantage of the headstart or springboard is usually of limited duration and... there must come a time when the matters in question are no longer secret and... an interdict would not then be warranted".

In casu, the trade secret concerned the manufacturing process of novel fibreglass furniture, which process took approximately three months to perfect. Broome J accepted 282 that "it was reasonable that it would also take an outsider about three months to perfect this technique, that is an outsider who had seen the applicant's furniture in a shop, bought it and set about copying it with a view to going into competition with applicant". 283 However, since more than three months had already passed since the applicant had first discovered that the respondents were using its trade secret, the court felt 284 that an interdict was probably not an appropriate remedy at that stage, and that the applicant's proper remedy was probably a claim for damages only. 285

In Knox D'Arcy Ltd v Jamieson 286 Stegmann J said that the principle that an interdict must be "appropriately limited in time" to deprive the infringer of the temporary advantage of the springboard, is not applicable to true trade secrets. It is only applicable to confidential information 287 which an ex-employee would be free to use after termination of his employment contract, provided he had not, by breaching his fiduciary duty to his employer, wrongfully used such information to prepare himself a springboard to save himself the trouble of going through the same process as the employer. In the case of a true trade secret, however, the advantage

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282 188.

283 These words, incidentally, show clearly that Broome J regarded reverse engineering as a lawful way to acquire a trade secret. Cf par 8.2.2.2.3 above.

284 190.

285 Broome J also referred to the Shellmar-Conmar dispute of American law (par 3.4.4 above), and seemed to prefer the Conmar rule - cf Domanski 1993 THRHR 239.

286 1992 3 SA 520 (W) 528.

287 See par 9.4.1 above on this category of information.
provided thereby "is not merely that of a springboard where effectiveness diminishes with the passage of time, and ultimately evaporates entirely", and there is thus no basis on which to limit the duration of an interdict to such a shorter period. It is submitted that this proposition is not in pace with reality. In the fiercely competitive commercial world of today, even information that is a true trade secret, may also confer only a temporary advantage to its owner - typically for the duration of time it will take competitors to unravel the secret by reverse engineering after the trade secret owner has placed a product in which the secret is incorporated on the market. In the case of misappropriation of such a trade secret, this temporary nature of the secret must be taken into consideration by the court when issuing an interdict.

On the other hand, this does not mean that in all trade secret cases the advantage gained by misappropriation is a temporary one, and that an interdict must therefore always be limited in time. In *Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd*, for instance, confidential information concerning the manufacturing process of novel roof tiles was misappropriated by an ex-employee. The information concerning the process as a whole was found to be sufficiently confidential to merit legal protection, and the court specifically concluded that it was not part of the former employee's practical knowledge and skill. Nevertheless, Nicholas J applied the springboard doctrine to the case in so far as he found that the ex-employee used the misappropriated information as a springboard to dispense with the need to go through the same lengthy and expensive research and development process as that gone through by the plaintiff, and so obtaining a long start over any member of the public. However, an interdict without any time limit was granted. At first blush, the result appears harsh, and one wonders whether an interdict limited to a period of time necessary to develop the manufacturing process by fair means - thus neutralizing the advantage of the springboard without banishing the defendant from ever competing with the plaintiff - would not have been more appropriate. On the other hand, sight must not be lost of the fact that the research and development of the tiles in question lasted almost from July 1967, when a factory was erected to manufacture the

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288 In that it complies with all the requirements of protectable trade secrets set forth in par 9.2 above.

289 Cf par 8.6.4 above; Van Heerden and Neethling 233; Knobel 1990 *THRHR* 492 fn 43.

290 1977 1 SA 316 (T).

291 322-326.

292 326-327.

293 Cf par 8.6.1 above.

294 325-326.
forerunner of the tiles - which proved to be a failure - to February 1970, when production of the tiles in question began. Extensive testing was necessary, inter alia by the National Building Research Institute and the South African Bureau of Standards. The entire manufacturing plant had to be re-designed. After a suitable acrylic coating for the tile was found after time-consuming and expensive tests, an undertaking was procured from the supplier that it would not supply the product to others. Under those circumstances, it might well have been possible to protect the plaintiff's trade secret for an indefinite time by interdicting the defendant for an indefinite period. This could conceivably be the case if, for instance, the probability of other competitors in the same field discovering the secret through independent research and development was remote. If that was indeed the position, the granting of an interdict for an indefinite period was, it is submitted, justified. 295

9.4.3 INTERFACE OF THE RIGHT TO THE TRADE SECRET WITH STATUTORY INTELLECTUAL PROPERTY RIGHTS

Examples may be found in case law where relief was sought on both the bases of alleged trade secret infringement 296 and the alleged infringement of a statutory intellectual property right, notably copyright, in the same lawsuit. 297 It is clear that copyright may to a degree overlap with trade secret rights, 298 but it is equally clear from the treatment of these claims by the courts 299 that the requirements for the existence of the two types of intellectual property rights differ, and that such

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295 See again par 8.6.4 for a suggested criterion for determining whether an interdict should be limited in duration or not.

296 Albeit as a form of unlawful competition. On the relationship between unlawful competition and the infringement of the right to the trade secret, see par 7.4.4.4 above.

297 Cf Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd 1968 1 SA 209 (C); Butt v Schultz 1984 3 SA 568 (E); Schultz v Butt 1986 3 SA 667 (A).

298 A substantial degree of overlap of trade secret rights and copyright to the same material - in this case a suite of computer programmes - is shown particularly clearly by the decision in Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) - see the discussion in the main text. That the overlap between the two rights is only partial, is illustrated clearly in the Dun and Bradstreet case where protection against the written publication of the plaintiff's credit records was sought in terms of copyright, and against the oral publication thereof in terms of unlawful competition in the form of misuse of confidential information - par 9.3.1 above. On the right to the trade secret and copyright in general, see par 7.4.4.2 above.

299 Note eg how the enquiries into copyright and unlawful competition are dealt with under separate headings in Schultz v Butt 1986 3 SA 667 (A) 678 684; cf Northern Office Micro Computers (Pty) Ltd v Rosenstein 1981 4 SA 123 (C) 135: "The mere fact that a particular computer programme may qualify for copyright protection, does not mean that the programme is also a trade secret. Whether it is a trade secret, depends upon different considerations and is another enquiry altogether." Cf further par 7.4.4.2 above.
requirements must be proved independently.

In *Northern Office Micro Computers (Pty) Ltd v Rosenstein* the court was confronted with a conflict between trade secret rights and copyright. The respondent was employed by a predecessor of the applicant to develop a suite of computer programmes as an accounting and administrative system for doctors and dentists. On completion, the respondent maintained that the copyright in the programmes vested in him, and that he was entitled to have the applicant sign a royalty agreement. This the applicant refused to do, and sought an order restraining the respondent from communicating information relating to the programmes to third parties. The applicant based its case solely upon the "right of an employer to require an employee or ex-employee to respect and maintain the confidentiality of his employer's trade secrets". Marais AJ found that the respondent was indeed the copyright owner, and that the particular suite of computer programmes - to be distinguished from the mere concept of a computer programme providing an accounting and administrative system for doctors and dentists - was indeed the applicant's trade secret. The court was thus faced with a situation where the same material was object of both copyright and trade secret rights, with the two types of rights vested in different persons. Marais AJ resolved the conflict as follows:

"The mere fact that copyright is vested in an employee in certain circumstances does not mean that, even if the subject of the copyright is confidential and a trade secret, the employee may divulge it to whom he pleases. I do not think that the adoption of this view emasculates or nullifies the employee's copyright. He will still have *locus standi* to protect his copyright against infringement by third parties. Indeed, he will even be able to protect it against infringement by his employer, to the extent that the employer's use [there]of... goes beyond what was expressly, or impliedly, authorised by the contract of employment. It is true that he will be hampered in his *exploitation* of the copyright if he has to respect his

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301 127.

302 134.

303 136-137.

304 137.

305 135.
employer's trade secret, but I do not think the Legislature\textsuperscript{306} intended otherwise."

Marais AJ accordingly made an order\textsuperscript{307} restraining the respondent from copying, or permitting anyone to copy, or making use of, or permitting anyone to make use of, the whole or any part of the suite of programmes.

The Copyright Act\textsuperscript{308} has since been amended\textsuperscript{309} to provide that where a work eligible for copyright protection is made in the course of the author's employment by another person under a contract of service or apprenticeship, that other person shall be the owner of any copyright subsisting in that work. The factual situation giving rise to the litigation in the \textit{Northern Office Micro Computers} case is therefore not too likely to be repeated.\textsuperscript{310} Nevertheless, it is submitted that the decision remains of importance for the qualified precedence given to the right to the trade secret over copyright in a situation of conflict between the two.

As far as could be ascertained, conflicts between other statutory intellectual property rights and rights to trade secrets have not featured in the reported case law. Should the type of conflict between patent rights and trade secret rights known to American law ever occur here, it is submitted that the courts should take note of the very reasonable solution suggested in that regard by the American Bar Association.\textsuperscript{311}

\textsuperscript{306} Marais AJ based this view (135) on sec 41(3) of the Copyright Act 98 of 1978, which he interpreted to "save the express or implied rights of employers to have their employees respect their trade secrets", and further on the principle of interpretation of statutes that an Act must not be interpreted to abolish or derogate from common law rights (\textit{in casu} relating to the protection of trade secrets) unless express language or the clearest of necessary implications compel such a reading.

\textsuperscript{307} 138.

\textsuperscript{308} Sec 21(1)(d) Act 98 of 1978.

\textsuperscript{309} By sec 9 Copyright Amendment Act 56 of 1980. The amendment was not made retroactive in effect, and could therefore not be applied to the \textit{Northern Office Micro Computers} case (cf 129 135 of the case report).

\textsuperscript{310} It is not entirely impossible, though, since sec 21(1)(e) makes provision for the provisions of sec 21(1)(d) to be excluded by agreement between the parties. Furthermore, sec 21 does not seem to affect the situation where a computer programme eligible for copyright protection is developed by an independent contractor for another person. If the latter has trade secret rights to the programme, a conflict similar to that in \textit{Northern Office Micro Computers} may arise.

\textsuperscript{311} Cf par 3.4.5 above.
9.4.4 THE SCOPE OF TRADE SECRET PROTECTION, FIDUCIARY RELATIONS AND THE INFLUENCE OF ENGLISH LAW

In *Meter Systems Holdings Ltd v Venter*\textsuperscript{312} Stegmann J set forth a general overview of the protection of confidential information in South African case law. The expression *confidential information* he purposefully used in a broad sense so as to include trade secrets and also "all other kinds of confidential information".\textsuperscript{313} He then proceeded to make two points on the legal protection of confidential information. The first dealt with protection by way of express contractual terms. The second point was formulated\textsuperscript{314} as follows:

"[O]ur law recognises *fiduciary relationships* which, as a matter of law, give rise to an obligation to respect the confidentiality of information imparted or received in confidence, and to refrain from using or disclosing such information otherwise than as permitted by law or contract. The fiduciary relationships which give rise to such legal duties are in some instances based on contracts and in some instances they are not... When the fiduciary relationship is based on contract, the obligation to respect the confidentiality of information imparted or received in confidence is generally regarded as a term of the contract implied by law... When the fiduciary relationship is not based on contract, it is necessary to look to the law of delict, and in particular to the principles of Aquilian liability, in order to ascertain the extent of the legal duty to respect the confidentiality of information imparted or received in confidence."

Stegmann J then stated\textsuperscript{315} that there could be no limit in principle to the number of potential categories of information which might qualify for protection either in delict, "by way of a legal duty arising from the application of the principles of Aquilian liability to situations in which a *fiduciary relationship* not based on contract is recognised"; or in contract, "by way of a contractual term implied by law where the contract is one that creates a *fiduciary relationship*".

This exposition seems to imply that confidential information can in South African law only be protected in the context of some fiduciary relationship. However, for authority to refute such a conclusion one need look no further than the *locus classicus* on the delictual protection of trade secrets, *Dun and Bradstreet (Pty) Ltd v SA Merchants*

\textsuperscript{312} 1993 1 SA 409 (W) 426ff.

\textsuperscript{313} 426.

\textsuperscript{314} 426, emphasis added.

\textsuperscript{315} 428, emphasis added.
Combined Credit Bureau (Cape) (Pty) Ltd.\(^{316}\) In that case, there was no fiduciary relationship between the plaintiff and the defendant. Indeed, there was no known relationship of any nature between them. Specifically, the defendant was not a subscriber to the plaintiff’s credit records, and obtained copies thereof in a manner unknown to the plaintiff.\(^{317}\) This did not deter Corbett J from holding - correctly, it is submitted - that such filching of confidential information was a wrongful act making the perpetrator liable in damages.\(^{318}\)

It is submitted, therefore, that the passage quoted from Meter Systems Holdings must not be understood to confine the protection of trade secrets to situations where a fiduciary relationship - or any relationship, for that matter - exists between the trade secret owner and the infringer. Delictual protection of trade secrets is not dependent on the existence of any relationship between the parties, but rather on the nature of the information - that is, whether it really is a trade secret - and whether it has been acquired, used or disclosed without consent or any other ground of justification.\(^{319}\)

The origin of the categorization in Meter Systems Holdings of protectable trade secrets in terms of fiduciary duties breached, must, it is submitted, probably be sought in the influence of English law. To succeed with the English action for breach of confidence, the plaintiff must prove the breach of an obligation of confidence. The implication is that the existence of an obligation of confidence must first be proved, and this will usually depend on some\(^{320}\) relationship between the parties.\(^{321}\)

\(^{316}\) 1968 1 SA 209 (C); see par 9.3.1 above.

\(^{317}\) See the plaintiff’s particulars of claim at 210.

\(^{318}\) 221: "Where, as in this case, a trader has by the exercise of his skill and labour compiled information which he distributes to his clients upon a confidential basis (i.e. upon the basis that the information should not be disclosed to others), a rival trader who is not a client but in some manner obtains this information, and well knowing its nature and the basis upon which it was distributed, uses it in his competing business and thereby injures the first mentioned trader in his business, commits a wrongful act vis-à-vis the latter and will be liable to him in damages" (emphasis added). In a very loose sense it may be said that Corbett J did require the plaintiff and the defendant to be in some form of relationship, namely that of rival traders. However, such a ‘relationship’ - if one insists on naming it thus - is certainly not a fiduciary one. In any case, it has been shown (par 9.3.1.2.2 above) that trade secrets can also be protected against infringement by non-competitors.

\(^{319}\) See again par 8.2.2; 9.3.1.2 above.

\(^{320}\) Not necessarily a contractual relationship - par 2.2.2.1 above.

\(^{321}\) Cf par 2.2.2.1 above; LAW COM no 110 18ff; Coleman 31ff; Gurry 112ff. Where there is no direct relationship between the plaintiff and defendant, the latter can be subject to an obligation of confidence if he has received the relevant confidential information from someone who was in a relationship of confidence with the plaintiff - see eg Gurry 112: "An obligation of confidence can arise in either of two distinct situations. The first involves a disclosure of confidential information by a confider to a confidant... An obligation of confidence can also arise when a third party, who was not
However, although reliance on English law has generally had a beneficial influence on the development of the legal protection of trade secrets in South Africa, sight must not be lost of the fundamental differences between the two legal systems.\textsuperscript{322} The action for breach of confidence is not part of our law.\textsuperscript{323} In South Africa, the legal protection of trade secrets must be based squarely on the South African law of contract and delict.\textsuperscript{324} The scope of protection must be delimited in accordance with the principles of South African law, not English law. In particular, the clear recognition by the courts that the delictual protection of trade secrets is based on Aquilian principles, means that a delictual obligation not to misappropriate a trade secret must not be sought in the existence of a relationship of confidence. It must be seen simply as the correlate of the subjective right to the trade secret, which right can be infringed also by someone who has never stood in any relationship to the holder of that right.\textsuperscript{325} If the limitations of the English law of breach of confidence are adopted here, South African courts may well experience similar difficulties\textsuperscript{326} to hold an industrial spy - who stands in no relationship with the trade secret owner - liable for trade secret infringement, to name but one practical example of the deleterious consequences of such an unwarranted limitation. An application of South African delictual principles, on the other hand, will prevent such a result.\textsuperscript{327}

\textsuperscript{322} As Stegmann J himself said in the \textit{Meter Systems Holdings} case (427). Cf Van Heerden and Neethling 64-65.

\textsuperscript{323} \textit{Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd} 1968 1 SA 209 (C) 214-215; \textit{Prok Africa (Pty) Ltd v NTH (Pty) Ltd} 1980 3 SA 687 (W) 695-696; \textit{Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Gwhano (Pty) Ltd} 1981 2 SA 173 (T) 190-191; \textit{Schultz v Butt} 1986 3 SA 667 (A) 679; \textit{Meter Systems Holdings Ltd v Venter} 1993 1 SA 409 (W) 427; cf Domanski 1993 \textit{THRHR} 443-447; Leon 1992 \textit{De Rebus} 379; Van Heerden and Neethling 239; Pienaar 100-105. Although there is some authority for the application of the action for breach of confidence in South African law, it need not be taken too seriously in the light of the weight of authority - including the decision of the Appellate Division in \textit{Schultz v Butt} - quoted here. Cf Domanski 1993 \textit{THRHR} 443ff; Van Heerden and Neethling 239. Some decisions which have been cited as authority for the applicability of the action for breach of confidence in our law, have in any case been misunderstood - Pienaar, for instance, cites inter alia (104 fn 97) \textit{Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd; Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd} 1972 3 SA 153 (C) - while Diemont J pointed out clearly (161-162) that liability was Aquilian, and (104 fn 99) \textit{Prok Africa (Pty) Ltd v NTH (Pty) Ltd} 1980 3 SA 687 (W) - while Goldstone AJ stated clearly (696): "[O]ur law does not recognise any such 'broad principle of equity' and the equivalent remedy is Aquilian."

\textsuperscript{324} Cf \textit{Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Gwhano (Pty) Ltd} 1981 2 SA 173 (T) 190-191.

\textsuperscript{325} Cf par 8.2.2.1; 9.3.1.2 above.

\textsuperscript{326} Par 2.4.2 above.

\textsuperscript{327} See par 8.6.2 above.
CHAPTER 10

CONCLUSION

It is submitted that the recognition and protection of trade secrets in South African law is basically on a sound footing. An application of general principles of especially the South African law of delict and contract, forms the basis of trade secret protection which compares favourably with the position in English, American and German law, and which is gratifyingly in step with the GATT TRIPs agreement to which South Africa is a signatory nation. Recognition of a subjective right to the trade secret - which is already implicit in decided case law - combined with a knowledge of solutions to practical trade secret protection problems in foreign legal systems, will facilitate the further development of a healthy South African trade secrets law. Undesirable trends which have to a certain extent gained a foothold in South African case law, but which must be resisted, are the notions that trade secret misappropriation can only take place in a context of unlawful competition, must be intentional to give rise to liability (and possibly even to found an application for an interdict), and only occurs in the context of fiduciary relationships. Fortunately, authority to counter all these propositions already exists in the positive law. With these few provisos, it is submitted that no legislative action is necessary in the field of trade secret protection in South Africa, and that this branch of the law can be left in the province of the judiciary.
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