

Infringement of the right to goodwill; the basic legal principles in relation to South African case law

Andries van der Merwe

BSc Eng BSc LLB PhD

Extraordinary Professor, Centre for Intellectual Property Law, University of Pretoria

OPSOMMING

Skending van die Reg op Werfkrag: Die Basiese Regsbeginsels in Verband met Suid-Afrikaanse Regspraak

Onregmatige mededinging in die Suid-Afrikaanse gemene reg is gegrond op die algemene beginsels van die deliktereg. Aanspreeklikheid word dus slegs bevind indien al die elemente bevredig word. Die beoordeling van aanspreeklikheid word gewoonlik gedoen teen die agtergrond van die aageerbare omstandighede wat in respraak oorweeg is. Die gronde vir aanspreeklikheid vorm egter nie 'n *numerus clausus* nie. Aangesien die tempo waarteen nuwe gronde geïdentifiseer word in pas is met die gereeldheid van geskille wat voor die hofe kom, is dit maar 'n stadige proses. Dit sou dus voordelig wees om 'n benadering gegrond op beginsels te ontwikkel om vas te stel watter handeling of soorte gedrag tot aanspreeklikheid kan aanleiding gee. 'n Benadering gegrond op beginsels moet dus fokus op die indentifikasie van regtens afkeurenswaardige gedrag wat die reg op werfkrag skend en die bewys dat sodanige gedrag ondermatig is.

1 Introduction

Infringement of the right to goodwill as a requirement in proving a conduct of unlawful competition under South African common law has been dealt with under a variety of situations in South African case law. The courts have accordingly identified a number of circumstances that give rise to liability. The most well-known of these is an infringement of a symbol such as a mark or device by way of an action of "passing off".

A finding of liability on the grounds of unlawful competition requires as first step an act or conduct by a person that is alleged by another to be actionable. Assessing whether a specific act will give rise to liability, naturally if all the other delictual requirements are met, will normally involve its assessment against the backdrop of the actionable circumstances that have been identified in case law.

It is apparent that the situations that can give rise to liability on the ground of unlawful competition do not form a *numerus clausus* but are ever expanding as interpreted by the courts in the light of legal principles. Forming part of the common law, the rate of expanding interpretation as tying in with the frequency of disputes that come before courts, is naturally slow.

It would consequently be advantageous to develop a principles based approach for use in pre-assessing acts or conduct that would give rise to liability when all the delictual requirements are met. It is accordingly an object of this article to examine the possibility of identifying such acts or conduct in the light of the concepts of goodwill, the entrepreneurial components and unlawfulness.

2 Goodwill in the Light of the Entrepreneurial Components of an Enterprise

An existing enterprise can and will normally also have an additional immaterial value over and above the sum of the value of its substrate constituting components.¹ This value ties in with its objective to attract customers and to create a favourable attitude on the part of suppliers, service providers, creditors and other persons with whom the enterprise comes into contact in the business environment.² This value is known as its “goodwill”. Goodwill consequently relates to the advantage that arises from the beneficial disposition that for some or other reason exists in entrepreneurial context towards an enterprise.

Being of non-registrable immaterial character the existence of goodwill can only be established from extraneous factors. It is submitted that the entrepreneurial components of an enterprise can be used as aid in assessing for the existence of goodwill.³ To this effect the running of an enterprise as a human creation in the economic sphere is based on the functioning of one or more entrepreneurial components in business context that serve as substrates for the functioning of such an enterprise.⁴ A number of entrepreneurial components are naturally involved in the functioning of an enterprise. They can be as divergent as the name of the enterprise, the information that is made available about the enterprise, trade secrets, its creditworthiness and a multitude of other components as tying in with the kind of enterprise.⁵

1 Van Heerden & Neethling *Unlawful Competition* (1995) 95. Naturally in relation to such components that have their own financial value.

2 *Ibid.*

3 The functioning of such components can consequently at least contribute to the maintenance of goodwill if not to its enhancement.

4 Van Heerden & Neethling 95. Entrepreneurial components are simply the various facets that are involved in the running of an enterprise such as the goods sold or services rendered, the name, the people that work for the enterprise, business secrets and a multitude of other facets.

5 *Ibid. Caterham Car Sales & Coachworks Ltd v Birkin Cars (Pty) Ltd* 1998 3 SA 938 (SCA) 947. While the court talks of “reputation” as the “component of goodwill” the reputation is in essence a characteristic of a component that results in the creation and maintenance, if not enhancement, of goodwill. The court may however have used it in the sense of the components for proving liability under a passing off claim being reputation and deception or confusion.

The functioning of entrepreneurial components in business context, however, does not automatically imply the existence of goodwill. This will only be the case when one or more of such components have characteristics that create a beneficial disposition in entrepreneurial context towards an enterprise.

It is consequently not the existence of premises from which the business is run, as entrepreneurial component, that indicates the existence of goodwill but its location as relevant characteristic. Such a location will cause customers for whom it is convenient to make use of the services of a relevant enterprise. The same applies, for example, to the information that an enterprise makes available about itself, typically such as the kind of goods or the type of service in which it deals. The beneficial disposition will arise because of the accuracy and truthfulness of such information being the relevant characteristic. In the case of the name of an enterprise the characteristic that creates the beneficial disposition will be found in its having become distinctive of such an enterprise that has for some or other reason generated a positive reputation in the market place. Such a name will naturally have to have the ability to individualise the enterprise.

Goodwill is no exotic concept. It can be as down to earth as being generated by the choice of persons to use a certain shop because of its convenient location.

3 Goodwill and the Subjective Right in Entrepreneurial Context

According to doctrine of subjective rights, the value of such a right is found in the power or entitlement over the legal object under such a right.⁶ The power or entitlement includes the use and enjoyment and the ability to dispose or otherwise alienate the legal object of such a right.⁷ The use and enjoyment in the appropriate case involves the gaining of financial benefit while the power over such a right is naturally enforceable against alleged infringers.

Under the above doctrine goodwill has been identified to be adequately independent, of properly defined existence and of adequate value to be recognised as an (immaterial) object in law in relation to which a legal subject can hold a subjective right. To the same effect it is also able to satisfy a legally recognised need. The subjective right is

6 The doctrine of subjective rights was accepted to form part of South Africa law in *Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk* 1977 4 SA 376 (T). Under this doctrine a legal subject holds a subjective right over a legal object.

7 Neethling, Potgieter, Visser & Knobel *The Law of Delict* (2001) 51; Du Plessis *An Introduction to Law* (2011). Both books refer to Joubert "Die Realiteit van die Subjektiewe Reg en die Betekenis van 'n Realistiese Begrip daarvan in die Privaatreg" 1958 *THRHR* 110 111.

accordingly called the “right to goodwill”.⁸ The holder of the right to goodwill in an enterprise, amongst others, has the right to gain financial benefit from such a right.

Any goodwill that becomes associated with an enterprise requires, amongst others, effort from the person or persons that are involved in its launching. Although (hopefully) only existing for a brief period of time, an enterprise that has just been launched cannot be said to necessarily already have generated goodwill (in the sense of the existence of a beneficial disposition in entrepreneurial context) right from the outset, though depending on a campaign of pre-advertisement.⁹

Rights in entrepreneurial context can consequently also come into consideration under conditions of the non-existence of goodwill such as possibly at the commencement of an enterprise or even prior thereto during its planning phase. The concept of “an attractive force that brings in custom” has been referred to in case law in relation to the interaction in the business environment between an enterprise and other persons.¹⁰ The associated right has been identified as “the right to attract custom”.¹¹ Such a right must naturally relate to a legal object, perhaps dealing with the creation, maintenance or enhancement goodwill.¹² While the right to goodwill implies the existence of goodwill, the right to attract custom can be more extensive, also dealing with situations during the creation of goodwill. If a legal object cannot be identified in an enterprise planning phase it can at least be said that a legal duty exists on the part of other persons, including potential competitors not to take any steps that are harmful to the efforts of a person that is involved on such planning.¹³

8 Van Heerden & Neethling 99.

9 This view, however, contrasts with the approach of accepting the existence of goodwill once substrate-defining entrepreneurial components are bound together in an organisational unit. See Van Heerden & Neethling 100 and further references cited by the authors. The moment of goodwill coming into existence naturally depends on the way in which it is defined. If thus defined as “the attracting force that brings into custom” then goodwill will already exist prior to the establishment of enterprise to client relationships. The right to create goodwill can even exist where an enterprise is in the process of being wound down owing to having lost its goodwill. Such enterprise can, for example, be sold to another person who can generate goodwill afresh.

10 *Atlas Organic Fertilizer (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 2 SA 173 (T) 182.

11 Webster & Page *SA Law of Trademarks* (1997) par 15.1. It is thus said that “[t]he right to attract custom may involve the right to exploit an existing goodwill, but its existence does not depend on nor does it consist of an existing goodwill”.

12 See as comparison the proposal by Neethling that a person’s earning ability should qualify as a legal object generally categorised as “personal immaterial property”; Neethling “Persoonlike immaterieelgoedrege: ’n Nuwe Kategorie Subjektiewe Regte” 1987 *THRHR* 316.

13 Neethling *et al* 55-57.

Whatever the case, an existing enterprise that continues with its business activities can be accepted to have goodwill. An infringement in such a case will deal with the existing goodwill consequently residing in an infringement of the “right to goodwill” or “the right to attract custom” being the broader concept.

4 Infringement of the Right to Goodwill

As with other subjective rights an infringement of the right to goodwill is a delict if all the delictual requirements are met. It is known as “unlawful competition”. In accordance with the general requirements for proving a delict under the doctrine of subjective rights, the first step in proving unlawful competition is the identification of a voluntary act or conduct that violates a subjective right¹⁴ – in the appropriate case being the right to goodwill.¹⁵ When the power of the holder of a subjective right to, amongst others, have beneficial enjoyment of the legal object under such a right is harmed, an act of violation is identified. This naturally also applies to a violation of the right the goodwill.

It is said that the fundamental premise of the doctrine of the infringement of subjective rights is that wrongfulness is found where such a right is infringed.¹⁶ It is further said that wrongful infringement involves a two step assessment, the first being a violation of a subjective right and the second that such violation has taken place in a legally reprehensible manner.¹⁷ An act that is *prima facie* found wrongful may on such interpretation be found to be in accordance with the legal norms of society because of the existence of a ground for justification.

Perhaps the first step can be used to assess an allegedly infringing act for the violation of a subjective right while the second step can deal with the aspect of wrongfulness. When approached in such a way the aspect of a step being legally reprehensible will deal with its wrongfulness in the light of the legal convictions of the community, the *boni mores*. Situations can consequently arise where a violation of a subjective right is not wrongful owing to it being in accordance with the legal convictions of society without having to resort to grounds of justification.¹⁸

14 *Idem* 54.

15 Van Heerden & Neethling 54.

16 *Clarke v Hurst* 1992 SA 630 (D) 651.

17 Neethling *et al* 54-55.

18 As an example when the location of the premises from which an enterprise is run contributes to the existence of its goodwill (which will often be the case) and another person opens a similar enterprise in its immediate vicinity, the ability of this entrepreneurial component of the pre-existing enterprise will be harmed by the creation of a direct alternative for clients in the environment that was previously “monopolised” by the pre-existing enterprise. The deduction is consequently that the right to goodwill of the pre-existing enterprise is violated. To establish wrongfulness the second leg of the step requires the assessment whether such conduct is legally reprehensible. This is not the case in the given example.

Approached in whichever way, the proving of wrongfulness in the case where a subjective right is involved requires as a first step the proving of an act that violates such a subjective right.

As proposed above, the existence of goodwill in relation to an enterprise can usefully be done in the light of those entrepreneurial components that have characteristics that create the beneficial disposition towards such an enterprise in the market place. By expanding the argument the violation of the subjective right to goodwill should consequently also involve these entrepreneurial components. It is suggested that the right to goodwill is violated when the ability of an entrepreneurial component that has a characteristic that creates a beneficial disposition towards the enterprise in the market place, thus contributing to, if not fully supporting, its goodwill, is harmed by the conduct of another person.

5 Selected Case Law in the Light of the Principle Based Approach

The proposed principles based approach will be of little use to aid in the assessment of an act of unlawful competition if it cannot be reconciled with the positive law. It is accordingly in the subsequent discussion applied to disputes under the most common situations of alleged unlawful competition that have served before the courts. The cases discussed are selected to be generally representative of the various “types” of unlawful competition in the case of the so called acts of “indirect infringement”.¹⁹ Under this form of unlawful competition the primary object of the alleged infringer is to promote its own goodwill, though having the accompanying effect of also harming the right to goodwill of another enterprise.

The use of another enterprise’s established symbol (name, mark, get-up or common law trade mark) in relation to a business name, merchandise or services has become the most prevalent form of the infringement of the right to goodwill where such use gives rise to deception or confusion on the part of persons exposed to the symbols. The same applies to a symbol that is substantially the same as another’s established symbol. A claim under such conduct is dealt with under the well known “passing off” action.

19 Van Heerden & Neethling 145. It should also be applicable in the case of so called “acts of direct infringement” once *the* or at least *one* relevant entrepreneurial component has been identified. Where, for example, derogatory information, such as dealing in stolen goods, is spread about an enterprise, its name will be *the* or at least *one* of the entrepreneurial components in issue.

In *Capital Estates v Holiday Inns*²⁰ the plaintiffs obtained an order restraining the defendants from using the name “Holiday Inn” in connection with a shopping centre. The plaintiffs operated an international hotel chain under the same name. The order was confirmed on appeal.

The court said that the wrong of passing off deals with

[t]he representation by one person that his business (or merchandise as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to passing off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with that of another.²¹

While an act of unlawful competition involves an infringement of the right to goodwill the court in *Premier Trading Company v Sporttopia*²² found that the goodwill in the context of passing off resides in the “reputation”²³ of the complaining party in association with the distinctiveness of a symbol.²⁴ In this case the symbol in issue was the word “Bladeline” as used in conjunction with roller skates. In the light of the facts, both the courts of first instance and appeal found against passing off. The court again confirmed the requirements for successfully proving a claim of passing off by way of the proof of an own reputation in relation to a symbol and the likelihood of at least confusion on the part of a not insignificant segment of the buying public.

As applied in numerous cases the requirements for proving an action of passing off are twofold. The first is, as said, the proof of a reputation in relation to a symbol. The second is proving that the conduct of an alleged infringer in using the symbol or a symbol that is deceptively or confusingly the same will give rise to the likelihood of deception or confusion in the market place.²⁵

In assessing a conduct that can give rise to a passing off action in the light of the requirements of a delict it is clear that the conduct revolves around the use of a symbol in the market place (in relation to a business, merchandise or services). An allegedly infringing symbol must be at least

20 *Capital Estates & General Agencies (Pty) Ltd v Holiday Inns Inc* 1977 2 SA 916 (A).

21 *Idem*, reconfirmed in *Premier Trading Co (Pty) Ltd v Sporttopia* 2000 3 SA 259 (SCA) 266.

22 *Premier Trading Co (Pty) Ltd v Sporttopia* 2000 3 SA 259 (SCA) 267.

23 Reputation is naturally not an abstract stand alone concept but is a function of “the opinion which the relevant section of the community holds of the plaintiff or its product”, thus being based on some or other positive aspect of an enterprise such as being known for quality products.

24 See the criticism of the *Premier Trading Co* decision in relation to the coupling of “goodwill” to “reputation” in the case of passing off by Neethling “The Passing-Off Action: Requirements and Protected Interests – A Conceptual and Critical Analysis” 2007 *SALJ* 459 461 *et seq.*

25 Webster & Page parr 15.10, 15.19 and the discussion of the detail in the subsequent pars.

deceptively or confusingly the same if not identical to that of an aggrieved party that has, in turn, become distinctive in relation to a business, merchandise or services to be successful in court.

As discussed above, an infringement of a subjective right in the case of goodwill requires that the voluntary conduct of one person must violate the right to goodwill of another person. Such assessment can, as proposed, be dealt with by involving the one or more entrepreneurial components that give rise to the goodwill on the part of the aggrieved party. The right to goodwill is accordingly violated when the ability of an entrepreneurial component that has a characteristic that creates a beneficial disposition towards the enterprise in the market place is harmed by the conduct of another person. The entrepreneurial component in the case of passing off is the symbol. The characteristic that causes it to contribute to the goodwill of the complaining party is its distinctiveness in conjunction with the reputation of the enterprise with which it is associated.

The ability of the symbol to contribute to goodwill is harmed by the conduct of the alleged infringer creating deception or confusion in the market place. This is manifested in the creation of the belief amongst members of the public that the different enterprises, goods or services involved in the symbol or symbols in issue are the same or are in some or other way connected to one another. The deduction is that the conduct of the allegedly infringing party results in a violation of the right to goodwill of the complaining party. This is in essence the first step in the two step assessment for wrongfulness, if not the proof of violating the subjective right to goodwill.

In the normal course of events the aspect of the conduct under a passing off claim being *contra bonos mores* is implicit on meeting the conventional requirements in proving passing off. It is consequently legally reprehensible owing to competing unjustly and unfairly leading to the conclusion of wrongfulness.²⁶

It is clear that the two aspects that require proof in the assessment of wrongfulness in such a kind of dispute, are the existence of a reputation in association with a distinctive symbol (name, mark or get-up) and the likelihood of deception or confusion in the market place. These are the aspects that at any rate require proof in a passing off action. It seems apparent that use of the principles based approach results in the same

26 In using the "competition principle" as discussed in Van Heerden & Neethling par 2.4, in so far as the conduct of the alleged infringer is based on "performance competition", such conduct is lawful even if harming the business standing of a competitor. In the typical "passing off" situation, the use of another person's symbol that has become so distinctive of its business, merchandise or services or a symbol that is deceptively or confusingly the same is not in the form of "performance competition" and consequently unlawful.

conclusion as found in the positive law bearing in mind proof of the aspect of wrongfulness.

Another form of infringement of the right to goodwill that has often been dealt with in case law is the provision of incorrect information by an enterprise about its business, goods or services with the object of attracting customers.

In *Elida Gibb v Colgate Palmolive*²⁷ the aggrieved party brought an application for an interdict on the ground of unlawful competition by alleging that the infringer falsely averred by way of advertisements that its toothpaste possessed tartar growth inhibiting qualities. As fault is not a requirement for obtaining an interdict the court found the conduct to be wrongful and granted the interdict. Wrongfulness was based on the “public weals” and the “morals of the market place”. It was said that certain forms of conduct that “when tested against the *boni mores* of the market place remained untenable”.²⁸ This was typically found in the case of a misstatement of fact as regards the quality of wares sold in the market place that gives a party a(n undeserved) competitive advantage.

In *William Grant v Cape Wine Distillers*²⁹ the impression was created by the alleged infringer that its whisky, going under the name of Macleans Gold Label Whisky, was of purely Scottish origin while it was in fact a blend of South African and Scotch whisky. The name Macleans being a typical Scottish name, created the impression. The court found that using the name in the market place (in a deceptive way) was against the *boni mores* and consequently wrongful owing to competing unjustly and unfairly.³⁰

In *Spinner Communications v Argus Newspapers Ltd*³¹ the alleged infringer was said to have exaggerated circulation figures. In distinguishing between puffing and false representation the court found that this person knowingly made a false representation that was material in causing the aggrieved party to lose business. The loss was brought about by the false representation of the defendant. The exception of the defendant that the claim did not disclose a cause of action was rejected.

In the *Elida Gibb*, *William Grant* and *Spinner Communications* cases the conduct complained of is of an alleged infringer making incorrect information in some or other way dealing with such a person’s business activities available to the public. The provision of incorrect information in entrepreneurial context can naturally take on a multitude of forms.

27 *Elida Gibb (Pty) Ltd v Colgate Palmolive (Pty) Ltd* 1988 2 SA 350 (W).

28 *Idem* 358.

29 *William Grant & Sons Ltd v Cape Wine Distillers Ltd* 1990 3 SA 897 (C).

30 The same type of dispute arose in *Long John International Ltd v Stellenbosch Wine Trust (Pty) Ltd* 1990 4 SA 136 (D) where the defendant sold its whisky under the name “Ben Nevis Scotch Whisky Liqueur” which was neither a whisky nor a liqueur.

31 *Spinner Communications v Argus Newspapers Ltd* 1996 4 SA 637 (W).

The assessment of the conduct complained of against the basic delictual requirements in establishing unlawfulness requires again as a first step, a violation of the right to goodwill of an aggrieved party. Such assessment can, as proposed, be dealt with by involving the relevant entrepreneurial component or components of the aggrieved party. In this case the relevant component is found in the corresponding information that is in entrepreneurial context made available to the public by the complaining party. The characteristic of such entrepreneurial component in causing it to contribute to the beneficial disposition that exists in entrepreneurial context towards the complaining party, is found in its accuracy, truthfulness or similar value.³² The ability of such information to contribute to this beneficial disposition is harmed by the incorrect information given out by the alleged infringer. Such conduct creates the likelihood of persons that are in business context so exposed not being able to objectively compare the performances of the enterprises. The deduction is again that the right to goodwill of the complaining party is violated. Whether investigating wrongfulness by way of a two step procedure or whether using the allegedly infringing step as violating the subjective right of the complainant, the subsequent step is to assess if such a violation has taken place in a legally reprehensible manner.³³

It seems clear that when, amongst others, the violation is against the “public weals” and the “morals of the market place”,³⁴ it is *contra bonos mores*. This is the case when someone falsely ascribes a characteristic to its products, creates a false impression in respect of the origin of its goods or makes a false representation about circulation figures. In all cases, if such conduct is material in causing the plaintiff to lose business, it will be unlawful. The deduction is that such conduct takes place in a legally reprehensible manner resulting in an act of wrongfulness.

Again the application of the principles based approach results in the same conclusion as regards liability as was reached in the discussed cases.

While copying of matter that is not otherwise protected is not unlawful, a conduct that involves the copying of matter and going into competition with the creator by way of the copied matter has also drawn the attention of the courts.

In *Schultz v Butt*³⁵ the court said that

32 The functioning of the information made available to the public as entrepreneurial component will rather deal with the maintenance and not enhancement of goodwill; defective information made available and becoming known to the public will alienate customers.

33 Neethling et al 54-55.

34 Owing to, for example, being by way of a misstatement of fact as regards the quality of wares sold in the market place that gives a party a(n undeserved) competitive advantage.

35 *Schultz v Butt* 1986 3 SA 667 (A).

the question to be decided in this case is not whether one may lawfully copy the product of another but whether, in making a substantially identical copy, with the use of B's mould, of an article made by B, and selling it in competition with B, is engaging in unfair competition.

In this case the allegedly infringing party made boat hulls from a mould that was copied from a hull "plug" of the aggrieved party and sold it in competition with the latter. The hull design of the aggrieved party was of a unique character. The aggrieved party's uniquely designed boat hull was in effect indirectly copied.

The court found the conduct of the appellant wrongful by remarking that the community would condemn as unfair and unjust Schultz' conduct in using one of Butt's hulls to form a mould that would be used for making boats in competition with Butt.³⁶ The deduction of wrongfulness was in fact strengthened by conduct of the alleged infringer in obtaining a design registration for the copied hull to deny others access to this field of activity, thus adding impudence to dishonesty.

In *Premier Hangers v Polyoak*³⁷ the Appellate Division in reversing the decision of the court of first instance in finding unlawfulness said that if statutory protection, where available, is not used or has expired or is otherwise lost then anyone is free to copy. The dispute dealt with a copying by the alleged infringer of clothes hangers that were designed by the aggrieved party. While the various hanger shapes were designed by the aggrieved party, they most probably lacked uniqueness (or in the requirements under design protection, novelty and originality). To this effect the court also found that where a particular shape of hanger has found its way into the market and became widely used with its features being a matter of common knowledge, it may be copied.

In using the relevant entrepreneurial component in investigating a violation of a subjective right to goodwill, it seems clear that this component in both the *Schultz* and *Premier Hangers* cases is found in the relevant products as commercialised. In at least *Schultz*, the characteristic that gave rise to goodwill is found in its uniqueness. Again, if the ability of such a component to contribute to goodwill is harmed by the actions of the alleged infringer, this gives rise to a violation of the subjective right to goodwill. The harm arose from the fact that the copied product enabled potential purchasers to have an additional source from which it was available in the market place. As regards legal reprehensibility the observation by the court in relation to the unfairness and unjustness of the other party's conduct that was amplified by this person's dishonesty in attempting to obtain design protection for the product, clearly identifies this act as *contra bonos mores* and consequently wrongful.

³⁶ *Idem* 683.

³⁷ *Premier Hangers CC v Polyoak (Pty) Ltd* 1997 1 SA 416 (A).

In *Premier Hangers* the lack of wrongfulness can perhaps be attributed to either a lack of violation of subjective rights or to not being legally reprehensible. If the hangers cannot be said to have had a characteristic that created or at least contributed to goodwill then the conduct of the alleged infringer did not even violate the subjective right to goodwill of the complainant. If not the case, the conduct was at any rate not legally reprehensible owing to the failure to use available statutory protection.³⁸

It again seems apparent that in invoking the basic legal principles coupled with the use of the relevant entrepreneurial component, the same result as regards wrongfulness as reached in the discussed case law can be achieved.

The unlawful acquisition of confidential information and business secrets is a matter that has often been dealt with in case law. While the unauthorised obtaining of any type of confidential information or business secrets can give rise to a delictual claim in general, the aspect of relevance to this discussion deals with confidential information or business secrets that is of value in the sense of contributing to the goodwill of an aggrieved party.

In *Atlas v Pikkewyn Ghwano*³⁹ persons that were previously associated with the aggrieved party formed an own enterprise operating in the same business environment as complainant. Amongst others, a process that was allegedly used by the aggrieved party in its operations was taken over by the enterprise of the alleged infringer. In relation to the value of the process, the court said that “[t]hat which is sought to be protected should in my view not only differ from what was previously generally known, but be of value as well”.⁴⁰

The court consequently found that the plaintiff could not succeed in so far as the claim was based on the unlawful filching of business secrets and know-how. This is because the process was not secret or confidential and also not of value owing to it even having been rejected by the plaintiff.

Very much the same factual situation prevailed in the dispute dealt with in *Waste Products Utilisation v Wilkes*.⁴¹ The important difference was that the technology copied by the defendants in this case was apparently confidential and of value. The court interdicted the defendants from continuing with their conduct.

38 Interestingly enough, trademarks are actionable under both “passing off” and statutory trade mark protection although the legal object in the first instance is goodwill.

39 *Atlas Organic Fertiliser (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 2 SA 173 (T).

40 *Idem* 194.

41 *Waste Products Utilisation (Pty) Ltd v Wilkes* 2003 2 SA 515 (W).

But confidential information need not only deal with technical subject matter. The dispute in *Telefund Raisers v Isaacs*⁴² amongst others dealt with confidential client lists. The court found that the information was worthy of legal protection, amongst others confirming a provisional *Anton Piller* order.⁴³

A distinction must be drawn between a situation where confidential information and business secrets are obtained by another party under a situation of breach of trust and otherwise. The latter situation is found where such information is, for example, stolen or even obtained from an employee that was not in a relationship of trust as regards such information with a former employer. A conduct leading to a breach of trust often involves a former employee or person under a duty of confidentiality.⁴⁴

In assessing the cases in the light of basic legal principles the conduct complained of deals with the obtaining and use by another person of the confidential information or business secrets of an aggrieved party in the competition environment. Confidential information or business secrets naturally form part of the entrepreneurial components of the aggrieved party. But to enable their use in the assessment of an infringing conduct, such confidential information or business secrets must have a characteristic that contributes to goodwill.

As said in *Atlas Organic Fertiliser in Waste Products*, the confidential information or business secret must be of value in the competition environment. Owing to not having had such a value there was no violation of the right to goodwill in *Atlas Organic Fertiliser* – the entrepreneurial component did not contribute to the maintenance or enhancement of the goodwill of the plaintiff. This contrasts with the situation in *Waste Products* where its uniqueness gave the plaintiff a competitive edge over competitors. Its copying and use by the alleged infringer enabled this person to compete on an equal footing with the aggrieved party thus harming the ability of the confidential information to give the aggrieved party the competitive edge. This resulted in a violation of the right to goodwill of the aggrieved party.

Wrongfulness is found when such violation has taken place in a legally reprehensible manner. While wrongfulness can be based on actions such as plain theft of confidential information by way of industrial espionage, the breaching of a relationship of trust is also a legally reprehensible conduct. Information received under an obligation of confidentiality imposes a duty on the receiver to maintain such confidentiality while also

42 *Telefund Raisers CC v Isaacs* 1998 1 SA 521 (C).

43 The unauthorised obtaining and use of confidential information is not necessarily always in the form of unlawful competition. Where the information for example, deals with accounting material, is may not relate to goodwill. But it will still be a delict if fulfilling all the requirements.

44 Such as a former director of a company that has initiated an own business in competition with the former company.

refraining from improperly using it despite the lack of a contractual obligation. As in *Waste Products Utilisation* an employee in possession of confidential information that leaves such employment and commences to compete with the previous employer by also involving such confidential information, does so in a legally reprehensible manner. This gives rise to wrongful conduct that is also in breach of a relationship of trust.⁴⁵

The confidential list of clients dealt with in *Telefund Raisers* is an entrepreneurial component. In being compiled for its beneficial disposition to the goods or services of the proprietor the information of such a list is naturally of value thus contributing to the goodwill of the aggrieved party. The harming of this component is found in giving the alleged infringer direct access to clients that have a preference for the type of goods or services associated with the aggrieved party. This dilutes such a party's beneficial access to such clients. The deduction is thus that the conduct of the alleged infringer results in a violation of the aggrieved party's right to goodwill. The theft of the list is obviously legally reprehensible and consequently *contra bonos mores*.

6 Application of the Proposed Approach to a Situation Not Yet Dealt with in Case Law

The cases discussed in the previous section were not pre-selected to obtain a desired outcome. It consequently appears that the proposed principle based method of assessing for wrongfulness in the competition environment can yield a useful result. A situation that has been extensively discussed in the literature but not yet dealt with judicially, deals with the advertising value of a symbol. It has been coined as a conduct of "leaning on"⁴⁶ or "assimilation".⁴⁷

According to the literature leaning on deals with a dilution of the advertising value of a symbol in relation to the repute of an enterprise, goods or services associated with such a symbol.⁴⁸ While not yet dealt with in case law an allusion to leaning on is found in *Federation*

45 The court set out the requirements to identify wrongfulness. It required that the aggrieved party must have had an interest in the confidential information and that a relationship of trust must have existed between the parties imposing a duty to preserve such confidentiality on the information receiving party, who must have proceeded in making use of it in gaining an unfair advantage having the consequence that the aggrieved party suffering damages.

46 Van Heerden & Neethling ch 8.

47 Klopper *et al Law of Intellectual Property in South Africa* (2011) 38.

48 *Ibid.* This contrasts with "passing off" that deals with deception or confusion in relation to the distinguishing value of a symbol. The aspect of dilution is also dealt with in the South African Trademarks Act 194 of 1993, S 34(c) which deals with the unauthorised use in the course of trade in relation to goods or services of a mark that is identical or similar to a registered well-known SA mark to the effect of such use unfairly benefiting

Internationale de Football v Bartlett.⁴⁹ It has also been argued that if the decision in *Union Wine Ltd v E Snell & Co Ltd*⁵⁰ was considered on the basis of advertising value the court would have found the alleged infringer liable.⁵¹

A distinction is drawn between “open leaning on”⁵² and “concealed leaning on”.⁵³ Under comparative advertising, as an example of open leaning on, an alleged infringer openly compares such person’s business, goods or services with that of another as identified by such other enterprise’s symbol or mark. This is naturally done with the object of gaining advantage from such symbol’s positive business connotation. Where the symbols are at least substantially the same while the enterprises are not active in a competitive field, such conduct can still give rise to an action of passing off.⁵⁴ Where the symbol of a complaining party has also generated an advertising value such circumstance should also give rise to a claim of leaning on even where a passing off claim cannot be identified.

Whatever the case, the aspect under this part of the discussion concentrates on the advertising value of a mark or symbol whether used openly or in concealed way.⁵⁵

In applying the basic principles in assessing whether such conduct is of a delictual character its violation of the right to goodwill of the aggrieved party must, as a first step, again be examined. Once a symbol

the user or otherwise be detrimental to the distinguishing character or reputation of such registered mark despite not giving rise to deception or confusion.

49 *Federation Internationale de Football v Bartlett* 1994 4 SA 722 (T). In this case the plaintiff succeeded with a claim on the basis of both “passing off” and of “unlawful competition” in interdicting the defendant to use world football insignia during the 1994 Football World Cup tournament. The details of the aid on the basis of “unlawful competition” were identified.

50 *Federation Internationale de Football v Bartlett* 1994 4 SA 722 (T), *Union Wine Ltd v E Snell & Co Ltd* 1990 2 SA 189 (C).

51 Neethling “Die Reg Aangaande Onregmatige Mededinging sedert 1983” 1991 *THRHR* 554.

52 Such as by way of comparative advertising.

53 *Federation Internationale de Football v Bartlett* 1994 4 SA 722 (T). Under concealed “leaning on” an alleged infringing rival in an overt way misappropriates the advertising value of a symbol. Such concealed “leaning on” often takes place under conditions of “passing off”. In such case the “leaning on” deals with a misappropriation of the advertising value in relation to the source, origin or business connection in the case of a non-competing performance.

54 *Capital Estates & General Agencies (Pty) Ltd v Holiday Inns Inc* 1977 2 SA 916 (A).

55 Once a symbol has generated an advertising value the dilution of such value in the entrepreneurial environment should theoretically give rise to a situation of “leaning on” irrespective of whether deception or confusion is found. It can be argued that some members of the public will still distinguish the enterprises involved from one another. As “passing off” had been extensively developed in case law it will preferably be used once it is identified as basis for possible liability.

has established a characteristic in the form of an advertising value that contributes to the maintenance, if not enhancement, of an enterprise's goodwill, its ability to perform such a function can naturally be harmed. Harming will be found in the dilution of its advertising value by the action of another enterprise giving rise to a violation of the subjective right to goodwill.

The subsequent step is again to assess if such a violation has taken place in a legally reprehensible manner. It is apparent that a conduct of using another enterprise's symbol that has generated an advertising value in causing its dilution is under appropriate circumstances *contra bonos mores* resulting in the unlawfulness of a conduct.⁵⁶

The proposed approach in identifying a conduct of infringement of the right to goodwill under a leaning on situation still yields a meaningful result in identifying liability while also concurring with views expressed in the literature as referred to above.

7 Conclusion

The proof of delictual liability, including that of unlawful competition, requires as a first step the identification of a legally reprehensible conduct. As the function of the court is to establish liability at least to the extent of granting an interdict its interest mainly deals with the *boni mores* while automatically accepting that a relevant conduct is in violation of the right to goodwill. Typically such an approach is found in *Schultz* where it was said that "the community would condemn as unfair and unjust Schultz' conduct in using one of Butt's hulls to form a mould used for making boats in competition with Butt".

Legal principles in the case of the existence of subjective rights however require as a first step in assessing liability the violation of such a right. Without such a violation an assessment of unlawfulness is irrelevant.

Unlawful competition, being based on common law principles, cannot be limited to only those forms of conduct that have been dealt with under case law. A proper investigation of case law in fact indicates that the courts are stepwise expanding the boundaries of unlawful competition by identifying new situations of application as relevant disputes come before the courts.

It is submitted that the approach developed above as based on legal principles in assessing whether a specific conduct of an alleged infringer is in violation of the right to goodwill of another can serve as aid in identifying conduct that is so in violation. The identification of the relevant entrepreneurial component, the assessment in its contribution to goodwill and the identification of the harm done to its ability to so

⁵⁶ Klopper *et al* 39 par 5.2.3.

contribute by the conduct of an alleged infringer, is at any rate just pure logic.

The court naturally has the final say as to whether a specific conduct, once it also meets the other delictual requirements, will give rise to liability. Even so the court's decision must always meet the relevant legal principles.