

# COPYING INDUSTRIAL PRODUCTS – II

## Unlawful competition

By  
Owen Dean

**I**n my previous article I discussed the extent to which so-called reverse-engineering of industrial products can be prevented under the law of copyright.<sup>1</sup> The conclusion reached was that, in the light of the Copyright Amendment Act 13 of 1988, copyright in technical works has for all practical purposes ceased to be an effective means of restraining reverse-engineering.

The question whether the common-law remedy of unlawful competition is capable of filling the breach is examined here.

The law of delict provides a general remedy for wrongs to interests of substance, the infringement of which gives rise to patrimonial loss. This remedy is derived from the *lex Aquilia* of Roman law and is known today as the Aquilian action, which includes within its ambit the delict of unlawful competition. In order for conduct to constitute unlawful competition, it must have been wrongful and culpable (blameworthy) and it must have caused patrimonial (pecuniary) loss to the plaintiff.<sup>2</sup>

Competition as a damage-producing activity gives rise to liability only if it is wrongful or unlawful. In general, an activity is wrongful towards a particular individual if it infringes a legal right accruing to him. If an individual has a legal right, others have a duty to respect it. Only in recent years, however, has unlawful competition begun to be recognized as an established branch of the law of delict: the process has in the past been hampered by lack of an appropriate yardstick by which the wrongfulness of conduct in a competitive situation could be determined.

The criterion for the identification of unlaw-

ful competition was discussed in *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd*,<sup>3</sup> in which Van Dijkhorst J said:

'What is needed is a legal standard firm enough to afford guidance to the court, yet flexible enough to permit the influence of an inherent sense of fair play.

'I have come to the conclusion that the norm to be applied is the objective one of public policy. This is the general sense of justice of the community, the *boni mores*, manifested in public opinion.

'In determining and applying this norm in a particular case, the interests of the competing parties have to be weighed, bearing in mind also the interests of society, the public weal. As this norm cannot exist in *vacuo*, the morals of the market-place, the business ethics of that section of the community where the norm is to be applied, are of major importance in its determination.'

In *Lorimar Productions Inc v Sterling Clothing Manufacturers (Pty) Ltd*<sup>4</sup> Van Dijkhorst J elaborated upon the *boni mores* test:

'In applying the norm of public policy in the present case, the following factors seem to me to be relevant: the protection already afforded by statutes and by established remedies, like passing-off, under the common law; the morals of the

<sup>1</sup> (1990) 19 BML 159.

<sup>2</sup> P Q R Boberg *The Law of Delict I Aquilian Liability* (1984) 18 and 24–5.

<sup>3</sup> 1981 (2) SA 173 (T) at 188H–189A.

<sup>4</sup> 1981 (3) SA 1129 (T) at 1153B–C.



market-place: thereby I mean the ethics of the business community concerned; an inherent sense of fair play and honesty; the importance of a free market and strong competition in our economic system; the question whether the parties concerned are competitors; conventions with other countries, like the Convention of Paris.'

The seal was placed on the boni mores test in *Schultz v Butt*.<sup>5</sup> There Nicholas AJA said that, in determining the unlawfulness of competition and in judging fairness and honesty,

'regard is had to boni mores and to the general sense of justice of the community . . . [N J van der Merwe & P J J Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* 5 ed (1985) 58n95] rightly emphasize[s] 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. As pointed out in the *Lorimar Productions* case . . . , questions of public policy may be important in a particular case, eg the importance of a free market and of competition in our economic system.'

The Appellate Division of the Supreme Court therefore gave the criterion as being the boni

mores or the general sense of justice of the community, as interpreted by the community's policy-makers, such as its legislature and judges.

When one person reverse-engineers or copies another person's industrial product with a view to selling his copy in competition, his conduct will generally cause the originator of the product to suffer patrimonial loss and will be either negligent or intentional. The only issue about which there is doubt is whether the copying of the product and the marketing of the copies are wrongful. In each instance of reverse-engineering one must have regard to all the facts, which must be tested against the criterion of the community's boni mores. This objective, however, is more easily stated than carried out.

It is instructive to examine the facts and issues of *Butt's* case, not only because it gives important insight into the application of the Appellate Division's test of wrongfulness but because, being a case in which both copyright infringement and unlawful competition were alleged, it neatly encapsulates and illustrates the problems relating to the copying of industrial products.

A certain Butt designed and made the hull of a catamaran-type ski-boat. He did so by making a concrete 'plug' which embodied the shape of the hull in an inverted position. He made fibreglass moulds from the plug, which were then used for making hulls for his boats. The design of the hull of Butt's boat was made and perfected over a number of years, and a great deal of time, trouble and money was expended in achieving a satisfactory result. Butt was required to make numerous experiments and to draw heavily on his experience as a seaman in perfecting the design of the hull. Butt's boats were very successful and highly regarded, and he developed a good market for them. His boat was dubbed the 'Buttcat'.

A rival boat-builder, Schultz, requested Butt to sell him a disused mould for the Buttcat hull, claiming that he wished to make a single boat for private use; Butt, however, was sceptical because he knew that Schultz had in the past manufactured boats on a commercial basis. He accordingly declined to sell Schultz the mould in question. Schultz later acquired a disused Buttcat hull from a third party and used it as a 'plug', from which he constructed a mould. The mould was in turn used to manufacture ski-boats in competition with Butt. Schultz's boat was named the 'Supercat'. The hull of the Supercat was substantially the same as the Buttcat hull, although there were slight differences. The Supercat hull was, however, clearly a copy of the Buttcat hull. Schultz registered

### Getting it all wrong

'Owing to the extensive use of machinery and to division of labour, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race. But the price of a commodity, and therefore also of labour, is equal to its cost of production. In proportion, therefore, as the repulsiveness of the work increases, the wage decreases. Nay more, in proportion as the use of machinery and division of labour increases, in the same proportion the burden of toil also increases, whether by prolongation of the working hours, by increase of the work exacted in a given time or by increased speed of the machinery, etc.'

— The Communist Manifesto by Karl Marx and Friedrich Engels (first published 1888) Penguin Books Ltd Middlesex (1986) at 87.

<sup>5</sup> 1986 (3) SA 667 (A) at 679C-F. Corbett, Hoexter and Boshoff JJA and Nestadt AJA concurred.



the design of the Supercat hull under the Designs Act 57 of 1967. He did not deny that he had copied the Buttcat hull, but claimed that he had made modifications to it that had caused him to spend 600 man-hours and to employ considerable labour and material.

Butt instituted court proceedings against Schultz based on copyright infringement (since Schultz indirectly copied and made a reproduction of a substantial part of Butt's hull, being a work of craftsmanship of a technical nature) and unlawful competition.

Mullins J in the court of first instance<sup>6</sup> upheld both claims, granting an interdict which in essence restrained Schultz from using any Buttcat hull, with or without modifications, or any mould made from a Buttcat hull for the purpose of making catamaran hulls commercially and from selling or otherwise disposing of any hulls or boats in his possession that had been made by using a Buttcat hull or a mould made from one.

Schultz, be it noted, was not restrained generally from copying or reproducing a Buttcat hull but simply from using the mould he had manufactured and from dealing in catamarans and hulls derived from it.

In dealing with the unlawful competition claim, Mullins J distinguished Schultz's mere copying of Butt's hull, on the one hand, from the making of a reproduction of it by using a Buttcat hull to make a mould, on the other. He appeared not to take umbrage at the simple copying but only at the use of the hull to make a mould:

'The sale of an object such as a boat inevitably releases the design thereof, and in casu the hull, to the purchaser. This does not entitle the purchaser or anyone else, in my view, to make a mould therefrom and to copy that hull for commercial purposes. A rival manufacturer is entitled to examine hulls designed by his competitors, and to incorporate *in his own design* what he regards as the most desirable features thereof. He may not, however, ... copy such hull, the product of another's inventiveness and experience, in a manner which does not require him to apply his mind to such design or to exercise his own inventiveness and experience, even if he only uses it as a starting-point and makes modifications thereto ...

'There is no question of granting [Butt] a monopoly in regard to the design of his hull. Anyone is entitled to design a hull with similar features. What [Butt] is entitled to be protected against is the use by [Schultz] of [Butt's] hull *as a starting-point*. [Schultz] must start from the beginning, not on the second or third rung of the ladder. [Butt] is not entitled to be protected against another person evolving his own design similar to that of [Butt], or even against the copying of his design, but he is entitled to be protected against the use of one of his hulls to form a mould, with or without modification.'<sup>7</sup>

### Fraudulent borrowing

'[T]o obtain credit for a company without disclosing a known risk that the terms of payment may not be honoured is fraud on the creditor; and the fact that the representor may not have intended to cause a loss, and may honestly have believed that the debt would probably be paid, provides no sufficient excuse. The dishonest exposure of the creditor to the known and undisclosed risk of a possible loss establishes potential prejudice induced by fraudulent intent and amounts to fraud.

'This is fully in accord with the principles of our law. ...'

—per Stegmann J in *Ex parte Lebowa Development Corporation Ltd* 1989 (3) SA 71 (T) at 105A-B.

On appeal, Nicholas AJA adopted a similar approach, saying:

'Anyone may ordinarily make anything produced by another which is in the public domain: [o]ne may freely and exactly copy it without his leave and without payment of compensation ...

'But the question to be decided in this case is not whether one may lawfully copy the product of another but whether A, 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.'<sup>8</sup>

He answered this question as follows:

'There can be no doubt that the community would condemn as unfair and unjust Schultz's [s] conduct in using one of Butt's hulls (which were evolved over a long period, with considerable expenditure of time, labour and money) to form a mould with which to make boats in competition with Butt. He went further. Having trespassed on Butt's field, he added impudence to dishonesty by obtaining a design registration in his own name for the Buttcat hull, with the object no doubt of forbidding the field to other competitors.

'In South Africa the legislature has not limited the protection of the law in cases of copying to those who enjoy rights of intellectual property under statutes. The fact that in a particular case there is no protection by way of patent, copyright or registered design, does not license a trader to carry on his business in unfair competition with his rivals.'<sup>9</sup>

<sup>6</sup> The Eastern Cape Division, whose decision is reported sub nom *Butt v Schultz* 1984 (3) SA 568 (E).

<sup>7</sup> At 579D-F, 580D-F.

<sup>8</sup> 1986 (3) SA at 681B-E.

<sup>9</sup> At 683H-684A.



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Both Mullins J and the Appellate Division judges therefore did not appear to consider it wrongful for Schultz to copy the design of Butt's hull as such. What they considered wrongful was the manner in which he went about the process of copying and his conduct associated with the copying generally. One is left with the clear impression that if Schultz had taken one of Butt's hulls, measured it in fine detail, constructed his own concrete 'plug' in conformity with his measurements and then made a mould for his hull in the normal manner, the courts would probably not have held his conduct to be wrongful. This conclusion is borne out by the terms of the interdict granted by Mullins J which, subject to a minor variation, was endorsed by the Appellate Division.<sup>10</sup>

One may therefore conclude that the unauthorized reproduction of industrial products may constitute unlawful competition but only in very circumscribed circumstances.

It is submitted that our law of unlawful competition as crystallized and confirmed in *Schultz v Butt* recognizes a remedy of limited scope in the field of the copying of industrial products, one that falls far short of a general remedy restraining reverse-engineering. The views, held in some circles, that the Copyright Amendment Act of 1988 matters little because of remedies available for unlawful competition, and that the 1988 amendment may even have been prompted by the availability of adequate alternative remedies, are ill-founded. *Schultz v Butt* is certainly not authority for the proposition that reverse-engineering of industrial products can generally be restrained by means of a remedy for unlawful competition. Indeed, it is submitted that the very amendment effected in 1988 has reduced the scope for arguing that reverse-engineering of industrial products per se constitutes unlawful competition, because the courts, in determining the boni mores of the community, have been at pains to say that regard must be had to the provisions of legislation in point.

In the *Lorimar* case Van Dijkhorst J mentioned that, in the application of the norm of public policy, one of the factors to be taken into account is the protection already afforded by statutes and established remedies in the field in question or closely related ones;<sup>11</sup> while in *Schultz v Butt* Nicholas AJA emphasized the point that the sense of justice of the community must be interpreted as that of the legislature.<sup>12</sup> Yet the legislature has deliberately abolished the protection previously afforded against reverse-engineering and, it would seem, given its blessing, if not its encouragement, to the reverse-engineering of utilitarian objects!

There can be little doubt that if the cause of action under consideration in *Schultz v Butt* were to arise today, Schultz's conduct would not constitute copyright infringement, in the light of the Copyright Amendment Act of 1988. The crucial question is whether, in the light of the 1988 amendment, and therefore the legis-

lature's apparently changed attitude to the issue of reverse-engineering, Schultz's conduct would still constitute unlawful competition. In view of the Appellate Division's very narrow basis for its finding of unlawful competition, it is submitted that Schultz's behaviour would probably still be branded wrongful; but the case in favour of unlawful competition on the facts of *Schultz v Butt* is probably no longer as strong as it once was. It is unlikely that our courts will hold reverse-engineering in wider circumstances than those in *Schultz v Butt* to constitute unlawful competition.

At present a utilitarian three-dimensional object that cannot derive protection from the laws regulating patents and designs is easy prey for copiers. The law of copyright, traditionally the legal protector of such objects, no longer gives effective relief, and indications are that the law of unlawful competition, while admittedly evolving on a continuing basis, will afford protection only against extreme forms of copying. Copying of utilitarian industrial products does not appear to be wrongful.

This is an unsatisfactory state of affairs. The development and perfection of utilitarian three-dimensional objects that do not qualify for patent or design protection often require considerable expertise, effort and entrepreneurial spirit, as well as the expenditure of large sums of money. It is inequitable that a competitor should be able to reap the benefits of all of this investment by simply copying an earlier product, thus placing himself in a position to compete with that product with a minimum of trouble and expense — and probably at a cheaper price because of his lower development expenses and cost structure.

It is submitted that there is no good reason to differentiate between someone's copying the design of another's boat by using the boat as a 'plug' for making a mould and copying the design by some other means, such as measuring it meticulously. The unfairness and wrongfulness in *Schultz v Butt* lay in the undue benefit derived by Schultz from the expertise, effort and financial outlay of Butt, and it is this fact of which our courts ought to be mindful in dealing with instances of copying of industrial products. The real issue was whether one may lawfully copy the product of another, and Nicholas AJA avoided the matter entirely.<sup>13</sup> That is the very issue that ought to be decided by the court, showing sympathy and generosity to the originators of the designs of articles in the industrial field.

There is a clear need for the law of unlawful competition to fill the hiatus created by the Copyright Amendment Act of 1988. Let us hope that our courts will take up this challenge in the near future.

<sup>10</sup> See 1986 (3) SA at 687J-688D.

<sup>11</sup> 1981 (3) SA at 1155C-D.

<sup>12</sup> 1986 (3) SA at 679D-E.

<sup>13</sup> See his lordship's remarks at 681D.