FACULTY OF LAW

RHODES UNIVERSITY

COMMERCIAL LAW 202

PAPER 2

INSURANCE, ARBITRATION AND MARKETING

2010

YEAR: 2010

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NAME OF COURSE: COMMERCIAL LAW 202 PAPER 2 (INSURANCE, ARBITRATION, MEDIATION AND MARKETING)

1. INTRODUCTION

1.1 Overview

It is a component course of Commercial Law 2 paper 2.

Upon completion of the course, the student should have a broad overview of the legal principles of insurance, arbitration / mediation and copyright, patent and trademarks and be able to apply these principles in the commercial or accounting professions.

1.2 Credit Value

3.75 credits, which translates into 3 hours and forty-five minutes to be spent on this course per week. There are two 45-minute lectures per week for the third term. Students are required to do 3 hours' independent work in this course per week.

1.3 Assumptions of Prior Learning

- It is assumed that the students have a basic working knowledge of the South African Legal System, the hierarchy of the Courts and legal terminology.
- It is assumed that students are capable of independent work.
- The students must be capable of communicating in written and spoken English.
- The students must be able to identify and apply legal principles to a set of facts.
- The students must be capable of solving problems.

2. OUTCOMES:

The course is designed to achieve the following outcomes:

- The ability to identify essential elements of an insurance, contract and general principles.
- The ability to identify core issues from a set of facts and then to explain basic aspects.

- ❖ The ability to demonstrate a working knowledge of arbitration procedures by setting out the various steps.
- ❖ The ability to identify situations which should be taken to arbitration.
- ❖ The ability to assess an arbitration award and be aware of what further steps can be taken to resolve the dispute.
- ❖ The ability to distinguish the difference between patents, trademarks and copyright and to be aware of what further steps can be taken where an infringement occurs.

3. TEACHING METHOD

Lectures will be delivered in a semi-socratic style, using practical questions and real-life examples as a basis for explaining concepts. Students are also expected to assume responsibility for their learning by reading ahead before the lecture and consolidating afterwards. The extent of their learning and knowledge at the end of the course will depend on the effort they put into the course.

4. ASSESSMENT

- ❖ Formal examination will count 70%, which is in the form of a two-hour exam consisting of three questions, one of which is a multiple-choice question. Students must answer two questions, which are divided up equally with Mrs Haller-Barker's section of work.
- ❖ Two tests which will count 30% towards the final mark.

5. CONTENT

5.1 Insurance

The course looks at the general principles of Insurance; the difference between indemnity and non-indemnity insurance; the concept of insurable interest and the duty of good faith as well as the Long-Term Insurance Act 52 of 1998 and the Short-Term Insurance Act 53 of 1998.

5.2 Arbitration

The course looks at various aspects of the Arbitration Act of 1965; who may be appointed as an arbitrator, an arbitrator's duties and functions; the proceedings of an arbitration tribunal; the arbitration award itself and its implications as well as the difference between arbitration proceedings and court litigation and the advantages and disadvantages of arbitration proceedings.

5.3 Patents / Copyright / Trademarks

The course looks at various statutes governing those areas and what constitutes lawful and unlawful/unfair competition.

6. EVALUATION

This course will be reviewed and updated by the lecturer on an annual basis. Evaluation of the course will take place in accordance with the evaluation policy set up by the Faculty.

Students are also invited to discuss their difficulties and problems with the course either personally or through their student representative, with the lecturer.

7. GENERAL INFORMATION

7.1 Commercial Law 202 paper 2 comprises the following:

Property
Security
Insurance
Arbitration
Marketing

The sections on property and security will be taught by Mrs A Haller-Barker and the sections on insurance, arbitration and marketing by Mrs E Davies.

7.2 Commercial Law 202 will be examined in November 2010. Marks for papers 1 and 2 will be added together and reduced to a percentage to give the final mark.

7.3 This document is a comprehensive handout on insurance and arbitration. A handout on the marketing section will be given to you at the appropriate time. Please note that the contents of the handouts will **NOT** be sufficient for purposes of writing tests and exams. Lectures will involve an analysis of the relevant legal principles contained in the handouts by reference to examples as well as illustrations of these principles with reference to case law, which is merely listed in the handouts.

7.4 There will be two compulsory tests for Commercial Law 202 during the semester. The details are as follows:

Tuesday 10 August 2010 at 19h00 - 20h00 Great Hall
Monday 4 October 2010 at 19h00 Great Hall

7.5 Recommended textbooks.

For those of you who wish to read further the following texts are highly recommended:

- *The Law of Commerce in South Africa* (2009) Oxford University Press Southern Africa

- A. Govindjee *et al Commercial Law 2: Fresh Perspectives* (2007) Pearson Cape Town Prentice Hall

There are also many more resources available in the Law Library and you are encouraged to read as widely as possible.

COURSE OUTLINE

SECTION A - INSURANCE LAW

(1) Definition
(2) Sources of insurance law
(3) Different types of insurance
(4) Specific aspects re: indemnity insurance
(5) Conclusion of insurance contracts
(6) Termination of insurance contracts
(7) Duty of disclosure
(8) Warranties

SECTION B - ARBITRATION

(1) Introduction
(2) Definition
(3) Advantages and disadvantages of arbitration
(4) Referral to arbitration
(5) The arbitrator
(6) The award

SECTION C - MARKETING

(1) Copyright
(2) Competition
(3) Patents
(4) Trade Marks

SECTION A - INSURANCE LAW

(1) DEFINITION

> "An insurance contract is a reciprocal contract between an insurer and an insured in terms of which the insurer undertakes to pay the insured an amount of money or its equivalent, in exchange for payment of a monetary premium, should the risk, borne by the insurer on behalf of the insured, materialise by the happening of an event in which the insured has an interest". Nagel *et al, Business Law (2000), 2"* ed, Butterworths: Durban at 196.

(2) SOURCES OF INSURANCE LAW

With the exception of the contract of sale, the contract of insurance is one of the most frequently encountered contracts in the modern business world. The origin of insurance as we know it today can be found in the Middle Ages where the first form of insurance to develop was maritime insurance due to the serious risks involved in sea transport. During the Industrial Revolution increased trade and greater risk led to the development of indemnity insurance (e.g. insurance against fire and theft).

The South African law of insurance is primarily regulated by Roman-Dutch common law and authority for this can be found in *Mutual & Federal Insurance Co Ltd v Oudtshoorn Municipality 1985 1 SA 419 (A).* However, due to the way that the South African legal system developed English law has influenced the development of our law of insurance. For example, the doctrine of subrogation has been adopted into our law from English law.

There are a number of statutes which are relevant to insurance. The most important are the Long-term Insurance Act 52 of 1998 and the Short-term Insurance Act 53 of 1998. Although these Acts are mainly of an administrative nature in that they regulate and control the insurance industry, they also contain provisions which apply to the insurance contract and provide a measure of protection to consumers.

(3) DIFFERENT TYPES OF INSURANCE

The law recognises two types of insurance contracts, namely indemnity insurance and non-indemnity insurance. The basic- difference between the two is that with indemnity insurance the amount of damages claimed is directly proportional to the loss suffered or the amount of the insurance where it is less than the loss suffered. In the case of non-indemnity insurance however, the loss suffered and the amount paid by the insurer are not proportionate.

In indemnity insurance the insurer undertakes to make good the damage the insured suffers through the occurrence of the event insured against. The amount that the insured can receive from the insurer cannot exceed the actual amount of damages incurred. Therefore, if X insures his car for R50 000 (which is its value) and damage is caused to the car in an accident amounting to R30 000, the insured cannot claim more than the actual damages, being R30 000.

In non-indemnity insurance the insurer undertakes to pay the insured or the beneficiary a fixed sum of money if the event insured against takes place. Therefore if Z takes out life insurance on his life for R1 000 000 and he dies six months later, the insurer has to pay his estate (or nominated beneficiary) R1 000 000. This does not mean that Z's life is worth R1 000 000. What it does mean is that when the risk occurs, the insurer is liable to pay a contractually agreed amount. There are three practical differences which exist between indemnity and non-indemnity insurance:

A. The liability of the insurer in cases of indemnity insurance is limited to the amount of damages actually incurred while this is not applicable to non-indemnity insurance.
B. In the case of indemnity insurance the insurable interest must exist at the time of loss or damage while in cases of non-indemnity insurance the insurable interest must exist at the time that the insurance contract is concluded.
C. Subrogation applies only to indemnity insurance and not to non-indemnity insurance.

(4) SPECIFIC ASPECTS RE: INDEMNITY INSURANCE
FORMS OF INDEMNITY INSURANCE:

The most common forms of indemnity insurance are property/asset insurance- and liability insurance. Examples of property/asset insurance include insurance against theft, fire insurance, vehicle insurance and homeowner's insurance. Examples of liability insurance are professional liability insurance (attorneys, auditors, engineers, builders and the like) and private legal liability insurance where someone traveling overseas insures themselves against liabilities which may arise. The most common forms of non-indemnity insurance on the other hand are life insurance and personal accident insurance.

PRINCIPLE OF INDEMNITY:

The **principle of indemnity** forms the basis of indemnity insurance and this entails that an insured can never recover more than the actual loss or damage suffered. In certain circumstances the insured may not be able to recover the full amount of the loss or damage from the insurer and this can arise where for example there is an excess fee payable or the insured is under-insured.

Where the insurable interest is lost or destroyed, the insured is in most instances entitled to the market value. As the determination of the market value can be problematic, the parties usually agree on pre-determined value for purposes of the contract. A good example of a pre-determined value is the agreed value placed on a motor vehicle according to "book value".

In cases of under-insurance, the value of the insurable interest at the time of the loss or. damage exceeds the insured amount. Most contracts contain an *average* clause by means of which the parties agree that should the insured be under-insured s/he will accept responsibility for the percentage of damages in respect of which s/he is under-insured. The following formula is used to determine the extent of the insurer's liability:

$$\text{Amount recoverable} = \frac{\text{Insured amount} \quad \times \quad \text{damage}}{\text{Real value} \qquad\qquad 1}$$

SUBROGATION:

Reference: J.P. van Niekerk "Subrogation and Cession in Insurance Law A Basic Distinction Confounded" (1998) 10 *SA Mere LJ 58-77.* Where damage has been caused to the insured's interest by a third party the insured has the choice of claiming from the insurer in terms of the insurance contract, or from the third party in a delictual action. Because of the principle of indemnity that an insured can never recover more than the actual damage/loss sustained, s/he cannot claim the full amount of damages from both parties. The basis of subrogation is therefore that no person should be paid twice for the same loss. *Castellain v Preston* (1883) 11 QBD (CA).

Subrogation means the substitution of one person for another so that the person substituted or subrogated succeeds to the rights of the person whose place s/he takes. It expresses the insurer's right to be placed in the insured's position so as to be entitled to the advantage of all the insured's rights and remedies against third parties.

Subrogation must be distinguished from cession as the principles involved are distinct. As stated above, subrogation is the right of an insurer to enforce the insured's rights against third parties in respect of the insured loss, after the insurer has paid the insured a full indemnity in terms of the contract. Subrogation does not involve a transfer of the insured's rights to the insurer and nor does it require agreement as it arises by operation of law. Therefore, the action is brought by the insurer in the name of the insured as the person who holds the personal right it is sought to enforce. Consequently, the insurer is not formally a party to the action against the third party and in this way is able to retain its anonymity.

Cession on the other hand is an act of transfer of personal rights by agreement and it involves a transfer agreement between the cedent and cessionary. A cession of action deprives the cedent of his/her rights against the third party debtor as it is the cessionary as the right holder who enforces the rights in his/her own name. Therefore if the insured cedes his/her rights against a third party to his/her insurer, the latter as cessionary enforces the ceded right in its own name. Logic therefore dictates that subrogation by the insurer to the ceded rights is no longer possible.

(5) CONCLUSION OF INSURANCE CONTRACTS

The general requirements for the conclusion of a contract have to be met for the conclusion of an insurance contract and these requirements are consensus, contractual capacity, legality, physical possibility and formalities. In addition, the parties must reach agreement on the *essentialia* (essential elements) of the insurance contract. These *essentialia* are the insurable interest, the risk which is passed to the insurer, the cover which is provided, the premium which is payable by the insured and the term for which the insurance is valid. Each of these *essentialia will* be dealt with separately below.

A. INSURABLE INTEREST

The insured must have a proprietary interest (i.e. an interest of economical value) which he/she wishes to insure against certain risks. The continued existence of the interest must offer an economical benefit or the loss or damage of the interest must cause economic loss. A person can insure his/her life, or another person's life where the former has an interest in the latter's life. Property, rights, duties and even expectations (e.g. agricultural crop insurance) can be insured. In indemnity insurance the insurable interest must exist at the time loss or damage occurs whereas in non-indemnity insurance the insurable interest must exist at the time of conclusion of the contract.

The leading case of *Littlejohn v Norwich Union Insurance Society* 1905 TH 374 enunciated the general test that if a man is so placed in relation to a thing or state of affairs that he benefits by its continuance and suffers prejudice by its destruction or cessation s/he has an insurable interest therein.

A prerequisite of an insurable interest is that the interest of the insured in the subject matter of the insurance must be lawful. A classic example of this is found in *Richards v Guardian Assurance Co 1907 TH* 24 where the court held that a contract to insure premises used as a brothel against fire hazards is void as being against good morals. According to Wessels J: "Our law is very severe against brothel-keepers and persons who aid and abet the keeping of brothels; hence any act which directly or indirectly tends to facilitate the keeping of a brothel is in itself *contra bonos mores...* protection by insurance of property put to such uses is therefore discouraged by our law, and for this reason... a contract of insurance of property used as a brothel, between a person insuring such property, who is aware of the uses to which it is being put, and an innocent company can be avoided by the company on the ground that the contract is *contra bonos mores."*

B. RISK

Risk is the possibility of damage or prejudice to which the insured or his/her property is exposed. In other words, the uncertain future event insured against is known as the risk. Description of the risk in the contract is vital as the insurer must know the precise nature of the risk and the insured must know the extent of his/her cover. Consensus must be reached on the nature and scope of the risk that the insurer will bear. Any description of the risk would have to include:

1. The object insured e.g. a vehicle; a person's life
2. The hazard insured against e.g. theft; death
3. Any circumstances affecting the risk e.g. limitation of the insurance to theft of a vehicle while it is parked in a specific place; suicide

Risk must arise due to an uncertain future event. Where the risk is certain the contract would be a wagering contract and not an insurance contract. The uncertainty in life insurance is in the time of death although death itself is certain. To illustrate the differences between insurance contracts and wagering contracts the following points are relevant:

- A wagering contract is not enforceable in court
- An insurance contract does not itself create the risk of loss
- In wagering contracts the parties choose an arbitrary event, on the occurrence of which one party wins and the other loses. The parties therefore create their interest in the event themselves while the parties in an insurance contract have an insurable interest in the non-occurrence of the event
- The intention of the parties to conclude an insurance contract can be crucial in distinguishing it from a wagering contract. The purpose of an insurance contract is to protect the estate whilst that of a wager is to increase the estate.

C. PREMIUM

It is essential that the parties agree on payment of a monetary premium. Sections 1 of the Long-term Insurance Act and the Short-term Insurance Act state that a premium is "the consideration given or to be given in return for an undertaking to provide policy benefits." The premium payable is calculated actuarially by taking into account the scope of the risk, the term for which insurance cover is provided and the extent of the insurer's liability should the risk eventuate.

The actual payment of the premium is not a requirement for the creation of the contract as an undertaking to pay is sufficient, but payment is usually a suspensive condition for the policy to take effect

D. COVER

In non-indemnity insurance the cover is a contractually agreed amount. In indemnity insurance, the cover is either determined with reference to the loss or damage which may be suffered or a contractually agreed amount which is less than the loss or damage.

Section 55 of the Long-term Insurance Act and section 50 of the Short term Insurance Act contain provisions that limit the amounts payable as insurance benefits (the cover) in certain circumstances e.g. where the life of a minor under the age of 14 is insured.

E. PERIOD OF COVER

The scope of the risk and size of the premium payable can only be determined with reference to the period of insurance which must be determined or determinable.

Where the period is determined by reference to specific dates (e.g. from 1 January 2010 to 1 January 2011), the civil method of calculation applies unless the parties agree otherwise. The civil method includes the first date but excludes the last.

TERMINATION OF INSURANCE CONTRACTS

Like any other contract an insurance contract can be terminated in a number of ways. The most common of these are the following:

1. PERFORMANCE

Insurance contracts can be terminated if the risk materialises and the insurer performs by making good the cover to the insured. Not all insurance contracts are terminated in this way however as home owner's insurance, for example, is of a continuous nature and a plurality of claims may be paid by the insurer without the contract being terminated.

2. RESOLUTIVE TERM

Insurance contracts are generally valid for a certain period of time. This means that the contract is subject to a resolutive term and when the term expires the contract is terminated automatically.

3. RESOLUTIVE CONDITION

Where a contract is subject to a resolutive condition the contract is terminated automatically on fulfillment of the condition. An example would be if X took out life insurance with an insurance company and the contract contained a resolutive condition that the contract will be terminated automatically ifX tests HIV positive.

Insurance contracts can also contain a clause which directs that the insured must institute any claim within a certain time after the damage or loss has occurred. If the insured does not comply the insurer cannot be held liable in terms of the contract. The contract still remains in force but that specific claim cannot be instituted in terms of the contract. If there is no agreement on a specific time period for the submission of claims the usual prescription period of three years would apply.

4. BY CHOICE OF THE PARTIES

Most insurance policies contain a clause which allows for either of the parties to unilaterally cancel the contract. When an insured does not pay his premiums s/he is deemed to have cancelled the contract through his/her conduct.

5. VOLUNTARY LOSS OF INSURABLE INTEREST

As the existence of an insurable interest is one of the *essentialia* of an insurance contract, if the insured voluntarily waives the interest the contract is automatically terminated. This is because the contract cannot exist without an insurable interest.

6. OTHER METHODS OF TERMINATION

Insurance contracts can also be terminated upon breach of contract by either of the parties.

DUTY OF DISCLOSURE

To determine the extent of the risk and the amount of the premium, the insurer is almost entirely dependent upon information which only the insured can supply. As the prospective insured has an intimate knowledge of all the facts regarding the risk which s/he hopes to transfer to the insurer, there is a legal duty on the insured to disclose all relevant material information. Solomon JA stated in *Fine v General Assurance Corp Ltd* 1915 AD 213 that "... the general rule is that an insurer is entitled to be informed accurately of all facts known to the insured which are material to the risk...".

Although the duty to disclose rests primarily on the insured there is authority for the insurer also to be subject to this duty. In Mutual an *Federal Insurance Co. Ltd v Oudtshoorn Municipality 1985 (1) SA 419* Joubert JA said that "... there is a duty on both insured and insurer to disclose to each other prior to conclusion of the contract of insurance every fact relative and material to the risk or the assessment of the premium. This duty of disclosure relates to material facts of which the parties have actual knowledge or constructive knowledge prior to conclusion of the contract of insurance."

A number of cases have been decided by South African courts which deal with the duty of the insured to disclose information. The problem appears to be which test should be applied to determine whether or not information is material and should be disclosed. In *Mutual and Federal Insurance Co. Ltd v Oudtshoorn Municipality (supra),* the court decided that all information which a reasonable man would consider material had to be disclosed. The court rejected the criterion of the reasonable insured and reasonable insurer.

In Qilingile v SA Mutual Life Assurance Society Ltd 1991 (2) SA 399 (W) the court reformulated the test and stated that those facts which, in the view of the reasonable man, are necessary for an insurer to enable him/her to determine whether or not to accept the risk must be disclosed. The test of the reasonable man as applied in the *Mutual and Federal* (supra) case was therefore expanded.

On appeal in *Qilingile v SA Mutual Life Assurance Society Ltd 1993 (1)* SA 69 (AD) the court held that it is merely a question of fact to determine whether certain information is material and should be disclosed. The risk as determined without the information at hand should be compared to the risk as determined after disclosure of the information. If any discrepancy exists, the information should have been disclosed.

Non-disclosure of material facts amounts to a misrepresentation by the prospective insured and the insurer will not be liable under the contract. A good example of this can be found *in Bodemer NO v American Insurance Company 1961 (2) SA 662 (AD).* In this case it is interesting to note that the insured was in no way fraudulent.

The general principle of the duty to disclose has two important aspects:

- the prospective insured must answer honestly and in good faith all questions put to him by the insurer;
- the prospective insured must volunteer material information even this is not specifically requested.

If the insured gives false information does not answer a question at all or fails to disclose material information, he makes a misrepresentation which influences consensus and makes the contract voidable. The contract is voidable at the choice of the party prejudiced by the misrepresentation and it remains valid and enforceable until the prejudiced party makes his/her election. The misrepresentation can be made through a positive act (e.g. disclosure of false information) or by way of omission (e.g. where the insured does not reply to a question or withholds material information). The misrepresentation can therefore be intentional, negligent or innocent.

If the contract is set aside restitution has to take place and so if the insurer as the prejudiced party elects to do so, all premiums must be returned to the insured. If the misrepresentation is intentional or negligent, the prejudiced party may institute an additional claim for damages in delict.

The remedies of the insurer are however limited by statute. In terms of section 59 of the Long-term Insurance Act and section 53 of the Short term Insurance Act, the insurer may only act on a misrepresentation made, whether warranted or not, which could materially influence the assessment of the risk at the time of concluding the insurance contract.

Due to their nature, certain facts do not need to be disclosed and these include:

- ❖ Facts of which the insurer was, or should have been, aware. This category would include facts of general knowledge.
- ❖ Facts which reduce, and do not increase, the risk.
- ❖ Facts in respect of which the insurer has waived his/her right of disclosure.
- ❖ Facts covered by a warranty in the insurance contract.

WARRANTIES

There are two classes of warranties, namely promissory warranties and affirmative warranties.

1. PROMISSORY WARRANTIES

In this type of warranty, the insured warrants future conduct. The insured warrants that a factual situation will be maintained after the contract is concluded or that s/he will act or refrain from acting in a certain way while the contract endures.

A good example of this is found in "iron safe" clauses in fire insurance where the warranty stipulates that the insured keeps a complete set of books in connection with his/her business and that the books are locked in a fire-proof safe at all times when the premises are not open for business. *In Lewis Ltd v Norwich Union Fire Insurance Co. Ltd 1916 AD* 509 a ledger relating to credit sales to customers was left out of the safe on the night that a fire occurred. This was an act of pure carelessness on the part of one of the insured's employees and not a *male fide* act. The insured was unable to recover.

2. AFFIRMATIVE WARRANTIES

There are two types of affirmative warranty: a warranty of fact and a warranty of knowledge. Examples of these warranties are given in the case of *Heslop v General Accident Fire Assurance 1962 (3) SA 511 (AD)* where the warranty read: "Neither 1, nor my paid driver, have any previous convictions for driving offences (warranty of fact) nor has any person who to my knowledge will drive the car (warranty of knowledge)." In this case the driver, unbeknown to the insured, had a previous conviction for drunken driving and had withheld this information from the insured. The breach of the warranty of fact entitled the insurer to avoid liability.

A warranty of knowledge amounts to no more than a warranty of honesty in that the fact warranted is true and accurate to the best of one's knowledge and belief. Provided that the information is furnished honestly the insurer will be liable even if it subsequently proves to be incorrect. A warranty of fact however involves complete accuracy, regardless of honesty or the extent of the insured's knowledge. An insured who gives a warranty of fact should therefore satisfy him/herself that the fact is completely correct in all respects because if it is not, the insurer may escape liability.

CONSEQUENCES OF BREACH OF WARRANTY

Where a fact which is warranted is incorrect, or where the insured does not fulfill his/her contractual warranty, s/he is guilty of breach of contract. This means that the insurer is entitled to the remedies for breach of contract, namely cancellation, specific performance and damages.

Prior to 1969 the legal position was that a warranty made all facts warranted material, irrespective of whether they were in fact material. Any inaccuracy in the facts warranted or any failure to perform a warranty of conduct entitled the insurer to repudiate the contract no matter how trivial the breach.

In *Jordan v New Zealand Insurance Co. 1968 (2) SA 238 (E)* the insured warranted in his application for insurance that he was 22 years old when in fact he was 23 years old (by a few days) at the time of conclusion of the contract. The court held (albeit reluctantly) that this constituted a breach of warranty and that the insurer was entitled to avoid liability. This ridiculous state of affairs led to an amendment of the existing Insurance Act of 1943. The effect of this amendment was that an insurer could only repudiate liability on the grounds of an untrue representation if that representation was material to the risk.

Section 59(1) of the Long-term Insurance Act and section 52 of the Short-term Insurance Act provide that an insurer cannot limit liability in terms of an insurance contract or cancel the contract, or increase the obligations of the insured, based on a representation by the insured, unless the incorrect or false representation made by the insured materially influenced the assessment of 'the risk.

There is no unanimity on what should be regarded as material. In *De Waal No v Metropolitan Life 1994 (1) SA 818 (0)* the failure to disclose a sexually transmitted disease was found by the court to have materially affected the assessment of the risk. In *Qilingile v SA Mutual Life Assurance Society Ltd (supra) it* was held that "common sense and experience" must be applied to the facts and circumstances of each case. For a full discussion on what is material please refer to Peter Havenga "Materiality in Insurance Law: The Confusion Persists" 1996 (59) *THRHR* 338-344.

SECTION B

ARBITRATION

(1) INTRODUCTION

Arbitration is one of the oldest methods of settling disputes and there are several references to it in Roman and Roman-Dutch law. Arbitration is an agreement whereby the parties agree to refer any existing or future dispute to an arbitrator for settlement instead of referring it to the courts for adjudication.

Arbitration proceedings are governed by the Arbitration Act 42 of 1965. This Act does not however oust the common law (based on Roman and Roman-

Dutch law) which will apply where the agreement to refer to arbitration is an oral one. The Act provides more efficient machinery than the common law for the conduct of arbitration proceedings and the enforcement of awards and it applies to written arbitration agreements.

The most common types of disputes include international maritime disputes, disputes resulting from building contracts, contracts pertaining to civil engineering, insurance, lease, contracts spanning international boundaries and labour disputes. Most arbitrations arise because a term is inserted in the particular contract that provides for the resolution of any dispute which might arise by an arbitrator selected by the parties or to be selected by a third person.

Arbitrations are essentially legal proceedings. They are sanctioned by the courts, and to make them effective, especially with the enforcement of awards, recourse is had to the ordinary machinery of the law. Only in exceptional circumstances will the courts interfere in the conduct of arbitration proceedings or with awards.

Arbitration resembles ordinary litigation in many respects. The arbitrator exercises judicial functions in a judicial manner and in so doing s/he must apply established principles of the law of evidence to ensure the fair administration of justice. Like the judiciary, the arbitrator can compel witnesses to attend the proceedings and testify under oath or affirmation and s/he may make awards regarding costs. There are however notable differences. In arbitration the normal right of appeal is lost (s28 of the Arbitration Act) and the proceedings are far less formal than in the case of litigation, especially with regard to pleadings.

(2) DEFINITION

Arbitration can be defined as "...a procedure in terms of an agreement, whereby a chosen neutral person(s), after a judicial investigation, makes a final award with regard to an issue agreed upon by the parties, outside the ordinary system of litigation. The parties to such an agreement usually do not have the choice to refer a dispute, which falls within the scope of the agreement, to a court of law for adjudication..." Nagel *et al Commercial Law (2000)* 2nd ed, Butterworths: Durban at 609.

The essential characteristics of the arbitration procedure are:

- it takes place in terms of an enforceable contract
- an existing dispute is resolved by a final decision
- it takes place before a neutral person(s) who has/have no official connection with the courts
- the parties undertake to be bound by the decision.

(3) ADVANTAGES AND DISADVANTAGES OF ARBITRATION

According to Voet 4.8.1 a dispute is referred to arbitration by persons "...who are frightened of the too heavy expenses of lawsuits, the din of legal proceedings, their harassing labours and pernicious delays, and finally the burdensome and weary waiting in the uncertainty of the law".

The main advantages are:

- The parties to a dispute can appoint as arbitrator a specialist in relation to the dispute. This is of great value in disputes of a highly technical nature where specialist knowledge is required. Presiding officers in the courts are knowledgeable about the law but they are generally not specialists in fields such as engineering and computer technology.

- Arbitration can be an expedient way of settling a dispute. Avoiding delays due to technicalities and formalities of the law and crowded court rolls means that arbitration proceedings are more readily finalised than ordinary litigation. (Bear in mind though that it is not always true that arbitration proceedings are quicker as some have been known to drag on for years because of the complexity of evidence, questions of which law to apply, or problems associated with enforceability of the arbitration award.)

- Arbitration is private and confidential as proceedings do not take place in open court and in the presence of the public and the media. With the exception of cases where the parties choose to disclose details or where enforcement through the courts is required, confidentiality can be maintained to protect trade secrets or prevent unwelcome publicity.

- The parties to the dispute can adapt the procedure to be followed by consensus. Evidence can be heard outside business hours, or at a building site, or at a place convenient to the parties. Court procedures on the other hand are regulated by rules and the court's convenience is paramount.

- An arbitration award is certain and final and not subject to appeal unless the parties have reached such an agreement. Note however that there is a right of review of arbitration proceedings if it is alleged that there has been misconduct by the arbitrator; a gross irregularity in the proceedings; an improperly obtained award - section 33 of the Arbitration Act.

- In most instances arbitration is a less expensive means of finalising a dispute than court proceedings. This will depend on the nature of the dispute though for example in a case involving marine insurance it would not be unusual for the parties to be represented by two Silks.

- Arbitration proceedings are more informal and less intimidating than proceedings in court.

The main disadvantages are:

- The parties have no right of appeal to a higher tribunal which they may have in ordinary litigation. Parties who are dissatisfied with an award therefore have a **limited** right to challenge the decision of an arbitrator.

- The parties themselves are responsible for payment of the arbitrator's fees while judicial officers are paid by the State.
- Third parties with an interest in the dispute are usually more ready to accept the findings of a court than those of an arbitrator.
- From a practical point of view, it may be difficult to find an impartial competent arbitrator who is willing to act.
- Certain disputes are more suited to litigation where, for example, a court must set a precedent.

The parties to a dispute may qualify for legal aid from the State if they litigate, while there is no such possibility in the arbitration of a dispute.

(4) REFERRAL TO ARBITRATION

In most instances arbitration agreements are incorporated into a contract in the form of an arbitration clause. Parties can also conclude an independent arbitration contract. Arbitration agreements are often wide in scope and provide for a variety of disputes which may arise. The Arbitration Act does prohibit arbitration in certain instances and in terms of section 2 of the Act examples include matrimonial cases or matters incidental thereto (e.g. divorce and custody of children) and matters regarding the status of a person (e.g. majority, mental deficiency, matrimonial status and insolvency). *Resell v Resell 1976 (1) SA 289 (W).* Although not specifically excluded by the Act, criminal matters and matters contrary to public policy and good morals may not be the subject of an arbitration agreement. Disputes regarding public rights may also not be resolved by arbitration.

It has been held that the court, as upper guardian of minor children, must give its consent to arbitration upon a dispute in which the financial interests of minor children may be affected. *Southern Life Association v Bannik's Executor* 1920 AD 34 and *Setzen v Mendelsohn* 1948 (3) SA 292 (C).

Disputes can also be referred to arbitration by operation of statutory provisions. For example, in terms of section 19 of the Supreme Court Act 59 of 1959, a judge may, with the consent of the parties, refer a matter arising in a civil trial to a referee who is, in effect, an arbitrator on that issue. Provision is also made in section 191 of the Labour Relations Act 66 of 1995 for the referral to arbitration of disputes between employer and employee.

A statutory referral to arbitration must be expressed in clear language since its effect is to curtail the jurisdiction of the courts. The provisions of the Arbitration Act apply to statutory arbitration as if they were pursuant to an arbitration agreement except where the statute concerned is an Act of Parliament and expresses a contrary intention (section 40 of the Act).

An arbitration agreement can be entered into either before or after a dispute has arisen between the parties. In many contracts a clause is inserted in which the parties agree to refer future disputes to arbitration. Such clauses are often found in insurance policies, deeds of partnership and building contracts. In other cases, the parties agree to submit a dispute to arbitration only after the dispute has arisen.

There can be no arbitration until a dispute has in fact arisen. Thus a clause designed to prevent a dispute rather than to settle one is not an arbitration agreement. For example, a clause which provides for the appointment of a person to value the subject matter of a contract, and for the parties to accept the appraisement, is an agreement for valuation, *Estate Milne v Donohoe Investments* 1967 (2) SA 359 (A) at 373H. In certain circumstances the appointment of a valuer can amount to a referral to arbitration if the parties so intended and provided a dispute has arisen. *Kolberg v Cape Town Municipality* 1967 (3) SA 472 (A).

An interesting point arises where a party wishes to repudiate a contract and yet invoke the arbitration clause that is contained in the same contract. A distinction must be drawn between cases where a party denies the very existence of a contractual relationship, and cases where the party accepts that a contract exists, and that s/he is bound by it but disputes the extent or nature of his/her liability. In the former case, an arbitration clause cannot be relied on because its existence depends on the validity of the contract, which is denied. In the latter case, the clause may be relied upon. *Scriven Bros v Rhodesia Hides Co. Ltd* 1943 AD 393 at 401 and *De Goede v Venter* 1959 (3) SA 959 (E).

Once a dispute is properly referred to arbitration the parties are bound by the referral. The arbitration agreement may not be revoked unilaterally - it may only be set aside by mutual agreement or where leave has been granted by the High Court. If a party initiates legal proceedings, the other party may raise the referral to arbitration as a special defence. *Rhodesian Railways Ltd, v Mackintosh 1932 AD 1359.* But as Nicholas J stated in *Congress (Pty) Ltd and another v Gallic Construction (Pty) Ltd 1981 (3)* SA 73 (W) at 75H - 76A:

> "An arbitration agreement is not an automatic bar to legal proceedings in respect of disputes covered by the agreement. If, however, a party to the arbitration agreement commences any legal proceedings in any court against any other party to the agreement in respect of any matter agreed to be referred to arbitration, any party to such legal proceedings may at any time after entering appearance, but before delivering any pleadings or taking any other steps in the proceedings, apply to that court for a stay of such proceedings (section 6(1) of the Arbitration Act). In the absence of an order for the stay of legal proceedings, such proceedings continue..."

An arbitration agreement which purports to entirely exclude the jurisdiction of the courts is against public policy and void. Lord De Villiers CJ in *Davies v South British Insurance Co. (1885) 3 SC 416* said at 421

> "The interposition of the Court may be delayed but its jurisdiction is not ousted. The Court still retains the power of setting aside the award of the arbitrators on sufficient grounds shown, and the award cannot be enforced without the aid of

the court."

Section 3(2) of the Act gives a court the power to set aside an arbitration agreement either wholly or in part, on good cause shown by either party. This power is used sparingly and only in exceptional cases such as where the whole transaction is tainted with illegality or where the agreement purports to entirely exclude the jurisdiction of the courts.

(5) THE ARBITRATOR

APPOINTMENT AND QUALIFICATIONS

The parties have free hand in choosing an arbitrator. The general principle of natural justice that persons may not be a judge in their own cause applies to arbitrators, but this does not mean that the parties are precluded from choosing a person with some interest in the dispute. It may happen that in building and engineering contracts the architect or engineer arbitrates a matter in relation to which s/he has taken a decision in the execution of his/her duties. An arbitrator with an interest will not necessarily be biased. *In Rhodesia Electricity Supply Commission v Joelson Bros and Bardone (Pty) Ltd 1977 (4) SA 639 (R)* at 645 Pittman J stated:

> "Where an arbitrator has been appointed because he possesses technical knowledge appropriate to the submission, he is entitled to act on that knowledge in making his award without having witnesses called before him concerning the points in question. It is... a necessary corollary of that rule that he is not obliged to reveal to the parties exactly how he proposes to use that knowledge in relation to any particular point, whether or not evidence has been led on it. Otherwise the absurd position would arise that the arbitrator would in effect have to become a witness in the proceedings."

The Act places no limitation on the number of arbitrators which may be appointed. Unless a contrary intention is expressed in the arbitration agreement, the reference shall be to a single arbitrator (section 9 of the Act). If a tribunal consists of two arbitrators, they must reach a unanimous decision and where it consists of more than two, the decision of the majority of the arbitrators shall be the decision of the tribunal (section 14(3) of the Act).

If an arbitration agreement provides for an equal number of arbitrators, they may appoint an umpire at any time. A dispute is referred to an umpire where an equal number of arbitrators are not able to reach a majority decision (section 18 of the Act). There is an important distinction between a third arbitrator and an umpire. In *Kannenberg v Gird 1966 (4)* SA 173 (C) it was held that a third arbitrator forms part of the tribunal and has an equal say. An umpire's task is different in that it only commences once the arbitrators have already made a decision and they cannot reach agreement. The umpire then acts in place of the arbitrators. If the parties cannot agree upon an arbitrator or where a party who is obliged to appoint one fails to do so, the court may appoint one (section 12 of the Act). The court may also replace an arbitrator who has died or been removed or who does not perform his/her functions. The courts are, however, reluctant to interfere with the choice of the parties.

The Act does not prescribe any minimum qualifications with regard to arbitrators or umpires. According to our common law, any sane person over 18 years may act as an arbitrator. The parties themselves should agree upon the qualifications of the arbitrator, but usually someone with legal qualifications or appropriate technical qualifications is appointed. Advocates, who are accustomed to judicial proceedings and who understand the law of evidence are especially well qualified. The choice obviously depends on the nature of the dispute. In major disputes a lawyer is usually appointed as an additional arbitrator.

GENERAL DUTIES

The function of arbitrators is to hold an enquiry in a judicial manner, to consider the evidence before them impartially and to decide the issues referred to them.

An arbitrators general duties are:

- To act fairly and impartially. An arbitrator may not be motivated by his/her own interests or obtain secret information from either party.
- To comply strictly with the terms of the agreement.
- To decide the dispute before them and only that dispute.
- To hear admissible evidence and argument by all parties. Cross-examination and re-examination of witnesses must be allowed.

- The arbitrator should either take full notes of the evidence or arrange with the parties for the recording of evidence.

- Subject to the provisions of section 20 of the Act, the arbitrator may not delegate his/her functions. Section 20 provides that the opinion of a court or of counsel may be obtained on any material and difficult question of law. If this is done, no appeal lies against the opinion and the arbitrator and parties are bound thereby. In *Government of the Republic of South Africa v Midkon (Pty) Ltd* 1948 (3) SA 552 (T) Preiss J said at 559-560

  "The purpose of section 20 is that fundamental and difficult questions of law might arise in relation to which the parties or one of them should have the right of a ruling by the courts. It goes without saying that it is not every legal issue per se which would be subject to a referral to a court of law. The question whether the arbitrator has some form of legal training or not is generally irrelevant. An arbitrator in the course of his duties may frequently be called upon to decide questions of law."

The type of legal question which will qualify under section 20 must therefore be a material and difficult question of law, the determination of which is essential for the decision of the matter. The legal issue must be fundamental, relating to the very basis on which the arbitrator has to arbitrate.

PROCEDURAL DUTIES

- The Arbitrator is obliged to fix a time and place for the hearing and to give notice to the parties (section 15 of the Act).

- The arbitrator must make the award within four months of the commencement of the arbitration proceedings (section 23(a) of the Act). This period may be extended with the leave of the court, and if the matter is referred to an umpire, a further three months is allowed after such referral.

- The award must be in writing and signed by all the arbitrators to the proceedings (section 24(1) of the Act).

- The award must be delivered to the parties or to their respective representatives (section 25(1) of the Act.

POWERS OF ARBITRATOR

- The arbitrator may administer oaths or affirmations to witnesses.
- The arbitrator may require pleadings to be delivered.
- The arbitrator may compel witnesses to attend and testify at the proceedings and to produce relevant documents.
- The arbitrator may make an order regarding the costs of the proceedings.

REMOVAL

Once arbitrators have been appointed they may only be removed from their position in accordance with the terms of the agreement, or with the consent of the parties, or in special circumstances by an order of court. Section 13(2) provides that the court may remove an arbitrator from office on good cause shown. Examples of good cause include:

A. Lack of impartiality e.g. clear bias
B. Misconduct or corruption e.g. accepting bribes
C. Failure to use all reasonable means to enter and proceed with the referral and making an award
D. Failure to inform the parties within a reasonable time where there are two arbitrators who cannot agree

The test to be applied when a party seeks to remove an arbitrator on grounds of lack of impartiality can create difficulty. Where the parties choose an arbitrator whom they both know has some interest in or connection with the dispute, the court will usually hold them to their choice. The court will only interfere on proof that there is a strong possibility that the arbitrator will be biased or will not try the matter fairly. Such evidence was lacking in *Syphus v Schoeman 1923 CPL 113* where an arbitrator was remotely related to one of the parties.

The approach is different where, at the time of the choice, one party was unaware of any interest or connection, or where, subsequent to the choice the arbitrator becomes in some way interested or connected. In such a case, removal will be ordered if a party has a reasonable fear that the arbitrator will not act impartially.

The rule is well illustrated in *Appel v Leo 1947 (4) SA 766 (W)* where the court held that in fact there was no possibility of bias on the part of the arbitrator, a senior advocate. The advocate had, subsequent to his appointment but before any dispute had arisen, acted for one of the parties in certain applications. It turned out that these applications were remotely connected with the dispute which eventually arose. The court ordered the advocate's removal because a reasonable disputant in these circumstances might believe that s/he would not receive a fair hearing.

(6) THE AWARD

The award is the decision of the arbitrator(s). For an award to be valid and effective it must be complete, clearly expressed, certain and conclusive. It may not go beyond, nor may it fall short of the matter which the arbitrator is called upon to decide. *Harlin Properties Ltd v Rush Tomkins (SAC Ltd 1963 (!) SA 187* (D&C.L.D.) at 189D. An arbitrator cannot order anything which a court cannot order e.g. specific performance of an illegal undertaking. Unless an arbitration agreement provides otherwise, the award is final and binding and not subject to appeal (section 28 of the Act). It is also important to note that neither the Act nor the common law set any requirements with regard to the provision of reasons justifying the arbitrator's award.

There is no procedure for enforcing an award unless it is made an order of court. In terms of section 31 of the Act, this may be done on application by either party, and once the application is granted the ordinary rules applicable to the enforcement of a court order apply.

The object of submission to arbitration is that the parties shall accept the award as final and unless the agreement provides otherwise, they sacrifice their normal right of appeal to the court. This sacrifice is fundamental to the contract. The approach of the courts is illustrated by the statement of Gardiner J in *dark v African Guarantee and Indemnity* Co. Ltd 1915 CPD 68 at 77:

> "The court will always be most reluctant to interfere with the award of an arbitrator. The parties have chosen to go to arbitration instead of resorting to the courts of the land, they have specially selected the personnel of their tribunal, and they have agreed that the award of that tribunal should be final and binding."

The court does however have a discretion to intervene in exceptional circumstances. It has an inherent power to question and decide upon the validity of the award and examples of the court exercising this power are:

(a) where the award is *contra bonos mores*

(b) where it exceeds the arbitrator's jurisdiction - *Dickenson & Brown v Fisher's Executors 1915 AD 166* at 175

(c) where it adjudicates upon a matter not subject to arbitration

(d) where it lacks finality - *Britstown Municipality v Beunderman (Pty) Ltd* 1967 (3) SA 154

In the above instances, the arbitrator's decision is not an award at all.

In terms of the Act, the court also has the power to interfere with the decisions that are legally valid awards. In terms of section 31 of the Act it may correct any clerical mistake or (obvious error arising from an accidental slip or omission. Note too that in terms of section 30, the arbitrator may also correct a clerical mistake arising from a slip or omission. This is an exception to the rule that an arbitrator is *functus officio* after making the award. The arbitrator may not, however, change the essence of the award when rectifying a mistake.

The court cannot finalise an award that is not final *(Britstown Municipality, supra)* but the court is empowered to set aside an award or to remit an award for reconsideration. A court may also set aside an award partially. In terms of section 33(2) of the Act, the application for setting aside of the award should be made within six weeks of publication of the award or within six weeks after the discovery of any corruption. - The grounds upon which the court may set aside an award are set out in section 33 of the Act and they are:

> Misconduct with regard to a person's duties as arbitrator. Examples are bias, prejudging the issues, paying no attention to the evidence, dishonesty, and a grossly excessive or inadequate award. *(Dunbar & Sons v SAR 1943 AD 22 Graaf-Reinet Municipality v J arisen 1917 CPD 64).*

Mistake can never amount to misconduct and the court will not upset an award merely because it disagrees with the decision. Error may, however, be evidence of ^ misconduct and an error may be so gross and manifest that the court will infer that it is the result of misconduct. *Dickenson & Brown v Fischer's Executors, supra.*

- Gross irregularities in the arbitration procedure. Arbitrators must act in a judicious manner and ensure the fair administration of justice. The classic example of an irregularity resulting in a failure of justice is where *the audi alteram partem* rule is not observed. In *Field v Grahamstown Municipality 1928* EDL 135 the arbitrator, acting in good faith, took certain evidence in the absence of a party and did not give him an opportunity of presenting his case.

- Exceeding the bounds of the arbitrator's authority. An example is where the arbitrator makes an award for specific performance when the arbitration contract stipulates that only damages may be awarded. For an example of a tribunal exceeding its powers see *Williams v Estate Williams* (1902) 19 SC 443.

- Where an award was obtained in an improper manner. This is a wide category and covers, for example, cases where the award was obtained by fraud or perjured evidence on a material point. *Van Schalkwyk v Viot* 1914 CPD 999.

In terms of section 32 of the Act, the court may also remit an award to the arbitrator for reconsideration. In an application for remittal, "good cause" must be shown and generally the court will remit where it is in the interests of justice to do so, and where no good reason appears why it should not do so.

The court may set aside the award and remit the matter to the arbitrator to make a fresh award, or it may remit the award to enable the arbitrator to deal with certain specified aspects. The discretion of the court must be exercised judicially in the light of all the circumstances of the case, including the possibility of prejudice to a party, the expeditious finalisation of the dispute and the question of wasted costs. The court will not exercise its discretion to remit where a party has justifiably lost confidence in the arbitrator or where the arbitrators will have difficulty disabusing their minds of their previous opinion in reassessing the evidence.

Examples of circumstances where the court may remit include:

- Where the award goes beyond the terms of reference. *Melman v Engelman 1940 TPD 151*
- Where it lacks finality in certain respects e.g. where it does not deal with costs.
- Where new evidence has become available.
- Where minor procedural irregularities require correction.
- Where the arbitrator has made a mistake. Once an award has been published an arbitrator cannot correct a mistake (other than a clerical mistake arising from a slip or omission) unless the award is remitted to him either by agreement of the parties or by the court. Where the arbitrator admits the mistake, remittal will rarely be refused. Even if the arbitrator does not admit the mistake, the court may remit if the interests of justice demand this. Mistake in this context means a mistake which results in the award not reflecting the arbitrator's intention or some error in the award itself. A court will not remit merely because it disagrees with the outcome of the proceedings and nor will it remit where a point has been thoroughly considered, but in the court's opinion wrongly decided.
- Where the arbitrator failed to apply the correct principles of law as to costs. *John Siske and Son SA v Urban Foundation and Another* 1985 (4) SA 349 (N).

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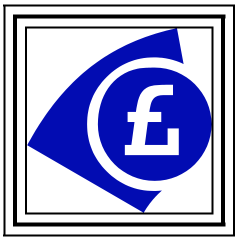

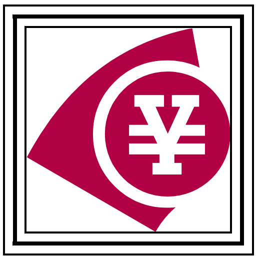

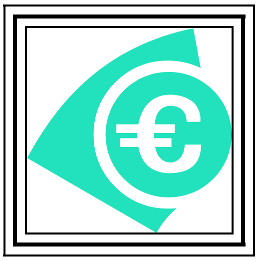

COMMERCIAL LAW 2

MARKETING

2010

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References: A. Govindjee *et al Chapter 13 Commercial Law 2: Fresh Perspectives* (2007) Pearson Prentice Hall, Cape Town

I COPYRIGHT

1. INTRODUCTION AND MEANING OF WORD "COPYRIGHT"

Copyright like all other intellectual property rights such as patents, registered designs and registered trade marks is essentially a creature of statute and the Copyright Act 98 of 1978 (hereafter referred to as the "Act"), governs the law of copyright in South Africa, as amended by the Copyright Amendment Act 125 of 1992.

When determining the meaning of the word copyright recourse must be had to the relevant sections of the Act dealing with the various categories of works that copyright applies to viz S6-11A. The general principle that can be extracted from these sections of the Act is that copyright is the exclusive right to do or authorise the doing of those acts listed in these various sections. For example S6 of the Act refers to the rights that vest in an author of literary and musical works viz the right to:

(a) reproduce the work;

(b) publish the work;

(c) perform the work in public;

(d) broadcast the work;

(e) make an adaption of the work.

In general terms copyright can therefore be described as that right which vests in the author of every original work and subject matter and which enables him to prevent the unsolicited copying of his work, provided always that the work is not of a kind which is contrary to public morality.

2. FUNCTION OF COPYRIGHT

The primary function of copyright law is to prevent someone from copying an original work of another, whether it be a book, a tune, a photograph, a drawing or a sculpture. This protection affected by the Act makes it unlawful to reproduce or copy any literary, dramatic, musical or artistic work without the consent of the owner of the copyright in such work.

3. CREATION OF COPYRIGHT

Unlike the other intellectual property rights, copyright is not *created* by registration. Copyright arises by operation of law once there is compliance with the various statutory and common law requirements. Certain works and subject matter can however be registered with the Registrar of Copyright (who is also the Registrar of Patents.) Such registration does not create copyright, it merely serves as a record thereof, to establish the date the work or subject matter originates.

4. OWNERSHIP OF COPYRIGHT

Apart from where the author otherwise agrees, or the work is one made by or under the direction or control of the State, ownership of the copyright in a work vests, in the first instance, in its author: S 21(1) Copyright Act (98 of 1978).

5. MEANING OF "AUTHOR"

The word author varies, depending on the nature of the work or subject matter:

5.1 in relation, to a literary (including dramatic), musical or artistic work, the author is the maker or creator of the work.

5.2 in relation to a sound recording the author is the person by whom arrangements for the first fixing of the sounds of a performance were made.

5.3 in relation to a cinematograph film the author is means the person by whom the arrangement for the making of the film were made.

5.4 in relation to photographs, the author is the composer thereof.

5.5 in relation to computer programmes see Owen Dean 1992 *De Rebus*, p755 `Copyright Amendment Act 1992'.

The author of a photograph need not necessarily be the man who presses the trigger of the camera as not in all cases will he also be the person responsible for the composition of the photograph.

A photograph of an existing photograph is not entitled to copyright protection because it is a mere copy and lacks originality which means there has been insufficient skill to distinguish the product from the raw material. However, if a person takes a photograph of an identical scene to that shown in another photograph, the second photograph is also entitled to copyright because the original scene photographed is not subject to copyright. The originality in a photograph lies in the way a shot is composed, the exposure, the angle at which the shot was taken etc. and not the scene being photographed.

The law does not regard the person who created the idea which inspires the work as the author of a copyright work or subject matter, but rather the person who embodied the idea into a concrete form. A person therefore does not qualify as an author of a work simply because he happens to be the originator of the thoughts or ideas which have inspired the work. In *Donoghue v Allied Newspapers Ltd* 1938 ch 106 109, Farwell J, said:

> "A person may have a brilliant idea for a story, or for a picture, or for a play, and one which appears to him to be original: but if he communicates that idea to an author or an artist or a playwright, the production which is the result of the communication of the idea to the author or the artist or the playwright is the copyright of the person who has clothed the idea in form whether by means of a picture, a play, or a book, and the owner of the idea has no rights in the product."

6. WORKS ELIGIBLE FOR COPYRIGHT.

Copyright only exists in material which falls within the categories described in the Act as being capable of having copyright protection: (s:2). These categories of works and subject matter are:

(a) literary works (Including dramatic works);

(b) musical works;

(c) artistic works;

(d) cinematograph films;

(e) sound recordings;

(f) broadcasts ;

(g) programme-carrying signals; and

(h) published editions.

(i) computer programmes. [See Copyright Amendment Act 125 of 1992]

Material which does not fall within one of these categories will have no copyright protection. It is therefore essential, when considering any copyright issue, first to determine whether the material being copied falls within the work or subject matter set out in the Act. The title of a book, song or film will usually not have copyright protection in that it is not a literary work because it lacks skill and labour to give it originality.

7. TIME PERIOD OF COPYRIGHT

Copyright does not last forever. It exists only for a limited period of time. The period during which a work is protected by copyright differs according to each type of work (S3).

Literary, musical or artistic works: In the case of literary, musical or artistic works, other than photographs, copyright subsists for the life of the author and fifty years from the end of the year in which the author dies. If before the death of the author any of the following had been done in respect of such work:

(i) publication thereof;

(ii) performance thereof in public;

(iii) the offer for sale to the public of records thereof;

(iv) the broadcasting thereof,

then the copyright shall continue to subsist for a period of 50 years from the end of the year in which the first of the said acts is done.

Cinematograph films and photographs: Copyright subsists for 50 years from the end of the year in which the work is lawfully made available to the public, or, failing such an event, 50 years from the making of the work.

Sound recordings: Copyright subsists for 50 years from the end of the year in which the broadcast first takes place.

Computer programmes: The terms of protection of a computer programme is a period of fifty years from the end of the year in which the work is made available to the public with the consent of the copyright owner, or failing such an event within 50 years from the end of the year in which the work is made. (Copyright Amendment Act, 1992).

Haupt t/a Soft Copy v Brewers Marketing Intelligence (Pty) Ltd and others 2005 (1) SA 398 (C).

In this case the court heard that the applicant had been an employee of the first respondent and, as such, had fallen within the ambit of s 21(1)(d) of the Copyright Act 98 of 1978 which provides that where a work was made in the course of the author's employment by another person under a contract of service, that other person would be the owner of the copyright subsisting in the work. Therefore applicant could not have become the owner of the copyright subsisting in the work.

The court also looked at the originality of the computer program for its eligibility for copyright which depended on whether sufficient original skill and labour had been used in the creation of the program.

Note: the Copyright Act 98 of 1998 differentiates between computer programs and databases. Computer programs, since the Copyright Amendment Act 125 of 1992, have been recognised as a specific and *sui generic* form of expression which can be the subject of copyright. In section 1 (1) of the Act, a computer program is defined as

> "a set of instructions fixed or stored in any manner which, when used directly or indirectly in a computer, directs its operations to bring about a result".

An electronic database, however, in terms of s 1(i) of the Act, as amended by s 50(e) of the Intellectual Property Laws Amendment Act 38 of 1997, is included under the definition of literary works, which are defined to include:

> "(g) tables and compilations, including tables and compilations of data stored or embodied in a computer or a medium used in conjunction with a computer, but shall not include a computer program; …"

So if a person compiles an e-mail or a fax directory, s/he has copyright protection because of the labour skill involved in selecting and arranging the material.

8. REQUIREMENTS FOR THE SUBSISTENCE OF COPYRIGHT

8.1 Common Law Requirements

The mere fact that work qualifies as one of the subjects of copyright does not in itself mean that the work will inevitably enjoy the benefit of copyright protection. There are certain basic requirements which must be satisfied before copyright can subsist in a work. The common law requirements are:

Propriety: To enjoy the benefit of copyright protection a work must satisfy the requirement of propriety. This means that if any work is of such a nature that its sale or publication would be *contra bonos mores* it will be deprived of the protection of the law. Thus our courts have refused to recognise the subsistence of copyright in immoral works.

Originality: If a work is to be subject to copyright it must be original. Originality refers to the *manner and way* in which the work is reduced to a material form. Whether or not a work will be subject to copyright therefore depends upon the labour, skill, judgment and capital which goes into such work. Lord Atkinson in the case of *Mac Millan & Co v Cooper* 1923 LR 51 Ind App 109 indicates what is meant by the word "originality":

> "To secure copyright for the product it is necessary that labour, skill and capital should be expended sufficiently to <u>impart to the product some quality or character which the raw material did not possess, and which differentiates the product from the raw material</u>".

Unfortunately there is no simple test as to the extent of skill and judgment which must be bestowed on a work in order to confer copyright upon it. Each matter will therefore be determined in the light of its own facts.

In *Walter v Lane* 1900 AC 539 at 554 it was pointed out that a person copying written matter was not an author within the meaning of the Act because copying lacked skill and no quality or character was imparted into the work to distinguish it from the raw material. However, a translator of a work from one language to another would qualify as an author of the translated work because sufficient skill was involved in imparting to the work some quality or character which distinguished the work from the raw material.

8.2 Statutory requirements.

The Act provides that no copyright shall subsists in a literary, musical or artistic work unless such work is original and written down, recorded or reduced to a material form: (S 2).

(i) As regards literary (including dramatic), musical and artistic works and sound recordings, the requirements for the subsistence of copyright vary according to whether the work involved is published or unpublished. Where it is unpublished, the requirements are -

(a) the work must not be *contra bonos mores*;

(b) the work must be original; and

(c) the author, or authors must have been a qualified person either at the time when the work was made, or, alternatively, when the making extended over a period, she must have been a qualified person for a substantial part of that period: S 3 (1).

The act defines a "qualified person" as:

(a) in the case of an individual, a person who is a South African citizen or is domiciled or resident in the Republic, or

(b) in the case of a juristic person, a body incorporated under the laws of the Republic.

If the work falling within the ambit of the present paragraph has been published, the requirements are -

(a) the work must not be *contra bonos mores*;

(b) the work must be original; and

(c) the first publication of the work must have taken place within the Republic.

(ii) The requirements for the subsistence of copyright in a cinematograph film are:

(a) the film must not be *contra bonos mores*;

(b) it must not be a mere reprocessing of some earlier film; and

(c) the author of the recording must have been a qualified person either at the time when the recording was made, or for a substantial part of the time during which the work was made (see above for the meaning of "qualified person"; or

(d) as an alternative to (c) the recording must have been first made or published in the Republic.

(iii) The requirements for the subsistence of copyright in a <u>broadcast or programme</u> - carrying signal are :

(a) it must not be *contra bonos mores*; and

(b) it must have been made (if a broadcast) or emitted (if a programme carrying signal by a qualified person, or

(c) as an alternative to (b) it must have been made or emitted from within the Republic.

9. INFRINGEMENT OF COPYRIGHT

Copyright provides a remedy only where there has been an infringement ie the alleged infringer copied the work in question or a substantial part thereof. The infringement of the copyright in a work may be direct or indirect. It is direct when the infringer commits any of the acts specifically designated in the act as acts the doing of which, or the authorization of which, in relation to the particular category of work is the sole prerogative of the copyright owner. It is indirect when the infringer, although not actually committing any of the acts so designated, none the less knowingly does something in the furtherance thereof. For example, one of the acts the doing or authorization of which is restricted by the copyright in a literary work to the copyright owner or licensee is reproducing the work in any manner of form. If therefore, a person without the consent of the copyright owner makes a copy of the work, s/he commits an act of direct infringement. However, if, instead of making a copy of the work herself, s/he knowingly, and without the consent of the copyright owner, imports into the Republic - other than for his/her private or domestic use - an infringing copy already in existence, s/he commits an indirect act of infringement. (Copeling (1978) at 24-57).

10. REMEDIES FOR INFRINGEMENT OF COPYRIGHT

10.1 CIVIL REMEDIES

Section 24 of the Act provides that infringements of copyright are to be actionable at the suit of the owner of the copyright. The following civil remedies are available for such an infringement:

- damages,
- interdicts,
- delivery of infringing copies or plates,
- additional damages.

10.1.1 Damages:

In respect of the claim for damages, fault on the part of the infringer is essential to the success of any such claim: S 24(2). Fault exists either in the form of *dolus* (intentional infringement) or *culpa* (negligent infringement in that the wrongdoer ought to have known he was infringing a copyright). The infringer is usually required to pay as damages, a reasonable royalty to the copyright holder (see De Rebus, October 1992 at p757).

10.1.2 Interdict:

The grounds upon which interdicts are granted in copyright matters are the same as those upon which interdicts are granted in other matters. (See *Nast Publications Ltd v Jaffe* 1951 (1) SA 81 (C) at 86.)

For an owner (applicant) to succeed on an interdict she must show that:

(a) the respondent has infringed the applicant's copyright;

(b) the respondent is likely to continue with the infringement;

(c) the infringement is not trivial; and

(d) damages will be suffered by the applicant if the interdict is not granted.

10.1.3 Delivery of infringing copies or plates:

The action for delivery of copies which infringe copyright or plates used or intended to be used for the making of infringing copies, is in fact essentially the English law action for detinue or wrongful detention of another's property. As such it would ordinarily have no application in South Africa. However, in *Braby v Donaldson* 1926 AD 337, it was held that the remedy constituted an integral part of our law of copyright.

It is presumed that, as in English law, the injured party, in addition to claiming all copies or plates of the offending work which are in the possession of the wrongdoer, may also sue for damages for wrongful detention.

10.1.4 Additional damages:

The Act permits the court to award damages additional to those which it may award in respect of the infringement itself. More particularly, such damages which are really in the nature of penal or exemplary damages may be awarded where the court, having duly considered all the relevant factors particularly:

(a) the flagrancy of the infringement and

(b) any benefit shown to have accrued to the defendant by reason of the infringement, is satisfied that effective relief would not otherwise be available to the plaintiff.

10.2 SPECIAL REMEDIES

10.2.1 Action for infringement of an author's "residuary" rights:

Notwithstanding the transfer of the copyrights in a literary (including dramatic) musical or artistic work, or cinematograph film, the author shall have the right to claim authorship of the work, and to object to any distortion, mutilation or other modification thereof which would be prejudicial to his honour or reputation: S20(1). Any infringement of the aforementioned rights shall be actionable as an infringement of copyright: S20(2). The exception to this provision is where an author authorizes the use of his work in a cinematograph film or television broadcast. In such circumstances he may not oppose modifications that are absolutely necessary in technical grounds or for the commercial exploitation of the work. Although the rights referred to in S 20(1) are referred to as the author's "residuary" rights they are more commonly known as the author's moral rights. The Copyright Amendment Act, 1992 has renamed the term "residuary" right (See De Rebus October 1992 at p759).

The effect of S 20(2) is that in the event of the infringement of the author's moral rights, the latter has various remedies available for relief.

(a) an interdict;

(b) damages (in the nature of ordinary delictual damages);

(c) an account of profits;

(d) delivery of any article in which a distorted, mutilated or unauthorised modification of the author's work is embodied, as also any plate used or intended to be used for the making of such an article; and

(e) additional damages.

(See above for details on a-e)

10.2.2 Action for breach of trust or confidence:

This, remedy, originating in English law, is possibly available to a plaintiff against a defendant who obtains from the plaintiff, directly or indirectly, certain confidential ideas or information and then, without the plaintiff's consent, proceeds to use such ideas or information for his own ends, all the while being fully aware of the confidential nature thereof. Note that it is still an open question whether or not this remedy forms part of South African law.

10.2.3 Action for Passing-off:

It is a basic principle of our law that a person cannot, by imitating the name, marks or devices of another who has acquired a reputation for his goods, filch the latter's trade. Should he do so he will make himself liable to what is commonly termed the action for "passing off". The basis of the action is injury of the author in his goodwill in the title of his work and his name or reputation as author. In terms of this action, the injured party may approach the court for an interdict, damages or both.

10.2.4 Seizure and detention by customs and excise of infringing copies of publishing works:

Under S 28 of the Act the copyright in any published literary (including dramatic), musical, cinematograph film or sound recording may, by means of a written request directed to the secretary for customs and excise, prohibit the importation into the Republic of infringing copies of his work: See S 28(v).

10.3 SUMMARY REMEDIES

The Act makes certain infringements of copyright criminal offences and provides for summary remedies in respect thereof.

Under S 27(1) an offence is committed by any person who at a time when copyright subsists in a work does any of the following acts in respect of an article he knows to be an infringing copy of the work:

(a) makes the article for sale or hire;

(b) sells it or lets it for hire by way of trade offers or exposes it for sale or hire;

(c) exhibits it by way of trade in public;

(d) imports it into the Republic otherwise than for his private or domestic use;

(e) distributes it for the purposes of trade;

(f) distributes it for any other purpose, but to such an extent as to affect a person prejudicially the owner of the copyright in question a person found guilty of such an offence is liable to a fine in terms of sec 27(1)(6).

11. ADDITIONAL READING:

See A Domanski "Copyright in Industrial Designs: An Unholy Alliance." *SA Mercantile Law Journal* 1992 Vol 4 No 2 p 115.

See too T Pretorius and C Visser `The Copyright Amendment Act 125 of 1992 and Computer Programmes: A Preliminary Overview' (1992) 4 *SA Mercantile Journal* 347-359.

II COMPETITION LAW

1. <u>INTRODUCTION</u>

The term "competition" may denote merely the rivalry of two or more traders. In its more technical sense, which is relevant here, competition is contrasted with "monopoly" with regard to the degree of market power of a seller or group of sellers. In this sense, competition describes a market condition in which the rivalry of sellers prevents a monopoly over price and output.

1.1 <u>Test for court interference</u>:

Commercial warfare, in the form of competition for market share, is not prohibited by our law. As long as the combatants confine themselves to those legitimate methods of competition which the business community and society recognise as the inevitable consequences of participation in commercial enterprise, the courts will not interfere. But there are certain forms of conduct which, when tested against the *boni mores* established in the market place, are untenable.

<u>Example</u>.

A merchant might begin to market a home-remedy in competition with another established product, at a fraction of the price of the latter. If the home-remedy has the attributes claimed for it, then the competition remains fair although potentially ruinous to the competitor. If however it transpires that the home remedy has none of the attributes claimed for it, then the public who are being induced to buy the cheaper commodity are being misled and the competition to the established product is not fair. In such circumstances if an application was brought to prevent the marketing of the home remedy the defendant, could not resist an interdict prohibiting him from marketing his product by contending that he had implicit faith in the efficacy of his home-remedy.

So where there is a misstatement of fact relating to a fundamental or intrinsic quality of the wares to be sold, thereby providing the advertiser with a competitive advantage, there is a remedy for the party affected by such conduct, as such conduct is contrary to the *boni mores* established in the market place.

<u>Example</u>.

In *Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd* 1988 (2) SA 350 (W)) the parties both manufactured brands of toothpaste. Elida Goods placed a new brand of toothpaste on the market called Mentadent P and they embarked on an advertising campaign to the effect that their brand of toothpaste contained Zinc Citrate which prevented the formation of tartar. Simultaneously Colgate Palmolive launched an advertising campaign on their existing brand of toothpaste, stating that it prevented the formation of tartar.

Elida Gibbs applied to court for an interdict restraining Colgate Palmolive from their advertising campaign, alleging that the claims made by Colgate Palmolive in respect of their product were false and misleading because it did not actually have the attributes it claimed to have viz to prevent tartar.

The court held that a misstatement of fact relating to the goods sold, giving a competitor a competitive advantage, was not allowed as it was against the *boni mores* of the market place and so the interdict was granted by the court.

2. MAINTENANCE AND PROMOTION OF COMPETITION

The law provides several ways of maintaining competition between traders by prohibiting or refusing to give effect to certain undesirable practices. Some of these provisions originate in the common law, others are statutory.

2.1 COMMON LAW PROVISIONS

(a) No agreement to create a monopoly allowed.

A common law edict originally contained in the Placaat of Charles V of 1540, prohibited the making of contracts or pacts "smacking of monopoly or prejudicial to the common welfare" such as to purchase all the commodities of a particular sort to keep them amongst themselves and afterwards to sell them at excessive prices. In particular, the evil aimed at seems to be the subsequent sale of the goods at excessive prices in the absence of competition.

Example.

In *Tothill v Gordon & Others* 1930 WLD 99, six large companies who supplied drugs joined and formed an association and fixed the prices and conditions at which members of the association purchased and sold their commodities to the public. It was alleged that the members of the association unlawfully conspired to set exorbitant prices at which chemists and druggist retailed their goods to the public. The court held that a monopoly per se is not illegal and that the court would only interfere if the monopoly resulted in exorbitant prices which prejudiced the public in situations where there was no competition.

(b) Agreements in restraint of trade

Restraint terms that unduly limit free competition in the market place will be held contrary to the public interest. The boundaries of competition are therefore determined by the *boni mores* of the market place.

Example.

The case of *Magna Alloys & Research SA (Pty) Ltd v Ellis* 1984 (4) SA 874 contained a milestone judgment in that it released agreements in restraint of trade from the category of illegal contracts. The court held that agreements in restraint of trade were legal and enforceable, unless its provisions are contrary to the public interest. (Prior to this decision there was a rebuttable presumption that agreements in restraint of trade were unenforceable and against public policy until proven otherwise).

The courts have refused to enforce the following restraints:

- an agreement between manufacturers not to sell their products at prices below specified minima;

- an agreement totally prohibiting a local manufacturer who finished and distributed a semi-finished imported product, from manufacturing or distributing the same product for his own account or for a competitor of the foreign supplier of the semi-finished product.

Restraint agreements that have been enforced are:

- a clause in a contract dissolving a partnership of medical practitioners and prohibiting a retiring partner from practising in competition with the remaining partners;

- a clause in a contract of sale of a business that the seller shall not allow a similar business to be conducted in specified premises;

- an agreement for exclusive purchase of a commodity or to sell only a particular commodity.

Examples of restraints not enforced.

In *Ackermann-Goggingen Aktiengesellschaft v Marshing* 1973 (4) SA (C) the restraint agreement prevented the company from spinning yarn for anybody but the plaintiff for a period of 20 years. The court held that because the area of the restraint was too wide, the period thereof too long and the penalties for breaching such restraint too fierce, the restraint was against the public policy of the market place.

In *Spa Food Products Ltd v Sarif* 1952 (1) SA 713 (SR) a number of companies formed an association and the members thereof agreed to sell mineral water throughout Rhodesia at a fixed price for as long as the association remained in existence. One of the members of the association began selling mineral water in Rhodesia for less than the fixed price. The court held that the restraint was too wide and therefore against the public policy of the market.

(c) Fraudulent Stifling of Competition

Agreements to stifle competition may involve fraud, for example, an auction without reserve assumes the existence of fair and honest competition. Thus an agreement between intending purchasers at an unreserved auction sale to stifle competition by not bidding against each other in order to obtain an article for themselves at a decreased value is a fraud against the seller. The auctioneer is therefore not bound to recognise a bid by a member of such a combination.

Example

In *Neugebauer & Co Ltd v Hermann* 1923 AD 564, a group of people at an auction agreed not to bid against each other in respect of the auctioning of galvanised piping thereby stifling competition amongst themselves. It was agreed that one of the group would bid for the piping and should he be successful, the piping would be split up amongst themselves. The court stated if the advert had been clear as to whether there was a reserve price on the piping, the conduct of these people would clearly have been a stifling of competition and the auctioneer would not have been bound by such a bid.

2.2 STATUTORY PROVISIONS

Competition Act 89 of 1998

This enabling act provides for the elimination, by administrative action, of monopolistic conditions which cannot be justified in the public interest.

3. UNLAWFUL COMPETITION.

While the law strives to maintain and promote free competition, it also prohibits certain competitive practices which are undesirable. Once again, there are both common law and statutory rules governing unlawful competition.

3.1 Unlawful competition under the common law

Competition must remain within lawful bounds. Nobody has the right to fraudulently take an advantage of another person so as to gain competitively in the market place benefiting himself at the expense of another. Our courts decide whether the particular conduct under consideration is an infringement of the rival trader's legal rights, and therefore a delict in our law. Emphasis has been placed upon the criteria of "fairness" and "honesty" in competition.

Example

In *Stellenbosch Wine Trust Ltd v Oude*

Meester Group Ltd: Oude Meester Group Ltd v Stellenbosch Wine Trust Ltd 1972 (3) SA 152 (C), the Oude Meester Group obtained a copy of the label of a product which Stellenbosch Farmers Wine Trust was about to market under such trademark, and imitated such trademark for the bottles of one of their new products. The Oude Meester Group managed to get its product on the market under the imitated label before the plaintiff placed its product on the market. The court held that a person who filches information developed by a competitor's skill and industry is acting unfairly and dishonestly if he uses such information for his own profit and to the detriment of his rival. The court therefore granted an interdict preventing the Oude Meester Group from marketing its product under the filched label and awarded damages to Stellenbosch Wine Trust.

3.2 Remedies for unlawful competition.

Several remedies are available in cases of unlawful competition. An action in delict is available where there has been an unlawful act of competition, for the recovery of damages suffered. In addition, the wronged party is entitled to an interdict restraining unlawful conduct.

(a) Passing off

The basic principle is that no man is allowed to pass off his goods as the goods of another person. No manufacturer of goods is allowed to represent to the public that the goods which he is selling are the goods of a rival manufacturer.

There are several ways in which a trader can represent to the public that his goods are those of a rival. He may, for instance, do so by imitating the rival's trade mark or by getting up his goods so as to resemble the goods of a rival manufacturer and thus to induce the public to purchase his goods as the goods of the other.

FW Woolworth & Co. (Pty) Ltd v Sunray Stores t/a "The W Store" 1999 (2) 887 (ZH).

Reckitt & Coleman SA (Pty) Ltd v Johnson & Son 1993 (2) 307 (A).

Requirements.

In a passing-off action the plaintiff normally has to prove:

(a) that the trade mark, get-up, service mark or trade name which he says has been imitated has been known in the market and has acquired with the public a reputation associated with is goods, service or business. (*Policansky Bros Ltd v LSH Policansky* 1935 AD 89); and

(b) that the defendant's conduct is calculated to deceive the public.

Example

In *Brian Boswell Circus v Boswell-Wilkie Circus* 1985 (4) SA 453 the court held that there is generally a reluctance to prevent a man from trading under his own name. There are however limitations upon the right of a person to trade under his own name. One of these is where the name has acquired a reputation and there is a likelihood of deception or confusion between rival traders using the same family name. The respondent was therefore interdicted from operating the business of a circus under the name Boswell.

It may be that the trader seeking relief is not resident or domiciled in South Africa. Such a litigant is styled a "peregrinus". It is not necessary that a peregrinus actually carry on business in the jurisdiction in which he seeks relief. It is sufficient if his goods are sold on the market within the jurisdiction. He therefore has a right to the reputation attached to the goods or business. However if the applicant (for an interdict restraining the use of his trade name) has never traded the Republic and has acquired no goodwill here, ie if he established no reputation here, he is not entitled to relief.

While an established reputation is necessary for the purpose of establishing a passing off, as a recognised form of unlawful competitive conduct, this does not imply that a wronged trader is without remedy merely because no reputation has been established. Unlawful competition and passing off are not synonymous, and such a trader who has been wrongfully interfered with will have his remedy under general principles. In the *Stellenbosch Wine Trust* case *supra*, it was held that where an applicant is not asking for damages but is seeking to protect a product which he is about to market, the court has power to interfere if there has been a calculated attempt by a competitor to pass off his goods as those of the applicant. The latter's trade mark, a label, had been kept secret and his goods had not reached the market. Hence no reputation had been acquired. But the respondent had obtained a copy of the label and had closely imitated it, on his own goods. The court proceeded to base relief for the applicant on the ground that filching a rival's confidential information (ie the label) and the use thereof for his own benefit, constituted unlawful conduct by the respondent under principles of delict – i.e. unlawful wrongdoing to another causing loss to his property.

3.2 Statutory provisions preventing unlawful competition.

No single Act deals comprehensively with the lawfulness of competitive conduct between traders. Nevertheless there are various acts which supplement the common law. These include the Merchandise Marks Act 17 of 1941, the Business Names Act 27 of 1960 and the Trade Marks Act 194 of 1993.

III PATENTS

1. INTRODUCTION

The law of patents exists to protect the interests of those persons who invent something useful. In very general terms, the protection offered consists of giving the inventor the sole right to market his invention for a period of time, so that he can recoup investment costs and profit from his efforts, without having to compete in the market with competitors who have spent nothing on development. The reason for protecting inventors in this way is that, in the long run everybody benefits from useful inventions. Inventors must not be discouraged from inventing, which they would be if they were not protected by a patent.

2. DEFINITION OF AN INVENTION

The definition of on invention states what an invention is not, rather than what it is. According to the definition in the Patents Act (hereafter `the Act'), an invention must be new, involve an inventive step and be capable of being used or applied in trade, industry or agriculture: S 25.1 of Patents Act (57 of 1978).

S 25(2) of the Act sets out what shall not be an invention for the purposes of the Act.

(a) **A discovery**: A man who discovers an additional use for an existing machine, although it may be a useful discovery, cannot patent such an invention.

(b) **A scientific theory**: This is a more generalised form of discovery. Hence a discovery of a scientific theory such as Einsteins theory of relativity, is not patentable.

(c) **A mathematical method**: A short-term method of division would not be patentable but a calculating machine designed to operate accordingly, might well be.

(d) **A literary, dramatic, musical or artisatic work or any other aesthetic creation**: This provision is to prevent overlapping with the protection under the Copyright Act, which provides copyright protection for literary, dramatic, musical or artistic works.

(e) **A scheme, rule or method of performing a mental act, playing a game or doing business**: A scheme for learning a language, a method for solving chinese puzzles, a game or a scheme for getting a business to show a profit, would not be patentable. There would have to be some sort of apparatus to do these things to make them patentable.

(f) **A programme for computers**: Computer programmes may qualify for copyright protection if their compiling involves sufficient effort for the required degree of originality.

(g) **The presentation of information**: Any presentation of information characterised solely by the content of the information is not patentable.

(h) **Animals and plants**: It is not considered possible to treat as an invention any variety of plant material or animal (eg new varieties of roses or cross-breed animals) nor any essential biological process for the production of animals or plants. However, microbiological processes or products thereof are considered to be patentable inventions: S 25(4)(b).

(i) **Medical treatment**: The Medical, dental and veterinary professions are not trades, and discoveries in these fields are held, on this account not be to patentable. Examples are methods of treating the human or animal body by surgery or therapy, or a diagnosis practised on the human or animal body. However, only *methods* are not patentable; the tools, equipment or machines used for such a method or diagnosis can be patented: S 25(11).

(j) **Immoral and illegal matters**: A patent will not be granted for an invention, the publication or explanation of which would encourage offensive or immoral behaviour: S 25(4)(a).

3. PATENTABILITY

In terms of section 25(1) of the Patents Act, to be patentable an invention has to be:

3.1 new;

3.2 involve an inventive step; and

3.3 be capable of being used or applied in trade, industry or agriculture.

3.1. <u>When is an invention "new"</u>

The requirement of novelty for patent protection is absolutely essential. The 1978 Act provides an absolute concept of novelty and states that the invention may not form "part of the state of art immediately before the priority date of any claim to that invention": S 25(5). The "priority date" means the date that the patent application takes effect: S 33.

What is the "state of art"?

"The state of art shall comprise all matter (whether a product, a process, information about either, or anything else) which has been made available to the public (whether in the Republic or elsewhere) by written or oral description, by use or in any other way." S 25(6).

Prior knowledge or publication of invention is excused in certain circumstances. Where a disclosure of a secret invention takes place without the permission of the patentee, or where an invention is only worked "by way of reasonable technical trial or experiment" (section 26) then this is not taken as forming part of the prior art. However, if an invention is described in a public lecture held in the Soviet Academy of Sciences with the permission of the patantee, the novelty has been destroyed as regards this country and no valid patent protection can be obtained for such an invention.

3.2 An inventive step:

An inventive step is considered to exist if the invention is not obvious to a person skilled in the act, having regard to any matter which forms part of the state of the art immediately before the priority date of any claim. S 25(10).

3.3 Capable of being used in trade, industry and agriculture

This requirement serves to delineate the boundaries of patent law, thereby differentiating inventions from other creations better protected by other areas of intellectual law (e.g. copyright).

4. PERIOD OF THE PATENT

A patent granted in terms of the Act receives a monopoly for a period of 20 years from the date on which the completed application was lodged with the Registrar of the Patent Office: S 46.

5. THE EFFECT OF A PATENT.

The effect of a patent shall be to grant to the patantee in the Republic, for the duration of the patent, the right to exclude other persons from making, using, exercising or disposing of the invention, so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention: S 45.

6. INFRINGEMENT

In order to ascertain whether or not there has been an infringement of the patent one must decide whether:

a) the acts done by the defendant are of such a nature that they infringe on the patentee's rights;

b) the defendant has a valid excuse (e.g. he can prove any of the grounds found in S 61(1), for revocation of the patent);

The plaintiff in proceedings for infringement is entitled to relief by way of an interdict, surrender of object and damages: S 65(3).

Where there are joint patentees, then in the absence of an agreement to the contrary and in the absence of consent of the joint patentee or patentees, a joint patentee is not entitled to make, use, exercise or dispose of the patented invention or to grant a license or to assign the whole or any part of his interest in the patent or to take any steps or to institute any proceedings relating to the patent, except that he may pay any renewal fee that is payable without recourse to any other patentee, unless the commissioner of patents directs otherwise in proceedings between joint patentees.

7. REVOCATION

Any person may apply for the revocation of a patent on any of the grounds listed in S 61(1) of the Patents Act, but on no other grounds. The onus is on the applicant applying for revocation to prove the relevant ground for revocation on a balance of probabilities. An application for revocation must be served on the patentee and lodged with the Registrar of Patents. Once the relevant papers have been delivered, the matter is heard by the Commissioner of Patents who must then decide whether the patent is to be revoked or upheld. The only grounds upon which a patent can be revoked are as follows:

1. the patentee not being originally entitled to apply for a patent;
2. fraud;
3. non-patentability;
4. the illustrations or examples in the specification being incapable of performance or unable to lead to the results and advantages set out in the specification;
5. no full description and disclosure of the invention in the complete specification;
6. claims not being clear or fairly based on matter disclosed;
7. a false statement in the application;
8. invention being frivolous in that it is contrary to well-established natural laws or that the invention would encourage offensive or immoral behaviour;
9. in the case of microbiological processes or products, that no samples were supplied.

This case brings to the fore the matter of the proper interface between the guarantee of free expression enshrined in section 16(1) of the Constitution 108 of 1996 and the protection of intellectual property rights attaching to registered trade marks as envisaged by section 34(i)(c) of the Trade Marks Act 194 of 1998 and to related marking brands.

IV TRADEMARKS

This section covers those parts of the Trademarks Act[1] that deal with aspects of registration of trademarks (including certification and collective trademarks).

Laugh It off Promotions CC v SA Brewers CCT 42/04 and *Laugh It off Promotions CC v SA Breweries* 2005 (2) SA 46 (SCA).

'(1) In order to be registrable, a trade mark shall be *capable of distinguishing* the goods *(a)* services of a person in respect of which it is registered or proposed to be registered from the goods or services of another person either generally or, where the trade mark is registered or proposed to be registered subject to limitations, in relation to use within those limitations.

(2) A mark shall be considered to be capable of distinguishing within the meaning of subsection (1) if, at the date of application for registration, it is inherently capable of so distinguishing or it is capable of distinguishing by reason of prior use thereof.'

'Capable of distinguishing'

Any trade mark will be registrable if proved 100 per cent distinctive, no matter whether if is a laudatory epithet or has geographical significance, unless it is an unregistrable trade mark in terms of section 10.

Unregistrable trademarks

(a) *Inherent attributes*

(i) The first ground of refusal set out in section 10 is that the mark 'does not constitute a trade mark'. Under the new definition the term 'trade mark', other than a certification or a collective trade mark, connotes 'a mark used or proposed to be used by a person in relation to goods or services for the purpose of distinguishing the goods or services in relation to which the mark is used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person'.[2] A trade mark is inherently unregistrable if it is not capable of distinguishing or consists exclusively of a sign or an indication which designates characteristics of the goods or services, or is generic but can become registrable through sufficient use.

1 Act 194 of 1993. All references to sections, 'the Act', or 'the new Act 194 unless a contrary intention appears from the context

2 Section 2 (1) (xxiii)

(b) Claim to proprietorship

It is now specified that a trademark is unregistrable where the applicant has no *bona fide* claim to proprietorship.[3] A separate ground is that the application was made mala fide.[4] The new Act does not specify that an application is to be made by a person claiming to be the proprietor. But it is clear that, if his application is challenged, the registrar will have to be satisfied that neither paragraph (3) nor paragraph (7) is applicable. Our courts have on several occasions examined the concept 'a claim to proprietorship', and only recently did the question again come before the Supreme Court of Appeal when it considered the rights of a United States originator of a trademark against a claim to registration by a local company.[5] In recent times a strictly regional approach to trade-mark rights has-been adopted, and it remains to be seen whether the Act will bring about any change.

Paragraphs (3) and (7) differ in that (3) relates to the claim to proprietorship while (7) relates to the application itself. An application made mala fide would include one obviously made to block registration of a mark by the true owner as well as an application fraudulently made. Whether the term would include an application made by an agent without the authority of his principal will probably depend on the particular facts.

(c) *Intention to use*

It is now specifically stated that a trademark is unregistrable if the applicant has no bona fide intention of using it as a trademark himself or through a licensee.[6]

(d) *Shape, configuration, or colour of goods*

There is a total prohibition on registering a mark which 'consists exclusively of the shape, configuration or colour of goods where such shape, configuration or colour is necessary to obtain a specific technical result, or results from the nature of the goods themselves'. And no amount of use will qualify such a mark for registration.

There is a similar prohibition in respect of 'a mark which consists of a container for goods or the shape, configuration, colour or *pattern* of goods, where the registration of such a mark is or has become likely to limit the development of any art or industry.[7]

[3] Section 10(3).
[4] Section 10 (7).
[5] *Victoria's Secret Inc v Edgars Stores Ltd* 1994 (3) SA 739 (A).
[6] Section 10(4).
[7] Section 10(11) emphasis added.

(e) *Well-known marks*

(i) Paris Convention

A mark which constitutes, or an essential part of which constitutes, a *reproduction, imitation, or translation* of a well-known trade mark is unregistrable in respect of goods or services similar or identical 'to the goods or services in question'.[8] A well-known trademark is one which is well known in the Republic as a mark of a person entitled to Convention benefits, whether or not such a person carries on business or has any goodwill in the Republic.[9]

(ii) *Anti-dilution objection*

'It must be shown that the mark sought to be registered 'would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark'.

(f) *Marks which are deceptive, et cetera*

A mark 'which is inherently deceptive or the use of which would be likely to deceive or cause confusion, be contrary to law, be *contra bonos mores,* or be likely to give offence to any class of persons' cannot be registered.[10]

(g) *Prior registrations*

Under the new Act, the test is based on the likely effect of use of the two marks, but a separate enquiry is necessary as to whether the goods or services of the application 'are the same as or similar to the goods or services in respect of which (the earlier) trade mark is registered'.

(h) *Competing applications*

If the registration of the mark which is the subject of the earlier application would be 'contrary to existing rights of the person making the later application', that mark is not registrable.

THE INFRINGEMENTS OF TRADEMARK RIGHTS

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8 Section 10 (6).

9 Section 35 (1).

10 Section 10 (12).

No person shall be entitled to institute proceedings for infringement of a trademark if the mark is not registered under the Act. [11] This principle is quite obvious, but misunderstandings do arise in practice in that proprietors often think that the filing of an application for registration is equivalent to registration of the mark. No registered trademark will affect the rights of any person at common law to bring an action based on passing-off. Even if a person has registered a trademark, the use of that mark can amount to passing-off in relation to the common-law rights of another. Indeed, this situation occurs not infrequently in practice.

Infringement defined

The traditional type of infringement occurs where the following well-known elements are present: [12]

- unauthorized use
- in the course of trade
- in relation to goods or services in respect of which the trade mark is registered
- of an identical mark, *or*
- of a mark so nearly resembling it as to be likely to deceive or cause confusion.

The broadening of infringement protection to include similar goods and services also brings our statutory trademark more in line with our common law. As was clearly stated in *Capital Estates and General Agencies (Pty) Ltd & others v Holiday Inns Inc & others,*[13] *a* common field of activity is not a requirement for establishing the existence of passing-off. The question of the similarity of the relevant goods and services is only one of the factors to be taken into account in assessing the likelihood of deception or confusion in passing-off proceedings. This new provision will eliminate the sometimes harsh consequences that arise in practice where the goods or services in relation to which a confusing mark is used, fall just outside the scope of protection of the registered mark.

In the cited cases the following goods were considered to be 'of the same description':

- WINE and SPIRITS
- CLOTHING (excluding socks and stockings) and SOCKS AND
- STOCKINGS
- JELLY and ICE CREAM
- RUM and RUM COCKTAIL

The following goods were *not:*

- SEMOLINA and MUSTARD

- SHOE POLISH and SHOES

Exclusions

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11 Section 33.
12 Section 34(1) (a).
13 1997 (2) SA 916 (A).

Section 34(2) sets out the situations in which the use of a registered trademark does not amount to infringement. They include:

1. the bona fide use by a person of his own or his predecessor's name, or the name of his or his predecessor's place of business;

2. the use by any person of any bona fide description or indication of the kind, quality, quantity, intended purpose, value, geographical origin, or other characteristics of his goods or services, or the mode or time of production of the goods or rendering of the services;

3. the bona fide use of a trade mark in relation to goods or services where it is reasonable to indicate the intended purpose of such goods including spare parts and accessories, or the rendering of services (this situation is covered by section 34(2)(b) but section 34(23)(c) was included specifically at the request of the spare-parts industry to ensure that it is entitled to sell non-genuine spare parts for vehicles, and to refer to the trade mark of the original manufacturer; an example of the lawful use of a registered trade mark would be 'brake pads for BMW vehicles', but 'BMW brake pads' would be an infringement);

4. the importation into or distribution, sale or offering for sale, in South Africa of goods to which the trade mark has been applied by(or)with the consent of the proprietor (this makes it clear that the parallel importation of so-called grey goods, even those manufactured by a licensee, is not an act of trade-mark infringement: this provision is in line with the Appellate Division's judgment in *Protective Mining & Industrial Equipment Systems (Pty) Ltd (formerly Hampo Systems (Pty) Ltd) v Audiolens (Cape) (Pty) Ltd);* [14]

5. the bona fide use by any person of any utilitarian features embodied in a container, shape, configuration, colour, or pattern which is registered as a trade mark;

6. the use of a registered trade mark where such use is within the scope of a limitation entered in the register against the registered trade mark; and

7. the use of any identical or confusingly or deceptively similar trade mark which is registered.

Remedies

[14] 1987 (2) SA 961 (A).

The Act clearly spells out in section 34(3) the remedies available to the proprietor of a trademark in the event of infringement. They are:

Laugh It off Promotions CC v SA Brewers CCT 42/04 and *Laugh It off Promotions CC v SA Breweries* 2005 (2) SA 46 (SCA).

1. *an interdict* (this remedy is well established in our law and nothing further need be said about it);

2. *an order for removal* of the infringing mark or, 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 (this is an important new provision which clarifies the issue of 'delivery-up' of goods to which an infringing mark has been applied; the (then) Supreme Court granted many orders for delivery-up in the past but since the full-bench decision of the Transvaal Provincial Division in *Cerebos Food Corporation Ltd v Diverse Foods SA (Pty) Ltd & another,*[15] in which delivery-up orders were held to be contrary to our law, such orders have been impossible to obtain in the Transvaal);

3. *damages,* including those arising from acts performed after advertisement of the acceptance of an application for registration (this is also no departure from the current law - apart from the relevant date - but it should be said that, to my knowledge, there has not been one reported judgment to date in South Africa in which damages have been awarded for trade-mark infringement per se; this demonstrates how difficult patrimonial loss is to prove in such situations);

4. in lieu of damages, a *reasonable royalty which* would have been payable by a licensee for the use of the trademark concerned (including use after the advertisement of acceptance of the mark). This is a radical departure from existing law in that monetary compensation can now be awarded to the proprietor of an infringed registered trade mark even where no actual damage in the traditional sense has arisen or can be proved. Here one thinks, for example, of a situation involving the use of the trademark CHANEL in an unauthorized manner on cheap, low-quality imitation goods. These imitations might sell in, for example, a flea market. No loss of sales, and loss of profit, is caused to the proprietor of the registered mark because the purchaser of the imitations would probably never buy genuine CHANEL goods. Still, in this situation there is a serious undermining of the exclusivity and value of the CHANEL mark, and a brazen and blatant misappropriation of its advertising value and goodwill. This type of situation is common in practice. The new Act squarely addresses the commercial inequity of this form of flagrant infringement. The remedy is not confined to the use of identical or well-

[15] 1984(4)SA149(T).

known marks. The determination of what constitutes a 'reasonable royalty' might well give rise to some difficulty in practice but expert evidence will no doubt be available to assist in the assessment.

Protection of well-known (foreign) marks under the Paris Convention

The current state of the law is that the appropriation and use in South Africa of a foreign trade mark which may be well known in this country but which has not actually been used here and which is subject of an actual trading goodwill is lawful.

Section 35 of the 1993 Act brings our statutory trade-mark law in line with the Paris Convention. This section first defines what is meant by the term a 'trademark, which is entitled to protection [in South Africa] under the Paris Convention'. This term is stated to connote a mark that is well known *in the Republic* as being the mark of:

- a national of a convention country; or
- a person who is domiciled in, or has a real and effective industrial or commercial establishment in a convention country;

whether or not such a person carried on businesses, or has a goodwill, in the Republic.

Section 35(3) then provides that the proprietor of a trade mark entitled to protection under the Paris Convention may restrain the use in the Republic of a trade mark which constitutes, or the essential part of which constitutes, a re-production, imitation, or translation of the well-known trade mark in relation to goods or services in respect of which the trade mark is well known, and where the use is likely to cause deception or confusion.

As is immediately apparent, these new provisions go well beyond our common law (as currently interpreted) and our statute law. Protection will now, in appropriate circumstances, be given to foreign marks which have neither been registered nor used in South Africa. This is an extension of the common-law protection to unregistered marks.

Although difficulties in interpreting what is meant by the term 'well-known' (such as to whom such marks must be well known) and in proving the requisite fame will be encountered, it is submitted that the new provisions are healthy and will go a long way towards addressing the unfortunate practice that had developed in this country of appropriating well-known foreign marks. These provisions are compatible with South Africa's re-entry into the world's commercial community.