



**CONFIDENTIALITY AND RESTRAINT OF TRADE CLAUSES
ARE YOU IN BREACH?**



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1. INTRODUCTION

- 1.1. ***IN TODAY'S WORLD, in order to protect their proprietary interests and goodwill, most employers include confidentiality and restraint of trade clauses in their employment agreements with their employees.*** But are these clauses **enforceable** and will the **employer succeed with a claim** against the employee? Will your claim succeed, in the event an employee of your company discloses your confidential information? Or should the employee accept employment with your competitor?
- 1.2. ***In this article I have dealt with the question of confidentiality and restraint of trade clauses in employment agreements in south Africa and specifically what is required for an employer to succeed with its/his claim.***

2. RESTRAINT OF TRADE

- 2.1. One way a person/company can protect trade secrets from misappropriation is by incorporating confidential information clauses in employment contracts and/or by incorporating restraint of trade clauses in service contracts.
- 2.2. In general, a restraint clause prevents a person from competing with his employer, as well as from using confidential information gained through the course of his employment to the detriment of the employer, during the restraint period.¹
- 2.3. **Contract and delict:** A party's claim against a third party, (who, with knowledge of the contract, for instance employs the ex-employee or conducts business activities together with the ex-employee), will be a claim in delict. The third party is liable in delict for the misuse of confidential information and trade secrets to advance the third party's business interests at the expense of a competitor whose proprietary interests have been appropriated.

- 2.4. ***A party wishing to enforce a restraint-of-trade agreement*** need only allege and prove the agreement and its breach by the defendant.
- 2.5. **Enforcement:** An ex-employer who seeks to enforce against an ex-employee a protectable interest recorded in a restraint does not have to show that the ex-employee used confidential information – only that the ex-employee could do so. While the relief ordinarily sought is an interdict, damages for breach of contract may also be claimed.
- 2.6. ***The fundamental difference between the two remedies*** is that in the delictual claim it does not suffice for the ex-employer to prove that the ex-employee who is in possession of protectable information has taken up employment with a rival who is aware of the restraint. In addition, existing or threatened use of such information by the third party must be established.²
- 2.7. **Defence – invalidity of the Restraint of Trade:** A party wishing to be absolved from a restraint-of-trade agreement must allege and prove that the enforcement of the restrictive condition would be contrary to public policy.³
- 2.8. Enforcing restraint of trade agreements and confidentiality clauses, like any other agreement, is subject to constitutional provisions that guarantee individual rights. South African courts have relied on principles such as public interest as well as reasonableness, public policy, legally recognizable interest, and/or proprietary interest worthy of protection as core factors in reaching their decisions when asked to adjudicate and enforce the protection of trade secrets and know-how.⁴
- 2.9. A restraint clause is unenforceable if it prevents a party, after termination of his or her employment, from partaking in trade or commerce without a corresponding interest of the other party deserving protection (the ex-employer has no proprietary right).⁵ Accordingly, a

¹ [17] Reddy v. Siemens Telecommunications, supra note 5, at 491.

² IIR SA BV (inc in the Netherlands) t/a Institute for International Research v Hall (aka Baghas) [2004] 4 All SA 646 (W), 2004 (4) SA 174 (W)

³ Magna Alloys & Research (SA) (Pty) Ltd v Ellis [1984] 2 All SA 583 (A), 1984 (4) SA 874 (A) p. 893 & Den Braven SA (Pty) Limited v Pillay [2008] 3 All SA 518 (D), 2008 (6) SA 229 (D)

⁴ Reddy v. Siemens Telecommunications, supra note 5, at 496–97; Basson v. Chilwan and Others 1993

⁵ Reddy v. Siemens Telecommunications, supra note 5, at 497.

restraint directed solely at the restriction of fair competition with the covenantee that is not, at the time of enforcement, reasonably necessary for the legitimate protection of the covenantee's protectable proprietary interests (goodwill or trade secrets) is against the public interest.

2.10. That interest may take the form of trade secrets, confidential information, goodwill or trade connections. Liability involves a fourfold test:⁶

- (1) Is there an interest of the plaintiff which, pursuant to the agreement, warrants protection?
- (2) Is that interest threatened by the defendant?
- (3) If it is threatened, does that interest weigh qualitatively and quantitatively against the interest of the other so that he or she will be economically inactive and unproductive?
- (4) Is there another aspect of public interest that does not affect the parties but requires that the restraint not be invoked?

2.11. If the interest of the party sought to be restrained outweighs the interest to be protected, the restraint will be deemed unreasonable and unenforceable.⁷

2.12. Other lower courts have expanded these questions to include whether the restraint is broader than what is necessary to protect the interest in question.⁸ Recent court decisions have also considered the issue of whether the employer has a proprietary interest in the know-how acquired by an employee.⁹ South African courts treat the determination of whether an employer has a proprietary interest, either generally¹⁰ or within the know-how¹¹ acquired by an employee, as a question of fact.

2.13. *This means that employees cannot be restrained from using their own skill, knowledge and experience. The dividing line between what the ex-employee cannot be restrained from using and the employer's trade secrets*

or confidential information or other interest is notoriously difficult to define.

2.14. **For example, the court in Reddy**,¹² accepted Siemens' argument that Reddy was not prevented from 'making use of his own skills and abilities which were part of himself or an attribute of himself and in which Siemens had no proprietary interest' and also rejected Reddy's argument that the 'trade secrets' acquired during his employment with Siemens (related to the knowledge and application of its systems, process, methodologies, etc.) would be of no use to him and his new employer, Ericsson. It was sufficient, the court held, that it be shown he could use the information to benefit his new employer to the detriment of Siemens.

2.15. Although there was nothing to prevent the respondents, subject to the restraint of trade agreement operating against the first respondent, from writing programs de novo and selling them in competition with the applicants, what they were not *entitled to do was to use confidential information gleaned during the period of their employment with the applicants, to compete with the latter. Nor could they use that information as a springboard to compete, and springboard it remained for so long as they used programs which were based on material filched by them.*

3. CONFIDENTIAL INFORMATION

3.1. **Essentials:** *The duty to protect or not to use confidential information may arise from agreement (such as a restraint of trade or confidentiality obligations) or from a general legal duty.* In the former instance, the claim is based on a breach of contract; in the latter (as would be against third parties – i.e. where there is no formal agreement), it is based on delict.

3.2. **Accordingly, in South Africa, cases involving unauthorised conduct in relation to trade secrets**

⁶ Basson v Chilwan [1993] 2 All SA 373 (A), 1993 (3) SA 742 (A), Digicore Fleet Management v Steyn [2009] 1 All SA 442 (SCA)

⁷ Id.

⁸ Nampesca (SA) Products (Pty) Ltd v Zaderer 1999 (20) ILJ 549, 556–57 (C), available at http://heinonline.org/HOL/Page?handle=hein.journals/ijuta20&div=84&g_sent=1&collection=journals

⁹ Automotive Tooling Systems v. Wilkens and Others, supra note 10, at 277–79.

¹⁰ Nampesca (SA) Products (Pty) Ltd v. Zadeer, supra note 27, at 562.

¹¹ Automotive Tooling Systems v. Wilkens and Others, supra note 10, at 279.

¹² Reddy v. Siemens Telecommunications 2007 (2) SA 486, 491, 499–501 (SCA)

(including acquisition, use, and publication) may be categorised around the actors involved.

3.3. **First**, the party involved in the unauthorised conduct may be an employee. 13 In this case, the remedies available to the employer differ depending on whether the violation occurred during or after the termination of the employment contract. **Second**, the unauthorised use may involve a competitor, which is recognised in South Africa as a form of unlawful competition.¹⁴

3.4. The courts have held, that Information is to be considered confidential if it is:¹⁵

- (1) **Useful** – that is, if the information involves and is capable of application in trade or industry;
- (2) **Not public knowledge** – (objectively determined), the information is not public knowledge or public property, but is known to a restricted number of persons; and

[PETRE & MADCO (PTY) LTD T/A T-CHEM V SANDERSON-KASNER AND OTHERS:

“It is trite law that one cannot make something secret by calling it secret. Facts must be proved from which it may be inferred that the matters alleged to be secret are indeed secret.”]

- (3) **Of economic value** - (objectively) to the person protecting it.¹⁶

[ALUM-PHOS (PTY) LTD V SPATZ [1997] 1 ALL SA 616 (W) P. 623

On the facts, the Court found that Spatz had strategic knowledge of the Applicant’s products, the Applicant’s operating procedures, its suppliers, its customers, the discounts and rebates to certain customers and the terms of payment by the customers. He had information which could be invaluable to the 2nd Respondent.

Accordingly, the court held that the information which Spatz did possess was confidential.

3.5. The misappropriation of trade secrets is *prima facie* wrongful under the laws of South Africa.¹⁷ The **existence** of a contractual or fiduciary obligation forms a legal basis for the protection of trade secrets and know-how.¹⁸

3.6. Over the years South African courts have recognised various forms of information that can be categorised as “confidential,” including the following:

- (1) Customer lists drawn by a trader and kept confidential for the purposes of his own business.
- (2) Information received by an employee about business opportunities available to an employer
- (3) The information received in confidence by an employee whilst in employment with a particular employer remains protected by a legal duty, implied by the contract of employment.
- (4) Information which, although in the public domain is nevertheless protected as confidential when skill and labour have been expended in gathering and compiling it in a useful form, and when the compiler has kept his useful compilation confidential or has distributed it upon a confidential basis.
- (5) Information relating to the marketing of a new product, if such proposals are the product of skill and industry and have been kept confidential.
- (6) Information relating to the specifications of a product, and a process of manufacture, either of which has been arrived at by the expenditure of skill and industry or has been kept confidential.
- (7) Information relating to the prices at which one person has tendered competitively to do work for

¹³ VAN HEERDEN-NEETHLING, UNLAWFUL COMPETITION 223 (2d ed. 2008).

¹⁴ Id. at 219.

¹⁵ Alum-Phos (Pty) Ltd v Spatz [1997] 1 All SA 616 (W) p. 623 & Advtech Resources v Kuhn

¹⁶ Id. at 215. See also Townsend Production (Pty) Ltd v. Leech 2001 (4) SA 33 (C).

¹⁷ J. Neethling & B.R. Rutherford, Competition, in THE LAWS OF SOUTH AFRICA 195, 267 (L.T.C. Harms & J.A. Faris eds., 2d ed., pt. 2, 2003).

¹⁸ Reddy v. Siemens Telecommunications 2007 (2) SA 486, 491, 499–501 (SCA) and Wespro (Cape Town) v. Stephenson (1995) 16 ILJ 452, 460–61 (IC), available at HeinOnline, http://heinonline.org/HOL/Page?handle=hein.journals/iljuta16&div=50&g_sent=1&collection=journals (by subscription).

[7] Schultz v. Butt 1986 (3) SA 667, 678–84 (AD); see also Strike Productions (Pty) Ltd v. Bon View Trading 131 (Pty) Ltd and Others (2011), available on the Southern African Legal Information Institute (SAFLII) website, at <http://www.saflii.org/za/cases/ZAGPJHC/2011/1.rtf>.

another is confidential in the hands of one who stands in a fiduciary relationship to the tenderer.¹⁹

3.6.1. The confidentiality of any of the above-listed information is not always automatic, absolute, or permanent. Confidential information not classified as a trade secret may be used by an employee for his own benefit or for the benefit of others after the termination of his employment to the extent that it was **not copied and/or deliberately memorised for use after termination of the employment contract**.²⁰

3.6.2. For instance, a method for assembling/building a certain machine may be confidential; however, there is a legal recognition that when an employee is terminated from his position, some knowledge acquired during the course of his employment in assembling/building machines will remain in the employee's memory, which he is free to use or distribute, including to a new employer in direct competition with the old one.²¹ In addition, confidential information remains confidential for as long as it would take another person to gather such information.²²

[IN FACCEMDA CHICKEN V FOWLER [1986] ALL ER 617 (CA):

[The] latest attempt to draw the line between protectable and non-protectable information in English law is to be found in where it will be remembered that Neill J said that, in order to determine whether information could be classified as so confidential that an employee should not be allowed to use or disclose it after termination of the contract of employment, it was necessary to consider all of the circumstances of the particular case, but the following were among those to which particular attention should be paid:

(1) The nature of the employment; *employment in a capacity where confidential information is habitually handled may impose a higher obligation of confidentiality, because the*

employee could be expected to realise its sensitive nature to a greater extent than if he were employed in a capacity where such material reached him only occasionally.

(2) The nature of the information itself; *in order to be protected, the information must be of a highly confidential character - no other information could be protected even by a covenant in restraint of trade.*

(3) Whether the employer impressed on the employee the confidentiality of the information.

(4) Whether the information can easily be isolated from other information which the employee is free to use or disclose.

The result of this is that if information is not categorised as confidential under Neill LJ's criteria, then it forms part of the employee's general knowledge and skill, which he is free to use for his own benefit or for the benefit of others after the termination of the contract of employment"

3.6.3. It is so that the type of information alone does not necessarily establish its confidentiality. All of the relevant circumstances must be considered.

3.6.4. Information must be objectively useful to a competitor in order to be confidential as between ex-employee and an ex-employer.

3.6.5. There are instances in which the acquisition, use, and/or publication of trade secrets may not be considered wrongful.²³ Public interest is one justification for waiving the protection that proprietors of trade secrets enjoy.²⁴ This is particularly true when the issue arises in the context of an employer-employee relationship in which the employee, having acquired certain skills and knowledge by working for one employer, wishes to apply such skills and knowledge in

¹⁹ Dun & Bradstreet (Pty) Ltd V Sa Merchants Combined Credit Bureau (Cape) (Pty) Ltd, Meter Systems Holdings Ltd v. Venter and Another 1993 (1) SA 409, 410–11 (WLD); see also Neethling & Rutherford, supra note 4, at 267.

²⁰ Strike Productions (Pty) Ltd v. Bon View Trading 131 (Pty) Ltd and Others, supra note 7.

²¹ Automotive Tooling Systems v. Wilkens and Others 2007 (2) SA 271, 279 (SCA).

²² Meter Systems Holdings Ltd v. Venter and Another, supra note 8, at 411.

²³ VAN HEERDEN-NEETHLING, supra note 1, at 218.

²⁴ Neethling & Rutherford, supra note 4, at 267.

the service of a rival business after termination of the previous employment contract. In this instance, the wrongfulness of the actions of the employee is determined through “the criteria of fairness and honesty” and by weighing the rival interests involved.²⁵

3.7. AGAINST COMPETITORS

- 3.7.1. The unauthorised acquisition and use of a rival's trade secret is recognized as a form of unlawful competition.²⁶ Competition involving wrongful interference with another's right to trade constitutes an injury and may result in an Aquilian action²⁷ if it results in damages.

[IN DUN AND BRADSTREET (PTY) LTD V. S.A. MERCHANTS COMBINED CREDIT BUREAU (CAPE) LTD, 1968 (1) SA 209, 221 (C)], where the Supreme Court of South Africa held that:

*[w]here a trader has by the exercise of his skill and labour compiled information which he distributes to his clients up on a confidential basis, . . . a rival trader who is not a client but in some manner obtains this information and, well knowing its true nature and the basis up on which it was distributed, uses it in his competing business, commits a wrongful act vis-à-vis the latter and will be liable to him in damages. In an appropriate case, the plaintiff trader would also be entitled to claim an interdict [injunction] against the continuation of such wrongful conduct.*²⁸

- 3.7.2. A person commits a tort/delict of unlawful competition “if the acquisition and use of a rival's trade secret are likely to cause the latter loss of custom, thereby in principle infringing his right to goodwill (‘right to carry on his trade and attract custom’).”²⁹
- 3.7.3. The protection of a trade secret is not limited to its proprietors; other legal users such as licensees of the proprietor are also protected.

[IN PROK AFRICA (PTY) LTD AND ANOTHER V. NTH (PTY) LTD AND OTHERS 1980 (3) SA 687, 687–88 (W)]. *The Witwatersrand Local Division held in a 1980 case that*

*[t]he dishonest use of confidential information is a species of unlawful competition or unlawful interference with the trade of another which our laws will not countenance. The trader's remedy is Aquilian. In principle there is no reason for limiting the scope of this type of action by conferring it only up on the owner of the confidential information. The wrong up on which the remedy lies is not an invasion of rights of property. The wrong is the unlawful infringement of a competitor's right to be protected from unlawful competition. If A is in lawful possession of the confidential information of B and such possession was obtained by A to further his own business interests, it would be a wrong committed against A for C, a trade rival of A, to obtain that information by dishonest means from A for the purpose of using it to the detriment of the business of A. That it might also be a wrong committed against B is another matter. Once there is a dishonest conduct of the type just posited and loss or damage suffered thereby to the person against whom the wrong has been committed, the requisites for Aquilian liability are present.*³⁰

- 3.7.4. Unlawful competition by a trade rival through unauthorized acquisition, use, and/or publication of a trade secret entitles the wronged party to an injunction and/or damages, remedies that carry different evidentiary thresholds (see the section on remedies below).³¹

²⁵ Id.

²⁶ VAN HEERDEN-NEETHLING, supra note 1, at 219.

²⁷ An Aquilian action is a Roman law principle that enables a person who has suffered calculable damage (patrimonial loss) to seek and obtain appropriate compensation. You and Your Rights: Aquilian

²⁸ Dun and Bradstreet (Pty) Ltd v. S.A. Merchants Combined Credit Bureau (Cape) Ltd, 1968 (1) SA 209, 221 (C).

²⁹ VAN HEERDEN-NEETHLING, supra note 1, at 221.

³⁰ Prok Africa (Pty) Ltd and Another v. NTH (Pty) Ltd and Others 1980 (3) SA 687, 687–88 (W).

³¹ VAN HEERDEN-NEETHLING, supra note 1, at 221–22.

3.8. REMEDIES

- 3.8.1. Confidential information may be protected by an interdict and breach of confidential information may ground a claim for damages.³²
- 3.8.2. An injunction requires a showing of unlawful conduct or a “well-founded apprehension” that unlawful conduct will be committed and the unavailability of other remedy/ies to the claimant. ³³It also applies when there is fear/expectation that the infringement is actually or potentially recurrent.³⁴ An Aquilian action requires proof of damages and causation.³⁵
- 3.8.3. In an action based on an inappropriate use of trade secrets by persons bound by a contract or a fiduciary responsibility (such as an agent or employee), the wronged party has a number of remedies at his disposal. In this instance, he may bring an action for the breach of an express or implied contractual term. ³⁶ A remedy in delict may also be sought.³⁷
- 3.8.4. When the action for breach involves a former employee, as mentioned above, the information must be “Confidential Information”. If the information is indeed a trade secret, the former employer may seek an injunction and/or damages.³⁸
- 3.8.5. **The essential allegations are these:**
- (1) The plaintiff must have a proprietary, quasi-proprietary or other **legal interest** in the confidential information.³⁹
 - (2) The information must have had the necessary **quality of confidentiality**.⁴⁰
 - (3) **A relationship, usually contractual, between the parties, which imposes a duty** (expressly, impliedly or tacitly) on the defendant to preserve the confidence of the

information. An example of a contractual relationship is that between employer and employee or between partners and business associates.⁴¹

*[A plaintiff in a delictual claim may, for example, rely on the fact that the defendant is a trade rival who obtained information in an improper manner.]*⁴²

- (4) **Improper possession or use of the information**, whether as a springboard or otherwise, by the defendant.⁴³

["Spring boarding" entails not starting at the beginning in developing a technique, process, piece of equipment or product, but using as the starting point the fruits of someone else's labour.

Although the springboard concept applies in regard to confidential information, the misuse of the fruits of someone else's labour may be regarded in a suitable case as unlawful even where the information copied is not confidential. This was the case in Schultz v Butt, 1986 (3) SA 667 (A), where the boat hull designed by the plaintiff and copied by the defendant was found not to be confidential because it was in the public domain. But the copying of it, as a springboard, was regarded as unlawful.⁴⁴

- (5) **Damages suffered, if any.**⁴⁴

[IN Waste Products Utilisation (Pty) Ltd v Wilkes [2001] JOL 8923 (W), 2003 (2) SA 515 (W) p. 570 The elements of unlawful competition were set out in Waste Products: "Confidential information can be protected by means of an interdict and/or a claim for damages. To succeed with such relief, the following must be established. (1) The

³² Waste Products Utilisation (Pty) Ltd v Wilkes [2001] JOL 8923 (W), 2003 (2) SA 515 (W) p. 570 and Automotive Tooling Systems (Pty) Ltd v Wilkens [2007] 4 All SA 1073 (SCA), 2007 (2) SA 271 (SCA)

³³ Id.; H. DANIELS, BECK'S THEORY AND PRINCIPLES OF PLEADING IN CIVIL ACTIONS 329 (6th ed. 2002).

³⁴ Strike Productions (Pty) Ltd v. Bon View Trading 131 (Pty) Ltd and Others, supra note 7.

³⁵ Id.

³⁶ Id.

³⁷ VAN HEERDEN-NEETHLING, supra note 1, at 224

³⁸ Id.

³⁹ Gordon Lloyd Page & Associates v Rivera [2000] 4 All SA 241 (A), 2001 (1) SA 88 (SCA)

⁴⁰ SA Historical Mint (Pty) Ltd v Sutcliffe [1983] 3 All SA 523 (C), 1983 (2) SA 84 (C) and Cambridge Plan AG v Moore [1987] 1 All SA 123 (D), 1987 (4) SA 821 (D) (Page 94)

⁴¹ Knox D'Arcy Ltd v Jamieson [1992] 4 All SA 275 (W), 1992 (3) SA 520 (W), International Executive Communications Ltd t/a Institute for International Research v Turnley [1996] 3 All SA 648 (W), 1996 (3) SA 1043 (W) p. 1052, Motion Transfer & Precision Roll Grinding CC v Carsten [1998] 4 All SA 168 (N), [Prism Holdings Ltd v Liversage 2004 \(2\) SA 478 \(W\)](#)

⁴² Dun & Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd [1968] 1 All SA 348 (C), 1968 (1) SA 209 (C) IIR SA BV (inc in the Netherlands) t/a Institute for International Research v Hall (aka Baghas) [2004] 4 All SA 646 (W), 2004 (4) SA 174 (W)

⁴³ Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd [1977] 1 All SA 481 (T), 1977 (1) SA 316 (T), Multi Tube Systems (Pty) Ltd v Ponting [1984] 3 All SA 578 (D), 1984 (3) SA 182 (D), Valunet Solutions Inc t/a Dinkum USA v eTel Communications Solutions (Pty) Ltd 2005 (3) SA 494 (W)

⁴⁴ Harvey Tiling Co (Pty) Ltd v Rodomac (Pty) Ltd [1977] 1 All SA 481 (T), 1977 (1) SA 316 (T)

plaintiff must have an interest in the confidential information, which need not necessarily be ownership. (2) The information must be of a confidential nature. (3) There must exist a relationship between the parties which imposes a duty on the defendant to preserve the confidence of information imparted to him, which could be the relationship between the employer and employee, or the fact that he is a trade rival who has obtained information in an improper manner. (4) The defendant must have knowingly appropriated the confidential information. (5) The defendant must have made improper use of that information, whether as a springboard or otherwise, to obtain an unfair advantage for himself. (6) Finally, the plaintiff must have suffered damage as a result

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