



THE SUPREME COURT OF APPEAL OF SOUTH AFRICA

Case No: 581/05
REPORTABLE

In the matter between:

AUTOMOTIVE TOOLING SYSTEMS (PTY) LTD APPELLANT

v

SAREL JOHANNES WILKENS	1ST RESPONDENT
DAVID SCHALK ROTHMANN	2ND RESPONDENT
AMS MANUFACTURING (PTY) LTD	3RD RESPONDENT
ADVANCED MARKING SYSTEMS (PTY) LTD	4TH RESPONDENT
KYLE CONAN PARKER	5TH RESPONDENT
WYBRANDT WILLEM COETZEE	6TH RESPONDENT

Coram: Farlam, Nugent, Lewis, Maya JJA and Cachalia AJA

Heard: 16 August 2006

Delivered: 28 September 2006

Summary: Restraint of trade covenant. 'Independent contractor' agreement entered into to circumvent provisions of Labour Relations Act 66 of 1995 construed as contract of employment – Interdict sought to restrain ex-employees from using their skill and knowledge in manufacturing marking machines for competitor. Employer has no proprietary interest in the general skills and knowledge of its ex-employees upon termination of an employment contract. Restraint contrary to public policy found unenforceable.

Neutral citation: This case may be cited as *Automotive Tooling Systems v Wilkens* [2006] SCA 128 (RSA)

JUDGMENT

CACHALIA AJA

[1] This appeal concerns the enforceability of restraint of trade and confidentiality clauses in agreements entered into between the first and second respondents and the appellant. The Pretoria High Court (De Vos J) declared the agreements as a whole to be invalid and unenforceable. The present appeal, with leave of the court below, is against that order.

[2] The appellant's business, as described in its founding affidavit, is in a specialised technological field relating to the design, manufacture and/or customisation of special purpose machines and tooling. It produces pressed tools and 'marking machines' used predominantly to manufacture automotive parts. These machines comprise a 'marking head' (which functions using a laser beam, pin stamping or scribing) and numerous other components. The first and second respondents had been employed in the business as tradesmen for several years. They are skilled toolmakers.

[3] Some years into their employment, and at the appellant's instance, they entered into 'Independent Contractor agreements' ('service agreements') with the appellant. The apparent change in their status from 'employees' to 'independent contractors' with the appellant had no material bearing on the nature of the work they performed. The service agreements contained two clauses relevant to this dispute; a restraint of trade covenant and a confidentiality clause. The clauses prohibited the first and second respondents from:

'[Having] a direct interest as . . . employee or otherwise . . . in any business, firm or company in competition with the company or deal[ing] directly with a client or prospective client of the company . . . for a period of three years from the date of termination of the agreement;'

and from

'[disclosing] any information of any activities or processes of the company . . . such as methods, processes, computer software or any other information damaging for the company or beneficial to another person to the detriment of the company.'

[4] It was accepted in argument before us that the outcome of the appeal depends on the enforceability of the restraint clause. The confidentiality clause might add colour to the question of whether the restraint is enforceable but is not material in itself. It was conceded by counsel for the appellant that if the restraint fails then the confidentiality clause is not being breached in itself, and conversely if the restraint succeeds no reliance on the confidentiality clause is necessary. I shall thus refer only to the restraint clause.

[5] In January 2004 the first and second respondents were promoted to the position of foreman and assistant foreman respectively. The following year, in May 2005, they tendered their resignations with effect from 30 June 2005 to take up employment with the third respondent ('AMS Manufacturing'). The nature of their employment with AMS Manufacturing, says the appellant, is in breach of the restraint clause.

[6] The court below held the service agreements unenforceable in their entirety because, they had been concluded *in fraudem legis*, to circumvent the provisions of the Labour Relations Act 66 of 1995 (in particular those relating to collective bargaining.)¹ The grounds for that conclusion were that they purported to create relationships of independent contractors between the appellant and each of the first and second respondents whereas the substance of the relationship was one of employment.² This does not appear to me to be a sound conclusion. The mere fact that a contract is unsuccessfully designed to escape the provisions of the law does not in itself render it unenforceable. It is unenforceable only if the true nature of the relationship is one that the law forbids.³ Accepting for present purposes that the service agreements were, in truth, contracts of employment, the law does not prohibit them, and the restraints are not forbidden in themselves. In those circumstances the court below was

¹ Section 5(4) of the Labour Relations Act 66 of 1995 (LRA) provides: 'A provision in any contract, whether entered into before or after the commencement of *this Act*, that directly or indirectly contradicts or limits any provision of section 4, or this section, is invalid,' Section 4 guarantees employees the right to freedom of association in order to promote the principle of collective bargaining.

² See s 200 A of the LRA.

³ See the discussion in *Dadoo Ltd v Krugersdorp Municipal Council* 1920 (AD) 530 at 543-548.

wrong to declare the service agreements contracts unenforceable merely because they sought to disguise the true relationship between the parties.

[7] The appellant's case is that the fourth respondent ('Advanced Marking Systems') was an important client of the appellant. It purchased marking machines from the appellant for re-supply to its customers. The first and second respondents did much of the work in manufacturing these machines. They will now, the appellant complains, do the same work for AMS Manufacturing that they did for the appellant in manufacturing such machines for supply to Advanced Marking Systems. In so doing, avers the appellant, they would use the technological know-how ('know-how') which is confidential and that was learnt during their employment with it. The appellant contends that it has a proprietary interest in such know-how and consequently is entitled to interdictory relief in the following terms:

'That the First and Second Respondents each be interdicted from taking up employment with, or having any direct interest in, the Third Respondent, or in any other business, firm or company in competition with the Applicant, in the Republic of South Africa, which employment or interest involves the design, manufacture or customisation of machines for marking in the category of such machines described in . . . the founding affidavit.'⁴

[8] At issue in this case therefore is whether the appellant does have a proprietary interest worthy of protection. An agreement in restraint of trade is enforceable unless it is unreasonable.⁵ It is generally accepted that a restraint will be considered to be unreasonable, and thus contrary to public policy, and therefore unenforceable, if it does not protect some legally recognisable interest of the employer but merely seeks to exclude or eliminate competition.⁶ As Nienaber JA stated in *Basson v Chilwan*:⁷

⁴ The restraint clause provides for it to be operable for a period of three years from the date of termination of the agreement (para 3). The interdict is sought to cover a period of two years only.

⁵ *Magna Alloys and Research (SA) (Pty) Ltd v Ellis* 1984 (4) SA 874 (SCA) 898A-B.

⁶ See generally John Saner *Agreements in Restraint of Trade in South African Law* (Aug 2005) p 7-4, 7-5.

⁷ 1993 (3) SA 742 (A) 767E-F.

'Wat die partye self betref, is 'n verbod onredelik as dit een party verhoed om hom, na beëindiging van hul kontraktuele verhouding, vryelik in die handels- en beroepswêreld te laat geld, sonder dat 'n beskermingswaardige belang van die ander party na behore daardeur gedien word. So iets is op sigself strydig met die openbare beleid.'

Nienaber JA listed four questions that need to be asked when determining whether a restraint would be upheld. Only the first of these, whether there is an interest of the one party (in this case the employer) which deserves protection once the contract comes to an end, is relevant in this matter.⁸ Precisely what the parameters of such an interest are need not now be decided. What is clear, however, is that the interest must be one that might properly be described as belonging to the employer, rather than to the employee, and in that sense 'proprietary to the employer'. The question in the present case is whether the interest that is relied upon – the skill, expertise and 'know how' that the employees undoubtedly acquired in the techniques for manufacturing these machines – was one that accrued to the employer or to the employees themselves.

The rationale for this policy was succinctly explained by Kroon J in *Aranda Textile Mills (Pty) Ltd v L D Hurn*⁹ as follows:

'A man's skills and abilities are a part of himself and he cannot ordinarily be precluded from making use of them by a contract in restraint of trade. An employer who has been to the trouble and expense of training a workman in an established field of work, *and who has thereby provided the workman with knowledge and skills in the public domain*, which the workman might not otherwise have gained, has an obvious interest in retaining the services of the workman. In the eye of the law, however, such an interest is not in the nature of property in the hands of the employer. It affords the employer no proprietary interest in the workman, his know-how or skills. Such know-how and skills *in the public domain* become attributes of the workman himself, do not

⁸ See *Basson v Chilwan* at 767G-I: '(a) Is daar 'n belang van die een party wat na afloop van die ooreenkoms beskerming verdien? (b) Word so 'n belang deur die ander party in gedrang gebring? (c) Indien wel, weeg sodanige belang kwalitatief en kwantitatief op teen die belang van die ander party dat hy ekonomies nie onaktief en onproduktief moet wees nie? (d) Is daar 'n ander faset van openbare belang wat met die verhouding tussen die partye niks te make het nie maar wat verg dat die beperking gehandhaaf moet word, al dan nie? (Laasgenoemde vraag kom nie hier ter sprake nie.) Vir sover die belang in (c) die belang in (a) oortref, is die beperking in die reël onredelike en gevolglik onafdwingbaar.'

⁹ [2000] 4 All SA 183 (E) para 33.

belong in any way to the employer and the use thereof cannot be subjected to restriction by way of a restraint of trade provision. Such a restriction, impinging as it would on the workman's ability to compete freely and fairly in the market place, is unreasonable and contrary to public policy.'

[9] Thus the mere fact that the first and second respondents have taken up employment with AMS Manufacturing, assuming that it is in competition with the appellant, does not in itself entitle the appellant to any relief if all they will be doing is applying their skills and knowledge acquired whilst in the employ of the appellant. It is only if the restriction on their activities serves to protect a proprietary interest relied on by the appellant that they would be in breach of their contractual obligations. The interest sought to be protected in this case, as I understand the submission made on behalf of the appellant, is the special knowledge of how the components of the appellant's machine are put together. The crux of this matter therefore is whether the appellant has a proprietary interest in the 'know-how' that was acquired by the employees. This is a question of fact¹⁰ and in motion proceedings the matter must be decided on the basis of:

'... those facts averred in the applicant's affidavits which have been admitted by the respondent, together with the facts alleged by the respondent . . .'.¹¹

[10] In practice, the dividing line between the use by an employee of his own skill, knowledge and experience which he cannot be restrained from using, and the use of his employer's trade secrets¹² or confidential information¹³ or other interest which he may not disclose if bound by a restraint, is notoriously difficult to define.¹⁴ Similarly it is difficult to determine whether the process by which a

¹⁰ *Rawlins v Caravantruck (Pty) Ltd* 1993 (1) SA 537 (A) 541G.

¹¹ See *Plascon-Evans Paints Ltd v Van Riebeeck Paints (Pty) Ltd* 1984 (3) SA 623 (A) at 634H-635C. This approach is followed even when the onus to prove any fact in issue rests on the respondent (*Ngqumba v Staatspresident; Damons v Staatspresident; Jooste v Staatspresident* 1988 (4) SA 224 (A) 262B) as in restraints of trade where the covenantor (respondent) bears the onus to show that the restraint is offensive to public policy. (See *Magna Alloys and Research (SA) (Pty) Ltd v Ellis* 1984 (4) SA 874 (A) 893A-B; *Basson v Chilwan* 1993 (3) SA 742 (A) 767A-B).

¹² See for example *Northern Office Micro Computers (Pty) Ltd v Rosenstein* 1981 (4) SA 123 (C) 136B-E.

¹³ See for example *Coolair Ventilator Co (SA) (Pty) Ltd v Liebenberg* 1967 (1) SA 686 (W) 689.

¹⁴ See John Saner *Agreements in Restraint of Trade in South African Law* Issue 7 (Aug 2005) p 7-14(2).

machine is built depends, in the main, for its success on the utility of the steps of the process or on the skill and discretion of the operator. If the former, knowledge of the process is protectable (provided it is sufficiently secret). If it depends on the latter for its success, it is likely that the employer has no secret process; he has only a skilled employee whose skill he cannot restrain from utilising after the termination of the employment.¹⁵ Where the line is to be drawn is often one of degree. The dispute in this case is about where the dividing line is to be drawn.

The Appellant's Case

[11] I mentioned earlier that the appellant has been in business in the field of design, manufacture and customisation of special purpose machines and tooling for some thirteen years. It describes its machines as being of a complex electro-mechanical nature, which are used in motorcar production and other manufacturing industries. The product in issue relates to 'marking machines' which are used to stamp, etch or inscribe data (code numbers, brand names, etc) on metal or plastic articles, mostly parts of motor vehicles. Each machine comprises an array of components. Thus, a 'marking head', the part which effects the marking – by way of laser beam, pin stamping or scribing – must be mounted in a manner that allows it to operate effectively. It must interface with computer controllers and the work surface upon which the parts to be marked are mounted or 'posted'.

[12] The machine has to withstand a dynamic range of forces whilst also catering for delicate movement. The nature of the particular parts to be marked, their quality, the utility of the machine and its assimilation into a particular production process all have a bearing on the structure, its size and the eventual commissioning of the plant. This, in turn, affects the design of the machine which is customised to meet the particular needs of each client.

¹⁵ A E Turner *The Law of Trade Secrets* Sweet and Maxwell Ltd, London (1962) p 14.

[13] The appellant states that it has accumulated a valuable body of know-how in its field of business. It describes the relevant know-how as the 'processes and methodologies in the design, manufacture and commissioning of customised marking machines or equipment'. The know-how, the appellant alleges, is not public knowledge and relates specifically to 'a combination of skills and knowledge to enable the (appellant's) specialised machines to be designed and made'. It is only the employees in whom the appellant has invested 'labour, effort, experience and the expenditure of . . . time, skill and money', and as a consequence have such skills and knowledge, who are able to apply it practically in the 'engineering design, mechanics, electrical engineering, electronics, pneumatics, hydraulics, tool making, instrument making, computer hardware, software and programming and also the selection of specific available components for specific applications as part of the (appellant's) customised machines'. This know-how, says the appellant, constitutes a proprietary interest that is capable of being protected by a restraint.

The Respondents' Answer

[14] The respondents deny that the relevant know-how is confidential or specific to the appellant's business. They assert that it is no more than what is commonly available to all artisans and technicians. As such, they contend, it constitutes part of the first and second respondents' stock of general knowledge, skill and experience with which they are entitled to earn their living in any other business, including with AMS Manufacturing. Moreover, say the respondents, there is nothing unique about the processes, methodologies, information or procedures used by the appellant, even in regard to the special applications involved in the customisation of AMS' marking machines. Any numbers of engineering firms, they point out, are capable of doing the same work and in fact have been contracted by AMS to perform the same services when their quotes were better than the appellant's.

[15] There are, I think, a number of difficulties that confront the appellant. First, the mere assertion by the appellant that the processes and methodologies in the design, manufacture and commissioning of customised marking machines are confidential does not make it so. The appellant does not identify any part of the process or method which is unique nor point to any other reason why such process or method is deserving of protection. There is no indication on the papers that the first and second respondents were placed in possession of any formulae,¹⁶ or designs or special methods of manufacturing relating to the processes and methodologies¹⁷ which, if done on a confidential basis, would have amounted to an interest worthy of protection.

[16] Counsel for the appellant submitted that the know-how embodied in the design of the machines is confidential and therefore protectable. The submission is unpersuasive. The evidence establishes that Woest, the deponent to the founding affidavit, personally dealt with the conceptualisation and design of the machine. Thereafter the designs were handed to the plant manager for the manufacturing process. The first and second respondents then became involved in building the machines, rather than in their design. The appellant had no proprietary claim to the skills that they developed in manufacturing the machines in accordance with the design. There is nothing in the papers to gainsay the assertion by the respondents that any skilled toolmaker would be able to undertake this task.

[17] Also unpersuasive is the appellant's contention that the 'multiplicity of skills and know-how' referred to earlier, required by employees such as the first and second respondents to build these machines, makes such skills and knowledge protectable. The quantum, or accumulation, of non-protectable skills and knowledge does not make them protectable. The appellant also does not distinguish these from the general skills and know-how in other similar engineering processes or methods. The appellant attempts to explain its inability

¹⁶ See *Sibex Engineering Services (Pty) Ltd v Van Wyk and Another* 1991 (2) SA 482 (T) 487A-B.

¹⁷ Cf *Major Aluminium CC v Martin Pedder* 2002 BIP 242 (C) 265D-E citing *Reid Sigrist Ltd v Moss Mechanism Ltd* (1932) 49 RPC 461.

to draw the line between its proprietary interests and the general knowledge and skill of its employees in its replying affidavit by stating that because the technical nature of some of the processes and methodologies are so integrally related to the 'tricks of the trade', it is difficult to distinguish the specific confidential skill and knowledge from the employees' general skill and knowledge. But why must the appellant's difficulty in this regard redound to the prejudice of its ex-employees? The appellant's dilemma is not unique. As Schutz JA, in another context, made clear in *Powernet Services (1988) (Pty) Ltd v Government of the Republic of South Africa*.¹⁸

'Technical matter is not always easy to make clear. But it *must* be done. Otherwise a litigant may find a modern court responding much like the Glossators of old – who had Latin but not Greek – *Graeca non leguntur*.'

[18] A second and related difficulty is that there is no evidence that the design and manufacture of customised marking machines is unique to the appellant. Indeed, the evidence clearly demonstrates the opposite: that there are a number of other specialist engineering businesses in South Africa that are capable of manufacturing these or similar machines.

[19] Finally, there is no evidence that the processes and methods that were used in the instant matter were in fact treated as confidential by the appellant. It appears that all employees, clients and sub-contractors freely had access to the processes and methods of the appellant. It was not restricted to a limited class of employees on a confidential basis to render it protectable.¹⁹ As Parker, who deposed to the answering affidavit on behalf of the third to fifth respondents pointed out, in December 2004 members of his family and himself were able to customise marking machines that the appellant had undertaken to do for Advanced Marking Systems at the appellant's premises. This would hardly have been possible had the know-how been unique or confidential.

¹⁸ 1998 (2) SA 8 (SCA) 19A-B.

¹⁹ Cf *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 (2) SA 173 (T) 194B-C.

[20] In my view, the facts establish that the know-how for which the appellant seeks protection is nothing other than skills in manufacturing machines albeit it that they are specialised skills. These skills have been acquired by the first and second respondents in the course of developing their trade and do not belong to the employer – they do not constitute a proprietary interest vesting in the employer – but accrue to the first and second respondents as part of their general stock of skill and knowledge which they may not be prevented from exploiting. As such the appellant has no proprietary interest that might legitimately be protected. The restraint is therefore inimical to public policy and unenforceable.

In the result the appeal must fail. The order I make is that the appeal is dismissed with costs.

A CACHALIA
ACTING JUDGE OF APPEAL

CONCUR:

FARLAM JA
NUGENT JA
LEWIS JA
MAYA JA