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FAIR PLAY FOR SMES IN THE MARKETPLACE: USING LAWS AGAINST UNFAIR COMPETITION AND FOR PROTECTION OF TRADE SECRETS

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Introduction

In contrast to the highly specific and regulated systems for obtaining and enforcing patent rights, registered trade mark rights and registered design rights, the areas of unfair competition and trade secret protection are designed to provide a legal framework in areas of commercial activity which, by their very nature, reflect local conditions rather than global ones. In each case, the law attempts to identify the dividing line between legitimate and illegitimate activity: in the case of unfair competition between competitive activity which is deemed legitimate and fair and competitive activity which is not; in the case of trade secrets legislation, it should provide a framework for identifying what may legitimately described as a trade secret, and what action can be taken if the secret is improperly disclosed.

Unfair Competition

Just what constitutes unfair competition has developed gradually over the last century and a half and somewhat piecemeal. The phrase “unfair competition” is too easily adopted not to have been pressed into service to cover a very wide variety of situations where someone thinks that what someone else is doing is unfair. Very often, this does not represent any form of “unfair competition” which Governments should recognize as improper, since, all too often, one man's unfair competition is his competitor's proper adoption of opportunities offered.

Particularly towards the end of the 19th Century and in the early decades of the 20th Century, however, two specific types of behaviour emerged as constituting areas of unfair competition where the State should act by way of legislation. These may be simply summarized as the operation of cartels or similar anti-competitive arrangements and the abuse of a dominant market position. The second of these is clearly one which, in practice, rarely arises in the case of small and medium size enterprises, since the likelihood of a small or medium sized enterprise securing a dominant market position, even with a fairly narrow definition of “market”, is very unlikely. As the market grows and the dominant position is acquired, the enterprise acquiring that position is likely to grow too, particularly if the goods or services concerned are widely consumed. I do not accordingly propose to go further into the question of abuse of a dominant position in this paper.

The position with respect to anti-competitive arrangements is not as easy to analyze. Arising out of situations perceived by some parties as anti-competitive, an approach has developed which seeks to identify as anti-competitive a variety of practices including cartels, patent pools and the like and which cover mutual arrangements which, even if they are not the subject of individual agreements between parties, nevertheless, when taken together, constitute a “concerted practice”, the effects of which are anti-competitive. With such a broad approach, it is easy to see that a very wide variety of situations might be, at first sight, described as anti-competitive, but which in fact have no effect on competitiveness between enterprises in the relevant field. In order to try and bring some form of practical approach into this area, it has long been recognized that these sorts of anti-competitive arrangements are important to restrain only when they are of such a size, or, more particularly, impact in the marketplace, that it is worth restraining the activity. Thus, many aspects of unfair competition law tend to apply only when the parties concerned control in aggregate a reasonable proportion of the market. Put another way, perhaps in an unlikely application of the Roman principle de minimize non curat lex - the law does not concern itself with trifles - the scope and reach of unfair competition tend not to apply when the arrangements in question are

minor. The question of just what does constitute, for example, 35% of market share (the threshold in Russian unfair competition law) is one which is not always easy to answer, but it can be said that, for many small and medium sized enterprises, these areas of unfair competition law are unlikely to be of importance or relevance.

Specific acts of unfair competition

In pursuance of clarifying the application of the underlying general principle, that unfair competition should be rendered improper by way of legislation, a number of specific areas have been characterized as being instances of "unfair competition", and these have acquired general support throughout the intellectual property community by virtue of being reflected in a specific amendment to the Paris Convention which occurred in 1958. Up until then, the Paris Convention had merely suggested that unfair competition be defined as "any act of competition contrary to honest practices in industrial or commercial matters", a definition which, while clearly pointing in the right direction, does not perhaps go very far to explaining what the term "unfair competition" actually means, or what might be included in practice.

In 1958, the countries who were members of the Paris Union decided (by amending Article 10bis) that the following particular activities should be prohibited:

1. All acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor.

2. False allegations in the course of trade of such a nature as to discredit the establishment, the goods or the industrial or commercial activities of a competitor.

3. Indications or allegations, the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity of the goods.

You will see that all of these are activities which are quite independent of the size of the undertaking concerned and, accordingly, ones in which small and medium size enterprises can (illegitimately!) engage in, or, perhaps more particularly, can suffer from at the hands of others.

As with many areas where the general requirements are set out in international treaties, the implementation in national law is left to the national legislature of the member states. This applies quite specifically to the general areas of unfair competition in Article 10 bis of the Paris Convention, and I wish to identify , without being exhaustive, two areas where the individual laws apply and should be respected by small and medium sized enterprises (though the laws apply, of course, to everyone from individuals up to international corporations) operating within the Russian Federation.

The first of these is the Trade Mark law, where a specific requirement of trade mark infringement is the existence of, or likelihood of, confusion. Sometimes this can be inadvertent, for example because an enterprise decides to adopt a mark for particular goods or services without checking first that the mark is free to use. Fortunately, trade mark registers are open for all to see and are increasingly searchable in accordance with a variety of criteria. Such searching is of major importance and should always be carried out prior to the first use of a new trade mark because if one does not search first, there is always the risk that someone

else will previously have registered the same or a similar mark for the same similar goods or services. If that has happened, the new product or service may have to be renamed to avoid problems. Going ahead and trusting to luck can be a very expensive gamble, particularly if, as soon as the product or service is launched, the legitimate trade mark owner learns of it and complains. Not only is there the cost of scrapping literature, labels or the like, but the physical marking on the product itself may have to be changed. This can pose particular problems if the trade mark is applied to goods e.g. by moulding a legend into a plastic casing or having the trade mark emerge in relief on a moulded or cast product.

In terms of the second and third areas specified above, much can be done by way of legal requirements on advertising. The Russian Federation advertising law which I studied in preparation for this paper clearly identifies as a basic concept that of “improper advertising”, and among the categories which are identified as constituting improper advertising are unfair advertising defined in Article 6, misleading advertising in Article 7 and deliberately false advertising under Article 9. These activities, all of which are clearly rendered not allowable by the advertising law, constitute, if practised, acts of unfair competition.

Thus, if a small or medium sized enterprise finds that its market is being eroded because of false or misleading advertising from competitors, it can use this area of unfair competition law to try and stop, or at least moderate, the advertising in question.

There are, however, many other areas in which SMEs may find themselves suffering from, or being accused of, unfair competition, but the time available does not permit going into them in detail. What is of very substantial importance to enterprises is to be able to know that such provisions exist, at least in terms of their general thrust, and to have access to professional assistance and support so that, in any particular case, proper and balanced assessment may be carried out as to whether a course of action adopted by a competitor, or a proposed course of action intended to be pursued by the enterprise itself, is legitimate or, in contrast, will fall foul of specific regulations.

Finally, it should be mentioned that, as business practices change over time, so does the generally accepted view of what is permissible and what is impermissible. A simple illustration will suffice: for many decades, it was common to see trade mark laws used to restrain so-called “comparative advertising” activities by competitors. In recent years, however, it has become more accepted that consumers are entitled to be given comparative data, and that this may be done by one of the parties whose products or services are being compared. Thus, it is now common, particularly in certain industries, for comparative advertising to be used, with each party who engages in it using, for the purpose of identification, one or more trade marks of its competitors. Such activity may no longer be regarded as trade mark infringement, and accordingly anti-competitive, but rather as activity which gives clear information to the consumer. Of course, the information about the competitors' products must not be misleading and should be clear and, in most cases, complete. Otherwise, the advertiser may be clear in terms of trade mark infringement, but not in terms of unfair competition law.

Trade Secrets

The final part of this paper relates to the value of trade secrets in preserving and enhancing a competitive position. It is instructive to remember that before the patent system arose in the rennaisance period, much technology was the subject of trade secrets.

Practitioners of particular trades and manufactures jealously guarded their know how and, in particular, so-called “craft guilds” grew up with the specific object of reserving to themselves the knowledge of particular techniques, for example glass-making, tanning or cloth manufacture. Because of the mutual bonds of secrecy between the members, the spread of new and innovative technology in these areas was materially hampered. This was not good for the general wealth of states which sought to exploit the trading and commercial activities of their citizens to increase their own power and wealth, and one of the early incentives behind the patent system was to encourage the disclosure (and accordingly the spread) of new technology by offering, in return for that disclosure, the restricted time period of protection against copying of the techniques by others which the modern developed patent system provides today.

There is still, however, plenty of scope for individual excellence, particularly in the case of manufacturing processes, and it is desirable to seek to maintain that competitive advantage once acquired. The problem is that once a secret is revealed, it is no longer secret, but passes into the public domain where it can be freely used by anyone. Thus, because it is difficult to keep secrets, particularly if those in possession of them move from one enterprise to another, the importance of secrecy has tended to give way to the importance of securing patent protection for new and improved ways of doing things. Of course, in terms of products themselves, the secret is out once the product is launched into the marketplace, and all can then see the details and, if necessary with a little “reverse engineering”, copy the product, or at least the idea behind it, unless, of course, the idea is protected by way of a patent.

What can an enterprise do to maintain its competitive edge where that relies at least in part on secret or proprietary information? The first stage is to seek, by way of appropriate contract conditions in the employment contract between the enterprise and its employees, to ensure that they do not reveal the secrets. This is easier proposed than achieved, as care needs to be taken to distinguish between the normal professional or engineering skills that an employee has, and which he or she ought to be able to use for another employer, and the special “confidential information” which the enterprise possesses. Awareness of what that is crucial, both on the part of the enterprise and on the part of the employee, and those employees who work in an enterprise where they have access to, or generate, confidential information need to be alert as to what the information is, and to the importance attached to keeping the information secret. Otherwise, it is all too easy for information to leak out, sometimes with no ill will or consciousness of wrongdoing on the part of the employee disclosing the information, and once a secret it out, it is no longer a secret, and others will learn of it.

So it is important, if competitiveness relies on any amount of secret information, to ensure that those who have that information know that it is meant to stay secret, and undertake not to reveal it.

A particular aspect of this is the agreement by the employee, if they leave, not to go to a direct competitor, and employment arrangements often make some provision for this, but care must be taken not to make such provisions too restrictive, or they will be ineffective in practice. In particular, care should always be taken to ensure that the length of time for which an employee is barred from taking up employment with a competitor is reasonable - usually no more than two years at most, and often less. The important thing is to make the period of time proportionate to the level at which the employee works - a longer period may be more justified for a senior employee than for a junior one.

Conclusion

The laws relating to unfair competition and trade secrets are important to SMEs in maintaining their market position and operating fairly in the commercial world, but care needs to be taken in internal operations to ensure that if a situation arises in which the SME needs to rely on such laws, it is in a position to do so simply and quickly. Internal housekeeping, monitoring of the activities of competitors and self- consciousness of any important proprietary material on which the success of the enterprise is founded are all matters which do not appear to be too relevant to many day-to-day activities of the enterprise, but ignoring any of them can lead to problems for the enterprise which, if they are serious, can severely damage its economic status, or even lead to its failure.

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