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UNFAIR COMPETITION AND THE “MISAPPROPRIATION DOCTRINE”—A RENEWED ANALYSIS

MIGUEL DEUTCH*

I. INTRODUCTION

Intellectual products are primary business assets in the modern economies of contemporary times, now customarily described as the “information age.”¹ Competitive advantages expand and decline in accordance with the degree to which such products are unique and might be used. Accordingly, the law must consider the manner and level of protection to be accorded to intellectual products in order to prevent the improper attenuation of these advantages.

Protection of intellectual products poses complex legal challenges to the assorted interests involved in this field. Countering the need to protect the fruit of the developer’s labor, that is, resisting the protection required by the “labor theory” of property law,² are powerful public and constitutional interests: freedom of occupation, freedom of competition, freedom of expression,³ and the substantial public interest in an expansive and uninhibited flow of ideas and know-how.⁴ The protection of intellectual property rights in the various

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1. See, e.g., Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 243 (1998); Michael A. Epstein & Stuart D. Levi, *Protecting Trade Secret Information: A Plan for Proactive Strategy*, 43 BUS. LAW. 887, 887 (1988); Pamela Samuelson, *Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?*, 38 CATH. U. L. REV. 365, 367 (1989).

2. For this theory, see, for example, LAWRENCE C. BECKER, *PROPERTY RIGHTS: PHILOSOPHIC FOUNDATIONS* 65 (1977); Edward Andrew, *Inalienable Right, Alienable Property and Freedom of Choice: Locke, Nozick and Marx on the Alienability of Labour*, 18 CAN. J. POL. SCI. 529 (1985); William W. Fisher III, *Property and Contract on the Internet*, 73 CHI.-KENT L. REV. 1203, 1212-1218 (1998); Don Wiesner & Anita Cava, *Stealing Trade Secrets Ethically*, 47 MD. L. REV. 1076, 1101-2 (1988).

3. This also includes freedom of commercial speech. See, e.g., *Va. State Bd. of Pharm. v. Va. Citizens Consumer Council, Inc.* 425 U.S. 748 (1975); Alex Kozinski & Stuart Banner, *Who’s Afraid of Commercial Speech?*, 76 VA. L. REV. 627 (1990); Edward J. Eberle, *Practical Reason: The Commercial Speech Paradigm*, 42 CASE W. RES. L. REV. 411 (1992).

4. See, e.g., Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354 (1999); Mark A. Lemley,

legal systems is subject to diverse qualifications not characteristic of tangible property. Thus, the period of validity of the right is restricted⁵ and several theories enable its weakening, such as the concept of fair use in copyright law,⁶ the institution of compulsory licenses in patent and copyright law,⁷ and the defense of public policy in trade secrets law.⁸ These concepts rely on the public interest, which requires limits to be placed on the protection of the owner in order to enable society and the economy to advance. The “Internet Era” has created a new social and cultural atmosphere that encourages the free flow of ideas,⁹ thereby supporting development of new bodies of knowledge. Yet, the intolerable ease with which information is disseminated on the internet creates a substantial threat to the exclusivity of the developer of a new

The Economics of Improvement in Intellectual Property Law, 75 TEX. L. REV. 989, 990-993 (1997); Jessica Litman, *The Public Domain*, 39 EMORY L. J. 965 (1990).

5. Thus, for example, the period of validity of a patent in the American system is twenty years. See 35 U.S.C. § 154(a)(2) (2000). The period of validity of a design is ten years. See 17 U.S.C. § 1305 (2000).

6. See *infra* note 95.

7. See, e.g., PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 497 (Rev. 3d ed. 1993); ALAN S. GUTTERMAN, INNOVATION AND COMPETITION POLICY 69 (1997); Paul Goldstein, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright* 24 UCLA L. REV. 1107 (1977). American law regularly prefers to protect the public interest in preventing misuse of intellectual property rights by applying the doctrine of “misuse defense.” For this doctrine, see 1 PAUL ROSENBERG, PATENT LAW FUNDAMENTALS (2d ed., 1986) [hereinafter ROSENBERG]; Ralph D. Clifford, *Simultaneous Copyright and Trade Secrets Claims: Can the Copyright Misuse Defense Prevent Constitutional Doublethink?*, 104 DICK. L. REV. 247, 258-71 (2000). For the Israeli law on compulsory licenses, see 2E JOHN P. SINNOTT, WORLD PATENT LAW AND PRACTICE 2, 26-30 (1987).

8. For the American law, see RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40, reporters’ note, cmt. c (1995). For English law, see *Lion Laboratories v. Evans*, 1985 Q.B. 526; ROBERT DEAN, THE LAW OF TRADE SECRETS 283-84 (1990).

9. For the theory that social and cultural planning goals should shape intellectual property, see the “just and attractive culture” approach. RONALD V. BETTIG, COPYRIGHTING CULTURE: THE POLITICAL ECONOMY OF INTELLECTUAL PROPERTY (1996); ROSEMARY J. COOMBE, THE CULTURAL LIFE OF INTELLECTUAL PROPERTIES: AUTHORSHIP, APPROPRIATION AND THE LAW (1998); W. Fisher III, *Property and Contract on the Internet*, 73 CHI.-KENT L. REV. 1203 (1998).

intellectual product¹⁰ and may destroy property such as trade secrets without any great effort being exerted.¹¹

The "institutionalized" intellectual property laws (patent law, designs, copyright law, etc.) create a comprehensive framework of arrangements that provide a system of internal balances between the interests involved. Inevitably, this system is incomplete. First, it is trite to mention that legislation generally lags far behind new technologies, and this is particularly true in contemporary life when one looks at the accelerated pace of developments.¹² Second, it is not always worthwhile from the vantage point of the developer of the intellectual product to invest in the registration fees needed to protect the product, particularly if the product will only be relevant for a short period of time.¹³ Third, the internal balances of the institutionalized intellectual property law may transform the institutionalized channel into one that fails to provide adequate protection for the product in cases where a particular component essential according to that channel is missing. In such cases, there may still be justification for considering the establishment of an *alternative* system of balances, fitting the level of protection that should properly be accorded in the particular instance.

The question arises, in cases where misappropriation of an intellectual product does not violate an institutionalized intellectual property law, whether it would nonetheless be justified to prohibit misappropriation by virtue of a

10. For the need to adjust the various intellectual property laws to the Internet age, see, among the numerous sources, G. PETER ALBERT, JR. ET AL., *INTELLECTUAL PROPERTY LAW IN CYBERSPACE* (2d prtg. 2000); M. ETHAN KATSH, *LAW IN A DIGITAL WORLD* (1995); Dan L. Burk, *Muddy Rules for Cyberspace*, 21 *CARDOZO L. REV.* 121 (1999); Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 *S.C. L. REV.* 695 (1998); John F. Delaney & Robert Murphy, *The Law of the Internet: A Summary of U.S. Internet Caselaw and Legal Developments*, 570 *PRAC. L. INST.* 169, 184 (1998); Trotter Hardy, *Property (and Copyright) in Cyberspace*, 1996 *U. CHI. LEGAL F.* 217; Scott S. Kokka, *Property Rights on an Intranet*, 3 *J. TECH. L. & POL'Y* 3 (Spring 1998).

11. For original proposals regarding the manner in which trade secrets law should cope with the challenges posed by the cyberspace era, including the proposal to protect the rights of the owner of the information in certain circumstances, notwithstanding publication of the secret on the Internet, see Bruce T. Atkins, *Trading Secrets in the Information Age: Can Trade Secret Law Survive the Internet*, 1996 *U. ILL. L. REV.* 1151; Matthew R. Millikin, *www.misappropriation.com: Protecting Trade Secrets after Mass Dissemination on the Internet*, 78 *WASH. U. L.Q.* 931 (2000).

12. For the difficulties faced by intellectual property law in adapting to new technologies, see R.C. DORR & C.H. MUNCH, *PROTECTING TRADE SECRETS, PATENTS, COPYRIGHTS & TRADEMARKS* 44 (2d ed. 1995); J.H. Reichman, *Legal Hybrids between the Patent and Copyright Paradigms*, 94 *COLUM. L. REV.* 2432, 2444-45 (1994). For the general difficulties faced by the law when coping with the phenomenon of new technologies, see R.W.M. DIAS, *JURISPRUDENCE* 452 (5th ed. 1985).

13. Fashion designs would be an example of products that are relevant for a short period of time.

legal doctrine extraneous to the institutionalized channel. This issue is a matter of profound controversy in American law, starting from the well-known ruling in *International News Service v. Associated Press*,¹⁴ which establish a concept that has been termed the “misappropriation doctrine.” It was resolved in Israeli law in 1998, in a comprehensive and far-ranging judgment delivered by the Supreme Court of Israel by a special bench of seven justices, in the *ASHIR* case.¹⁵ The objective of this article is to analyze this case. The lessons to be learned from the *ASHIR* ruling may contribute to the persisting debate in the American legal system concerning the justification for the misappropriation doctrine.

II. GENERAL PROHIBITION ON UNFAIR COMPETITION

A. *Existence of the Prohibition in Various Legal Systems*

Misappropriation of the intellectual product of another is an act generally carried out by a competitor of the developer of the product. Misappropriation therefore raises direct and immediate questions in the area of unfair competition law.

The existence of a *general prohibition* on unfair competition, which judicial rulings from time to time imbue with fresh meaning, is one of the important issues of business law in every legal system. While only a few would dispute the fundamental justification for establishing *concrete* prohibitions on specific unlawful competitive activities, the establishment of a general prohibition has not been the subject of uniform legal perception. Such a prohibition has been prescribed in German legislation,¹⁶ as well as other countries in Europe.¹⁷ In England, the legal literature traditionally stated that the law does not recognize the general tort of unfair competition.¹⁸ Yet, in recent years, it has become possible to discern other views and see the cautious

14. 248 U.S. 215 (1918).

15. Application for Leave to Appeal [A.L.A.] 5768/94, *ASHIR Import, Manufacture and Dissemination v. Forum Ltd.*, 52(4) P.D. 289 [hereinafter A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289].

16. German Unfair Competition Law § 1 (1909) (Gestzes Gegen denUnlauteren Wettbewerb).

17. See, e.g., Italian Civil Code, C.c. § 2598. In France, there is no specific legislation on this matter, however, a general prohibition on unfair competition is inferred from the general prohibition on wrongfully causing damage. See French Code Civil, C. CIV. § 1382. For the legislation in different countries, see CHRISTINE FELLNER, *THE FUTURE OF LEGAL PROTECTION FOR INDUSTRIAL DESIGN* (1985).

18. See *Associated Newspapers Plc. v. Insert Media Ltd.*, 1 W.L.R. 900, 909 (Ch. D. 1990); *Cadbury-Schweppes Pty. Ltd. v. The Pub Squash Co. Ltd.*, 1981 R.P.C. 429, 461-464; DAVID YOUNG, *PASSING OFF* 9-10 (2d ed. 1989).

beginnings of an acknowledgement of such a tort.¹⁹ A general prohibition on unfair competition may be found in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).²⁰

American law recognizes the existence of a general tort of unfair competition, as it is aware that it is impossible to set out a definitive list of forms of unfair competition. Thus, it has justifiably been said that, "it would be impossible to draft in advance detailed plans and specifications of all acts and conduct to be prohibited . . . , since unfair or fraudulent business practices may run the gamut of human ingenuity and chicanery."²¹

The Restatement (Third) of Unfair Competition sets out the prohibited modes of unfair competition. It mentions concrete forms of conduct—commercial misrepresentation, infringement of trademarks and misappropriation of trade values. Two additional broad spectrum provisions are mentioned that are capable of providing the basis for a general prohibition on unfair competition: cases in which statutory provisions or fundamental principles of common law impose liability and "other acts or practices of the actor determined to be actionable as an unfair method of competition, taking into account the nature of the conduct and its likely effect on both the person seeking relief and the public."²²

B. *The Revision of Unfair Competition Law in Israel*

Israeli legislation does not contain a general provision prohibiting unfair competition. The Civil Wrongs Ordinance [New Version],²³ the principal tort legislation in Israel, which was adopted from English law, does not contain a provision of this type. In view of its absence in the Civil Wrongs Ordinance, Israeli case law has held on more than one occasion that there is no general

19. SALMOND & HEUSTON ON THE LAW OF TORTS 556-558 (21st ed. 1996). For the debate on this issue in English legal literature, wrestling, inter alia, with the issue of the extent to which the courts should regulate fair competition through judicial rulings, see PETER CANE, TORT LAW AND ECONOMIC INTERESTS 193-196 (2d ed. 1996). The author does not draw a definitive conclusion. However, it seems that he favors case-by-case judicial rulings on this matter, made in a cautious and deliberate manner. *See id.*

20. *See Agreement on Trade-Related Aspects of Intellectual Property Rights*, World Trade Organization, art. 10, http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm (Apr. 15, 1994).

21. *People ex rel. Mosk v. National Research Co. of Cal.*, 20 Cal. Rptr. 516, 521 (Cal. Ct. App. 1962). *See also* Patricia V. Norton, *The Effect of Article 10bis of the Paris Convention on American Unfair Competition Law*, 68 *FORDHAM L. REV.* 225, 230 (1999) (quoting *Mosk*, 20 Cal. Rptr. at 521). (Norton emphasizes the advantages of a flexible definition of the concept of unfair competition in such a manner so as to enable the court to reach a just result. *See also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 1 cmt. g (1995). For the development of American law on this issue, see 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, ch. 1 (2003).

22. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 (1995).

23. D.M.I. 10 (1968) [hereinafter Civil Wrongs Ordinance].

prohibition on unfair competition.²⁴ This approach is based on the perception that the list of torts in the Civil Wrongs Ordinance [New Version] is a “*numerus clausus*” and not subject to judicial elaboration.²⁵

In 1999, the Commercial Torts Law²⁶ was enacted in Israel, regulating a variety of aspects of unfair competition.²⁷ This law does not contain a general prohibition on unfair competition, but does set out the following concrete torts arising from certain situations of unfair competition: passing off,²⁸ false statement,²⁹ unfairly restricting access to the business of another,³⁰ and

24. See C.A. 352/69, *Manhattan Co. Ltd. v. Hamegapher Ltd.*, 23(2) P.D. 373; C.A. 18/86, *Israeli Finizia Glass Plants Ltd. v. Les Verreries de Saint Gobain*, 45(3) P.D. 224; C.A. 347/90, *SodaGal Ltd. v. Spilman*, 47(3) P.D. 459, 477; C.A. 490/85, [Miscellaneous Applicatilns M.A. 894/85, *Jericho Salts Ltd. v. Dead Sea Plants Ltd.*, 39(3) P.D. 525, 528; C.A. 307/87, *M. Weisbrod and Sons v. D.I.G. Elec. Prods. Factory*, 44(1) P.D. 629, 634.

25. See C.A. 153/54, *Vider v. The Attorney Gen.*, 7 P.D. 1246; C.A. 358/58, *Dgani v. Solel Boneh Ltd.*, 11 P.D. 871, 875.

26. Commercial Torts Law, 5759-1999, S.H. 1709.

27. This author prepared the draft memorandum and bill for the Israeli Ministry of Justice and actively accompanied its enactment by the Israeli legislature.

28. Commercial Torts Law, 5759-1999, S.H. 1709, § 1. This tort was previously established by Section 59 of the Civil Wrongs Ordinance. The new arrangement, to a certain extent, expands the parameters of the old tort, e.g., in relation to the prohibition on misleading customers as to the source of a service and not only to the source of a product. See the analysis offered by MIGUEL DEUTCH, *COMMERCIAL TORTS AND TRADE SECRETS* 57-61 (2002).

29. Commercial Torts Law, 5759-1999 S.H. 1709, § 2. The tort provides an injured trader with a cause of action against another trader who knowingly made false misrepresentations regarding his own business or the business of the plaintiff. In the past, a trader had a cause of action against another trader only if the latter made misrepresentations concerning the business of the plaintiff. See Section 58 of the Civil Wrongs Ordinance [New Version]. The assumption is that a false misrepresentation on the part of the defendant in relation to his own business gives him an unfair advantage over his competitors. See DEUTCH, *supra* note 28, at 61-64.

30. Commercial Torts Law, 5759-1999 S.H. 1709, § 3. This tort arises in situations where, e.g., a domain name is registered that is similar to the name of the plaintiff's business. In this way, the defendant channels the customers to his own business, while making access to the plaintiff's website more burdensome. See C.A. (T.A.) 1627/01, *M.S. Magnetics Ltd. v. Discopy (Israel) Ltd.*, 32(9) P.M. 354; DEUTCH, *supra* note 28, at 64-66. In American law, owners of trademarks have often succeeded in such claims by virtue of the Federal Trademark Dilution Act of 1996, which prevents commercial “freeloading” on the plaintiff's reputation in a way that may undermine the plaintiff's association with the commercial name and dilute his reputation. See 15 U.S.C. § 1125(c) (2000). For this purpose, there is no need to show that customers have actually been misled. See, e.g., *Teletech Customer Care Mgmt. (Cal.) Inc. v. Tele-Tech Co.*, 977 F. Supp. 1407 (C.D. Cal. 1997); *Panavision Int'l L.P. v. Toepfen*, 945 F. Supp. 1296 (C.D. Cal. 1996); *Hasbro Inc. v. Internet Entm't Group Ltd.*, 40 U.S.P.Q. 2d (BNA) 1479 (W.D. Wash 1996). Today, protection is granted to owners of trademarks also by virtue of a new law, the Anticybersquatting Consumer Protection Act of 1999. 15 U.S.C. § 1125(d) (2000). On occasion, claims were also based on infringement of the registered mark itself, when it was possible to show that customers might have been misled. For additional case law and for an analysis of the various aspects of American law on this matter, see G. PETER ALBERT, JR. ET AL., *INTELLECTUAL*

misleading consumers.³¹ Likewise, the Commercial Torts Law contains a chapter regulating the protection of trade secrets.³²

With certain modifications, the Commercial Torts Law adopts the principal elements of American law concerning the protection of trade secrets. Yet, it takes a more cautious approach than that followed by American law regarding the protection provided to the owner of the secret against third parties who subsequently become apprised of the secret following the original misappropriation. The statute takes account of the harm caused to freedom of occupation and the flow of knowledge in society by the protection of a secret. Thus, for example, the protection conferred by Israeli law on the owner of the secret only applies when the third party subjectively knew or deliberately closed his eyes to the fact that the secret was misappropriated.³³ In contrast, American law also imposes liability upon a third party who acted negligently.³⁴ Further, when the third party acquired the secret in good faith and for value, the rule in American law is that the third party nonetheless remains liable for misappropriation of the secret, even though the court has discretion to *negate* the defense.³⁵ In the Israeli Commercial Torts Law, the opposite presumption is applied, i.e., the rule is that the third party is *protected* in this situation, save if the court negates his defense.³⁶ The stance taken by Israeli law reflects the legislature's reluctance to allow too severe an injury to be caused to competitiveness by protecting the intellectual products of the plaintiff, a stance

PROPERTY LAW IN CYBERSPACE (2d prtg. 2000); David Romero, *A Worldwide Problem: Domain Names Disputes in Cyberspace - Who is in Control?*, 9 CURRENTS: INT'L TRADE L.J. 69 (2000).

31. Commercial Torts Law, 5759-1999 S.H. 1709, § 27 (inserting § 31(a)(2) into the Consumer Protection Law, 5791-1981 S.H. 1023). This provision confers a cause of action upon a trader, not only a consumer, in respect to acts that may mislead consumers. The legal reasoning behind this section is that dealing in a manner so as to mislead the consumer confers an unfair advantage upon the misleading trader over the fair trader. The defendant trader's advantage is gained by drawing to himself customers who would otherwise have turned to the plaintiff. For an analysis of this reasoning, see DEUTCH, *supra* note 28, at 47-50.

32. Commercial Torts Law, 5759-1999 S.H. 1709, §§ 6-11.

33. *See id.* at § 6(b)(3).

34. *See, e.g.*, Uniform Trade Secrets Act §1(2)(ii), 14 U.L.A. 437 (1990) (defining "misappropriation"); *Lamb-Weston, Inc. v. McCain Foods Ltd.*, 941 F.2d 970, 972-973 (9th Cir. 1991); *Wright v. Palmer*, 464 P.2d 363, 366 (Ariz. Ct. App. 1970); 1 MELVIN F. JAGER, *TRADE SECRETS LAW* § 3.03(3)(b)(IV) (Melvin F. Jager ed., 2003); Thomas F. Cotter, *Conflicting Interests in Trade Secrets*, 48 FLA. L. REV. 591, 593 (1996).

35. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(b) (1995).

36. Commercial Torts Law, 5759-1999 S.H. 1709, § 8. For an analysis of this provision, see DEUTCH, *supra* note 28, at 350-73. By this, Israeli law resembles the law that prevailed in American jurisprudence in the past. *See* RESTATEMENT (FIRST) OF TORTS §758 (1939); 2 MILGRIM ON TRADE SECRETS, §7.02[2]. *See also*, Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313, 345 (1998); Susan C. Miller, *Florida's Uniform Trade Secrets Act*, 16 FLA. ST. U. L. REV. 863, 877 (1988).

that also led to the dismissal of a proposal to establish a general statutory prohibition on unfair competition that appeared in the bill.³⁷

Notwithstanding this cautious approach regarding the possible harm to competitiveness, one may discern a tendency in the Commercial Torts Law to strengthen the effectiveness of the *remedies* available for the various concrete torts. Where the law assumes that it is on “firm ground” in prohibiting a certain form of conduct, and thus establishes a cause of action in respect to that conduct, it does not hesitate to afford aggressive remedies in order to strengthen efficiency. The principal remedy in this connection is the Anton Piller order, available in English law,³⁸ but adopted and applied in a more invasive manner by Israeli law.³⁹ One of the remedies accorded to the aggrieved party is exemplary compensation, not requiring proof of damage.⁴⁰ This approach derives from the relatively low level of enforcement of intellectual property rights in Israel.

C. Does a General Tort of Unfair Competition Exist in Israeli Law?

As noted above, Israeli case law has held that there is no general tort of unfair competition in Israeli law. Yet, this judicial view did not rely on a value-laden perception regarding the lack of substantive justification for such a prohibition, but rather on a purely “factual” observation of the Civil Wrongs Ordinance [New Version], which did not disclose the explicit existence of such

37. Prohibition of Unfair Competition Bill, 5756-1996 H.H. 2471, §1. Consequently, the title of the law was changed to the Commercial Torts Law. Section One of the Bill proposed that “a trader shall not perform an act which is contrary to fair competition practices.” *Id.*

38. *See* Anton Piller KG v. Mfg. Processes Ltd., 2 W.L.R. 162 (C.A. 1976); E.M.I. Ltd. v. Pandit, 1 W.L.R. 302 (Ch. D. 1975). *See also* Kern Alexander, *The Mareva Injunction and Anton Piller Order: The Nuclear Weapons of English Commercial Litigation*, 11 FLA. J. INT’L L. 487 (1997); DEAN, *supra* note 8, at 449-478. The Anton Piller remedy enables a party aggrieved by an infringement to demand the appointment of a receiver who will enter the premises of the defendant in order to locate assets infringing his rights and other evidence. *Id.* The remedy is primarily used in relation to the infringement of intellectual property rights.

39. Commercial Torts Law, 5759-1999 S.H. 1709, §§ 16-20. The Anton Piller remedy is supplied for the torts of passing off and misappropriation of trade secrets. The uncompromising invasiveness of this remedy in the Commercial Torts Law is principally reflected in the power of the receiver to enter premises by force, accompanied by the police, should the defendant refuse to comply with an order requiring him to allow entry. *Id.* at § 16(b). On the other hand, English law (see 1 KEVIN M. GARNETT ET AL., *COPINGER & SKONE JAMES ON COPYRIGHT* 1039 (14th ed. 1999)) and the general rules of procedure in Israel in relation to other matters (specifically Rule 387d(a) of the Israeli Rules of Civil Procedure, 5744-1984, S.H. 5744, which were added to the Rules of Procedure following the enactment of the Commercial Torts Law) do not permit forcible entry into the defendant’s premises within the framework of the Anton Piller remedy. K.T. 4685. Instead, the defendant runs the risk of being held in contempt of court should he refuse to comply with the order. Rule 387d(a), § 12.

40. Commercial Torts Law, 5759-1999 S.H. 1709, § 13.

a tort. Before the ruling in *ASHIR*⁴¹—on which this article focuses—Israeli case law never considered the possibility that a tort of unfair competition could be developed through the tort of negligence.⁴²

In Israel, the tort of negligence also applies to acts having an intended outcome.⁴³ This "framework tort," which is infused with new meaning from time to time by judicial rulings, has been the subject of impressive development in recent decades. It serves as a central device for elaborating legal norms in an infinite range of issues, when moral, social and economic considerations justify the imposition of liability upon the defendant.⁴⁴ The preeminence of the tort of negligence in Israeli law was highlighted when the Israeli Supreme Court invoked this tort even when doing so led to a somewhat problematic circumvention of restrictions imposed on the cause of action by the concrete tort dealing with the given circumstances.⁴⁵

Accordingly, it is necessary to examine whether moral and economic considerations justify recognition of a general prohibition on unfair competition. Given the aforementioned development of the tort of negligence in Israel, the answer to this question corresponds to the answer that should be given to the question of whether it would be *proper* to impose liability for unfair competition. The tort of negligence is designed to transform what would be proper in terms of the imposition of liability, into what will actually prevail in the positive law.

41. A.L.A. 5768/94 *ASHIR*, 52(4) P.D. 289.

42. M. Deutch, *The Exclusive Distributor and Protection of Goodwill*, 20 MISHPATIM 525, 532 (1991).

43. C.A. 732/80, *Arens v. Beith El*, 38(2) P.D. 645, 655; D. Mor, *The Civil Wrongs Ordinance in the Light of 40 Years of Case Law*, 39 HAPRAKLIT 344, 386-388 (1990).

44. See, e.g., Y. Gilad, *On the Elements of the Tort of Negligence in Israeli Torts Law*, 14 IUNEI MISHPAT 319 (1989); Y. Gilad, *On 'Working Presumptions,' Judicial Intuition and Rationality in Determining the Boundaries of Liability in Negligence*, 26 MISHPATIM 295 (1996); A. Porat, *Negligence and Interests*, 24 IUNEI MISHPAT 275 (2001); see also *infra* Part III-D.

45. See C.A. 243/83, *Municipality of Jerusalem v. Gordon*, 39(1) P.D. 113. Thus, the tort of malicious prosecution in Section 60 of the Civil Wrongs Ordinance provides a cause of action to a person injured by the institution of failed legal proceedings by the defendant. The cause, as mentioned in Section 60 of the Civil Wrongs Ordinance vests only if the legal proceedings have been prosecuted *maliciously*, i.e., with the knowledge that the proceedings are without probable cause and likely to fail. The Israeli case law invoked the general tort of negligence in order to impose liability on the defendant even when the abortive proceedings were instituted *negligently* and not necessarily maliciously. As to a matter that has some bearing on the discussion in this article, namely, unfair competition conducted by causing a party to a contract to breach the contract, the accepted view in Israeli legal literature is that even though the specific tort dealing with such behavior (Section 62 of the Civil Wrongs Ordinance) requires that the act be performed knowingly, it might be possible to impose liability by virtue of the tort of negligence when the defendant did not know, but *ought* to have known that he was causing a breach. See N. COHEN, *INTERFERENCE WITH CONTRACTUAL RELATIONS* 302-338 (1982).

There is no need to elaborate on the moral factors in this context. It is almost a tautology to state that unfair competition is morally improper. “Unfair” means valueless. From this point of view, therefore, it is clear that competitive activities that are unfair are embraced by the prohibition in the tort of negligence. Obviously, defining the contents of unfairness is not an easy task, however, there are activities that are indisputably fundamentally flawed, even if not concretely prohibited, such as situations in which a bidder bribes an employee of a tendering company to persuade the latter to prefer his bid over that of a competitor.⁴⁶

Yet, moral considerations are not the only factors to shape the contents of the tort of negligence and the prohibition of unfair competition. Within the context of this shaping process, broader social and economic factors should be taken into account.⁴⁷ Such factors may lead to a result whereby certain immoral activities are nonetheless permitted, in view of the social and economic price that would be incurred by imposing a prohibition on unfair competition.

The influence of social and economic considerations should not be treated lightly in this context. These considerations profoundly affect the law of competition. A general restriction on unfair competition (as distinct from concrete prohibitions) would indeed embrace a range of situations in which the prohibition might be justified, but may also deter other activities that are desirable from a larger perspective. It is certainly difficult to justify unfair conduct even if that unfair conduct promotes competitiveness and consumer interests, however, because the definition of unfairness is fluid and amorphous, a general prohibition may per se deter competition so that the public interest in the existence of free competition would be impaired. This argument was voiced in debates held in the Israeli Knesset and was determinative in the decision to omit the general prohibition on unfair competition from the final version of the Commercial Torts Law, an omission that eventually led to a different title of the law than the one on the face of the bill.⁴⁸ During the Knesset debates, this author objected to the omission of this central tort,⁴⁹ and

46. The proposal to enact a special tort regarding such conduct in the Commercial Torts Law was not accepted. *See* Prohibition on Unfair Competition Bill, 5756-1996 H.H. 2471, § 7. Yet, this result did not ensue from the presumption that such activities are proper, but from difficulties in drafting the tort so that its scope would not also prohibit legitimate commercial practices in this field.

47. *See generally* Gilad, *On ‘Working Presumptions,’ supra* note 44; Porat, *supra* note 44. *See also infra* Part III-D.

48. *See* Prohibition of Unfair Competition Bill, 5756-1996 H.H. 2471, § 1. *See also supra* note 37 and accompanying text.

49. *See* the comprehensive discussions on this issue in the records of the Sub-committee of the Constitution, Law and Justice Committee of the Knesset, which debated the previously mentioned Bill. Record No. 1 of 25.6.98, at 1-12; Record No. 2 of 13.7.98, at 20-24.

is still of the opinion that it may be judicially developed within the framework of the tort of negligence, notwithstanding its omission from the Commercial Tort Law.

Obviously, considerations of economic efficiency are not the only issues to bear in mind. Even though Israeli legal literature in the last two decades has frequently suggested legal models based on "law and economics" concepts drawn from American jurisprudence,⁵⁰ Israeli case law generally gives preference to moral considerations over efficiency considerations when the two clash.⁵¹ In relation to the matter at hand, the confrontation between moral and efficiency considerations could have been avoided if concrete prohibitions on

50. See, e.g., H. Dagan, *The Entitlement to the Profits of Breach of Contract: An Anatomy of Judicial Legislation*, 20 IUNEI MISHPAT 601 (1997); U. Procaccia, *On Laws, Contracts and Things: An Economic Approach to Basic Jurisprudential Concepts*, 18 MISHPATIM 395 (1988). See also *Economic Analysis of Law*, 22(3) MISHPATIM (1993).

51. See, e.g., A.L.A. 6339/97, *Rocker v. Salomon*, 45(1) P.D. 199. The majority judges rejected the argument that considerations relating to economic efficiency should prevent the demolition of an unlawful construction in common property, built by one of the apartment owners in the building. *Id.* See also the judgment in the *Adress* case: Further Hearing [F.H. 20/82], *Adress Building Materials Ltd. v. Harlow and Jones GmbH*, 42(1) P.D. 221, which rejected the incorporation of the "efficient breach" theory into Israeli contract law. For this theory in American law, see D. Friedmann, *The Efficient Breach Fallacy* 18 LEGAL STUD. 1 (1989). In C.A. 44/76, Motion 101/76, *Atta Ltd. v. Schwartz*, 30(3) P.D. 785, the court dealt with a classic confrontation between moral and economic considerations, namely, the application of "liability rules" as opposed to "property rules" in the law of nuisance. In the latter case, the plaintiff suffered from loud noises caused by activities of one of the biggest plants then operating in Israel, which employed a large number of workers. Following comprehensive hearings, the court issued an injunction against the plant's activities, and refused to content itself with the award of damages in favor of the plaintiff. *Id.*

In recent years, more significant references to considerations of economic efficiency in Israeli case law are observed. In C.A. 2454/98, *Lindor v. Ringel*, 56(1) P.D. 225, certain comments voiced by Justice Rivlin revealed some dissatisfaction with the overly modest weight accorded to considerations of economic efficiency in the Israeli legal system. See also C.A. 3668/98, *Best Buy Mktg. Chain Ltd. v. Fidias Holdings Ltd.*, 53(3) P.D. 180, 191. In *Best Buy*, it was stated that considerations of economic efficiency indeed have a place in Israeli law, even though the central function of the Israeli legal system is to promote "corrective justice." *Id.* In the important judgment delivered in Further Civil Hearing [F.C.H.] 4465/98, *Tivol (1993) Ltd. v. Sea Chef (1994) Ltd.*, 56(1) P.D. 56, the court considered whether the Restrictive Trade Practices Law, 5748-1988 S.H. 1258, invalidates an obligation undertaken by a partner in a partnership agreement not to compete following termination of the partnership. As might be expected, the court indeed emphasized the heavy weight to be accorded to considerations of morality and fairness in law. At the same time, in terms of the confrontation between the moral consideration requiring a contracting party to fulfill his obligations and the public economic interest in freedom of competition, the majority judges granted priority to the public interest in free competition and annulled the non-competition clause. *Id.* Yet, the majority judges endeavored to minimize the tension between moral and economic considerations by pointing out that preventing harm to competitiveness is itself a moral imperative. *Id.* According to this opinion, the contest is between opposing moral values, and not between efficiency and morality.

unfair competition would have supplied a satisfactory solution. Yet, it is impossible to predict the entire range of unfair competition practices. Accordingly, moral considerations, which prevail in Israeli law over considerations of economic efficiency, require the establishment of a general prohibition on unfair competition, which can be adjusted by the judiciary in a flexible manner to new competitive tactics. While applying its discretion in each case, the court should balance, under the given circumstances, the moral aspect in relation to the public interest in promoting competition.

One contention raised during the debating stage of the bill in the Knesset was that the imposition of a general prohibition on unfair competition would be used primarily by powerful business entities against weaker bodies, in such a way as to deter new competitors from entering the market. This author rejects such an argument completely. Apart from the fact that it is not based on any empirical research (which obviously is difficult to conduct in view of the hypothetical nature of the argument), it also cannot be supported logically. A central factor in determining the unfairness of given conduct is found in the unfair exploitation of a *position of power*, whether on the level of the capacity to coerce or on the informational level. The restrictive trade practice laws, for example, seek to prevent the creation of excessively strong centers of power on the assumption that they may undermine competitiveness.⁵² It is the strong entities and not the new weaker bodies that might be exposed to claims of unfair competition, should such a tort be recognized, in view of the fact that they are in positions of power that enable them, in practice, to take effective unfair measures. Therefore, establishing a prohibition against unfair competition may actually *encourage* competitiveness, restraining the exploitation of this power, and not the contrary.

The silence of the Israeli legislature in the Commercial Torts Law regarding the establishment of a general tort of unfair competition should not be interpreted as implying a positive denial of such a tort. True, the bill contained a provision establishing a general prohibition on unfair competition, and this provision was omitted from the final draft of the law. However, as the history of the statute shows, this omission should not be understood as negating the potential application of the tort of negligence to this issue, but rather as reflecting the intention to avoid reaching a definitive decision on this matter within the framework of this particular piece of legislation.⁵³ All that should be understood from the previously mentioned omission is that the

52. See Restrictive Trade Practices Law, 5748-1988 S.H. 1258 at ch.3 (such as by means of restrictions on the improper exploitation of a monopoly or the amalgamation of companies).

53. For more information, see the presentation of the bill in the Knesset by the chairman of the sub-committee of the Knesset that dealt with the law. D.K. (1999) 102.

legislature chose to leave untouched the legal position prevailing before the enactment of the law.⁵⁴

III. THE CONCEPTUAL BACKGROUND OF THE ISRAELI MISAPPROPRIATION DOCTRINE IN THE *ASHIR* RULING

A. *The Interests Involved*

The issue that the Israeli Supreme Court faced in *ASHIR*⁵⁵ concerned a particular instance of unfair competition. A developer of a new intellectual product⁵⁶ did not proceed through established channels of intellectual property law and did not take steps to protect (or could not protect) the product by means of one of the institutional intellectual property safeguards, such as registration of a design. A competitor copied the product. Should the developer of the intellectual product nonetheless have been protected? This was and remains the question underlying the misappropriation doctrine.

The boundaries of the dilemma are clear. On one hand, the law is faced with the interest of the product developer who has invested resources and money to protect the fruit of his labor, while the "free rider" competitor seeks to enjoy the benefit of that investment for no consideration. The developer thus seeks protection within the framework of one of the basic concepts underlying the protection of property, namely, "the theory of labor."⁵⁷ The immediate inclination is to protect the developer of the product against such parasitical misappropriation. Justice Cheshin, in *ASHIR*, termed this natural sense of justice as the "psychological difficulty" in allowing a misappropriation to take place.⁵⁸ It is described in American law as the "restitutionary impulse."⁵⁹

Concurrently, there is justification for granting protection to the owner of the intellectual product in light of the public interest to encourage the development of new intellectual products. The United States Constitution states that protection of the public interest in social and scientific advances lies at the basis of the protection afforded to intellectual property as a whole.⁶⁰ Countering this sense of justice, on the other hand, are the important values previously mentioned,⁶¹ namely freedom of occupation, which is likely to be

54. See DEUTCH, *supra* note 28, at 121-122.

55. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289.

56. For details of the products discussed, see *infra* Part VIII.

57. See Andrew, *supra* note 2; BECKER, *supra* note 2; Fisher, *supra* note 2; Wiesner & Cava, *supra* note 2.

58. *ASHIR*, 52(4) P.D. at 411.

59. Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VA. L. REV. 149 (1992).

60. See U.S. CONST. art. I, § 8, cl. 8. See also GOLDSTEIN, *supra* note 7, at 20.

61. See *supra* notes 3-4 and accompanying text.

impaired by the protection given to the owner of the product, freedom of expression, and freedom of competition. Misappropriating the intellectual products of another may lower the price of the products and diversify the market. When the imitation does not lead to consumers being misled as to the origin of the product, then from the internal point of view of freedom of competition, the market for the replica becomes a desirable secondary market that provides the consumer with a range of options. If the consumer prefers to purchase the original product, he will pay the higher price; if the consumer is satisfied with an imitation, he will be able to buy it at a cheaper rate.

Yet, the consideration relating to the encouragement of freedom of competition should be examined from the proper perspective. Clearly, the fact that misappropriation of the plaintiffs' intellectual products leads to the strengthening of competition and to the reduction of prices for consumers does not provide sufficient justification for the misappropriation. With a similar degree of persuasiveness it could be argued that a person who misappropriates the tangible asset of another can sell it at a lower price than the price at which it might be sold by the owner, who invested money in its acquisition or manufacture, with a resulting *prima facie* benefit to the public. The development of the secondary market—the replicas market—comes at the expense of the intellectual product owner. It is the original product that leads to the enrichment of the competitor who has imitated it. In addition, the owner of the original product is injured as a result of the sale of the replica, as there are customers who would have bought the original but will now be satisfied with the imitation. Freedom to compete is not equivalent to freedom to misappropriate.⁶² Freedom of competition does not justify *unfair* competition. It would be inconceivable to argue that freedom of competition per se justifies the misappropriation of intellectual property. This freedom certainly retreats, for example, under every legal system's straightforward policies when confronted by an interest protected as one of the institutionalized intellectual properties. It is possible, therefore, that this freedom will also retreat when it competes with other types of intellectual property interests that are not regulated or protected by institutionalized legislation, but are nonetheless justified on the merits.

A further consideration to be weighed in this context is the public interest in legal certainty in view of the inevitable vagueness that accompanies the shaping of an inclusive judicial prohibition on misappropriation. Another aspect of this issue relates to the mutual respect between authorities. Does the

62. In the words of Lord Devlin, when he responded to the argument that granting copyright to an author of a commercial object restricts freedom of occupation, "[t]he law does not impinge on freedom of trade; it protects property. It is no more an interference with trade than is the law against larceny." *Ladbroke (Football) Ltd. v. Hill (Football) Ltd.*, 1 Eng. Rep. 465, 479 (H.L. 1964).

creation of a judicial "avenue of protection" improperly circumvent the balances prescribed by the institutionalized intellectual property legislation? These questions will be examined below.

B. Unjust Enrichment Under Israeli Law: "The Preying Eagle's Wings"

The past decade witnessed an impressive upsurge in the development of the concept of unjust enrichment in Israeli law. Apparently, the "legal community" has discovered the great potential offered by this area of the law, and litigants routinely assert a cause of action based on contentions of unjust enrichment. In a sense, unjust enrichment has turned into a claim asserting an "equitable" right. It is possible to ascribe this phenomenon to general developments in Israeli law.

On the interpretational level, the key expression in Section 1 of the Unjust Enrichment Law, is "without legal cause." A benefit gained from another is not regarded as unjust enrichment unless it falls within this category. Clearly, when a given law *prohibits* a benefit, the benefit is maintained "without legal cause," on the other hand, it is plain that when a given law *allows* the benefit, the rules of unjust enrichment will not invalidate what has been granted by another law and therefore the benefit is permitted. The more difficult question is what solution would be given in a situation where no specific law takes a stance regarding the propriety of the benefit, either by way of a positive or negative assertion. Logically, a number of answers are possible:

1. If the law does not prohibit the benefit, the benefit is not "without lawful cause."
2. If the law does not prohibit the benefit, the benefit is nonetheless "without lawful cause," as a benefit accruing to one person from another is unjust, unless it has been *affirmatively* sanctioned by the law.
3. The answer should be flexible and circumstantial.

Israeli case law⁶³ and literature⁶⁴ have opted for the third answer. Thus, the cause of action under the rules of unjust enrichment in Israeli law has become primarily nourished by principles of justice.⁶⁵

Yet, it seems that in the past, the use of this cause of action in Israeli case law was confined to situations in which no cause of action inhered from another source, so that without applying the laws of unjust enrichment, the

63. A.L.A. 371/89, *Leibowitz v. A.Y. Eliahu Ltd.*, 44(2) P.D. 309; C.F. (T.A.) 63/96, *Motion 930/96, Pakcenter Ltd. v. Telkar Co. Ltd.* (unpublished).

64. See D. FRIEDMAN, *UNJUST ENRICHMENT LAW* 81-86 (2d ed., vol. 2 1998).

65. See, e.g., A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 355-56 (J. Cheshin).

aggrieved party would have been left without any protection at all. An excellent illustration of this may be found in the *Palimport* case,⁶⁶ in which one competitor obtained an advantage over another by applying for, and receiving, an interlocutory injunction against the commercial activities of the other. This order was later rescinded, following the dismissal of the plaintiff's claim. Thus, the plaintiff won an unjustified benefit (the market that became available to him as a result of the temporary cessation of the competitor's activities) in consequence of the injunction. The defendant submitted a claim demanding restitution of the plaintiff's gains as result of the interlocutory injunction. The Israeli Supreme Court upheld his claim. In such a situation it was not possible to identify any other cause of action that might reasonably protect the interests of the defendant.

The *SodaGal* case is another example in which rules of unjust enrichment were applied in the absence of another cause of action in order to prevent unfair competition.⁶⁷ In *SodaGal*, the majority judges acknowledged that suppliers of gas for carbonated drinks possessed a cause of action against a competing business that bought the plaintiffs' used gas containers from customers, thereby creating an artificial shortage for the plaintiff. In addition, lower courts have applied the laws of unjust enrichment to provide a cause of action for the misappropriation of unregistered designs or trade names, where no other cause of action could be asserted for this purpose.⁶⁸

Another important development in modern Israeli law, also moving in the direction of expanding the cause of action of unjust enrichment, may be found in the *Adress* case,⁶⁹ in which the court recognized that an injured party to a contract is entitled to restitution of the profits accruing to the breaching party from the infringement. *Adress* is characterized by the fact that rather than applying the laws of unjust enrichment as a "last resort" to provide a cause of action where no other cause exists, these laws are used to strengthen *remedies* proceeding from an existing cause of action. The party injured by the breach of contract does not lack a cause or a remedy, as these are afforded to him by the law of contract. Although, *prima facie*, the law of unjust enrichment is being applied more "aggressively" where the aim is to strengthen a *remedy*, than in situations where this law is employed to provide a *new cause of action*,

66. C.A. 270/73, *Palimport Ltd. v. Ziva-Geigi Ltd.*, 29(1) P.D. 597.

67. C.A. 347/90, *SodaGal Ltd. v. Spilman*, 47(4) P.D. 459.

68. In relation to the protection of unregistered trade names, see C.F. (T.A.) 1769/83, *The Boeing Co. (Delaware Corp.) v. Boeing Travel and Tourism Ltd.*, 1989(3) P.M. 108; C.F. (T.A.) 147/94, *Motion 976/94, Cartier v. Snowcrest*, 26(4) P.M. 942; C.F. (T.A.) 2070/90, *Chanel v. "Silhouette"*, 32(1) P.M. 297. In relation to the protection of unregistered designs, see C.F. (T.A.) 1339/95, *I.S. Decorative Wood Weaving v. Arig-Plast Ltd.*, 26(3) P.M. 249; C.F. (T.A.) 186/95, *Motion 1526/95, Akerstein Ltd., v. Selah, Concrete Prods. Co.*, 32(4) P.M. 469; C.F. (T.A.) 1572/93, *Motion 12716/93, Anima Fashion Ltd. v. Blan*, 26(4) P.M. 913.

69. F.H. 20/82, *Adress Building Materials Ltd. v. Harlow and Jones GmbH*, 42(1) P.D. 221.

one may argue to the contrary. In circumstances where no other cause of action exists, "there is no choice" but to confer a cause of action under the rules of unjust enrichment if the legal system finds it necessary to protect a just interest. In contrast, strengthening the remedial aspect is somewhat less essential. The willingness of the law to provide an advanced remedy through the laws of unjust enrichment is a more far-reaching step that relies on the premise that the laws of unjust enrichment are not residual in nature, but part of a "proper" and "regular" body of law.⁷⁰

It should be noted that the expansive development of the cause of action of unjust enrichment in Israeli law is also consistent with other general trends. In recent decades, Israeli law has been distancing itself from formalistic concepts and has aspired to define legal norms on the basis of value-laden factors, primarily justice and fairness. Leading this approach, both in case law and in academic writings, is the President of the Supreme Court of Israel, Aharon Barak. The Israeli Supreme Court has made fairly aggressive use of nebulous principles, such as the duty of good faith when performing obligations and realizing rights,⁷¹ the principle of purposive interpretation applying to the interpretation of legal norms of every type,⁷² the wide-spread dissemination of the tort of negligence,⁷³ the principle invalidating contracts that contravene public policy,⁷⁴ and, since the enactment in Israel of two basic laws in 1992 providing constitutional protection to basic human rights,⁷⁵ the presumption that legislation does not intend to violate the rights protected by these basic laws.⁷⁶

70. In his writings, Justice Englard has expressed his dismay at the excessive application of unjust enrichment laws in the Israeli legal system and their infiltration into every interpretive ambiguity, describing these laws poetically as "the preying eagle's wings." I. Englard, *The Preying Eagle's Wings: On The Law of Unjust Enrichment*, in *ESSAYS IN MEMORY OF PROF. GUIDO TADESKY* 37 (1996).

71. Section 39 of the Contracts (General Part) Law, 5733-1973 S.H. 694 applies to all the obligations in civil law by virtue of Section 61 of the same law. For the application of this principle and its limits, see M. Deutch, *Good Faith in the Use of Rights—Red Lines in the Application of the Principle?*, 18 *IUNEI MISHPAT* 161 (1994).

72. This principle is elaborated and developed in a comprehensive work comprising six volumes, written by Justice Barak, entitled *Interpretation in Law* (1994).

73. See *supra* notes 43-44 and accompanying text.

74. The Contracts (General Part) Law, 5733-1973, S.H. 694.

75. Basic Law: Human Dignity and Liberty, S.H. 1391 (1992); Basic Law: Freedom of Occupation, S.H. 1387 (1992).

76. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289. Israeli legal literature and case law in this area are extensive. The broad conceptual framework was laid out in one of the works of President Barak. See generally, AHARON BARAK, *INTERPRETATION IN LAW: CONSTITUTIONAL INTERPRETATION* (1994).

C. *Application of Unjust Enrichment Law as a “Conduit” for the Prohibition of Unfair Competition*

In *ASHIR*, five of the seven judges favored a broad application of unjust enrichment law as a device for the establishment of a prohibition on the misappropriation of an intellectual product of another. They sought to do this by exploiting the impressive “normative energy” accumulated by these rules in Israeli law. The prohibition applies when an “extra element” justifies its application under the given circumstances.⁷⁷ The sixth judge, Justice Cheshin, also concurred that the existence of an “extra element” might lead to the imposition of liability. Although, in his view, this element had to amount at least to a “quasi-tort,” i.e., an improper act that was “almost” a tort. The seventh judge, Justice Englard, rejected the application of the rules of unjust enrichment unless the misappropriation is prohibited by a law *exterior* to the law of unjust enrichment. This approach is consistent with the criticism he voiced regarding what he saw as the excessive impact of the rules of unjust enrichment, as developed in Israeli case law.⁷⁸

D. *The Ramifications of the ASHIR Ruling on a General Unfair Competition Tort*

The ruling in *ASHIR* has clear ramifications for the issue discussed previously concerning the development in Israel of a general tort of unfair competition by means of the tort of negligence. The basic consideration relating to the two causes of action (the cause of unjust enrichment and the cause of negligence) are similar. The conceptual frameworks are identical; the two causes are based upon fluid legal norms, which are given concrete meaning by the judiciary in a flexible case-by-case manner on the basis of a balance between interests, weighing social, economic and normative factors. Both causes of action enable the court to reach a “just” solution by means of this process of balances, without any substantial preconditions. It is not surprising that in the spirit of the general trend of Israeli law to strengthen the legal devices that empower the court to develop the law, the tort of negligence has been awarded pride of place.⁷⁹

The “energies” enveloping the tort of negligence resemble, therefore, those enveloping the cause of action afforded in unjust enrichment law. Both causes

77. It should be pointed out, for the sake of accuracy, that one of these five judges, Justice Zamir, preferred a slightly different formulation of the element imposing liability, and expressed reservations regarding the need for an “extra element.” He stated that in situations of “particularly severity,” the existence of an imitation is sufficient *per se* to impose liability. Logically, however, the “particular severity” necessarily assumes a situation that entails an “extra element,” namely, the element of particular severity.

78. See Englard, *supra* note 70.

79. See *supra* notes 43-44 and accompanying text.

of action enable the Israeli court to issue an injunction preventing the prohibited activity.⁸⁰ On the remedial level, the principal difference between the two causes of action is that the tort of negligence confers a right to damages, whereas the law of unjust enrichment results in restitution of the profits of the defendant. Yet, this distinction does not justify a different policy for each cause of action in relation to the imposition of the prohibition on unfair competition. From the point of view of the infringing party, the remedy of damages will not necessarily be more severe than the remedy of restitution. On occasion, one remedy will impose a greater burden on the infringing party, while on other occasions, the other remedy will be more onerous. From the point of view of the potential damage to competitiveness, liability to restore profits will not deter competition more than liability to pay damages. It should also be noted that, in any event, the aggrieved party will only obtain the higher of the two figures.⁸¹ From a normative perspective, the basic policies underlying the tort of negligence and unjust enrichment law are similar.

In *ASHIR*, President Barak pointed out that the basis for imposing a prohibition on unjust enrichment in relation to the misappropriation of intellectual products is the prevention of unfair competition. Even though he mentioned that he did not have to decide whether the tort of negligence may be interpreted as establishing a general tort of unfair competition, his approach to this possibility was manifestly favorable.⁸² In contrast, Justice Engard explicitly rejected this possibility.⁸³ The remaining judges did not comment on this issue. In this author's opinion, the ruling in *ASHIR* will inevitably lead to the "institutionalization" of a general tort prohibiting unfair competition in Israeli law, alongside the prohibition established by the law of unjust enrichment.

E. Unjust Enrichment, Negligence and Legal Certainty

The application of the law of unjust enrichment and the tort of negligence entail a severe element of uncertainty. This element was emphasized in *ASHIR* by Justice Cheshin, who was in the minority in relation to a meaningful application of the law of unjust enrichment to cases of misappropriation. In his view, legal certainty could only be ensured by adhering closely to statutory provisions and refraining from extensive judicial developments that might lead

80. See A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 (authorizing the court to issue an injunction preventing the action likely to lead to unjust enrichment).

81. For American case law on this point, see *Clark v. Bunker*, 453 F.2d 1006 (9th Cir. 1972) and *Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co.*, 407 N.E.2d 319 (Mass. 1980). See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 45 reporters note, cmt. c.; M. Hutter, *The Case for Adoption of a Uniform Trade Secrets Act in New York*, 10 ALB. L.J. SCI. & TECH. 1, 33 (1999).

82. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 475-76.

83. *Id.* at 447.

to an obfuscation of the law.⁸⁴ This approach raises the basic dilemma as to the degree to which judicial activism is desirable. This issue is the subject of persisting controversy in Israel.⁸⁵

The *ASHIR* judgment provides an excellent case study. *ASHIR* clearly illustrates the problems involved, as well as the proper balance, both on the theoretical level and on the practical level, between the interest of legal certainty and the interest of justice. Legal certainty is primarily intended to protect economic efficiency. It is an essential condition for the appropriate legal planning of transactions and modes of conduct. The relative weight of this value varies in accordance with the branch of law being considered. Thus, for example, there is a substantial need to protect the planning interest in the areas of property law and taxation,⁸⁶ but a more limited need in the area of administrative law, which in any event is suffused with broad judicial discretion. In relation to unfair competition, obscuring legal certainty carries a significant price, both from the vantage point of the competing individual, who to a large extent relies on assessments of the legitimacy of his conduct when planning his business activities, and from the vantage point of the public interest in fostering competitiveness. Yet, this view does not negate the justification for conferring proper protection on intellectual products that have not been registered as intellectual property, but only restricts their protection.

The Israeli system accords primacy to considerations of justice over considerations of efficiency, in a variety of areas, as mentioned previously.⁸⁷ The “restitutionary impulse”⁸⁸ rests on a profound sense of justice, and this sense of justice should not be satisfied solely in exceptional cases. Indeed, in the same way the restitutionary impulse does not justify the imposition of a prohibition on *every* imitation, the “competitive impulse” does not justify negating the protection of the owner of a product in *every* case. Like other cases of unfair competition detailed previously,⁸⁹ a balancing process based on the circumstances of the particular case is essential. As will be explained below,⁹⁰ the ruling in *ASHIR* provides clear indications of the criteria to be considered when drawing this balance that will substantially lessen the degree of uncertainty of the final outcome.

It may be added in this context that the institutionalized intellectual property legislation is also teeming with uncertain elements. It would be far from accurate to describe the intellectual property laws as an “island of certainty.” Thus, for example, the basic distinction found at the core of the

84. *ASHIR*, 52(4) P.D. at 367.

85. See the compilation of articles on this issue in 17(3) *IUNEI MISHPAT* (1993).

86. A. BARAK, *JUDICIAL DISCRETION* 70-71 (1987).

87. See *supra* note 51.

88. See Gordon, *supra* note 59.

89. See *supra* Part II.

90. See *infra* Part VI.

copyright law, between protected and unprotected objects, i.e., between an idea and an expression of an idea, is a distinction that is not based on any analytical process. Instead, it is nurtured entirely by flexible legal policies that draw a balance between the need to reward the author and public needs. From a logical point of view, every idea is an expression of another idea that is located on a more abstract plane. At which point the degree of abstractness crosses the boundary line between the "general" and the "concrete" is necessarily a question of evaluation that relies on particularly flexible aspects of legal policy.⁹¹ In other areas of intellectual property too, the situation is not much better with regard to legal certainty. Concepts such as "novelty" and "non-obviousness" in patent law,⁹² "distinctive mark" in trademark law,⁹³ and the like, are inevitably vague. This is also true in relation to the concept of infringement of intellectual property rights. Infringement of an intellectual property right generally requires, inter alia, the existence of "substantial similarity" between the protected object and the object used by the defendant. Substantial similarity does not require complete replication; it is satisfied with an appropriation of the essence of the intellectual property. The concept of "substantial similarity" is swathed by a "mountain of case law;" the tests employed by the courts being of a largely intuitive character.⁹⁴ An additional example in this context is the nebulous defense of fair use.⁹⁵

It is possible to draw two contrary conclusions from the previous remarks. One possible conclusion is that in view of the serious risks that this uncertainty poses to a person competing with the owner of an intellectual product, the law should aspire to reduce such risks in so far as possible. However, the opposite

91. See, e.g., Dan L. Burk, *Muddy Rules for Cyberspace*, 21 CARDOZO L. REV. 121, 140-141 (1999). See also GARNETT ET AL., *supra* note 39, at 429-431; 1 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 2.3 (1989) [hereinafter GOLDSTEIN, COPYRIGHT]; 1 H. LADDIE ET AL., THE MODERN LAW OF COPYRIGHT AND DESIGNS 223-227 (2d ed. 1995).

92. This matter is regulated in Israel by Sections 3 and 5 of the Patents Law, 5727-1967, S.H. 510. For the American law on this issue, see 35 U.S.C §§ 101-103 (2000) and 2 LIPSCOMB'S WALKER ON PATENTS 84-85 (3d ed. by Ernest Bainbridge Lipscomb III 1985).

93. For the Israeli law, see Section 8 of the Trade Marks Ordinance [New Version], D.M.I. 26 (1972). For the American law on this matter, see *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 529 U.S. 205 (2000) and *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

94. See, e.g., *Comprehensive Techs. Int'l v. Software Artisans Inc.*, 3 F.3d 730 (1993); *Kregos v. The Associated Press*, 3 F.3d 656 (1993); 2 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 7.2.1.2 (1989); Linda Benjamin, *Tuning up the Copyright Act: Substantial Similarity and Sound Recording Protections*, 73 MINN. L. REV. 1175 (1989); Jeffrey D. Coulter, *Computers, Copyright and Substantial Similarity: The Test Reconsidered*, 14 J. MARSHALL J. COMPUTER & INFO. L. 47 (1995).

95. 17 U.S.C. § 107 (2000). See, e.g., GOLDSTEIN, COPYRIGHT, *supra* note 91, at §10.1-.3; WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW (1985). In Israeli law, this defense is confined to certain purposes including private study, research, critique, review, or journalistic summary. See Copyright Act, § 2(1)(I).

conclusion carries at least the same persuasive weight. As noted, legal certainty is not the sole consideration that shapes the law; it is merely one factor that must be balanced against competing values. The desire to promote fairness is a fundamental legal aspiration. If the party competing with the owner of an intellectual product is now operating in a legal atmosphere pervaded by risks, even when the situation is regulated by the institutionalized intellectual property law, an approach that does *not* restrict the application of the law of unjust enrichment solely to exceptional cases will not substantively modify this atmosphere.

Preservation of the existing situation—which too is uncertain—does not justify harm to the principle of fairness. As a rule, the fact that a given situation (i.e., the prevailing uncertainty) is undesirable, does not justify deepening that undesirable situation. However, if one seeks to impair an opposing, powerful value (the principle of fairness) in order to preserve stability, it is legitimate to weigh whether stability exists at all. Indeed, substantial disadvantages are involved in the conferral of protection on intellectual products by way of flexible judicial law making. The court cannot set an arbitrary period of validity for a right, it cannot develop new administrative institutions or new public registers that will ensure a sharper balance between interests, and it cannot create an entire institution through judicial rulings in the same way as the legislature may proceed by way of statute. However, the appropriate answer to this problem is not to sanction improper behavior, but rather to adopt a responsible and cautious approach to the development of the requisite protection.

Ultimately, the previously mentioned factors that justify the establishment of a general prohibition against unfair competition⁹⁶ also justify the recognition that substantial application of the laws of unjust enrichment and the tort of negligence are necessary to prevent the misappropriation of intellectual products. As the majority in *ASHIR* concluded, such application should not be confined solely to exceptional cases.

IV. “THE ‘DUAL PATH’ DOCTRINE” ISSUING FROM THE *ASHIR* CASE

The doctrine developed by the Supreme Court in *ASHIR* concerning the protection of intellectual products may be termed the “dual path doctrine.” One path is that provided by the institutionalized intellectual property law, which applies when intellectual property is registered, or when the relevant factual elements exist that give rise to it (as in the case of copyright).⁹⁷ The second path is the “bypass” path, created by virtue of the law of unjust

96. See *infra* Part II.

97. In American law, depositing the work is not essential to the establishment of copyright. The failure to deposit may reduce the statutory damages, when the infringer did not know and could not have known that he was infringing others' rights. See 17 U.S.C. § 504(c)(2) (2000).

enrichment (and in the view of this author, also by virtue of the tort of negligence). This is the path that may be followed when no protection is afforded by the institutionalized path, and that perhaps also supplements the institutionalized route even when, in principle, the latter does afford protection.⁹⁸ The judges in *ASHIR* were unanimous in denying that any *across-the-board* negative arrangement exists in the intellectual property legislation, which wholly negates the evolvment of a bypass path based upon the law of unjust enrichment. Yet, the judges were divided regarding the scope of the negative arrangement that *does* exist in the intellectual property legislation, as it inevitably does in much other legislation. In the view of two of the judges in *ASHIR*,⁹⁹ this scope is broad and generally precludes the possibility of developing protective measures for an owner of an intellectual product within the framework of the bypass path. In contrast, the five other judges were willing to grant fairly liberal "maneuvering room" for the development of this route, alongside the institutionalized path.

The *ASHIR* ruling therefore creates two levels of protection for intellectual products—with each route possessing its own characteristics. The institutionalized route confers upon the owner powerful protection that on occasion is monopolistic in character (such as a patent),¹⁰⁰ or at least in rem (copyright)¹⁰¹ or quasi in rem (trade secret).¹⁰² In the Israeli legal system, it also occasionally enables harsher remedies to be obtained, such as punitive damages,¹⁰³ as well as important procedural advantages, such as invasive Anton Piller orders.¹⁰⁴ The bypass route, drawing from the law of unjust enrichment or from the tort of negligence, is a more "refined" and moderate course, which relies on flexible balances drawn on a case-by-case basis, and that is guided by certain standards that shall be elaborated upon below. The developer will be protected only when an "extra element" exists, besides the very imitation itself. This route does not afford the plaintiff stable, comprehensive and certain protection. Selecting this option, from the point of

98. This, obviously, is subject to the possibility that a negative arrangement is to be implied under the circumstances, from the institutionalized path. For a discussion of this issue, see DEUTCH, *supra* note 28, at 269-271.

99. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 (Cheshin & Englard JJ.).

100. The significance is that a person is prohibited from using the invention, even if he arrived at it independently. For the monopolistic character of a patent, see PETER D. ROSENBERG, *PATENT LAW FUNDAMENTALS* § 1.03 (2d. ed. 1986). See also Steven J. Davidson, *Reverse Engineering and the Development of Compatible and Competitive Products under U.S. Law*, 5 *COMPUTER. SCI. HIGH TECH. L.J.* 329, 409 (1989).

101. The in rem nature of copyright is expressly established by statute in England. See Copyright, Designs and Patents Act, 1988, § 1(1) (Eng.).

102. See DEUTCH, *supra* note 28.

103. See *Commercial Torts Law*, 5759-1999 S.H. 1709 § 13; Copyright Ordinance, 1924, § 3a. P.L. vol. 1, 389 [em.] (Isr.).

104. See *supra* notes 38-39.

view of the plaintiff, carries a “price” that is far from trivial. The motivation to institutionalize intellectual property, thereby conferring a new advantage upon society as a whole via the contract between the developer and the public,¹⁰⁵ thus continues to prevail, notwithstanding the possibility of gaining protection by means of unjust enrichment law. Frequently, the developer will prefer the route that is more certain and powerful from his point of view—the institutionalized channel—in return for paying a premium to society. Thus, the bypass path does not undermine the vividness and relevance of the institutionalized path.¹⁰⁶

V. THE ATTITUDE OF AMERICAN LAW TOWARDS THE DUAL PATH DOCTRINE

ASHIR dealt with a well-known issue in American jurisprudence. American case law has deliberated long and hard about the justification for circumventing intellectual property legislation by means of the flexible mechanism of the tort of unfair competition. In 1918, the Supreme Court established the legal theory known as the “misappropriation doctrine” in the controversial case of *International News Service v. Associated Press*,¹⁰⁷ which dealt with the protection of the right of a press agency to be the first to publish information it gathered throughout the United States. Over the course of time, this doctrine underwent a variety of revisions. The unmistakable legal trend in American law, in the aftermath of the judgment in *International News Service*, has been to erode the legal policy that led to that judgment. At first, case law has held that it is necessary to show that the misappropriation was “regular, systematic and deliberate.”¹⁰⁸ Later case law¹⁰⁹ sharply limited the application

105. Intellectual property rights are customarily justified by the existence of a conceptual contract between the developer and the public. Thus, in the case of the registration of a patent, the inventor obtains monopolistic protection for a certain period of time, while in return he discloses the details of the invention, so that at the expiration of the protection period, the invention will become part of the public domain. *See, e.g.*, 1 ROSENBERG, *supra* note 7, at § 1.02.

106. According to the abovementioned, this article will use the terminology bypass path or bypass route to describe the cause of action based upon the law of unjust enrichment or the tort of negligence, protecting intellectual products against misappropriation. The institutionalized path describes the cause of action according to the traditional legislation of intellectual property.

107. 248 U.S. 215 (1918).

108. *Metro Associated Servs. Inc. v. Webster City Graphic, Inc.*, 117 F. Supp. 224, 236 (1953).

109. *See Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Robert Stigwood Group Ltd. v. Sperber*, 457 F.2d 50, 56 (1972); *CBS Inc. v. DeCosta*, 377 F.2d 315, 318 (1967); *Sammons & Sons v. Ladd-Fab, Inc.*, 187 Cal. Rptr. 874 (1982).

of the misappropriation doctrine in such a way as to lead some to conclude that the doctrine had been abandoned altogether.¹¹⁰

In 1997, case law¹¹¹ clarified the issue by holding that protection of published information is limited to "hot news" items, and depends on the existence of a number of factors: the plaintiff's investment in gathering or creating the information, highly sensitive information in terms of the time of its publication, defendant seeking to take a "ride" on the back of the plaintiff's investments, the defendant's use of the information in direct competition with the plaintiff, and the idea that authorizing the activities of the defendant would undermine the incentive of the plaintiff to invest resources to a degree that would endanger the creation of that product by the plaintiff, or the quality of the product.¹¹² The court in *National Basketball Association v. NBA Properties, Inc.* noted that, "INS [*International News Service*] is not about ethics; it is about the protection of property rights in time-sensitive information so that the information will be made available to the public by profit seeking entrepreneurs."¹¹³

A perusal of the Restatement reveals the problems underlying the development of American law on this issue. Section 38 of the Restatement (Third) of Unfair Competition describes the prevailing American law to the effect that the appropriation of intangible trade values is prohibited *only* in the following three cases:

1. When a competitor misappropriates the plaintiff's trade secret.
2. When a competitor infringes the "right of publicity," i.e., he misappropriates the economic benefit emanating from the identity of another person, by making use of that identity for business purposes, without the other person's consent. This protection is confined to aggrieved parties who are physical persons, as opposed to artificial entities.¹¹⁴ It deals, primarily, with the protection of famous personalities against the misuse of their names for the purpose of making a profit.

110. See Edmund J. Sease, *Misappropriation is Seventy-Five Years Old: Should We Bury It or Revive It?*, 70 N.D. L. REV. 781, 805-06 (1994).

111. See *Nat'l Basketball Assoc. & NBA Props., Inc. v. Motorola Inc.*, 105 F.3d 841 (1997).

112. For the approach regarding the protection of "hot news" as a special law, see Rex J. Fujichaku, *The Misappropriation Doctrine in Cyberspace: Protecting the Commercial Value of 'Hot News' Information*, 20 U. HAW. L. REV. 421 (1998). For the issue of "hot news," see Jason R. Boyarski, *The Heist of Feist: Protection for Collections of Information and the Possible Federalization of 'Hot News'*, 21 CARDOZO L. REV. 871 (1999).

113. *National Basketball Assoc.*, 105 F.3d at 853.

114. For this right, see Dale P. Olson, *Common Law Misappropriation in the Digital Era*, 64 MO. L. REV. 837, 858-861 (1999).

3. When the cause of action arises under federal or state legislation, under an international convention, or where the act comprises a breach of contract or a breach of the common law copyright. The common law copyright confers protection on the right to be the first to publish a protected work.¹¹⁵

These categories do not relate to the cases concerning the misappropriation doctrine. Yet, the general prohibition on unfair competition, as formulated in Section 1 of the Restatement (Third) of Unfair Competition,¹¹⁶ may provide a sufficient ground for the misappropriation doctrine, if it is justified on the merits.

With regard to the relationship between the institutionalized protection of intellectual products and the general principle prohibiting unfair competition, the Commissioner of the Restatement (Third) of Unfair Competition has stated—in relation to situations in which the institutionalized path has rejected the grant of protection in a given situation—that, “if the restriction expresses an *important* policy of the law against the imposition of liability in such circumstances, the conduct should not be actionable as unfair competition.”¹¹⁷

Attempts in American law to implement the misappropriation doctrine in situations such as those recently discussed in Israel in *ASHIR* concerning intellectual products, have generally not succeeded. Thus, for example, the attempt to protect the design of products against imitation by means of this doctrine have generally failed,¹¹⁸ as have attempts involving the imitation of commercial names,¹¹⁹ although the doctrine *has* been implemented from time to time in connection with certain objects.¹²⁰ Today, as noted, this doctrine is usually perceived as limited primarily, albeit not conclusively, to the special situation considered in *International News Service*, namely, the attempt to protect exclusivity in the immediate publication of “hot news.”¹²¹

One may also find in the legal literature views advocating the more substantial implementation of this doctrine. Thus, American legal literature has proposed developing the misappropriation doctrine in a direction that will

115. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 38 (1995).

116. See *supra* Part II-A.

117. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 cmt. g (1995) (emphasis added). The possible existence of a negative arrangement in the institutionalized path concerning the grant of protection under the bypass route was also a central aspect in *ASHIR*, as detailed *supra* in Part IV.

118. See W. Edward Sell, *The Doctrine of Misappropriation in Unfair Competition*, 11 VAND. L. REV. 483, 496-499 (1958).

119. See *Speedry Prods., Inc. v. Dri-Mark Prods., Inc.*, 271 F.2d 646 (1959).

120. *Affiliated Enter. Inc. v. Gruber*, 86 F.2d 958 (1936).

121. *Nat'l Basketball Assoc. & NBA Properties, Inc. v. Motorola Inc.*, 105 F.3d 841 (1997).

distinguish between imitation of the intellectual product itself and misappropriation of associated rights.¹²² According to this view, it would be proper to allow the free imitation of an intellectual product, when the institutionalized intellectual property laws afford no protection. However, possibly the misappropriation of associated rights would not be considered fair. For example, in *International News Service*, the appropriation of the news items per se was not regarded as an unfair act, but misappropriation of the right to be the *first* to publish the material had to be prohibited.¹²³ The right of first exploitation of the intellectual product is an essential interest of the owner that cannot be freely removed from him. Sease regards this approach as one which, in view of its flexibility, draws a proper balance between the respective interests of the parties.¹²⁴ To a large extent, this view fits the fundamental concept underlying the *ASHIR* ruling—appropriation of the intellectual product is not sufficient per se to impose liability according to this ruling. This would contravene the policy pursued by the institutionalized path that shapes the boundaries of the protection afforded to a particular intellectual product. However, the existence of an extra element may lead to the imposition of liability according to the bypass path. Such an extra element might take the form of the misappropriation of associated rights. Thus, the need to protect the resources invested by the owner of the intellectual product, i.e., protection of his exclusivity during the initial period following the development of the product, is one of the factors weighed within the context of the extra element under *ASHIR*.

In a comprehensive theoretical analysis,¹²⁵ Professor Gordon has argued that a substantial percentage of those appropriating the intellectual products of others should not necessarily be regarded as parasites. Frequently, in consequence of the appropriation, they develop their own innovative products that benefit the public, and are not merely content to copy the product of the plaintiff. In addition, affording protection by means of the misappropriation doctrine ignores the balances featured in intellectual property laws that include restrictions on the period of protection. Professor Gordon has warned against an unlimited surrender to the "restitutionary impulse,"¹²⁶ i.e., to giving excessive weight to the perception that "he who sews shall reap" and expresses her fear that too little weight will be given to opposing economic and social

122. Sease, *supra* note 110.

123. *Int'l. News Serv.*, 248 U.S. 215, 253 n.4 (1918).

124. *Id.* at 807.

125. Gordon, *supra* note 59.

126. As stated above, it is interesting to note that Justice Cheshin, who objected in *ASHIR* to substantial application of the bypass path, also used an expression borrowed from the world of first reactions when he described the natural desire to protect the owner of an intellectual product as a "psychological difficulty." Both expressions therefore warn the judicial policy makers to be vigilant not to make instinctive, irrational decisions, based on the "pure" sense of justice.

interests. At the same time, Professor Gordon does not propose abolishing the misappropriation doctrine, but rather advocates moderating it by means of an array of detailed restrictions and balances.¹²⁷ She suggests that the following elements be required for the imposition of liability in respect of the use of an institutionalized intellectual product of another:

1. The existence of an “eligible intangible,” i.e., an intellectual product that was created for profit, the owner having indicated his ownership of the product in one of a variety of ways;
2. The said product has been knowingly copied;
3. The copy has been made in circumstances which, in the absence of legal protection, would lead to an asymmetric market failure, i.e., the defendant would be capable of making copies whereas the plaintiff would not possess reasonable physical methods of preventing the defendant from making those copies;
4. The copy deprives the plaintiff of a market segment; and
5. A non-reciprocal situation exists, i.e., a situation in which the plaintiff will not enjoy equivalent freedom of action over the long term. In this context, the concept of reciprocity is directed to the case of copying in small quantities. The plaintiff has an interest in ensuring that the law will not preclude copies of this type, as he too may wish to engage in the same activity in other cases.¹²⁸

Even though the Israeli Supreme Court in *ASHIR* did not examine the legal literature dealing with American law, there is a certain resemblance between the criteria described in that literature and the fundamental balancing formula established in *ASHIR*.

VI. THE “EXTRA ELEMENT” ACCORDING TO THE ISRAELI MISAPPROPRIATION DOCTRINE

In *ASHIR*, the Israeli Supreme Court set out an organized list of factors that must be balanced in order to determine the legitimacy of an imitation under the bypass path of the Israeli misappropriation doctrine. These criteria offer important guidelines as to the manner in which disputes should be

127. She even suggests changing the name of the tort to one that possesses a connotation less negative than misappropriation, namely, “malcompetitive copying.” See Gordon, *supra* note 59, at 222.

128. See Gordon, *supra* note 59, at 222-24.

resolved in this connection, thereby substantially reducing the harm to legal certainty and to competition ensuing from the amorphous misappropriation doctrine.

A. *Considerations Concerning the Nature of the Protected Interest*

Among the factors found in this paradigm, the Supreme Court in *ASHIR* enumerated the following additional factors:

- a. The extent of the investment of labor and resources devoted by the owner of the intellectual product to developing that product;
- b. The degree of innovation of the particular intellectual product and its contribution to society, and
- c. The degree to which the product may actually be implemented.

The intensity of the protected interest is derived from both private and public considerations. The extent of the investment devoted by the owner of the product to developing the product is the factor that founds this private interest and justifies its protection within the framework of the labor theory. The degree of innovation of the product is a factor possessing importance in relation to the private interest because it has an impact on the value of the product, but its primary importance lies in the public interest. As an innovative product makes a contribution to society and the economy, the legal system must provide an incentive for such developments by conferring appropriate protection upon the developer of the product.

Thus, Justice Strasberg-Cohen stated in *ASHIR*, "the copied idea must be certain, definable, innovative, unique and capable of being implemented, and it must be an idea the owner of which used or intends to use."¹²⁹ The question of the use of a product affects both the private and public interest. If the owner of the product uses or intends to use the product, the harm to his economic interest will be significant, and this may justify granting protection by means of the bypass route, from the point of view of his private interest. However, the existence of use or an intention to use the product in the future also indicates that the product has practical applications, evidencing that it offers a contribution to society. The public interest will therefore aspire to encourage the owner of the product to engage in developments in these circumstances.

Justice Barak stated in *ASHIR*, "the more important the work, the more innovative, the more unique and the more significant its contribution, the greater will be the tendency to regard an imitation or a copy of it as unfair

129. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 432.

competition.”¹³⁰ In addition, Barak noted, “copying or imitating a work in which a great deal of labor or research were invested is not the same as copying or imitating a simple work, in which no great effort was invested in its development.”¹³¹

It seems (and the manner of implementing the criteria set out in *ASHIR* to the concrete products discussed in that case testifies to this)¹³² the question of the uniqueness and novelty of the product is a central element in drawing the balance. As noted, conferring protection within the framework of the bypass path entails a significant price from the perspective of the public interest, in view of the harm to competitiveness. It would be right to balance this damage not only by countering it with considerations concerning private interests, but also with considerations taken from the public arena. The uniqueness and novelty of a product create an important public interest in protecting its development.

B. Considerations Concerning the Process of Imitation and the Conduct of the Imitator

Within the framework of this paradigm, the *ASHIR* ruling includes the following factors:

- a. The degree to which the imitator’s conduct entails a wrongful mental component.¹³³
- b. The degree to which the process of imitation is *systematic*, i.e., whether the imitation is one-time or methodical.¹³⁴
- c. The *scope* of the imitation, i.e., whether the copy of the product is full or only partial.¹³⁵
- d. Date of the imitation.¹³⁶

130. *Id.* at 479.

131. *Id.*

132. *See infra* Part VIII.

133. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 at 434, 495, 502. The more malicious the activity in terms of injuring the plaintiff the more likely the imposition of liability. *Id.*

134. *Id.* The harm caused by systematic imitation is higher and should be blocked more forcefully.

135. *Id.* The more the copy entails a “slavish imitation,” the greater the need to prohibit it. This element is also of importance in terms of the public interest. A partial copy, which embodies an independent contribution on the part of the imitator, is less wrongful, as the input of the imitator contributes to the public interest in developing novel intellectual products. *Id.* *See also* Gordon, *supra* note 59.

136. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 at 434, 495, 502. The length of time during which the plaintiff’s product has been in the market is of great importance for the purpose of

- e. The degree of difficulty in the process of imitation.¹³⁷

C. *The Justification for not Registering Institutionalized Intellectual Property*

The reason why an owner of a product does not register institutionalized intellectual property when he could have done so, was regarded as significant by most of the judges in *ASHIR*. The judgment disclosed a wide consensus that non-registration because of the short-term, fashionable character of a product would not impair the protection available to the developer of the product according to the bypass path. However, the judges expressed a varying range of views in relation to the ramifications of failing to register in other circumstances. The majority of the judges expected that the product developer would explain the reasons for refraining from registration, although they differed as to the *impact* of an unconvincing explanation.¹³⁸

Although according to the majority opinion in *ASHIR*, there must be reasonable and relevant reasons for an owner of a product to refrain from following the institutionalized route, the importance of this element should not be overstated.¹³⁹ First, President Barak, who has played a dominant role in shaping judicial policy in Israel on a wide variety of issues, has refrained from adopting this criterion. Second, in this author's opinion, the owner of an intellectual product is entitled, in principle, to choose the bypass route as a tactical course of action. The conferral of protection within this context is not based solely on a perception that there is no other choice. As noted, the protection afforded by unjust enrichment law is largely based on the principle of fairness, which is impaired when an intellectual product is misappropriated. In view of the price attached to this form of protection from the point of view of the public interest, it is possible to add an incentive that should be supplied to the developer for choosing the institutionalized route to the basket of factors shaping the extra element. Yet, this is not a factor that is sufficient by itself to decide the issue one way or another.

To some extent, it is possible to prove this contention if one takes the protection of trade secrets as an example. On the assumption that a given legal system does not protect trade secrets by means of an institutionalized statutory

examining whether the period during which the plaintiff enjoyed exclusivity—prior to the imitation—provided him with a return on his investment. *Id.* This factor will be further explained below in the context of the public interest, although, obviously, it also reflects a private interest of the developer.

137. *Id.*

138. See DEUTCH, *supra* note 28, at 239-247.

139. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 at 434, 489, 501-02.

path,¹⁴⁰ there would certainly still be justification for protecting this interest by means of the bypass route of unjust enrichment or the tort of negligence, relying on a flexible system of balances. The protection of trade secrets developed in the Israeli legal system as it did in other legal systems, specifically without statutory regulation and on the basis of the same concepts and considerations as those underlying the misappropriation doctrine.¹⁴¹ Even if the owner of a trade secret is entitled to register it as a patent, he is entitled to prefer a less powerful mode of protection that does not provide him with a monopoly, if he believes that he will be able to keep the information secret for a substantial period that exceeds the term of a possible patent. It would be unjust to expose the owner of the secret to unrestricted misappropriation, although in certain circumstances, depending on the array of factors described above, such appropriation will be legitimate. This protection does not uproot patent law. It just creates an additional, balanced and necessary degree of protection for intellectual interests.

The owner of the secret in such a case is not prepared to enter into a complete contract with society. Such a contract would entail following the institutionalized route and winning a monopoly or property rights in return for making a greater contribution to society by disclosing the invention through the patent registration process. However, fairness and the other factors described previously require society to agree to a limited contract, in which the developer of the product offers less to society and receives less in return, namely, he does not attract powerful protection in the shape of a monopoly or property rights, but nonetheless obtains limited and balanced protection. It should be noted that society has an interest in encouraging the development of new products, as such development diversifies the market and promotes competition. This is so even if the information is not exposed to the public by the way of a patent registration.

D. Considerations Within the Public Interest

Considerations that touch upon the public interest naturally possess substantial weight in the balancing process. In addition to the factors described above, a central consideration referred to by Chief Justice Barak in *ASHIR* concerns the possibility of a market failure in the event that protection is not conferred to the owner of the product. The situations referred to by Chief Justice Barak include those in which the product is not in the market for a sufficient time to compensate the owner for the cost of researching and

140. This was the situation in Israel before the enactment of the Commercial Torts Law in 1999. The protection accorded to trade secrets was elaborated upon by the case law. *See id.* at ch. 4.

141. For an analysis of the purposes of protecting trade secrets, see DEUTCH, *supra* note 28, at 321-325.

developing the product.¹⁴² As noted, this is a consideration that also falls within the private interest category of the product owner. Other situations mentioned by Justice Barak include cases where a competitor sells the product at a lower price than that required by the owner of the product. The lower price is made possible because the competitor has saved development costs as well as the costs of penetrating the market.¹⁴³ Another paradigm includes cases in which the owner of the product has developed an item consisting of a number of components where the manufacturer anticipates receiving a return on his investment on one component out of the sale of the other. Copying a single component that is expected to lead to an overall profit will be deemed to be unfair.¹⁴⁴

The time needed to return the investments in developing the product is also relevant to determining the *duration* of the protection according to the bypass path. Determining the duration of the protection to be given by the court to an intellectual product is a difficult element in the process of shaping the boundaries of the misappropriation doctrine. The case law is limited by institutional restrictions. It cannot set a fixed arbitrary time period and it cannot regulate this matter in a comprehensive manner in view of the fact that the court is dependent on suitable cases coming before it for adjudication. This judicial difficulty in fixing time periods for protection was emphasized by Justice Cheshin in *ASHIR*.¹⁴⁵ The solution to this problem may be found in the establishment of a functional criterion. Thus, Chief Justice Barak proposed in *ASHIR* the following test—the protection should apply for the period of time required to reimburse the owner of the product for his investments (possibly, in addition to a reasonable profit).¹⁴⁶ This would prevent the market failure that would otherwise occur and consequently make entrepreneurs reluctant to invest in the development of new intellectual products.

This delimitation of the period of protection is highly significant in terms of legal certainty and the need to preserve competitiveness. The extra caution that will inevitably be exercised by the imitator will be limited primarily to the first few years of the life of the product in the market, and in the case of a product of only short term relevance, perhaps to its first few months in the market. It will frequently be possible to assess when the sales of a product will provide a sufficient return on the owner's investments, thereby assisting a potential product imitator to evaluate his legal position.

142. A.L.A. 5768/94, *ASHIR*, 52(4) P.D.289 at 479-80.

143. *Id.* at 480, 488.

144. *Id.* at 480.

145. *Id.* at 354.

146. This point was not sufficiently clarified in the *ASHIR* ruling. See DEUTCH, *supra* note 28, at 238-239.

Another consideration falling within the public interest mentioned in *ASHIR*, is whether or not the competitor possesses an alternative to copying the product should he seek to achieve the functional purpose of the product.¹⁴⁷ The harm to competitiveness will be more extensive if no alternative options are available. In such a case, blocking the imitation will entail a complete obstruction of any competition to the particular product under consideration.

VII. PROTECTION OF PUBLISHED INFORMATION, WITHIN THE FRAMEWORK OF THE BYPASS PATH

It may be possible to classify the objects that merit protection in intellectual property law into two categories. The first category consists of objects that may be termed *information*. This includes the right to a patent, which protects the information relating to an invention, and the right to a trade secret, which protects a wide range of information in relation to processes, business methods, client lists and the like.¹⁴⁸ The second category consists of certain *forms of expression*. Thus, copyright protects the special method of expressing an idea, a design protects a certain shape that “makes the article attractive or distinctive in appearance,”¹⁴⁹ and a trademark protects the appellation of a business or product. Even though a trade secret may *also* be a certain form of expression of information, its major advantage lies in the fact that it confers protection upon the interest in the information itself. Whereas the other forms of intellectual property mentioned previously enable the appropriation of the idea contained in the information, if it is given a different “garb” by means of another expression, the law of trade secrets also prohibits the appropriation of the information itself.

There is a substantial difference between the levels of protection appropriate for the two categories of objects. Protection of information is more problematic than protection of forms of expression, from the perspective of the public interest. When the legal system obstructs others from using the information, it obstructs everyone’s use of the trunk from which the branches grow, and not only the use of the branches themselves. In contrast, when the law blocks competitors from using a particular form of expression in a given area, competitors may usually use other methods that are not protected, in order to achieve their goal. Blocking the use of information therefore causes more serious harm to the overall social and economic interest, than blocking the use of a given form of expression.

147. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289 at 480, 488.

148. All types of information, without restriction, may be protected by the trade secret laws if they possess the characteristics that justify protection. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39 (1995); Uniform Trade Secrets Act, § 1(4) (1985); Wiesner & Cava, *supra* note 2, at 1085-1090.

149. 17 U.S.C. § 1301 (1998).

A review of the arrangements applicable to intellectual property law reveals the different legal policies applied to the two categories of objects. For example, within the framework of the Israeli system that adopted the institution of compulsory licenses, the patents registrar is vested with wide discretion to compel a patent owner to grant a license to another person to exploit the patent when he himself does not exploit it.¹⁵⁰ In contrast, copyright law restricts the formation of compulsory licenses to considerably limited objects and purposes.¹⁵¹ Israeli trademark law also allows expropriation of rights on the ground of the public interest only in extreme circumstances.¹⁵²

In light of the caution with which the law should treat the protection of interests in information, the question arises whether it is justified to apply the misappropriation doctrine as a device for protecting information that is not protected either as a patent or as a trade secret. Justices Barak and Strasberg-Cohen in *ASHIR* clearly favored the position whereby commercial information might be protected in appropriate cases by the law of unjust enrichment even if it has been published. The judges cited the American case law that protects the mode of calculating the Dow Jones index.¹⁵³ Yet, a great deal of caution must be exercised in this context in view of the distinction drawn between the public interest in information and the public interest in the manner of expressing information. This distinction has been elaborated within the framework of copyright law. Copyright law does not give rise to a monopoly in favor of the owner, but rather provides him with a proprietary right that protects him against misappropriation by another.¹⁵⁴ In this *general* sense therefore, copyright law resembles the law of unjust enrichment.¹⁵⁵

The distinction between an idea and an expression in copyright law derives from the perception that the dissemination of ideas should not be hampered, even if much labor has been invested in producing them. This concept was

150. See SINNOTT, *supra* note 7.

151. See Copyright Ordinance, § 7a (1924) (Isr.). See also Copyright Act, § 7a (1911) (Isr.).

152. Section 41 of the Trademarks Ordinance [New Version] M.H. 21 (1992) (Isr.) enables cancellation of the registration of a trademark for non-use, only if there was no bona fide intention to make use of the trademark and in fact there was no bona fide use of the trademark during the three years preceding the application for cancellation. Even in such a case, the power to cancel the registration is qualified. The provision does not apply where it is proved that there was no intention on the part of the owner to abandon the mark. See *id.* at § 41.

153. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 434 (referring to Bd. of Trade of the City of Chicago v. Dow Jones, 456 N.E.2d 84 (Ill. 1983)).

154. GARNETT ET AL., *supra* note 39, at 392-397; GOLDSTEIN, COPYRIGHT, *supra* note 91, at § 7.2.

155. Justice Cheshin noted in *ASHIR* that the intellectual property laws are, as a rule, largely based on the concept of preventing enrichment. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 399. Although such a proposition is far-reaching in relation to copyright law, where the cause of action is grounded on misappropriation as opposed to a claim for a monopoly, this stance may seem justified.

developed on the basis of the distinction between private and public interests. As noted, it does not rely on any formalities but on a flexible and fairly intuitive boundary line between those objects that should properly fall within the public domain and those that deserve proprietary protection.¹⁵⁶ Thus when, in a given case, copyright law categorizes a certain object as an idea, it is expressing a powerful general policy that undoubtedly has ramifications reaching outside the framework of copyright law. Are there any considerations that would lead to a different answer concerning the protection of given information if we were to pursue the balancing process within the framework of the law of unjust enrichment (the bypass path), as opposed to the copyright law (the institutionalized path)?

Important differences may be observed as to the respective models of protection conferred on a given object within the framework of copyright law and the law of unjust enrichment. Thus, copyright law imposes liability on the infringer even when the infringement is a one-time act. In contrast, the unjust enrichment path, as it appears from *ASHIR*, will take into account whether single or repeated infringements have been committed.¹⁵⁷ Likewise, copyright law imposes liability even when the infringement was not committed for a commercial purpose, but for personal use, for example. It will sometimes be possible to raise a defense of fair use on such occasions.¹⁵⁸ In contrast, the commercial or non-commercial nature of the activity will be a highly significant factor in relation to the cause of action for unjust enrichment. Additionally, the absence of appropriate alternative courses of action open to the defendant for achieving the same purpose is a factor that is disregarded in copyright law but is material to the cause of action for unjust enrichment.¹⁵⁹

In light of the in rem nature of copyright, the imposition of liability for infringement (being performed by violation of the exclusive rights of the copyright owner) is not dependent on any fault of the infringer. Only in rare cases will the good faith of the infringer excuse him from liability.¹⁶⁰ In contrast, considerations of guilt and lack of good faith have substantive

156. See *supra* note 91 and accompanying text.

157. *ASHIR*, 52(4) P.D. at 479.

158. For an explanation of the fair use defense, see *supra* note 95.

159. *ASHIR*, 52(4) P.D. at 479-480. See also *supra* Part VI-D.

160. In Israeli law, the defendant has to prove that he had no knowledge whatsoever that *any person* possessed a copyright in the work. See Copyright Act, § 8 (1911) (Isr.). In American law, the rule is that innocent intent does not constitute a defense in an infringement action, although it may reduce the statutory damages. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 13.08 (1963). With regard to works which were distributed before the entry into force of the Bern Convention Implementation Amendments Act, the infringer of the right may be discharged in toto from damages, subject to judicial discretion, which resulted from activities carried out by him before to his knowledge of the infringement. See 17 U.S.C. § 405(b) (1994). See also *Arthur Rutenberg Homes, Inc. v. Drew Homes Inc.*, 29 F.3d 1529 (1994); *Twentieth Century-Fox Film Corp. v. Dunnahoo*, 637 F.2d 1338, 1342-3 (1981).

importance within the context of the unjust enrichment (and the tort of negligence) bypass path.¹⁶¹ Moreover, the duration of protection under copyright law is significantly longer than that supplied under the bypass path.¹⁶²

The above remarks lead to the following recognition—the law of copyright is characterized by more stringent protection of the owner of an intellectual product than the law of unjust enrichment and the tort of negligence. Copyright laws's rejection of the protection of ideas, so it might be argued, does not express a comprehensive rejection of the possibility of protecting ideas that are not protected by the institutionalized path. Rather, it rejects the possibility of supplying *intensified* protection for ideas of the type afforded to copyright. The copyright law does indeed transmit a certain general message regarding the status of public ideas, but it does not necessarily and conclusively negate the creation of a separate framework for protecting ideas under the law of unjust enrichment. The latter operates different balances from those found in copyright law, and takes into account the message emanating from copyright law.

The protection of published information, like the broader issue relating to the general relationship between institutionalized intellectual property and the law of unjust enrichment entails a dichotomy between two forms of protection accorded to intellectual products, each one possessing its own internal balances. The former supplies a powerful protection; the latter confers a fluid, amorphous, and less powerful protection that is dependent on the special given circumstances. Yet, the possibility of supplying protection to the interests in published information by virtue of the bypass path or misappropriation doctrine, need not undermine the sharp distinction that should be drawn from the perspective of the balancing process between the two different categories of intellectual products—ideas (and information) on one hand, forms of expression, on the other. As noted previously, protection of ideas might seriously affect competition and social development. Indeed, it would seem that in this context, too, there is little choice but to leave a margin for the development of appropriate protection by means of the misappropriation doctrine. At the same time, in view of the caution that must be exercised in this context, such protection must only be granted in exceptional cases, in contrast to the more liberal approach, which may be applied regarding the prohibition on the imitation of a mode of expression, such as an imitation of an unregistered design.

161. *See supra* Part VI-A.

162. The regular period of copyright protection, both in American and Israeli law is the life of the author and 70 years after his death. 17 U.S.C. § 302(a); Copyright Ordinance, § 5(4) (1924) P.L. vol. 1, 289 (Em.) (Isr.). For the period of protection according to the *ASHIR* rule, see *supra* notes 142-143 and accompanying text.

It may be added that the view whereby extra care must be taken in relation to blocking the use of ideas, as distinct from blocking the use of a mode of expression, has been echoed in the stance taken by Justice Barak in *ASHIR*. He indicated that one of the factors to be considered in defining the extra element within the framework of the bypass path should be whether it was possible for the defendant to develop a product that is functionally similar to the original product, without imitating the original design.¹⁶³ This position reflects the view that if a number of modes of expressing the functional idea exist, the functional idea will possibly not be protected within the framework of the bypass path, although the concrete mode of expression (the given pattern) *will* be protected. In the latter case, the competitor will be sent off to generate his own alternative mode of expression.

In light of this background, it would be worthwhile to examine the application of the misappropriation doctrine in American law in the matter of *International News Service v. Associated Press*.¹⁶⁴ In that case, the defendant was a news agency operating in the western part of the United States, which made use of news items gathered by the plaintiff, also a news agency, and published by the plaintiff in the eastern part of the United States. The defendant sold these news items to newspapers that were members of its organization in the west. These newspapers competed with other newspapers located in the west that worked with the plaintiff.¹⁶⁵

This case is special for a number of reasons that justify affording protection to the plaintiff within the context of the misappropriation doctrine even if one accepts the approach described previously, namely that the misappropriation of published ideas that are not protected by the institutionalized route should only be prevented in unusual circumstances, in contrast to the position relating to modes of expression. First, the reference in *International News Service* is not merely to ideas, but to abstract *merchandise* of the news type. Trading in this type of merchandise is the principal business of the plaintiff and it is of value for only a limited period of time. The public interest in the swift flow of news is balanced by the need to properly reimburse those who gather the news items by means of short-term protection of their investment in obtaining that information. The absence of protection would lead to a market failure that the bypass route seeks to prevent. Second, it might be possible to classify this type of situation, albeit with some difficulties, within the institutionalized route of the trade secrets laws. Even though these news items were published in the eastern United States, they were still not known in the western United States, and in this sense they were secret information in the west. It is a principle of trade secrets law that information

163. *ASHIR*, 52(4) P.D. at 479-480.

164. 248 U.S. 215 (1918).

165. *Id.* at 238.

may amount to a trade secret even if it has been published in a partial manner. It is sufficient to show *relative secrecy*.¹⁶⁶ So long as no general knowledge exists regarding the particular information, economic value attaches to not publishing the information in the possession of the plaintiff. Protection might be accorded, in principle, to the owner's interest.¹⁶⁷ Thus, in practice, the previously mentioned case is not concerned with ideas that have been sufficiently "published."

VIII. IMPLEMENTATION OF THE MISAPPROPRIATION DOCTRINE IN *ASHIR*

In order to properly assess the approach that the Supreme Court of Israel adopted toward the misappropriation doctrine in *ASHIR* (the bypass path), it is necessary to examine how this doctrine was actually implemented in practice in the case. A detailed examination of this type reveals what weight the court assigned to the various elements affecting the balance of interests, as these have been described previously.¹⁶⁸ Such an examination enables the assessment of the efficiency of the working tools offered by this court ruling, concerning the application of the misappropriation doctrine. *ASHIR* considered three types of intellectual products within the context of various applications for interlocutory injunctions that were submitted by several plaintiffs against competitors who had imitated the plaintiffs' products.

A. *The Bathroom Accessories Affair*

One claim was filed by the manufacturers, importers and exclusive distributors of plastic bathroom accessories against a competitor who had copied these products including a soap holder, toilet-roll holder, toothbrush holder and towel rail. These products did not bear the mark of the manufacturer and no intellectual property right had been registered for them. Justice Cheshin rejected the applicants' contention that these products should be protected, in view of his position that a broad negative arrangement envelops the institutionalized intellectual property law. It had been possible to register a design in this case, and the plaintiffs were not entitled to circumvent the institutionalized path by means of unjust enrichment law, unless they could prove unusual circumstances. Justice Cheshin could not find such unusual

166. See, e.g., *Q-Co Industries, Inc. v. Hoffman*, 625 F. Supp. 608 (S.D.N.Y. 1985); *Riteoff, Inc. v. Contact Industries, Inc.*, 43 A.D. 2d 731, 732 (1973); RESTATEMENT (THIRD) OF UNFAIR COMPETITION §39 cmt. f (1995); Brandon B. Cate, *Saforo & Assocs., Inc. v. Porocel Corp.: The Failure of the Uniform Trade Secrets Act to Clarify the Doubtful and Confused Status of Common Law Trade Secrets Principles*, 53 ARK. L. REV. 687, 708-709 (2000); JAGER, *supra* note 34.

167. For the requirement that the trade secret should possess "economic value," see RESTATEMENT (THIRD) OF UNFAIR COMPETITION §39 cmt. f (1995). Similarly, this element can be defined as relating to the "economic advantage" that should derive from the secrecy. See Uniform Trade Secrets Act, § 4 (1985).

168. *Supra* Part VI.

circumstances in the case at bar.¹⁶⁹ Justice England, too, rejected the application for an interlocutory injunction in view of his general position that the existence of an external cause of action is needed in order to assert protection under the law of unjust enrichment.¹⁷⁰

The other five judges, who favored applying the misappropriation doctrine in Israeli law, nonetheless rejected the applicants' contentions in this case, after balancing the factors relevant to this doctrine in accordance with the criteria developed in *ASHIR*. Regarding the distributors, Justice Strasberg-Cohen believed that no extra element whatsoever had been proved that would justify upholding their expectation of exclusivity. Regarding the manufacturer, no originality or innovation had been proved nor was there sufficient evidence to show that the applicant had indeed developed the design of the products. Further, it had not been proved that investments had been devoted to developing the products, nor had clarification been offered as to why the design had not been registered.¹⁷¹ In dismissing the application, Chief Justice Barak emphasized the absence of proof in relation to the following facts: the extent of the investment in developing the products, the ease or difficulty in making the copy, the length of time during which the product had been marketed without competition, the degree of innovation and importance of the product, and the degree of awareness of the copy.¹⁷² Justice Barak did not regard this as an easy case in view of the fact that the copying had apparently been systematic and the competitor had alternative ways of designing the products that would not have impaired the functional characteristics of the products. In the absence of sufficient facts, Justice Barak decided to deny the application for an interlocutory injunction, although he made it clear that the ultimate result might be different following a hearing of the claim on the merits.¹⁷³ Justice Barak's remarks indicated greater support for the applicants' position than that shown by Justice Strasberg-Cohen as well as a greater struggle with the decision. Justice Strasberg-Cohen ascribed particularly high significance to the prima facie possibility of registering the design, as a factor operating against the application.¹⁷⁴ The remaining judges concurred in dismissing the application in relation to the bathroom accessories. Justice Zamir concurred with the reasons given by Justice Strasberg-Cohen, Justice Or concurred with the reasons given by Justice Barak, and Justice S. Levin concurred with the result and emphasized the possibility of registering institutionalized intellectual property in the circumstances of the case.¹⁷⁵

169. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 387.

170. *Id.* at 446-47.

171. *Id.* at 435-36.

172. *Id.* at 489.

173. *Id.* at 489.

174. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 435-33.

175. *Id.* at 502.

Apparently, tilting the balance in this case was the view that the products were simple and lacked any truly unique attributes. Because the court did not find sufficient evidence to support the substantive aspects of the application, it is not surprising that it dismissed the petition for an interlocutory injunction. A person seeking protection within the context of the bypass path bears the onus of proving the elements that would tend to tilt that balancing process in his favor. In this sense, the establishment of the bypass route also leaves intact the incentive to follow the institutionalized path. During the litigation stage, the applicant carries the burden of investing money to collect economic evidence and expert opinions in order to prove the existence of the extra element, funds that he would not necessarily invest if he held institutionalized intellectual property rights.¹⁷⁶

B. *The Cutting Block Systems*

In this case, the applicant had developed a system for molding and cutting aluminum. The owner of a workshop copied the cutting blocks. In view of their basic reluctance to adopt the bypass route as described above, Justices Cheshin and Englard rejected the ensuing application for an interlocutory injunction. However, among the five other judges who supported the misappropriation doctrine, a dispute arose concerning the outcome of implementing this doctrine on the facts of the case. Four of the judges thought an interlocutory injunction should be granted; the fifth judge thought it should not. Justice Strasberg-Cohen reached the conclusion that protection should be accorded to the developer of the cutting block, as this was the fruit of an original development and prolonged effort, and the imitation was slavish.¹⁷⁷ She took this view despite her general position that the owner of an intellectual product has to supply an explanation as to why he failed to register an intellectual property when he could have done so. Indeed, her decision did not allude to this issue. Justices Barak, Or and Zamir based the grant of an interlocutory order on the following considerations: the fact that a copy had also been made of the visual form of the product, the novelty of the product, the extent of the investment in development, the comprehensiveness of the copy, the use of the copy for competitive purposes, and the defendants' knowledge that they were copying the fruit of the applicant's development.¹⁷⁸ In contrast to these judges, Justice S. Levin believed an explanation was necessary for the failure to register the intellectual property. In the absence of

176. When the intellectual property, such as a patent, has to be registered, the applicant must invest monies at the stage of the registration to prove that the object qualifies for registration.

177. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 436-37.

178. *Id.* at 486-87, 489, 499.

such an explanation, no interlocutory order could be granted.¹⁷⁹ By a majority of four to three, the court therefore granted the order.

The court's decision in this case clearly illustrates the limited weight assigned to the need for explaining the failure to register intellectual property, as argued previously by this author. When the other factors are strong, they will override this element. Thus, of the five proponents of the misappropriation doctrine, only one judge opined that the need to give an adequate explanation for failure to register overrode the other considerations justifying conferral of protection upon the owner of the product.

C. *The Picture Album Affair*

This case concerned a system for soldering and binding picture albums. The applicant had developed the system through a third party. The defendant used the same system after purchasing similar soldering machines from the same third party. He subsequently sold albums prepared by this method at a cheaper price than asked for by the applicant. The applicant filed for a patent; however, no patent was registered, and it was unclear whether one would be registered at a later date.¹⁸⁰ All seven judges dismissed the application for an interlocutory injunction. Justices Cheshin and Englard did so in view of their basic rejection of the misappropriation doctrine, as described above. Justice S. Levin did so again in view of the greater weight he accorded the absence of good reasons for not registering the institutionalized intellectual property.¹⁸¹ Justice Strasberg-Cohen did not find a sufficient factual basis for the interlocutory injunction, as it was unclear at this stage who possessed rights in the manufacturing process.¹⁸² Further, the album did not enjoy a unique status in the market. Justice Zamir concurred with this conclusion and pointed out that the fact that sales were being carried out at a lower price did not comprise an extra element.¹⁸³ Chief Justice Barak (joined by Justice Or) reached the same conclusion on the basis of similar considerations. In addition to the lack of clarity regarding the identity of the person who had developed the process under discussion, Chief Justice Barak noted that no evidence had been adduced regarding the investments in developing the product and as to whether the divergence in price ensued from savings in the costs of development.¹⁸⁴ Likewise, Justice Barak pointed out that the product had been available in the

179. *Id.* at 802.

180. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 437.

181. *Id.* at 502.

182. *Id.* at 438.

183. *Id.* at 500.

184. A.L.A. 5768/94, *ASHIR*, 52(4) P.D. 289, 488.

market for about three years and therefore, it was likely that the applicants had already recovered their research and development costs.¹⁸⁵

In conclusion, the *ASHIR* rule established a structured and orderly "road map" for the misappropriation doctrine. This is a road map of balances that may be operated by a court in a practical manner and that removes intuition as the sole basis for making such decisions. In so doing, the road map reduces legal uncertainty. Naturally, the relative weight of the factors that must be taken into account cannot easily be established, and when some of the factors lean to one side and some to another, the level of uncertainty will be considerable. However, occasionally, the factors will point in the same direction, and in these cases, predicting the legal outcome will be more feasible than anticipated.

IX. CONCLUSION: THE ISRAELI MISAPPROPRIATION DOCTRINE

It is not surprising that the misappropriation doctrine has been the subject of sharp controversy in American law. The *ASHIR* rule, which was established in Israel in 1998, also attracted intense criticism within the Israeli legal system. Perhaps unexpectedly, academia and those in the legal practice have joined forces, albeit for different reasons. One frequent argument by practitioners has been that this rule leads to acute uncertainty in relation to the protection of intellectual products and the development of new products and that it causes serious harm to competitiveness. From a different angle, legal scholars frequently criticize the meager weight this doctrine accords social and cultural developments, arguing that it blocks ideas and expressions that should be in the public domain.¹⁸⁶

The misappropriation doctrine operates on two axes. On one axis is the protection of moral values (respecting the protection of the developer's labor against a parasitical free-rider) and at the other end of the scale, considerations of economic efficiency (maximum protection of competitiveness). The second axis concerns the protection of private property versus the promotion of public interests. The *ASHIR* ruling should be assessed in light of general trends in Israeli law regarding these two axes. As mentioned above, the Israeli legal system has traditionally preferred moral considerations over those relating to economic efficiency; however, Israeli case law has recently begun to attribute some weight to efficiency considerations.¹⁸⁷ On the axis between the private and the public interests it is possible to identify more obvious developmental trends. There are judgments of the Israeli Supreme Court that have begun implementing theories regarding the social responsibility imposed upon the

185. *Id.* at 488.

186. N. Alkin-Koren, *On the Public and the 'Public Domain': From Intellectual Property to Unjust Enrichment*, 25 IUNEI MISHPAT 9 (2001).

187. A.L.A. 6339/97, *Rocker v. Salomon*, 45(1) P.D. 199.

property owner and that require him to accept a fairly significant impairment of his property rights for the benefit of society. This is the case, for example, in relation to derogation in the value of land caused by new urban zoning plans.¹⁸⁸ The concept imposing social responsibility upon a property owner was developed by legislation also in the context of the relationship between the owners of apartments in a condominium. A special majority of owners may now decide on the installation of an elevator in a condominium, despite the generally protected in rem right of the minority to preserve the existing basic status of the common property.¹⁸⁹ This is also the case in relation to the appropriation of part of the common property, by virtue of a special majority's decision, in order to expand apartments within the building.¹⁹⁰ This legislation thus restricts the veto right of an individual owner, based upon his in rem rights, to block the development and modernization of the condominium. It imposes upon each individual the burden to realize his social responsibility towards the public interest of the owners in the condominiums expressed in the majority decision.¹⁹¹

In the same spirit, one may also point to the fundamental willingness of the Israeli Supreme Court to subordinate the protection of private property to the general obligation of good faith, albeit with great caution.¹⁹² This decision weakens the intensity of the protection conferred on property in the face of opposing values. Recently, this trend was highlighted when a bench of seven judges of the Israeli Supreme Court adopted the principle of "distributive

188. Thus, C.A. 3901/96, *The Local Committee for Planning and Building Ra'anana v. Horowitz*, 56(4) P.D. 913 concerned a new city building plan that reduced the value of the plaintiff's land by 11.8%. Section 200 of the Planning and Building Law, 5725-1965, S.H. 467 enabled a local authority to refrain from paying compensation to an injured land owner if the harm does not exceed what is "reasonable" in the circumstances. Chief Justice Barak held that in the circumstances of the case, the degree of harm fell within the scope of what was reasonable in view of the social responsibility imposed on the property owner. Imposing too heavy a burden on a local authority in relation to the payment of compensation might result in the planning changes not being carried out and the necessary environmental developments not being implemented. *Id.* at 937-43. Justice Tirkel disagreed with this approach and preferred placing the emphasis on the protection of private property, holding that only "de minimis" harm would fail to attract compensation. *Id.* at 928-30. The third judge, Justice Zoabi, concurred with the result reached by Justice Tirkel on this issue in the circumstances of the case; however, he did not decide the issue of the general standard that has to be prescribed in this connection. *Id.* at 946.

189. Land Law, 5729-1969 § 59(f), S.H. 575 (Isr.).

190. *Id.* at §§ 71b-d.

191. See also A.L.A. 7112/93, *Zudler v. Joseph*, 48(5) P.D. 550 (applying a similar policy concerning the balance between the individual's interest and the communal interest in a condominium).

192. This principle was adopted in A.L.A. 6339/97, *Rocker v. Salomon*, 45(1) P.D. 199, although, the court concluded that the circumstances in that case did not justify the actual application of the good-faith obligation.

justice" in the important case of *Association in Favor of the Democratic Discourse v. Minister of National Infrastructure*.¹⁹³

This weakening of property rights in favor of public interests is continuing to evolve in Israel notwithstanding the constitutional protection accorded to property in Basic Law: Human Dignity and Liberty, adopted in 1992.¹⁹⁴ The dynamic force of the concept of social responsibility has succeeded in overriding the opposing trend operating in the Israeli legal system following the elevation of property rights to a constitutional level. It is worth adding that this legal trend has not been supported by comparable social developments in Israel but is largely a reaction to conflicting social approaches evolving in the country. In recent years, Israeli society has been undergoing a visible process of disintegration, a deepening of economic divisions and a shift towards achievement-orientation and individualism.¹⁹⁵ Against this background, it is possible to regard the legal development of the concepts of social responsibility and distributive justice as part of a judicial initiative that seeks to hamper these aberrant trends and increase social solidarity in Israel.¹⁹⁶

In this author's view, the Supreme Court of Israel has adopted, within the context of the misappropriation doctrine, an approach that draws a proper balance between the protection of private property interests and public interests. A just society cannot disregard the basic moral imperative that "he who sows shall reap," and it must afford suitable protection to the expectations of the developer of a new intellectual property. The misappropriation doctrine is founded upon solid moral considerations that do not allow the free appropriation of a person's private property and the fruit of his labors. Yet, private property rights are not absolute; rather they are subject, in Israel as in other legal systems, to the principle of social responsibility. The duty of an individual to act responsibly towards society leads to the conclusion that when he does not "pay his dues" to society by means of the contract embodied in the

193. H.C. 244/00, 56(6) P.D. 25. That judgment concerned the right of farmers, to whom the state had given interests in various parcels of land for agricultural purposes, to enjoy the benefit of the increase in the value of the land as a result of zoning changes designating agricultural land as urban land. Decisions of the Israel Land Authority, which manages most of the land in Israel, granted substantial compensation to the farmers in the event of such zoning changes. The court held that these decisions were not reasonable and that land resources had to be exploited for the benefit of the entire population, without improper preference being given to the farmers. The reasonable interests of the farmers in the land were assigned fairly low weight in this decision in the face of the interest in distributive justice. A comprehensive discussion of this issue exceeds the scope of this article.

194. S.H. (1992) 150.

195. See generally ADDITIONAL LAW (2001) (Isr.) (providing a compilation of articles on the subject).

196. It should be noted that the petition to the Israeli Supreme Court opposing the rights of farmers, which led to the adoption of the concept of distributive justice, was filed by groups leading the struggle for social change in Israel.

establishment of institutionalized intellectual property,¹⁹⁷ he should not be afforded *all-embracing* protection against its appropriation. He should be exposed to a significant level of risk that will lead society and the public to gain substantial advantages in terms of increasing society's fund of knowledge and strengthening competitiveness. The Supreme Court of Israel, in its fundamental and comprehensive judgment in *ASHIR*, laid the foundations for the proper balancing process that must be pursued in this context. The American misappropriation doctrine, which some believed has already "given up the ghost,"¹⁹⁸ is still alive and well in the Israeli legal system, and in this author's view, long may it thrive.

197. ROSENBERG, *supra* note 7 at § 1.02.

198. Sease, *supra* note 110.