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## **Comparison of the Trade Secrets Laws of Israel and the United States**

## **Part 1 – A Description of Israeli Trade Secrets Law**

In October 1999, the Israeli Knesset (Parliament) passed the Commercial Wrongs Act (the Act), otherwise known as the Commercial Torts Law. Regarding the nature of trade secrets, the Act refers generally to trade secrets as property, and mandates that they should be protected as such.

The Act defines trade secrets as business information of all kinds which: (1) is not in the public domain; (2) is not easily discovered or detected by others; (3) provides to its owners a business advantage over their competitors; and (4) has been kept secret by its owners using means deemed reasonable under the circumstances.<sup>1</sup>

According to the Act, misappropriation of trade secrets is the taking or receiving by illegal means of another's trade secrets, either directly or through the use of a third party, or the use of another's trade secrets without that person's consent, either in violation of explicit contractual obligations of confidence, or implied obligations of confidence imposed on the defendant in favor of the trade secret owner. Lawful reverse engineering does not violate the provisions of the Act.<sup>2</sup>

Misappropriation may occur even though the trade secret information being unlawfully used by the defendant has been modified, provided that the modified trade secret information maintains an essential similarity with the original trade secret.<sup>3</sup> A rebuttable presumption of misappropriation is created where the defendant is unlawfully using information which is similar to the trade secret has also had access to trade secret itself.<sup>4</sup>

According to Israeli case law, a trade secret is confidential information that required skill and resources to create, the knowledge of which might enable a competitor to save time or re-

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<sup>1</sup> §5 of the Commercial Wrongs Act—see Appendix

<sup>2</sup> *Id.* at §6

<sup>3</sup> *Id.* at §9

<sup>4</sup> *Id.* at §10

sources if he learned of it. The information must have an economic value that is directly dependent on its continuing secrecy. However, the secrecy need not be absolute and relative secrecy may suffice. The general skills of a profession which are not exclusive to the plaintiff and which do not give him an edge over his competitors will not be deemed to be legally protectable trade secrets.<sup>1</sup>

Business information and technological information are both eligible for protection. Any proprietary business information may be eligible for trade secret protection including, but not limited to, confidential administrative or organizational information, confidential internal business operations, supplier lists, and customer lists. To be protected, customer lists must include not only names, but also specific customer details that are relevant to the business.<sup>2</sup>

As far as criminal sanction go, the definition of information in the Israeli Penal Law of 1977 (which was enacted to protect information relating to the security of the state) includes trade secrets, whether they are owned directly by the state, or owned by individuals and held by the state. However, the Penal Law does not generally cover the misappropriation of trade secrets that have no direct or indirect bearing on the security of the state or its official secrets.<sup>3</sup>

The offense of theft under the Penal Law does not cover the theft of information by itself—the object of a theft must be movable and tangible (such as a computer diskette). In addition, the Penal Law requires an intent to permanently withhold the trade secret embodied in the stolen media—the mere loss of the value of the information resulting from its disclosure is not enough for the imposition of criminal sanctions.<sup>4</sup>

The enforceability of covenants not to compete is subject to a two-fold test: (1) the restrictions must be no wider than is reasonably necessary to protect the legitimate interests of the

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<sup>1</sup> 2 TRADESEC § 21:4

<sup>2</sup> *Id.*

<sup>3</sup> 2 TRADESEC § 21:5

<sup>4</sup> *Id.*

parties; and (2) the restrictions should not harm the public. Courts are likely to allow restrictions that are wider in scope for the sale of trade secrets than for employer-employee covenants.<sup>1</sup>

Restrictions on an employee's freedom of occupation or liberty to compete with the employer require an explicit contractual obligation, so that the courts may fully understand the intent of the parties to the agreement. In the absence of an explicit non-competition covenant, according to the current view of the Supreme Court of Israel, courts can only enjoin ex-employees from imparting the employer's trade secrets, but not from working for a competing business.<sup>2</sup>

The contractual obligation is valid if the activities covered by the restriction, its geographical scope, and its time dimension are deemed by a court to be reasonable. In the past, restrictions of two, three and four years have been found by Israeli courts to be reasonable. In addition, the Supreme Labor Court of Israel decided that in the absence of one of the following factors, the principle of freedom of occupation may prevail over a person's contractual commitments: (a) the existence of a valid trade secret; (b) substantial investment by employer in specialized training of employee; (c) financial compensation in exchange for restriction of occupation; and (d) employee's loyalty towards its former employer and competing employer's good faith.<sup>3</sup>

The following rules are applicable to temporary injunctions issued pursuant to the Act: (1) the main purpose of temporary injunctions is to preserve the status quo until the rights of the parties are determined; (2) the petitioner is required only to show a prima facie case and a reasonable probability of success on the merits; (3) if the petitioner meets these requirements, the court will determine the balance of convenience; and (4) a petitioner who seeks a temporary injunction must apply to the court without delay and come with "clean hands."<sup>4</sup>

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<sup>1</sup> *Id.* at § 21:7

<sup>2</sup> *Id.* at § 21:8

<sup>3</sup> *Id.*

<sup>4</sup> 2 TRADESEC § 21:12

The petitioner must post a bond to cover any damages defendant may suffer should the court hold that there were no grounds for granting the temporary injunction.<sup>1</sup> Even if a trade secret has been publicized, the court may maintain the injunction if the defendant derived illicit profit from the secret before it was been publicized and continues to derive profit from the use of the trade secret after its publication.<sup>2</sup>

The Act provides statutory damages in the amount of up to NIS100,000 (approximately \$28,300) for any infringement of a trade secret without the plaintiff having to show evidence of actual damages.<sup>3</sup> In contrast, a plaintiff whose trade secret has been misappropriated and who is able (and wishes) to prove the amount of the actual damages, is entitled to monetary damages that reflect his loss. This includes loss of profits resulting from the wrongful disclosure or use of the confidential information.<sup>4</sup> Alternatively, a plaintiff may claim an accounting for the profits derived by the defendant to prevent unjust enrichment.<sup>5</sup> In addition, the Act grants the court authority to order the destruction of the infringing assets or, upon the plaintiff's request, to transfer ownership of the infringing assets to the plaintiff.<sup>6</sup>

Finally, the Act entitles the court, either upon request of one of the parties or *sua sponte*, to issue an injunction to ensure that a trade secret disclosed during litigation will not be used in an unauthorized way by either of the parties.<sup>7</sup> Furthermore, the disclosure of a trade secret during the course of litigation will be ordered only if disclosure is essential to determining the controversy. Finally, the Act also entitles a court to try a case partially or entirely behind closed doors in order to maintain the confidentiality of a trade secret that is disclosed during a hearing.<sup>8</sup>

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<sup>1</sup> §19 of the Commercial Wrongs Act—see Appendix

<sup>2</sup> 2 TRADESEC § 21:12

<sup>3</sup> §13 of the Commercial Wrongs Act—see Appendix

<sup>4</sup> 2 TRADESEC § 21:13

<sup>5</sup> §15 of the Commercial Wrongs Act—see Appendix

<sup>6</sup> *Id.* at §21

<sup>7</sup> *Id.* at §23

<sup>8</sup> 2 TRADESEC § 21:16

## **Part 2 – A Comparison of Israeli Trade Secrets Law with the UTSA and Restatements**

As a preliminary matter, the Act considers infringement of trade secrets to be a tort and subject to the Israeli Torts Ordinance.<sup>1</sup> Nevertheless, the Act in itself provides a cause of action under which to sue. By contrast, a cause of action under the U.S. law of trade secrets, which was articulated first in the Restatement (First) of Torts §757 et seq. in 1936, and then codified into the Uniform Trade Secret Act (UTSA) in 1979, is assumed to be in tort common law and is not specifically defined as a cause of action in the UTSA itself.

The UTSA defines trade secrets as information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>2</sup>

Comparing this language to the Act's definition of a trade secret, it is clear that the effect is virtually the same. Nevertheless, there are some key differences that are worth noting. The UTSA imposes four requirements on a piece of information in order for it to qualify as a trade secret: (1) independent economic value; (2) value from not being generally known; (3) value from not being readily ascertainable; and (4) reasonable efforts at maintaining secrecy.

UTSA requirements #1, #3, and #4 clearly correspond to Act requirements #3, #2, and #4, respectively. UTSA requirement #3 also encompasses Act requirement #1. However, UTSA seems to focus more on competitors than does the Act. For example, UTSA requirement #2 (value from not being generally known) requires that *competitors* not know a trade secret. Comments to the UTSA explain: "A method of casting metal, for example, may be unknown to the

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<sup>1</sup> *Id.* at § 21:2

<sup>2</sup> §1(4) of the Uniform Trade Secrets Act

general public but readily known within the foundry industry.” The UTSA thus appears to focus more on competitors than the general public; in contrast, the Act continuously refers to the “public” in general, rather than to competitors.

Additionally, the UTSA seems to place a greater emphasis on the *value* of a trade secret than does the Act. Three of the four UTSA requirements refer to value, while the only Act requirement pertaining to value is the “business advantage” requirement. The UTSA in general goes out of its way to require that a trade secret derive value not just from itself, but also from the fact that it is both secret and not readily ascertainable. Practically, it is difficult to imagine how a particular piece of information can be considered a trade secret under the Act but not under the UTSA, because it is difficult to conceive of a piece of information that is secret and gives its owner a business advantage over competitors, but somehow does not derive value from this secrecy. Therefore, the UTSA’s emphasis on value might be merely an expression of policy, rather than a truly stringent requirement.

Restatement (Third) of Unfair Competition provides that a trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.<sup>1</sup> The contrast between the Restatement and the Act is striking. The Restatement requires a business advantage over “others” while the Act requires an advantage over competitors. The Restatement does not require reasonable efforts at secrecy, while the Act clearly does. Finally, the Restatement does not require that a trade secret not be readily ascertainable. Therefore, unlike with the UTSA, there are clearly pieces of information that satisfy the Restatement requirements but do not satisfy the Act.

The UTSA defines misappropriation as: (A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means;

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<sup>1</sup> Restatement (Third) of Unfair Competition § 39 (1995)

or (B) disclosure or use of a trade secret of another without express or implied consent by a person who: (i) used improper means to acquire knowledge of the trade secret; or (ii) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was: (a) derived from or through a person who had utilized improper means to acquire it; (b) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (c) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (iii) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.<sup>1</sup>

UTSA's misappropriation definition A clearly corresponds to the Act's definitions #1 and #3. For the most part, UTSA's definition B(ii) corresponds to the Act's definitions #2 and #3. However, the most striking difference between the Act and the UTSA is that the Act does not prohibit unauthorized disclosure of a trade secret; the UTSA refers to "disclosure or use," while the Act only ever refers to "use." Additionally, there appears to be no provision in the Act that corresponds with the UTSA's definition B(iii), the "accident or mistake" provision. The Act prohibits what might be considered "bad" misappropriation, and has no provision that punishes a person who uses a trade secret that was mistakenly or accidentally acquired. This might also be the reason that the Act does not prohibit disclosure of a trade secret; prohibitions on disclosure, such as that contained in the UTSA, punish a person who had not acted wrongfully in obtaining the information, but merely leaked the trade secret to a portion of the public. It is possible that the drafters of the Act had general concepts of justice in mind, and were hesitant to punish people who were not "bad actors."

On the other hand, the Act, by not prohibiting disclosure, leaves a very large hole in the protection it affords. Namely, prohibitions on disclosure are typically targeted at employees,

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<sup>1</sup> §1(2) of the Uniform Trade Secrets Act



former employees, business associates, or other persons who pass along information that they know or should know is confidential—these persons acquired the secret knowledge in perfectly permissible ways during the course of their employment by, or association with, the trade secret owner. Since employees and former employees are the group that usually is the greatest threat to a trade secret owner (in terms of potential misappropriation), this hole in the Act is serious indeed: it essentially does nothing to discourage the behavior of a former employee who wishes to leak the trade secret to another party (probably a new employer). It is possible that the Act relies on a new employer being prohibited from using the trade secret, since it knows or should know that the employee acquired it while under a contractual duty to its former employer. However, a clever employee can hide his or her previous employer to prevent liability by the new employer and, of course, a clever lawyer can argue around the “knew or should have known” standard. In addition, a former employee can leak the information to an individual who would act as an intermediary to the new employer, thus further strengthening the employer’s argument that it neither knew of the trade secret nor should have know of it. This gap in protection is, therefore, very serious indeed.

Another very striking difference between the UTSA and the Act is the characterization of means that appropriation that constitute misappropriation. The UTSA specifies that misappropriation occurs when the means are “improper.” By contrast, the Act states that misappropriation occurs when the means are “illegal.” The UTSA’s “improper means” allows courts more room for maneuvering. On the other hand, the Act’s use of “illegal” means appears to be a cut-and-dry instruction to courts—only means that have been previously specified by the Knesset to be illegal could constitute misappropriation. The Act is, therefore, much less flexible.

The Restatement (First) of Torts bases trade secret misappropriation liability on improper acquisition of the secret or acquisition with knowledge that the information is a trade secret. Spe-

cifically, one who discloses or uses another's trade secret is liable to the other if: (1) he or she discovered the secret by improper means; (2) the disclosure or use constitutes a breach of confidence; (3) he or she learned the secret from a third party with notice to both of its trade secret status and the fact that the third party discovered the secret by improper means, or the third party's disclosure was otherwise a breach of confidence; or (4) he or she learned the secret with notice that it was a secret and that disclosure was made by mistake.<sup>1</sup> §758 of the Restatement removes from liability an individual who uses a trade secret obtained from a third party prior to the time the individual learns that the information is an improperly disclosed or obtained trade secret.<sup>2</sup> §758 further allows continued use if an equity would be imposed on an individual who obtained the secret without notice of its status.<sup>3</sup>

The stark difference between the Restatement's position and that of the Act is the same as that mentioned above as existing between the Act and the UTSA: the Restatement prohibits the disclosure as well as the use of a trade secret, while the Act prohibits only the use. In addition, the same illegal/improper differentiation exists with respect to the Act and the Restatement. §758 of the Restatement is clearly meant to supplement the fourth definition of misappropriation in §757. Those two sections together appear to prohibit taking advantage of an innocent or mistaken disclosure of something known to the listener to be a trade secret. The Act will most likely also encompass that particular type of situation, given its definition #3 of misappropriation. Thus, the only noticeable difference between the Act and the Restatement (First) of Torts is the lack of a prohibition on disclosure in the Act—this will, of course, create the same types of problems as were discussed above.

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<sup>1</sup> Restatement (First) of Torts, §757 (1939)

<sup>2</sup> *Id.* at §758

<sup>3</sup> See G. Peter Albert, Whitesel Laff & Saret Laff, *Intellectual Property Law in Cyberspace* 379-80 (BNA Books 1999)

Regarding specific types of information, to be protected under the Act, customer lists must include not only names, but also specific customer details that are relevant to the particular business. The UTSA has a similar requirement: in order for a customer list to be considered a trade secret, the information contained in the list must not lend itself to easy duplication. While the Act may be more specific on this count, the general effect of the UTSA is the same—however, if a customer list contains nothing but names of customers who are very difficult to find, the list would be protected under the UTSA but not under the Act. This could create real differences in industries that cater to reclusive customers (e.g. Hollywood movie stars).

In terms of remedies, specifically injunctive relief, both the UTSA and the Act provide that actual or threatened misappropriation may be enjoined. In contrast to the rules applicable to temporary injunctions issued pursuant to the Act, the following must be shown under the laws of most states in the U.S. to obtain a temporary injunction: (1) a substantial likelihood of success on the merits; (2) that irreparable injury will be suffered if the relief is not granted; (3) that the threatened injury to plaintiff outweighs the harm the relief would inflict on defendant; and (4) that entry of the relief would serve the public interest.

The main differences between the Act and U.S. law thus are that (a) U.S. law does not have a requirement that a petitioner who seeks a temporary injunction must apply to the court with “clean hands”; and (b) in order to obtain a temporary injunction under the Act, a plaintiff does not have to show irreparable injury.

An additional requirement under the Act is that the petitioner post a bond to cover any damages defendant may suffer should the court hold that there were no grounds for granting the temporary injunction. Very often a similar requirement is also imposed by U.S. courts on petitioners seeking temporary injunctions.

Under the Act, even if a trade secret has been publicized, the court may maintain the injunction if the defendant derived illicit profit from the secret before it was been publicized and continues to derive profit from the use of the trade secret after its publication. The UTSA also provides that an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.<sup>1</sup> A comment to the UTSA further clarifies that “*subject to any additional period of restraint necessary to negate lead time*, an injunction accordingly should terminate when a former trade secret becomes . . . generally known to good faith competitors.”<sup>2</sup> In this respect, therefore, the UTSA and the Act grant very similar powers to courts.

However, with respect to monetary damages, the Act and the UTSA diverge greatly. The UTSA provides that “. . . a complainant is entitled to recover damages for misappropriation” and that “[d]amages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.”<sup>3</sup> Nowhere in the UTSA is a complainant granted a statutorily-fixed amount of monetary damages like in the Act, which provides that a complainant can receive NIS100,000 without ever having to prove actual damages at all. The Act’s grant of a fixed amount of money to a complainant appears to be along to lines of punitive damages, which the UTSA only provides if the misappropriation is willful and malicious.<sup>4</sup> Under the Act, a successful complainant essentially can decide whether he wants NIS100,000 or his actual losses. This seems like a strange and arbitrary power to bestow on the victim of trade secret misappropriation.

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<sup>1</sup> §2(a) of the Uniform Trade Secrets Act

<sup>2</sup> *Comment* to §2 of the Uniform Trade Secrets Act

<sup>3</sup> §3(a) of the Uniform Trade Secrets Act

<sup>4</sup> *Id.* at §3(b)

In addition, under the Act a plaintiff can only claim an accounting for a defendant's profits derived from unjust enrichment *in the alternative*—meaning, a plaintiff would have to choose between his actual losses and the amount by which defendant was unjustly enriched. By contrast, a comment to the UTSA provides that, as long as there is no double counting, §3(a) allows recovery of both a complainant's actual losses and a misappropriator's unjust benefit that are caused by misappropriation.<sup>1</sup> Overall, the approach by the UTSA seems to be more just towards the victim of trade secret misappropriation, and at the same time avoids the arbitrary awards of the Act.

The provision in the Act that grants the court authority to order the destruction of the infringing assets (or, upon the plaintiff's request, to transfer ownership of the infringing assets to the plaintiff) has no equivalent at all in the UTSA. Additionally, while the UTSA allows the possible award of reasonable attorney's fees<sup>2</sup>, no such provision exists in the Act.

Finally, while the UTSA does not specifically state that disclosure of a trade secret during the course of litigation will be ordered only if it is essential to determining the controversy, it does appear to take preservation of secrecy very seriously. The UTSA provides that a court may grant protective orders in connection with discovery proceedings, hold in-camera hearings, seal the records of an action, and order any person involved in the litigation not to disclose an alleged trade secret without prior court approval.<sup>3</sup> In that respect, the UTSA grants courts as much power to preserve the secrecy of trade secrets as does the Act.

*Note that since they are beyond the scope of the UTSA and the Restatements (and thus cannot be compared to any body of law pertinent to this assignment), covenants not to compete and penal sanctions will not be addressed. However, one point of general interest is that Israeli*

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<sup>1</sup> Comment to §3 of the Uniform Trade Secrets Act

<sup>2</sup> §4 of the Uniform Trade Secrets Act

<sup>3</sup> §5 of the Uniform Trade Secrets Act

*courts have held, in view of the small area of Israel, that it is possible that the legitimate interests of the employer may justify a geographic restriction in a covenant not to compete that extends over the entire country!*<sup>1</sup>

### **Part 3 – References to Israeli Trade Secrets Law**

Although Israel is a major force in the world of international intellectual property (including trade secrets), there are surprisingly few reported references to the Act. This may be due to the Act's relatively young age, or the fact that most references to the Act are most likely printed in Hebrew. In fact, an ordinary Google™ search reveals virtually nothing of interest at all. A search on Westlaw's ALLNEWSPLUS database, however, produces two news stories that refer to the Act.

In the first story, published on March 14, 2004, the Tel Aviv District Court issued two injunctions in favor of RoboGroup T.E.K, a world leader in engineering and manufacturing technology training systems, and against Furier Systems Ltd (a company on which there is no information and which appears to no longer exist). The court issued the injunctions after determining that certain proprietary information, including commercial secrets of RoboGroup, was found in Furier's offices and computers, and that Furier had breached the Act.<sup>2</sup>

In the second story, published on June 06, 2007, Hot Cable Systems Media Ltd. accused Bezeq International, Israel's premier telecommunications company, of trying to suborn employees to disclose information about the identities of internet service customers. HOT employees claimed that they had received offers of money or other benefits from Bezeq employees to divulge details about new and existing customers for the company's internet services. HOT claimed these acts constituted illegal industrial espionage.<sup>3</sup> However, since this story was only

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<sup>1</sup> 2 TRADESEC § 21:8

<sup>2</sup> *Tel Aviv District Court Issues Two Injunctions in Favor of RoboGroup*, PR Newswire (March 14, 2004)

<sup>3</sup> Guy Hadass, *HOT accuses Bezeq of industrial espionage*, 2007 WLNR 10628456 (June 7, 2007)

released last year, no further information is available as to how Israeli courts will look upon the matter.

#### **Part 4 – Optimization of Israeli Trade Secrets Law to Promote International Protection of Trade Secrets**

The Act has many similarities to U.S. trade secrets law. However, as noted above, there are several key deficiencies in the Act that might act to undermine people’s efforts to protect their trade secrets internationally. The following is a brief list of possible improvements that might help to resolve some of these deficiencies.

The first and most urgent revision to the Act should be replacing each instance of the term “use” with the term “use or disclosure.” By making this simple edit, the Act would protect against the danger of former employees revealing trade secrets to new employers. In addition, a provision similar to that found in UTSA §1(2)(B)(iii) should be added to the Act’s definition of misappropriation (“disclosure or use of a trade secret of another without express or implied consent by a person who before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by *accident or mistake*”). This provision is essential in order to protect against persons who use a trade secret that was mistakenly or accidentally acquired. Although adding such a provision might appear slightly unjust, it would add additional protection for people who wish to protect their trade secrets internationally, and might thus be desirable.

Second, changing the Act’s use of the term “illegal means” to the term “improper means” would broaden the scope of the its protection by allowing courts to decide what means are improper in particular situations—it would add flexibility to a system that is currently too rigid.

Third, as mentioned previously, if a customer list contains nothing but names of customers who are very difficult to find, the list would not be protected under the Act. This issue should

be resolved in order to provide people with the security of knowing that such customer lists can be protected in Israel.

Finally, regarding remedies, a successful complainant currently can decide whether he would prefer NIS100,000 or his actual losses. Although it seems arbitrary to guarantee a person NIS100,000 where his actual losses might be far lower, this provision can actually help protect trade secrets—providing such a large award might encourage extraordinary vigilance on the part of recipients of confidential information not to disclose the trade secret for fear of being sued. However, if a plaintiff rejects the NIS100,000 award, he would then have to choose between his actual losses and the amount by which defendant was unjustly enriched. This provision should be changed to allow a plaintiff both his actual damages *and* the amount by which defendant was unjustly enriched (being careful, like under the UTSA, to avoid double-counting). Lastly, the Act should allow for the possible award of reasonable attorney's fees to successful litigants. Doing so would encourage such litigants to actively protect their trade secrets, without worrying excessively about the costs of litigation.

If Israel's Commercial Wrongs Act incorporated the above changes, it would provide stronger protection for trade secrets in a country that is one of the world's leading producers of intellectual property. Needless to say, if the government wants innovators to bring their technologies to Israel, it is important that it act to make such protection as thorough as possible.



Appendix  
Commercial Torts Law, 5759-1999<sup>1</sup>

**Chapter One**  
**Unfair Competition**

*Passing Off*

1.-(a) A business shall not cause the goods he sells or the services he offers to be mistaken for the goods or services of another business or related to another business.

(b) The use in good faith by a business of his own name, in order to sell his goods or offer his services, shall not of itself be regarded as passing-off.

*False Description*

2.-(a) A business shall not advertise, nor cause to be advertised, something that he knows or that he ought to know is untrue with respect to his own business, profession, goods or services or those of another business (hereinafter: "false description").

(b) A person who distributes an advertisement of another person, or on behalf of another person, which contains a false description, or a person who decides to actually effect an advertisement containing a false description, shall not be liable under this section unless he knew that the description was a false description, or unless the description is, on its face, a false description.

*Unfair Interference*

3. A business shall not unfairly prevent or burden the access of customers, employees or agents to the business, goods or services of another business.

*Tortfeasor and Victim*

4. The obligations under this Chapter shall apply to a business who performs an act prohibited under this Chapter during the course of his business or in relation to it, to another business who is harmed or suffers damage as a result of the breach of the obligation, during the course of his business or in relation to it.

**Chapter Two**  
**Misappropriation of Trade Secrets**

*Definitions*

5. In this Chapter:

"Owner"-Including someone who has legal possession of a trade secret;

"Trade secret" or "secret"-Commercial information of every kind, which is not public knowledge or which cannot readily and legally be discovered by the public, the secrecy

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<sup>1</sup> Israel - *Unfair Competition (Commercial Torts)*. World Intellectual Property Organization, Law, 19/04/1999 - 5759(il012), Available at: <[http://www.wipo.int/clea/docs\\_new/pdf/en/il/il012en.pdf](http://www.wipo.int/clea/docs_new/pdf/en/il/il012en.pdf)>

of which grants its owner an advantage over his competitors, provided that its owner takes reasonable steps to protect its secrecy;  
"Use"-Including the transfer to another person.

### *Prohibition Against Misappropriation of a Trade Secret*

- 6.-(a) A person shall not misappropriate another's trade secret.
- (b) Any of the following acts constitutes a misappropriation of a trade secret:
- (1) The taking by illegal means of a trade secret without its owner's consent; for this purpose it shall make no difference whether the secret was taken from its owner or from another person in possession of the trade secret;
  - (2) Use of a trade secret without its owner's consent, the use being contrary to a contractual or fiduciary obligation imposed upon the user in favor of the owner of the secret;
  - (3) The receiving of a trade secret or use of it without its owner's consent, the receiver or user knowing, or it being obvious at the time of receipt or use, that the secret was transferred to such person in a manner prohibited by paragraphs (1) or (2) or that the secret was transferred to any other person in such prohibited manner prior to reaching the present receiver or user.
- (c) The revealing of a trade secret by reverse engineering shall not of itself be considered an illegal means under paragraph (b)(1); for the purposes of this subsection, "reverse engineering"-disassembly or analysis of a product or process with the aim of deciphering a trade secret by working backwards.

### *Exceptions to Liability*

- 7.-(a) A person shall not be liable for misappropriation of a trade secret if one of the following applies:
- (1) The knowledge latent in the trade secret came into his possession in the course of his employment with the owner of the trade secret and such knowledge became part of his general professional skills;
  - (2) Use of the trade secret is justified as a matter of public policy.
- (b) Should a person make use of a trade secret as set out in paragraph (a)(2) and gain a benefit as a result of such, the court may, if it sees fit in the circumstances of the case, order such person to return the benefit in whole or in part to the owner of the secret.

### *Bona Fide Purchase for Value*

- 8.-(a) A person shall not be liable under section 6(b)(3) for use made of a trade secret if he purchased and received the trade secret in good faith for consideration, unless the court is of the view that liability should be imposed for misappropriation of a trade secret in order that justice be done between the parties.
- (b) Should the court impose liability as set out in section 8(a) the court may exempt the person held liable for misappropriation of the trade secret from the remedies available to the owner of the secret, in whole or in part.

### *Essential Similarity*

9. Use of a trade secret shall also include use of a secret which has been altered, so long as there is an essential similarity between the trade secret and the information actually used.

#### Presumption of Use

10. The defendant will be presumed to have used a trade secret belonging to the plaintiff if the following apply:

- (1) The trade secret was known to the defendant or he had access to it;
- (2) The information which the defendant was using is essentially similar to the information that is the subject of the trade secret.

## **Chapter Three Tortious Acts and Remedies**

### *Tortious Act*

11. The violation of the provisions of Chapters One and Two is a tortious act, and the Civil Wrongs Ordinance [New Version] (hereinafter: the "Civil Wrongs Ordinance") shall apply subject to the provisions of this law.

### *Applicable Remedies*

12. The remedies set out in secs. 13 through 21 shall not apply to tortious acts set out in secs. 2 and 3.

### *Statutory Damages*

13.-(a) The court may, at the plaintiff's request, award damages for every wrong, without proof of actual damage, in an amount of not more than NIS 100,000.

(b) For the purposes of this section, acts carried out as part of one single set of activities shall be regarded as a single wrong.

(c) The Minister of Justice may, by order, change the amounts set out in subsec. (a), with the approval of the Constitution, Law and Justice Committee of the Knesset.

### *Review of Injunction*

14. Where an injunction has been granted in favor of the owner of a trade secret, the opposing party may at any time request a review of such injunction, on the grounds that the trade secret has been made public; where the court finds that the applicant has gained an unfair advantage from the possession of the secret before its publication, the court may, so long as such advantage persists, leave the injunction in force.

### *Giving of Accounts*

15. The court may require the defendant to give an account to the plaintiff, in the manner set out in the Regulations, with respect to the details of the wrong.

### *Appointment of Receiver*

**16.-(a)** Where it is proven to the court's satisfaction, by affidavit or by any other form of testimony, that there is a real suspicion that a wrong has been committed, the court may appoint, by order, a receiver who will be authorized to enter the premises of the defendant or those of a person other than the defendant (hereinafter: a "third party") in order to search and seize goods produced through the commission of the wrong or which were used for the purpose of such commission, or in order to seize evidence where there is a reasonable suspicion of concealment of evidence; in the search and seizure under this Chapter of a computer, computer material or output, as defined in the Computers Law 5755-1995, the provisions of secs. 23A and 32(b) of the Criminal Procedure (Arrest and Search) Ordinance [New Version] 5729-1969 shall apply, *mutatis mutandis*.

(b) The receiver will be authorized to use such reasonable force as is necessary to carry out the order, provided that he is accompanied by a police officer; the court may order the police to assist the receiver in carrying out his duties under the order.

(c) The entry, search and seizure shall be carried out by the receiver in the presence of two witnesses; the receiver will provide the court with a report on the search and seizure within three days of the date of carrying it out.

### *Ex Parte Order*

**17.-(a)** Where an application for the issue of an order appointing a receiver be filed and it is proven to the court's satisfaction, by affidavit or by other evidence, that there is a reasonable suspicion that the stay of proceedings until a hearing involving both parties is liable to cause serious harm to the party requesting the order or is liable to give rise to the disappearance of the goods, the court may issue the order *ex parte*.

(b) Where an *ex parte* order is issued, a hearing involving both parties will be held as soon as possible, and in any case no later than seven days after the *ex parte* order is issued, unless the court decides upon a later date for special reasons that it shall set out.

(c) An order under the provisions of this section may be issued prior to the bringing of an action; where no action is brought within seven days after the issue of the order, the order will expire unless the court decides upon a later date for special reasons that it will set out.

### *Security*

**18.** The court shall not grant a temporary order under this Chapter unless subject to the provision of adequate security, in favor of the party against which the order under secs. 16 or 17 is issued, to cover compensation for damage caused as a result of the issue of the order in case the action is dismissed or the order expires for any other reason, and subject to the provision of a bond as set out in sec. 19.

### *Bond*

**19.-(a)** A bond as mentioned in sec. 18 shall be deposited in the sum of no less than NIS 1,000 and no greater than NIS 25,000 as the court may determine; the bond shall be deposited in the form of cash or bank guarantee; the court may, if it is convinced that there are special reasons for so doing, make the issue of the order conditional upon the provision of another bond.

- (b) At the defendant's request, the court may increase the amount of the bond above the sum set out in subsec. (a) should it be convinced during the course of proceedings that this is justified.
- (c) If the action is dismissed or the temporary order expires, the court dealing with the action may order the bond forfeited, in whole or in part, in favor of the person against whom the order was issued under sec. 16 or 17, if the court is convinced that the application for the order was unreasonable in the circumstances; the forfeiture of the bond is not conditional upon the causing of actual damage to the person against whom the order was issued.
- (d) The forfeiture of the bond shall not of itself derogate from the right of the person in whose favor it was forfeited to be compensated for damage suffered by such person by means of the security set out in sec. 18 or in accordance with any law, by the bringing of a separate action.

### *Third Party Rights*

**20.**-(a) In granting an order under secs. 16 or 17 authorizing entry into premises owned by a third party, the court will consider, *inter alia*, the possibility-

- (1) That the third party has rights in the goods or in the evidence in respect of which the order is requested, and the quality of such rights;
- (2) That the third party is a party to the wrong.

(b) Where the goods or the evidence in respect of which an order under secs. 16 or 17 is requested are in the possession of a third party, the court will notify such third party of its right to join the proceedings within the time provided for such.

(c) Where a third party claims rights in goods or evidence seized under this Chapter, he may join the proceedings within 14 days of the date on which he was notified of their seizure.

(d) Where it becomes apparent to the court during the course of the hearing that a third party may have rights in goods or evidence seized under this Chapter, the court will notify such third party of its right to join the proceedings as a party, within the time provided for such; the third party may join the proceedings at any stage of the proceedings.

(e) Where a third party joins the proceedings, the court will hold a hearing in the presence of the third party as early as possible and in any event no later than 14 days after the date of request of the application for joinder of the third party.

### *Destruction of Goods*

**21.** The court may order, at the end of the proceedings in an action, any one of the following:

- (1) the destruction of the goods produced in the course of the commission of a wrong or which were used to commit a wrong (in this section: the "goods");
- (2) if the plaintiff so requests, the transfer of ownership in the goods to the plaintiff, in consideration for payment of the value of the goods but for the commission of the wrong;
- (3) the doing of any other act in respect of the goods.

## **Chapter Four Miscellaneous**

### *Jurisdiction of Labor Court*

**22.**-(a) The District Labor Court shall have exclusive jurisdiction:

- (1) in an action between an employee and his employer (or successor), with respect to a question regarding breach of the provisions of Chapter Two, that arises out of an employer-employee relationship;
  - (2) in an action with respect to a question regarding breach of any of the provisions of Chapter Two that arises out of a contract establishing an employer-employee relationship, but which breach occurred before that relationship began, or after the relationship ended.
- (b) In actions presided over by the Labor Court under this section, a single judge shall have jurisdiction to issue temporary injunctions and to grant the relief set out in secs. 15 through 20.

### *Non-Disclosure of Commercial Secret*

- 23.**-(a) The court may, on its own initiative or upon application, issue an order to ensure that a commercial secret revealed during the course of legal proceedings and belonging to a litigant or to any other person not be made public.
- (b) The court may, at the application of any person, issue an order during the course of legal proceedings, in respect of the manner of adducing evidence constituting a commercial secret.
- (c) In legal proceedings in a civil matter, the court may, at the application of any person, issue an order relating to the non-disclosure of evidence constituting a commercial secret, provided that it is of the opinion that the interest in non-disclosure of the evidence is greater than the need to disclose it for the purposes of the doing of justice, and that the issuing of an order under sub-secs. (a) and (b) would not protect the commercial secret.
- (d) In this section, the term "court" shall include a court, tribunal, body or person with judicial or para-judicial authority under any law.

### *Effect of Law*

**24.** Nothing in the provisions of this law shall be taken to derogate from the provisions of the Restrictive Trade Practices Law 5748-1988, or the provisions of any other law.

### *Enforcement and Regulations*

**25.** The Minister of Justice has responsibility for this law and he may make regulations concerning its enforcement, with the consent of the Constitution, Law and Justice Committee of the Knesset, and particularly with respect to the procedures of receivers appointed under this Law, including-

- (1) Provisions for the filing of reports under sec. 15;
- (2) Methods of filing an application for a receivership order;
- (3) Provisions for the joinder of a third party;
- (4) Rules for carrying out search and seizure of goods;
- (5) The manner of registering goods seized;
- (6) The manner of dealing with goods seized and their storage;
- (7) Rules for carrying out court orders regarding the destruction of goods;
- (8) Rules for respecting the confidentiality of matters discovered during searches.

*Amendment of Courts Law-No. 26*

**26.** The following shall be inserted in sec. 68(b) of the Courts Law [Consolidated Version] 5744-1984, after paragraph (7):

"(8) for the protection of a commercial secret."

*Amendment of Consumer Protection Law-No. 8*

**27.** In the Consumer Protection Law, 5741-1981-

(1) the following shall be inserted in sec. 2(a), after paragraph (19):

"(20) since the origin of the property sold is in bankruptcy, receivership or the liquidation of a company.";

(2) the following shall be inserted in sec. 31 after subsec. (a):

"(a1) the right to relief for a wrong as aforesaid is granted to a consumer who is harmed by such wrong, and to a dealer who is harmed, during the course of his business, by the deceit as aforesaid in sec. 2.

(a2) Chapter F1 shall not apply to a dealer harmed by a wrong as aforesaid during the course of his business."

*Amendment of Civil Wrongs Ordinance-No. 8*

**28.** Sec. 59 of the Civil Wrongs Ordinance [New Version] is repealed.

*Commencement*

**29.** This law shall commence six months after the date of its promulgation.