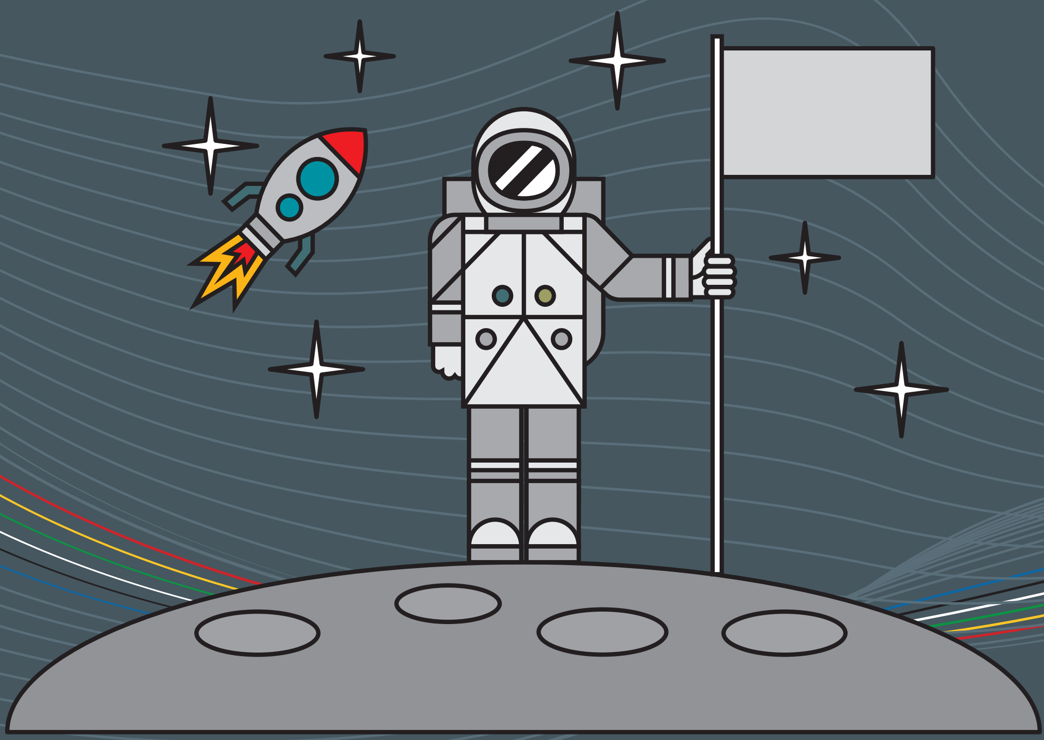

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INTELLECTUAL PROPERTY

Bernadette Versfeld

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WEBBER WENTZEL
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Introduction

Intellectual property (IP) is considered an intangible asset and as a result companies often fail to recognise its critical value as a business asset. In its simplest form, the IP of a company is its brand, but it can also range from software and unique systems or processes that the company has developed for meeting its needs to inventions or designs that give it a competitive edge.

A company's IP is not an end in itself but rather a tool that must be used to power the company's growth and development.

International Conventions

South Africa is a member of the Berne Convention, the Paris Convention and the Patent Cooperation Treaty. The Paris Convention requires member countries ensure that various forms of IP enjoy minimum standards of legal protection. With regards to the protection of IP, each country that is party to the Paris Convention must grant the same protection to nationals of other member countries as it grants to its own nationals. This guarantees that foreigners are protected and that they will not be discriminated against in any way.

South Africa's accession to the Paris Convention establishes the right of priority. This means that, on the basis of a regular application for a patent, design and trade mark lodged in South Africa, the same applicant may, within a specified period of time, apply for protection in all other member countries. These later applications will then be regarded as if they had been filed on the same day as the earliest application.

Together with great practical advantages, like not having to present all applications at home and in foreign countries at the same time, the right to priority will also enable the application to enjoy a priority status with respect to all applications relating to the same invention filed after the date of the first application.

The aim of the Berne Convention is to protect, in as effective and uniform a manner as possible, the rights of authors to their works. One of the fundamental principles is that protection is granted automatically and is not subject to formalities such as registration and deposits.

The Patent Cooperation Treaty (PCT) is an agreement for international cooperation in the field of patents. To achieve the objective of improving on the interests of users of the patent systems through simplification, effectiveness and economy, the PCT establishes an international system which enables the filing, with a single patent office, of a single application in one language having effect in each of the countries party to the PCT which the applicant names in his or her application.

Trade Marks

South African trade mark law is regulated by the Trade Marks Act, No. 194 of 1993 (the Trade Marks Act). It came into effect on 1 May 1995 and aligned South African trade mark law with international developments, particularly developments in the European Union.

A trade mark is a mark used or proposed to be used by a person in relation to goods or services for the purpose of distinguishing those goods or services from those of others. A trade mark is therefore a badge of origin.

The importance of a trade mark cannot be underestimated. Fundamentally, it provides protection to the owner of the mark by ensuring exclusive rights to use it to identify goods or services. It also promotes initiative and enterprise by rewarding the owners of trade marks with recognition and financial gain.

A trade mark attaches to the sustainability and commercial attractiveness and recognition of a particular product or service. Registration of a trade mark is not a legal requirement in South Africa, as South African trade mark law protects common law rights. However, there are many advantages to registration. A trade mark registration provides the owner with a prima facie right to the trade mark, acts as a deterrent to potential infringers, attracts licensees and allows the owner to use the registered trade mark legend or an abbreviation thereof.

The Trade Marks Act allows a trade mark owner to secure registration for a trade mark by applying for registration at the Trade Marks Office. In order for a trade mark to be registered it must, at the date of application, be inherently capable of distinguishing the goods and services of one person, in respect of which it is proposed to be registered, from the goods and services of another person. A trade mark can also be considered capable of distinguishing by reason of prior use. Furthermore, the applicant must be using the trade mark or must have an intention to use the trade mark in South Africa. The use of a trade mark includes use by a licensee with the consent of the owner of the trade mark.

Prior to using or applying to register a trade mark in South Africa, an applicant should undertake a search in the Trade Marks Register to determine whether the trade mark is capable of distinguishing and to ensure that it will not infringe any third party rights.

Searches in the register of company names and relevant domain name registers are also recommended. This will provide a holistic picture of the extent of name use (trade mark) and its availability for use. The criteria for company name and domain name registration is based on a first-come, first-served basis and is therefore distinct from trade mark registration.

Well-known trade marks

Section 35 of the Trade Marks Act provides for protection of well-known trade marks in South Africa, irrespective of use or registration. In practice, this allows for the protection of well-known international trade marks against the unauthorised reproduction, translation or imitation in circumstances where it is not registered in South Africa.

Territoriality

Where a business operates, now and in the future, must be a consideration of a trade mark proprietor. It is desirable to be able to protect a trade mark in all countries where business will be conducted and goods or services marketed. This is important to remember as trade mark registration is territorial in nature; registering a trade mark in South Africa will not protect the trade mark in any other country.

In particular, South Africa forms part of a customs union, which allows the free flow of goods and services between Botswana, Lesotho, Namibia, South Africa, and Swaziland. Trade mark registration in each of these countries, in addition to South Africa, is therefore particularly desirable.

The Merchandise Marks Act, No. 61 of 1941, as amended, continues to deal with ambush marketing although it is now substantially repealed in terms of the Consumer Protection Act, No. 68 of 2008 (CPA). It provides for the designation of “protected events” at which no one may use a trade mark without the organiser’s prior authority. Contravention thereof is a criminal offence.

Legislation

The CPA

The CPA, which came into effect on 31 March 2011, contains provisions requiring the registration of business names whenever:

- a person trades under a name which is not his or her full name as stated in his or her identity document; or
- in the case of a juristic person, registered in terms of a public regulation.

Failure to comply with these provisions may result in the Consumer Commission issuing a compliance notice requiring the person to discontinue trading under an unregistered business name. These provisions are relevant to franchise agreements where the franchisee usually trades under a name which includes the franchisor’s IP rather than its own name.

Sections 79 to 81 of the CPA, in particular, deal with the use of business names, with Section 79 creating the Business Names Register of the Companies and Intellectual Property Commission. The purpose of these sections are to prevent the use of business names that can potentially result in confusion among consumers. This confusion includes circumstances where consumers confuse the name of one business with that of another and circumstances where consumers are misled into thinking that one business is associated with another business. Confusion among consumers is often caused by a party incorporating the trade mark of a third party into its business name.

It is envisioned that the Business Names Register created in terms of Section 79 of the CPA will operate alongside the Trade Marks and Company Names Registers. If this Register is applied correctly, it will enable trade mark owners to identify infringing business names, which may not have been previously detected.

Section 81(2)(a) of the CPA provides protection for trade marks in that it prohibits the registration of business names that are identical to or confusingly similar to:

- the name of a juristic person;
- a registered trade mark; or
- a trade mark for which registration has been applied.

Section 81(2)(b) of the CPA also provides some form of protection to trade marks, in that it prohibits the registration of business names that "falsely imply or suggest, or would reasonably mislead a person to believe that the business is part of, or associated with, any other person or entity".

In the circumstances where a company name contravenes Section 81(1)(2) above, Section 80(1)(c) of the CPA authorises a person (including a juristic person) to file a notice with the Registrar of Companies to inform him or her of such contravention. The Registrar of Companies will then consider the filed notification. If there are reasonable grounds for the complaint, he or she will deal with the complaint in terms of Section 160 of the Companies Act, No. 71 of 2008 (the Companies Act).

The CPA also contains provisions dealing with the application of a false trade description to goods and the alteration of a trade mark.

It should also be noted that the CPA aims to, among other things, protect consumers against deceptive, misleading, unfair or fraudulent conduct. Accordingly, the CPA contains various provisions prohibiting the use of misleading or deceptive labelling (product descriptions) and advertising (marketing).

The Companies Act

The Companies Act, which came into force on 1 May 2011, also offers protection for trade marks and company names. Section 11 sets out the criteria for company names with Section 11(2) prohibiting company names that are identical to:

- "(a)(ii) the name of another company, domesticated company, registered external company, close corporation or cooperative"; and
- "(a)(iii) a registered trade mark belonging to a person other than the company, or a mark in respect of which an application has been filed in the Republic for registration as a trade mark, or a well-known trade mark as contemplated in Section 35 of the Trade Marks Act, unless the registered owner of that mark has consented in writing to the use of the mark as the name of the company".

Section 160 of the Companies Act provides that any person (including a juristic person), who has an interest in the name of a company, may apply to the Company Tribunal for a determination of whether the relevant company name adheres to the requirements of the Companies Act. That is, whether the company name contravenes Section 11(2) of the Companies Act.

An applicant may file an objection with the Companies Tribunal in the following situations:

- the offending entity name is similar to the applicant's company name, trade mark or business name;
- the entity name is offensive or misleading or suggests a connection with another entity, organ of State, Government department, foreign state or international organisation; or
- the offending entity name includes a word, expression or symbol considered to constitute propaganda for war, incitement to violence or advocacy of hatred based on race, ethnicity, gender or religion, or incitement to cause harm.

There is no time limit within which such an application may be brought, although the time periods for answering such applications and replying to that answer is limited by the Companies Act. If the application is granted, the Tribunal may order the Companies Commission to amend the contested company name or order the infringing company to change its name and file a notice of amendment of its Memorandum of Incorporation. The Companies Tribunal may also grant a cost order in favour of the applicant.

Registered Designs

In the marketplace the shape or design of an article plays an important role. There are situations where the mere appearance of an article will have a major impact on the consumer's decision to purchase it. In other situations the shape or colour of a particular article will not be of relevance to the consumer who will be focusing instead on the purpose of the purchase. A farmer looking to purchase an industrial-sized irrigation system will not be looking at the aesthetics of the irrigation system, but instead at its functionality and ability to do its job properly.

The appearance of a product can either be the key to its success or failure in the market. In South Africa, the Designs Act, No. 195 of 1993 (the Designs Act), protects the appearance (design) of new products so that commerce can function with a degree of certainty and protection. In order to acquire design rights in South Africa, the design must be registered. This is in contrast with the position in the UK where design rights may arise automatically, much like copyright under South African copyright laws.

In terms of the Designs Act, only a design that has been applied to an article of manufacture may be protected. A design may be protected as either an aesthetic design or a functional design:

- an aesthetic design is a design having aesthetic features which are judged solely by the eye, irrespective of the aesthetic quality thereof, such as a specific shape of a bottle, a pattern on cups and saucers or even the shape and configuration of the headlights of a car; and
- a functional design is a design that is applied to an article that is necessitated by the function of the article, such as the shape and/or configuration of a gear cog, the specific design of which is necessary for it to function properly.

The classification of a design as either functional or aesthetic raises a potential challenge. Protection as a functional design is required if the features of an article are necessitated solely by the function that the article is intended to perform. However, the same article may also be appealing to the eye of the consumer, therefore protection as an aesthetic design will also be required. In this instance, Section 15(3) of the Designs Act allows an article to be registered as both an aesthetic and functional design.

The procedure to obtain registered designs is relatively simple. Registration provides powerful rights that are easier to enforce in litigation compared to copyright. There is no substantive examination by the Registrar of Designs. The onus is therefore on the applicant to ensure that the aesthetic design is new and original, and that the functional design is new and "not commonplace in the art".

A design will be deemed "new" if it is a different form or if it does not form part of the state of art immediately before the date of application or release, whichever date is earlier. Unlike patent law, if the release date is earlier, a design will still be new if an application for registration is filed within six months of the date of release to the public. With regards to the question of whether it forms part of the "state of art", the test to apply will be to determine the scope of the design as well as the import of the alleged anticipation. If, after a comparison of the two, the alleged anticipation and the design are substantially identical, there can be no novelty. It is a matter of fact, judged by the eye.

While non-compliance with these requirements will not prevent registration of the design, the registration may later be revoked if it is revealed that there was no substantive compliance.

The registration of an aesthetic design remains in force for a maximum period of 15 years, and a functional design for a maximum of 10 years, provided renewal fees are paid annually from the third year of the application date. It is important to bear in mind that this protection will sometimes overlap with protection provided by other categories of IP. For example, if a design is distinctive in nature, it could qualify for registration under the Trade Marks Act. If we are dealing with an artistic work it could also fall under the ambit of the Copyright Act, thus providing up to 50 years protection.

Copyright

Copyright law in South Africa is governed by the Copyright Act, No. 98 of 1978, as amended (the Copyright Act). Copyright protection ordinarily means that the creator alone has the right to make copies of his or her work or alternatively, prevents all others from making such copies. The basic idea behind such protection is the premise that innovations require incentives.

Copyright subsists in various forms of "works" which are defined in the Copyright Act. The work must be original. It must not simply be copied from somewhere else, but instead the work must be the result of one's own skill and effort. If this is the case, copyright protection is extended to the following categories of works:

- literary works;
- musical works;
- artistic works;
- cinematograph films;
- sound recordings;
- broadcasts;
- programmes carrying signals;
- published editions; and
- computer programmes.

The term of copyright conferred by the Copyright Act depends on the work but is generally:

- Lifetime of author,
- 50 years after death; and
- Period of copyright protection.

The Copyright Act contains provisions governing the:

- identity of the author of the various types of protected works;
- nature of the copyright in the various types of works;
- exceptions to the protection afforded by the Copyright Act;
- transmission of copyright;
- provisions providing for moral rights;
- infringement of copyright; and
- remedies for infringement.

Provision is also made for the establishment of the Copyright Tribunal, with jurisdiction to determine disputes arising between licensing bodies and persons requiring licences.

It should be noted that copyright protection arises on the creation of a work. Once an original work has been reduced to a material form, copyright will arise automatically in that work because registration is not required.

The Registration of Copyright in Cinematograph Films Act, No. 62 of 1977, makes it possible for the copyright in cinematograph films to be registered. Such registration is not required to establish the subsistence and ownership of copyright, but is useful for evidential purposes.

Musicians and performing artists of literary and artistic works are provided with additional protection by the Performer's Protection Act, No. 11 of 1967. This Act is especially relevant to royalties payable to performers and musicians, the use of their work by third parties (including record companies) and the assignment of their rights to third parties (including record companies). This Act also gives partial effect to the Rome Convention, to which South Africa has not yet acceded to.

Copyright piracy

There is a natural demand across borders for the production and sale of copyrighted products. With the advancement of technology, these items are able to flow easily across the boundaries. This practice has emerged as a major factor in international relations, with the focus being on the increasing international proliferation of piracy.

An example of how copyright piracy has the ability to affect international trade relations can be seen in the relationship between China and the United States. In the early 1990s, China became home to a large concentration of pirate CD manufacturing plants which produced pirated CDs around the clock. This development directly affected the United States, especially the success of the exports of aspects of their entertainment industry. As a result of the violation of IP rights occurring in China, high annual losses were being recorded in the United States economy. The relationship between the United States and China became increasingly strained and immediate intervention was required.

The main reasons behind copyright piracy are poor enforcement mechanisms and lack of awareness on copyright matters. In South Africa, the relevant provision in the Copyright Act is Section 23(1). Copyright will be infringed if "any person, not being the owner of the copyright who, without licence of such owner, does or causes any other person to do, in the Republic, any act which the owner of the copyright has the exclusive right to do or authorise".

In an attempt to enforce Section 23 of the Copyright Act, there has recently been an anti-piracy media onslaught, targeting South African consumers by labelling the producers and consumers of pirated goods as "criminals" and "immoral".

Copyright piracy is like any other theft which leads to loss for owners of their property. Besides economic loss, piracy also adversely affects the creative potential of a society as it denies people such as authors and artists their legitimate dues. In South Africa, some would argue that the plight of IP is still considered low on the list of social priorities. In order to protect the rights of those deserving protection, anti-piracy movements need to work towards ensuring a stronger police presence and tighter enforcement.

Patents

Patent law is regulated by the Patents Act, No. 57 of 1978, as amended (the Patents Act). A patent may be granted for any new invention which involves an inventive step and which is capable of being used or applied in trade, industry or agriculture. An invention may be protected in terms of the Patents Act, provided the invention is novel.

The Patents Act provides for an applicant to apply at the Patent Office for a patent for an invention. Prior to applying for a patent, it is recommended that a patent novelty search be conducted to determine the viability of patenting an invention. An invention must not be disclosed to the public before the application is made as this will destroy the novelty of the patent and the subsequent patent application may be unsuccessful.

A patentee has the exclusive right to enjoy the whole profit and advantage accruing by reason of the invention as the effect of the patent is to grant the patentee, for the duration of the patent, the right to exclude other persons from marketing, using, exercising, disposing of, offering to dispose of or importing the invention.

Like trade marks, patents are territorial in nature in so far as their enforcement is concerned. In South Africa, patent protection lasts for 20 years provided that the annual renewal fees are paid from the third year following filing.

According to the case of Audiosport International (Pty) Ltd v The Registrar of Patents and others 87/1989 2012, only the term of the patent can expire, not the patent itself. A patent will continue to have legal force and effect and only the remedies available to the patentee after expiry will be affected.

The court confirmed that after the expiry of the patent term:

- patent infringement proceedings can be instituted; and
- a patent can also be revoked.

The fact that the court held that a patentee may apply for and amend its patent, even after expiry of the patent term, is noteworthy.

In *University of Pretoria v the Registrar of Patents* ZA2005/08679, the court upheld the Registrar of Patents' decision to refuse the rectification of the register of patents where the applicant failed to abide by the express procedural provisions in the Patents Act.

More importantly, the court held that an applicant will not be able to rely upon Section 16(2) of the Patents Act (which allows for the extension of time periods prescribed in terms of the Patents Act) if the applicant fails to adhere to the expressed provisions contained in the Patents Act, unless the applicant can show good cause as to why the procedural provisions were not adhered to. This should function as a warning to applicants to ensure they abide by the procedural requirements of the Patent Act.

International patent applications

An application for a patent can be made in South Africa in the first instance or may claim priority from a prior application in a foreign country.

Where an applicant has filed an application in South Africa in the first instance and subsequently wishes to seek protection abroad, they may do so within a year of the South African filing date. This is achieved by filing a corresponding patent application in the other country. It is enabled by South Africa's accession to the Paris Convention and is only possible between convention countries.

South Africa has also acceded to the Patent Cooperation Treaty (PCT) that makes it possible for an applicant to file a single application that is subject to an international novelty and obviousness search, as well as a reporting system. On the strength of the results of this search, the applicant may designate a number of member countries in which it would like to proceed with applications.

If an applicant wants to enter more than four countries, it may be more cost effective to use the PCT route, rather than separate Paris Convention applications for each country. Foreign-based PCT applications are, in the same way, able to designate South Africa as one of the countries of interest.

Disputes regarding the validity of a South African patent can be taken to the Court of the Commissioner of Patents, the decisions of which may be appealed.

Patenting computer software

Section 25(2) of the Patents Act specifically prohibits the patenting of computer software. Computer programmes are generally considered a kind of literary work and therefore the main route for the protection of computer software lies in the domain of copyright. There is, however, a debate as to whether South African copyright law provides adequate protection to software and whether software should instead be protected under patent law.

Software, when used on a computer, creates functional interrelation between technical components. These technical components are usually protected by the Patents Act and the software is protected by the Copyright Act. A shortcoming in copyright protection of the software is that copyright will prevent the copying of a programme but it does not prevent the creation of a different programme which still offers identical functionality.

South Africa's international obligations, as well as international trends, should always be borne in mind. Section 7 of the Trade-Related Aspects of Intellectual Property (TRIPS) agreement provides that patents shall be available for any inventions whether products or processes in all fields of technology, provided they are new, invoke an inventive step and are capable of industrial application.

There has also been a trend towards the patentability of computer software on international fronts, as seen mainly in America. According to Yannis Skulikaris in his 2001 article "Software-Related Inventions and Business-Related Inventions", a patent would prevent competitors from replicating the functionality of a programme. The software industry therefore argues for the protection of software under the Patents Act instead.

Many would argue that it would be logical to follow this trend given that South Africa is a signatory to the TRIPS agreement and our major trading partners are allowing patents to be registered for computer software.

Common Law (Non-Statutory Protection of IP)

In South Africa, the common law provides protection of IP that is not protected by the various statutory provisions. It recognises the doctrine of unlawful competition and the right of a business to carry out its business without wrongful interference from others, which includes the delict (tort) of passing off.

Passing off is a common law claim and is therefore usually relied on by parties who have not registered their trade marks and therefore cannot enforce their rights in terms of the Trade Marks Act. It can also be used, however, as an extra ground of action even when a trade mark has been registered. Passing off is often difficult to prove for the following reasons:

- it is necessary to overcome the initial hurdle of proving that the trade mark has acquired a reputation. Such reputation needs to have become synonymous with the products or services. Reputation means that a substantial number of persons are aware of the product and its qualities. It depends on the circumstances of the case and proving a reputation can therefore be difficult to do;
- it needs to be shown that there is reasonable likelihood that members of the public may be deceived or confused into thinking that there is a connection between the trade marks and the businesses; and
- actual or potential damage to the business must also be proven.

The Protection of Traditional Knowledge

The Intellectual Property Laws Amendment Bill, 2010, widely known as the Traditional Knowledge Bill (the 2010 TK Bill), sought to protect traditional knowledge and its use against exploitation through the present IP systems. The main purpose of the 2010 TK Bill was to improve the livelihoods of traditional knowledge holders by ensuring that communities receive fair recognition and remuneration for the use of their traditional knowledge, whether financially or by other means, while at the same time benefiting the national economy.

The 2010 TK Bill proposed amendments to the Performer's Protection Act, the Copyright Act, the Designs Act as well as the Trade Marks Act, in order to define and integrate aspects of traditional knowledge and use so that it would fall within the scope of protection offered by the individual Acts. This particular aspect of the 2010 TK Bill, however, was its biggest criticism.

Academics and professionals argued that the desired protection could not be achieved by amending the IP laws without doing serious damage to the basic tenets of such statutes. They argued that specialised protection for traditional knowledge is not compatible with the fundamental principles of IP laws as embodied by these statutes. The 2010 TK Bill had been described as a "procrustean attempt to force the protection of indigenous knowledge into the existing intellectual property framework".

The former vice president of the Supreme Court of Appeal, Judge Louis Harms, who is an internationally acknowledged expert in the IP field, has summed up his estimation of the Bill:

"The proposals are fundamentally flawed and will not lead to any material benefit to any community in South Africa. They will not make the country technologically or otherwise rich, and they will protect little (if any) indigenous knowledge."

As a result of the criticism, on 9 April 2013, a new *sui generis* Protection of Traditional Knowledge Bill (2013 TK Bill) was published in the *Government Gazette*. The 2013 TK Bill represents a major step towards protecting traditional knowledge in South Africa, especially within the widespread criticism directed at the 2010 TK Bill.

The 2013 TK Bill has introduced an innovative approach towards the protection of traditional knowledge in a manner that will now enhance South Africa's status in the international IP community. The 2013 TK Bill recognises that traditional knowledge is fundamentally different to IP such as copyright and patents. Instead of potentially undermining the existing IP system as the 2010 TK Bill threatened, this 2013 TK Bill proposes the protection of traditional knowledge in such a way that allows it to stand on its own.

The most noticeable indication of this new approach is the establishment of a Register of Traditional Knowledge. The Register of Traditional Knowledge will be divided into separate sections for the registration of protected traditional works, protected traditional designs and protected traditional marks. This is fundamental as the protection of the various forms of traditional knowledge will now be untrammelled by interference from other IP statutes.

The 2013 TK Bill can also be considered to be pioneering in the respect that it causes the establishment of a National Trust Fund for Traditional Knowledge. The proceeds of all licence fees paid in respect of any item of traditional knowledge will be deposited in the fund. The proceeds arising out of the use of a particular item of the traditional knowledge will then be paid to the community proxy of the originating community in respect of that item of traditional knowledge.

The 2013 TK Bill is considered as a general recognition of traditional knowledge as meritorious of legal recognition and protection. The tabling of the 2013 TK Bill signifies that the creation of an appropriate legal framework for the recognition and protection of indigenous knowledge and of appropriate structures and mechanisms to enable the commercialisation of indigenous knowledge is best obtained by a dedicated piece of legislation.

According to the Memorandum on the Objectives of the Protection of Indigenous Knowledge Bill of 2013, the required legislative protection of indigenous knowledge is novel in nature and different in purpose and scope from other forms of existing IP, making it inappropriate to insert or interface indigenous knowledge within the existent IP legislation.

The 2013 TK Bill strives to protect traditional knowledge as a new category of IP, indicating the importance of achieving a harmonised approach to the protection of traditional knowledge in South Africa.

Counterfeiting

The Counterfeit Goods Act, No. 37 of 1997 (CGA), has been in force since January 1998 and enables owners of IP rights, such as copyright and registered trade marks, to take action against manufacturers and sellers of counterfeit (fake) goods.

Counterfeit goods can be defined as goods that imitate (without the consent of the owner of the relevant IP) original goods in such a manner and to such a degree that those imitated goods are substantially identical copies of the original goods.

In the instance of trade mark counterfeiting, it would appear that where a counterfeit trade mark is applied to goods destined for South Africa, an act of trade mark infringement takes place even though the trade mark was applied in a foreign country. To hold otherwise would render the CGA irrelevant.

The CGA enables inspectors to enter and search a premises with the aim of seizing and detaining suspected counterfeit goods. The CGA also determines that it is a criminal offence to, among other things, be in possession of counterfeit goods, have counterfeit goods under your control, trade in counterfeit goods, distribute counterfeit goods and produce counterfeit goods.

Procedures in terms of the CGA

	Customs proceedings	Criminal proceedings
Type of procedure	Application made to the Commissioner of Customs and Excise in terms of Section 15 of the CGA	File a complaint indicating an offence in terms of the CGA
Effect of the procedure	Application granted if Commissioner is satisfied that an IP right subsists and that the applicant owns the right	A seizure warrant will be obtained from a magistrate or judge, which will enable the South African Police Service (SAPS) to: • seize and remove counterfeit goods; and • take steps to stop continued acts of counterfeiting
Duties of the Applicant	Applicant may be required to furnish indemnities in favour of Customs and Excise against liability	• After seizure, the complainant has: • three days to give notice of his or her intention to institute civil proceedings against the counterfeiter; and • within 10 days institute proceedings, failing which, the goods may be released
Consequence of the action taken	Goods imported into South Africa that are identified as, or suspected of being, counterfeit will be seized and detained	A first offender will receive: • a fine not exceeding ZAR 5 000 in respect of each counterfeit article/item; or • imprisonment for a period of no more than three years A second or subsequent conviction will attract: • a fine not exceeding ZAR 10 000; or • a maximum term of imprisonment of five years

With regards to civil proceedings and the process involved, if counterfeit goods have been seized by either SAPS or Customs and Excise, the complainant may institute civil proceedings against the counterfeiter. The proceedings will take the normal course of a normal civil matter.

When deciding on which course of action to take, it can be argued that "customs proceedings" are the most effective means of protecting IP rights against counterfeiting because they prevent the counterfeit goods from entering the market and are more cost effective.

Exchange Control

The Exchange Control Regulations (the Regulations) of the South African Reserve Bank (SARB) strictly regulate the offshore transfer of ownership in IP from a South African resident entity to a non-resident (foreign) entity. This was achieved through prior approval from the SARB for all offshore transfers of ownership in IP.

On 18 March 2011, the Supreme Court of Appeal (SCA) in *Oilwell (Pty) Ltd v Protech International Ltd* held that exchange control approval is no longer required when a South African resident entity transfers ownership in IP to a non-resident entity. The SCA reasoned that rights in a trade mark are analogous to immovable property as they are territorial in nature and therefore cannot be exported. In an obiter remark, the court considered that the same principle would apply equally to patents, designs and copyright. As a result, the SCA held that IP cannot physically leave the country as could, for instance, a tangible object like a painting. The court questioned the restriction of the transfer of IP as it reasoned that the transfer of IP should be seen akin to the transfer of ownership of land to a foreign resident, which does not require Treasury approval.

In a response to the Oilwell decision, the Regulations have been amended to require Treasury approval for assignments of ownership in IP rights. Whereas the Regulations previously did not define what is meant by "intellectual property right", it now provides that "capital" includes any intellectual property right, whether registered or unregistered.

Exchange control approval is also required in terms of regulation 3(1)(c) in respect of the flow of royalties from a South African resident entity to a non-resident entity. Limits have been placed on the levels of royalty payments which can leave the country in order to ensure that foreign IP owners keep their royalty rates at reasonable levels.

Importantly, regulation 13 includes prohibitions of words, pictures, etc that create the impression that food is endorsed by health practitioners. Examples are:

- health;
- wholesome;
- nutritious; and
- cure.

Regulation 47, in turn, evaluates "misleading description" provisions that prohibit certain descriptive terms including:

- nature's;
- authentic;
- fresh; and
- natural.

It should also be noted that the transfer of ownership in IP continues to be subject to various tax provisions in terms of which such a transfer can result in tax payments ranging from 14% to 28% of the total value of the IP transferred. For example, where the IP is assigned for a nominal value, such assignment may be seen as a deemed donation. Donations tax at 20% may be payable on such a disposal where the nominal value is not considered an adequate consideration for the IP assigned.

Advertising and the Advertising Standards Authority

The Advertising Standards Authority (ASA) is a body representing the media, advertisers and advertising agencies, and is in a position to dictate what the media can publish by way of advertisements.

In the past, it has considered proposals to eliminate some of the worst features of franchise advertisements, many of which have been extravagant, wildly over-optimistic and positively misleading. The ASA has, for example, considered the prohibition of advertisements that use the word "franchise" for anything other than the franchise business format.

Advertisements are protected in South Africa by way of Section 9 of ASA's Code of Advertising Standards. This section prohibits third parties from copying an existing advertisement or any part thereof in a manner that is recognisable or clearly evokes the existing concept, irrespective of whether it is a local or international advertisement and irrespective of whether the advertisement has ever been used in South Africa. Section 9 of ASA's Code of Advertising Standards:

- protects advertisements for a period of two years after the advertisement was last used;
- applies to all visual or aural communications, representations, reference and notifications that fall within the ambit of its definition of advertisements including, but not limited to, packaging and labelling; and
- provides comprehensive protection against the unauthorised use of local and international advertisements.

The provisions regulating information on labels and advertisements relating to food have recently been updated to restrict the use of untrue or misleading information on labels and advertisements. These provisions were effective from 1 March 2012. They aim to ensure that foods are sold without misrepresentations and that all food is labelled and advertised so as to enable consumers to make rational and informed choices. Interestingly, these provisions also state that no nutrition or energy claim or any other claim with a nutrition-related message shall be permitted for packaged water.

In addition to labels and advertisements, these provisions also cover trade marks, brands and descriptive terms. Accordingly, trade mark portfolios may need to be reconsidered to ensure that all a company's trade marks comply.

Intellectual Property Rights from Publicly Financed Research and Development Act

The primary purpose of Publicly Financed Research and Development Act, No. 51 of 2008 (the R&D Act), which came into force on 2 August 2010, is to ensure that IP emanating from publicly financed research and development is identified, protected, used and commercialised for the benefit of the people of South Africa, whether it be for a social, economic, military or any other benefit.

The R&D Act is necessary to regulate and thus protect inventions and other creations because if no IP protection is obtained for the results emanating from such research and development, third parties are free to exploit it, and its commercialisation may not benefit South Africa in any way.

The R&D Act affects:

- institutions that make use of public funds in funding research projects like universities, inventors and researchers; and
- the approach that private entities choose to take when public funding is involved.

Publically funded research and development is defined as research and development funded (including partially-funded research and development) by the State, a State organ or a State agency, but excludes funds allocated for scholarships and bursaries.

The R&D Act broadly defines "intellectual property" to mean any creation of the mind that is capable of being protected by law from use by any other person, whether in terms of South African or foreign law, including any rights in such creation (but excluding copyrighted works).

The National Intellectual Property Management Office (NIPMO) has been established to promote the purpose of the R&D Act, including statutory protection, management and commercialisation of IP.

This Act provides for the recipient of the public funds to own the IP created from publicly financed research and development subject to certain obligations including the need to ensure that it is appropriately protected and commercialised for the benefit of society.

A recipient may choose whether or not it wishes to retain ownership of the IP. If a recipient prefers not to retain ownership, NIMPO may choose, in certain circumstances, to acquire ownership of and statutory protection for the IP.

The R&D Act is not applicable to research and development undertaken at an institution (as defined in Section 1 including, but not limited to, higher education institutions and statutory institutions) if it is funded on a full-cost basis by a private entity.

The R&D Act also provides that the IP creators at an institution have the right to a portion of the revenues that accrue to the institution from the IP created by public funds. It also contains provisions that regulate IP transactions, including offshore transactions, involving publically funded IP.

The question arises with regards to how the R&D Act affects the private entities that are funding research projects. Onerous constraints have been placed on private entities regarding final ownership arising from publicly funded research. Previously, where private entities partially sponsored projects, these entities would be able to seek IP protection for the fruits of such research. Under the R&D Act, the private entity will not be allowed to use IP solely for itself but will be required to share it with both the university and the creator.

For a private entity or organisation to become a co-owner of IP emanating from publicly financed research and development undertaken at an institution there should be:

- a contribution of resources, including relevant background IP;
- joint IP creatorship;
- appropriate arrangements for benefit-sharing for IP creators and institutions; and
- an agreement concluded between the institution and the private entity/ organisation for the commercialisation of the IP.

The R&D Act still allows a private entity or organisation to become an exclusive licensee of IP emanating from publicly financed research and development undertaken at an institution. That private entity or organisation must however have the capacity to manage and commercialise the IP in a manner that benefits the Republic.

The Protection of IP in the Technological Age

With the increase in the number of consumers accessing the internet, it is becoming more important for the owners of IP to police and protect their IP against unauthorised use on the internet.

The internet and social media should be managed correctly as these two resources are tools that can be used to increase the value and awareness of one's goods and/or services. Social media websites and applications, in particular, can be used very effectively since they provide direct access to consumers.

Unfortunately, the increasing popularity of the internet and social media has resulted in a rise in IP infringements such as the unauthorised copying and distribution of copyrighted work including videos, films and music. To assist in detecting the unauthorised use of IP on the internet and social media, one can employ IP watch services specifically designed to monitor the internet for any infringements. These include trade mark watch services, domain name watch services, and services monitoring social media.

The traditional remedies as provided under the statutory provisions and the common law are still available, but are sometimes ineffective in protecting IP on the internet. The internet stretches across various jurisdictions and IP (with the exception of copyright) and is generally only protected within the jurisdictions where it is registered.

Fortunately, in South Africa the legislator has provided an additional remedy to assist owners of IP to protect their trade marks from domain name infringements, often carried out by "cyber-squatters".

Domain name disputes

Domain name disputes are easy to come by due to their very nature. A domain name can be, or can incorporate, a business or company name, a trade mark or the names of products or services offered by that business.

Domain name registration is granted to the first person to apply for the domain name and is therefore distributed on a first-come, first-serve basis. It is for this reason that it is highly recommended that a person registers his or her business name and trade marks as domain names as a defensive strategy to help avoid a third party from benefiting from the company's reputation by directing internet traffic to said party's domain name.

The early registration of domain names is also advised due to the increasing occurrence of cyber-squatting. Examples of cyber-squatting include:

- when someone other than the owner of a business registers a domain name incorporating the business' trade mark or name, with the intention of extorting money from the owner by forcing the owner to "buy it back" from him;
- a person or business who registers a competitor's name online to get an unfair advantage over this competitor by denying him or her access to the domain name; and
- a person or company who registers an offensive domain name which could bring another person or organisation into disrepute.

Until recently, a trade mark proprietor who wanted to object to a third party's ".co.za" domain name containing its trade mark could do so only by instituting proceedings in the High Court. In response to the rise of cyber-squatting in South Africa, the Minister of Communications promulgated the Alternative Dispute Resolution (ADR) regulations in terms of the Electronic Communications and Transactions Act, No. 25 of 2002 (the ECT Act), on 22 November 2006.

The ADR regulations are intended to resolve disputes over domain names registered in the ".co.za" sub-domain. They make provision for complaints to be lodged with an accredited service provider – either the Arbitration Foundation of South Africa or the South African Institute of Intellectual Property Law (SAIIPL).

A complainant must assert that he, she or it:

- has rights in respect of a name or mark which is identical or similar to the domain name; and
- that the domain name is, in the hands of the registrant, an "abusive registration" and/or an offensive registration.

A domain name would be an abusive registration if:

- the registrant registered the domain name primarily to sell or transfer the domain name to the complainant or to a competitor for an amount in excess of the registrant's reasonable out-of-pocket expenses;
- the domain name was registered to unfairly disrupt the business of the complainant;
- the registrant provided false or incomplete contact details in the "Who Is" database;
- the registrant registered the domain name to intentionally block the registration of the domain name in which the complainant has prior rights; and
- the registrant registered the domain name to prevent the complainant from exploiting his, her or its rights.

There is a rebuttable presumption of abusive registration if the complainant proves that the registrant has been found to have made an abusive registration in three or more disputes in the 12 months prior to the current dispute.

Domain names that advocate hatred, are based on race, ethnicity, gender or religion and/or constitute incitement to cause harm, will be indicative of an offensive registration.

The procedure to follow if there is a domain name dispute includes:

- Complaint notified once complaint has been filed and checked for compliance with the regulation
- Complaint, registrant and domain administrator notified of date of commencement of the dispute
- One or three adjudicator(s) appointed as requested by the complaint
- Registrant files a response within 20 days of commencement of dispute
- Complainant has five days to file a reply
- The adjudicator's decision must be made within 14 days of his appointment
- Registrant files a reponse within 20 days of commencement of dispute

The fee for resolving a dispute before a single adjudicator is approximately ZAR 10 000 and ZAR 24 000 if it is done before three adjudicators. The procedure is fairly simple, reasonably quick and, when compared with High Court litigation, significantly cheaper.

The commercial value of IP

Advances in technology mean that IP has become a critical business asset. When businesses are sold, merged or acquired, IP is often the driver of such corporate transactions. This is seen in the instance where the sole purpose is to acquire an aspect of the IP, like the reputation associated with a brand name.

Despite the fundamental role IP can play in a company, it is often neglected in commercial transactions such as mergers and acquisitions. This is unfortunate given that IP can often be a company's most valuable asset:

- IP is often an asset with substantial commercial value, especially through licensing and the payment of royalties;
- IP forms part of a company's goodwill; and
- IP has significant non-monetary value in that the IP of a company often embodies the perception consumers have of the company as well as the reputation of the company within the relevant consumer markets.

To ensure that a company protects its IP rights and fully exploits the commercial value of its IP in commercial transactions (eg where technology and know-how are transferred), it is vital that the IP is identified and that agreements are drafted. Simple IP transactions can involve complex tax or other commercial legal issues which also need to be addressed.

A brand valuation of IP should be conducted regularly seeing that IP can be exploited as an income-generating asset. Knowing the value of the IP becomes essential in situations such as a potential sale of business assets or shares, seeking to raise capital or a loan and when considering when to license a brand to a third party for a royalty.
A brand audit of IP is also recommended as it is a useful tool for identifying any business' IP assets.

A brand audit will enable the identification of:

- existing intellectual property;
- gaps in the scope of protection of existing IP;
- unprotected IP that needs to be protected by registration;
- IP which is being licensed to third parties as well as IP that is being used under licence from third parties that are not regulated by written agreement and ideally should be;
- incorrect use of IP that jeopardises its longevity and protection and undermines its value;
- new and existing countries of interest to the business;
- income-generating IP assets or those with potential to do so; and
- the position of the business in the marketplace.

Franchising

Franchising has been promoted in South Africa as an engine to achieve rapid and substantial growth in businesses ownership and management by previously disadvantaged people, and, as such, is essential to sustained economic growth and redistribution of wealth in the country.

The benefits of franchising include:

- a means for small- and medium-sized businesses to expand;
- creation of employment while allowing for quality control that benefits the consumer; and
- allowing the franchisor's retail and service know-how to be used profitably, requiring less investment, less management and less risk on the part of the franchisee.

Four basic types of franchise arrangements exist, offering varying degrees of control to the franchisor:

- a joint venture offers the most control, since the franchisor actually owns a share of the franchise;
- less control is exercised by the franchisor in business format franchising, in terms of which the franchisee owns the business for which he or she pays an upfront fee and a royalty or management service fee to the franchisor, but all procedures are laid down in an operations manual;
- more distant arrangements include a dealership, in terms of which a company's brand name is used and its products are sold by other firms, but where the brand name company has little say in the running of the business; and
- the mere licensing of a product is also sometimes regarded as a species of franchising.

Business format franchising is the most typical. It must be understood to include not only the right to use a name or provide a service but a full business system to which the franchisee must adhere.

In applying business format franchising, a major advantage for the franchisee is that the trial and error involved in the creation of a successful business model is largely avoided as the franchisee will be gaining a tested business formula. In addition, there is also ongoing backup and support for the business from the franchisor.

The pattern for non-South African franchisors' involvement in South Africa has frequently been to conclude a franchise agreement with one South African entity, which then acts as sub-franchisor and concludes franchise agreements with a number of local franchisees. This arrangement tends to dilute the control of the foreign franchisor.

For some time, franchising had an enviably free position in South African law in the sense that there were no special laws regulating it. When the CPA came into force, franchise arrangements became regulated for the first time in South Africa. The CPA now entrenches specific protections for franchisees and obligations for franchisors.

The CPA applies to:

- solicitations of offers and offers to enter into the franchise agreement;
- the franchise agreement and any agreement supplementary to a franchise agreement;
- the supply of any goods or services to a franchisee under a franchise agreement; and
- the marketing activities of the franchisor.

The CPA will apply in respect of all of the above irrespective of whether or not the franchisor is acting in the ordinary course of its business, and whether or not the franchisor resides or has its principal place of business in South Africa. Importantly, the CPA will also apply irrespective of the asset value or turnover value of the franchisee. Furthermore, Section 61 of the CPA creates new product liability for the franchisor.
If a franchisor contravenes the provisions of the CPA and is found guilty of prohibited conduct, they could face severe consequences, including:

- an administrative penalty of up to 10% of the franchisor's annual worldwide turnover during the preceding financial year, or ZAR 1 million, whichever is greater;
- a criminal conviction or imposition of a fine or both;
- all or part of the relevant transaction being void or declared void; or
- a court granting any other order it considers just and equitable in the circumstances.

Franchise agreements entered into prior to the CPA's introduction are also regulated. One of the significant features of the CPA in relation to franchise agreements is the introduction of a "cooling off" period for franchisees. A franchisee may cancel a franchise agreement without cost or penalty within 10 business days after signing the agreement, simply by giving written notice to the franchisor. This right must now be specifically stated at the top of the first page of the franchise agreement.

Any existing franchise agreements should be reviewed for CPA compliance. At the same time, since the most valuable asset in a franchise is its IP, a simultaneous audit of the licensed IP should be conducted. New IP may have been created since the business model was conceived. It is important to identify it and ensure that it is adequately protected in terms of the relevant laws relating to trade marks, copyright, registered designs and/or patents in South Africa and in any other country in which the franchise may be rolled out.

The franchise agreement

The CPA defines a "franchise agreement" as an agreement between two parties, being the franchisor and franchisee:

- in which, for consideration paid to the franchisor, the franchisor grants the franchisee the right to carry on business within all or a specific part of South Africa under a system or marketing plan substantially determined or controlled by the franchisor or an associate of the franchisor;
- under which the operation of the business of the franchisee will be substantially or materially associated with the advertising scheme or programmes, one or more trade marks, commercial symbols or logos or any similar marketing, branding, labelling or devices as well as any combination thereof, that are conducted, owned, used or licensed by the franchisor or an associate of the franchisor; and
- that governs the business relationship between the franchisor and the franchisee, including the relationship between them with respect to the goods or services to be supplied to the franchisee by or at the direction of the franchisor or an associate of the franchisor.

The regulations made in terms of the CPA set out in great detail the minimum information that should be included in a franchise agreement. This information includes, among others:

- full particulars of the franchisor including details of directors and shareholders;
- the obligations of the franchisor and the franchisee;
- all consideration payable by the franchisee to the franchisor;
- a description of the franchise business system and the specific goods or services which form the subject of the franchise;
- any territorial rights, and a description of the location from which the franchisee is to conduct the franchise;
- provisions relating to the management of any advertising, marketing or other similar funds;
- particulars of any restrictions imposed on the franchisee; and
- full particulars of the financial obligations of the franchisee in terms of the franchise agreement or otherwise related to the franchised business, including any initial fee, the funds required to establish the business, initial working capital, total investment required and ongoing amounts payable to the franchisor.

The CPA specifically prohibits a franchisor from including certain terms in its franchise agreement, including any provision which:

- defeats the purpose and policy of the CPA;
- misleads or deceives the franchisee;
- directly or indirectly purports to waive or deprive a franchisee of a right under the CPA, or avoid any obligation or duty of the franchisor under the CPA; or
- limits or exempts liability for loss which is directly or indirectly attributable to the gross negligence of the franchisor or any person acting for or controlled by the franchisor.

If a franchise agreement contains any of these prohibited terms, it will be void to the extent that it contravenes Section 51.

The disclosure document

The regulations made in terms of the CPA also require the franchisor to provide the franchisee with a disclosure document containing certain prescribed disclosures at least 14 days prior to signature of the franchise agreement. Failure to do so will constitute prohibited conduct under the CPA.

The disclosure document must contain certain information, including:

- the number of individual outlets franchised by the franchisor;
- financial information relating to the franchisor's turnover and net profit; and
- written projections in respect of levels of potential sales, income, profits or other financial projections for the franchised business or franchisees of a similar nature.

The disclosure document must also be accompanied by an auditor's certificate certifying that the business of the franchisor is a going concern and that to the best of his or her knowledge the franchisor is able to meet its liabilities as they fall due, and that the franchisor's financial statements for the previous year have been drawn up in accordance with certain standards.

The CPA also places several limitations on the manner in which the franchisor may market and promote itself and its goods and services. The CPA specifically precludes the franchisor from engaging in negative option marketing and in general prohibits any misleading marketing.

If a franchisor is also a member of the Franchise Association of South Africa (FASA) (its members including franchisors, franchisees, suppliers and service providers as well as attorneys), it will also be bound by FASA's Code of Ethics. FASA requires members to supply a disclosure statement, setting out basic minimum specified information for the benefit of franchisees. Nevertheless, there is no obligation on a franchisor to belong to FASA and it tends to turn down any applications for membership from applicants whose business practices do not meet its ethical standards.

Specific commercial law factors affecting franchising

Competition law

Of particular importance to the franchisor are the provisions dealing with exclusive supply agreements as well as practices that enforce retail price maintenance, which are prohibited under the Competition Act, No. 89 of 1998.

The CPA

The CPA specifically prohibits the franchisor from requiring the franchisee to purchase any other particular goods or services from the franchisor, to enter into any additional agreement or transaction with the franchisor or any designated third party or to agree to purchase any particular goods or services from a designated third party, unless the franchisor:

- can show that the convenience to the franchisee in having those goods or services bundled outweighs the limitation of the franchisee's right of choice;
- can show that the bundling of those goods or services results in economic benefit; or
- offers bundled goods or services separately and at individual prices.

Except to the extent that any other law provides otherwise, the franchisor may raise a defence to an allegation of having contravened the above requirements, if the goods or services that the franchisee was required to purchase are "reasonably related" to the branded products or services that are the subject of the franchise agreement.

Conclusion

IP in South Africa is governed by a comprehensive and modern set of statutes. Identification, protection, enforcement and commercialisation of IP are critical to the success of a business. The effect of IP on the commercial value of a company must be recognised and viewed as a means to achieve its successful growth and development.