IP BRIEFS

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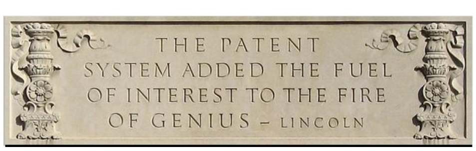


FROM THE EDITOR

Dr. MM Kleyn

legal@oroagri.com

According to Chinese astrology, 2018 is the year of the dog! The Dog is considered to be a lucky animal and an indication that good fortune is coming. A selfie of your dog (or monkey) may potentially be royalty bearing given that courts are entertaining cases considering the possibility of animals creating copyright works.

The increasingly automation of our world is becoming crucial to the future of IP rights and the traditional enforcement thereof.

In this first edition is offered a diverse spectrum of topics which I hope you find interesting.

The Draft IP Policy published in 2017 has unleashed some views and opinions, some of which are shared herein.

As eluded in the September IP Briefs, the OECD Base Erosion and Profit Shifting (BEPS) project provides a 15 action plans to address tax avoidance, ensuring that profits are taxed where economic activities generating the profits are performed and where value is created. The action plans and OECD guidelines sets out specific compliance requirements which Multi-national owners of intangibles must meet by 2021.

Quote for today: "The essence of strategy is choosing what not to do." —Michael Porter

MESSAGE FROM THE PRESIDENT

Debbie Marriott
Adams & Adams

Wishing all SAIIPL's members a prosperous 2018!

The country's mood certainly seems to have improved since December, and I hope that it will be a good year for us all.

I am delighted and honored to serve as the Institute's President and take this opportunity to thank our immediate past President, Vicky Stilwell for all the time and work that she put in for the duration of her 2-year presidency. As I now take on the responsibility and honour of this role, it is a good time to reflect on what the Institute is, and what its role is or should be.

It may interest you to know that the South African Institute of Intellectual Property Law was established in 1952, comprising and representing patent attorneys, patent agents and trade mark practitioners who specialize in the field of Intellectual Property Law. The most important role of the SAIIPL is education and it runs the lectures and exams that allow attorneys to qualify and be officially recognized as Trade Mark Practitioners. The Patent Attorneys qualification is a statutory qualification under control of the Patent Examination Board, and lectures for the Patent Attorneys qualification are presented by Fellows of the SAIIPL who set and mark the qualifying exams.

The SAIIPL is an organization that develops intellectual property law and it is an important source of professional knowledge in this field.

Many members represent clients in cases that provide new and important interpretations of our law.

Members are urged to share all judgements with members by either submitting copies of them directly to Marie-Louise, or by channeling them through one of the members of the Judgment Reporting Committee.

In addition to representing clients, the SAIIPL is accredited as a dispute resolution provider in terms of the "*.za*" Alternate Dispute Resolution Regulations. It has a large panel of experienced adjudicators comprising a number of members that determine disputes lodged with it. The SAIIPL plays an important role in shaping the interpretation of domain name legislation.

The SAIIPL is essentially a trade association of sorts, in that people from competing firms come together to discuss issues of mutual interest as viewed from various angles. SAIIPL members and their diverse clients will often not share the same views or position, but it is useful to consider and debate issues at committee level amongst peers. As an association of attorneys that represent clients across the full spectrum of varying interests, the Institute has a unique lobbying voice and power, and it should be able to influence law and policy makers. Positions that are formulated after robust debate can and should be used to try to help shape the laws that affect our profession and the interests of IP owners. Members that are actively involved in the committees of the SAIIPL will know that this is where the real work is done, and these committees are forums for the free exchange of ideas and information, that provide an effective platform for the representation of the SAIIPL members' interests. We thank dedicated committee members for their precious time and valuable contributions in helping to develop the IP laws of our country. I encourage all SAIIPL members to join and actively participate in a committee that covers a topic of interest to you. The various committees are listed on the SAIIPL's website at http://saiipl.co.za/committees/.

A DICHOTOMY OF POWERS BUT CONFLUECE IN POLICY: INTERPLAY BETWEEN INTELLECTUAL PROPERTY AND COMPETION LAW

JOHN OXENHAM AND MICHAEL-JAMES CURRIE

Since the Competition Act came into effect in 1998, there has been very limited interaction between competition law and intellectual property law disputes. The few cases which have come before the competition adjudicative bodies (primarily the Competition Tribunal) have either been dismissed on the basis that the alleged anti-competitive effect did not lead to a substantial lessening of competition, or the respondent party was not "dominant" and thus fell outside of the ambit of Section 8 of the Competition Act, i.e. the abuse of dominance provisions such as excessive pricing, exclusionary conduct, refusal to supply. In some cases matters were settled by the parties prior to a hearing before the Tribunal. As in the *DW Integrators v S.A.S Institute* and the *National Association of Pharmaceutical Wholesalers v Glaxo Wellcome* cases where the Competition Tribunal confirmed that there is in principle no distinction between IP based competition law complaints and other alleged anticompetitive conduct, it is likely that following the introduction of the Competition Act Amendments, that there will be an influx of cases, similar to the *Hazel Tau* matter, brought before the Competition Authorities.

In *Hazel Tau*, the plaintiffs sought the imposition of compulsory licences to generic pharmaceutical manufacturers in respect of certain antiretroviral drugs. The matter was settled prior to a hearing before the Competition Tribunal and the respondents, GlaxoSmithKline and Boeheringer Ingelheim, agreed to issue licences to the generic manufacturers. Although non-binding, the *Hazel Tau* case has been considered by many proponents in favour of compulsory licences being issued as providing the foundation upon which plaintiffs may approach the

John Oxenham

John is a founder and director of Primerio International and director of Nortons Incorporated. John practices broadly in the regulatory field and principally in competition law

Michael-James Currie

Michael-James is a senior associate at Nortons Incorporated.
He practises principally in the field of competition law, including cartel investigations, merger control and joint ventures, abuse of dominance conduct and general competition law litigation.

competition authorities for the relief – a proposition which may well garner further credence should the amendments be brought into effect. The introduction of public interest criteria in competition disputes risks a significant departure from the traditional "substantial lessening of competition test" which competition agencies generally utilize - as is consistent with international best practice.

For nearly two decades, the Competition Commission maintained that "*competition authorities will usually approach cases where there is an interface between intellectual property rights and competition law with a distinct competitive bias in favour of the owner of the intellectual property*". It also stated that it would consider whether the "*the long-term procompetitive benefits should outweigh the short-term "anti-competitive" effects of intellectual property right.,"* (*Author's emphasis*)
(See the South African Competition Commission's *Official Newsletter, Ed.4 June 2001)*

More recently, there have been considerable changes in the Competition Commission's policy, particularly with respect to the increased role which public-interest considerations play in competition-law enforcement, notably including IPR-based competition matters. The Competition Commission's position has shifted from being 'pro IPR holder', to focusing now on the somewhat nebulous public-interest factors, evidencing a clear departure from traditional competition principles. This change in policy, largely at the behest of the Department of Economic Development (EDD), is likely to be reaffirmed following the introduction of the *Competition Amendment Bill.*

In addition the Competition Commission's approach mirrors that of the DTI's 2017 *Draft Intellectual Property Policy* for South Africa (DTI Policy – see Government Gazette no. 41 Notice 636 of 2017.) in respect of (1) IP enforcement in South Africa and (2) what the DTI envisages in broadening the Competition Commission's mandate in IP enforcement from one which is fundamentally mandated to ensure that markets function efficiently to making discretionary and unqualified decisions, based on the socio-economic factors, in its quest to make the make "*world a better place*". By introducing a significant public interest angle in assessing IP based complaints, which go far broader than pure competition law issues the competition authorities will be more inclined to impose conditions or propose remedies which advance a socio-economic interest

The DTI Policy contains a significant set of proposed reforms to South Africa's IP Policy regime which include, *inter alia,* the introduction of a substantive search and examination for patent applications, greater alignment with TRIPS (the International Agreement on Trade-Related Aspects of Intellectual Property Rights) and, importantly, the promotion of several proclaimed socio-economic and industrial objectives as evidenced in the following excerpts of the DTI Policy:

"The introduction of substantive search and examination for patents, which is a key step towards ensuring that the patent regime fulfils its purpose of stimulating genuine innovation" and *"fundamentally, adopting a SSE approach which takes into consideration a nation's*

capacity constraints and legitimate public interest considerations by prioritizing certain sectors would not be in conflict with the TRIPS Agreement" and

"Leveraging <u>competitive and comparative advantages</u> to advance the transformation of the South African economy"… and to ensure that *"[IP Policy] should also be aligned to the country's objectives of promoting local manufacturing, competitiveness and transformation of industry in South Africa*."

(Author's emphasis)

A further key aspect of the DTI Policy – which is likely to be of relevance to IPR holders (particularly pharmaceutical companies) – relates to that of compulsory licences.

In this regard, the DTI Policy states that:

> *"In order to promote the sustainability of supply, it is important to ensure that a <u>workable compulsory licensing</u> system is in place to achieve affordability of essential goods, and <u>restrain anti-competitive practices</u>, as the need arises."* (Author's emphasis)

In addition, the DTI Policy envisages a key role for the competition authorities in ensuring that IPR holders do not abuse their IPRs in an anticompetitive manner. Although the DTI recognises that the precise interplay between competition law and IP still requires further consideration, the DTI Policy clearly envisages an active role by the South African competition authorities in adjudicating IP based disputes. In this regard, the DTI Policy states:

"Competition regulation has a role in ensuring that patents are not used as platforms for illegitimately extending market power" and "Both competition law and patent law together can be used to implement competition-related flexibilities <u>and advance consumer welfare.</u>"

(Author's emphasis)

Against this, it is the view of the authors that these elements of the DTI Policy may preclude an efficient interplay between competition law and IP enforcement.

At the outset, it is of paramount importance, whatever policy is ultimately adopted, that the policy provides certainty and transparency and that it minimizes the decision-making discretion on the part of the body acting as arbiter of the dispute. Absent these fundamental principles, the policy will largely be ineffective, increase litigation, and be open to abuse with a concomitant negative impact on investment and growth in South Africa.

The Minister of the EDD, Ebrahim Patel, who oversees the competition authorities, has expressly stated that:

"The tension between intellectual property policy and competition policy will be a significant part of the policy debate and it may well be that the weight given to protection of intellectual property in global regulatory systems, will need to be rebalanced".

(Presentation at the 11th Annual Competition Law, Economics and Policy Conference, September 2017)

It is submitted that this "adjustment" is likely to be brought about by the Competition Amendment Bill (Published in Government Gazette Vol. 630 No. 41294 on 1 December 2017) which expressly mandates the competition authorities to consider public-interest considerations when assessing, *inter alia*, abuse of dominance complaints. The Competition Amendment Bill also introduces a number of reverse onus provisions and presumptions which would favour a complainant in excessive pricing complaints. The onus would, for instance, rest on the IPR holder, accused of engaging in excessive pricing or generally abusing its dominance, to show that the pro-competitive effects of the alleged conduct outweigh its anti-competitive effects: a clear departure from the Competition Commission's previous stance, as quoted above, that the Commission will adopt a distinct bias in favour of the IPR holder in competition-law related matters.

Even absent the Competition Amendment Bill, the Competition Commission, in particular, has, spurred on by the EDD, taken an increasingly robust approach to enforcement of IP related matters.

For instance, the Automotive Code of Conduct published in 2017 for public comment by the Competition Commission envisages that car manufacturers may be compelled to make available all of their (and their suppliers) IP, in relation to parts designs, available to third parties. In mergers, the Competition Commission has sought to impose far reaching licensing remedies in respect of products which are not commercialized in South Africa and impose obligations on parties to commercialise those products in South Africa; or licence to third parties to do so. (A recent conditional approval an Agrochem deal in May 2017 by the Competition Commission)

The excessive pricing (which includes a complaint for exclusionary conduct and price discrimination) complaint initiated by the Competition Commission against a number of pharmaceutical companies is essentially a complaint initiated as a result of the terms upon which certain pharmaceutical companies commercialise their patented drugs in South Africa.

(See the Competition Commission's media statement "International pharmaceutical companies investigated for cancer medicine prices" published 3 June 2017.)

The Commission has subsequently withdrawn the complaint against Aspen and Equity (but continue to investigate Roche and Pfizer).

In this regard, the Commission also stated that "*Part of our probe will look into patent laws and their effect on entry of generic products*".

Herein lies the confluence between the DTI and the Competition Commission's respective policies in enforcing IPRs. The DTI Policy states that "*both competition law and patent law together can be used to implement competition-related TRIPS flexibilities and advance consumer welfare*". This alignment between the DTI and the EDD, however, is unlikely to culminate in an effective, impartial and objective IP Policy and enforcement regime but rather (unless specifically addressed by the two government departments, respectively) will result in a contradictory and inefficient enforcement mechanism to adjudicate IPR-based competition law disputes – particularly in 'priority' sectors such as healthcare.

In this regard, the DTI Policy recognizes that in terms of the current regime, compulsory licences are subject to a judicial process and must be issued by the Commissioner of Patents. The DTI Policy proposes that compulsory licences may be granted in accordance with TRIPS.

'Competition factors' are but one of a number of grounds for granting compulsory licenses envisaged by TRIPS. Other grounds include socio-economic or public-interest factors.

(See Article 8 of TRIPS which states that:

"1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.")

The Competition Amendment Bill makes it clear that public-interest considerations will be elevated to the same status as pure competition matters. There is a risk that IP based complaints, which have little or no real merit on pure competition considerations may, therefore, be lodged before the competition authorities to address nebulous public interest concerns. Only a very superficial competition-based theory of harm may be sufficient to bring such a complaint within the Competition Authorities ambit. Accordingly, and by way of an example, a patent holder of a pharmaceutical drug may potentially be at risk of being subjected to a competition law complaint to the competition authorities (who, post the Amendment Bill coming into force, are mandated to elevate public interest considerations to the same status as pure competition issues). Alternatively, the same patent holder may be referred to the Commissioner of Patents on any of the grounds contained in the TRIPS agreement as confirmed in the DTI Policy. An extract from the DTI Policy reads: "*In addressing the interface between IP and competition, the TRIPS Agreement gives members the scope to use competition policy as an instrument to facilitate access to medicines. Article 8 on its own, and in particular, read through the interpretive lens of the Doha Declaration on TRIPS and Public Health, empowers WTO members to take measures aimed at restraining anticompetitive practices*."

In other words, a 'dual system' for assessing IP disputes is effectively, albeit perhaps inadvertently, being developed.

Absent any clear guidance from the DTI and the Competition Commission on this issue, there is a material risk that third party complainants may engage in 'forum shopping' when submitting a complaint. Third parties who are unhappy with the outcome of a complaint submitted in terms IP Policy regime may turn to the competition authorities for relief or *vice-versa*. As mentioned above, this dichotomy of powers will lead to inefficient enforcement, will be overly burdensome on IPR holders and will lead to greater uncertainty.

From a more practical perspective, to resolve some of the challenges created by this 'dual' enforcement regime, one possible solution may be to create a rebuttable presumption in favour of the patent holder who has been approved following a Substantial Search and Examination assessment that the use of that patent is not anti-competitive nor contrary to the public interest. This will ensure that any IP based competition complaint which is lodged before the Competition Authorities will be limited purely to competition issues. Such a presumption will also be consistent with the established case precedent and international best practice (insofar as competition law enforcement is concerned).

Importantly, this lack of clarity creates further difficulties. The knowledge and expertise which will be required of the competition agency's staff for the effective enforcement of an IPR matter will be significant.

Implementation of these policies requires in-depth knowledge of IPRs, competition law, economics and socio-economic policy – all in the context of particular aspects of a market, which may conceivably be affected by the IPR.

What is apparent, however, is that once the Competition Amendment Bill is brought into effect, the Competition Commission is likely to take an even more robust approach to imposing behavioral or structural remedies.

These may, for example, include forcing compulsory licenses to be issued, divestitures and pricing conditions on the basis of public interest grounds as opposed to objective competition concerns.

For the effective functioning of an investment hungry economy, an adequate balance between short-term public-interest objectives and long-term innovation, investment and development (which is in of itself in the public's interest) must be achieved. In response to the Competition Amendment Bill, the DTI has recently expressed concerns "*that there was a danger that the legislation could constrain the space for other policies aimed at supporting industrialization*".

David Strachan, DTI's Deputy Director General of Industrial Policy, at a panel discussion addressing the Amendment Bill hosted by CCRED (19 January 2018), warned that overly ambitious policies, limited resources and poor execution of existing policies were of major concern. The EDD's ambitious amendments to the Competition Act were specifically highlighted.

Interesting times!

Dr. Joanne van Harmelen

Walking the tightrope: IP Rights versus Access to Medicines in South Africa

The interplay between the constitutional rights relating to property (of which IP is recognised as a subset) and the state ‘walk-in’ rights to ensure access healthcare and affordable medicines for all South Africans has been an emotive issue for some years.

The Draft Intellectual Property Policy of the Republic of South Africa Phase 1 (2017) (the “draft IP Policy”) was published in September 2017 for public comment. Taken against the backdrop of the severe communicable disease burden in South Africa including HIV/AIDS and tuberculosis, one of the major drivers culminating in the preparation of the draft IP Policy was the consideration that all South Africans should have a right to affordable medicines. The provisions relating to compulsory licensing and more importantly parallel importation are particularly relevant and will be considered in this article.

Voluntary Licensing

Of course, there are a number of existing legal mechanisms theoretically promote access to medicines, including voluntary licensing. The Medicines Patent Pool (MPP), has been extensively used in South Africa in respect of licensing patented drugs and manufacturing for access to HIV, viral hepatitis C and tuberculosis. There is also the likelihood that such a mechanism may be used for management of the immensely topical CRISPR (Clustered Regularly Interspaced Short Palindromic Repeats) Cas9 IP to simplify access to such technology by the vast number of groups that are using this technology.

Unfortunately, at present, licensing of drugs for other diseases including cancer are not presently provided for through the MPP. This is certainly an avenue that the author believes should be explored in the broader context of access to affordable medicines.

Compulsory licensing

Where voluntary licensing has failed, compulsory licensing has arguably been successfully used in other countries to provide access to affordable medicines, notably India. Section 56 of the South African Patents Act sets out the grounds for application for a compulsory licence to the Commissioner of Patents in regard to a patented invention where there has been an abuse of rights by the patentee. This section relates to the compulsory licence provisions provided for in the Doha Declaration, of which South Africa is a member, that member countries may interpret the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement to protect public health and to promote access to medicines for all.

More specifically, section 56(c) provides that a compulsory licence can be applied for where the demand for the patented article in South Africa is not being met to an adequate extent and on reasonable terms. The South African courts have indicated that “adequate extent” means sufficient for the needs of South Africa and that a lack of “reasonable terms” may be evidenced by public dissatisfaction with the prices, which may include a lack of access to affordable medicine.

Section 56(e) provides that a compulsory licence can be applied where the price of the patented article is excessive compared to country of manufacture, where the demand for the patented article in South Africa is being met by importation but where the price charged in the South Africa is excessive in comparison to the country of manufacture, and there is no good reason for the substantially higher price.

However, this process requires a court application with the concomitant delays and high cost of a High Court proceeding. As a result, very few applications for compulsory licences have been brought to the Commissioner of Patents and of those few applications, no compulsory licenses have been granted.

This has been recognised as a problem and the draft IP Policy, regarding compulsory licenses, sets out that “*South Africa’s unique challenges, including especially vulnerable populations and urgent development concerns, will require the scope of compulsory licences to be strengthened and clarified in a manner that is fair and compliant in relation to both international obligations and national law. Following due process, guidelines will be introduced, including legal process for government use, and a renewed effort to facilitate the process of exporting IP goods, such as medicines, to the African continent.”*

It seems that apart from providing guidelines for the requirements to allow the grant of compulsory licenses, which would certainly be welcomed, another solution may be that a simplified legal process is introduced. This would likely require amendment to the Patents Act, and may take the form of providing that a compulsory licence application is made to a Tribunal or through another process that does not require a court application (at least in the first instance).

State ‘Walk-In’ Rights

The Doha Declaration, of which South Africa is a member, provides that the TRIPS Agreement can be interpreted by members to promote access to medicines for all, including by use of government ‘walk-in’ rights in a national emergency, which include epidemics like HIV/AIDS, tuberculosis and malaria.

Provision for government ‘walk-in’ rights in relation to affordable access to medicines have long been provided for in the South African Patents Act, yet this provision has never been used. A Minister of State can use an invention for public purposes on agreed upon conditions, or if no agreement, on conditions as are determined by the Commissioner of Patents on application by the Minister and after hearing the patentee. There are no grounds stipulated, merely that use is for public purposes.

The draft IP Policy avers that the reason why this section has never been used by the State is due to the burden of requiring prior negotiation and since expensive litigation proceedings would need to be pursued where there is no agreement between the parties. The draft IP Policy suggests that since TRIPS does not impose prior negotiation requirements, legislative and other measures should be implemented by government to simplify State ‘walk-in’ rights for affordable medicines. Be that as it may, it should also be noted that any such measures must also comply with the legal requirements for procedural fairness that are provided for in the South African Expropriation Act.

Parallel Importation

There is an existing interplay between the provisions of the South African Patents Act, and the South African Medicines and Related Substances Control Act (the "Medicines Act"). At present, the Medicines Act does provide for parallel importation of medicines and is administered by the South African Department of Health. However, as in the case of State "walk-in" rights, this mechanism has never been used. This may be partly due to the fairly complex requirements that the applicant must comply with.

The draft IP Policy has considered this difficulty and provides that South African legislation must be amended to facilitate parallel importation of medicines, and has committed to engage with all stakeholders in this regard. Furthermore, South Africa has ratified the Paragraph 6 system for amendment of the TRIPS Agreement to facilitate access to medicines in countries that lack pharmaceutical manufacturing capacity. The TRIPS mechanism has been the subject of various criticism, but the draft IP Policy provides that the South African government will engage stakeholders to find ways of ensuring that implementation is as simplified as possible. It seems that these stakeholder engagements will be important to follow over the next few years in order to ensure input is provided from all stakeholder sectors and that all stakeholder inputs are taken into consideration by government when the legislation is amended.

In conclusion, there are complex issues around access to affordable medicines, but the inclusive process that has been used by government in the implementation of the new draft IP Policy is reassuring. All stakeholders should be encouraged to continue to engage with government in this iterative process.

Dr. Joanne van Harmelen heads up the Biotechnology and Life Sciences cluster in the intellectual property department at ENSafrica. She is a qualified patent attorney specialising in patent filing and prosecution and IP strategy in the biotech and pharmaceuticals sectors.

BEPS Project and Intangibles: Impact on IP Tax structures

By Dr. MM Kleyn

Intangible assets constitute a major value-driver for multi-national enterprises (MNEs).

This is even more so for companies that rely on valuable intangibles rather than physical assets to generate financial returns.

Intangibles such as patents, design, trademarks (or brands) and copyrights are generally easy to identify, value and transfer and as such attractive for multi-national tax planning structures especially as these rights usually does not have a fixed geographical basis and is highly mobile as a result can be relocated without significant costs.

Many MNEs utilize IP structuring models whereby global or regional legal ownership, funding, maintenance and user rights of intellectual property are separated by design from actual activities and physical location of the intangible assets to operate in such a way that the income derived from *intangible*s in one location are received in another low (or lower) tax regime. As such IP ownership models have a significant effect on the taxation of MNEs.

Cross-border transfer of IP generally attracts high taxes. However, as IP is intangible in nature and therefore highly mobile with no fix geographical boundary, it is possible to easily move these assets from country to country using planned licensing structures. For example, an MNE can establish a licensing and patent holding company suitably located offshore to acquire, exploit, license or sublicense IP rights for its foreign subsidiaries in other countries. Profits can then be effectively shifted from the foreign subsidiary to the offshore patent owning company where little or no tax is payable on the royalties earned. Fees derived by the licensing and patent holding company from the exploitation of the intellectual property will be either exempt from tax or subject to a low tax rate in the tax-haven jurisdiction. Licensing and patent holding companies can also be used to avoid high withholding taxes that are usually charged on royalties flowing from the country in which they are derived, or can be further reduced by double taxation treaties existing between countries.

Many countries allow for the deductions in respect of expenditure on research and development (R&D) or on the acquisition of IP. As such MNE's can set up R&D facilities in countries where the best tax advantage can be obtained. As such MNEs can make use of an attractive research infrastructure and generous R&D tax incentives in one country and benefit in another from low tax rates on the income from exploiting intangible assets.

IP tax planning models such as these successfully result in profit shifting which in most instances may lead to base erosion of the tax base.

Early 2013, the Economic Co-Operation and Development (OECD) launched the Base Erosion and Profit Shifting (BEPS) project. This project focusses on guidelines to MNEs addressing tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. By December 2017, sixty-eight countries signed the Multilateral Convention to Implement Tax Treaty Related Measures (MLI) to prevent BEPS.

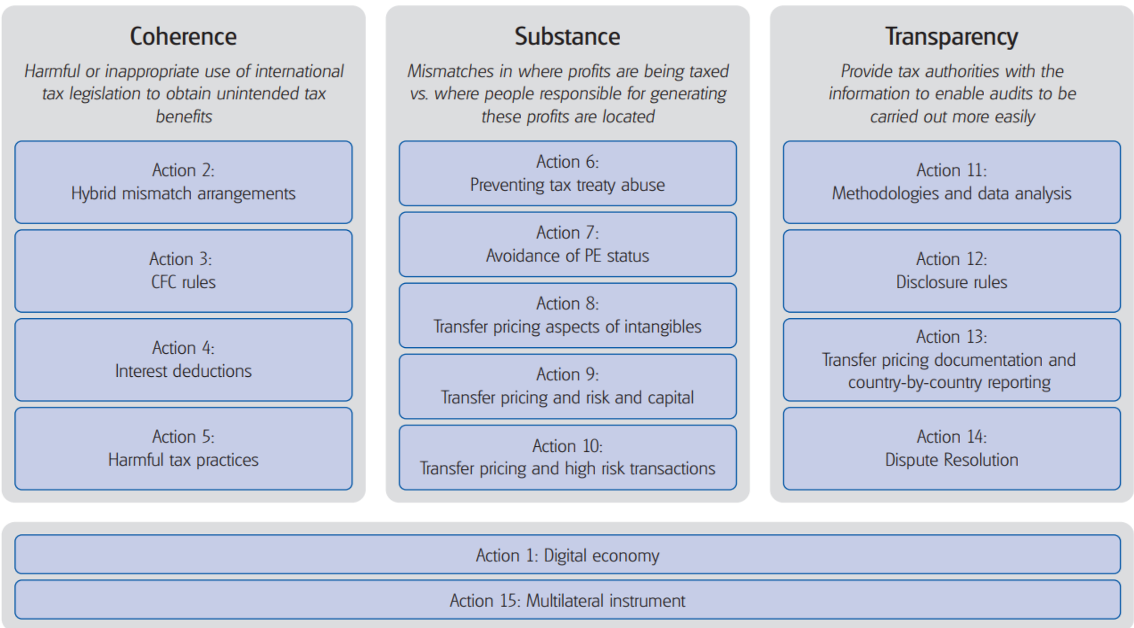
The MLI is designed as a mechanism for implementing widespread treaty reform and coordination within the existing network of bilateral double tax treaties – without requiring separate bilateral negotiations between each pair of contracting jurisdictions.

Notably, the BEPS project is not just about changing very complex tax laws, it is also about fundamentally changing the behaviour of MNEs. It changes all that is familiar of IP structuring arrangements, group financing arrangements and group holding company structures. Whereas identifying a favourable tax regime, a treaty network and setting up a few or no employees in that regime was the simple model, this will no longer be possible.

The OECD 15-point Action Plan was announced to address BEPS. Essentially the action plan comprises three main pillars: i.e. Coherence, Substance and Transparency with certain umbrella provisions incorporated into Action Plans 1 and 15.

A central focus of the BEPS Action Plan is to identify and address the impact of corporate tax-structures and it specifically includes IP tax structures. The tax landscape for any group with intangible assets has changed as a result. In this article the key implications for MNEs are briefly discussed.

Source: International Tax Review entitled "BEPS is broader than tax" (Feb 2016)



IP is a target of three major themes. Coherence looks to tax certain types of low or zero tax income, substance rules look to attribute interact profit to the locations in which key staff are based, and transparency requirements will make businesses highlight low taxed or lightly staffed IP owners. The relevant Action Plans are 8, 10 and 13 that concern transfer pricing, IP Management and reporting requirements.

Action 8	Action 10	Action 13
Develop rules to prevent BEPS by moving intangibles among group members. This will involve: (i) adopting a broad and clearly delineated definition of intangibles; (ii) ensuring that profits associated with the transfer and use of intangibles are appropriately allocated in accordance with (rather than divorced from) value creation; (iii) developing transfer pricing rules or special measures for transfers of hard-to-value intangibles; and (iv) updating the guidance on cost contribution arrangements.	*Develop rules to prevent BEPS by engaging in transactions which would not, or would only very rarely, occur between third parties. This will involve adopting transfer pricing rules or special measures to: (i) clarify the circumstances in which transactions can be recharacterized; (ii) clarify the application of transfer pricing methods, in particular profit splits, in the context of global value chains; and (iii) provide protection against common types of base eroding payments, such as management fees and head office expenses.*	*Develop rules regarding transfer pricing documentation to enhance transparency for tax administration, taking into consideration the compliance costs for business. The rules to be developed will include a requirement that MNE's provide all relevant governments with needed information on their global allocation of the income, economic activity and taxes paid among countries according to a common template.*

In the case of MNEs operating in different countries, subject to different laws, it is possible to manipulate profits so that they appear lower in a country with higher tax rates and higher in a country with lower tax rates. Action Plan 8 tries to correct the arising imbalance, as it brings out how misallocation of profits generated by valuable intangibles has contributed to BEPS.

Transfer pricing is generally defined as the *price* charged by one member of MNE to another member of the same organization (related entities) for the provision of goods or services or the use of a property, including intangible property.

The OECD further proposed guidelines for transfer pricing rules to ensure that operational profits are allocated to economic activities which generate them, it includes recommendations on how enterprises should apply the "arm's length principle" that is, the international consensus on how cross-border transactions between related parties/entities should be valued for income tax purposes. Updated Transfer Pricing Guidelines for MNEs and Tax Administrations were published in 2017 and included in Chapter VI Special considerations for intangibles. The 2017 edition mainly reflects a consolidation of the changes resulting from the BEPS project and incorporates many revisions of the 2010 edition into a single publication.

Intangibles, for the purpose of transfer pricing, are broadly defined in the OECD "....something which is not a physical asset or a financial asset, which is capable of being owned or controlled for use in commercial activities, and whose use or transfer would be compensated had it occurred in a transaction between independent parties" and the following categories are included: Patents; know-how and trade secrets; trademarks, trade names and brands; user rights under contracts and government licenses; licenses and goodwill.

Chapter VI of the OECD Transfer Pricing Guidelines are structured into four sections:
1. Identifying intangibles and their categories;
2. Legal ownership of intangibles and transactions involving the development, enhancement, maintenance, protection and exploitation of intangibles;
3. Transactions involving the use or transfer of intangibles and proper characterization thereof; and
4. Supplemental guidance for determining arm's length conditions in cases involving intangibles which will include identifying the parties performing functions, using assets, and assuming risks related to developing, enhancing, maintaining and protecting the intangibles by means of functional analysis.

To be BEPS compliant, MNEs must be able to recognize the value of intangible assets. It will be necessary to conduct an in depth functional and economic analyses of intangibles to be able to identify transactions involving intangibles and their value to be able to qualify and quantify arm's length prices for transactions involving intangibles across the business value chain(s), specifically for the DEMPE functions, i.e. development, enhancement, maintenance, protection and exploitation of intangibles.

This assumes well versed knowledge of intangibles and it is advisable that businesses have the appropriate skill base and expertise for IP Management from a BEPS perspective.

It will be important that inter-company agreements properly reflect the underlying transactions. This is to ensure that the profits arising from an activity are appropriately allocated to the various parts in the value chain. Cross functional teams comprising treasury, finance and tax, accounting, procurement, intellectual property and legal departments will be essential for the business to properly understand how stakeholders interact. It is advisable to centralise these functions into a unit for "BEPS compliance".

Close assessment and scrutiny of substance and form of transactions within the business will be necessary to ensure the necessary nexus exists, e.g. appropriate substance and autonomy to support the profits and intra-group charges.

The OECD guidelines provide clarification on the determination of arm's-length conditions for transactions that involve the use or transfer of intangibles and the parts dealing with ownership of intangibles and transactions involving DEMPE functions. The guidelines stipulate that the return ultimately retained by or attributed to the legal owner depends upon the functions it performs, the assets it uses, and the risks it assumes and upon the contributions made by other MNE group members through their functions performed, assets used, and risks assumed such that the profits arising from intangibles is aligned with the activities undertaken in relation to those intangibles.

On 23 May 2017, the OECD released a discussion draft on the implementation guidance on hard-to-value intangibles (HTVI) in relation to BEPS Action 8.

The Final Report on Actions 8-10 of the BEPS Action Plan ("Aligning Transfer Pricing Outcomes with Value Creation") mandated the development of guidance on the implementation of the approach to pricing hard-to-value intangibles ("HTVI") contained in Section D.4 of Chapter VI of the Transfer Pricing Guidelines.

The term HTVI is defined as covering "*intangibles or rights to intangibles for which at the time of their transfer between associated enterprises, (i) no reliable comparable exist, and (ii) at the time the transactions was entered into the projections of future cash flows or income expected to be derived from the transferred intangible, or the assumptions used in valuing the intangible are highly uncertain, making it difficult to predict the level of ultimate success of the intangible at the time of the transfer*."

Paragraph 6.190 clarifies that transactions involving the transfer or the use of HTVI may exhibit one or more of the following features; the intangible is only partially developed at the time of the transfer; is not expected to be exploited commercially until several years following the transaction; does not itself fall within the definition of HTVI but is integral to the development or enhancement of other intangibles which fall within that definition of HTVI; is expected to be exploited in a manner that is novel at the time of the transfer and the absence of a track record of development or exploitation of similar intangibles makes projections highly uncertain; has been transferred to a related party for a lump sum payment or is either used in connection with or developed under a co-development agreement or similar arrangement.

As it may be difficult to establish or verify which developments or events may be relevant to the pricing of a transaction involving transfer of intangibles or rights to intangibles, the assessment of which requires specialized knowledge, expertise and insight into the business environment in which the intangibles are exploited. New factors that may be important in the comparability analysis of intangibles are e. exclusivity, extent and duration of legal protection, geographic scope, useful life, stage of development, rights to enhancements, revisions and updates, expectation of future benefit and comparison of risk.

In conclusion it will be necessary for MNE's to align transfer pricing outcomes with value creation. Specifically, MNEs should either reset transfer pricing policies to allocate profits to (higher tax) territories in which the economically significant activities take place, or redesign their operating models to align economically significant decision-making and control functions with IP ownership.
Enterprises should be able to produce appropriate transfer pricing documentation and comply with country-by-country reporting. Arm's length conditions for the use or transfer of intangibles would require performing a functional and economical comparability analyses based on identifying the intangibles (inclusive of legal vs actual ownership) and associated risks in contractual arrangements supplemented by examination of actual conduct based on functions performed, assets use, risk assumed.

Dr. Kleyn is the Group Company Secretary and General and Intellectual Property legal in-house counsel for Oro Agri International Ltd, a multi-national agri company. She specializes in intellectual property and commercial law. She is the lectures part time at the University of Stellenbosch and is the editor of the Lexis Nexis publication International Pharmaceutical Law and Practice

Dr. MM Kleyn

Full stop ahead: Public interest in blocking digital content

Cobus Jooste

Cobus is a lecturer in the Department of Mercantile Law at the Faculty of Law at Stellenbosch University and a member of the Anton Mostert Chair of Intellectual Property Law. He teaches Internet Law and Intellectual Property Law in the Digital Environment (EIP Law).

It makes for the perfect ideological storm when IP law and Information and Communications Technology (ICT) law meet and the right to freedom of expression stands in the way. Capitalist and socialist, activist and pacifist, pragmatist and idealist: differing legal experts abound in the battle for, or against, IP rights in the digital environment.

Two recent developments which illustrate this tension, might serve South Africans well, if observed with care.

Firstly, the recent ruling of the General Court of the European Union in *Constantin Film Produktion GmbH v EUIPO* ECLI:EU:T:2018:27 case no T-69/17, made it clear that aural vulgarity could be a bar to the registration of a mark. In this matter, an appeal against the decision of the Fifth Board of Appeal, the court held that the title of the German language film "Fack Ju Göhte" (English title "Suck Me Shakespeer") may not be registered because it is considered offensive to Johann Wolfgang von Goethe, the 19th century writer and lawyer who died in 1832. The court was not persuaded by the contention that the intentional misspelling is a satirical expression in "teenage language" and that the unique combination of the words renders the title innocent of obscenity. The court considered the fact that the application for registration was brought in 13 classes including clothing, games and educational subject matter which would be exposed to minors.

Secondly, earlier this year, the proprietor of the USA brand Hard Candy Cosmetics withdrew its application for registration of the campaign hashtag #metoo as a mark in relation to several international classes, after substantial public outcry. This despite the fact that it undertook, after the fact, to donate the profits of all sales of cosmetic products and fragrances generated by the mark to support the social awareness movement.

The parallels between these recent examples and that of #JeSuisCharlie and #BlackFriday are not to be overlooked. Similarly, in South Africa, civil society has been known to express its vehement objection to the existence, popularization and protection, of certain works, such as was the case in recent controversy involving the clothing retailer H&M. It is not difficult to observe an analogy with the so-called "rape" cartoons by Jonathan Shapiro or the political commentary expressed as artwork in *The Spear* by Brett Murray or *F**k White People* by Dean Hutton, among others.

This, manifestly precarious, balancing act between IP rights and fundamental freedoms has seemingly played a significant role in, *inter alia*, some of the proposed legislative amendments to the IP regime in South Africa. For example, the Copyright Amendment Bill, 2017 (B13-2017, GG 40121 Notice 799), hereinafter the "Bill", is riddled with references to the "user" of the work and their (new) rights and, in relation to digital works, refer only to infringement of "the work" instead of infringement of copyright in the work (see for example the definition of "technological protection measure" in section 1(h) of the Bill.) At the same time, the legislature proposes costly and impractical criminal sanctions for piracy but, in what may only be assumed (as these provisions appeared in both the 2015 and 2017 versions of the Bill) to be an intentional move, leaves the door open to all intermediaries, including the operators of websites that facilitate piracy, to avoid statutory liability on the basis that their service is not "primarily" intended for infringing use (section 13A of the Bill).

These examples, at face value, suggest a move toward a more socially aware, emotionally intelligent and constitutionally nuanced interpretation of traditional IP rights in the digital environment. On closer inspection, however, that which is pretty from afar is shown to be far from pretty.

See Jooste C and Karjiker, S "Commentary on the Copyright Amendment Bill 2017" IPStell (14 July 2017); Dean, OH, Jooste, C and Karjiker S "Commentary on the Copyright Amendment Bill 2015" IPStell (24 August 2015).

If the flexible societal norms, in our remarkably fluid and liberal digital age, are permitted to influence the registration of trade marks, what does it suggest for copyright law?

Furthermore, if the *boni mores* of, constitutionally speaking, less liberal nations, are applied to limit the scope of IP rights in the digital environment, does South Africa stand any chance of achieving a sound balance between IP rights and fundamental freedoms in the digital environment?

The answer, it is submitted, must be a qualified yes. If the rights of copyright owners are to survive into the digital age, it has become necessary to innovate. Since public policy (see the *Draft National Policy on Intellectual Property* GG 36816 Notice 918 at paras 20, 32 and 33) is set to limit copyright even further, and the technologically-dependent public interest seems to weigh against private rights without the need for a proper balancing exercise, copyright owners may have to resort to a fistfight. In other words, the internet has made it necessary to fight fire with fire, or, prosecute copyright infringement with the aid of public policy that does not rely on the Copyright Act alone.

Two examples best illustrate this point, namely website blocking and geo-blocking.

In the case of technologically-aided geographical restrictions on the dissemination of copyright-protected works, i.e. geo-blocking, the judgment in *South African Broadcasting Corporation Soc Ltd v Via Vollenhoven & Appollis Independent CC (Freedom of Expression Institute Amicus Curiae)* 2016 JDR 1622 (GJ), hereinafter *Vollenhoven,* is instructive.

When required to balance the right to freedom of expression, and the right to impart information in particular, (section 16(1)(b), Constitution of the Republic of South Africa 1996) against the rights of the copyright owner, the court held that "[c]aution should be exercised in elevating lofty pronouncements to guiding principles in ascertaining the intent and purport of the Act within our constitutional framework." Consequently, the court found that the "constitutional challenge [to disseminate works in the public interest] is misconceived and should fail", because, in part, it seeks to undermine "the sanctity of contract - *pacta servanda sunt* [and] negates the *caveat subscriptor* rule".

Incidentally, although the court made no mention of the fact that the work in question, entitled *Truth Be Told: Project Spear*, was already freely available on YouTube and is, at the time of writing, still publicly accessible, one may wonder if this did not play a role in the court's decision to describe the role of copyright as nothing more than an economic incentive.[1]

[1] At [25] to [27]. For a full discussion of this case see Karjiker, S "The case for the recognition of a public interest defence in copyright" in SALJ 2017 3 451. It should be noted that the author takes care to point out that there may be a difference between public policy and the public interest.

Be that as it may, for the purpose of geo-blocking, the judgment in *Vollenhoven* suggests, in no uncertain terms, that no party has the right to exploit works protected by copyright unless it is sanctioned by the Copyright Act. The court made it clear that an appropriate balance between the public and private interests is maintained by the Copyright Act [at 33] and that the public interest cannot be relied upon to authorize the circumvention of a contractual prohibition on the dissemination of the work.

Therefore, it follows, that the commonly held belief that one may access content from anywhere in the world as long as it is paid for, will not survive judicial scrutiny. The primacy of contract, between the copyright owner and the licensee, as well as between the service provider and the subscriber, supersedes considerations of public interest.

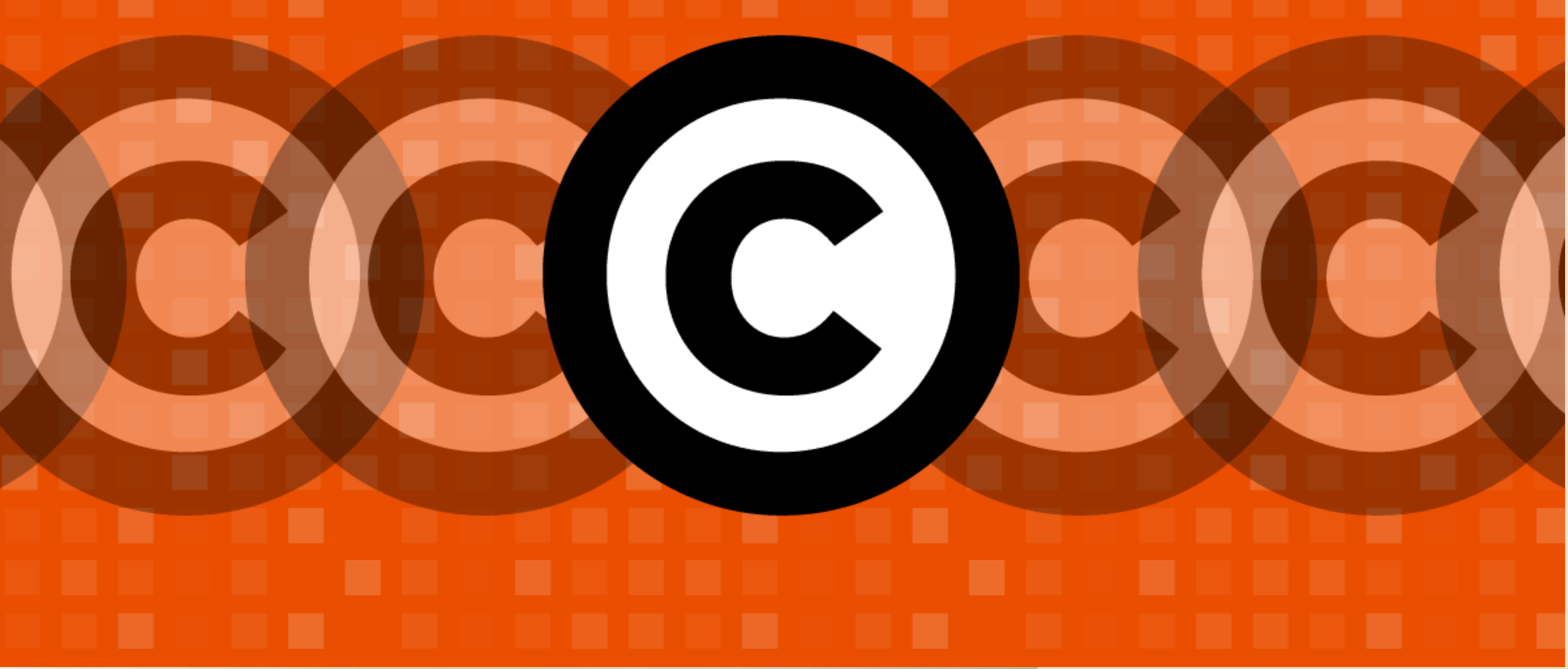
In the case of website blocking, South African law is remarkably well equipped to deal with digital piracy and yet it has not been applied at all. One may well ask why this is the case? There is no reason to suppose that the risk of public opposition to website blocking has anything to do with the dearth of case law on intermediary liability for copyright infringement. There is also no sense in tolerating piracy in anticipation of legislative intervention that is unlikely to occur.

In this respect, both the United Kingdom and Australia have introduced statutory mechanisms in favour of website blocking orders. *See section 97A of the UK Copyright, Designs and Patents Act of 1988 and section 115A of the Australian Copyright Act of 1986.*

The plethora of subsequent case law illustrate that such measures do not encroach on the public interest in the case of copyright infringement and, notably, are also available in the case of trade mark infringement.

UK case law examples: Dramatico Entertainment Ltd v British Sky Broadcasting Ltd [2012] EWHC 268 (Ch) and Twentieth Century Fox Film Corporation v Sky UK Ltd [2015] EWHC 1082 (Ch). Australian case law examples: Roadshow Films Pty Ltd v Telstra Corporation Limited [2017] FCA 965 and Foxtel Management Pty Limited v TPG Internet Pty Ltd & Others [2017] FCA 1041.

Despite several revisions of the Copyright Amendment Bill, the South African legislature has not introduced a similar measure of protection. Consequently, a local website blocking order must be sought by some circuitous application of the law that relies on facilitation or authorisation of direct copyright infringement and the mechanics of internet communication.



Considering the risk, particularly after the judgment in the case of *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a SabMark International and Another 2005 (8) BCLR 743 (CC)* that the court may be persuaded to refuse a blocking order in the interest of net neutrality, or some other interpretation of the public interest, it is little wonder that this cause of action has not been pursued.

The Electronic Communications and Transactions Act 25 of 2002 (the ECT Act) did not anticipate this state of affairs. On the contrary, in terms of section 76, an intermediary would only be indemnified against liability for damages if it engages in the act of facilitating the location of infringing content and takes the prescribed steps. The ECT Act does not offer a safe harbour for intermediaries against injunctive relief, at least in the case of piracy by facilitation, and specifically reserves the power of the courts to instruct an intermediary to prevent or terminate unlawful activity.

Clearly, and despite the perceived shortcomings of the Copyright Act, the ECT Act provides the facility for a website blocking order. And yet, this avenue has not been explored. Once again, public interest may be the devil in the detail. The increasing pressure on governments worldwide, in the interest of net neutrality, to avoid statutory interference with the free flow of information by means of the internet, suggest that IP rights may not be allowed to set a precedent for stricter policing of digital communications. However, the ECT Act makes it clear that the mere act, of placing restrictions on which communications one will accept, may not be opposed on the basis of the public interest, whether or not such communication is lawful.

In conclusion, when the public interest in digital copyright infringement proceedings is reviewed, two things are apparent.

Firstly, it is futile to expect that the legislature may be persuaded to act in the interest of copyright owners while the required intervention is perceived as contrary to the public interest, particularly in relation to digital content. If foreign trends are anything to go by, the line between the public interest and the public opinion will become more indistinct. As a result, the likelihood that the South African legislature will act to curb online piracy seems more remote than ever.

Secondly, it is unnecessary, and indeed reckless, to suggest that copyright owners must abide the infringement of their rights in the digital environment for fear of offending the public interest. In fact, it is clear that the public interest may prove to be the sharpest tool at the disposal of copyright owners and that the confines of the Copyright Act should not be lamented but, instead, embraced.

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Competition — Restraint of trade agreement — Protection of confidential information — Appeal against order enforcing restraint of trade and undertakings relating to use of confidential information — Enforceability — Allegation that appellants had commenced business in competition with respondent and disclosed confidential information contrary to restraint agreement — Appellants challenging enforceability of restrain on ground of novation — Whether contract in fact novated — Whether contract inchoate or conditional upon consensus being reached on outstanding issue. *Campbell v Regal Beloit Corporation* Case No: 1612/2016 GJ P Boruchowitz J, E Matojane J and M Sawyer AJ 33 pages Serial No: 1029/2017 — CD 17/2017

Counterfeit goods — Possession — Possession, as opposed to dealing, not an offence under Counterfeit Goods Act 37 of 1997 — Plaintiff arrested without warrant for possession of counterfeit CDs — Arrest and detention unlawful — Damages of R50 000 awarded — *Tyindyi v Minister of Police* Case No: 03170/2016 30-06-2017 GJ T Brenner AJ 18 pages Serial No: 1277/2017 — CD 19/2017

Patent — Infringement — Interlocutory interdict — Whether appealable — Where contended that patent would have run its course prior to finalisation of action for final interdict — Restatement of test for appealability — Order must be definitive of issue and not susceptible to alteration by court of first instance — Interdict interim in form and effect — Not appealable. *Cipla Agrimed (Pty) Ltd v Merck Sharp Dohme Corporation* Case No: 972/2016 29-09-2017 SCA Ponnan JA, Cachalia JA and Mathopo JA and Gorven AJA and Rogers AJA 27 pages Serial No: 1598/2017 — CD 24/2017

Plant breeders' rights — Party asserting right to 'variety of inter-specific plum' called FLAVOR FALL — Proprietor not party to proceedings but plant-breeders right registered under Plant Breeders' Rights Act — Court holding that breeders' rights not infringed where there was no propagation of FLAVOR FALL varietal. C*osta NO v Arvum Exports (Pty) Limited* Case No: 969/2016 21-09-2017 SCA C H Lewis J, Leach JA and Saldulker JA and Lamont AJA and Schippers AJA 16 pages Serial No: 1560/2017 — CD 21/2017

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14 to 24 (Digest 10 to 13

events...

Tentative dates :

Ten pin bowling: 8 June

Golf Day : 24 August

Dinner: 2 November

AGM : 14 November

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