IP BRIEFS

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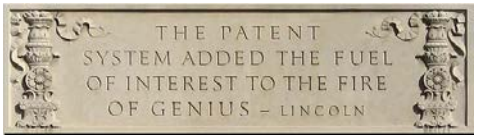

FROM THE EDITOR

Dr. MM Kleyn

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As orange colours the brand of SAIIPL it is appropriate for the first IP Briefs of 2016 to appear at the brim of autumn.

2016 appears to be the year in which the IP world will experience many changes, the most prominent buzz being around the IP changes in the European Union such as the renaming of the Community trademark (CTM) to a European Union Trademark (EUTM); the implementation of the regulations and treaty introducing the long-awaited Unitary Patent which will create a single patent with unitary effect in the EU member states with disputes to be dealt with under the jurisdiction of a unified European patent court. It is expected that the ratification of the Agreement on a Unified Patent Court by the "at least 13 nations "will occur in 2016.

On home soil - expectations are set at the revised IP Policy seeing the light this year. All eyes are on the changes that would need to be implemented at CIPC to prepare for the examining of South African patent applications.

South Africa has seen quite some reforms in controversial legislation being promulgated and overall this promise to be an interesting year.

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me." Thomas Jefferson,

MESSAGE FROM THE PRESIDENT

Vicky Stilwell

I would like to take this opportunity to thank members for the privilege of serving as your president for 2016. I hope that 2016 with be a happy, prosperous and successful year for everyone.

It is hard not to take notice of the interesting times in which we are living, with lots of uncertainty and volatility in both international and local economies. With all of this uncertainty comes a good opportunity for change and a potential to do things differently. 2015 showed us that the IP landscape in our country is also changing and I encourage all members, young and old, to get involved in the SAIIPL's activities as much as possible so that we, as the representative body for the IP profession in this country, can ensure, as far as possible, that any changes are properly considered and effectively implemented.

I would particularly like to encourage junior members to get involved and actively participate in the SAIIPL committee activities and social events. You are the future leaders of the Institute and participation in the committees and events is a great opportunity for you to get to know your colleagues as well as to make a meaningful contribution to the future of your industry.

At the risk of stating the obvious, as president of the SAIIPL I serve at behest of the members and I invite all members to feel free to contact me with any comments, suggestions or complaints at any time. My (proverbial) door is always open.

EVENTS CALENDAR

Date	Event
10-Jun-16	Bowls Irene Bowling Club
12-Aug-16	Ladies Luncheon High Tea at Café Hemmingways in Kyalami
09-Sep-16	SAIIPL Golfday Wingate or CopperLeaf
12-Nov-16	Annual Dinner Venue in JHB (TBA)
16-Nov-16	Annual General meeting Venue TBA

OVER-REGULATION AND TAXATION: TARGETING OF THE FRANCHISE INDUSTRY

DARREN MARGO

For the franchise industry, it's been an extremely rude awakening to the year. 2016 commenced with two hastily-published policy documents affecting franchisors and franchisees alike, and both demanding public comment within exceptionally brief window periods. The two publications are:

(1) SARS's Draft Guide On The Taxation Of Franchisors And Franchisees ("SARS Guide"); and
(2) The National Consumer Commission's Draft Industry Code for the franchise Industry ("Draft Guide").

Looking at these titles alone, one would expect these documents to be helpful, promising certainty and assistance to taxpayers. Regrettably, as this article will demonstrate, both are fraught with difficulty. At the outset, it must be stressed that both of these policy documents are very dense in detail, and focus on extremely intricate aspects of taxation of intellectual property ("IP") transactions, and consumer protection legislation. This article is intended to highlight a selection of core issues only.

At their simplest level: the SARS Guide concentrates on how SARS intends to treat certain IP based transactions and milestones as they arise in the franchise setting. The Draft Guide proposes the establishment of (yet another) Ombudsman in the franchise industry. The two are certainly published and considered in isolation. However, if either one or both of these policy documents is ultimately approved, there is little doubt that both the degree of red tape and the cost of operation of any notional franchise are destined to skyrocket. We now look at each policy document in turn.

The SARS Guide

To their great credit, in preparing the Guide, SARS has gone to lengths to consider all manner of IP transactions separately: typical franchise occurrences such as upfront license fees, recurring license fees, training fees, advertising fees, etc. receive individual attention. SARS then describes how it intends treating each such transaction, in the hands of the franchisor and the franchisee respectively.

The trouble with the Guide, respectfully, is that years of judicial certainty in many of these areas is sought to be overturned by the Guide. The most prominent example of this is the treatment of royalty payments by licensees for the use of a franchisor's IP (typically: trade marks, works of copyright and business methods).

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The Guide seeks, effectively, to overturn the landmark decision of the Supreme Court of Appeal in *BP Southern Africa v CSARS*, in which the court ruled unanimously that such payments were deductible in the hands of the franchisee [The judgment involves a detailed discussion of the capital-vs-revenue treatment of expenditure].

As a general observation: in the Guide, SARS proposes departing from the *BPSA* position on royalty payments, and also departing from a series of other well-established principles, ostensibly on the basis that the expenditure is capital in nature – and not revenue – and therefore cannot be deductible in the hands of the franchisee. Both the space allocated here, and the degree of technicality involved, prevent a detailed discussion of why the arguments put forward by SARS, with respect, cannot be correct.

In the Guide, the overwhelming majority of instances proposing a departure from the established principles, invariably, is to the detriment of the franchisor / franchisee, as appropriate. Accordingly, even if only some of SARS's proposed departures from established principles are enacted, the income tax liability of both franchisors and franchisees alike is bound to soar. Given the very harsh prevailing economic climate, and further austere measures anticipated in both income tax and VAT in the near future, we believe that any further tax burden being placed on franchisors or franchisees now is extremely undesirable.

The Draft Guide

In simplest terms, this Draft Guide proposes establishing an Ombud for purposes of providing a dispute resolution mechanism for franchisors and franchisees. Certainly, there is nothing offensive in the idea–in–principle. Regrettably, in practice, the situation is far more problematic.

For starters, and what the Draft Guide does not disclose, is that there already exists a comparable Industry Ombudsman in the sector, namely: the Consumer Goods and Service Industry ("CGASI") Ombud. The rules of that Ombud differ significantly from the rules proposed for the Franchise Industry Ombudsman proposed in the Draft Guide. Uncertainty and contradiction will surely follow if the Draft Guide is approved.

Equally problematic, it would seem, is the position of the Franchise Association of South Africa ("FASA") within the proposed new Ombud. A number of very serious concerns have been raised regarding conflicts of interest that would arise, as well as the independence of FASA in the structure, given that many of its council members hold personal interests in a number of franchises.

To complicate matters further, FASA already has its own Code of Ethics and Business Practices. The rules in that Code conflict, in several major respects, with both the rules of the CGASI Ombud and also with the rules for the proposed Franchise Industry Ombud. The degree of uncertainty and conflict between authorities is raised even further, as a result.

The hyper-regulation proposed in the Draft Guide also means that many local franchisees will likely find themselves in an untenable situation in which their international franchise commercial agreements are in conflict with South African legislation.

Finally, it is also mentioned that there are probing questions being asked about whether the Draft Guide even complies with the requirements to establish an Ombudsman Office (section 82 of the Consumer Protection Act).

In our view, if the Draft Guide is accepted, the franchisee industry would be plunged into uncertainty at the first sign of any dispute arising between franchisor and franchisee. In addition to the spectre of conflicts of interests being introduced, there is also a grave concern that unscrupulous franchisees will be able to frustrate franchisors indefinitely (and vice versa), holding them to ransom in an endless sea of red tape, paralysing the business of franchises.

The window period for submission of comments to both the SARS Guide and the Draft Guide closed before this article was published. We now await feedback from SARS and the National Consumer Council respectively. In our view, the only reasonable position is to abandon both policy documents in their entirety.

ANTON PILLER ORDERS: NON-DETONAING DYNAMITE FISHING EXPEDITIONS

Meghan Dormehl

Meghan graduated from the University of Stellenbosch with a B.LLB degree and is a candidate attorney in the Trade Mark Enforcement Department of Spoor & Fisher attorneys in Cape Town

This article was supervised by Jeremy Speres, Senior Associate, Spoor & Fisher.

An Anton Piller order is a powerful tool within the arsenal of IP litigants but one that is, by its very nature, open to abuse. Such orders can be defined as court orders permitting the plaintiff's representatives to enter the defendant's premises, under the supervision of independent parties and without prior warning, in order to obtain and preserve evidence essential to the plaintiff's case. The focus of this article will be the recent Supreme Court of Appeal (SCA) ruling and in particular the SCA's findings regarding the level of specificity with which the plaintiff is required to describe the evidence sought when applying for such an order. The ruling involved an interesting mix of procedural, constitutional and intellectual property law and has provided some much needed guidance as to one of the more difficult aspects of Anton Piller orders.

The core notion behind an Anton Piller order is the preservation of evidence to be used in imminent litigation. The requirements for an Anton Piller order were authoritatively set out by the SCA in *Universal City Studios Inc. v Network Video (Pty) Ltd*. First, the applicant must establish *prima facie* that he has a cause of action against the respondent, which he intends to pursue. It must also be shown that the respondent holds specific documents or things, which constitute vital evidence. In line with the notion to preserve evidence, there must also be a genuine and well-founded apprehension that the respondent might in the normal course not discharge its duty to make a full discovery.

The 2015 SCA judgment *in Non-Detonating Solutions (Pty) Ltd v Durie* deliberates the requirements for granting an Anton Piller order. The parties to the *Durie case* are competitors in the field of non-detonating rock-breaking cartridges used for underground mining. An application for an Anton Piller order was made by the appellant in order to retrieve evidence in support of the appellant's case of copyright infringement against the respondent for cloning a novel rock-breaking cartridge.

Section 36 of the national Constitution ensures that any limitation of fundamental rights is reasonable and justifiable in an open and democratic society. Anton Piller orders have the potential to threaten or limit the right to privacy, guaranteed in Section 14 of the Constitution, as such an order does not give a defendant an opportunity to defend himself, at least initially. For this reason, there is a general insistence by the courts to balance parties' competing interests and values in order to obtain proportionality between the defendant's right to privacy and the plaintiff's right to preserve evidence.

In the *Durie case* the court performed this balancing exercise in considering the requirement of specificity. Although the Anton Piller procedure should not be used for: "*a mere search for evidence (the so-called fishing expedition)*", the SCA held that the lower court's insistence that specific, individual documents be identified was too restrictive. The appeal court held that this approach goes against clearly established law which permits search and seizure orders for classes of documents and not only specific, individual documents.

The SCA has thus provided some much needed guidance as to the level of specificity that a plaintiff is required to show when applying for an Anton Piller order. In short, the SCA held that plaintiffs seeking Anton Piller orders do not need to identify documents and items individually but may identify particular classes of evidence instead. As long as the application is not so wide as to afford access to irrelevant information or to constitute a "fishing expedition". Rather, a more contextual approach, based on what the subject-matter in dispute permits, is allowed.

"Out with the old and in with the new - South Africa's new medicines regulatory authority"

Jeanette Visagie

Jeanette is an associate in the trade mark litigation department at Adams & Adams. She holds the degrees LLB (*cum laude*) and LLM. She was admitted as an attorney in 2013, and became a fellow of SAIIPL in 2014. Jeanette has a special interest in advertising law and regulatory compliance matters.

There can be no doubt that the generic substitution of medicines has had a positive impact on the public health sector in South Africa. Generic substitution has reduced health care costs and increases the availability of certain medicines to the public at large. That being said, the implementation of generic substitution has also caused hurdles for the healthcare industry. Some of these are highlighted below.

Currently, the Medicines Control Council ("MCC") regulates the manufacture, distribution, sale and marketing of medicine in South Africa. Part of the MCC's tasks include the registration of medicines and the approval of clinical trials.

For a number of years, the MCC has been criticised, severely, by the industry for taking too long to register new medicines and approve clinical trials. Due to the huge backlogs at the MCC, it could take up to three or four years to obtain MCC registration for a new medicine. There are also delays in obtaining clinical trial approval. In September 2014, it was reported that there was a backlog of over 2900 new medicine applications (the majority being generic medicine applications), and that number has likely increased in the past 18 months. The backlogs at the MCC have resulted in a delay in the availability of certain important medicines in the local market.

Furthermore, the long wait before being able to launch a product in South Africa has impacted on the business of pharmaceutical companies.

This article looks at a major contributing reason for the delays at the MCC, and the measures that the South African Government aims to put in place, in order to alleviate this problem.

In 1996, the Department of Health ("DOH") introduced the National Drug Policy for South Africa. The Policy's aims include ensuring adequate and reliable supply of safe, cost-effective drugs of acceptable quality, and equity in the provision of healthcare, for all South Africans. In order to achieve this aim, the DOH put measures in place allowing for, and supporting, the generic substitution of medicines. For example, in terms of section 22F of the Medicines and Related Substances Act of 1965 ("the Medicines Act"), pharmacists are required to inform a patient with a prescription for an ethical medicine of the benefits of generic substitution, and to dispense a generic substitute medicine instead of the medicine prescribed, unless expressly forbidden by the patient to do so, or unless the prescription contains the words "no substitution". If a generic substitute is dispensed, the pharmacist must take reasonable steps to ensure that the substitution takes place with the understanding and consent of the patient.

The implementation of these measures saw in increase in the number of generic pharmaceutical companies in the past years and, subsequently, a flood of new generic medicine applications being submitted to the MCC. Unfortunately, sufficient additional human and financial resources were not provided to the MCC to assist in dealing with, and processing, this high influx of new applications. This problem has contributed largely to the current approval backlog at the MCC.

Against this background, the Government is in the process of putting measures in place to strengthen the country's medicines regulatory authority. This will be done by replacing the MCC with a new, better resourced and better funded regulatory authority. The authority will be called the South African Health Products Regulatory Authority ("SAHPRA").

In due course, the Medicines Act will be amended by the Medicines and Related Substances Amendment Act 72 of 2008 ("the 2008 amendments"), and the Medicines and Related Substances Amendment Act 14 of 2015 ("the 2015 amendments"). The 2008 amendments make provision, *inter alia*, for the establishment of SAHPRA. The 2015 amendments supplement, and address the shortcomings of, the 2008 amendments. Some of the changes that will be brought about by the amendments are discussed below.

When the 2008 and 2015 amendments are implemented, SAHPRA will come into existence, and the scope of the Medicines Act will become wider. The products covered by the Medicines Act, and falling within the authority of SAHPRA, will be extended to include all medicines (including complementary medicines), medical devices, and *in vitro* diagnostics (IVDs). While the Medicines Act currently prescribes that approved medicines must be recorded in a single medicines register, separate registers will be kept for medicines, medical devices, and IVDs, respectively, once the new amendments come into force.

The MCC falls within the DOH and is funded by the Government. SAHPRA, on the other hand, will be an organ of state within the public administration, but it will fall outside the public service realm. It appears, therefore, that SAHPRA will be more independent than the MCC, and will only partially be funded by the Government.

The MCC's Council Committee that considers new medicine registration applications consists of a panel of external experts. Many of these experts are from the medical and/or pharmacy departments at several of the country's academic institutions. It is envisaged that the human resource capacity of SAHPRA will be much greater than that of the MCC, and that it will be possible for new medicine and clinical trial applications to be considered and evaluated internally, to speed up this process. It appears that SAHPRA will have more flexibility than the MCC regarding the remuneration of employees, which will hopefully attract and secure the retention of well-qualified staff to assist in speeding up the process of evaluating and approving new medicine and clinical trial applications.

Currently, the Minister of Health has the authority to approve new medicines, by way of resolution, which has resulted in severe delays in the registration of medicines. Once SAHPRA comes into operation, this requirement will fall away, as SAHPRA will have authority over the registration and approval of new medicines. This measure also aims to speed up medicine registrations.

The 2008 amendments will come into operation on a date to be proclaimed by the President, and the 2015 amendments will come into operation immediately after the commencement of the 2008 amendments. According to reports, the DOH aims to introduce SAHPRA by April 2017. Before the amendments can come into force, the General Regulations to the Medicines Act should be amended, to be in line with the amendments. It remains to be seen, therefore, whether or not this deadline will be met. For the time being, the MCC continues to function as usual.

This article was verified by **Jenny Pienaar**
Jenny is a partner in the trade mark litigation department at Adams & Adams. She is a SAIIPL fellow, has co-authored the South African section of Thomson Reuters Life Sciences Global Guide on Medical Product Regulation and Product Liability and has co-authored the South African chapter in World Trade Mark Review's Pharmaceutical Trade Marks 2015/2016: A Global Guide.

Registrability of Shape Trademarks: Europe vs South Africa

Professor S Karjiker

S Hobson-Jones

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Shape marks have generally been regarded as a controversial form of trademark. Due to the potential anti-competitive implications of allowing a shape to enjoy trademark protection, applications for the registration of shape marks are not easily granted. Although South Africa and Europe have substantially the same legislative provisions concerning the registrability of trademarks, the recent *Kit Kat* shape mark decisions (*Societe Des Produits SA v International Foodstuffs* 2014 1 SA 492 (SCA).) by the South African Supreme Court of Appeal ("SCA"), and the European Court of Justice ("CJEU"),(*Societe des Produits SA v Cadbury UK Ltd* [2015] CJEU.) indicate certain areas of divergence in their respective judicial approaches to shape marks.

Not only has the SCA appeared to have disregarded established principles of trademark law but it also appears to have adopted a considerably lower and more artificial approach to the Kit Kat shape mark. The *Kit Kat* proceedings in the SCA and the CJEU suggest that South African law concerning the registration of shape marks is now out of step with the position in Europe

The most notable difference between the two *Kit Kat* decisions is the approach of the courts on the matter of distinctiveness. According to the South African and EU legislation a trademark must be distinctive – either inherently or as a result of acquired distinctiveness as at the date of application for the registration of the mark – before it can be registered as a trademark. Traditionally, South African courts have adopted a strict approach in assessing whether a shape is distinctiveness for purposes of registration as a trademark. However, in the *Kit Kat* decision the SCA, arguably, required a comparatively lower standard of proof when determining whether Kit Kat's four-finger wafer chocolate bar had acquired distinctiveness. When assessing the distinctiveness of the Kit Kat shape, the SCA was satisfied that the average consumer would recognise a Kit Kat bar, and associate it with Nestle. This association, together with the fact that the Kit Kat bar had been sold and marketed within South Africa for over 50 years, was, according to the SCA, sufficient in order to conclude that the chocolate bar had acquired distinctiveness.

This conclusion stands in stark contrast to the CJEU judgement, which addressed the distinction between the mere recognition and association of a shape, versus the shape as serving as a badge of origin. Only the latter, according to the CJEU, would satisfy the distinctiveness enquiry. While this approach of the CJEU to acquired distinctiveness is consistent with previous South African trademark law, it is clear that the SCA adopted a lower-threshold test in the *Kit Kat* proceedings. Therefore, not only was the SCA *Kit Kat* judgement inconsistent with that of the CJEU, but it also contradicted established principles of South African trademark law.

Furthermore, the SCA held that the Kit Kat shape fulfilled the requirement of distinctiveness based on its extensive use. This, again, stands in stark contrast to established principles of South African law, see for example Beecham Group Plc & Another v Triomed (Pty) Ltd, where it has been accepted that mere extensive use does not amount to distinctiveness. The traditional approach towards shape marks is that they, as a practical matter, undergo a more rigorous distinctiveness testing process by the courts, both in South Africa and internationally. This is due to the fact that shapes (and containers) are normally regarded by consumers as having a functional or decorative function, as opposed to serving as a badge of origin. The SCA in the Kit Kat proceedings has, however, appeared not to have adopted a very rigorous approach to the matter of distinctiveness. While this goes against established legal principle, the following question must be borne in mind: if the Kit Kat chocolate bar, which is an iconic sweet both in the UK and South Africa, is not considered distinctive by courts, then what shape would successfully fulfill the criteria?

Another considerable discrepancy between the CJEU and the SCA *Kit Kat* decisions relates to the 'technical result' ground for the exclusion of shape mark registrations. In South Africa and in Europe, a shape mark may not be registered if the shape of the good results from the nature of the good itself. In the CJEU judgement, a distinction was drawn between the *end-use* of the good and the *manufacturing process* of a good under the 'technical result' enquiry. This enquiry resulted in the CJEU concluding that only the end-use of the good falls within the scope of this enquiry (See *Societe des Produits SA v Cadbury UK Ltd*.) In other words, any 'technical result' attributable to the shape of the good relating to its manufacturing process – for example, the fact that the shape of the Kit Kat bar facilitates the release of the bar from the mould during manufacture - will be irrelevant for the purposes of the registrability of the shape mark.

In the South African *Kit Kat* decision, however, the SCA failed to consider the exact scope of the 'technical result' enquiry, which could have provided much needed clarity on the scope of the exclusion. In the earlier *Beecham* case, for example, the court refused the trademark registration of the bi-convex, oval shape of a tablet. This was, inter alia, on the basis that the shape was necessary to achieve 'ease of swallowing, coating and the prevention of crumbling.' Unfortunately, it is uncertain as to whether the 'crumbling' and 'coating' considerations were relevant to the manufacturing process, or whether they were relevant to the end-use of the good. For example, the SCA's reference to 'coating' could refer to the coating and lubrication of the tablet during swallowing, or it could refer to a common medical manufacturing process. Additionally, 'crumbling' could refer to the prevention of the crumbing of the tablet prematurely after swallowing; alternatively, it could refer to the prevention of crumbling during the manufacturing process. The effect of this ambiguity created in *Beecham*, combined with the fact that the SCA neglected to provide clarity on the matter in the *Kit Kat* proceedings, means that the scope of the 'technical result' exclusion in section 10(5) remains uncertain in South African law, as opposed to European law where the matter is now settled.

The scope of 'technical result' was not the only discrepancy in this regard. Similar to European legislation, section 10(5) of the South African Trade Marks Act expressly states that a mark will not be registered as a trademark if it consists 'exclusively' of the shape necessary to obtain a specific technical result. In its judgement, the SCA found that the Kit Kat four-finger wafer bar did not consist exclusively of a shape necessary to obtain a technical result, on the grounds that the shape consisted of both functional and non-functional features. It is clear that the focus of the SCA, was on the word 'exclusively'; i.e., the presence of any non-functional features would not prevent a shape mark from being registrable as a trademark. In contrast, the CJEU held that a shape mark must be denied registration where one of the grounds for refusal – including the 'technical result' ground - applies 'fully' to the shape. The effect of this interpretation is that the presence of any other non-technical features would be irrelevant, as long as at least one feature falls foul of the article 3(1)(e) provision. For example, where a shape may consist of more than one feature – some being functional, and others non-functional – the CJEU interpretation of the provision would preclude the trademark registration if one of the grounds for exception applies fully to the functional feature of the shape, regardless of the presence of non-functional features. Alternatively, the SCA interpretation would allow the presence of the non-functional features to prevent the exception from being applicable to the shape. Consequently, while the wording of the provisions is substantially the same in each jurisdiction, the diverging legal interpretation and application of the provision may lead to significantly different outcomes.

The Law Reports

The following judgments were reported since November 2015

Trade Marks

Judgment - SAMPRA v Foschini Retail Group (Pty) Ltd

OT41926ZA00/NIS: GAUTENG DIVISION, PRETORIA - IN THE MATTER BETWEEN EDUARD WILLE GMBH & CO. KG AND TOOLSTREAM LTD - CASE NUMBER 10252/15

Patents

None

Copyright

None

Designs

None

Want to read the full case

Please request a copy of the judgement from Marie Louise Grobler at saiipl@icon.co.za