IP BRIEFS

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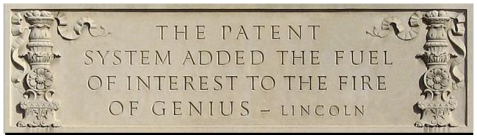

FROM THE EDITOR

Dr. MM Kleyn

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It has been quite a busy year and hard to believe we are into the last month with shops filled with glitter balls and shiny colourful lights.

Just as time moved on society evolves and so too must the law. South Africa seen an interesting year in various bills that impacted on intellectual property and 2016 is bound to offer its own Pandora's Box.

With a view on global IP development, in March 2015 the US Chamber of Commerce Global Intellectual Property Center (GIPC) released the International IP Index, which views the IP landscape and environment of 30 economies assessing patentability requirements, digital rights management legislation, software piracy rates various patent law treaties and more. If you are interested in accessing this contact the editor. For the businessmen I found "Intellectual Property Rights around the Globe", section 13.2 from the book Challenges and Opportunities in International Business (v. 1.0) rather interesting. It includes a section on licensing.

And with the quote from Alan Watts below, I wish all our readers a blessed season of peace and rest.

"We are living in a culture entirely hypnotized by the illusion of time, in which the so-called present moment is felt as nothing but an infinitesimal hairline between an all-powerfully causative past and an absorbingly important future. We have no present. Our consciousness is almost completely preoccupied with memory and expectation. We do not realize that there never was, is, nor will be any other experience than present experience. We are therefore out of touch with reality. We confuse the world as talked about, described, and measured with the world which actually is. We are sick with a fascination for the useful tools of names and numbers, of symbols, signs, conceptions and ideas." – Alan W. Watts

MESSAGE FROM THE PRESIDENT

Johnny Fiandeiro

It was a relatively busy year for the Institute and Council. The activities of Council and the committees of the Institute were mainly focused on education (with particular emphasis on facilitating participation by students from all over the country), liaison with CIPC, and providing input at various levels on the legislative front.

As usual, the various committees performed the bulk of the work done by the Institute. On the patent front, the proposed introduction of a substantive search and examination system is a dramatic step forward for South Africa, and it is, of course, an area in which the Institute can assist greatly. Regarding education, the high number of students who enrolled for the various exams is a testament to the Institute's critical role in education, and the ever increasing interest in intellectual property. The participation of a number of junior advocates from the Johannesburg bar in our exams is a particularly exciting initiative, which I hope and trust will continue and grow in years to come. Our main contribution on the legislative front revolved around the Draft Copyright Amendment Bill. Despite an extremely tight timeframe, we were able to submit a comprehensive response. I encourage you to remain involved in, and contribute to, our committees.

My sincere thanks to Council, the members of all the committees and especially the conveners of the committees, and our lecturers and moderators, for advancing this wonderful profession of ours for years to come.

AND THE WINNER IS....

We have a new name! IP Briefs! Congratulations to Owen Dean!

We will be in touch to make arrangements for your prize.

EVENTS CALENDAR

The Functions committee will have the fresh 2016 schedule available early January.

VARIATION AND CANCELLATION OF A CONTRACT VIA EMAIL

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The parties in the case of *Spring Forest Trading v Wilberry* (725/13) [2014] ZASCA 178 had via email agreed to the cancellation of a written agreement between them. One party subsequently contended that this cancellation did not meet the requirements of a non-variation clause contained in the agreement which provided that no variation or consensual cancellation would be effective unless reduced to writing and signed by both parties.

As the transaction (i.e. the consensual cancellation of the agreement) was concluded electronically via email, the SCA considered the Electronic Communications and Transactions Act No. 25 of 2002 ("the Act"), with regards to the whether the requirement of "reduced to writing and signed by both parties" has been met.

In terms of section 12(a) of the Act, the legal requirement for an agreement to be in writing is satisfied if it is in the form of a data message. The court stated that when there are formal requirements of writing and signature imposed by statute or the parties to a transaction, these can generally be satisfied through electronic transactions. There are, however, exceptions where agreements may not be generated electronically. These are the agreements for the sale of immovable property, wills, bills of exchange and stamp duties.

There was no dispute in this case that the emails met the requirement of writing, but rather whether or not the names of the parties at the foot of their emails constituted signatures as contemplated in sections 13(1) and (3) of the Act. These sections read as follows:

"(1) Where the signature of a person is required by law and such law does not specify the type of signature, that requirement in relation to a data message is met only if an advanced electronic signature is used.

(2) . . .

(3) Where an electronic signature is required by the parties to an electronic transaction and the parties have not agreed on the type of electronic signature to be used, that requirement is met in relation to a data message if-

(a) a method is used to identify the person and to indicate the person's approval of the information communicated; and

(b) having regard to all the relevant circumstances at the time the method was used, the method was as reliable as was appropriate for the purposes for which the information was communicated."

The court stated that the Act distinguishes between instances where the law requires a signature and those in which the parties to a transaction impose this obligation upon themselves. Where a signature is required by law and the law does not specify the type of signature to be used, section 13(1) says that this requirement is met only if an 'advanced electronic signature' is used. An 'advanced electronic signature' is a signature which results from a process accredited by an Accreditation Authority (sections 1 and 37 of the Act).

Where, however, the parties to an electronic transaction require this but they have not specified the type of electronic signature to be used, the requirement is met if a method is used to identify the person and to indicate the person's approval of the information communicated, and, having regard to the circumstances when the method was used, it was appropriately reliable for the purpose for which the information was communicated. In the present case, the requirement was imposed by the parties, and not by law.

In a brief discussion on how the courts generally approach signature requirements, the SCA stated that the approach of the courts to signatures has been pragmatic, not formalistic. They look to whether the method of the signature used fulfils the function of a signature, which is to authenticate the identity of the signatory, rather than insist on the form of the signature used.

The court held that the typewritten names of the parties at the foot of the emails, which were used to identify the users, constitute 'data' that is logically associated with the data in the body of the emails, as envisaged in the definition of an 'electronic signature'. They therefore satisfied the requirement of a signature and had the effect of authenticating the information contained in the emails.

OVERVIEW OF SOUTH AFRICAN TRANSFER PRICING CONSIDERATIONS

CHRIS BULL

CENTRAL TO ANY PLANNING THAT TAKES PLACE IN RELATION TO THE MANAGEMENT AND ORGANISATION OF INTELLECTUAL PROPERTY RIGHTS THAT ARE BEING USED BETWEEN GROUP COMPANIES IN MULTIPLE JURISDICTIONS IS THE ISSUE OF TRANSFER PRICING.

The interplay between transfer pricing rules and intellectual property is becoming increasingly important not only in South Africa but also internationally.

In the context of intellectual property, transfer pricing refers to the payments and adjustments or charges made between related parties (companies) in a group structure for the services in relation to or use of intellectual property.

The transfer pricing rules of nearly all countries allow related parties to set prices, but permit the tax authorities to adjust those prices (for purposes of computing tax liability) where the prices charged do not reflect an arm's length charge.

Rules are generally provided for determining what constitutes an arm's length price.

South Africa

The South African transfer pricing rules are set out in section 31 of the Income Tax Act no. 58 of 1962. They have recently undergone a redrafting process in order to bring them into line with international best practice.

The new transfer pricing rules, relevant to all financial years starting on or after 1 April 2012, apply to any transaction, operation, scheme, agreement or understanding, where:

- that transaction, operation, scheme, agreement or understanding constitutes an affected transaction;
- any term or condition of that operation, scheme, agreement or understanding is different from what would have existed had the affected transaction taken place between independent persons dealing at arm's length; and
- results or will result in any tax benefit being derived by a person that is party to the affected transaction.

The term "affected transaction" is defined in section 31(1) of the South

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African Income Tax Act and includes any transaction, operation, scheme, agreement or understanding that has been directly or indirectly entered into or effected between or for the benefit of either or both a resident and a non-resident which are connected persons in respect to each other and where any of the terms or conditions agreed upon are not of an arm's length nature.

Where these requirements are met, the taxable income or tax payable by any person (company) that is a party to such a transaction, operation or scheme and derives a tax benefit from it must be calculated as if that transaction, operation, scheme, agreement or understanding had been entered into on the terms and conditions that would have existed had those persons been independent persons dealing at arm's length.

Special considerations for intangible property (including intellectual property)

In the context of intangible property, the term "affected transaction" includes any transfer in the form of a sale or licence of any commercial intangible, to or from a South African resident to a non-resident connected person.

Commercial intangibles include patents, know-how, designs and models used for the production of goods or the provision of services, intangible rights that are themselves business assets, such as software or customer lists, as well as marketing intangibles, such as trade marks and trade names.

Accordingly, the new transfer pricing rules in South Africa require that the terms of any sale or licensing of intellectual property between connected persons on a cross border basis are analysed to determine whether they have been conducted on an arm's length basis.

The International Position

It is not only in South Africa where this issue is receiving attention from tax authorities.

During September 2014 the Organisation of Economic Co-operation and Development ("OECD") published a revised version of the Guidance on Transfer Pricing Aspects of Intangibles. This is part of a larger initiative related to Base Erosion and Profit Shifting ("BEPS").

This is a topic unto itself and requires proper, in-depth consideration if it becomes an issue in in the way in which an individual intellectual property transaction is being treated or the overall treatment of the ownership and use of intellectual property assets across a group. It is an area where the South African tax authorities are becoming more vigilant and the planning of a patent or trade mark filing program across a multinational company requires careful consideration of this issue.

The Future

It is difficult to predict how the legislative and regulatory framework in the field of exchange control and transfer pricing considerations in relation to intellectual property will develop in the next few years. That having been said, we are anticipating a tightening of the regulations in this area- (particularly in the area of transfer pricing) as South Africa brings itself into line with international best practice

LICENCING OF PATENT APPLICATIONS – PRE-GRANT ROYALTIES

Madelein Kleyn

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Research and development is costly. International patent portfolios even more so. The business strategy of most corporations, when filing a patent application, is to seek some return on R&D investment, mostly through self-exploitation of the products of R&D, or through royalty earnings from intellectual Property (IP).

The time frame between filing a patent application to grant can take many years. Patent offices' backlogs often result in a three year (or longer) delay before any office actions are issued or an application is reviewed.

Legislation provides for the licensing of pending applications in certain countries provided the patent application has been published. The risk of refunding a paid royalty, or forfeiting future royalties for the licensor remains if the patent is not granted, or not granted in a form reading onto the licence granting provisions.

What is there to be gained by a licensee by paying a royalty before a patent issues? Attractive alternatives include:

- Access to know-how and confidential information (or trade secrets) not disclosed on the patent application but essential to the exploitation of the invention
- Access to improvements to technology (whether patentable or not)

The possibility of licensing pending patent applications (provisional rights) and earning royalty income therefrom as provided under certain countries patent law systems presents an important business tool. This is so as the pre-issuance use of the invention may represent substantial value to a company during the time consuming patent prosecution wherein an examination period may span several years.

Opportunities for licensing revenue for a pending patent application are limited and it depends on the specific circumstances (i.e. independent licensing, as part of Merger and Acquisition), the type of invention, technology transfer possibilities, additional know-how underlying to the invention.

Where some form of technology transfer is part of the transaction it is generally easier to negotiate royalty payments as such deals provide access to new technology as well as a right under a future patent.

The key is for the licensor to convince a licensee that it has something to gain by paying a royalty before a patent is granted. Royalties are easier to negotiate where the patent application has not yet published, and the licensee is paying a royalty for the ability to obtain confidential information or some useful know-how that is not included in the patent application; or where the applicant is willing to offer the licensee a reduced long-term royalty, some level of exclusivity, or another benefit in exchange for royalties while the application is still pending.

Care should however be taken where global patent portfolios are licenced and the licensing of pending patent applications is not allowed by any specific country's laws, or where there is an obligation to refund the royalty paid to the licensor in case of revocation or non-grant of the licenced patent applications.

Licence agreements should always include provisions concerning rejection, revocation and the like concerning the patents or patent applications covered by the licence so that it is clear to the licensee and licensor what the strategy is in the event of a patent not coming into effect or being invalidated. Furthermore, the regulations and exceptions of the antitrust regulations of the each country that effects the agreement have to be considered.

Types of licences

There are different forms of licenses. The main categories being:

• an exclusive licence (licensor grants the use of licensed subject matter to one licensee to the exclusion of the licensor itself. It may include a right to sub-license – important in these forms of licenses to clearly define scope, territory and improvement grant backs)

• a sole licence (a single license, but licensor retain the right to exploit the licensed subject matter)

• a non-exclusive licence. (multiple licensees)

Pure patent license agreements cover patents only. Hybrid licenses can include know-how, software, copyright,trade marks and other forms of intellectual property.

Commercially, the use of cross licences (either pure patent or hybrid licenses have significant commercial value wherein licensors can grant access to each other's technology and generally agree to a patent non-assert with respect to the cross-licensed subject matter).

DESPICABLE COLOURS

Minions – the mumbling yellow creatures that first appeared in the "Despicable Me" franchise, have become a phenomenon of their own, even earning them a starring role in the Universal Studios spin off film "Minions". The films have been widely successful and Universal Studios has been careful to ensure that its success is secured as both Despicable Me and Minions are protected by way of trade marks and copyright. The trade marks cover a variety of products – ensuring that every piece of merchandise possible is protected.

Riding the wave of success these movies have brought, Universal Pictures and Illumination Entertainment have now joined forces with the Pantone Colour Institute (which define and standardise colours for use in industry world-wide), in the production of the very first character inspired colour – Minion Yellow.

According to Pantone, Minion Yellow "heightens awareness and creates clarity, lighting the way to intelligence, originality and the resourcefulness of an open mind – this is the colour of hope, joy and optimism". This distinctive yellow colour can now be bottled up and used in your home as Minion Yellow is available in Pantone's home and interior palate, so you too can experience the joy and optimism that this colour was developed to impart.

It remains to be seen whether Minion Yellow will be trade marked, to add to the arsenal of intellectual property protecting Universal Studio's widely successful franchise. If Universal Studios does decide to trade mark Minion Yellow, it may not be all smooth sailing and like the plans of the despicable masters these Minions seek to serve, there may be a few obstacles along the way.

A particular shade of colour, often identified by the allocated Pantone number, can function as a trade mark provided that it uniquely identifies or distinguishes the origin of the particular goods or services to which the colour is applied. This does not however mean that a colour (in isolation) can be owned, as trade marking a colour simply gives the company or individual the right to use the colour in respect of those particular goods or services. Examples of successful Pantone trade marks include Coke Red (Pantone 484) as well a specific turquoise colour used by Heinz for its Baked Beans. The emerald green (Pantone 3298C) used by Starbucks (who is said to opening its first African store in Johannesburg next year) is also trade marked. Christian Louboutin was also successful in registering a trade mark for the unique red soles of the famous shoes.

However not all colour trade marks have been successful. In a long waged battle against Cadbury in the UK, Nestlè was successful in its opposition of Cadbury's trade mark for Pantone 2685C, being the distinctive purple colour used on its chocolate packaging for more than 100 years. In Australia, the authorities recently upheld Woolworths' objections to BP's trade mark application for Pantone 348C, being the green used in much of its branding.

It will be interesting to see, given the relatively recent decisions rejecting colour trade marks, whether Minion Yellow would be allowed as a trade mark, thereby paving the way for the rise of character inspired colours. Perhaps "Shrek green" will be coming to a paint store near you.

Hillary Brennan

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THE VALUE OF A TRADE MARK

Darren Olivier

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He focuses on brand protection and IP commercialisation. His work has been recognised by Who's Who Legal, Chambers Global, WTR 1000, Legal 500 and others. He is IP advisor to the King of the Zulu nation and sits on the editorial board of Oxford University's Journal of Intellectual Property Law & Practice. You can also catch him as Afro Leo on the Afro-IP weblog, which he started a few years ago

To many the trade mark is simply a document that records a business name at the local trade mark office. It's not compulsory and it takes so long to obtain, that it is frequently dismissed as an irritation. Ok, it's relatively cheap but why else should one pay more attention to our friend, the registered trade mark and those who look after it within the business?

Well, in short, it is the title deed to your brand. Your brand is, of course, everything that encapsulates and communicates your business, everything that keeps customers coming back. It may be a name, it could be a slogan, it could be colours, it could be three dimensional, it could even be a smell and all of these are capable of being registered as trade marks.

Ok, so what's the fuss? Well, properly obtained, these title deeds can be listed in your asset register. They can be valued, used to raise finance and sold separately from the business. They can be let for cash or be allowed to sit passively, preventing others from communicating their offerings in a number of ways. They protect the value generated by your brand. They protect market share both actively (in the hands of an attorney) and passively (just by sitting on the register).

But just like a Verimark ad - that's not all! The trade mark can be attached in legal proceedings to enable jurisdiction of South African courts or they can be used to transport goodwill into a diversified space that may just provide a hedge for your business, or enable it to grow. They can also be transferred to enable efficient tax planning or to reduce the exposure of assets to business under duress.

Brand protection using a registered trade marks is at least a 50% less costly than using alternatives methods such as passing off, and there is significantly less risk to the proceedings. It's a defence to a trade mark infringement thus minimising the risk of the dreaded urgent court order for a product withdrawal and, in the growing social media space, the registered trade mark is frequently the only method of safely removing hijacked or rogue sites aimed at discrediting your business or holding it to ransom for a fee.

Still not convinced, consider the ISO standard (ISO 10668) for brand valuation which requires an audit of the legal protection of a brand as a fundamental step in its valuation. Skype's IPO which disclosed an everyday opposition against BSkyB as a material threat to its brand, illustrates the correlation between proper trade mark management and the value of the business.

So, the next time you find yourself assigning an office admin to look after a seemingly endless list of trade mark enquiries and small bills, or dismiss them as an irritant, please stop and reconsider. They protect probably the most important asset in your business.

The Law Reports

The following judgments were reported since August 2015

Trade Marks

- Global Vitality Incorporated v Enzyme Process Africa (Pty) Limited
- Energy Brands INC & Coca Cola Comp v QK Meats SA (Pty) Ltd
- Yuppiechef Holdings (Pty) Ltd v yuppie Stuff online cc
- CCG Australasia (Pty) Ltd v Cable Gland Company (Pty) Ltd
- BAYER SCHERING / PHARMA DYNAMICS - SA 2002 patent action SCA appeal - Judgement due 19 September 2014
- Fairhaven Country Estate (Pty) Ltd v Harris and Another (735/2015) [2015] ZAWCHC 100 (8 July 2015)
- BAT - PARLIAMENT trade mark
- Chantelle v Giant Group (Pty) Ltd
- Etraction (Pty) Ltd v Tyrecor (Pty) Ltd
- Pandora v Truworths Ltd
- Terespolsky judgement
- El Baik Food systems CO.SA vs AL Baik Fast Foods Distribution CO.S.A.E

Copyright

- Nestle Nespresso v Secret River Trading CC t/a Caffeluxe Distributors - Copyright Infringement Judgment

Patents

- Owner of Papa Super Maize Meal (Pty) Ltd v Tau Rollemeule cc
- Franci Resca, Enrico Cupido v Pasadena Leather products cc t/a Pasadena products and Trifecta Trading 83 (Pty) Ltd
- EMS Industries (pty) Ltd v Inteletrack cc

Want to read the full case

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