

# IP BRIEFS

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The logo for SAIPL (South African Intellectual Property Law) features the letters 'SAIPL' in a bold, sans-serif font. The letter 'I' is stylized with a red and orange swoosh above it, resembling a flame or a drop.

## FROM THE EDITOR

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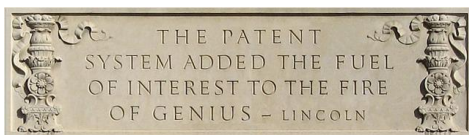
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With 2016 running into its last month, I wanted to thank everyone who authored articles for IP Briefs in 2016. Readers are always welcome to contribute articles by emailing these for consideration to the editor.

This year the IP world was filled with many changes and transformations. Remarkably the reforms in EU trademark law in March effecting several substantial changes to the European trademark regime such as the renaming of the Community Trademark (CTM) to the European Union Trademark (EUTM), renaming of the Office for Harmonization in the Internal Market (OHIM) to the European Union Intellectual Property Office (EUIPO), revision of goods classification with an identification covering a class heading, in Canada we saw some changes in the IP regime with amendments to the *Copyright Act* and *Trade-marks Act* to introduce customs enforcement measures against counterfeit goods; Brexit in June when the UK voted to leave the European Union ("*Brexit*") and the uncertainties that brought for IP owners; trade secret amendments act in the US; the new EU Trade Secrets Directive; the implementation of trademark oppositions in Mexico; the new IP Policy for India in May and of course the South African IP Framework to which comments were invited into the third quarter of 2016, with the promise of a new draft IP Policy early 2017.

Cape Town hosted INTA's first-ever conference in Africa in September with 195 attendees from 36 countries participating in the Building Africa with Brands conference. Many of SAIPL members participated in the event, contributing to a proudly South African product!

There remain a few busy weeks ahead, and as the year ends, wishing you all the best for the upcoming festive season. Be safe, take some time with the family and embrace the joy of giving!



*Quote for today: If you are the smartest person in the room, you are in the wrong room*



**Vicky Stilwell**

Despite a quiet start, the Institute and Council had a busy year with some exciting new developments. Council and the various relevant institute committees put in a lot of hard work, as usual, and were kept busy, particularly towards the latter part of the year, with the new IP policy framework initiative introduced by DTI in August 2016. I wish to thank all council members for their assistance during 2016.

As has traditionally been the case, most of the Institute's work is done by the various committees and this year has been no different.

Many of the committees have been called upon by Council over the past year to provide comments, assistance and advice on a range of issues and all involved rose to the occasion with enthusiasm, even though all involved were no doubt faced with many other personal and professional responsibilities at the same time.

I would like to thank the convenors and members of all the committees for their hard work and dedication over the year. The Institute could not function without you.

Members are encouraged to remain on the committees, and new members are invited to join the committees next year, to get involved with the activities of their committees and to help the Institute to remain relevant to the IP industry.

On the committee activity front, despite a quiet start to the year, the Patent and Design Law Committee were faced with the mammoth task of reviewing and providing substantive comments on the IP Consultative Framework (the "Framework"). The approval of the Framework by Cabinet on 16 July 2016, and its subsequent publication for comment came as a surprise to most players in the IP industry, the Institute included.

It emerged from discussions with Mr Nkomo (Director Legal, DTI) that towards the end of 2015 there was a shift in responsibility for IP policy development from the CCRD, which is headed by McDonald Netshitenze, to ITED. The new IP policy framework, once finalised, will replace the previous IP policy.

The focus of the draft Framework was on patents so the bulk of the responsibility for its review fell onto the Patent and Design Law Committee, although various other committees were also affected. The Patent and Design Law Committee, under the leadership of Danie Dohmen, held several urgent meetings to discuss the framework and to facilitate a consolidated response on behalf of the Institute. The draft comments were submitted to and approved by Council and the final comments were submitted to DTI before the 30 September 2016 deadline. The Institute subsequently received an invitation to a workshop on the Framework organised by DTI, UNDP and UNCTAD, which was held from 28 to 30 September 2016. Danie Dohmen was nominated and attended the workshop on behalf of the Institute.

It is worth noting that we received some compliments and positive feedback regarding the substance of the comments and I would like to sincerely thank Danie, the members of the Patent and Design Law Committee, Esmé du Plessis and the members of the other sub-committees who were involved in preparing the submissions for their hard work and dedication under very arduous time constraints.

According to DTI and Mr Nkomo, an ongoing consultative process is envisaged to facilitate the finalisation of a new South African IP policy, which has a target date of March 2017.

The Anti-Counterfeiting Committee had a busy and productive year. During July 2016, the Institute, following unanimous approval by the Global Anti-Counterfeiting Group (GACG), joined the GACG Network and the GCAG and the Anti-Counterfeiting Committee conducted its first meeting during the INTA event in Cape Town during August / September 2016. The Anti-Counterfeiting Committee was requested by CIPC to assist with the drafting of regulations to govern Counterfeit Goods Depots. Members of the Anti-Counterfeiting Committee have been nominated to join the working group responsible for drafting the regulations. The group aims to have the draft regulations finalised by 31 March 2017. Following on from this, the Anti-Counterfeiting Committee was approached by Jeffrey P Hardy, Director for BASCAP, and requested to assist with providing an evaluation to formulate the 25 best practises in IP enforcement in South Africa. This evaluation was done and submitted to BASCAP for inclusion in its full report, where the Institute will receive specific mention.

In conclusion, I am excited about the developments on the IP policy front and I hope that the interactions with government to date on this issue will pave the way for the Institute to play a far more active role in IP policy and legislative development. I would also like to encourage members to participate constructively and enthusiastically in the consultation processes as this will be of great assistance in enhancing the Institute's relationship with government and legislators which, I am sure everyone will agree, would benefit the Institute and the IP industry.

I would like to take this opportunity to thank my council members for their hard work and support during the year.



## “What’s in a name?” By Prof. Owen Dean

In his play *“Romeo and Juliet”* William Shakespeare advanced the proposition through his character Juliet: *“What’s in a name? That which we call a rose by any other name would smell as sweet.”* What he was saying was that the flower, the rose, had intrinsic value, and, no matter what name it was given, that intrinsic value would be unaffected. The actual name, per se, was thus irrelevant and had little or no value. That proposition may have had some merit in the seventeenth century and in the specific context in which it was advanced, but it does not have universal application at the present time.

Names in the form of trade marks or the appellations of people, institutions, places, countries and the like have great economic, and other, value in modern society. Names can be symbolic of the characteristics and natures of the subject matter to which they are applied. Above all, they perform the function of embodying or encapsulating the reputation of that subject matter or the public esteem in which it is held.

In trade mark law the reputation attaching to a particular product, as symbolised by the trade mark applied to it and by which it is identified, can give rise to proprietary rights in that trade mark. A trade mark can be an extremely valuable item of property and an asset in the business in which it is used. One thinks of trade marks such as GOOGLE, MICROSOFT, APPLE, COCA COLA, MCDONALDS, and GIVENCHY, to name but a few. These trade marks have been ascribed values of many millions of US dollars. A cola-flavoured beverage which may be identical in all respects to the cola-flavoured beverage called COCA COLA is likely to have limited market appeal or value compared to the COCA COLA product. The reason for this is the value that the trade mark or brand name COCA COLA enjoys through its repute. Unlike Shakespeare’s rose, the name by which it is called is not irrelevant or

valueless. The contrary is true. Having acquired a good reputation, the trade mark in fact becomes the primary commercial commodity rather than the goods to which it is applied. The roles cast by Shakespeare in effect become reversed and the actual goods become less important, and relatively of lesser value. In order to address this modern situation, Shakespeare’s proposition should be adapted to read something along the lines of: *“That which we describe as a perfume, if called by the name GIVENCHY, would smell as sweet.”*

The same considerations apply to the names of other subject matter, and, in particular, people. An individual can develop a reputation which is symbolised or encapsulated in his or her name. A certain value, including, but not limited to a monetary value, can be ascribed to an individual’s name, usually by virtue of public awareness of that name combined with noteworthy performances or achievements. One thinks of entertainment personalities and sports persons. Names like GARY PLAYER, ROGER FEDERER, and DAVID BECKHAM, have become household words. They even become trade marks and are applied to goods as brand names or by way of endorsements. Such names can become *vis a vis* the goods that they identify what COCA COLA has become to soft drinks and APPLE to computers and smart phones. Here the names applied to the goods also become the primary sought-after commodity rather than the goods in question.

A good example of the name of an individual that has acquired a substantial reputation and become exceptionally valuable in monetary terms, virtually instantaneously, is that of the athlete Wayde Van Niekerk. By virtue of his superlative performance in winning the gold medal in the 400 metres athletics track event at the Olympic Games in Rio de Janeiro, and breaking the world record for that event, he has become famous. He has reportedly entered into an endorsement/sponsorship

arrangement in respect of his name worth \$ 30 million per year for life with the owners of the NIKE trade mark for sports goods. In a sense it took less than three-quarters of a minute to catapult his name to lucrative fame.

The law acknowledges that a person's name and the reputation that it enjoys can be a substantial asset and it provides mechanisms for its protection. The individual has the right, firstly, to preserve his/her good name and, secondly, to control its use for commercial purposes. This is achieved by, respectively, personality rights under the common law and trade mark rights under trade mark law, both statutory and common law.

A name or a mark as a valuable asset is, generally, not something that comes about by happenstance. The name must have a good reputation, no matter how that has come about. In the case of Wayde Van Niekerk it came about suddenly, through winning an important race in record time. On the other hand, that race was preceded by long hours of training and by dedication aimed at achieving optimum performance. Wayde Van Niekerk is exceptional. In general, a reputation in a name is generated over a lengthy period by dint of a blend of painstaking work and effort together with talent and public appeal.

The policy of the law is to grant recognition and just deserts to a name that has a reputation, and to nurture and protect it as a fundamental right. The counterpoint to this is that the public at large has an obligation to respect that right and to honour it. This obligation is, however, subject to the holder of the name maintaining that good reputation.

A good reputation is a very powerful, but fragile, asset. It is vulnerable to being terminated at short notice. It is a paradox that the stronger the asset is, the more fragile it can be. Phrases such as *"how the mighty have fallen"* and *"the tallest trees catch the most wind"* spring to mind. The best and strongest reputation can be destroyed in and instant, even quicker than the three-quarters of a minute that it took for Wayde Van Niekerk's instantaneous reputation to be created. The world-renowned paraplegic athlete Oscar Pistorious' enviable and lucrative reputation was destroyed as the result of a single incident - in the time that it took to fire four gunshots; probably in as many seconds. The enviable reputation of Maria Sharapova, the famous tennis player, was severely, if not terminally,

damaged overnight when she was found to have been using banned performance-enhancing substances. Other examples that come to mind are the fates that befell the cyclist Lance Armstrong and the golfer Tiger Woods, both of whose reputations were destroyed or severely dented by untoward incidents. In all these instances lucrative sponsorship/endorsement arrangements were terminated as a result of the reputation-destroying incidents that occurred. Famous trade marks can suffer similar fates, although may be somewhat more robust than individual names. The disastrous oil spill in the Gulf of Mexico suffered by BP oil and the fraudulent gas emission claims made by the manufacturers of famous-brand motor cars are examples.

In view of the cataclysmic damage or prejudice that can be caused to famous trade marks and name holders following on from potentially reputation-destroying incidents, it is important that the relevant facts pertaining to those incidents should be properly established before the incidents are publicised. For instance, to take the example of Maria Sharapova, suppose that the presence of the banned substance in her blood stream had subsequently been shown to have come about as a result of a bitter competitor slipping the banned substance surreptitiously into her drink at a cocktail party; it would have been grossly unfair and unjust to her for her reputation to have been sullied as a result of finding the presence of the substance in her blood stream in these circumstances.

What actually causes the tarnishment in this situation is the publicity given by the media to the potentially damage-causing incident. The media, thus, has, or ought to have, an enormous responsibility not to shout the incident from the rooftops unless and until all the relevant facts have been obtained. As mentioned above, the world at large, especially the media, have an obligation to honour and respect the rights of the holder of a reputation in a name or mark. That obligation is abrogated by giving prominence to untested stories or distorted facts. On the other hand, the media has the function of keeping the public informed. These two duties must be weighed up against each other. The balanced and honourable approach would be to report in a sober manner that allegations have been made about an incident and to add that the facts have not been established, and that it would be premature to reach any conclusions or form any judgment about the incident until certainty has been achieved. Unfortunately, past experience has shown that



this approach is not the norm and the media frequently opts to sensationalise these matters to extreme extents, which, in turn, can spawn public hysteria. When this occurs, even the subsequent emergence of the true facts which show the name holder to be blameless can have little effect. The damage to the reputation has been done and cannot be undone.

The law is mindful of the vulnerability of trade marks and names to unjust tarnishment and its damaging consequences, and provides victims with remedies to obviate and compensate invasions of the rights of holders in this respect. Trade mark infringement and defamation claims, respectively, are available to aggrieved holders. However, these remedies are, generally, far too slow moving in the current digital age, and by the time that they can take effect the real damage has already been irretrievably done. What these remedies demonstrate, however, is that it is public policy that reputations of names and marks should be safeguarded against unfair and unjust tarnishment. The media and the public at large should be mindful of this public policy and must govern their conduct accordingly. This is the honourable attitude and the norm that citizens are expected to observe. Due respect for personal rights is enshrined in our Constitution. A drama along the lines related above is currently being enacted in the case of Judge Mabel Jansen. It has been claimed that she has made various offensive remarks of a racist nature. She, on the other hand, says that the remarks in question have been taken out of context and that, when viewed in their proper context, are not offensive as claimed. The matter has been referred to the Judicial Services Commission (JSC) for a thorough investigation. The true facts from which reasonable conclusions can be drawn ought to emerge from the deliberations of the JSC. This is the correct and proper course to follow. In the meantime, however, the media and members of the public have tried her before the court of public opinion and, without the benefit of being possessed of the complete and true facts, have found her guilty, and have hung drawn and quartered her. Her reputation is in tatters, whatever the outcome of the proceedings before the JSC might be. Her name, which has been worthy in legal circles, has been destroyed. This is grossly unfair and unjust, and is a blight on the conduct of those who inform public opinion. It has, moreover, led to her being vilified and to her and members of her family being physically threatened. What if she is found to be blameless? *"A plague on both your*

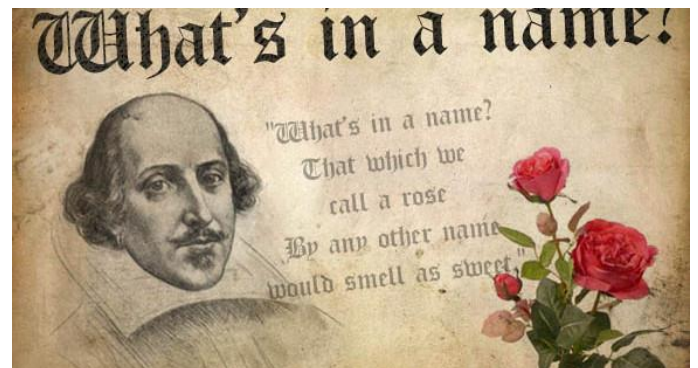
*houses!"*, to quote Shakespeare, once again, from "Romeo and Juliet".

An interesting aspect of this matter is the role played by her accuser, an activist in the cause of combatting rape of women and children. This role has facilitated this matter becoming an extreme example of reputation assassination. She appears to feel that Judge Jansen has sinned and should be made to answer for it. She is fully entitled to her point of view and even to raise the matter formally in the appropriate circles. By doing this she will have done sufficient to discharge her duty, as she perceives it. But has it been necessary, or even justified, for her to whip up the issue into a media feeding frenzy, particularly at this premature stage, as she has done? She has persistently kept the public controversy on this issue going over a period of several months. It is difficult to reconcile this approach with the acceptable norms that we have referred to above and with the cause of combatting rape that she espouses, and which Judge Jansen was supporting.

The position is aptly summed up by the immortal bard in "Othello" as follows: *"But he that filches from me my good name robs me of that which not enriches him, and makes me poorer indeed."*

So, you may ask: *"What's in a name?"* A whole lot!

*While we are on the topic of names.... it is so that Owen Dean is the winner of naming the SAIPL newsletter and we finally managed to deliver his prize in person. See the events calendar.*



*This article was published on the University of Stellenbosch Anton Mostert IP Chair Blog as well as Without Prejudice November 2016 edition*

## UTILITARIAN" PURPOSE AND SECTION 15(3A)

PIETER LOMBARD

### BEAUTY LIES IN THE EYE OF THE BEHOLDER

Like a butterfly flapping its wings on the other side of the world, a single judgment often has far reaching implications on our interpretation and application of the law. The legal fraternity often misinterprets the judgment given in *BMW AG v Grandmark International (Pty) Ltd and Another* 2014 (1) SA 323 (SCA) and wrongly assume that as a consequence of this judgment, aesthetic creations which also has a functional aspect to it and which is to be manufactured in a so-called "industrial process", can no longer be protected under the Designs Act 195 of 1993, nor the Copyright Act 98 of 1978. This is, however, a misconception and even after the six-month grace period for filing a registered design has lapsed, one is still entitled to copyright protection for certain industrially manufactured aesthetic creations.

In Van Dijkhorst J's judgement in *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd and Another* 1991 (2) SA 455 (W) it was held that a peculiar, yet original – the Copyright Act does not consider the artistic

quality of a work – "M-shaped" sofa had a primarily utilitarian purpose and as such fell within the ambit of Section 15(3A) of the Copyright Act – the so-called "reverse engineering" of products exception.

Section 15(3A) of the Copyright Act provides that where a copyright owner has directly or indirectly produced and sold three-dimensional derivative articles of his or her work anywhere in the world and such derivative articles primarily have a utilitarian purpose and are made by an industrial process, no infringement occurs thereafter by the making of unauthorized reproductions by means of indirect copying.

The Oxford Dictionary provides that "utilitarian" means "useful or practical rather than attractive". Furthermore, it is submitted that by using the word "primarily" the legislature had a specific purpose in mind – the purpose of which becomes clear when one considers the backdrop to the Copyright Amendment Act 66 of 1983 which introduced Section 15(3A) into the Copyright Act.

Section 15(3A) was introduced into the Copyright Act to preclude copyright owners from effectively using

their copyright as a form of unregistered design and thus preventing competition in the manufacture of technical products and more particularly spare parts for motor vehicles, mining equipment, machinery and the like.



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At the same time, the Designs Act was amended to make provision for the registration of functional designs. Section 15(3A) never meant to deprive authors of their copyright protection in their aesthetic creations.

In light of the above, it is submitted that the term “utilitarian” should be interpreted against an industrial backdrop; a derivative article must be a useful thing in an industrial context for the exception of Section 15(3A) to apply.

Furthermore, even if an aesthetic derivative object has a functional aspect to it, it would still not fall within the ambit of Section 15(3A) due to the specific use of the word “primarily”.

But what of the *Bress Designs* case? Van Dijkhorst J applied an objective test, similar to that applied in accordance with the Designs Act, to determine whether the object in question had a primarily utilitarian purpose. It is submitted that this test remains true; however, a piece of expensive jewellery is not a sofa and in the more recent case of *Marick Wholesalers (Pty) Ltd v Hallmark Hemdon (Pty) Ltd* 1999 BIP 394 (T) the court accepted same – although tacitly.

In conclusion, it is the purpose of the article and not the article itself which must have a primarily utilitarian purpose for the Section 15(3A) exception to apply – this view is supported by the judgment in *Nintendo Co Ltd v Golden China TV-Game Centre and Others* 1995 (1) SA 229 (T). “Beauty lies in the eye of the beholder” and accordingly the motivation of the average reasonable purchaser in purchasing the article should be considered when considering whether the article has a primarily utilitarian purpose, or whether it is for adornment.

## DID YOU KNOW

The concept of design protection is not identical for all jurisdictions. In South Africa in terms of the Designs Act of 1993 two types of designs are recognized, namely aesthetic and functional designs. Design protection can be obtained in other countries such as USA, Kenya, Japan, South Korea Europe and Hungary.

Some countries offer registered design protection, design Patents and Utility patents. Typically a protectable design consists of the visual ornamental characteristics embodied in, or applied to, an article of manufacture. A design patent, similar to the South African Functional design, protects the unique presentation or appearance of the functional article, thus protecting the way something looks, not the way it functions. A utility patent Protects the functional aspects of an invention. In most countries industrial designs are registered after performing an official novelty search. In the countries of the European Community a community design can be obtained through on-line application at the EUIPO.

In our IP Briefs during 2017 we shall publish an article on harmonization with regards to protection for spare parts. The EU-wide legislation denies novelty to spare parts, what do other jurisdictions allow?

The Editor

## INTELLECTUAL PROPERTY AND BUSINESS RESCUE

Bastiaan Koster



Bastiaan is a patent attorney, trademark practitioner and the managing partner at Von Seidels, a full-service IP law firm based in Cape Town. Bastiaan has broad experience in IP matters, strategic IP management, related commercial issues and Plant Breeders' Rights.

IP can fulfil different levels of importance to a company depending on whether the company is operating in an IP intensive environment or a less intensive environment. What questions relating to Intellectual Property (IP) are to be asked when a company goes into business rescue?

IP generally includes registered or unregistered IP. This includes patents, trade marks, registered designs, plant breeders' rights, copyright, trade secrets and know-how.

Whether registered or unregistered, IP typically serves to offer a company some form of exclusivity or monopoly. IP thus acts as an asset of the company. Depending on the strength of the IP the monopoly could be significant. Patents offer the potential to provide market exclusivity for a certain product or process, for example, a certain type of automatic pool cleaner or a type of coffee capsule. Trade marks protect a brand, which may include a name or logo, from being used or imitated by others. Well known examples abound and include "Nandos" and "Castle". Registered designs protect the shape of articles, for example, a new door stop, chair or kettle, and prevent direct imitation of products. Plant breeders' rights provide exclusivity relating to specific plant varieties. These can be key in securing market dominance. For example, a grape variety that allows fruit to be harvested two weeks before other varieties permits the grower to charge a higher price and potentially saturate the market.

Trade marks deserve a special mention in their ability to span both registered and unregistered IP. It is not required to register a trade mark for it to be enforceable, however, it is easier and more cost-effective to enforce a registered trade mark than it is to enforce an unregistered trade mark.

It should be apparent that IP can be a valuable business asset that can provide a company with an exclusive niche in a market.

**The role and importance IP plays in the business rescue plan will depend on the type of business and the industry in which the business operates. What is certain is that going into business rescue will not be the time to think about IP for the first time. Also, as a general rule, a company with an appropriate IP policy in place to provide protection for its IP will invariably have a better chance at successfully navigating the business rescue process than one without IP or an IP policy.**

When a company goes into business rescue it is too late to put in place mechanisms to protect its IP, if not already in place. Going into business rescue, the Business Rescue Practitioner (the CEO) will naturally take stock of all the company's assets, including its IP. The following would need to be verified: the IP portfolio (patents, trade marks, designs, plant breeders' rights, copyright works, trade secrets, know-how); exclusivity position in the market attributable to IP; value of the IP for the purpose of value attraction in case of possible disposal to an interested third party; and what if the company ultimately fails?

Patents, registered designs and plant breeders' rights can give a company exclusivity in respect of the products it manufactures, or at least some of the products. An analysis may be required as to the exact scope of protection offered, whether this is being fully exploited and whether any competitors are intruding on the monopoly provided.

Another very important enquiry relates to the trade marks used by the company. A comprehensive list should be compiled of all the trade marks used by the company to identify its goods or services. For each trade mark on the list the question should be asked whether it has acquired a reputation and is well-known in the business environment in which the company operates.

It must be borne in mind that registered IP is territorial, i.e. rights are only available in countries in which they have been registered and as such consideration must be given to the countries in which IP has been registered and mapped against the countries in which the company does business.

The corollary to all this consideration should be given as to whether there is any IP that is not of any value to the company and which can either be discarded or sold off. It can be expensive to maintain registered IP, particularly in foreign jurisdictions, and unnecessary expenses can be cut by culling unproductive IP, or possibly income generated by selling off or licensing out IP which is not core to the business.





Intellectual property is the creation of the human mind and intellect and include forms such as copyright, patents, industrial designs, trademarks, service marks, data, marks of origin, confidential information, know-how and trade secrets.

Protection of most forms of intellectual property is reasonably clear, however it is less so in the case of trade secrets and confidential information.

A secret is a well-kept fact to oneself. A trade secret is a secret of trade, often know-how, for which a business has implemented measures and considerable effort to maintain the non-disclosure of the know-how. Trade secrets are therefore a valuable component in an intellectual property asset portfolio.

When a valuable idea is created in the form of a trade secret, it remains a trade secret until it is either voluntarily disclosed or enters the public domain through publications, patents, or disclosure.

Trade secrets protection thus provides a means to protect know-how and business information and allow businesses, irrespective of their size, to maximize the profits derived from its creativity and innovation and have an important role in protecting the exchange of knowledge. Effective trade secrets protection is a critical element to protection of research and development and its enforcement in the global arena is very important to businesses operating on an international scale. Unfortunately, most countries do not recognise trade secrets as *specie* of IP *per se* and trade secrets are generally protected by Law of contract or delict; whereas other jurisdictions provide for specific legislation on trade secrets. There is no unified law for trade secret protection and the mechanisms of enforcement do vary across jurisdictions.

There are three general requirements to qualify for trade secret protection, i.e. The subject matter involved must qualify for trade secret protection *vis some vis* it must be the type of information trade secret was intended to protect, and it must not be generally known; The holder of the trade secret must establish that reasonable precautions were taken to prevent disclosure of the secret information and the trade secret holder must prove that the information was wrongfully acquired by another; that the information was misappropriated.

Although trade secret protection has certain advantages over other forms of intellectual property rights, i.e. no registration costs, no application formalities or delay with immediate protection, indefinite time of protection for if the subject matter remains undisclosed to the public, it has distinct disadvantages. As the right is a secret one, it is more difficult to enforce, it is not an exclusive right, it can be discovered and reverse engineered at any time and I may even be patented by another. It is thus advisable as part of an intellectual property strategy to not only rely on trade secret protection but to have an integrated strategy that incorporates patents, trademark and design protection as complimentary assets.

Hereafter follows a summary of trade secret protection in some jurisdictions:

Country	Provision
Brazil	A trade secret is protected by means of Unfair competition rules and Brazilian IP law (n. 9.279 of May 14, 1996) in article 195, XI and XII and paragraph 1
Canada	There is no legislation which protects trade secrets. At common law, information may be protected as a trade secret if it is not publicly available or otherwise generally known within the relevant industry or trade; and it is treated as secret or confidential at all times by its owner, and adequate steps are taken for this purpose.
China	China has several laws that address trade secrets, but the primary law on the topic is China's Anti-Unfair Competition Law (AUCL), which came into force on December 1, 1993. Article 10 of the AUCL defines a trade secret as follows: "technical and operational information which is not known to the public, which is capable of bringing economic benefits to the owner of rights, which has practical applicability and which the owner of rights has taken measures to keep secret
Europe	The EU Trade Secrets Directive came into force on 5 July 2016 and must be implemented in EU member states by 9 June 2018 The EU Directive 2016/943 seeks to "approximate the laws of the Member States to ensure that there is a sufficient and consistent level of civil redress in the internal market in the event of unlawful acquisition, use or disclosure of a trade secret". The Directive harmonises the definition of trade secret (which will comprise technological, business and commercial information) and lays down common rules, legal remedies and procedures to enforce trade secrets and protect confidential information in court proceedings.
India	The law of trade secrets in Indian at present is a judiciary made law based on the principle of equity and on common law action for breach of confidence. Certain protection is provided under the Information Technology Act, 2000 (Section 72), but it is limited to electronic records. Indian jurisprudence regarding Trade Secrets is not clear on many important aspects such as the scope of damages in case of breach of confidential information, theft of trade secrets by business competitors and procedural safeguards during litigations in courts. These issues have led to foreign investor's reluctance in sharing technical know-how with their Indian counterparts. The recent National IPR Policy states as one of the objectives the enactment of a trade secret law. No time frame has been set.
Malaysia	Trade secrets are recognized and qualify for sui-generis Intellectual Property protection. Requirements for enforcement includes sufficient evidence that the trade secret is not known to the general public, the trade secret is of commercial value and sufficient measures have been taken to safeguard the trade secret.
South Africa	No trade secret legislation. Common law prevails. Remedies are available for inappropriate use of trade secrets through an action based on unlawful competition, the wronged competitor has two remedies available: an interdict and an Aquilian action on merits of the case. The onus of proof is on the plaintiff to proof that the information was indeed a trade secret and that it was wrongfully applied/used to the detriment of the plaintiff.
Taiwan	Article 15 of the Trade Secret Act allows for protection of trade secrets of foreign nationals on the principle of reciprocity: if a foreign national's home country does not deny protection to trade secrets of Taiwan nationals, and the foreign national's trade secrets meet the requirements of Taiwan's Trade Secret Act, the foreign national will enjoy protection of such trade secrets under Taiwan's Trade Secret Act.
USA	The Defend Trade Secrets Act of 2016, Pub. L. 114-153, of May 11, 2016. This act expands the federal law on the protection of trade secrets. It introduced a new federal civil cause of action for trade secret misappropriation and places original jurisdiction for that action in the federal district courts. The DTSA allows for ex parte seizure orders, creates immunity from trade secret misappropriation actions for whistle-blowers, imposes requirements on employers to notify their employees of the whistle-blower immunity, and grants trade secret owners the right to file a submission under seal before their trade secret may be disclosed in court. It co-exists with the UTSA

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## IP AS A TOOL FOR SOCIO ECONOMIC DEVELOPMENT

DR KERRY FAUL

2016 has been a good year for progress at the World Intellectual Property Organisation's (WIPO) Committee on Development and Intellectual Property ("CDIP"). The CDIP was established in 2008 with a mandate to develop a work-program for implementing the 45 adopted Development Agenda recommendations; monitor, assess, discuss and report on the implementation of all recommendations adopted; and for that purpose, to coordinate with relevant WIPO bodies; and discuss IP- and development-related issues as agreed by the CDIP, as well as those decided by the WIPO General Assembly.

Although sufficient political will exists amongst most groups for the first two (2) pillars of the mandate, the CDIP is finding it difficult to reach consensus on the way forward with the third pillar. This is particularly problematic as the third pillar provides the forum for rich and robust discussions around intellectual property and any associated rights as a barrier to technology transfer, IP and access to medicines, the role of green technologies and the role of IP in achieving the Sustainable Development Goals.

The CDIP meets twice a year in April and again in November with a report presented to the General Assemblies in October. The outcomes of the 2016 meetings were particularly satisfying, after a deadlock in the previous year, with consensus agreement reached on some matters of interest to emerging, developing and least developed countries. Matters resolved include technical assistance and the way forward on a few reviews including a review on implementation of the Development Agenda recommendations. Technical assistance areas of consensus included a work plan to address general technical assistance needs, several country-specific proposals where IP finds applications in a range of sectors including the audio-visual sectors and tourism, and several improvements to the WIPO website (including WIPO Green and WIPO Match as well as the Technology and Innovation Support Centre Platform).

Although the CDIP has political undertones, the progress at the November meeting has provided for a framework for on-going debate on the role of IP in achieving the SDGs.

This represents the first opportunity for meaningful conversations in this regard, particularly as IP is a cross-cutter. South Africa, as the Vice-Chair on this Committee is interested in driving a conversation that separates IP and IPR. An excerpt from the South African statement delivered in plenary at the General Assemblies reads as follows:

*"During the WIPO International Conference on Intellectual Property and Development" held on 7 and 8 April 2016 in Geneva, South Africa's Honourable Minister of Trade and Industry, stated as follows in his keynote address: "Seven of the top ten fastest growing economies in the global economy are African and Africa now offers the highest return on investment of any region in the world economy. Africa's abundant natural resources, the growing consumer power of Africa's emerging middle class and favourable demographics offer enormous potential for sustainable economic growth and development across the continent."*

*However, this sustainable growth requires a transition from a largely commodities-based economy to a **knowledge-based economy**, coupled with large scale industrialisation to address the unique challenges Africa faces.*

*Innovation and creativity are central to any knowledge-based economy. In this regard, the Development Agenda is a critical tool to address developmental needs. Although, the last two years have shown slow progress, we believe that with political will and understanding, progress shall be realised. In this regard, we are encouraged by the growing support for the concept of "IP **for** development" and not just "IP and development".*

South Africa submitted a proposal to promote IP as a tool for development through a comprehensive training regime targeted at developers of the IP, funders of IP commercialisation, users of the IP, as well as managers of the IP to ensure a more comprehensive understanding by all parties and hopefully, in this manner, expedite commercialisation of technologies as all parties understand the innovation value chain more clearly. This project has principally been approved for roll out from around July 2017.





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## **Case T-472/13 Lundbeck v Commission (Lundbeck case)**

On 8 September 2016, the General Court of the European Union upheld a €93.8 million fine imposed by the European Commission in 2013 against Danish pharmaceutical provider, Lundbeck, as well as fines totaling €52.2 million against four generic pharmaceutical companies. The fines were imposed on these companies as a result of so called “pay for delay” settlement agreements they entered into, which were found by the court to be anti-competitive.

## **What is a pay for delay settlement?**

Pay for delay settlements operate in the pharmaceutical space in the following way: In settling a patent dispute between a patent holder (also known as the patent originator) for a specific drug and a generic producer, the patent originator agrees to transfer some form of value to the generic producer who is about to bring a

generic version of the patented drug onto the market. In exchange, the generic producer agrees not to enter the market for a certain amount of time.

Settlements such as these have become known as pay for delay settlements, or reverse payments, because the patent originator pays the entity accused of infringement to settle the dispute, the opposite of what normally happens in patent litigation settlements.

There is an argument that pay for delay settlement agreements are, like any settlement agreements, socially and economically efficient as they avoid the cost of litigation. Patent litigation can be hugely risky and full of uncertainty, as the patent must be assessed for novelty and inventiveness, the latter concept being somewhat subjective.

However, competition watchdogs such as the Federal Trade Commission (FTC) in the United States (US) and the European Commission (the Commission) argue that pay for delay settlement agreements are potentially anti-competitive as they can result in an artificial maintenance of the patent originator’s monopoly where there otherwise would have been competition in the market. This allows the patent originator to keep its prices high.

## **How do they fit into the Patent landscape?**

A valid patent grants the patent owner 20 years of market exclusivity, during which time the patent owner and its licensees are the only entities that may make and sell the patented invention. This creates a competition vacuum, which allows the patent owner to charge higher prices for its product. Bringing a single drug to market is an expensive exercise, although how expensive remains a debate as these figures are not in the public domain. As a result, it is the *modus operandi* of all pharmaceutical companies to make significant profits out of their successful drugs before

their patent expires and competitors enter the market.

Once a patent expires, or it is challenged in court and found to be invalid, anyone may take that invention and exploit it, including making a generic version of a patented pharmaceutical product. Once generics enter the market, competition is stimulated and the drug becomes much more affordable.

This is all within the parameters of the not-uncontroversial bargain which legislatures have struck on behalf of the public, to incentivise the invention of new medicines, and other useful inventions, that will improve the lives of the public.

However, some pay for delay settlements appear to reach beyond this agreed upon social contract, allowing the patent originator to continue to exploit a monopoly they are not entitled to.

The US and the EU have taken different approaches in dealing with these settlements.

## **European Union**

The European Commission has, since 2009, been keeping a watchful eye on pay for delay settlement agreements, looking out for those that may be problematic. Specifically, it is on the lookout for settlements that delay the entry of generics into the market, in exchange for a value transfer from the patent holder.

## **The Lundbeck case**

In 2010 the European Commission began investigating Lundbeck, the patent originator of the blockbuster antidepressant molecule, citalopram. Lundbeck’s basic patent on the citalopram molecule had expired, but it held various process patents which provided only weak protection. This meant that it was possible for generic companies to challenge these patents and possibly enter the citalopram market. Various generics companies, including Generics UK, Arrow, Alpharma, and Ranbaxy, were preparing to do so. However, instead of bringing their generics onto the



market, these companies entered into settlement agreements with Lundbeck in terms of which they agreed to stay out of the market for a certain amount of time, in return for a substantial “value transfer” from Lundbeck. The value transfer included not only a lump sum payment, but also an agreement to purchase stock of the generic products for the sole purpose of destroying it, as well as offering guaranteed profits in a distribution agreement. This allowed Lundbeck to retain its monopoly in the citalopram market, as its weak process patents remained unchallenged. The amount Lundbeck paid to the generic companies was approximately the same amount that those companies would have made had they successfully entered the market.

The Commission found that these agreements intended to delay the entry of generic versions of the citalopram molecule into the market, thereby negatively affecting consumers, as well as the national health system.

The General Court fully confirmed the Commission’s findings, including that these settlements constituted a “buying off of competition”.

The Court agreed that the agreements eliminated competition and were a restriction of competition “by object”. In 2013 the Commission found that where a settlement agreement has restriction of competition as its object, there is no need to establish the concrete effects of such an agreement, as it is “by object” anticompetitive. Furthermore, the Court found that Lundbeck was not able to show that the agreements were necessary to protect its intellectual property.

After the Court’s decision was announced, Lundbeck issued a statement in which it maintained that the settlements “did not restrict competition and did not go beyond the protection already offered by society via Lundbeck’s patent rights”.

## United States

The position is even more intriguing in the United States where the Drug Price Competition and Patent Term Restoration Act, also known as the Hatch-Waxman Act, incentivises generic producers to enter the market by giving 180 days of market exclusivity to the first generic company to have its Abbreviated New Drug Application (ANDA) passed by the Food and Drug Administration (FDA). To be successful, the applicant must also certify that any patent covering the drug has expired, that it is invalid, or that it will not be infringed by the sale of the generic. The patent originator often sues the generic company at this point. It is usually once litigation proceedings have been initiated that pay for delay settlements are reached.

One of the Federal Trade Commissions’ top priorities in recent years has been to oppose pay for delay settlement agreements which they argue stifle competition for lower cost medicines.

An FTC study published in 2010 estimates that pay for delay settlements cost American consumers and taxpayers approximately \$3.5 billion annually. The patent holders, on the other hand, argue that the settlements are legal and bring generics to market sooner than if patent litigation continued.

**Federal Trade Commission v Actavis** (*FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013).)

The United States Supreme Court in the *Actavis* case said that these types of settlements cannot be said to be either always legal or always illegal. Rather, it held that each settlement agreement would need to be assessed on a case by case basis to determine if it is reasonable, considering any anticompetitive effects it may have, as well as its legitimate objectives. This is known as the “rule of reason”.

However, the court did not set out the factors to be considered under the rule of reason, except to say that “the likelihood of a reverse payment bringing about anticompetitive effects depends upon its size, its scale in relation to the payor’s anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification.”

## South Africa

The South African courts have not yet dealt with pay for delay settlements, but it will be interesting to see if they will follow the stricter EU approach, or the more nuanced US approach.

Section 4(1)(a) of the Competition Act (89 of 1998) says that an agreement between competitors is prohibited if it has the effect of substantially preventing or lessening competition in a market, unless a party to the agreement can prove that any technological, efficiency, or other pro-competitive gain resulting from the agreement outweighs that effect.

This wording appears to be more aligned with the US rule of reason approach, presumably requiring the anti-competitive effect of an agreement to be proved, rather than assumed.

Until the position is clarified, however, litigants may be left with a somewhat uneasy feeling that their carefully negotiated settlement agreements could fall foul of the competition laws if they involve pay for delay.

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# The Law Reports

## The following judgments were reported since June 2016\*

### Trademarks

- Mega Power Centre CC t/a Talisman Plant and Tool Hire v Talisman Franchise Operations (Pty) Ltd and Others (SA 46/2013) [2014] NASC 27 (18 December 2014)
- (From Namibia: Supreme Court; 18 December 2014; 52 KB – Appeal Oct 2016)
- Enjoy Beauty (Pty) Ltd v Pretovia and Smit Beauty Salon CC and Others (67971/2016, 67970/2016) [2016] ZAGPPHC 928 (28 September 2016)
- (From South Africa: North Gauteng High Court, Pretoria; 28 September 2016)
- Joest (Pty) Ltd v Jost GmbH and Others (319/2015, 324/2015) [2016] ZASCA 110 (1 September 2016)
- (From South Africa: Supreme Court of Appeal; 1 September 2016)
- M-Systems Group (Pty) Ltd v Cochrane Steel Products (Pty) Ltd (61028/2015) [2016] ZAGPPHC 677 (10 August 2016)
- (From South Africa: North Gauteng High Court, Pretoria; 10 August 2016; 88 KB)
- Union-Swiss (Pty)Ltd v Bio-Cream Comsmetics CC (56526/2012) [2016] ZAGPPHC 665 (29 July 2016)
- (From South Africa: North Gauteng High Court, Pretoria; 29 July 2016)
- Shoprite Checkers (Pty) Ltd v Charoen Pokphand Group Co Ltd (72005/2015) [2016] ZAGPPHC 655 (28 July 2016) (From South Africa: North Gauteng High Court, Pretoria; 28 July 2016)
- Feltex Holdings (Pty) Limited v Olymp Benzer GmbH and Co. KG (5918/2015) [2016] ZAGPPHC 651 (28 July 2016)
- (From South Africa: North Gauteng High Court, Pretoria; 28 July 2016)

### Patent cases

None

### Copyright

Steloy Castings (Pty)Ltd and Others v B&K Castings (Pty)Ltd. (49326/2015) [2016] ZAGPPHC 673 (20 July 2016) (From South Africa: North Gauteng High Court, Pretoria; 20 July 2016)

### Domain name and unfair competition

Nuwater PTE Ltd and Another v Grahamtek Holdings Ltd and Another (7051/2016) [2016] ZAWCHC 113 (1 September 2016) (From South Africa: Western Cape High Court, Cape Town; 1 September 2016)

[Want to read the full case](#)

Please request a copy of the judgment from Marie Louise Grobler at [saiipl@icon.co.za](mailto:saiipl@icon.co.za)

\* The list can only be complete if members submit judgments to the SAIPL office

## IP BRIEFS

Earlier this year SAIPL launched a competition for a new name of our newsletter. The winner of the competition was Prof Owen Dean.

We hand delivered his prize in September.



Keep an eye out for 2017 events:

- Ten Pin Bowling
- Golf Day
- Ladies Lunch
- AGM
- Annual Dinner