

Intellectual property clients breathe easier

Recent judgment lifts burden from their shoulders

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IN FEBRUARY this year a judgment was made in the North Gauteng High Court of importance to intellectual property practitioners and their clients.

In the matter between *Oilwell (Pty) Ltd (Oilwell) vs Protec International Ltd (Protec) and others* the court came to the conclusion that "to interpret regulation 10(1)(c) as including the assignment of a trademark, amounts to an approach that is ... erroneous".

Earlier, in *Couve & Another v Red-dot International (Pty) Ltd & Others*, the Johannesburg High Court had to decide whether it could grant an order sought for the specific performance of a written agreement in terms of which, amongs other things, one of the defendants was to assign (60% of) its rights in certain patent applications to another (foreign) defendant.

The defendants excepted to the par-

ticulars of the claim as disclosing no cause of action as the agreement upon which judgment was sought was void and unenforceable because it contravened regulation 10(1)(c) of the Exchange Control Regulations.

For the sake of convenience, regulation 10(1)(c) is quoted below:

"10(1) No person shall, except with permission granted by the Treasury and in accordance with such conditions as the Treasury may impose

(c) enter into any transaction whereby capital or any right to capital is directly or indirectly exported from the Republic."

In the Couve case, the court held that although the word "capital" was not defined in the regulations or the act, it should be understood as meaning anything that had a monetary value. The court then went on to hold that the rights in the patent applications themselves had a monetary value and were therefore "capital" and the net effect of the agreement was the export of the rights in the patent applications, in contravention of regulation 10(1)(c).

The court held that the agreement contravened regulation 10(1)(c) on a further basis: allied to the rights in the patent applications was a right to receive royalties. Cession of a right to

receive royalties to a foreign entity was, in itself, regarded as a transaction whereby capital, or a right to capital, was exported from SA. The court found that the agreement which contravened regulation 10(1)(c), was void.

Oilwell relied on the Couve case and argued that the assignment agreement (assigning trademarks) amounted to a "transaction whereby capital or any right to capital was directly or indirectly exported from the Republic". Since no permission was granted by the Treasury prior to the transaction being entered into, the transaction was void.

Protec submitted that trademarks are territorial in nature and therefore the assignment of a trademark to foreign control does not amount to the "export" of such control (capital). The reason being, the control is exercised in SA and the fact that a foreign entity becomes entitled to exercise rights in the republic does not mean that these rights have been exported.

An analogy offered was the sale of a home in SA to a foreigner. The purchase does not result in the export of capital. The seat of the capital (house) remains in SA.

The court favoured this submission and said that any revenue earned or proceeds acquired by the foreign entity,

from the capital asset or the right to capital, would relate not to the assignment of the trademarks themselves but to the fruits or profit generated by the business conducted under the trademark's protection. Therefore, this situation could not amount to a contravention of regulation 10(1)(c).

However, what convinced the court was Protec's submission that the judge in the Couve case erred in adopting an expansive rather than a narrow interpretation of the words "capital" and "right to capital" as used in regulation 10(1)(c). The court took note of the following:

■ The exchange control regulations contained no definition for "transaction", "capital" or "exported"; and

■ The long title of the Currency and Exchanges Act of 1933, in terms of which the regulations were promulgated, read that the law was meant to amend the law relating to legal tender, currency, exchanges and banking.

Neither of the above had any bearing on intellectual property and in the light of the above, the court found that the interpretation of regulation 10(1)(c) as including the assignment of a trademark amounted to an erroneous approach that was too broad.

The court also considered Protec's

second defence, namely that a contravention of regulation 10(1)(c) does not result in the agreement being void.

The court applied an interpretation of the statutory prohibition guideline and found that a grave injustice would result if the assignment agreement, which was concluded more than 11 years ago, were declared null and void. Further, because the regulations contained no explicit statement that the relevant transaction would be void if the terms were not complied with and that the penalty imposed was steep (R250 000 or five years imprisonment or both), the court was convinced that the legislature intended the sanction as sufficient "punishment" for non-compliance and not for invalidity in case of non-compliance.

The judgment is welcomed by intellectual property practitioners whose local clients have had a heavy burden lifted from their shoulders.

Further, clients who in the past did not obtain approval from the Treasury prior to assigning their intellectual property can rest assured knowing that the assignment agreements are not void.

Hopefully, in due course, this judgment will be confirmed in the appeal court.