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THE AFTERMATH OF *OILWELL (PTY) LTD v PROTEC INTERNATIONAL LTD**

One of the occupational hazards of the judicial office is that one's judgment, however carefully crafted, may be overruled on appeal. Judges at first instance appreciate the risk. Judge John Sirica, of Watergate, confronted with the fact that he was regularly overruled on appeal made the obvious but often forgotten point that the judgments of appeal courts are not necessarily right; they are merely deemed to be right because they are judgments of a higher court. Speaking as a judge of first instance he added that "appeal court judges don't have to shoot from the hip. They have the leisure to think, to decide. We have to make decisions in a split second, whether to sustain or overrule an objection".

Another judicial hazard is that Parliament, dissatisfied with a judgment, may amend the law. Judges accept this because that is a consequence of the division of powers and evidence of democracy at work.

In both these interventions the *audi alteram partem* rule is visibly at the forefront.

Then there is the case where the executive is unhappy with a judgment, especially one relating to subordinate legislation. A member of the executive, prodded along by some or other disgruntled functionary, changes the rules. This happens without hearing or considering the other side, and in secret – an instance of how democracy should not work.

This note deals with such a case. It relates to an amendment on 8 June 2012 to the Exchange Control Regulations to include within their ambit a prohibition on the export of any intellectual property rights (IPRs) without prior Exchange Control (Excon) approval. Although the amendment at first blush appears to be a simple one it is based on a lack of understanding of the nature of IPRs and is fraught with difficulties.

For the sake of context, Excon regulations are promulgated by the President in terms of the Currency and Exchanges Act 9 of 1933. The Act was adopted under a different constitutional dispensation during an emergency caused by the Great Depression. Teeth were added, especially during the 1960s and 1980s, in an attempt to counteract the effects of international sanctions and to prevent the flight of capital.

The Act not only allows the President to make regulations in regard to any matter directly or indirectly relating to or affecting or having any bearing upon

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currency, banking or exchanges, but the President may suspend, in whole or in part, the Act itself or any other Act of Parliament or any other law relating to or affecting or having any bearing upon those matters; and any such Act or law which is in conflict or inconsistent with any such regulation is to be deemed to be suspended in so far as it is in conflict or inconsistent with any such presidential regulation.

In this regard the Act bears similarity to the provision in section 25(1) of the Native Administration Act (later called the Black Administration Act) 38 of 1927 which provided that the Governor-General (and later the State President) could repeal or amend existing parliamentary legislation or promulgate new legislation on subject matter covered by the Act. (*Bestuursraad van Sebokeng v Tlelima* 1968 1 SA 680 (A)). This Act has been repealed, but not so the Currency and Exchanges Act.

It is not difficult to see that this legislative power of the President is inconsistent with the Constitution, and that in promulgating the amendment, the President limited the right to transfer IPRs as expressly provided for in the various IP statutes. The focus of this note is, however, not on constitutional aspects, but the implication of the amendment on the judgment of the Supreme Court of Appeal in *Oilwell (Pty) Ltd v Protec International Ltd* 2011 4 SA 394 (SCA), [2011] ZASCA 29 and on IP law in general. (The author of this note was the scribe of the unanimous judgment.)

The facts of the case were remarkably simple. Oilwell had assigned a number of trade marks to Protec, a foreign company. Only one of these was a South African trade mark. The related foreign trade marks were not in contention. Oilwell argued that the assignment of the South African trade mark without the consent of Treasury was void and it sought rectification of the register to indicate that ownership still vested in it.

The regulations have since time immemorial provided that no one may (“shall” in regulation speak), except with permission granted by Treasury, enter into any transaction whereby (a) capital or (b) any right to capital is directly or indirectly exported from the Republic. To have succeeded, Oilwell had to show cumulatively that (a) a trade mark is “capital” in terms of the regulations, (b) capital was exported, and (c) the lack of prior permission nullified the assignment.

The term “capital” was not defined in the Excon regulations and *Oilwell* came to the conclusion that the term as used therein did not encompass an IPR, in that case a registered trademark.

In an attempt to undo this consequence of the judgment, the amendment defines “capital” to include any IPR, whether registered or unregistered, and defines “export from the Republic” as *including* the cession of, assignment or transfer of any IPR, to or in favour of a person who is not resident in the Republic.

This means that one may not enter into any transaction whereby an IPR or a right to an IPR (local or foreign) is “exported” directly or indirectly, that is, transferred (whether by cession, assignment or transfer or whatever), to or in favour of a non-resident.

This note argues that designating any IPR as “capital” is over-broad and simplistic and that the idea that IPRs can be exported is based on a misconception as

to their nature. What follows is based on trite propositions and it is accordingly unnecessary to pad the note with references.

The term “intellectual property” is also vague and dangerously open-ended as an all-party committee of the Australian Parliament unanimously concluded in rejecting a proposal that Australia join ACTA (<http://infojustice.org/archives/26450> accessed 26 March 2013).

IPRs may be registered or unregistered. They could relate to the traditional forms such as patent, copyright, design and trade mark rights. However, they could extend to a host of other possible rights which may or may not be considered to be IPRs (*Phillips v Mulcaire* [2012] UKSC 28 para 18). These include performers’ rights, personality rights and rights in respect of know-how.

Although the right in and to a patent is an IPR, the “right” in and to an invention is probably a mere expectation which might crystallise into an IPR if a patent is applied for and eventually is granted. A South African who has invented something has no duty to patent it locally, or at all, and may apply for a patent in virtually any country of the world, either by way of an original or convention application. An assignment of that right is also not disposal of local capital.

The next problem relates to the “export” of an IPR. IPRs are territorial by their very nature and it is therefore not possible to export an IPR. A local IPR, when transferred to a non-South African resident is not “exported”, especially in the case of registered South African IPRs. They remain South African rights enforceable in South Africa only.

That leaves one with exporting of a “right” to IP. Apart for the fact that IPRs are territorial they are also independent. What this means is that if someone applies for a patent in South Africa and also applies for a patent based on the same invention in the USA, two independent patents may be granted, one by South Africa and the other by the USA. They exist independently; they may belong to different parties; they may be different in scope; and the one may be valid and the other not.

Transfer of the rights in and to a patent or patent application in the USA consequently does not amount to transfer of a local capital asset and does not differ from the transfer by a South African of property located overseas to a non-resident. Consequently, the regulations can only apply to local IPRs.

Copyright provides a text-book example. It arises automatically in most if not all countries irrespective where, and by whom, created. This means that each copyright work has its own independent copyright in every country that is member of the WTO or the Berne Convention. It cannot be exported. The local copyright may be capital locally but that is where it ends.

Problems might also arise where an employee, resident in the Republic, is required to assign any IP developed during the course and scope of employment to the employer (a non-resident). In certain of these instances it is not a matter of contract law, but by statute law the employer becomes the owner of the IPR created by the employee. A typical case would be that of copyright in a computer programme. Is the employment contract a “transaction”?

Another question that arises is whether the grant of a licence can amount to exporting an IPR. The relevant IP laws draw a clear distinction between licences and assignments but the use of the word “including” may imply that licencing

agreements might be covered. Clear language, sometimes difficult to formulate, does no one any harm.

A problem for academics in particular concerns those cases where the academic writes for a foreign publication or delivers a paper overseas. Often they are required to assign their copyright, usually without remuneration. It could hardly have been the intention to require Excon approval for such eventuality.

These examples suggest that the net has been cast too wide, which will result in an unnecessary burden on the commercialisation of IP and could lead to unnecessary litigation.

That leaves the final ratio in *Oilwell*, namely that a transaction covered by the regulations, entered into without the necessary consent, is not void. The amendment to the regulations did not affect that conclusion.

Finally, apart from the fact that the amendment is counter to Excon's professed liberalisation of exchange control, it is arguably overbroad, discriminatory and irrational. For instance, there is no prohibition on the "exportation" of other assets without Excon permission. Real estate or movables, whether income producing or not, may be sold to non-residents without consent. Why is it different for IPRs?

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