IP BRIEFS

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FROM THE EDITOR

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The first quarter of 2021 continued to be mostly what we experienced during 2020. Travelling is to the shop and back, home is now the office, virtual gatherings, and friends in the "black box" have become the new norm. Innovation continues, technology develops, and we remain busier than ever.

In the March edition we feature some interesting articles. We venture into the world of tax and IP and Transfer pricing. Transfer pricing (TP) refers to the prices charged for goods, services, and intellectual property (IP) between or among legal related entities of a company, including a parent company and its domestic and foreign subsidiaries and other controlled entities

From a TP perspective, transactions between related entities must be at arm's length with one another. A price charged one controlled entity by another must be fair—it must reasonably approximate a price negotiated by similarly situated companies outside the company

In determining the arm's length price, the OECD has provided certain methods for determining value and the CUP (Comparable Price Method) is most often used to measure the TP connected with IP and intangible assets. There has been quite some focus internationally from the various inland revenue services on IP transactions and their structuring and many cases were heard in the past year, including companies like Apple, Coca-Cola and Facebook are locked in court battles over their transfer pricing (TP) arrangements. In this edition we have a glimpse at Coca-Cola's case.

We remind our readers of World IP Day celebrations on 26 April. This year features the theme of SMEs and highlights the key role IP rights play in helping SMEs build stronger, more competitive businesses. If you are hosting an event please post these on the WIPO event site https://www.wipo.int/ip-outreach/en/ipday/2021/events_calendar.html

Enjoy the read! Please stay safe and healthy!

Creativity is intelligence having fun.

ALBERT EINSTEIN

Paul Sutton

Paul Sutton is a co-founder of LCN Legal, a law firm specialising in corporate structures and intercompany agreements for multinational groups.

He is also the author of “Intercompany Agreements for Transfer Pricing Compliance – A Practical Guide”.

Coca-Cola’s US$12 billion IP mistake

“If you have intercompany transactions involving valuable intangibles, you need to be extremely vigilant and review things every single year,”

One might think that a corporation with one of the most recognised and valuable brands in the world, founded in 1892, might be a well-oiled machine when it comes to managing its intellectual property rights.

The failure of the Coca-Cola Company to document its intellectual property (IP) appropriately was a key factor in the decision of the US Tax Court in November 2020, when it ruled in favour of the USA Internal Revenue Services (IRS), leaving the corporation with an incremental tax liability of approximately US$ 12 billion.

What is transfer pricing?

Transfer pricing (TP) is the international set of tax rules which determine the level of intercompany charges (e.g., service fees, royalties, prices for goods) which may be properly paid between related entities within a multinational group. These rules are important because they determine in large part the taxable profits of associated enterprises in different countries.

There are significant differences in the interpretation and application of transfer pricing principles in different countries.

https://news.bloombergtax.com/daily-tax-report-international/coca-cola-tax-court-loss-reminds-companies-to-watch-ip-valuation

What happened? What lessons can be learnt from this experience?

A glimpse into the world of international tax and transfer pricing may render an answer, or at least some clarity.

Each country has its own set of national rules which modify or override general transfer pricing principles in various respects. However, there are a number of factors which tend to be common.

The OECD has adopted the arm's length principle as an international standard for determining transfer prices for tax purposes.

In essence, the arm's length principle allows tax authorities to review the transfer prices affecting a particular subsidiary, and then tax that subsidiary based on the profits it would have made had the prices been negotiated between independent third parties.

For example, assume a multinational group which provides software as a service. The software is developed and maintained in South Africa, and the parent company holds all the relevant intellectual property rights, including trade marks. Local subsidiaries in other countries act as principals in licensing the relevant software to customers in the relevant local markets.

Reviewing the relationship between the parent company and a local subsidiary, one type of intercompany charge is a license fee paid by the subsidiary for the right to sublicence the software, and to use associated know-how and materials. In general, the higher the license fee paid by the subsidiary, the lower its taxable profits will be and, correspondingly, the higher the parent company's revenue and taxable profits will be. The subsidiary may be subject to a transfer pricing challenge from the tax administration in its country of operation, which may argue that the amount of the license fee exceeds that which would apply on an arms' length basis. If the license fee is subsequently lowered, the subsidiary's liability to corporation tax may increase. However, the tax administration in the parent company's country of operation may not agree the corresponding reduction in the parent's revenue – and this may result in double taxation.

Other tax considerations may also be relevant, depending on the specific tax legislation in each relevant country.

TP compliance

Intercompany agreements or 'ICAs' are legally binding agreements which define the terms on which services, products and financial support are provided between associated enterprises, such as members of a group of companies.

ICAs are a key part of transfer pricing compliance. They are the starting point for 'delineating' the transaction between related parties, as well as assessing the allocation of risk, which often affects an arm's length price. They are also part of the formal documentation which multinational groups are required to maintain for the purpose of TP compliance.

Finally, from a practical perspective, ICAs are often among the first documents which tax inspectors ask for in a TP audit. If the ICAs don't match the group's claimed TP policies, the other TP documentation, or the actual conduct of the relevant entities, then the taxpayer is on the back foot. This may lead to protracted investigations and ultimately fines, penalties, adverse adjustment, and double taxation.

What was the US Tax Court decision relating to Coca-Cola about?

One of the central issues in this particular case concerned the relationship between Coca-Cola's headquarters (HQ) in the USA, and local 'supply points' in countries such as Brazil, Chile, Costa Rica, Egypt, Ireland, Mexico and Swaziland. The supply points in question were companies within the Coca-Cola group which manufactured concentrate, which was sold to separate 'bottlers' in Europe, Africa, Asia, Latin America, and Australasia. The bottlers produced and distributed the actual beverages.

The group's transfer pricing policies during the relevant period (2007 - 2009) provided for profits to be split between the HQ and the supply points. The group applied a '10-50-50' profit split method. This permitted the supply points to retain profit equal to 10% of their gross sales, with the remaining profit being split 50%-50% with the HQ.

As part of the justification for this profit split, the group claimed that valuable intangible assets (including intellectual property and goodwill) were owned by the local supply points rather than the HQ.

The US Tax Court disagreed and found that this profit split methodology did not reflect arm's-length norms because it over-compensated the supply points and undercompensated the HQ for the use of its intellectual property. The Court's adjustments increased the HQ's aggregate taxable income for 2007- 2009 by more than US $9 billion.

What went wrong for Coca-Cola?

One of the problems faced by Coca-Cola was that the intercompany agreements in place during the relevant period (2007 - 2009) were entirely unsupportive of the taxpayer's position regarding the ownership of intellectual property and marketing intangibles. In effect, the relevant ICAs said that all relevant intellectual property was owned exclusively by the HQ.

The Court made extensive comments on the legal analysis, including the following:

"The supply points … owned few (if any) valuable intangibles. Their agreements with [the] petitioner explicitly acknowledged that [The Coca-Cola Company in the US] owned the Company's trademarks, giving the supply points only a limited right to use [the] petitioner's IP in connection with manufacturing and distributing concentrate."

In other words, the group's intercompany agreements directly contradicted the TP analysis put forward by the group.

The Court firmly rejected the contention that the taxpayer could bring economic evidence of the value of the functions performed by supply points, in order to overturn the unfavourable legal position. When referring to the relevant US income tax regulation, the Court commented as follows:

"Notably absent from this regulation is any provision authorizing the taxpayer to set aside its own contract terms or impute terms where no written agreement exists. That is not surprising: It is recurring principle of tax law that setting aside contract terms is not a two-way street. In a related-party setting such as this, the taxpayer has complete control over how contracts with its affiliates are drafted. There is thus rarely any justification for letting the taxpayer disavow contract terms it has freely chosen." (p 161)

In addition to the lack of alignment with TP policies, the US Tax Court also identified other deficiencies in Coca-Cola's intercompany agreements: in some cases, the contracts were "outmoded" and "inconsistent with … actual behaviour". Certain of the agreements "included no discussion of payment whatever", and the "10-50-50" profit split method did not appear to be reflected in any of the agreements.

It is fair to say that Coca-Cola's defective intercompany agreements were not the only factor which led to the IRS's victory in the US Tax Court. It is also fair to say that the tax laws of different countries take differing approaches when assessing the form and content of ICAs, as opposed to the economic analysis of the arrangements. However, the case does illustrate how tax administrations are increasingly seeing ICAs as a weak point in the tax compliance of multinational groups and are challenging taxpayers' TP policies when they are not supported by intercompany agreements.

Key lessons for intellectual property professionals

For many intellectual property lawyers, it may be natural to be mainly concerned about helping their clients with the protection and enforcement of IP against third parties. They may be less concerned about where IP sits within a corporate group, and they may assume that IP should be centralised within the parent company or IP holding company. This assumption may have led to the situation that Coca-Cola found itself in, which proved to be a very costly mistake.

One of the many valuable lessons we can take from the Coca-Cola case is the importance of the internal management and governance of IP within a group: the ownership and licensing of IP as between members of the group needs to be reflected in intercompany agreements which are aligned with the group's transfer pricing policies and which meet the needs of the wider stakeholders involved.

Some key action points for IP professionals to consider:

1. When working with multinational groups, question your own assumptions as to how IP should be owned and licensed within the group. Encourage your clients to consider all the relevant facts – these may include withholding taxes, VAT and GST, exchange control and asset protection, as well as TP compliance and IP enforcement.
2. Make sure that your clients have appropriate intercompany agreements in place regarding the ownership and use of IP. These agreements need to be aligned with TP policies as regards ownership of the rights involved and the extent of the rights granted, the functions (obligations) of the parties, the allocation of risk and the calculation of license fees and royalties.
3. Exercise caution when using templates for third party agreements as a starting point for the drafting of intercompany agreements; in many cases, such templates lack the specific TP functionality required, contain inappropriate provisions, and reflect an inappropriate allocation of risk.

By Monique Heystek

A Sword and a Shield: Challenging patent validity during revocation - and infringement proceedings

MONIQUE HEYSTEK

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In 2019, South Africa's Constitutional Court's appellate division heard its first patent litigation matter in the case of *Ascendis Animal Health (Pty) Limited v Merck Sharpe Dohme Corporation and Others [2019] ZACC 41.*

The basis of the case was two different forms of legal proceedings between the parties. Patent revocation proceedings instituted in the High Court by Ascendis (as the applicant) against Merck and Merial (as respondents), on the grounds that the respondents' patent no 1998/10975 was invalid under the South African Patents Act No 57 of 1978, due to a lack of novelty. While the revocation action was still pending, the respondents filed a counterclaim against the applicants for patent infringement. The parties agreed to stay the infringement proceedings until the revocation proceedings were seen to finality.

The Court finally ruled that the lack of novelty claim had no merit and that the patent was valid.

In continuing with infringement proceedings, Ascendis sought to amend its plea in the infringement action by deleting the anticipation (novelty) point and adding the new, inutility, attack on the validity of Merck's patent. This notice of amendment signalled Ascendis's intention to persist with its attack on the validity of Merck's patent, relying on the already-abandoned obviousness point and the (new) inutility point. Ascendis offered no reason as to why it did not raise the inutility ground in the earlier validity challenge.

Merck's response was to seek to amend its pleadings positing the judgment of the Supreme Court of Appeal as rendering the validity of its patent *res judicata* and that Ascendis could thus not rely on other grounds of revocation.

The High Court, wanting to prevent "litigation in a piecemeal fashion", refused amendment of the pleadings.

As a result, the case made its way to the Constitutional Court to ultimately decide on whether the different grounds for challenging patent validity provided by the South African Patents Act are all separate causes of action, or should they all be regarded as a single cause of action?

In other words, is a litigant able to raise patent invalidity as a sword during revocation proceedings and as a shield during subsequent infringement proceedings, allowing multiple bites of the same cherry?

Single cause of action – or not?

Section 61 of the Patents Act provides various grounds for the revocation of a patent. A ruling in favour of these grounds constituting the same cause of action would ultimately prevent the sword-shield situation, based on the doctrine of *res judicata*, which aims to prevent the same parties, bringing the same cause of action and seeking the same relief when a final judgment was already delivered by a court of competent jurisdiction.

In the Constitutional Court, ten judges heard the matter, five of who held that Ascendis could not attack the patent further on the grounds of obviousness and inutility due to the *res judicata* rule, and five who held that Ascendis was not barred from doing so. The former judgment was delivered by Justice Cameron and the latter by Justice Khampepe.

Justice Cameron highlighted the following reasons for his and the supporting judges' views: A court of appeal's ruling on the validity of a patent estops an applicant from bringing the same issue of patent validity before the court during subsequent patent infringement proceedings, regardless of the ground of invalidity. He adopted a broad interpretation of the same cause of action to mean the same issue (patent invalidity).

Justice Cameron referred to countries with bifurcated patent litigation systems in which claims of infringement and validity are decided independently of each other in separate court proceedings at different courts.

He warned that South Africa should resist bifurcation that allows multiple validity challenges, not least of all because this is a remedy only the ultra-well-resourced could enjoy, considering the exorbitant costs of patent litigation. Bifurcation, he furthermore warned, leads to asymmetrical patent claim construction because trying invalidity and infringement cases separately typically leads to the patentee contending for a narrow interpretation of the claim when defending it but an expansive interpretation when asserting infringement.

Justice Khampepe and the judges, supportive of her views, held that the Patents Act provides revocation - and infringement proceedings as two separate proceedings with their own distinct rules, remedies, consequences and relief. They held that it would be wrong for the Court to conclude that the revocation proceedings' findings have a final effect on the infringement action for causes of action that have not actually been adjudicated during revocation proceedings.

Furthermore, Justice Khampepe interprets it as the legislature's intention that each of the grounds of revocation as set out in section 61 of the Act constitutes separate, distinct and independent causes of action. Although claims of either novelty, obviousness, or inutility may all lead to the same legal conclusion, namely finding a patent's invalidity, it does not mean that they all represent a single cause of action. The facts required to prove each of the claims are markedly different because the elements constituting each ground are different held Justice Khampepe. She referred to the fact that South Africa is not an examining country, and therefore the testing of the validity of patents is in the public interest. Patents create artificial monopolies, and currently, South Africa solely relies on private parties to regulate this artificial monopoly system through litigation. Therefore, it was held that these litigants serve both a personal and public interest. Instead of deterring them, there should be an inclination towards encouraging them to bring more revocation challenges instead of creating extensions in common law that increase the costs and risks of them doing so.

In Justice Khampepe's view, the grounds for patent validity can be used as a sword in revocation proceedings and a shield in subsequent infringement actions.

The Constitutional Court typically have 11 justices on the bench, but this matter had seen one judge missing due to other judicial commitments. The resulting absence of a majority judgment meant that the High Court's decision stands, namely refusing Ascendis's application to amend its claims by introducing new grounds of attack against the validity of the patent.

The Constitutional Court did not hand down a binding decision. It might be said that the future of patent litigation in the context of the Ascendis case, therefore, remains uncertain.

What can be learnt from this judgement?

The Constitutional Court seems to have indicated strong displeasure at attempts to prosecute "repeat litigation," and litigants should therefore be warned against pursuing strategies of dividing patent (in)validity claims to prolong the litigation process intentionally.

Litigants that consider relying on more than one ground of invalidity during revocation proceedings and more than one cause of action during infringement actions, should ideally raise and pursue these simultaneously.

It remains to be seen how the Constitutional Court's message will be received and enforced by other courts during future patent litigation cases.

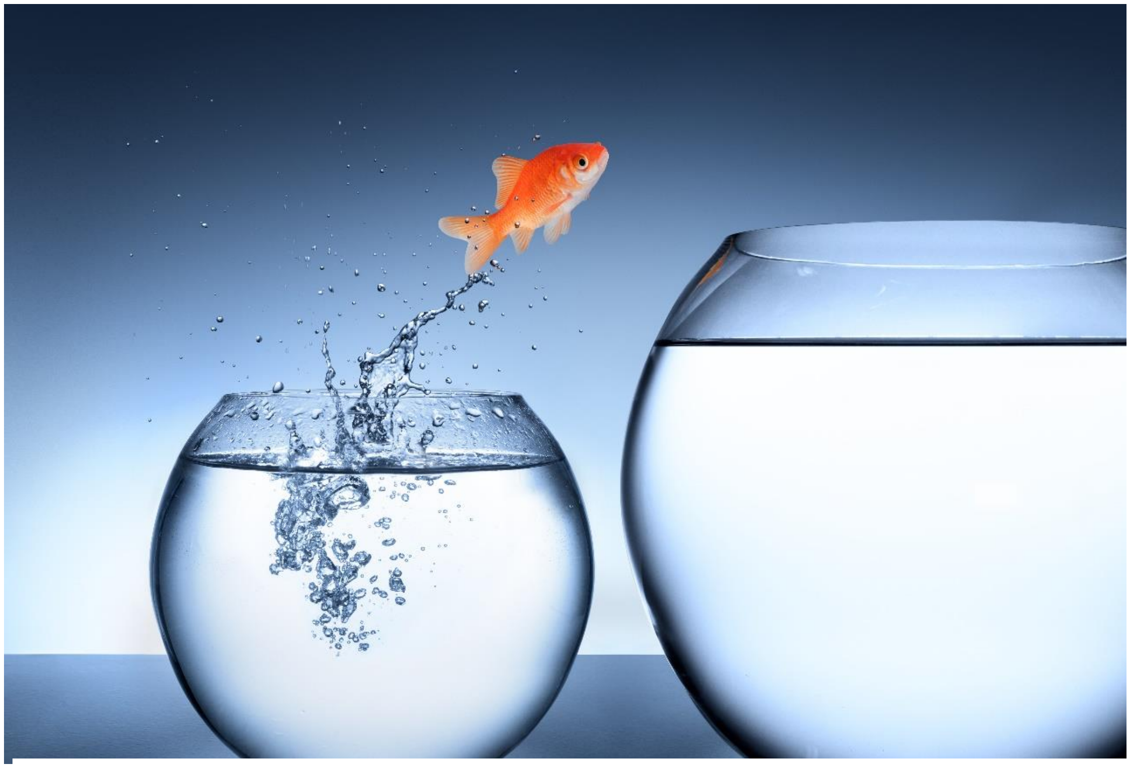
Growing a patent portfolio by protecting the innovation derived from research and development investment is merely the beginning to the creation of value.

Freedom to use, sell and otherwise exploit the invention is the challenge.

This is so often misunderstood.

Freedom to operate conundrum

- By Dr. Madelein Kleyn



A patent grants a negative right to its owner, i.e. the right to exclude others from making, using, exercising, disposing, or offering to dispose of, or importing the invention as claimed. A patent does NOT grant the right of use.

For a business to be able to practice its intellectual property rights, it will be necessary to secure freedom to operate (FTO).

FTO is the ability of a business to develop, make, and market products without legal liability or risk concerning the infringement of third party's intellectual property rights.

FTO analyses are relevant in circumstances where a new product or technology is developed and the business wish to ensure that it will be free to manufacture and market the new product or technology so as to inform research strategy and to avoid pitfalls such as payment of royalties to third party IP owners for license fees; or to avoid costly IP litigation. FTO is often conducted as part of the intellectual property due diligence prior to an investment in acquisition of a business as a condition of closing a deal. This is even more so in deals where the acquisition or investment is mainly IP focused, and the value of the IP assets is determined part by the ability to practice the claimed technology and a clear FTO assessment can provide confidence and reassurance to potential investors or shareholders.

Most appropriate time to conduct an FTO

The early bird catches the worm! It is advisable to conduct a FTO in the initial phase of a development cycle of a new product, or process or technology. The benefits of an early IP search are that it may provide opportunities for the early identification of existing technology that could potentially be licensed or co-developed through collaboration or deal-making.

Early FTO searching avoids the threat of future time consuming and expensive litigation; or it may provide opportunity for design around in the early stages of the project; or the decision to change the research strategy before wasting time and/or money on a product or process which cannot be seen through.

How to conduct an FTO

To obtain the required degree of certainty that the business has FTO, it is necessary to conduct a search to identify the relevant IP. The most obvious and available are the registered rights such as patents, design, and trade marks. Other IP rights such as copyright are more difficult to identify.

Most IP databases for patents and trademarks are freely available to the public, but there are also very sophisticated IP search engine and databases available at reasonable cost.

IP rights are territorial rights, as such the scope of an FTO search should cover all of the countries or jurisdictions in which the business intends to conduct its activities, or plans to make, use, sell, or import the new product or process.

A thorough FTO search is complicated and costly. It is best to use a professional practitioner practiced in the art of IP searching.

In order to minimize risk and maximize value, initially limit the searches to countries in which the business intends to be commercially active and specifically focus on key competitors, key technology, and key markets.

Balance is important. A business should consider the product or service being launched or acquired in terms of its value to the company. This include considering the existing or projected revenue. If it is a high-profit, high volume, and high margin product, they are most likely to lead to high damage awards if third party IP infringement is found, and as such worth to take the extra mile in securing FTO for such products or services.

Define a clear and property search strategy. The IP identified will depend on the quality of the search, and the degree of relevance of each IP form will be subject to interpretation. Some IP may not yet be in the public domain and thus unpublished at the time of the search and therefore not identified during the FTO search.

The search results are analysed to identify and quantify the risk considering the scope and validity of the IP right.

No FTO analysis is ever 100% accurate or a guarantee that the business is absolutely secure to be commercially free and won't be sued.

It’s all in the Claims

In the case of patent infringement, it is critical to remember that a prior art search is not the same as an FTO search. Prior art searches are conducted to confirm that your invention is novel and inventive; or that the third party risk patent is not. In prior art searches the assessment is whether the subject matter of the invention is new, or contain some features that has not been disclosed to the public. Prior art searches do **not** provide any assurances on whether it would be secure for you to sell your invented products or services. Just because your invention might be patentable does not mean you would be free to make, use and sell your patented product.

FTOs are all about claims, because it is the claims that define the scope of the exclusive rights granted to the patent holder. In contrast, a prior art search is not limited to claims, but encompass all of the prior art.

The FTO search is to determine whether the business new product or process would infringe any granted and in force patents. As such, the FTO search is focused on the claims of issued patents, and sometimes, the claims of published patent applications, depending on the desired scope of the search . The aim is to confirm that the new product or process are different, or omits at least one element of each independent claim in the patents retrieved in the search.

Validity search

A validity search is a hybrid prior art search, in the sense that the purpose of a patent validity search is to identify prior art that against which the validity of the claims in a granted patent may be tested by looking for prior art references disclosing the claimed elements. Typically, a validity search is directed to finding new prior art that was not cited during the course of the patent prosecution.

A validity search is used to test the validity of the business new patent claims, as well as identifying prior art that can invalidate the claims of a risk third party patent.

FTO Search Strategies

Once a business has decided to commission an FTO for a particular project, (such as the development of new products, processes, methods, or devices), it is critical to provide the IP specialist (typically the IP attorney) who will conduct or supervise the FTO search as detailed a view as possible of what the methods or devices will be.

If the FTO is commissioned early in the development of the project, it is a good idea to update the FTO, as appropriate. For example, early FTO searches may have discarded third party IP identified as not relevant or only marginally relevant. If the invention underlying the development of new products, processes, methods change over time as it is advanced and refined, then updated FTO searches and analyses is advisable prior to marketing. This is so because third party IP previously discarded as not relevant may become relevant if changes to the invention bring the invention within the scope of third party IP claims previously determined to be not relevant.

It is necessary to include any pending patent applications identified in a search of which the claims are identified as potentially relevant, to be placed on a “watch list” to monitor how the claims change during prosecution, and what form the claims take if they are ever granted.

FTO Analyses

Once the FTO search has been completed, and the IP attorney has had a chance to analyze the results feedback is provided.

This will entail a claim-by-claim analyses comparing the claims to each element of the new product, process, method, or device to be marketed.

It is best to provide a verbal (as opposed to written) report to the business. During the verbal feedback report, the presence of technical personnel most familiar with the new development is highly advisable.

In most countries' communications in lieu of potential litigation between the IP attorney and the client are protected by the Attorney-Client Privilege, which acts as a shield to prevent discovery should litigation arise. Such Privilege can be waived, for example, by disclosure to certain third parties. It is a best practice to keep written communications between the IP attorney and the business to a minimum. Discussion of the results of the FTO search, and analysis of potentially relevant third party IP, should be conducted verbally.

FTO Strategy

In the event that third party IP rights are identified that poses a risk to the business there are various strategies to consider, it is not necessarily the end of the road. Strategies include:

- Take no action: This is the passive approach in simply waiting out the actions of the IP owner. In the case of a weak third Party IP right, or a non-core product or technology, this strategy could be workable. Else not. that Do nothing
- License: approach the IP right owner and obtain a license. This would require royalty payments.
- Invalidation: If the third party IP is weak and possibly invalid, consider invalidation proceedings. This is however a costly and time consuming strategy.
- Acquisition: Buy the IP right, or the business that owns it. If your business is financially string and the IP right is complimentary, or even essential to the new development, it is a good strategy.
- Design around: This means changing the product sufficiently to no longer infringe on the third party IP right. Depending on the nature of the business product and technology, this could be an option early on in the development phase, but costly for progressed development.
- Cross-License - an agreement lets companies share IP rights with each other so as to allow FTO to each other.

Conclusion

In creating new IP, take early steps to identify third-party IP that could affect your business and mitigate or avoid the risk timeously. If it is not possible to avoid or mitigate, adopt an FTO strategy that best suits your business.

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WHEN PATENT EXHAUSTION CAUSES UNINTENDED CONSEQUENCES FOR LICENSING

RALPH VAN NIEKERK

Qualcomm is a California-based company that creates wireless standards and chipset technologies that it patents and licenses. They rank in the top ten companies for number of US patents granted each year and derive two thirds of their revenue from patent licensing.

Like other companies that create wireless standards, Qualcomm licenses their patents at the most lucrative point in the supply chain – to original equipment makers (OEMs) like Apple and Samsung – rather than to upstream chip manufacturers who first implement the patented technologies. They set the royalty rate on their patent portfolios as a percentage of the end-product sales price.

OEM-level licensing allows Qualcomm to obtain the maximum value for their patented technology while seemingly avoiding the problem of patent exhaustion. Patent exhaustion occurs when an initial authorized or licensed sale of a patented item terminates all patent rights to that item. Due to patent exhaustion, if Qualcomm had licensed its patents further upstream in the manufacturing process to rival chip makers, then its patent rights would be exhausted once those chip makers sold their products to the OEMs. The OEMs would have little incentive to pay Qualcomm for patent licenses as they could instead become downstream recipients of the already exhausted patents embodied in these rival chip makers products. What Qualcomm therefore does is to license its patents to the OEMs only, whether an OEM gets its chips from Qualcomm or from a rival.

Many of Qualcomm's patents are standards-essential and are used out of necessity by chip manufacturers. Qualcomm offers these chip makers so called "CDMA ASIC Agreements" in which Qualcomm promises not to assert its patent rights in exchange for the company undertaking not to sell its chips to unlicensed OEMs. These agreements function as a form of patent-infringement indemnification.

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He is an experienced patent attorney with an aptitude for complex patent prosecution and commercial IP issues coupled with a broad understanding of international IP matters.

Rival chip makers complained that Qualcomm's licensing approach has the effect of reducing competition among chip makers, as it enables Qualcomm to control rivals' prices: Qualcomm receives the royalty even when an OEM uses a rival's chips. The United States body that enforces US competition laws, the US Federal Trade Commission (FTC), sued

Qualcomm under the Sherman Act which governs US competition law.

In an August 2020 judgment from the United States Court of Appeals for the Ninth Circuit, *FTC v. Qualcomm,* the Court held that, "Qualcomm's OEM-level licensing policy, however novel, is not an anticompetitive violation of the Sherman Act".

Although seemingly a victory for Qualcomm, the Ninth Circuit judgment included a passing comment that may yet come back to haunt Qualcomm. The court said, "Qualcomm's CDMA ASIC Agreements functionally act as de facto licenses (no license, no problem) by allowing competitors to practice Qualcomm's Standards-Essential Patents royalty-free before selling their chips to downstream OEMs".

If this characterization is indeed correct, then Qualcomm's *"no licence, no problem*" policy towards its rival chip makers is in fact a patent licence. This royalty-free licence would function to exhaust Qualcomm's patent rights for those patents included in the licence. This may be very problematic for Qualcomm as OEMs such as Apple and Samsung could refuse to pay licence fees to Qualcomm on the basis that upstream royalty-free licence has already exhausted Qualcomm's patent rights at the chip maker level.

In the US, the law delves beyond the language used by the parties to determine whether a patent has in fact been licensed or not.

It has been held in a US Supreme Court decision that, "*No formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent, or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license*". Other courts have simply equated a licence to a "covenant not to sue".

Under these precedents, it seems very likely that Qualcomm's practice of tacitly permitting chip makers to operate under their patents will be considered to be licensing, which will exhaust their patent rights. In trying to rebut a case under the competition laws, Qualcomm seems to have persuaded the California Appeal Court that it effectively grants licenses to rival chip makers, thereby providing a strong exhaustion defence to any claim of infringement at the OEM level.

Under South African law principles, exhaustion of patent rights is codified in section 45(2) of the Patents Act which provides that, "*The disposal of a patented article by or on behalf of the patentee or his licensee shall, subject to other patent rights, give the purchaser the right to use, offer to dispose of and dispose of that article*."

There is no formal requirement for a patent licence under South African law, and express, tacit and implied licenses are recognized. A South African court may therefore well find that Qualcomm's "*no licence, no problem*" approach does in fact constitute a patent licence and as such would exhaust Qualcomm's rights, leaving it with no legal basis on which to collect royalties from OEMs like phone makers.

A REVIEW BY ANDRE VAN DER MERWE OF: "ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN AFRICA"

BY MARIUS SCHNEIDER & VANESSA FERGUSON[1]

INTRODUCTORY COMMENTS

In ancient times, Pliny the Elder, a highly respected Roman writer and sage had coined the phrase: "Ex Africa semper aliquid novum" (Out of Africa there is always something new), and here the authors, Marius Schneider and Vanessa Ferguson, have followed on this wisdom. These authors have now produced a new book on Intellectual Property (IP) rights in Africa to assist IP owners and traders world-wide in finding their way into all the national markets in Africa to present and sell their goods and services to Africa's consumers.

At the present time it is estimated that the consumer growth in Africa will in coming years be among the world's greatest (albeit from a low base). So, its overall value as a market for international traders will expand in terms of growing African economies and their commercial buying power. This clearly presents an attractive opportunity for international traders that have the foresight and courage to judge the growth potential of these markets, and to take advantage of the expected returns.

Against the above promising scenario, there is presently an unacceptably high level of IP infringement, counterfeiting and piracy of goods throughout the African continent. Accordingly, this book which deals mainly with IP rights enforcement but also with the acquisition of IP rights, as well as related and ancillary rights, in countries throughout the African continent, is indeed a timely and much-needed publication which is now available to all interested parties. The background information to this book has been comprehensively and expertly researched, and the application thereof has been clearly and simply presented for the reader.

Both authors are qualified IP lawyers and trade mark practitioners who have extensive legal knowledge and expertise in dealing with IP matters, more particularly the acquisition and infringement of trade mark rights and copyrights, and counterfeiting matters, throughout the African continent. In practice this is generally not an easy road to travel. However, the authors are recognized practitioners in this field, and have shared their considerable know-how and experience in this book.

This book will therefore be an important and indispensable volume for both IP legal practitioners, and IP owners and their in-house counsel, as well as an essential tool and guide for law enforcement officials such as customs staff, border and other police, and prosecutors and the law courts throughout Africa. In addition, universities, law libraries, IP students and trainees will find the book to be an invaluable source work in dealing with the questions of IP acquisition and enforcement in African countries.

LAYOUT AND PRESENTATION OF THE BOOK

The book has been formatted and presented in a clear, straight-forward and understandable manner, and has a structure set out in the following order:

1) An important and interesting background/overview chapter entitled "Understanding the Real Problem of Fakes in Africa";
2) A discussion of the ARIPO regional IP system in Africa;
3) A discussion of the OAPI regional IP system in Africa;
4) A presentation of the individual 55 African national/country IP legal systems in convenient alphabetical order (-each with a country overview).

The above is preceded by:

a table or listing of important decided court cases (-where existing) in each of the various countries; and

a table or listing of the relevant IP and related legislation/laws in each country.

OVERALL COMMENTS

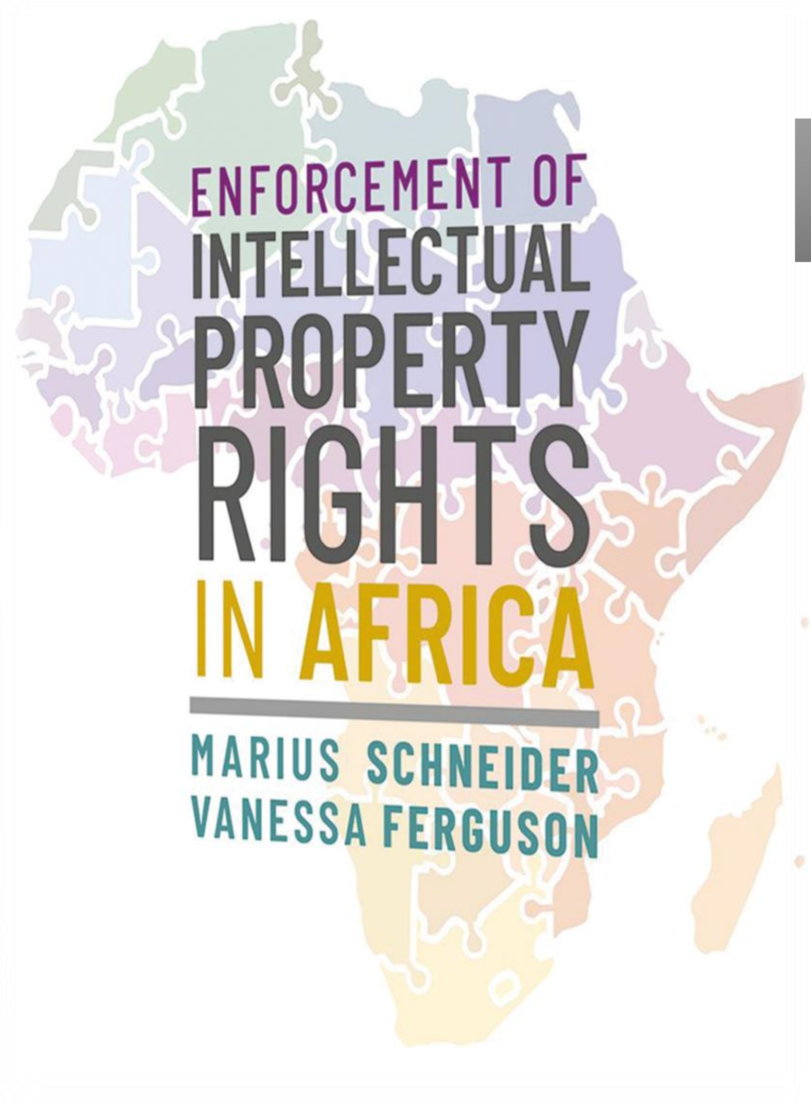
The separate country chapters in the book deserve special mention because these are each well-detailed and comprehensive, and provide an excellent guide to the relevant laws and procedures for each country.

This book presents a compendium of the IP laws (and related and ancillary laws) of all the African countries, important court decisions, relevant IP procedures, and trade mark and copyright infringement matters. Special attention has been given to the problem of counterfeit goods and anti-counterfeit measures in the African countries.

The book provides not only a background to the different situations (and some of the problems) of the IP legal enforcement systems in various African countries but also provides a comprehensive guide and an essential companion for persons involved or interested in the field of IP law in Africa.

The authors are notable experts in this field of law in Africa, and have certainly shared their knowledge, expertise and insights in this book with its readers. It is a valuable contribution to the IP legal profession and practice, and a fund of sound knowledge and information to IP owners and all interested persons. This book will invariably become a reference work in the Africa IP arena in years to come, and it is accordingly highly recommended.

Andre van der Merwe
Is a retired patent and trade mark attorney with 45 years' experience as practitioner in both patents, trademarks, and unlawful competition. He acted as a senior adjudicator in various domain name disputes since the inception of such adjudications in 2007.



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The following judgments were reported late 2020 to February 2021

Labour law — Dismissal — Negligent handling of employer's intellectual property — Employee wrongfully distributed intellectual property of one of employer's main clients, Wesbank, to acquaintance — Also took insufficient care when he downloaded a volume licence key which authorised computer program to be used on large number of computers — As team leader working with software applications, employee required to observe a high standard of care in dealing with intellectual property under his control — Employee's also potentially caused reputational harm to employer in that Wesbank could have concluded that its intellectual property is not in safe hands — Court concluding that although not acting wilfully, his negligence and carelessness meriting dismissal. *EOH Abantu (Pty) Ltd v Commission for Conciliation, Mediation and Arbitration* Labour Appeal Court case No JA4/18, Murphy AJA, 2019 August 15, 7 pages. JDR Serial No 0005/2021.

Patent — Inventiveness — Inventive step — What constitutes — Australian mining technology company (GroundProbe) seeking to prevent South African company (Reutech) from selling vehicle-mounted radar system (slope stability monitoring system) to predict wall collapses in open-cut mining — Commissioner of Patents, in infringement claim by GroundProbe, upholding Reutech's counterclaim for revocation based on obviousness — GroundProbe's claimed its invention was to mount system that was usually put in trailer hitched to a bakkie, on top of bakkie — Claiming also that invention consisting of combination of elements to be examined as a whole — Supreme Court of Appeal agreeing with Commissioner of Patents that only conceivable candidate for inventive step emerging from GroundProbe's claims, namely putting slope-monitoring radar on a bakkie, not constituting an inventive step because militaries have been putting radar on vehicles since World War II — Court emphasizing that not public interest that patents be granted indiscriminately where so-called inventions not really inventions at all — Appeal dismissed — Patents Act 57 of 1978, s 25(1). *GroundProbe (Pty) Ltd and Another v Reutech Mining and Others*, Supreme Court of Appeal case No 1226/2019, 26 February 2021 (Ponnan JA), 14 pages. JDR Serial No 413/2021.

Trademark — Distinctiveness — SOUL, SOUL FOOD and SOUL SOUVLAKI in relation to restaurants — Burgers and Greek food — Applicant, Golden Fried Chicken (Pty) Ltd, using SOUL and SOUL food in branding and registered them as trademarks — Respondents, Soul Souvlaki (Pty) Ltd, owning restaurants selling souvlaki under name SOUL SOUVLAKI — Whether constituting infringement of applicant's trademark — Confusing similarity alleged — Court pointing out that public perception key — No similarity in offerings of parties — Souvlaki's use of the word 'soul' cannot affect the distinctive character or repute of Golden's marks — Golden cannot contend that only it has the right to exploit the culture and meanings associated with the words 'soul' and 'soul food' — Fact that both parties have restaurant businesses not providing basis for inference of confusion or deceptive similarity — No likelihood of confusion found — No infringement — Counter application for removal also dismissed—Trade Marks Act 194 of 1993, s 34(1)*(a)* and *(c)*. *Golden Fried Chicken (Pty) Ltd v Vlachos and Another* Gauteng Local Division case No 4923/2018, Yacoob J, 20 October 2020, 23 pages. JDR Serial No 2373/2020.

Trademark — Distinctiveness — SWATCH and IWATCH — Applicant Swatch Inc opposing respondent Apple Inc's registration of IWATCH mark on ground that it is confusingly similar to Swatch's SWATCH mark — Swatch contending that there are obvious similarities in that both marks consist only of letters, employ no logos or other distinguishing matter — High Court finding against Swatch that not confusingly similar — On appeal, Supreme Court of Appeal making visual, aural and conceptual comparison of marks — SCA pointing out that while ubiquity and durability of both brands might give rise to implicit assumption of distinctiveness, this was not comparison contemplated by authorities — Court to compare marks themselves, and not permit anything external to intrude upon the process of comparison — Once common descriptor 'watch' removed from equation, little left to conclude that there was conceptual similarity between marks — Apple arguing that likelihood of confusion diminished by Apple's establishment of family of i-prefix marks — Supreme Court of Appeal ruling that there was no likelihood of confusion or deception was robust even without regard to evidence that IWATCH would form part of a family of i-prefixed trade marks — Appeal accordingly dismissed. *Swatch AG (Swatch SA) v Apple Inc* Supreme Court of Appeal case No 1320/2018, Unterhalter AJA (Wallis JA, Mocumie JA, Makgoka JA and Gorven AJA concurring), 29 January 2021, 11 pages. JDR Serial No 0095/2021.