Keep the Trade Mark Assignment Baby When Throwing Out the Bathwater

by Dr. Owen Dean

Nature of a Trade Mark

A "trade mark" is defined in the Trade Marks Act, No. 104 of 1953, as a mark used or proposed to be used in relation to goods or services for the purposes of distinguishing trader's goods or services from the same kind of goods or services provided by another. A trade mark is thus in essence the "fingerprint" of the producer of the goods or services so as to enable that producer to signify to the world at large that the goods or services in question are his or have a trade connection with him.

Traditionally and under the common law a trade mark is part, or a component, of the goodwill of the business in which the trade mark is used. A trade mark is but one element of the goodwill of a business, i.e. that which gives a business its attractive force to customers or clients. The trade mark does not have a separate existence outside, and separate and distinct from, the goodwill of the business of which the goods or services identified by the trade mark are a part. A common law trade mark, acquired by means of extensive use, can thus be assigned or transferred to another along with, and as part of the goodwill of the proprietor’s business.

Registered Trade Mark A Chattel

A registered trade mark is the product of statutory law, i.e. a so-called "creature of statute". Statutory trade mark law creates an item of property, viz. a registered trade mark, which can have a separate existence apart from the goodwill of the business in which it is used. In so doing, the legislature has made a registered trade mark a commercial chattel which can be sold and disposed of by its proprietor separate from the goodwill of the business. For instance, the registered trade mark Coca-Cola in respect of soft drinks is an item of intangible property which could be sold by its proprietor, the Coca-Cola Company, to another trader, for instance, PepsiCo Inc, even though the Coca-Cola Company retains its business in the production of soft drinks. The trade mark Coca-Cola is in this situation in effect plucked out of the business of the Coca-Cola Company and transferred to PepsiCo Inc while the Coca-Cola Company continues to produce soft drinks under its other trade marks and may even retain the formula for the production of its product hitherto sold under the trade mark Coca-Cola.

Assignment of Registered Trade Marks

As a consequence registered trade marks are frequently bought and sold as items of property separate and apart from the businesses with which they have been associated. The transfer of a registered trade mark is achieved in law by means of a written Deed of Assignment which is required to be executed by the assignor. Transfers of ownership of registered trade marks are generally recorded in the Register of Trade Marks but the transfer of the ownership of the trade mark in question is not brought about by registration. Registration of the transfer or assignment of the trade mark merely records in a formal manner that the legal transaction brought about by the written Deed of Assignment has taken place.

Under trade mark law, it is not a requirement for the coming into being of a valid assignment or transfer of ownership of a registered trade mark that a purchase price or consideration...
should be paid by the assignee to the assignor. Indeed, it frequently happens that for purposes of reorganisation of group company structures, tax considerations, settlement of disputes as well as for a variety of other causes that an assignment or a transfer of a registered trade mark can take place for no value.

A typical example of where an assignment of a registered trade mark may take place in a perfectly legitimate manner for no consideration or value is the following: Company A is an international company with trading interests throughout the world. It authorises Company B, which may be a South African subsidiary or an arms length trading partner, to register one of its trade marks in South Africa in Company B’s name. Company B may, for instance, manufacture the goods under which the trade mark is sold in South Africa pursuant to the prescriptions of Company A. In the interests of good trade mark management and in order to consolidate the ownership of its trade mark in one entity, Company A may cause Company B to assign and transfer the ownership of the relevant trade mark to it, i.e. Company A; thereafter Company A grants a licence to Company B to continue using the trade mark. Very little if anything changes in practice but Company B, instead of being the trade mark proprietor in South Africa, is now a licensee under the trade mark owned by Company A. In this situation it is most unlikely, and would be unusual, for Company A to pay any consideration to Company B for the transfer of the ownership of the trade mark.

Another example is where a South African company misappropriates a well known foreign trade mark as happened a few years ago with the trade mark McDonald’s. In this situation the foreign trade mark proprietor frequently enters into litigation with the local interloper and the outcome could be that the local company transfers the ownership of the South African registered trade mark to the true foreign proprietor. Such a foreign proprietor is generally loath to pay money to recover that which is rightfully his.

**Intervention of Exchange Control**

Where an assignment of a registered trade mark takes place between two South African companies or entities, the matter is a straightforward one. The two parties enter into a Deed of Assignment in terms of which the first party assigns and transfers the ownership of the trade mark to the second company and that company applies to the Registrar of Trade Marks to record change in the ownership of the trade mark in the Register of Trade Marks. Many transactions of this nature are entered into on virtually a daily basis. A complication however, occurs when the assignor of the trade mark is a South African company and the assignee is a foreign company. In this situation ownership of the trade mark, i.e. a South African registered trade mark, passes from a South African company to a foreign company. Under trade mark law, there are no problems and the law recognises the validity of such an assignment in exactly the same way as it would in the case of both parties being South African companies. The rub is that in terms of exchange control legislation the assignment of the registered trade mark from the South African company to a foreign company is required to be approved by the Exchange Control Authorities. If no such approval is sought, or granted, the transaction, i.e. the Deed of Assignment, is unlawful and in the view of our court, invalid and unenforceable. This means that, notwithstanding the will of the parties that the transfer of the ownership of the trade mark should take place, there is in law and in fact no transfer of rights.

Exchange control is regulated by the Currency and Exchange Act, No. 9 of 1983. The South African Exchange Control Regulations promulgated in terms of Section 9 of the Act prohibits a person, except with the approval of the Treasury, from entering into an agreement
in terms of which capital or any right to capital is, directly or indirectly, exported from the Republic. For the purposes of these regulations a registered trade mark is considered to be "capital" more particularly in that ownership of a registered trade mark entails the power to receive royalties for the use of the trade mark. When a South African company assigns a South African registered trade mark to a foreign entity, it "exports" that capital directly or indirectly from the Republic. The right to receive royalties arising from the use of the trade mark is transferred to a foreign based person.

**Invalidity of Assignment to Foreigner**

For the present purposes a registered trade mark can be equated to a patent in respect of an invention. A patent, like a registered trade mark, is a statutorily created item of property. Also like a registered trade mark, a patent has a propensity to attract the payment of royalties for the use of its subject matter. In the case of Lindsey Covey & Another v Red Dot International (Pty) Ltd, Case No. 21306/2001 in the Witwatersrand Local Division of the High Court of South Africa – unreported, where an assignment of a South African patent had taken place between a South African propietor and a foreign assignee, and no exchange control approval had been obtained, the court held that the Deed of Assignment was invalid and null and void. There is no doubt that the court would have reached the same conclusion in the case of the assignment of a South African registered trade mark. The effect of this judgement is that it is law in South Africa that an assignment of a South African registered trade mark entered into without the permission of the Exchange Control Authorities is unlawful and can give rise to a criminal prosecution of the assignor. Moreover, the purported assignment does not have the desired effect of transferring the ownership of the trade mark from the assignor to the assignee. Despite the assignment, the ownership of the trade mark remains vested in the assignor.

This position has been little known or appreciated in the past and hundreds if not thousands, of assignments of registered trade marks from South African companies to foreign companies without exchange control approval have taken place in the past, all of which are invalid. In many instances, the initial foreign assignee may well have executed further assignments of the trade mark to third parties and those onward assignments are equally invalid because the assignee purporting to grant transfer of the rights was not himself vested with the rights. It is an elementary principle of property law that someone cannot pass onto another greater rights to an item of property than he himself holds. This is a serious state of affairs for there are numerous registered trade marks which purport to be owned by various parties, who may have granted licences under those trade marks and have received royalty payments, when in fact the trade marks are owned by other parties. Similarly, trade mark infringement cases may have been pursued and won by persons purporting to be trade mark proprietors when indeed they held no valid right to the trade marks in question.

**Exchange Control Approval**

What the exchange control regulations envisage is that a South African trade mark proprietor wishing to grant assignment of a registered trade mark to a foreign company must make a prior application to the Reserve Bank for permission to enter into the assignment. As a general rule, the Reserve Bank requires that fair value must be paid by the assignee to the assignor for the acquisition of the ownership of the trade mark. If this is the case, approval for the assignment of the trade mark will normally be given. However, as mentioned above, there are various situations in which an assignment of a South African
trade mark to a foreigner will take place in circumstances where no value is paid. Whether or not the Reserve Bank will be willing to grant approval in such cases depends to a large extent on the facts of each particular case. There can, however, be no certainty that such approval will be granted. The view has been expressed in certain quarters that, where the assignment of a South African trade mark to a foreigner is purported to be made without the authority of the Reserve Bank, the transaction is not automatically void, but is rather voidable, and this means that the shortcoming in the validity of the assignment can be repaired by obtaining exchange control approval after the event. On this construction, purported assignments that have taken place can be rescued or cured by the obtaining of subsequent exchange control approval. Whether the granting of such a subsequent approval will obviate the purported assignor from being prosecuted for a criminal offence is perhaps another matter: From the point of view of regularising past potentially invalid assignments it is to be hoped that the court would take the view that the defective assignments can be cured by subsequent validation by means of obtaining exchange control approval, but this was not the case in the Lindsey Covey matter.

Addressing the Problem

The situation as described above creates a very serious problem. By virtue of the invalidity of unauthorised assignments of South African trade marks to foreigners there are probably literally thousands of trade marks on the Register of Trade Marks which are not owned by the parties which are stated in the Register to be the proprietors of the trade marks. This in itself creates enormous legal uncertainty. Furthermore, there are undoubtedly a large number of international transactions which have been entered into in relation to which registered trade marks form an important part, but which are of dubious validity and enforceability. This compounds the legal uncertainty. Moreover, by virtue of the function of a trade mark as indicating the origin of goods in a particular party, many trade marks are probably invalid because they are misleading in that the party indicated in the Register of Trade Marks to be the proprietor is indeed not the proprietor in law and the trade marks are not being used by or with the authority of the legal proprietors. These trade marks might be liable to cancellation and this could lead to the loss of valuable items of property. It is not an exaggeration to say that chaos can occur in the Register of Trade Marks and there can be severe international repercussions as a result of this situation and of the concomitant invalidity of many international trading transactions. The current state of the South African economy and the strong desire on the part of the South African Government to attract foreign investment and to instil confidence in South Africa in foreign business circles can ill afford a crisis like this.

It is submitted that this undesirable situation should be rectified as a matter of priority. The way in which this can be achieved would be for the Government to pass legislation, preferably by way of an amendment to the Trade Marks Act (as well as to the other intellectual property statutes), providing that, whatever other consequences may flow as a result of non-compliance with exchange control procedures, the omission to obtain prior exchange control approval for the assignment of a registered trade mark from a South African company to a foreign company does not render the assignment invalid, and is deemed not to have rendered invalid unauthorised assignments in the past. A measure such as this would rectify the substantive trade mark law problem which has been described above, but at the same time would leave the Exchange Control Authorities and the State free to take whatever action they consider to be appropriate against wrongdoers-
who breach, or have breached, the exchange
control regulations when executing trade
marks assignments in favour of foreigners.

Furthermore, when approaching the
question of granting approval for an
assignment of a registered trade mark, the
Reserve Bank must be mindful of the peculiar
nature of a trade mark as an item of property
and the way and circumstances in which
assignments of trade marks take place. It
should not adopt a dogmatic approach of
insisting on monetary value being given as a
consideration for an assignment. Streamlined
approaches and procedures must be adopted to
obtain approval. In the past it has on occasion
taken six months or more to obtain an
approval.

The alternative would be to abolish the
requirement for exchange control approval for
the assignment of a registered trade mark.
Indeed there is a strong argument that
requiring exchange control approval for the
assignment of a registered trade mark to a
foreigner is in breach of South Africa’s
obligations under the Agreement on
Trade-Related Aspects of Intellectual Property
Rights (TRIPS Agreement), a treaty
administered by the World Trade Organisation.
We do not want to come into conflict with this
organisation and its members!

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