IN THE HIGH COURT OF SOUTH AFRICA /ES

(NORTH GAUTENG HIGH COURT, PRETORIA)

CASE NO: 44835/08

DATE: 17/2/2010

DELETE WHICHEVER IS NOT APPLICABLE
(1) REPORTABLE: YES/~~NO~~.
(2) OF INTEREST TO OTHER JUDGES: ~~YES~~/~~NO~~.
(3) REVISED.

10/2/2010
DATE
SIGNATURE

IN THE MATTER BETWEEN

OILWELL (PTY) LIMITED	APPLICANT
AND	
PROTEC INTERNATIONAL LIMITED	1ST RESPONDENT
PROTEC AUTO CARE LIMITED	2ND RESPONDENT
REGISTRAR OF TRADE MARKS	3RD RESPONDENT

JUDGMENT

PRINSLOO, J

[1] In this application, essentially for certain declaratory relief, Mr Dunn SC, assisted by Ms Joubert, appeared for the applicant and Mr Ellis SC appeared for the first and second respondents. The third respondent did not take an active part in the proceedings.

Background and Brief Synopsis

[2] The applicant, a South African company, was previously the proprietor of various trade mark registrations and applications for the mark PROTEC ("the PROTEC marks") in South Africa and abroad.

[3] During 1985, the applicant commenced manufacturing and selling auto motive engine fuel additives (such as lubricants, fuel line cleaners and oil boosters) under the trade mark PROTEC. The products were sold world-wide and, in time, various distributors were appointed in other countries. The applicant registered its PROTEC trade mark in various European countries, as well as in South Africa and the USA.

[4] In 1997, an agreement ("the 1997 Incorporation Agreement") was entered into between four individuals. They were Anthony Elgar Saville ("Saville"), Vernon Meier, Michael Robert Smith and Werner Urban. Saville and Meier were directors of the applicant and Smith and Urban were previous distributors of the PROTEC products in Europe.

It appears that Saville, at all relevant times, was resident in California in the United States of America. Meier stayed in South Africa, Smith in the United Kingdom and Urban in Germany.

[5] The underlying motive for entering into this 1997 Incorporation Agreement appears from the preamble:

> "Having evaluated the world-wide marketing and sales possibilities for this product, the parties have decided to form a new joint company between them and it is their intention to pool relevant and necessary assets and resources to develop further the sales potential of this product."

"The product" means the range of engine additive products referred to.

[6] The "new joint company" was duly incorporated as PROTEC International Ltd (the first respondent) and it was at all relevant times registered in Guernsey.

[7] In order to define the assets of the new joint company (the first respondent) the parties, in clause 4.1 of the 1997 Incorporation Agreement, agreed "to transfer their shareholdings in any Controlled Company (as appropriate) and shall procure that any Controlled Company shall transfer or assign their or its entire assets and business relating to the Product carried on respectively by them prior to the date of signature of this Agreement to the Joint Company". A "controlled company" is a company in which any of the parties holds a majority shareholding or exercises substantial control over its business activity or assets.

Clause 4.2 is designed to define more closely the assets which each of the parties would transfer to the new joint company. It also specifies assets which are excluded from the obligation and which do not have to be transferred.

In the case of Smith and Urban, for example, they had to transfer "the user rights in relation to the Trade Mark pursuant to assignment of the exclusive licence previously granted in favour of MLF Knowles". They also had to transfer their shareholdings in some of the distributors of the product.

"The Trade Mark" is defined as "the trade mark 'PROTEC' or colourably similar marks registered or in the course of registration in any jurisdiction or supranationally in the name of any party or any controlled company including all user rights in respect of the Trade Mark".

In the case of Saville and Meier they, for example, had to transfer "all intellectual property rights of whatsoever nature in the trade mark owned by 0ilwell (Pty) Ltd" and "the distribution arrangements and all rights in the trade mark held by PROTEC USA Incorporated throughout North, Central and South America".

[8] Perhaps of some significance for purposes of this application, clause 4.3 reads as follows:

> "The parties acknowledge that the matters envisaged in clause 4.2 may (as appropriate) be conditional on requisite consents and approvals being obtained from relevant national Revenue and other authorities and each agrees promptly to apply for and to use his best endeavours to obtain all such consents and approvals. However nothing herein shall require any

party to effect any such transfer where this may be illegal under any applicable national law."

("Clause 4.3 of the 1997 Incorporation Agreement.")

It should be noted that these, rather cryptically described "consents and approvals", would be applied for and obtained by the four parties to the agreement. No obligation in this regard was placed on the first respondent or, for that matter, on the second respondent.

[9] Clause 11 of the 1997 Incorporation Agreement provides for the considerations due to the four gentlemen in exchange for the transfers they had undertaken to make to the joint company: Saville would get 25% of the shares of the joint company "to be held by Additive Distributors Ltd" as beneficial owner thereof, Smith would get 25%, Urban would get 25% and Meier would also get 25% "to be held by Additive Distributors Ltd as beneficial owner thereof ..." The new joint company (first respondent) would issue appropriate share certificates.

The new joint company would be financed from the reserves generated in the course of the Business which means the manufacture, purchase, marketing, promotion and sales of the Product throughout the world to be undertaken by the Joint Company.

[10] Pursuant to the 1997 Incorporation Agreement, and to give full effect thereto, the "1998 Assignment Agreement" was entered into on 4 July 1998, more than a decade before this application was launched in September 2008.

The assignment of the trade mark to the first respondent was the subject of the 1998 Assignment Agreement.

The joint "Assignor" consisted of the four gentlemen who were parties to the 1997 Incorporation Agreement as well as the applicant company, another company known as 0ilwell Manufacturing (Pty) Ltd, PROTEC USA Incorporated of California and Euro-0il Ltd of West Midlands, England.

"The Assignee" was the first respondent with registered office in St Peter Port, Guernsey, Channel Islands.

[11] The 1997 Incorporation Agreement is also mentioned, as is the intention to give effect thereto.

[12] In the preamble it is certified that the Assignor "is the proprietor and beneficial owner of the registered trade marks particulars of which are set out in part I of the schedule hereto". It is also certified that the Assignor has applied to register trade marks set out in part II and there is a reference to community trade marks described in part III.

Part I lists no less than thirteen PROTEC marks registered in Germany, Switzerland, Austria, France, Italy, the USA, South Africa, Indonesia, Israel, the UK and Argentina. The applicant, 0ilwell (Pty) Ltd, is listed as the proprietor of most of them but there are other proprietors too, including PROTEC USA Incorporated and Euro-0il Ltd. The registration dates range from 1987 to 1995.

[13] 0f the thirteen PROTEC marks, only one is a South African trade mark. The applicant is the proprietor, and the mark is "PRO TEC LOGO". The number is 87/10281 and it was registered on 15 December 1987. This is the only mark which features in the notice of motion, to which I shall refer later. The marks listed in part II are Australian and German marks with foreign proprietors and I do not consider it necessary to deal with the community trade marks mentioned in part III.

[14] The actual assignment is described as follows:

> "In pursuance to the said agreement the Assignor does hereby assign and transfer with full title guarantee all right, title and interest in the Trade Marks, including all statutory and common law rights attaching thereto and the right to sue for past infringements and to retain any damages obtained as a result of such action, to the Assignee.

The Assignor confirms that this assignment is made with the goodwill attaching to the Trade Marks and the goodwill of the business in which the Trade Marks have been used by the Assignor."

[15] The Assignor also gives the following guarantee:

"The Assignor warrants to the Assignee as follows in respect of each of the registered Trade Marks:

3.1 that all renewal fees due in respect of the registrations have been paid;

3.2 <u>that the Assignor is unaware of any infringement of the registration of any of them or of any reason why any registration may be capable of being expunged from any Register of Trade Marks for any reason whatsoever;</u>

3.3 <u>that there are no circumstances known to the Assignor arising out of this or any earlier Assignment which may result in the use of the Trade Marks being liable to mislead the public;</u>

3.4 that save in respect of the Licence the Assignor has not given any other person any permission to use any of them."

(Emphasis added.)

("The warranty in the 1998 Assignment Agreement").

[16] The 1998 Assignment Agreement is silent on the "requisite consents and approvals" mentioned in clause 4.3 of the 1997 Incorporation Agreement.

[17] By all accounts, the 1997 Incorporation Agreement and the 1998 Assignment Agreement were duly implemented in all respects, and the first respondent, as proprietor of the trade marks continued to conduct the business for almost ten years, until, in August 2007, it assigned the trade marks to the second respondent. Until shortly before the commencement of these proceedings, the South African registration (no 1987/10281 PROTEC) was still recorded in the name of the first respondent. According to the deponent to the opposing affidavit on behalf of the first and second respondents, the assignment was then still in the process of being recorded in the name of the second respondent. Nothing turns on this.

[18] It seems that a considerable amount of enmity was generated between the applicant on the one side (in effect, Saville) and the first and second respondents before this application was launched by the applicant.

In the founding affidavit, Saville glibly, and in passing, refers to the "demise of the relationship between the applicant and the first respondent" but the deponent to the answering affidavit on behalf of the first and second respondents, Mr William Thomas Stout, a director of both the companies, is far more outspoken. He says the following:

"7.2 After the assignment of the various trade mark rights included in annexure AS4 (note: this is the 1998 Assignment Agreement) to the founding papers, Saville and his cohorts embarked on a deliberate and concerted campaign to compete unlawfully with PROTEC. This unlawful campaign may synoptically be described as non-payment of trading accounts, trade mark violations, gross interference with the business of PROTEC, passing off and unlawful competition in a number of jurisdictions. As a consequence of this conduct on the part of, *inter alia*, Saville and 0ilwell, PROTEC has been compelled to seek relief in various jurisdictions to interdict, *inter alia*, Saville and 0ilwell from certain unlawful conduct. To avoid prolixity I do not annex hereunto the full applications brought by PROTEC in this regard, but I annex hereto marked ... an order granted by His Lordship Mr Justice Kirk-Cohen on 11 April 2002 in terms of which, *inter alia*, Saville and 0ilwell were interdicted and restrained from unlawfully competing with PROTEC and from infringing PROTEC's rights in trade mark no 87/10281. To my knowledge, Saville and 0ilwell have repeatedly flouted this order;

Furthermore, Saville has a raft of court orders against himself personally in the United States of America and I annex hereto marked ... a bundle of such orders granted by various American courts. Saville has also repeatedly been found in contempt of court in America and has also been declared bankrupt in that jurisdiction.

7.4 I respectfully submit that it is against this background that the present ill-conceived ploy on the part of Saville and 0ilwell should be seen. It is an opportunistic attempt by Saville to regain intellectual property which was legitimately transferred to PROTEC and in respect of which the trade marks were assigned to 0ilwell in consideration for shares in PROTEC International Ltd issued to a company, (the shares of which, to the best of my knowledge are owned by Saville) namely Additive Distributors Ltd ..."

[19] The "opportunistic attempt by Saville to regain intellectual property which was legitimately transferred to PROTEC" is the present application, to which I shall shortly refer in greater detail.

[20] Stout then proceeds to attach the relevant court order containing the interdict referred to as well as other court papers including a "restraining order and injunction" against Saville, issued by a court in Tennessee, USA, *inter alia* restraining Saville from "manufacturing, selling, distributing and actively inducing others to manufacture, sell, or distribute, within the United States or from any location within the United States, any additive or other automotive product displaying the PROTEC trade mark name or logo, which trade mark name or logo are owned by the plaintiff ..." The plaintiff in that case is the first respondent.

[21] In a replying affidavit, Saville does not dispute these allegations, but he states that the parties and their various companies have been involved in litigation regarding the PROTEC mark in many jurisdictions around the world. Some cases he won and some he lost. His conduct, held against him by the first respondent and some of the foreign courts, was the result of the fact that he still believed that he was the owner of the relevant intellectual property. Details of this "belief" manifested themselves in the launching of the present application.

[22] Before turning to the relief claimed and the disputes between the parties, I point out that the jurisdiction of this court over the first respondent, a Guernsey company, and the second respondent, a United Kingdom company, has been confirmed by virtue of an attachment of shares owned by the first respondent in a company in Pinetown, and the attachment of the trade mark registration no 1987/10281 PROTEC owned by the second respondent. This was properly done on the authority of court orders issued by this court and the Durban and Coast Local Division. Nothing further turns on this.

The relief claimed, and the disputes between the parties

[23] Briefly stated, the applicant's case amounts to the following:

1. Regulation 10(1)(c) of the Exchange Control Regulations, 1961, as promulgated by *Government Notice R1111* of 1 December 1961 and

issued in terms of section 9 of the Currency and Exchanges Act, 1933 (Act no 9 of 1933) ("the Exchange Control Regulations") reads as follows:

> "10(1) No person shall, except with permission granted by the Treasury and in accordance with such conditions as the Treasury may impose –
>
> (a) ...
>
> (b) ...
>
> (c) enter into any transaction whereby capital or any right to capital is directly or indirectly exported from the Republic."

2. The assignment of the trade marks (and, for present purposes, particularly the South African trade mark 1987/10281 PROTEC) in terms of the 1998 Assignment Agreement amounted to such a "transaction whereby capital or any right to capital was directly or indirectly exported from the Republic".

3. It is common cause that no permission to enter into such transaction was granted by the Treasury as intended by the requirements of regulation 10(1) prior to the transaction being entered into (or thereafter, for that matter).

4. Because the transaction was illegal, in the sense that it was entered into in contravention of regulation 10(1)(c), it is null and void, *ab initio* so that

the trade mark was, in law, never assigned to the first respondent and is still the property of the applicant.

6. In the result, the applicant crafted the first two prayers of the notice of motion as follows:

> "1. Declaring the Assignment Agreement entered into between the applicant and the first respondent on 4 July 1998 to be void *ab initio*;
>
> 2. Directing the third respondent to rectify the Register of Trade Marks in terms of section 24 of the Trade Marks Act to reflect the applicant as the proprietor of trade mark registration no 1987/10281 PROTEC."

There is also a prayer for costs, in the event of the application being opposed.

[24] The respondents offer the following arguments *in limine* in their opposing affidavit:

1. The cause of action is based upon an alleged "debt" as intended by the Prescription Act 68 of 1969. The debt arose, on the applicant's version, as at the date of the assignment, namely 4 July 1998 and would have become prescribed, in terms of section 11(d) of the Prescription Act, three years after the date of assignment.

2. The application is bad for non-joinder because some of the parties to the 1998 Assignment Agreement, who have an interest in the outcome of this application, have not been joined as parties. They include Saville, Meier, 0ilwell Manufacturing (Pty) Ltd, PROTEC USA Incorporated, Urban, Smith, Euro-0il Ltd and PROTEC International Ltd.

[25] As to the second point *in limine*, the question of the non-joinder, the applicant, in reply, alleged that all these parties that were not joined were duly consulted and indicated that they were aware of this application and were not interested in joining in the proceedings. Verifying affidavits on behalf of all these parties were attached to the replying affidavit.

Mr Ellis, correctly in my view, did not press this issue any further during his address. I do not recall Mr Ellis expressly abandoning this argument, but, in my view, the initial non-joinder was adequately cured by the applicant, although belatedly, as I described.

[26] As to the defence of prescription, I, at the outset, considered that this issue had to be decided one way or the other before the merits of the case could receive attention, but I was ultimately persuaded by counsel that I would have to consider the merits, and particularly the question as to whether or not the assignment falls to be declared null and void, before the question of prescription can be properly adjudicated upon. I will revert to this issue at a later stage.

[27] As to the merits of the application, the defence offered by the respondents is twofold:

1. the assignment did not amount to a transaction as intended by regulation 10(1)(c), so that there was no contravention of the Exchange Control Regulations and no need to obtain Treasury permission; alternatively
2. if it is held that there was such a contravention, the Assignment Agreement is not rendered null and void, *ab initio*, as a result of such contravention.

Did the 1998 Assignment Agreement, entered into without prior Treasury approval, constitute a contravention of regulation 10(1)(c)?

[28] It is convenient to quote the wording of regulation 10:

> "10(1) No person shall, except with permission granted by the Treasury and in accordance with such conditions as the Treasury may impose-
>
> (a) export from the Republic during any period of twelve months a total quantity of goods which exceeds in value R20,00 or such greater amount as the Treasury may determine, if-
>
> (i) no payment for such goods has been or is to be received in the Republic from a person outside the Republic; or
>
> (ii) such goods are exported at a price which is less than the value thereof; or

(iii) the period within which payment for such goods is to be made exceeds six months from the date of shipment from the Republic or such shorter period as an authorised dealer may determine in respect of such goods;

(b) take out of the Republic goods, including personal apparel, household effects, and jewellery which have a value in excess of R600,00 or of such greater amount as the Treasury may determine;

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

(2) The provisions of subregulations (3), (4) and (5) of regulation 3 shall apply *mutatis mutandis* to goods referred to in subsection (1)(b) of this regulation.

(3) For the purposes of this regulation 'value' shall mean the value for customs purposes as defined in section 108 of the Customs Act, 1955 (no 55 of 1955)."

[39] It is also of relevance, in my view, to take note of regulation 22 which is the penalty provision:

"22. Every person who contravenes or fails to comply with any provision of these regulations, or contravenes or fails to comply with the terms of any notice, order, permission, exemption or condition made, conferred or imposed thereunder, or who obstructs any person in the execution of any power or function assigned to him by or under these regulations, or who makes any incorrect statement in any declaration made or return rendered for the purposes of these regulations (unless he proves that he did not know, and could not by the exercise of a reasonable degree of care have ascertained, that the statement was incorrect) or refuses or neglects to furnish any information which he is required to furnish under these regulations, shall be guilty of an offence and liable upon conviction to a fine not exceeding R250 000,00 or to imprisonment for a period not exceeding five years or to both such fine and such imprisonment: Provided that where he is convicted of an offence against any of these regulations in relation to any security, foreign currency, gold, bank note, cheque, postal order, bill, note, debt, payment or goods, the fine which may be imposed on him shall be a fine not exceeding R250 000,00, or a sum equal to the value of the security, foreign currency, gold, bank note, postal order, bill, note, debt, payment or goods, whichever shall be greater."

[50] The regulations contain definitions for, for example, "bond", "financial assistance", "foreign currency", "gold", "goods", "money" and "security".

[51] With reference to the provisions of regulation 10(1)(c), on which the application is based, there are no definitions for "transaction", "capital" or "exported".

[32] According to submissions made by counsel for the respondents, there is no reference, anywhere in the regulations, to intellectual property. I accept the submissions to be correct.

[33] The long title of the Currency and Exchanges Act no 9 of 1933, in terms of which the regulations were promulgated, reads as follows: "To amend the law relating to legal tender, currency, exchanges and banking."

There does not appear to be a formal preamble to this Act.

What is plain, is that there is nothing in the long title which appears to remotely have a bearing on intellectual property.

[34] By all accounts, the applicant was inspired to move this application as a result of the findings in *Couve & Another v Reddot International (Pty) Ltd & Others* 2004 6 SA 425 (W) ("Couve").

I find it convenient to summarise details of this judgment by referring to the headnote, and the relevant passages from the main text as listed in the headnote.

In *Couve*, the plaintiffs sought specific performance of a written agreement in terms of which the one defendant was to assign its rights in and to certain patent applications to another defendant, and was also to issue and allot certain shares to some of the defendants and the first and second plaintiffs. The fourth defendant, to which shares were also to be allotted, was a company incorporated in the British Virgin Islands and stood to be allocated 60% of the shareholding in the particular (first) defendant.

The defendants excepted to the particulars of claim as disclosing no cause of action as the agreement upon which they sought judgment was void *ab initio* and unenforceable because it contravened the provisions of regulation 10(1)(c).

The learned judge held, at 430E-H, 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. As authority for this proposition, the learned judge relied on the words of A N 0elofse, *Suid-Afrikaanse Valutabeheerwetgewing* 1st edition (1991) at 63-70, where he says, *inter alia*:

> "Regulasie 10(1)(c) is baie wyd bewoord. Dit verbied die aanvang van enige transaksie (sonder die Tesourie se toestemming) wat tot gevolg sal hê dat kapitaal of enige reg op kapitaal regstreeks of onregstreeks vanuit die Republiek uitgevoer word. Die woord 'kapitaal' word nêrens in die regulasies omskryf nie, en die regspraak bied ook nie eintlik hulp in hierdie verband nie. Al wat reeds uitdruklik in hierdie verband beslis is, is dat geld wel 'kapitaal' is [sien *S v De Castro* 1979 2 SA 1 (A) 21H, en vergelyk *S v Runds* 1978 4 SA 304 (A)]. In hierdie beslissings word nie onderskei tussen geld wat van 'n kapitale aard of nie van 'n kapitale aard is

> nie, soos bedoel in die omskrywing van 'bruto inkomste' in die Inkomstebelastingwet 58 van 1962. Die wel bekende betekenis van die woord 'kapitaal' vir doeleindes van die Inkomstebelastingwet help 'n mens dus nie by die uitleg van regulasie 10(1)(c) nie. Beskou teen die agtergrond van die algemene doel van die Valutabeheerregulasies blyk dit dus of 'kapitaal' op enigiets met 'n geldelike waarde betrekking het."

The learned judge went on to find, at 431I-J, that an agreement in terms of which shares were issued and allotted to a person or entity outside the Republic was one whereby capital was exported, whether directly or indirectly, from the Republic and, as such, contravened regulation 10(1)(c).

I interpose to record the issue before me, does not involve the question whether the allotment of shares contravened regulation 10(1)(c). It purely involves the question whether the assignment of the trade mark by the applicant, a South African company, to the first respondent, a Guernsey company, constituted a contravention of regulation 10(1)(c). I pointed out earlier in this judgment that in terms of the 1997 Incorporation Agreement, shares in the first respondent would be allotted to the four gentlemen who were parties to the 1997 Incorporation Agreement. The shares would not emanate from South Africa or a South African company.

[33] The learned judge held further, at 430H-I and 433C, that the rights in and to the patent applications themselves had a monetary value and were thus "capital". It was also held that the net effect of the agreement was therefore the export of the rights in and to the patent applications, in contravention of regulation 10(1)(c) – at 433D-G.

[34] It was held that the agreement contravened regulation 10(1)(c) on a further basis: allied to the fourth defendant's rights in and to 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 the Republic – at 432D-J.

Although the 1998 Assignment Agreement makes no specific mention of royalties, it should be noted that it records that the trade mark is assigned and transferred "with full title guarantee all right, title and interest in the Trade Marks including all statutory and common law rights attaching thereto and the right to sue for past infringements and to retain any damages obtained as a result of such action, to the Assignee". The 1998 Assignment Agreement also stipulates that the assignment is made with the goodwill attaching to the trade marks and the goodwill of the business in which the trade marks have been used by the Assignor.

[37] In *Couve*, the learned judge then goes on to find that in all the circumstances the agreement which contravened regulation 10(1)(c) was null and void – at 438H-I.

I interpose again to record that the dispute before me does not concern the cession or transfer of rights in and to patent applications, but only the assignment of trade marks.

[38] It is fair to state that the applicant's arguments before me were based almost entirely on what was found in *Couve*.

[39] The applicant also relied, to some extent, on findings made by BERTELSMANN, J in *Pratt v First Rand Bank Ltd & Another* [2004] 4 All SA 306 (T). That case did not involve the transfer or assignment of intellectual property. In that sense, it is in my view distinguishable from the present dispute. The plaintiff had entered into an agreement of loan with the first defendant and alleged that portions of the agreement, namely a suretyship, a cession and a pledge, had been concluded in contravention of regulations 3(1)(e) and 10(1)(c). She alleged that as a result the transaction was null and void *ab initio*. The relevant funds, which were to be paid to a close corporation of which the plaintiff was the sole member, were intended to be used to purchase the balance of shares in a private company in which the plaintiff had a 30% shareholding. The 70% shareholding was at the time held by a trust in the Isle of Man. The trust had bound itself as surety, in terms of the loan agreement, and had ceded and pledged

investments in an offshore account, to the first defendant. The plaintiff contended, successfully, that the total effect of the agreements was the export of capital out of the Republic without the approval of the Treasury in contravention of the regulations. The learned judge also held, at 316b-h, that the agreement was null and void *ab initio*. For this conclusion, he also relied on the judgment in *Couve* – at 316f-g.

It appears that in certain follow-up proceedings before another judge of this division, the finding that no Treasury permission had been obtained was overturned and the latter finding was upheld on appeal – see *Pratt v First Rand Bank* 2009 2 SA 119 (SCA). I do not believe that, for present purposes, the last-mentioned judgment can be of much assistance in arriving at the correct conclusion. I will, however, return to some of the remarks made by the learned judge in the first *Pratt* judgment when he dealt with the issue of whether or not agreements in contravention of the regulations are null and void.

[40] Counsel on behalf of the respondents also referred me to *Southern Witwatersrand Exploration Co Ltd v Bisichi Mining* 1998 4 SA 767 where, at 771D-E reference is made to a situation where a South African company ceded part of its royalties to a London based company in contravention of regulations 3 and 10. This did not involve intellectual property.

[41] In *Fethard International Ltd v Rwayitare* [2004] JOL 13151 (W) it was also held by JAJBHAY, J, who also presided over the *Couve* case, that a scheme whereby the defendant was to have paid the plaintiff, a South African based architectural firm, for work performed by the firm in an offshore account in the Isle of Man from funds which were held in offshore accounts either in Switzerland or Brussels was an agreement in contravention of regulation 10(1)(c). This finding was upset in a judgment by the full bench of the WLD (as it then was) in case no A5052/05 which appears to have remained unreported.

[42] Against this background, it seems that the only South African reported judgment dealing with intellectual property in the context of regulation 10(1)(c) is *Couve*.

[43] It was argued on behalf of the respondents that, notwithstanding the decision in *Couve*, it was not necessary for Treasury approval to have been sought and granted in respect of the transfer of the intellectual property that is in issue in this matter.

Even though *Couve* deals with rights in and to patents, as opposed to the question of the assignment of trade marks, it was accepted, on behalf of the respondents, that the submissions made on their behalf would also apply to the transfer of rights in and to patents. I express no firm view in this regard, but I deal with the arguments offered on behalf of the respondents.

[44] It was submitted on behalf of the respondents that in order to determine whether or not the assignment of a patent or a trade mark can constitute an export of capital (for the purpose of regulation 10) one must look at the rights vesting in the patentee by virtue of the patent and then assess whether any of these rights move out of the Republic (are "exported") by virtue of the agreement. It was argued that the nature and effect of a South African patent, and thus its value and consequent possible categorisation as "capital", has a bearing on the operation of section 45(1) of the Patents Act no 57 of 1978 which, under the heading "effect of patent", reads as follows:

> "(1) The effect of a patent shall be to grant to the patentee in the Republic, subject to the provisions of this Act for the duration of the patent, the right to exclude other persons from making, using, exercising, disposing or offering to dispose of, or importing the invention, so that he or she shall have and enjoy the whole profit and advantage accruing by reason of the invention."

(The emphasis is that of the respondents.)

[45] The argument was developed further by a submission that it is trite that trade mark rights are also purely territorial. Whilst no authority was placed before me in this regard, I find it useful to refer to the following words by the learned authors Webster and Page: *South African Law of Trade Marks* 3rd edition p85:

> "In the light of the foregoing, a question which pertinently arises is whether, having regard to the fact that a trade mark is, in the present state

> <u>of the law, a purely territorial concept,</u> there is anything to prevent a person from asserting a proprietary right in a trade mark in relation to which no one else has <u>in the same territory</u> asserted a similar right." (Emphasis added.)

This question was answered in the negative by BOSHOFF, J, as he then was, in *P Lorillard Co v Rembrandt Tobacco Co Ltd* 1967 4 SA 353 (T) at 356H-357D.

[46] It was with this territorial concept in mind, that it was submitted on behalf of the respondents that a patent (and a trade mark) thus entitles the patentee to nothing more than the right to exclude others from a forbidden field, namely the South African market in the claimed invention or the use of the trade mark. The value of a patent is a result of the patentee's control of this forbidden field. Every issue pertaining to the patent or trade mark – from its origin to its expiry – is determined under South African law, with exclusive jurisdiction of a South African court in respect thereof. It was further argued that to the extent that the patent itself is the "capital" in question, it is clear that all rights in and to this capital exist entirely in the Republic of South Africa alone, and are incapable of being exported.

[47] A further submission in this regard was that it is not correct to assume that the assignment of a patent or a trade mark gives any foreigner control over the South African market in an invention or trade mark so that the movement of this control

is effectively an export of "capital". That is because the control exists and is exercised in the Republic. 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 in this regard on behalf of the respondents was the sale of a home in South Africa to a foreigner. The purchase does not result in the export of capital. The seat of the capital, ie the home, remains in South Africa.

This line of reasoning offered by the respondents, was countered as follows by counsel for the applicant: the regulations are not focused on where the right can be exercised or enforced (as a matter of law), but rather where the proceeds generated by the exercise of their right can be earned (as a matter of fact). In the course of the 1998 Assignment Agreement, the capital (being the trade mark registrations as such) <u>and</u> the right to the capital, previously held by a local company, were removed from the country to an entity in a foreign country. Any revenue earned or proceeds acquired from the capital asset or the right to capital will now be earned in Guernsey and no longer in South Africa.

In the course of their argument, counsel for the applicant also emphasised what they consider to be an important distinction between the wording of regulation 10(1)(c) (already quoted) and the wording of regulation 3(1)(c).

Because regulation 3 will be referred to again later in this judgment, it is convenient to quote the whole of regulation 3(1):

"3(1) Subject to any exemption which may be granted by the Treasury or a person authorised by the Treasury, no person shall, without permission granted by the Treasury or a person authorised by the Treasury and in accordance with such conditions as the Treasury or such authorised person may impose –

(a) take or send out of the Republic any bank notes, gold, securities or foreign currency, or transfer any securities from the Republic elsewhere; or

(b) send, consign or deliver any bank notes, gold, securities or foreign currency to any person for the purpose of taking, sending or removing such bank notes, gold, securities or foreign currency out of the Republic; or

(b)*bis* take any South African bank notes into the Republic or send or consign any such notes to the Republic; or

(c) make any payment to, or in favour, or on behalf of a person resident outside the Republic, or place any sum to the credit of such person; or

(d) draw or negotiate any bill of exchange or promissory note, transfer any security or acknowledge any debt, so that a right (whether actual or contingent) on the part of such person or any other person to receive a payment in the Republic is created or transferred as consideration –

(i) for the receiving by such person or any other person of a payment or the acquisition by such person or any other person of property, outside the Republic; or

(ii) for a right (whether actual or contingent) on the part of such person or any other person to receive a payment or acquire property outside the Republic;

or make or receive any payment as such consideration; or

(e) grant any financial assistance to any person in the Republic, where as security for such financial assistance, the person granting the financial assistance in turn relies on any security, guarantee, undertaking or financial assistance, directly or indirectly furnished by-

(i) any person resident outside the Republic; or

(ii) an affected person;

(f) grant any financial assistance to any person in the Republic, where such person-

(i) is not resident in the Republic; or

(ii) is an affected person."

[45] Regulation 3 was promulgated under the heading: "Restriction on the export of currency, gold, securities, etc, and the import of South African bank notes."

Regulation 10 was promulgated under the heading: "Restriction on export of capital."

In terms of regulation 10(2), the provisions of regulations 3(3), 3(4) and 3(5) shall apply *mutatis mutandis* to goods referred to in regulation 10(1)(b) (already quoted). These subregulations of regulation 3 relate to the duty to declare the position of relevant articles to port authorities, the duty to produce such offending articles on request, rights of seizure, rights to search possible offenders and the question of forfeiture for the benefit of the National Revenue Fund any bank notes, gold, etc which the offender attempted to unlawfully remove from the Republic.

[49] The distinction between regulation 3(1)(c), as quoted, and regulation 10(1)(c), as quoted, is, according to counsel for the applicant, that:

> "It is the mere entering into the transaction, aimed at a certain consequence (ie the export of the capital from the Republic), which – unless duly consented to – becomes legally punishable. In other words, it is not necessary for the actual export to have taken place before regulation 10(1)(c) … can be said to have been contravened."

In the context of the opposing arguments, *supra*, about whether or not the assignment of a patent or trade mark amounts to the exporting of capital as intended by regulation 10(1)(c), counsel for the applicant now argue that this difference in wording is relevant because the fact that no physical exportation of the capital in question is required, underlines the argument that it is possible that capital (in the sense of a trade mark or patent registration) can be exported, even though the right to enforce the trade mark or patent remains valid only in the country in which it is registered.

I, with respect, consider this to be a somewhat artificial argument: the transaction prohibited in terms of regulation 10(1)(c) must still be aimed at the export of capital. I fail to see how this perceived difference in wording, such as it is, can meaningfully contribute to the decision as to whether or not the mere assignment of a trade mark constitutes a contravention of regulation 10(1)(c) if it was done without Treasury permission.

[50] Returning to the main contesting arguments, *supra*, I am of the view that there is much to be said for the approach advanced on behalf of the respondents namely that the fact that a foreign entity becomes entitled to exercise rights in the Republic, does not mean that these rights have been exported. The territorial nature of the right seems to me to be decisive. The complaint advanced on behalf of the applicant that "any revenue earned or proceeds acquired from the capital asset or the right to capital will now be earned in Guernsey and no longer in South Africa", seems to me to relate not to the assignment of the trade mark itself, but to the fruits or profits generated by the business conducted under the protection of the trade mark. If it becomes necessary or desirable, once some or other profit

had been generated, to transfer the proceeds to Guernsey, it may become necessary to obtain Treasury permission as, for example, intended by the provisions of regulation 3(1)(a), (b) or (c), *supra*. Such permission will become necessary, not only if the proceeds of the sale of engine additives protected by a trade mark are to be transferred out of the country, but if such bank notes, gold, securities or foreign currency are to be transferred out of the Republic for any other reason whatsoever. This state of affairs, in my view, does not mean that the assignment of a trade mark to an overseas entity *per se* constitutes a contravention of regulation 10(1)(c).

Perhaps an even more persuasive argument advanced on behalf of the respondents is that the learned judge in *Couve* 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).

I have pointed out that intellectual property is nowhere mentioned in the regulations as a whole. "Capital" is not defined in the regulations. The long title of Act 9 of 1993 pronounces the purpose of the Act "to amend the law relating to legal tender, currency, exchanges and banking".

On a general reading of, for example, regulations 3 and 10, one is left with the impression that they are aimed at controlling the movement of currency, financial instruments, precious metals and the like within a system of authorised currency exchange. Regulation 10(1)(b) also refers to "goods, including personal apparel, household effects and jewellery". The penalty clause, regulation 22, refers to "security, foreign currency, gold, bank note, cheque, postal order, bill, note, debt, payment or goods". "Goods" is only defined as including "any immovable goods or security". I have pointed out that the regulations contain definitions for financial instruments such as "bond", "foreign currency", "gold", "money" and "security". None of these definitions or collections of instruments listed in these regulations come anywhere near dealing with intellectual property.

The *Concise 0xford Dictionary*, at p136 of the 7th edition, describes "capital" as "stock with which company or person enters into business; accumulated wealth especially as used in further production".

In the *HAT (Verklarende Handwoordeboek van die Afrikaanse Taal)* 5th edition on p527 "kapitaal" is given the following descriptions:

"1. geldsom wat belê is om rente te verdien ...

2. aanvanklike noodsaaklike bedrag wat in 'n handelsonderneming gesteek word wat duursame winste moet oplewer ... vermoë, geldelike besitting ... groot som geld ... in die ekonomie, goedere wat nie vir verbruik nie, maar vir produksie van ander goedere bestem is, dit wil sê produktief gebruik moet word ..."

In the present context, it seems that the capital would rather relate to the business of selling additives under the protection of the trade mark than to the mere assignment of the trade mark itself.

[52] Against this background, and in the specific context of these Exchange Control Regulations, the whole range of financial instruments and currency items therein identified (to the total exclusion of intellectual property) and the long title of the empowering Act, I have come to the conclusion, and I find, that to interpret regulation 10(1)(c) as including the assignment of a trade mark, amounts to an approach that is too expensive and broad, and, consequently, an approach that is erroneous.

[53] I am of the view that this conclusion is fortified by the existence of a rule of interpretation of statutes which dictates that where a contravention is visited by a penalty (in the present instance, in terms of regulation 22, a fine of R250 000,00 or five years imprisonment or both) the wording of the prohibition must be narrowly and strictly interpreted.

[54] I find it convenient to quote a few extracts from a discussion on this subject in L C Steyn *Die Uitleg van Wette* 5th edition (1981) p111:

> "(iii) Verbods- en strafbepalings
>
> In *Holl Cons* word die reël vermeld dat by strafbepalings die strengste betekenis van die woorde aangeneem moet word: '*in*

poenis strictissima verborum significatio accipienda est' (my note: this expression, according to Hiemstra and Gonin, *Trilingual Legal Dictionary*, 2nd edition p213 means: 'In the case of penal laws the strictest interpretation of their terms should be accepted.')

Volgens *Glück* bestaan billikheid by die toepassing van wette onder andere daarin dat die regter by kriminele gevalle meer geneig is om vry te spreek as om te veroordeel, en die straf eerder versag as verswaar. In *Nieuw Nederlandsch Advysboek* word aangevoer dat wat nie by 'n verbodsbepaling uitdruklik en in soveel woorde (*expresse et totidem verbus*) verbied word nie, geoorloof bly.

Aan hierdie sienswyse is herhaaldelik deur ons howe gevolg gegee ...

In *R v Ackerman* 1931 OPD 69 word daarop gewys dat 'A section creating a criminal offence should not lightly have its final scope extended beyond the plain meaning of its language', terwyl in *R v Taweel & Another* 1937 TPD 389 in verband met 'n sekere strafbepaling verklaar word: 'If there is a reasonable interpretation which will avoid the penalty in any particular case the Court should adopt that construction.'

Hieraan word in *R v Oberholzer & Others* 1941 OPD 60 toegevoeg dat 'In the interpretation of a penal provision it is not competent for the Court to extend the meaning of words so as to cover crimes of an equal atrocity or of a kindred character.'"

[55] The following is also stated by J R de Ville, *Constitutional and Statutory Interpretation* at p198:

> "Penal provisions or provisions interfering with the liberty of individuals are as a rule restrictively construed (in the case of ambiguity), in other words, in favour of the accused or individual."

[56] It was submitted to me on behalf of the respondents that there is no law which explicitly requires Treasury approval for a transfer of intellectual property rights from a South African to a foreigner as a condition of the validity of such transfer.

[57] It was also submitted on behalf of the respondents that at common law, and also in terms of the Patents Act, no 57 of 1978, and in terms of other intellectual property laws, intellectual property rights are freely transferrable, also in respect of foreigners. See, for example, sections 59 and 60 of the Patents Act and sections 39 and 40 of the Trade Marks Act, no 194 of 1993.

[58] There is also a reference in the opposing affidavit to certain terms of the Trade Related Aspects of Intellectual Property Rights Agreement ("TRIPS"), which has been duly domesticated into South African law (see, *inter alia*, the Intellectual Property Laws Amendments Act, Act 39 of 1997). This agreement, *inter alia*, provides that there shall be no discrimination against foreigners in respect of their power to acquire intellectual property rights in South Africa.

[59] In the opposing affidavit it was also emphasised, as I already mentioned, that in the empowering statute and the regulations under discussion there is no provision requiring approval for international transfers of intellectual property rights. 0n behalf of the respondents it is emphasised that the regulations have no explicit reference to, or mention of intellectual property rights, even though they are quite lengthy and deal with subject-matters in great detail.

[60] What should not be overlooked, is a relatively recent (November 2006) amendment to an *Exchange Control Manual* published by the Treasury which was presumably introduced as a result of the judgment in *Couve*. This manual was referred to by both sides during the proceedings before me. The following passage is found in module K of the *Exchange Control Manual* dated November 2006 (which is, of course, some eight years after the transaction now under attack was concluded):

> "4.3.2 Disposal of patents, copy-rights, trade marks, franchises and/or intellectual property in general

> The disposal of any of the aforegoing requires prior Exchange Control approval. Applications should be supported by the agreement or contract of sale. If not evident therefrom, a clear explanation of how the values were arrived at must accompany the application."

Counsel from both sides conceded that this *Exchange Control Manual* has no legal status and therefore is a mere internal guideline, and not the source of any legislative powers for discretion.

In any event, as it was quite rightly contended on behalf of the respondents, even if it did have legal force, this requirement would not apply in respect of the assignment under debate, which preceded its "enactment" by some eight years, in view of the presumption against retrospectivity.

It was also contended on behalf of the respondents that the drafters of these Exchange Control Regulations never considered intellectual property at all. It was submitted that commercial sense, in any event, suggests the contrary, namely that regulation 10(1)(c) was not intended to apply to intellectual property rights because the commercial impact of such application would obviously be restrictive of trade and industry.

[62] In view of the aforegoing, I have come to the conclusion that the applicant has failed to make out a case for its contention that the 1998 Assignment Agreement, without prior Treasury approval, constituted a contravention of regulation 10(1)(c).

[63] It should also be borne in mind that the declaratory relief, *supra*, as crafted in prayer 1 of the notice of motion, is only aimed at declaring the Assignment Agreement between the applicant and the first respondent to be void *ab initio*. As I pointed out earlier in this judgment, there were at least two other proprietors listed in part I of the Assignment Agreement namely PROTEC USA Incorporated and Euro-0il Ltd. The Assignment Agreement, in part I thereof, also lists nine other trade marks of which the applicant was the proprietor in a number of countries including Germany, Switzerland, Austria, France, Italy, Indonesia, Israel and the United Kingdom. No case is made out in the papers with regard to those marks. Moreover, in part II of the Assignment Agreement, pending trade mark applications in the name of two other proprietors, based in Australia and Germany respectively are listed. Part III contains applications for community trade marks by two proprietors including the applicant.

The relief for rectifying the Register of Trade Marks, only involves the South African mark 87/10281, let alone the seven marks listed in part II and part III of the Assignment Agreement schedule.

It is also appropriate, in my view, to quote the wording of paragraph 8.4 of the founding affidavit:

> "8.4 The applicant requires a declaratory order so that, on the strength of such an order, applications may also be made to the various relevant foreign trade mark registries to have the recordal of any purported assignment to the First or Second Respondents reversed."

I am alive to the fact that the other members of the Assignor group, listed in the Assignment Agreement, indicated by affidavit, *supra*, that they do not wish to be joined as parties to this application.

Nevertheless, if the relief, as prayed for, were to be granted, it may also have an impact on the nine other marks, listed in part I, *supra*, with the applicant as proprietor but registered in a host of foreign countries. If the Assignment Agreement between the applicant and the first respondent is to be declared null and void, the status of these last-mentioned marks, must also, in my view, inevitably be affected. The foreign registries may also have an interest in the matter. Although this issue was not canvassed in the papers or in argument before me, I feel obliged to express serious reservations, without formally pronouncing on the issue, as to whether it is competent to grant the declaratory relief, as prayed for, on a piecemeal basis as illustrated.

[64] Inasmuch as it can be argued that the conclusion I have arrived at as to the contravention, or lack thereof, of regulation 10(1)(c), is in conflict with the findings of the learned judge in *Couve*, I, respectfully, decline to follow that judgment, for the reasons mentioned.

[65] On the assumption that my conclusions may be wrong, and that there was indeed a contravention of regulation 10(1)(c), it is necessary to turn to the alternative defence offered on behalf of the respondents, *supra*, namely that such a contravention, if there was one, did not render the 1998 Assignment Agreement null and void *ab initio*.

Would a contravention of regulation 10(1)(c), for lack of prior Treasury approval, have rendered the 1998 Assignment Agreement null and void *ab initio*?

[66] In *Couve* it was held, at 438D, that the mere fact that a contravention of regulation 10(1)(c) is visited with a criminal sanction, does not detract from the intention of the legislature to render a transaction concluded in contravention thereof to be null and void. The learned judge then went on to hold, at 438H-I, that the particular written agreement in that case, which had been held to contravene the provisions of regulation 10(1)(c), was null and void.

[67] It appears that a question of this nature must be decided by attempting to apply the correct interpretation of the statutory prohibition.

A useful discussion on the subject is to be found in J R de Ville, *Constitutional and Statutory Interpretation* paragraphs 2.3.2, 2.3.3 and 2.3.4 on pp261-264.

At 261, the learned author puts it as follows:

> "The question arises in this context whether the sanction imposed is a sufficient 'punishment' for non-compliance and whether the legislature also wished to provide for invalidity in the case of non-compliance. In answering this question the purpose of the legislation is to be considered as well as the mischief that the legislature wished to remedy. It needs to be asked whether the purpose of the legislation will be achieved by invalidating the action concerned or whether the imposition of the (penal) sanction will suffice in obtaining this purpose. If (the provision is couched in positive form and) no sanction is added if the requirements are not met, the provision will usually be regarded as being directory only."

The learned author then refers to some reported judgments on the subject. In *Pottie v Kotze* 1954 3 SA 719 (A) it was, for example, held that it had not been the legislature's intention to punish non-compliance with the requirements of a traffic ordinance with a fine as well as declaring the transaction null and void. The ordinance, in that case, was couched in peremptory terms – see the judgment at 723C-E. It was held that the transaction could not be said to be void due to non-compliance. Another example quoted by the learned author is the case of

Kuhne & Nagel (Pty) Ltd v Elias & Another 1979 1 SA 131 (T) where the question was whether the non-compliance with section 61(3)(b) of the Deeds Registry Act no 47 of 1937 (which provided, in peremptory terms, that every notarial bond shall disclose the place where the debtor resides) would lead to the nullity of the bond. It was held that although the word "shall" was used, if one had regard to the consequences of determining the provisions to be peremptory grave injustice could result if the bond was held to be invalid – see the judgment at 134G-H.

In the same judgment, at 133F-H, the learned judge said the following:

> "The use of the word 'shall' and the word 'moet' in the Afrikaans version is a strong indication, in the absence of considerations pointing to another conclusion, that the legislature is issuing a statutory command and intends disobedience to be visited with nullity. See *Sutter v Scheepers* 1932 AD 165 at 173. In the last-mentioned case, WESSELS JA suggested certain useful guides, which were not intended to be exhaustive, to test whether provisions are peremptory or directory:
>
> 'If a provision is couched in a negative form it is to be regarded as peremptory rather than as a directory mandate, but this is not conclusive.
>
> If a provision is couched in positive language and there is no sanction added in case the requisites are not carried out, then the presumption is in favour of an intention to make the provision only directory.

If, on a consideration of the scope and objects of the provision, it is found that its terms would, if strictly carried out, lead to injustice, and even fraud, and if there is no explicit statement that the act is to be void if the terms are not complied with, or if no sanction is added, then the presumption is rather in favour of the provision being directory.'"

(Emphasis added.)

[58] On a general consideration of these authorities, it seems to be clear that one of the guidelines to be applied in order to decide whether nullity was intended by the legislature in enacting a particular prohibition, is whether the consequences of such a declaration of nullity would lead to grave injustice. As the learned author, *De Ville, op cit* at p262, puts it:

> "A finding of invalidity may in certain instances lead to greater inconvenience and impropriety than the prohibited act itself."

This was also illustrated in the passage from *Kuhne, supra*, quoting *Sutter v Scheepers, supra*:

> "... if, on a consideration of the scope and objects of the provision, it is found that its terms would, if strictly carried out, lead to injustice, and even fraud, and if there is no explicit statement that the act is to be void if the terms are not complied with ..."

It also appears that the question whether or not a penalty for non-compliance was imposed is not conclusive. As *De Ville, supra*, puts it at 261:

> "The question arises in this context whether the sanction imposed is a sufficient 'punishment' for non-compliance and whether the legislature also wished to provide for invalidity in the case of non-compliance."

In *Pottie, supra*, a penalty was imposed, yet it was held that non-compliance did not render the transaction null and void. In *Kuhne*, the same conclusion was arrived at, in a case where no penalty was imposed.

The following useful summary of this question is found in L C Steyn, *Die Uitleg van Wette*, 5th edition p198:

> "(5) Waar die bepalings van die wet, as hulle streng uitgevoer moes word, tot onreg en selfs bedrog sou lei, en geen uitdruklike nietigheidsbepaling en geen sanksie bygevoeg is nie, dan is die vermoede ten gunste van 'n geldigheidsbedoeling. Vir sover hierdie stelling nie deur die verwysing na 'n sanksie vertroebel word nie, druk dit eintlik maar net dieselfde gedagte uit wat ons by *Voet* en ander skrywers vind, naamlik dat ons tot 'n uitsonderingsgeval van geldigheid kan konkludeer waar nietigheid groter ongerief en meer onwenslike gevolge (waarby seker onreg, bedrog, benadeling van derdes, ens inbegryp kan word) tot gevolg sou hê as die verbode of afwykende handeling self. In *Eastern*

> *Transvaal Garage v Harland* 1950 2 SA 778 (T) word op grond van die oorwegings deur *Voet* genoem, geldigheid aangeneem, ondanks die bestaan van 'n strafbepaling."

The reference to *Voet* (1.3.16) is found at 781 of the *Eastern Transvaal Garage* judgment:

> "But that which is done contrary to law is not *ipso-jure* null and void, where the law is content with a penalty laid down against those who contravene it. ... The reason of all this I take to be that in these and the like cases greater inconveniences and impropriety would result from the rescission of what was done, than would follow the act itself done contrary to the law."

[69] In the instant case, the Exchange Control Regulations, as far as I can make out, contain no explicit statement that the relevant Act is to be void if the terms are not complied with. The penalty imposed is a steep one (R250 000,00 or five years or both) and one would, in my view, tend to conclude that the legislature intended the sanction imposed as a sufficient "punishment" for non-compliance and that the legislature did not also wish to provide for invalidity in the case of non-compliance – to quote the phrases used by *De Ville, supra.*

On a further consideration of these guidelines, it is clear, in my view, that a grave injustice would result if the 1998 Assignment Agreement were to be declared to be null and void *ab initio*: the agreement was concluded more than eleven years ago. A great deal of business activity would have been conducted over that period on the strength of the assignment by the Assignee, the first respondent. Since the assignment, the present applicant, and/or Saville himself, was or were interdicted by this court and others from passing off the trade mark. Years after the assignment, the first respondent, in turn, assigned the trade marks to the second respondent, who continued trading in the relevant protected products on the authority of the last-mentioned assignment. Certain legal consequences would have resulted from these activities and certain rights would have been established (so much so that the applicant, in paragraph 8.4 of the founding affidavit, *supra*, expresses the need to apply to various relevant foreign trade mark registries to have the recordal of the assignment "to the first or second respondents" reversed). This is the very applicant, which, as part of the "Assignor", issued the following guarantee, *supra*, when entering into the 1998 Assignment Agreement which it now wishes to nullify:

> "The Assignor warrants to the Assignee ... that the Assignor is unaware of any infringement of the registration of any of them or of any reason why any registration may be capable of being expunged from any Register of Trade Marks for any reason whatsoever ..."

To aggravate the grave injustice which, in my view, would flow from a declaration of invalidity, it appears that there is no duty on the applicant to tender any form of restitution in exchange for the return of the intellectual property – see

Laco Parts (Pty) Ltd t/a ACA Clutch v Turners Shipping (Pty) Ltd 2008 1 SA 279 (W) at 284C-E, where it was also held that the only remedy might be an enrichment action. Such a claim, after eleven years, might be very difficult to quantify and enforce.

[70] It is against this background, that I find myself in complete and respectful agreement with the approach adopted by KRIEK, J in *Barclays National Bank Ltd v Brownlee* 1981 3 SA 579 (D&CLD). This case did not involve the assignment of intellectual property, but it involved the contravention of regulation 3(1)(e) of the Exchange Control Regulations.

The full text of regulation 3(1) has already been quoted, *supra*, but it is convenient to repeat the relevant portion:

> "Subject to any exemption which may be granted by the Treasury or a person authorised by the Treasury, no person shall, without permission granted by the Treasury or a person authorised by the Treasury and in accordance with such conditions as the Treasury or such authorised person may impose –
>
> ...
>
> (e) make a loan or grant credit to any person in the Republic, or guarantee such loan or credit, where, as security for the repayment of the loan or credit, the lender or guarantor relies on any security,

> guarantee or undertaking, explicit or implied, furnished by a person or persons resident outside the Republic."

Of course, contravention of this regulation is also subject to the penalty provision in regulation 22.

The issue before the learned judge was also whether or not contravention of this regulation rendered the underlying agreement null and void.

The learned judge revisited the relevant authorities, some of which, including *Pottie v Kotze, supra*, I have dealt with. The learned judge also carefully considered some of the *dicta* in *Swart v Smuts* 1971 1 SA 819 (A) where it was held that a deed of sale allegedly entered into in conflict with section 23(1)(b) of Act 28 of 1966 is not, because of such conflict, void or voidable. The learned judge of appeal revisited the relevant principles, *inter alia* with reference to *Sutter v Scheepers, supra*, and *Pottie v Kotze, supra*, at 829C-H. He said the following at 829H:

> "As 'n strafbepaling of soortgelyke sanksie ten opsigte van 'n oortreding van die statutêre bepaling bygevoeg word, dan ontstaan natuurlik die vraag of die wetgewer dalk volstaan het met die oplegging van die straf of sanksie dan wel daarbenewens bedoel het dat die handeling self as nietig beskou moet word."

At 830C, after revisiting *Pottie v Kotze*, the learned judge of appeal said:

> "Nog 'n belangrike oorweging wat hier ter sprake kom is die feit dat nietigheid soms groter ongerief en meer onwenslike gevolge ('greater inconveniences and impropriety' – soos die gewysdes dit stel) kan veroorsaak as die verbode handeling self."

KRIEK, J then applied these principles to the regulations in question generally, and to regulation 3(1)(e) in particular. He listed a number of relevant considerations at 583A-584H. He noted that the regulations do not provide expressly that such an agreement is null and void so that its fate consequently depends upon what the legislature intended it to be. He noted that the regulation is couched in imperative terms – without the necessary permission or exemption "no person shall ... make a loan or grant credit ..." He noted the substantial nature of the penalty (in those days only R10 000,00 or five years imprisonment or both) and pointed out that the penalty prescribed by regulation 22 applies to all contraventions of these regulations and that the offence of contravening regulation 3(1)(e) does not appear to be one of the most serious of these contraventions. He also noted as a relevant factor that such an agreement is not altogether prohibited but can validly be concluded provided permission or exemption is granted.

The learned judge also pointed out that the object of the regulations is –

> "... to control foreign exchange in the public interest, not to grant a selective moratorium to a particular class of defaulting debtors."

(Per STEYN, CJ in *Nestel v National & Grindlays Bank Ltd* 1962 2 SA 390 (A) at 395-396.)

In this regard I find the following remarks by C J Steyn *Die Uitleg van Wette* 5th edition p198, where he deals with the guidelines to be applied when deciding whether or not invalidity was intended by the legislature, informative:

> "(8) By voorskrifte waarvan dit die oogmerk is om staatsinkomste te verseker, word 'n nietigheidsbedoeling, selfs waar 'n strafbepaling bygevoeg is, nie veronderstel nie: 'It is a well-recognised rule of construction that the mere imposition of a penalty for the purpose of protecting the revenue does not invalidate the relative transaction' (*McLoughlin NO v Turner* 1921 AD 537)."

Returning to KRIEK, J, in *Brownlee*, he also pointed out, at 584A, that there may well be agreements or transactions which are covered by these regulations which will be held to be void if their provisions are not complied with. However, concerning the agreement envisaged in regulation 3(1)(e), he concluded, after a careful analysis, that the objects of the regulations do not require the avoidance of such agreements entered into without the necessary permission or exemption. The learned judge then revisited the *dicta* in *Standard Bank v Estate van Rhyn* 1925 AD 266 at 274 where, *inter alia*, the earlier quoted words of *Voet 1.3.16* was also dealt with.

KRIEK, J then pointed out, from 584H-585C, that he regarded the case in question as an instance of such "greater inconveniences and impropriety" resulting from holding the agreement in question to be null and void. He concluded by holding that

> "I am persuaded that in relation to regulation 3(1)(e) 'the law is content with a penalty laid down against those who contravene it'. To hold otherwise would be 'to grant a selective moratorium to a particular class of defaulting debtors' which the legislature could not have intended to do."

[71] For present purposes, I find myself in respectful agreement with the approach adopted by KRIEK, J. From the point of view of deciding whether or not invalidity was intended by the legislature, I see no material difference between the provisions of regulation 3(1)(e) and 10(1)(c), as they apply to the facts of the two cases in question. It is clear that the parties to the 1998 Assignment Agreement did not even contemplate the possibility of contravening regulation 10(1)(c). - See, for example, *A-Team Drankwinkel BK en 'n Ander v Botha en 'n Ander NNO* 1994 1 SA 1 at 11A-E.

Indeed, it is clear from what was stated earlier in this judgment, that not even the Treasury or Reserve Bank contemplated at the time that the assignment of intellectual property would constitute a contravention of regulation 10(1)(c). It is also clear that the parties to the 1997 Incorporation Agreement, in clause 4.3 thereof, *supra*, loosely contemplated the need to obtain "requisite consents and approvals" from "relevant National Revenue and other authorities" and had no intention of contravening Exchange Control Regulations. Of course, the respondents were not parties to the 1997 Incorporation Agreement. The relationship between regulations 3 and 10 is also illustrated by the fact that regulation 10(2) prescribe that the provisions of regulation 3(3), (4) and (5) shall apply *mutatis mutandis* to the goods referred to in regulation 10(1)(b), as described *supra.*

[72] Indeed, where it appears from all the relevant facts and information, *supra*, that the Treasury (or Reserve Bank) did not even contemplate, in 1998, that the assignment of intellectual property would constitute a contravention of regulation 10(1)(c), I find it difficult to see how it can now be argued, in hindsight, that the legislature, at the time of promulgation in 1961, not only contemplated that such conduct would constitute contravention, but also intended that the contravention would be visited by invalidity!

[73] It remains to point out that both JAJBHAY, AJ (as he then was) in *Couve*, and BERTELSMANN, J in the first *Pratt* judgment, *supra*, distanced themselves from the approach of KRIEK, J in *Brownlee* – see *Couve*, at 436I and *Pratt*, at 314h-315g.

With respect, I prefer the approach of KRIEK, J for the reasons mentioned.

[74] Finally, I turn to an important judgment which was not considered in either *Couve* or the first *Pratt* judgment. It is the case of *Barclays National Bank Ltd v Thompson* 1985 3 SA 778 (AD).

[75] The case concerns a contravention of regulation 3(1)(c) which reads:

> "Subject to any exemption which may be granted by the Treasury or a person authorised by the Treasury, no person shall, without permission granted by the Treasury or a person authorised by the Treasury and in accordance with such conditions as the Treasury or such authorised person may impose –
>
> (a) ...
>
> (b) ...
>
> (c) make any payment to, or in favour, or on behalf of a person resident outside the Republic, or place any sum to the credit of such person."

[76] The chief issue raised in the appeal was summarised as follows by the learned judge at 787D-F:

> "Take the case of a plaintiff resident outside the Republic who has a claim sounding in money against a defendant who is an *incola* of the Republic. The plaintiff seeks legal redress by instituting action against the defendant in a South African court in whose area of jurisdiction the defendant is domiciled. In such circumstances does the absence of Treasury

> permission, within the meaning of regulation 3(1)(c), for payment by the defendant to the plaintiff of the amount of the latter's claim, or any portion thereof, entail any disability on the part of the plaintiff either (1) in suing the defendant or (2) in obtaining the court's judgment in the plaintiff's favour?"

In the previous decade, these two questions had arisen in a number of actions for money claims heard in provincial divisions in the country and the resultant decisions had not all been harmonious.

In the *Thompson* case, the defendant pleaded that in respect of the plaintiff's claim no permission had been granted by the Treasury for payment thereof by the defendant to the plaintiff. Accordingly, so it was averred, the plaintiff's action was barred.

About this defence, the learned judge of appeal said the following at 795F-J:

> "In my view one cannot conceive that the legislature intended to subject litigants of the class with which we are concerned to such a sweeping disability unless such a conclusion is to be gathered clearly from the explicit language of regulation 3(1)(c) or the conclusion is inevitable as a matter of necessary and distinct implication. In my view the language of regulation 3(1)(c) is not susceptible of the meaning which counsel for the defendant would assign to it. Regulation 3(1)(c) makes no reference

whatever to legal proceedings. Had the object behind regulation 3(1)(c) been to make legal proceedings an instrument for the enforcement of regulation 3(1)(c) by requiring Treasury exemption or permission as a prerequisite to an action for the payment of money by a plaintiff living outside the Republic, it would have been a simple matter so to frame it. Regulation 3(1)(c) is not so framed. Nor, in my view, can it be said that the construction for which the defendant contends is to be derived as a matter of necessary implication. Bearing in mind the purpose of the regulation there is, I consider, nothing in the language of regulation 3(1)(c) which even remotely carries such an implication. <u>Embodied in the regulations is a criminal sanction which is designed to enforce compliance therewith. The penalty prescribed for non-compliance is a stiff one. In my view the legislature was here content with the said criminal sanction as being sufficient to ensure compliance with regulation 3(1)(c).</u>"

(Emphasis added.)

I add that in those days the fine prescribed by regulation 22 was R10 000,00. It is now R250 000,00, *supra*.

The learned judge of appeal comes to the following conclusion at 796B-C:

"I am consequently of the opinion that it is open to the Court, unfettered as it is by any decision of its own, to conclude, as I do, that the obtaining of Treasury exemption or permission in terms of regulation 3(1)(c) is neither a prerequisite to the institution of an action by the plaintiff in a case such as the present, nor does its absence constitute a valid defence to the plaintiff's claim."

At 797F-H, the learned judge of appeal quotes with approval from what he describes as a "comprehensive and lucid article" by *A C Beck* in 1982(99) SALJ at 125-135:

> "To conclude: the Courts would do better to avoid concerning themselves with the effects of Treasury permission being granted or withheld. It is not really within the province of the Courts to try to weave around the requirement, and in their attempts to do so a great deal of unnecessary hardship has been caused to plaintiffs at the expense of defaulting debtors, which was certainly not intended by the legislature, whose purpose is achieved whenever the permission is given, if at all.
>
> Treasury permission has no bearing on the jurisdiction of a Court and, in fact, does not even constitute a defence to the action – it is merely a limitation on payment, which can be removed by the Treasury at any time, and there is no reason why the plaintiff should have to wait for this before obtaining judgment."

[77] I have already drawn a comparison, *supra*, between regulation 3 and regulation 10. I see no reason whatsoever to conclude that a court, faced with a

section 3 contravention, will adopt a different approach to that of a court faced with a regulation 10 contravention.

Given the approach adopted by the learned judge of appeal, I cannot see how that court, had it been faced with the present dispute, would have held that the 1998 Assignment Agreement was null and void *ab initio* for lack of Treasury approval. In my view, *Thompson* teaches us that a decision in favour of validity would be the correct one.

Conclusion

[78] The decision as to whether or not the legislature intended thc contravention of a statutory prohibition to lead to invalidity (voidness) of the contravening act, is often difficult to decide. This much appears from the authorities quoted earlier in this judgment.

[79] L C Steyn, *Die Uitleg van Wette*, 5^{th} edition from p192 discusses this subject under a separate heading "Nietigheid van Handeling in Stryd met Wetsbepaling verrig".

He introduces the subject as follows:

> "By bepalings wat die een of ander handeling verbied of wat die wyse voorskryf waarop die een of ander handeling verrig moet word, is dit dikwels nodig om vas te stel of dit die bedoeling van die wetgewer is dat

'n handeling as nietig aangemerk moet word indien dit verrig is in stryd met die verbod, of op 'n ander wyse as dié wat voorgeskryf is. Verklaar die wetgewer self uitdruklik dat so 'n handeling van nul en gener waarde is, val daar natuurlik nie verder oor die vraag te redeneer nie, maar nou gebeur dit alte dikwels dat so 'n uitdruklike verklaring nie by 'n wetsvoorskrif bygevoeg word nie. Wat is nou die posisie waar dit ontbreek?"

As I indicated, such a clear provision is also absent in the present instance.

[80] The correct approach seems to be that a court, faced with this question, must look at the merits, particular circumstances and background of each case. The well-known guidelines, which have crystallised from decided judgments and textbooks, ought to be considered and applied, or left aside, depending on what appears to be the just approach for the particular case.

[81] I can put it no better than the learned author, *L C Steyn, op cit* at 195-196:

> "Net soos ons skrywers, aanvaar ons howe nietigheid as algemene reël, onderworpe aan uitsonderings. In *Standard Bank v Estate Van Rhyn* 1925 AD 274 wys Appèlregter SOLOMON na die algemene reël, en vervolg dan:
>
> 'That as a general proposition may be accepted, but it is not a hard and fast rule universally applied. After all, what we have to get at is the intention

of the legislature, and, if we are satisfied in any case that the legislature did not intend to render the Act invalid, we should not be justified in holding that it was.'

Ter stawing hiervan verwys hy dan na *Voet 1.3.16*, (quoted earlier in this judgment) en na sy bewering dat nietigheid soms groter ongerief en meer onwenslike gevolge sou veroorsaak as die verbode handeling self.

Hierdie oorwegings deur *Voet* genoem, word in *Leibbrandt v SA Railways* 1941 AD 12 as 'n uitsonderingsgrond bevestig, met byvoeging van die volgende algemene verwysing uit die uitspraak van Lord PENZANCE in *Howard v Boddington* 2 PD 203:

'... As far as any rule is concerned, you cannot safely go further than that in each case you must look at the subject-matter; consider the importance of the provision that has been disregarded and the relation of that provision to the general object intended to be secured by the Act; and upon a review of the case in that aspect, decide whether the matter is what is called imperative or only directory.'

Beide in hierdie vonnis en in *Sutter v Scheepers* 1932 AD 173 word beklemtoon dat geen algemene en altyd geldige reël gestel kan word nie. Die vraag moet elke keer opnuut beslis word met inagneming van alle relevante oorwegings wat op die betrokke wetsvoorskrif en die nietigheid van 'n handeling in stryd daarmee verrig, betrekking het.

> 'n Volledige opsomming van hierdie oorwegings is nêrens te vind nie en kan moeilik verstrek word. In die algemeen sou wel alle interpretasiereëls en alle vermoedens en ander aanwysings wat van diens is by die uitleg van wette ook hier ter sake wees. As geldigheid of nietigheid sou lei tot 'n resultaat wat volgens bedoelde reëls, vermoedens en aanwysings, nie deur die wetgewer beoog kon gewees het nie, sou ons geldigheid of nietigheid, na gelang van die geval, moes verwerp."

The learned author then goes on, from pp196-202, to offer no less than thirteen guidelines and rules of interpretation which may possibly be applied.

[82] Against this background, and for all the reasons mentioned, I have come to the conclusion that the applicant has failed to make out a case for a finding that the 1998 Assignment Agreement is null and void, *ab initio*. I find that it is not. In the result, the application cannot succeed.

<u>Prescription</u>

[83] I undertook, earlier in this judgment, to revert to the question of prescription, raised as a defence by the first and second respondents.

[84] In argument before me, Mr Dunn, quite properly, conceded that, absent a finding of nullity, the claim must be deemed to have become prescribed.

The main thrust of his argument, if I understood it correctly, was that, where the agreement was a nullity, there was no "debt" as intended by section 11(d) of the Prescription Act, Act no 68 of 1969 that could have become prescribed.

[85] Mr Ellis, on the other hand, argued that the plaintiff's claim (to get its intellectual property back) was of a vindicatory nature and, as such, ought to be regarded as a "debt" as intended by the Prescription Act. He referred, in this regard, to *Barnett & Others v Minister of Land Affairs & Others* 2007 6 SA 313 (SCA) at 320H-321B and the authorities there quoted.

[86] In my view, there is much to be said for the submission made by Mr Ellis, so that there is room for a finding that the claim has become prescribed in any event. However, given the concession made by Mr Dunn, and my finding that the 1998 Assignment Agreement is not null and void, I need not go further than to find, as I do, that the applicant's claim has become prescribed.

<u>The order</u>

[87] I make the following order:

1. The application is dismissed.
2. The applicant is ordered to pay the costs of the first and second respondents, which will include the costs of senior counsel.

W R C PRINSLOO
JUDGE OF THE NORTH GAUTENG HIGH COURT

[illegible]

HEARD ON: 16 NOVEMBER 2009
FOR THE APPLICANT: MR E W DUNN SC ASSISTED BY MS I JOUBERT
INSTRUCTED BY: ADAMS & ADAMS, PTA
FOR THE 1ST AND 2ND RESPONDENTS: MR P ELLIS SC
INSTRUCTED BY: MARK W NIXON
FOR THE 3RD RESPONDENT: NO APPEARANCE