THE SUPREME COURT OF APPEAL OF SOUTH AFRICA

JUDGMENT

Case No: 295/10

In the matter between:

OILWELL (PTY) LIMITED	**Appellant**
and	
PROTEC INTERNATIONAL LIMITED	**First Respondent**
PROTEC AUTO CARE LIMITED	**Second Respondent**
THE REGISTRAR OF TRADE MARKS	**Third Respondent**

Neutral citation: *Oilwell v Protec* (295/10) [2011] ZASCA 29 (18 March 2011)

Coram: Harms DP, Lewis, Ponnan, Malan and Theron JJA

Heard: 08 March 2011

Delivered: 18 March 2011

Summary: Exchange Control Regulations – export of capital – trade marks not 'capital' – effect of non-compliance with regulations

ORDER

On appeal from: North Gauteng High Court (Pretoria) (Prinsloo J sitting as court of first instance):

The appeal is dismissed with costs, including the costs of two counsel.

JUDGMENT

HARMS DP (LEWIS, PONNAN, MALAN AND THERON JJA concurring)

[1] The trade mark 'Protec' (sometimes with a device) is registered in many countries but this judgment is concerned only with the South African registration (1987/10291). This word mark is presently registered in the name of the second respondent, Protec Auto Care Ltd (Auto Care), a company incorporated in the United Kingdom. The appellant, Oilwell (Pty) Ltd (Oilwell), is a local company and seeks an order for the rectification of the trade mark register to reflect Oilwell instead of Auto Care as proprietor. Oilwell relies on s 24(1) of the Trade Marks Act 194 of 1993, which, in brief, provides that in the event of an entry wrongly made in the register, or of any error in any entry in the register, any interested person may apply to court for the desired relief, which would include rectification.

[2] Oilwell wishes in effect to reverse an assignment of the trade mark, which took place during 1998, when, in terms of a comprehensive agreement between many parties this trade mark as well as the foreign Protec marks and pending trade mark applications were assigned to the first respondent, Protec International Ltd (International).

[3] During the intervening years relations between the parties (or some of them) soured. Oilwell and some associates refused to respect the rights of International

and a number of orders were made against them in the USA relating to trade mark infringement and contempt of court. Locally there is a final order granted during 2002 against Oilwell interdicting it from infringing the trade mark. On the other hand, International ran into financial difficulties and as part of what appears to be a settlement the South African trade mark was assigned to Auto Care during 2007.

[4] Oilwell discovered a judgment of Jajbhay AJ in *Couve v Reddot International (Pty) Ltd* 2004 (6) SA 425 (W). The judgment concerned inter alia the validity of an agreement to assign rights to patent applications by a South African entity to a foreign company which was entered into without the prior consent of the SA Reserve Bank, the agent of The Treasury. *Couve* held that within the meaning of reg 10(1)(c) of the Exchange Control Regulations a patent application and, a fortiori, a patent are 'capital' and that such an assignment amounts to the 'export' of capital. The regulation provides that 'no person shall, except with permission granted by the Treasury and in accordance with such conditions as the Treasury may impose . . . enter into any transaction whereby capital or any right to capital is directly or indirectly exported from the Republic.'[1]

[5] Relying on this judgment and the fact that International was registered in Guernsey, Oilwell applied during September 2008 to the Gauteng North High Court for the relief mentioned. Prinsloo J, who heard the case, came to the conclusion that *Couve* was wrongly decided, principally because intellectual property rights are not 'capital' within the meaning of the term as used in the regulation, and he dismissed the application with costs. He subsequently granted the necessary leave to appeal to this court.

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1 The whole of reg 10(1) reads as follows:
'Restriction on export of capital.
(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 twenty rand 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 six hundred rand 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.'

[6] Two main issues crystallized as the case unfolded. The first is whether the transaction was covered by reg 10(1)(c) and the second concerns the effect of non-compliance with the provision. The third, prescription, does not arise in the light of what follows. But before these issues are addressed in any detail it is necessary to refer to the empowering Currency and Exchanges Act 9 of 1933, which was adopted during the Great Depression. Its title, referring to currency and exchanges, gives a general idea of the scope of the Act, as does the long title: 'To amend the law relating to legal tender, currency, exchanges and banking.' The term 'exchanges' refers to what is better known as 'exchange rates'. This appears from the Afrikaans text which speaks of 'wisselkoerse'. Much of the Act has been repealed but the important s 9 remains. It empowers the head of state to make regulations 'in regard to any matter directly or indirectly relating to or affecting or having any bearing upon currency, banking or exchanges' (s 9(1)). This is the empowering provision under which the Regulations were promulgated.[2]

[7] Turning then to the meaning of reg 10(1)(c), Jajbhay AJ pointed out[3] that the term 'capital' is not defined and he adopted the views of Prof A N Oelofse[4] that, considering the wide wording of the provision and the general objects of the Regulations, 'capital' is anything (or everything) with monetary value. The court below, while disagreeing with this view because the interpretation did not take account of the general scheme of the Regulations in the light of the terms of the Act, did not reach any firm conclusion as to its meaning. I, too, do not intend to define 'capital' in this context comprehensively but will confine myself to the question whether trade marks are within this framework 'capital'. My conclusion will by parity of reasoning obviously apply to patents, designs and copyright.

[8] As a glance at any number of dictionaries will show, and as Latham CJ once said, 'it is impossible to say that "capital" has a single technical meaning which prima facie should be attributed to the word in any statutory provision' and that 'the significance of the word ["capital"] in a particular case depends on the context in

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2 It is debatable whether all of s 9 would survive constitutional scrutiny – and I refer specifically to s 9(3) which empowers the head of state to suspend any Act of Parliament by means of regulation – but that is by way of an aside.
3 At 430E-H.
4 *Suid-Afrikaanse Valutabeheerwetgewing* (1991) p 68-69.

which it is used.'[5]

[9] Oilwell's counsel submitted that the term 'capital' includes 'anything with a monetary value'. But when asked whether the term in the present context has been used as an economic, financial or accounting concept counsel readily accepted that it was used in a financial sense. This must be so because the Regulations are supposed to deal with matters relating to currency (banking and exchange rates, the other two matters referred to in s 9, do not feature). The *Encarta World English Dictionary* (s v 'capital') distinguishes between these meanings and states that the meaning of 'capital' in a financial context is 'cash for investment [,] money that can be used to produce further wealth'. As Chitty J explained in another context, capital is not the thing that for the time being represents capital 'in the sense of being things in which the capital has been laid out.'[6]

[10] But how does that particular dictionary definition fit in with the Regulations? Perfectly, I would suggest. It appears for instance from the definition of 'affected person' in reg 1 that the Regulations do not regard 'capital' and 'assets' as synonymous concepts, which is what Oilwell's argument boils down to.[7] 'Capital' in this definition in any event refers to share capital. It also defines the term 'goods', which includes 'any immovable goods or security' and consequently movables also. There are also other textual indications in reg 10(1) where paras (a) and (b) deal with the export of 'goods' while para (c) speaks of the export of 'capital'. This means, according to ordinary rules of interpretation, that there must be a difference between 'capital' and 'goods' and that the terms do not overlap. Further support for this interpretation is to be found in reg 11, which deals with 'capital issues' – all about raising money.

[11] Serious anomalies would arise if 'capital' in context were to mean everything with monetary value. Immovable property would then be capital and although it

5 *Incorporated Interests Pty Ltd v The Federal Commissioner of Taxation* (1943) 67 CLR 508 at 515.
6 *Lubbock v British Bank of South America* [1892] 2 Ch 198 at 202 quoted by John B Saunders *Words and Phrases Legally Defined* (3 ed, 1988) s v 'capital'.
7 '"Affected person" means a body corporate, foundation, trust or partnership operating in the Republic, or an estate, in respect of which:
(i) 75 per cent or more of the capital, assets or earnings thereof may be utilised for payment to, or to the benefit in any manner of, any person who is not resident in the Republic; or
(ii) 75 per cent or more of the voting securities, voting power, power of control, capital, assets or earnings thereof, are directly or indirectly vested in, or controlled by or on behalf of, any person who is not resident in the Republic.'

cannot be ‘exported’ the purchase of such property by a foreign company would amount to the export of the right to capital, something covered by para (c). This would be all the more so when the property is an income producing property. But it is common cause that the sale of immovable property to a foreign company is not covered by the provision. The example can be extended to movables with monetary value. A ‘foreigner’ who purchases a movable in South Africa, on Oilwell’s argument, buys a capital item and exports the right to that capital item from the Republic on leaving. This would surprise many, not only those who hawked vuvuzelas during the Soccer World Cup event but also The Treasury. These examples show that a restrictive interpretation is called for, particularly in view of the fact that any legislation that creates criminal and administrative penalties, as the Regulations do, requires restrictive interpretation.

[12] It is also useful to refer to the Afrikaans text. Since the Regulations were promulgated in English and Afrikaans at a time when these languages were on a par, the two texts have equal authority.[8] Regulation 10(1)(c) uses the term ‘kapitaal’ and ‘uitvoer’ for ‘capital’ and ‘export’. According to the authoritative Afrikaans dictionary, *Woordeboek van die Afrikaanse Taal*, the term ‘kapitaaluitvoer’ means ‘verplasing van geldkapitaal na die buiteland’ and ‘beskikbaarstelling op die lang termyn van geldmiddele aan die buiteland’ which accords with the financial meaning of ‘capital’ referred to above.

[13] Reverting to trade mark rights: like all other intellectual property rights they are territorial and akin to immovables.[9] They can therefore not be ‘exported’. But *Couve* held that the rights in patent applications include the concomitant right to receive royalties as capital.[10] This statement contains many misconceptions. A patent application creates no monopoly. It creates only a priority right and an expectation that a patent may issue. Once the patent issues – and only from the date of grant – patent rights arise.[11] The Patents Act does not mention any right to receive royalties and the ‘right’ to them would be incidental, flowing from a subsequent contract. In other words, a patent does not create a right to royalties; it is

8 L C Steyn *Die Uitleg van Wette* (5 ed) p 143 with reference to *R v Shoolman* 1937 CPD 183 at 186-187.
9 *Gallo Africa Ltd v Sting Music (Pty) Ltd* 2010 (6) SA 329 (SCA).
10 At 433B-C.
11 Patents Act 57 of 1978 ss 44 and 45.

the royalty agreement that does. The flow overseas of royalties and licence fees are in any event controlled by reg 3(1)(c) – it may not take place without The Treasury approval. And last, royalties represent earnings or income and not 'capital' in any sense of the word. This is confirmed by another aspect of the definition of 'affected person': it also distinguishes between capital and earnings.

[14] Jajbhay AJ also relied for his conclusion that royalties are 'capital' on a provision of the Income Tax Act 58 of 1962 in terms of which the acquisition of a patent or patent application is regarded as a capital expenditure and allowed as a reduction in the determination of taxable income (s 11(*g*A)). This, too, gives rise to conceptual problems. How something that is capital for purposes of income tax can determine the meaning of the word in unrelated legislation dealing with currency is not understood. In any event, the fact that the Income Tax Act regards a patent as a capital asset does not mean that royalties are capital. As a matter of fact that Act regards royalties and licence fees as 'gross income' (s 1 s v 'gross income' (g)(iii)).

[15] I therefore conclude that the court below was correct in its interpretation of reg 10(1)(c) and that the appeal must be dismissed on this ground. There is, however, another and independent reason why the appeal cannot succeed and this relates to another mainstay of the *Couve* judgment, namely the finding that the failure to obtain prior The Treasury consent for an agreement falling under reg 10(1)(c) is fatal to the agreement because it is void. Prinsloo J, in the court below, disagreed. It will be recalled in this regard that the paragraph states that no person 'shall', except with the requisite permission, 'enter into' any transaction covered by the provision. As mentioned, failure to comply may amount to a criminal offence punishable by a heavy fine of not exceeding R250 000 and/or five years' imprisonment (reg 22).

[16] It is necessary to place reg 22 in perspective. The parties to the assignment did not intend to contravene or circumvent the Regulations.[12] On the contrary, they were concerned that the envisaged transfer of the trade mark registration might be conditional on requisite approvals being obtained from relevant national revenue and other authorities, and they all agreed to apply promptly for such approvals and use their best efforts thereto. It is clear that they all were under the impression that no

12 *A-Team Drankwinkel BK v Botha en 'n ander NNO* 1994 (1) SA 1 (A) at 11B-E.

Treasury consents were required. As a matter of fact, the Exchange Control Manual issued by The Treasury and which details all the requirements and rulings relevant to the Regulations at the time made no reference to the assignment of intellectual property rights. It was only two years after the judgment in *Couve* that the manual (which has no legal standing) was amended to reflect that reg 10(1)(c) applied to such agreements. It is therefore unlikely that any of the relevant parties had *mens rea* and, consequently, committed any crime because the criminalization of contraventions of, or failures to comply with any provision of the Regulations in reg 22, requires *mens rea* as was held by Rumpff CJ in *S v de Blom* 1977 (3) SA 513 (A). This is especially so where the public was not informed of the requirement.[13] However, this does not mean that a contravention of the Regulations requires *mens rea*: it means only that in its absence the relevant parties may not be punished criminally.

[17] Reliance on the Regulations in order to escape contractual obligations is not something new. However, as Steyn CJ said nearly 50 years ago, the Regulations are there in the public interest and not to provide 'an unwilling debtor with a ready instrument for evading liability' or 'to grant a selective moratorium to a particular class of defaulting debtors'.[14] Their purpose, said Trollip JA, is to enable The Treasury to exercise proper control over transactions affecting foreign currency in order to protect the Republic's foreign reserves.[15]

[18] Debtors remained undaunted and relied especially on reg 3(1)(c) to evade judgment.[16] After a number of conflicting judgments this court held, in spite of the peremptory language of the provision ('no person shall'), that the prior consent of The Treasury was not required in order to obtain a court order for payment. Hoexter

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13 At 528D-E.
14 *Nestel v National and Grindlays Bank Ltd* 1962 (2) SA 390 (A) at 395H-396A.
15 *S v Katsikaris* 1980 (3) SA 580 (A) at 590A also quoted by Kriek J in *Barclays National Bank Ltd v Brownlee* 1981 (3) SA 579 (D) at 584A.
16 It 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) . . .
(b)bis …; 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.'

JA concluded with these words:[17]

‘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 reg 3(1)(c).’

[19] The background to this statement is to be found in J Voet *Commentarius ad Pandectas* 1.3.16 (Gane’s translation) who said this:

‘Things done contrary to the laws are not *ipso jure* null if the law is content with enacting a penalty against transgressors.’

. . .

‘Nay indeed there is no lack of laws which forbid, and yet do not invalidate things to the contrary, nor impose any penalty upon them. Hence came into vogue the famous maxim “Many things are forbidden in law to be done which yet when done hold good”.’

This approach has been adopted in many judgments, more particularly in the leading case of *Standard Bank v Estate van Rhyn* 1925 AD 266 at 274, where Solomon JA also referred to a further statement by Voet (not as translated by Gane) that an important consideration is whether ‘greater inconveniences and impropriety would result from the rescission of what was done, than would follow the act itself done contrary to the law.’ Voet concluded this section with a reference to H De Groot (Grotius to some) *Inleidinge* 1.2.2 where the author, dealing with the same subject, said that things done contrary to law are only void if the law so expresses itself (‘de wet sulcks uytdruckt’), or if someone’s ability to perform the act has been curtailed, or if the deed ‘heeft een gestadigde onbehoorlickheid’ (translated by Gane via Voet as ‘if the act performed suffers from some obvious and ingrained disgrace’ but more correctly from some ‘unremitting impropriety’).

[20] Next to consider is the judgment of Kriek J in *Brownlee* (supra). The case concerned reg 3(1)(e), which deals with the grant of financial assistance to any person in the Republic where security for the financial assistance is furnished by any person resident outside the Republic. Once again such assistance may not take place without the permission of The Treasury or a person authorised by the Treasury and in accordance with such conditions as the Treasury may impose. Kriek J held

17 *Barclays National Bank Ltd v Thompson* 1985 (3) SA 778 (A) at 795I-J.

that the fact that such financial assistance was given without the consent of The Treasury did not nullify the agreement. He recognised, in quoting extensively from *Swart v Smuts* 1971 (1) SA 819 (A) and *Pottie v Kotze* 1954 (3) SA 719 (A), that it is really a matter of interpretation and he came to this conclusion in spite of the fact that reg 3 is couched in imperative terms and in spite of the severity of the penalties in reg 22.[18] Important considerations, to his mind, were that The Treasury consent was in a sense a formality (although not 'merely' one) and the fact that the prohibition was not absolute because The Treasury could always have consented to the conclusion of the transaction.[19] In addition, he said, avoiding the agreement was not necessary to attain the objects of the regulations,[20] and nullity would have resulted in greater inconvenience and impropriety than keeping the agreement alive.[21]

[21] Then came *Henry v Branfield* 1996 (1) SA 244 (D). The case concerned the purchase of foreign currency without the permission of The Treasury in conflict with reg 2. Levinsohn J, relying on the reasoning of Kriek J in *Brownlee*, struck the agreement down. He did not explain why he in effect overruled a judgment which was binding on him nor did he justify the use of Kriek J's reasoning to reach the opposite result. He simply said that, having regard to the peremptory nature of the prohibition, the Legislature not only intended to visit a contravention with criminal sanctions but also with nullity,[22] something that does not quite accord with the quoted dictum by Hoexter JA in *Barclays National Bank Ltd v Thompson* (supra).

[22] It would be fair to say that *Couve* refused to follow *Brownlee* for these reasons: the Regulations aimed to protect our reserves and are couched in imperative terms.[23] Bertelsmann J, in the context of another type of transaction, came more or less to the same conclusion but he left open the important question whether The Treasury could give its consent after the event.[24]

[23] Although these considerations are important and although it is arguable that,

18 At 583B-F.
19 At 583F-H.
20 At 584E-F.
21 At 584H.
22 At 250B-D.
23 At 438C-D.
24 *Pratt v Firstrand Bank Ltd* [2004] 4 All SA 306 (T). The judgment dealt with an exception. During the subsequent trial it was found that the lack of consent had not been established. This finding was upheld on appeal: *Pratt v First Rand Bank* [2009] 1 All SA 158 (SCA).

in spite of Voet's generalized view, the heftier the penalty the more likely it is that invalidity is intended, I am unable to agree with the conclusion reached in *Couve*.

[24] In search of the elusive intention or meaning expressed in the Regulations, it is necessary to reiterate that the object of the Regulations in general is to regulate and control foreign currency and the object of reg 10(1)(c) in particular is 'to control foreign exchange in the public interest and to prevent the loss of foreign currency resources through the transfer abroad of capital assets held in South Africa.'[25] The Regulations are, accordingly, for the public interest and not to protect any private interests. They were adopted for the sake of The Treasury and not for the sake of disgruntled or disaffected parties to a contract. This is apparent from the penalty provision. But more importantly, it appears from regs 22A, 22B and 22C.[26] They provide that any money or goods in respect of which a contravention has been committed may be attached by The Treasury; these may be forfeited to the State; and any shortfall may be recovered by The Treasury from not only persons involved in the commission of the offence but also from anyone enriched or who has benefited as a result thereof. To add irremediable invalidity to the transaction would amount to overkill and as Kriek J said, it would lead to 'greater inconveniences and impropriety' which is illustrated not only by the facts in *Brownlee*[27] but also the facts of this case and even those of *Henry v Branfield*.[28] In addition, transactions falling foul of the Regulations do not pass De Groot's test for invalidity.

[25] This does not mean that in the absence of Treasury consent the transaction is enforceable without more. Parties who enter into a contract that may conceivably be hit by the Regulations are, unless the contract provides otherwise (in this case it did not provide otherwise), both obliged to take the necessary steps to obtain The Treasury's consent (something expressly agreed to by the parties). This must be so because of the supposition that the parties negotiated in good faith and intended to enter into an effective contract.[29] There is nothing preventing The Treasury from consenting to a transaction *ex post facto*, a necessary corollary of the judgment in

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25 *Berzack v Nedcor Bank Ltd* [2001] 1 All SA 410 (SCA) para 3.
26 *South African Reserve Bank v Torwood Properties (Pty) Ltd* 1997(2) SA 169 (A); *South African Reserve Bank v Khumalo* 2010 (5) SA 449 (SCA); [2011] 1 All SA 26 (SCA).
27 *Brownlee* at 584H. But see for a different view: *Pratt v Firstrand Bank Ltd* [2004] 4 All SA 306 (T) para 48.
28 For a critical analysis of the facts: 1996 *Annual Survey of SA Law* 205-206.
29 *South African Forestry Co Ltd v York Timbers Ltd* 2005 (3) SA 323 (SCA) para 32.

Barclays National Bank Ltd v Thompson (supra). This means that the transaction absent consent is not void at the behest or election of one of the parties to it. A party faced with a claim based on a transaction which that party believes is covered by the Regulations can therefore not rely only on the lack of consent to avoid the claim. The defendant may in appropriate circumstances file a dilatory plea pending the determination by The Treasury of its application for the necessary consent.[30] Once The Treasury refuses to grant consent, the defendant would be entitled to resist the claim on that ground. If performance took place without consent, neither party may claim restitution.[31] It would then be for The Treasury to invoke regs 22A, 22B and 22C to undo the effect or proposed effect of the transaction.

[26] In the result the appeal is dismissed with costs, including the costs of two counsel.

L T C Harms
Deputy President

30 A dilatory plea will not be possible, for instance, under reg 3(1)(c) as was held in *Barclays National Bank Ltd v Thompson* supra.
31 Compare *Afrisure CC v Watson NO* 2009 (2) SA 127 (SCA) paras 45-47. Oilwell's argument that its claim was not one for restitution – relying on *Botha v Fick* 1995 (2) SA 750 (A) – is not acceptable. Its underlying cause of action, based on the alleged invalidity of the assignment, remained an enrichment action as was recognized in *Henry v Branfield.* This is so because ownership passed in the light of the abstract theory of transfer of ownership, which does not require a valid underlying transaction for passing of ownership: *Legator McKenna Inc v Shea* 2010 (1) SA 35 (SCA) para 20-22 and compare ***Oriental Products (Pty) Ltd v Pegma 178 Investments Trading CC and Others (126/2010) [2010] ZASCA 166.*** Rectification of the register was but a formal way of accomplishing restitution. Once that is so, the *par delictum* rule may take effect, something not appreciated in *Goss v EC Goss & Co (Pty) Ltd* 1970 (1) SA 602 (D).

APPEARANCES

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