



# Commercialising trademarks in sub-Saharan Africa – a regional analysis

**Africa is not a region for the fainthearted, but considerable opportunities await the canny investor. The quirks and challenges of this region make it vital that local counsel be engaged to ensure that rights are properly protected**

There are a number of challenges to investing in Africa, including:

- differences in (and lack of appreciation) of local culture;
- political and economic uncertainty;
- corruption;
- lack of local resources, skills and motivation; and
- lack of local knowledge.

With the world taking greater interest in Africa, the laws that protect a business's intellectual property have become more important, especially in the context of deal activity, which is expected to increase. This article examines some of the quirks and pitfalls of assigning and licensing trademark rights in major sub-Saharan countries.

## Observations

The table on page 50 illustrates that all transfers and licences in the region should contain a provision in the agreement catering for both the exchange control requirements and licence recordal. Typically, deals involving the transfer of IP rights are suspended until such time as exchange control approval is granted. This may mean valuing the assets and other time delays. In most cases, exchange control approval must be achieved between signature and closure of the relevant deal. During that time, an agreement must be reached on:

- who maintains and enforces the IP rights;
- who is responsible for, say, product liability claims; and
- what might happen if exchange control is not obtained.

This may mean that certain IP rights are held in trust or the deal structure is altered.

In South Africa, where there is a requirement to obtain exchange control approval for the remittance of royalties out of the country in licensing arrangements, one must be careful as to how the licence agreement sets out the payment clause.

For example, the intellectual property in a logo trademark may need to be separated into copyright and trademark rights, and the licence fee attributed accordingly in order to obtain approval, as there are limits to the percentage royalty payable for each IP right. Other aspects, such as minimum guarantees, are simply not allowed. In addition, if there are a number of licences in a particular country, this creates an administrative burden each time an approval is required. The licensor may then consider changing its structure so that only a single entity transfers the payments out of the country (eg, a master franchise structure).

In Kenya, it is likely that a tax must also be paid. Such tax may well be significant enough to alter the timing and payments in the deal or its structure – for example, whether a share purchase is better than an asset purchase. At the time of writing, clarity on the impact of this tax is still awaited.

It is also important to remember that not all countries in sub-Saharan Africa are members of the Madrid System, which may mean that companies within their borders cannot purchase international registrations filed under the Madrid System. This necessitates a licence arrangement or other type of deal structure.

Under Zimbabwe's proposed indigenisation policy, which requires that foreign firms be majority owned by local parties, a licensing model may also be preferable, if not unavoidable. In such case due care should be placed on the licence agreement and subsequent recordal for rights to be properly protected. For example, when completing a register user agreement in Zimbabwe, it is important to keep in mind that the register user application will be recorded only against marks which have proceeded to grant. Where marks are still pending, the register user will be recorded against these marks only when they have proceeded to grant and there is a significant delay.

In almost all countries, the recordal of both the licence and the assignment is recommended as soon as possible. In Uganda, there is some concern that ownership does not pass until the assignment is actually recorded. This means that the cost of the recordal and any delays must be considered during negotiations. Ideally, all documentation should be signed on completion and a clause should be included in the agreement ensuring that the licensor or assignee has the right to sign documentation to perfect the recordal. This is advisable because certain registries are hampered by significant backlogs and it is possible that if queries are raised, assignors or licensees may no longer exist or may be longer be cooperative.

Country	Assignment/licensing permitted?	With/without goodwill?	Recordal of the licence necessary?	Other comments
South Africa	Yes	Assignments with or without goodwill are allowed.	No	Exchange control is required where trademarks are transferred from a local party to a foreign party and for the remittance of royalties.
Zimbabwe	Yes	Assignments with or without goodwill are allowed.	No – only to be effective against third parties and for use to inure to the benefit of the owner.	Licence agreement must provide for quality control by the owner. Position on exchange control is unknown post-2009. Regulations may be put in place under new currency framework within the next year, which may clarify the position.
Mozambique	Yes		Must be recorded to be effective against third parties.	Original deed of assignment or notarised copy with a Portuguese translation needed.
Namibia	Yes	Assignments with or without goodwill are allowed.	Must be recorded to be effective and binding on third parties and for use to accrue to registered owner.	Exchange control approval required.
Angola	Yes	Assignments with or without goodwill are allowed.	Must be recorded to be effective and binding on third parties.	Exchange control approval required.
Malawi	Yes	Assignments with or without goodwill are allowed.	Recordal required.	Exchange control approval required.
Zambia	Yes	Assignments with or without goodwill are allowed.	Must be recorded to be binding on third parties.	
Tanzania	Yes		Assignment must be registered. Licences must be recorded to be binding on third parties.	
Kenya	Yes	Assignments with or without goodwill are allowed.	Assignment must be recorded to be binding on third parties.	16% value added tax payable on all IP transfers. No need for exchange control approval to be obtained.

**“ In South Africa, where there is a requirement to obtain exchange control approval for the remittance of royalties out of the country in licensing arrangements, one must be careful as to how the licence agreement sets out the payment clause ”**

### Facts you may not know about Africa

- Africa is the second-fastest growing region in the world – seven of the world's 10 fastest-growing economies are African.
- Zimbabwe has the highest adult literacy rate on the continent.
- By 2050, Africa will account for 23.6% of the world's population.
- In north and sub-Saharan Africa, brand loyalty averages 58%.
- More than 2,000 languages are spoken in Africa.
- By 2020, the combined potential annual revenue of Africa's major industries will be \$2.6 trillion.
- By 2020, 128 million people on the continent will have disposable income. When household income is more than \$5,000, half goes on discretionary purchases.
- At the beginning of 2012, there were 650 million mobile subscriptions in Africa, making the market bigger than the European Union or the United States.
- Excluding South Africa, Africa's 2012 merchandise exports rose by 8% and imports rose by 9% – the fastest export growth of any region.

### Lessons from case law

#### Need to register trademarks in economically linked countries

In June 2013 the Main Division of the Namibia High Court handed down a judgment following an application for urgent interim relief in a passing-off action. The suit was brought by Mega Power Centre CC, trading as Talisman Plant and Tool Hire, against Talisman Franchise Operations (Pty) Limited, a South Africa-based company, and its new Namibia-based franchisee, Talisman Hire.

The franchisor advertised its new business, which Mega Power contested as it had been using the mark TALISMAN to promote part of its tool and machinery hire business (ie, the hire of operator-intensive machinery).

The allegations concerned passing off by the new business based solely on the name Talisman, which was being used by both parties in the plant and tool hire business.

The application was dismissed because Mega Power had failed to show how it might suffer damage. The decision is interesting for the following reasons:

- It explains how the court interprets the law of passing off and sets out the court's approach to urgency. The approach draws much from the laws in neighbouring South Africa, which are based on similar laws in the United Kingdom.
- It illustrates the close connection between the South African law and economy and those of Namibia, and the need to cross-register trademarks.

Franchising is an increasing popular method of doing business in Africa. In South Africa, there are two competing tool hire brands (Coastal Hire and Talisman); Mega Power was using both brands in Namibia and both companies had expanded using the franchise model. This shows the risk of not obtaining trademark protection in both territories.

#### Need to record assignments as soon as possible

A High Court judge in Uganda held in favour of Anglo Fabrics that Africa Queen was infringing Anglo Fabrics' registered MEKAKO trademark and passing off its medicated soap product. The plaintiff was granted an injunction and the defendant was ordered to pay NUSh10 million (approximately \$5,800) plus costs. The case is interesting for the following reasons:

- It took just 16 months from issue of the claim to judgment.
- The court appeared to accept a quote from the assistant registrar of international property rights at the Ministry of Justice that "an assignment [of a trademark] is only valid to confer title after registration with the Registry of Trademarks". This has significant implications for brand owners when acquiring or disposing of their trademarks; they may be best advised to include a separate assignment recordal document (duly stamped) in their completion bundles for immediate recordal in Uganda.
- It shows the close correlation between the Ugandan and UK tests for both infringement and passing off.
- The judge acknowledged that Uganda is an African Regional Intellectual Property Organisation (ARIPO) member state and appeared to infer that a mark which designates Uganda will be enforceable despite the fact that Ugandan law has not implemented ARIPO legislation.
- The court ordered that interest was payable at an annual rate of 25%.

#### Exchange control approval is critical

A number of countries have rules regarding the sale or transfer of trademark rights from a local individual or entity to an individual or entity that is not a citizen of or incorporated in the country where the mark is owned. In South Africa, there has been doubt as to whether exchange control was required for almost a decade. In 2012 the Supreme Court of Appeal ruled in *Oilwell (Pty) Limited v Protec International Ltd* (2001 (4) SA 394 (SCA)), holding that intellectual property does form part of the definition of 'capital' in the Currency and Exchanges Act (9/1933), for which exchange control is required.

Following this decision, the regulations to the act were amended to change the position:

- (4) For the purpose of sub-regulation (1)(c) –
- (a) 'capital' shall include, without derogating from the generality of that term, any intellectual property right, whether registered or unregistered; and
- (b) 'exported from the Republic' shall include, without derogating from the generality of that term, the cession of, the creation of a hypothetical or other form of security over, the assignment or transfer of any intellectual property right, to or in favour of a person who is not resident in the Republic.

The act now makes express provision for intellectual property to be included in the definition of 'capital', which means that exchange control approval will be required. Should the requisite approval not be acquired, the Reserve Bank may fine the parties.

Africa is not a region for the fainthearted, but considerable opportunities await the canny investor. Fortunately, almost all attractive sub-Saharan countries have IP legislation and a growing number of cases show that trademark rights are enforceable. However, the quirks and challenges of this region make it vital that local counsel be engaged to ensure that rights are properly protected. [WTR](#)

**Darren Olivier is a partner and John Ndlovu an associate at Adams & Adams**  
[darren.olivier@adamsadams.com](mailto:darren.olivier@adamsadams.com)  
[John.Ndlovu@adamsadams.com](mailto:John.Ndlovu@adamsadams.com)