

SOUTH AFRICA / JUDGMENT

Beyond Platinum (Pty) Ltd v Ellies Electronics (Pty) Ltd (73/2020) [2020] ZASCA 154; [2020] HIPR 157 (SCA) (27 November 2020)

[2020] ZASCA 154

COURT

Supreme Court of Appeal

BEFORE

Navsa, Ponnann, Cachalia, Matojane, Mabindla-Boqwana

CASE / FILE NUMBER

73/2020

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THE SUPREME COURT OF APPEAL OF SOUTH AFRICA

JUDGMENT

Reportable

Case No: 73/2020

In the matter between:

BEYOND PLATINUM (PTY) LTD

APPELLANT

and

ELLIES ELECTRONICS (PTY) LTD

FIRST RESPONDENT

ROBRIDGE CONSTRUCTION CC

T/A EASY STORE

SECOND RESPONDENT

MINISTER OF TRADE AND INDUSTRY

THIRD RESPONDENT

MINISTER OF POLICE

FOURTH RESPONDENT

CYANRE

FIFTH RESPONDENT

MUHAMMAD MOOLA STORAGE CC

T/A ALLIED STORAGE SOLUTIONS

SIXTH RESPONDENT

Neutral citation: Beyond Platinum (Pty) Ltd v Ellies Electronics (Pty) Ltd [2020] ZASCA 154 (27 November 2020)

Coram: NAVSA, PONNAN and CACHALIA JJA and MATOJANE and MABINDLA-BOQWANA AJJA

Heard: 13 November 2020

Delivered: This judgment was handed down electronically by circulation to the parties' representatives by email, publication on the Supreme Court of Appeal website and release to SAFLII. The date and time for hand-down is deemed to be 09h00 on 27 November 2020.

Summary: Counterfeit Goods Act 37 of 1997 – whether search and seizure warrants lawfully obtained – whether interim interdict to preclude dealing in offending goods properly sought.

ORDER

On appeal from: Gauteng Division of the High Court, Pretoria (Janse van Nieuwenhuizen J sitting as a court of first instance):

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

Mabindla-Boqwana AJA (Navsa, Ponnan and Cachalia JJA and Matojane AJA concurring):

- [1] This appeal concerns the interpretation and application of provisions of the Counterfeit Goods Act 37 of 1997 (the Act) in terms of which the appellant, Beyond Platinum (Pty) Ltd (BP), caused to be issued three search and seizure warrants by a magistrate in Johannesburg, authorising a search for and the seizure of alleged counterfeit goods, at the business premises located at Village Deep Johannesburg, of the first respondent, a listed company, Ellies Electronics (Pty) Ltd (Ellies).
- [2] The Act prescribes the procedure to be followed to obtain such a warrant. 'Protected goods' in terms of the Act are inter alia defined as 'goods featuring, bearing, embodying or incorporating the subject matter of an intellectual property right with the authority of the owner of that intellectual property right, or goods to which that subject matter has been applied by that owner or with his or her authority'. The purpose of the Act is to protect against the unlawful application of intellectual property rights and against the release of counterfeit goods into the channels of commerce. 'Counterfeiting' is defined in s 1 of the Act.

[1] Section 2 makes it an offence to trade in counterfeit goods and to possess them for that purpose. Section 3 provides for the laying of a complaint by a person who has an interest in 'protected goods', whether as owner, licensee, importer, exporter or distributor where such person reasonably suspects that an offence referred to in s 2 has been or is being committed or is likely to be committed.

- [3] In terms of s 3(1) of the Act, persons identified in the preceding paragraph, may lay a charge with an inspector, who, may include a police official as defined in s 1(1) of the Criminal Procedure Act 51 of 1977, holding the rank of sergeant or a higher rank. The inspector, in turn, in terms of s 4 of the Act, either on the strength of the complaint or the strength of any other information at his or her disposal, if he or she has reason to suspect that an offence contemplated in s 2(2) of the Act has been or is being committed or is likely to be committed, or that an act of dealing in counterfeit goods has taken or is taking place or is likely to take place, has the power of search and seizure set out, fairly extensively, in s 4.
- [4] The powers of search and seizure referred to in the preceding paragraph may however, only be exercised if a warrant has been authorised by a judge of the high court or a magistrate who has jurisdiction in the applicable area, if it appears to the judge or magistrate, from information presented on oath or affirmation, that there are reasonable grounds for believing that an act of dealing in counterfeit goods has taken or is taking place or is likely to take place.
- [5] Pursuant to a search and seizure the inspector is required to complete an inventory and to give notice to the parties concerned, including the suspect, in this case Ellies, of the action taken and of where the goods are being kept.[2] The complainant must also be notified of the right to lay criminal charges with the police and has three days after receiving such notice in which to do so.[3] If upon the expiry of that three day period a criminal charge has not so been laid, the relevant seized goods must be released to the suspect.[4] Goods must also be released if the State fails, within ten working days after the date of the notice given to the suspect, to inform the suspect by further written notice of its intention to institute criminal proceedings against him or her for having committed an offence. Notice of intention to institute civil proceedings must similarly be given within ten days by the complainant.[5] That then is the applicable scheme of the Act.
- [6] I now turn to the facts of the present case. BP, on its website, describes itself, in alliance with a company in Korea, as a developer and manufacturer of radio frequency and infra-red remote controls units (RCUs). These devices are used in a variety of applications in the domestic space, to control appliances including television sets and decoders, which receive signals, from a source, that provides the basis for television channel programmes. In the present case the RCUs in question, which were the subject of the search and seizure warrants, are used to communicate with or control a set-top box (a decoder) employed by DSTV, a well-known broadcaster of television programs.

- [7] Ellies was established in 1979. It is a leading Southern African manufacturer, importer, wholesaler and distributor of lighting, electrical and electronic products. It also supplies aerial and satellite equipment, accessories and hardware to commercial entities and the public at large. Ellies presently employs hundreds of people and has a nationwide presence. Its assertion that it is a household name in South Africa is unchallenged.
- [8] For many years Ellies has been buying RCUs from a variety of sources and packaging them for onward sales as Ellies' products. They are replacements for original equipment which get lost, broken, chewed by dogs, dropped in swimming pools and the like. Judging from this litigation the market in relation to these products is substantial.
- [9] According to Ellies, the technology in respect of RCUs is not new. They have a long history and are utilised in different forms premised on the same basic technology, which is that frequencies are used on infra-red emissions to enable communication between an RCU and a receiving device. Simply put, the RCU and device talk to each other in binary code by means of an infra-red signal. All that this means in the digital space is that information is represented in binary form, it allows for numbers and letters to be represented and transmitted in this case by infrared light pulses and permits communication between an RCU and a device. Ellies explained that universal remote controls are becoming common place. RCUs, according to Ellies, have been around for a long time

and their manufacturers are plentiful.

- [10] For some time before the problems in the present case arose Ellies had been buying RCUs from BP and on-selling them in Ellies' packaging. The RCUs are designed to look like the original DSTV RCU. The RCUs were sold through major retail chains and through Ellies' own distribution network. During the middle of 2017, Ellies took a decision to source RCUs directly from a manufacturer in China rather than from BP. This decision was motivated by a lower price resulting in higher profit margins for Ellies.
- [11] On 11 December 2017, shortly before the Christmas period, acting on a warrant obtained at the instance of BP, which had laid a complaint in terms of s 3 of the Act and, after the steps set out earlier were followed, Inspector Khubeka, a senior police official, arrived at Ellies' head office with a posse of 20 people. They were there to execute the warrant and to conduct a search and seizure operation on the basis that Ellies was trading in counterfeit goods, more particularly any RCUs not sourced from BP. BP claimed that the RCUs that were being seized were counterfeits of its RCUs. It asserted intellectual property rights in respect of the RCUs.
- [12] BP, in its complaint and in the litigation that ensued, claimed that its RCUs embodied an infra-red protocol, known as MNEC IR protocol that it had developed. According to BP, the protocol constitutes a computer program or literary work as defined in the Copyright Act 98 of 1978.[6] BP claimed to be the author of the protocol. It alleged that the MNEC IR protocols were developed in or around 2009 by one Kim Yong Tae, a citizen of the Republic of Korea who was an employee of a Korean company known as Seoby Electronics Company Ltd,

which BP had instructed to develop the contested infra-red protocols, by providing the necessary specifications.

- [13] The search and seizure operation had apparently, been conducted in a very abrupt and aggressive manner. This caused panic and embarrassment to the company and its employees. This extended to Ellies' customers who were apparently written letters by BP to stop trading in the offending products. At a huge loss to it, Ellies requested all of its customers to remove the stock from their shelves and return it to Ellies.
- [14] Millions of rands worth of Ellies' stock was seized as was their entire accounting record base and email servers. BP's attorney was also in attendance. The seized goods were kept in detention at the premises of a designated Counterfeit Goods Depot[7] of the second respondent, Robridge Construction CC t/a Easy Store (Easy Store).
- [15] Following the aforesaid seizure of goods, more RCUs ordered by Ellies from China arrived in shipping containers. Without admission of liability and in order to demonstrate good faith, while the copyright issue was being investigated, Ellies' attorneys addressed a letter to BP's attorneys, dated 11 January 2018, wherein it undertook to quarantine the products in question on the following basis:

'10.1 Remove the products from its shelves at its head office and all branches throughout South Africa;

10.2 Replace the offending products at retail outlets with the new products ordered from and supplied by your client which are presently in the process of being packaged by our client. As soon as the packaging is complete the products will be distributed and swapped out whereafter the return products will be placed in the caged storage facility controlled by your client referred to in paragraph 10.3 below. In so doing our client will keep comprehensive records of the quantity and movement of the products;

10.3 At no charge provide your client with a storage facility at its premises at 94 Eloff Street Extension Johannesburg which area will be caged thereby securing access/agrees from the cage controlled by your client who will hold the keys. Your client is also welcome to appoint a security guard if it so wishes to ensure compliance with the undertaking.'

- [16] This offer was accepted by BP via an email from its attorneys dated 12 January 2018 (the January 2018 agreement). On 29 January 2018 BP issued summons against Ellies claiming damages for infringement of its alleged copyright. Ellies filed a notice of intention to defend the action and thereafter in terms of rule 30 a notice that BP's particulars of claim be set aside as constituting an irregular proceeding on several grounds. As can be gathered from the letter set out in the preceding paragraph, Ellies, in order to deal with holiday period demand was, in the interim, compelled to purchase RCUs from BP.
- [17] Three months later, despite the above, without warning, BP sought and obtained two further search and seizure warrants, one issued on 17 May 2018 (the second warrant) and the other on 29 May 2018 (the third warrant). The second warrant related to the goods that were safely

stored under lock and key, ie securely embargoed in terms of the agreement between the parties. The third warrant concerned goods that were kept at the designated Counterfeit Goods Depot (Easy Store's premises) pursuant to the first warrant. Both warrants were executed on 6 June 2018 at the premises of Ellies and Easy Store respectively. The reasons advanced in the complaint affidavit deposed to by BP's attorney in support of these warrants were essentially the following:

'28. I was advised by the State Advocate charged with prosecuting the criminal complaint on behalf of the National Prosecuting Authority that the Specialised Commercial Crime Unit did not deliver to the Suspects a notice in terms of Section 9(2)(a)(i) of the Counterfeit Goods Act. For this reason, the State Advocate declined to proceed with a criminal complaint.

29. The Complainant wishes to have the Suspects prosecuted for the offences under the Counterfeit Goods Act.

[1] In s 1 of the Act: 'counterfeiting', inter alia, means 'without the authority of the owner of any intellectual

property right subsisting in the Republic in respect of protected goods, the manufacturing, producing or making, whether in the

Republic or elsewhere, of any goods whereby those protected goods are imitated in such manner and to such a degree that those other goods are substantially identical copies of the protected goods'; and 'counterfeit goods' are defined as 'goods that are the result of counterfeiting, and includes any means used for purposes of counterfeiting'.

[2] Section 7.

[3] Section 7(2)(a) of the Act read with s 9(1)(a).

[4] Section 9(1)(b).

[5] Section 9(2).

[6] In terms of the Copyright Act, a 'computer program' means 'a set of instructions fixed or stored in any manner and which, when used directly or indirectly in a computer, directs its operation to bring about a result' and 'literary work' is defined inter alia to include 'tables and compilations, including tables and compilations of data stored or embodied in a computer or a medium used in conjunction with a computer, but shall not include a computer program'.

[7] In terms of s 1 of the Act 'counterfeit goods depot' means 'a place designated under section 23 to be a counterfeit

goods depot, and includes any place deemed by section 7(1)(c) to be a counterfeit goods depot'. Counterfeit goods depots are designated by the Minister of Trade and Industry in terms of s 23(1) of the Act.

- [8] LA Group Limited and Another v B & J Meltz (Pty) Limited and Others [2005] ZAGPHC 23 (23 February 2005) para 45. See also Cadac (Pty) Ltd v Weber-Stephen Products Company and Anothers 2005 JDR 0704 (W) para 17.
- [9] Section 3(1) read with s 6 of the Act.
- [10] Ibid fn 8.
- [11] Cadac fn 8.
- [12] Schlesinger v Schlesinger [1979] 3 All SA 780 (W); 1979 (4) SA 342 (W) at 349A.
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