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IN THIS ISSUE

Editorial Page

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Vision 20/20: Issue Eleven

Greetings!

There is a perfection that 2020 connotes, perhaps derived from the perfect symmetry in the number itself. 20/20 also signifies, rather aptly, a clarity and sharpness of vision, and it is our sincere hope that the year 2020 will realize its full potential vis-à-vis what you envisioned the year would be. From the editorial desk of Legal & Kenyan, our vision has never been clearer – to keep you, the reader, abreast with the latest happenings and developments in the Kenyan legal sphere – through well written and pithy articles.

In this issue, we are especially pleased to have the contribution of Thomas Louis Abira, who is no stranger to the firm, and presently plies his trade as Legal Counsel & Manager at Safaricom PLC.

From the home front, Pamella Ager and James Kituku discuss the manner in which Kenya is tackling the counterfeit menace through the passing and enforcement of anti-counterfeit laws. This is followed by an insightful piece by the trio of Jacob Ochieng, Sheila Nyakundi and Sandra Kavagi relating to the fate of employees in mergers and acquisitions, considering a proposed amendment to the Employment Act, 2007. Walter Amoko and Gibran Darr reflect on new data protection legislation both in Kenya and the United Kingdom, while Lena Onchwari takes centre stage with an article on the difficulties encountered in taxation of online transactions. Georgina Ogalo-Omondi and Milly Mbedi team up to examine constructive dismissal as a form of termination of employment, while Pamella Ager and James Kituku render a second serving with an analysis of the new Physical and Land Use Planning Act, 2019. I chip in with a digest of a recent decision by the Industrial Property Tribunal concerning industrial designs registered under the African Regional Intellectual Property Organization (**ARIPO**) and the effect, locally, upon the expiry of the period of protection under ARIPO, while Thomas Abira casts the final die with a look at the world of fintech from a lawyer's perspective.

We do hope that you enjoy the read!

Sincerely,

John Mbaluto,
Editor

Senior Partner's Note

First, allow me to show my gratitude for your continued support through last year. Your feedback and reviews have been and continue to be the fuel that gives us energy and motivation for us to do better. I believe that this new year will be yet another milestone in our long journey that has spanned over four decades.

I wish you a prosperous year ahead.

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CONTENTS

RECENT ACCOLADES

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"The firm provides quality work and sound legal advice. They are professional and provide commendable services."

IFLR 1000, 2020

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'PHONEY WAR':

TACKLING THE COUNTERFEITS' PROBLEM IN KENYA

A consumer purchasing goods and services in the market, is often concerned about whether the goods that he is placing in his basket are genuine. One is often left in shock upon learning that the establishment where one purchased his supplies from, appeared in the local dailies accused of dealing in counterfeit goods. This fear is not restricted to goods alone, but also covers the services market.

The infiltration of counterfeit products in the market infringes on the intellectual property rights of the rightful owners of the products, since counterfeiters pass off phoney goods as the products of legitimate manufacturers, when in actual fact, they are not. This passing off denies the genuine manufacturers revenue, as they find it difficult for their products to compete with the invariably cheaper non-genuine products. Inability to compete with counterfeiters often comes with a dip in profitability which, in turn, leads to loss of employment due to downsizing or worse still, closing down of the business altogether.

The government also loses out on taxes as counterfeiters are prone to evade tax while the genuine manufacturer simultaneously experiences a slump in sales and therefore decrease taxable income. According to the Kenya Association of Manufacturers, local manufacturers lose an estimated sum of KES 30 billion (USD 300 million) in revenue while the national government is deprived of KES 6 billion (USD 60 million) in taxes, due to counterfeit products, annually.

Counterfeit products also pose a health risk to consumers, as such products may at times contain excessive amounts of hazardous substances as compared to genuine products. Similarly, counterfeit farm inputs such as seeds or fertilizers, pose a serious threat to a nation's food security as their use may result in poor yields or crop failures.

All in all, counterfeit goods seem to have pervaded all sectors of our country's economy, noting the estimation by the Anti-Counterfeit Authority (**the Authority**) that one in every five (5) products sold in the Kenyan market is counterfeit. It is therefore very much in the public interest that the war against counterfeit is swiftly and decisively won.

Legal Framework

To address the concerns posed by counterfeit goods, the Anti-Counterfeit Act, 2008 (**the Act**) was enacted to provide the legal and institutional framework for tackling the vice.

The Authority (formerly known as the Anti-Counterfeit Agency) is established under section 3 of the Act. The Authority's responsibilities are centred on curbing counterfeit products in the market through enlightening and informing the public on matters relating to counterfeiting, combating counterfeiting trade and other dealings in counterfeit goods through devising and promoting training programmes on fighting counterfeiting and advising the government on policies and measures concerning the protection of intellectual property rights as well as the extent of counterfeiting.

The Authority's Board (**the Board**) is established under section 6 of the Act and draws representation from other stakeholders, including the Attorney General's office, the Kenya Revenue Authority, the Kenya Bureau of Standards and the Kenya Association of Manufacturers amongst others.

The Board is authorised under section 22 of the Act to appoint inspectors who are tasked with enforcing the provisions of the Act. Board members, police officers, customs officials, trade mark and patent examiners, seed and plant inspectors and public health inspectors are also designated as inspectors under the Act. The idea is to ensure as much representation or coverage as possible from other public institutions, so that the Act can be widely enforced. However, the Authority's powers appear to have been somewhat clipped as section 30 (1) of the Act empowers the Director of Public Prosecutions (DPP) to appoint prosecutors for counterfeiting cases.

Under section 23 of the Act, an inspector has the power to enter suspected premises and to search and ascertain whether the goods are genuine and to take steps reasonably necessary to terminate the manufacturing, production or making of counterfeit goods. Section 23 (3) of the Act specifically empowers an inspector to arrest with or without a warrant, any person whom he suspects on reasonable grounds of having committed any offence under the Act and an inspector may search and detain such a person. The discharge of an inspector's functions is not to be taken lightly, as the obstruction of an Inspector from undertaking his duties amounts to a criminal offence under section 24 of the Act and shall be liable, upon conviction, to imprisonment for a term not exceeding three (3) years or a fine not exceeding KES 2 million (USD 20,000) or both.

Section 25 of the Act provides details on what the inspector is to do upon seizing the suspected counterfeit goods. The inspector is required to seal, sort and take an inventory of the seized goods, furnish the complainant and the owner of the goods with the inventory, secure the goods by relocating them to a safe place and notify the concerned parties of the new location of goods. An aggrieved party may petition Court for a declaration that the goods are not counterfeit and an order for the return of the seized goods to him or her.

Section 32 of the Act lists the general offences pertaining to counterfeiting such as possession, sale, distribution or importation of counterfeit goods. Equally, the possession of any labels, patches, wrapping, containers or documentation bearing a counterfeit mark is also an offence. The aiding or abetting of any of the foregoing is also outlawed. The penalty for contravention of this section of the Act is stiff, in the case of a first conviction, being imprisonment for a term not exceeding five (5) years, or to a fine, in respect of each article or item involved in the particular act of dealing in counterfeit goods to which the offence relates, not less than three (3) times the value of the prevailing retail price of the goods, or both. In the case of a second or any subsequent conviction, to imprisonment for a term not exceeding fifteen (15) years, or to a fine, not less than five (5) times the value of the prevailing retail price of the goods, or both.

A complaints mechanism is laid out in section 33 of the Act. It allows the holder of an intellectual property right to lodge a complaint under the Act with the Executive Director of the Agency. The complainant is also required, together with lodging the complaint, to furnish such information or particulars to demonstrate that on the face of it, the goods in question are counterfeit. If the Executive Director is duly satisfied with the information, he may order such necessary steps be taken under section 23 of the Act. However, an inspector is not precluded from taking the appropriate steps on his own motion in relation to any dealing in counterfeit goods.

The holders of trademarks, copyrights and other trade names of goods or works to be imported into Kenya, can record such interests with the Agency for protection as per section 25 of the Act. The application is in the prescribed form and the protection comes into force from the date on which such interests are recorded. The duration of protection is one (1) year from the date the interest was recorded by the Agency or the period of protection of the intellectual property right, whichever is shorter.

A person who has suffered damage following wrongful seizure of goods is entitled to claim for compensation under section 34 (7) of the Act.

Judicial Pronouncements

The Kenyan Courts have made various pronouncements and developed jurisprudence on counterfeiting matters. In *Wilson Muriithi Kariuki t/a Wiskam Agencies v Surgipharm Limited (2012) eKLR,* the Applicant was seeking an interlocutory injunctive order restraining the Respondent from distributing the alleged counterfeit products in the market. The High Court held that the party seeking an interlocutory injunction must demonstrate, as it the norm in injunction cases, that it has a *prima facie* case with probability of success; that if the order sought is not granted, he risks suffering irreparable damage that cannot be compensated by way of damages; and if the Court is in doubt, then it is to determine the matter on a balance of convenience. Importantly, the Applicant must be a right holder.

Section 32 of the Act lists the general offences pertaining to counterfeiting such as possession, sale, distribution or importation of counterfeit goods. Equally, the possession of any labels, patches, wrapping, containers or documentation bearing a counterfeit mark is also an offence.

In *Republic v Anti Counterfeit Agency & 3 others Ex-parte Omega Chalk Industries (1993) Limited & another [2015] eKLR*, the High Court emphasised that there is no need for the Authority to notify an individual of an impending seizure exercise as follows: *"I agree with the interested party that a reading of the above provisions and taking into account the mischief that these provisions were meant to cure, it would defeat the purpose of the Act to require that the person in whose possession suspected counterfeit goods are to be heard before the power of seizure is exercised. Any wrongful seizure of the goods is to be dealt with under section 25 of the Act."*

In *Platinum Distillers Limited v Attorney General & 4 Others (2017) eKLR,* the Court held that the power to commence and prosecute counterfeit cases falls within the purview of the DPP, and that the power should be exercised independently and there should also be no perception that the DPP is acting under the direction or instigation of anyone else. However, the Court has the inherent power to discontinue the prosecution if it is opined that allowing the prosecution to continue would be an abuse of the Court process or result in a breach of the accused's fundamental rights. The Court further noted that the lack of a proper factual basis for the prosecution can be another ground for termination of proceedings.

In *Anti-Counterfeit Agency v Barloworld Limited & another (2018) eKLR*, the Court of Appeal held that public interest should be taken into account when issuing injunctive reliefs pending hearing and determination of the main appeal. In this matter, the Agency had applied for a stay of execution with the intention that counterfeit products should not be released to the market.

Executive Forum and Working Group

A point of concern has been a perceived lack of coordination or cooperation between complimentary government agencies in the war on counterfeits. However, this issue has been addressed by the formation of the Inter-Agency Anti-Illicit Trade Executive Forum (**Executive Forum**) and the Inter-Agency Anti-Illicit Trade Technical Working Group (**Working Group**) established under Gazette Notice No. 7270 of 2018.

The Executive Forum is chaired by the Principal Secretary, State Department for Trade with the Head of the Authority being the secretary. Its functions include advising the Cabinet Secretary for Trade on all matters concerning illicit trade as well as the appropriate policies, laws and regulations required to strengthen the war on illicit trade. One the other hand, the functions of the Working Group include developing a national strategy to combat illicit trade, coordination of surveillance and investigations on the source of illicit merchandise, coordination of the enforcement of laws, regulations and policies dealing with illicit trade and conducting public education on illicit trade.

The establishment of the Executive Forum and the Working Group is a step in the right direction, as the idea behind their formation is to infuse the much needed synchrony and coordination in the war on counterfeits.

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A 'DICEY' MATTER:

THE FATE OF EMPLOYEES IN MERGERS AND ACQUISITIONS

There has been a rise in mergers and acquisitions transactions (**M&A Transactions**) in Kenya even as business entities grapple with tough economic times and the ability to stay afloat in the evolving business market. The recent acquisition of National Bank of Kenya Limited by KCB Bank PLC, the merger of NIC Group PLC and Commercial Bank of Africa Limited, the acquisition of Quick Mart and Tumaini Self Service Supermarkets by Sokoni Retail Kenya to form a single retail operation and the proposed acquisition of one hundred percent (100%) of the issued share capital of De La Rue Kenya Limited (a subsidiary of De La Rue PLC) by American firm HID Corporation Limited are some of the notable M&A Transactions that have taken place in Kenya in 2019. All these recent M&A Transactions have brought to the fore, among other issues, the fate of employees in the merging entities. In most instances, a high number of employees are declared redundant and thereafter, have to wait for fresh advertisements of positions by the merged or acquiring entity and apply to be recruited.

Employment and labour law considerations feature highly during M&A Transactions. More often than not, such transactions lead to loss of employment due to the restructuring of the target company, or the change in character and identity of the transferring entity. Unlike other contracts involving assets and liabilities of the transferor, contracts of employment are currently not assignable to the acquiring entity under Kenyan law.

Other than setting out the basic conditions of employment and addressing the legal requirements for engagement and termination of employees, both the Employment Act, 2007 and the Labor Relations Act, 2007 are silent on the effect of M&A Transactions on employees. In practice, the contracts of employment are terminated on account of redundancy subject to compliance with the conditions as set out under section 40 of the Employment Act.

In some instances, the Competition Authority of Kenya (**the Authority**) established under the Competition Act, 2010 undertakes a public interest assessment to ascertain the extent to which the M&A Transaction will cause a substantial loss of employment and impose conditions to mitigate such as has been in case of the acquisition of National Bank of Kenya Limited by KCB Bank PLC where the Authority approved the merger on condition that KCB Bank PLC retains ninety percent (90%) of the employees from National Bank of Kenya Limited for a period of at least eighteen (18) months. This was also seen in the merger between NIC Group PLC and Commercial Bank of Africa Limited where the Authority approved the merger on condition that both entities retain all the employees for a period of at least one (1) year.

Proposed Law

The Kenya Law Reform Commission, a statutory body established under the Kenya Law Reform Commission Act, 2013 with the mandate to review all the laws of Kenya to ensure that they are modernised, relevant and harmonised with the Constitution of Kenya, 2010, recently prepared a draft Employment (Amendment) Bill, 2019 (**the Bill**) which amongst other provisions, proposes to amend the principal Act (being the Employment Act, 2007) by introducing a new section 15A which provides for the transfer of employees during M&A Transactions.

The proposed section 15A provides that such transfer of employees shall not operate to terminate or alter the terms and conditions of service as stipulated in the original contracts of the employees. It also creates an obligation on the transferor to notify and consult with the affected employees or their representatives regarding the anticipated transfer, the implications of such transfer and the measures that the transferor envisages will be taken to mitigate such implications. Further, the Bill provides that any dismissal taking place prior or subsequent to the transfer shall amount to summary dismissal if such dismissal is premised on the transfer.

Essentially, the Bill seeks to eliminate the difficulties occasioned during M&A Transactions by ensuring that the employees are not left out in the cold when their employer is bought out. It also creates an obligation for the transferor to inform and consult with the employees who shall be affected in an M&A Transaction. This has been the practice in other jurisdictions such as the United Kingdom and even closer home, in neighbouring Uganda.

The Bill borrows heavily from the Transfer of Undertakings (Protection of Employment) Regulations 2006 (**TUPE Regulations**) as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 applicable in England and Wales. TUPE Regulations are aimed at protecting the rights of employees in M&A Transactions in England and Wales by imposing obligations on employers to inform and, in other cases, consult with representatives of affected employees. Failure to comply with these obligations attracts penalties and sanctions to the employer.

Essentially, the Bill seeks to eliminate the difficulties occasioned during M&A Transactions by ensuring that the employees are not left out in the cold when their employer is bought out.

Critique

While the proposed law could be seen as a relief for employees who are mostly losers in M&A Transactions, it brings with it several challenges and may potentially make M&A Transactions even more complex and strenuous, particularly on the part of the transferee.

Firstly, all the transferor's rights, powers, duties and liabilities in connection with any employment contract shall be transferred to the transferee. Further, the transferee shall be liable for all the employees' dues dating back to the commencement of the employment contract. This also means that the transferee shall shoulder all the liabilities that arose from the transferor's engagements with its employees, including but not limited to cases initiated by and against the transferor.

Secondly, the proposed amendment as currently drafted may subject the parties in M&A Transactions to unnecessary costs and restrictions. It may not be practical to place the transferee under an obligation to automatically retain all the employees of the transferor without any loss of benefits or contractual dues. Such a provision shall defeat the purpose of M&A Transactions, as most of them are geared towards restructuring the business for purposes of reducing operational costs.

With respect to the dismissal of employees immediately prior or subsequent to an M&A Transaction, the proposed amendment as currently framed might open a pandora's box as it may operate as a blanket protection to all employees including those whose contracts may be terminated for valid reasons during the transition period. The proposed amendment as drafted protects employees against redundancy processes while creating a higher standard of proof against the transacting parties with regards to any termination disputes arising in the course of an M&A Transaction.

Further, the proposed amendment fails to appreciate the contractual rights and obligations of parties with respect to employment and M&A Transactions. There should be provision to allow the transferee to freely negotiate alternative arrangements and contractual obligations with the transferor's employees and maybe set the standards that should guide this process. By doing so, the parties would have a better chance to make agreements that are favourable to all.

Conclusion

While the issue of how to deal with employees and employment contracts remains a challenge in M&A Transactions in Kenya, the proposed amendments to the Employment Act will no doubt come as a sigh of relief for many employees who have long viewed themselves as collateral damage in M&A Transactions. However, the proposed amendment is likely to increase the cost of undertaking M&A Transactions in Kenya which may well end up being counterproductive as regards the rationale for which the M&A Transaction was carried out in the first place.

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BEHIND CLOSED DOORS:

A REFLECTION ON RECENT DATA PROTECTION AND PRIVACY LEGISLATION

Some of the grim forebodings of sceptics of the techno-age to be ushered in through interconnectedness are certainly coming to bear. Thanks to the occasional whistle-blower, we learn of governments in league with tech giants who are engaged in secret massive unlawful data harvesting. Artificial intelligence and automated decision making by financial institutions remains a clear privacy concern. That an algorithm needs access to phone logs, messages and photo gallery in order to calculate a credit score still baffles many. Others intentionally analyse their customers' on-line activity which is then commercialised through targeted advertising, while others obtain personal on-line data which is subjected to behavioural and psychosocial analysis and exploited for political gain.

However, as Shoshana Zuboff demonstrates in her recent book *The Age of Surveillance Capitalism*, the invidious abuse by private tech giants is all too pervasive and has become the norm rather than the exception. Governments are seemingly in on it too. In the United Kingdom, it was revealed that the National Health Service shared its medical records (excluding patient private data – the British were assured but the disclosed contract was redacted) with Amazon. Little wonder that in Tim Berners-Lee's *Contract for the Web* in order to avoid digital dystopia, two (2) of the author's ten (10) principles included respect and protection of privacy and on-line data.

Prompted by decisions of the European Court of Justice, the European Union (**EU**) took the lead with the General Data Protection Regulations (**GDPR**) which might be regarded as belated efforts to ensure such protection though it is hardly the gold standard many suppose it to be. Kenya has finally joined the bandwagon. On 8th November, 2019 the President signed into law the Data Protection Act, 2019 (**the Act**) which took effect on 25th November, 2019 and with it came imposed obligations on natural as well as legal persons (both Kenyan and non-Kenyan companies who collect, process and store personal data in Kenya) and public authorities and agencies to protect the personal data of Kenyan citizens.

In this article, we do not undertake an elaborate examination of the Act's provisions –we merely highlight the Act's potential impact on other areas of the law. At its heart, not surprisingly, is knowing affirmative consent when it comes to the collection, storage and sharing of personal data.

The Act establishes the office of the Data Commissioner and places registration requirements and obligations on "*data controllers*" – a natural or legal person who determines the means of processing data and "*data processors*" – a natural or legal person who processes personal data on behalf of the data controller. It is possible for an organisation to be both a data controller and data processor.

The Act is modelled largely on the EU's GDPR, whose ramifications are still not fully worked out – supplying an additional arsenal for claims of breaches of reputational and privacy rights. For example, as witnessed in the Duchess of Sussex's recent claims against the *Daily Mail*, which a while back, would have only sounded in defamation, the GDPR has been invoked. (To be sure, the Duchess of Sussex also relies on other forms of actions that have since been developed in the rather recent past such as misuse of private information as well as more old fashioned ones such as breach of copyright).

Thus, where a matter might have fallen exclusively within the law of defamation, it would appear that, as with the GDPR, the Act portends a potentially vast sea of change in areas previously the subject of other laws.

The Act was passed by parliament with the intention of giving effect to Article 31 (c) and (d) of the Constitution of Kenya 2010, which protects the right to privacy of an individual. Section 3 goes on to set out the objects and purpose of the Act as being to regulate the processing of personal data; to ensure that the processing of personal data is guided by principles set out in the Act; to protect the privacy of individuals; to establish the legal and institutional mechanism to protect personal data; and to provide data subjects with rights and remedies to protect their personal data from processing that is not in accordance with the Act.

The objects of the Act are further stipulated in a list of data protection principles set out under section 25, which are that personal data should be:

- processed in accordance with the right to privacy of the data subject
- processed lawfully, fairly and in a transparent manner in relation to any data subject
- collected for explicit, specified and legitimate purposes and not further processed in a manner incompatible with those purposes
- adequate, relevant, limited to what is necessary in relation to the purposes for which it is processed
- collected only where a valid explanation is provided whenever information relating to family or private affairs is required
- accurate and, where necessary, kept up to date, with every reasonable step being taken to ensure that any inaccurate personal data is erased or rectified without delay
- kept in a form which identifies the data subjects for no longer than is necessary for the purposes which it was collected
- not transferred outside Kenya, unless there is proof of adequate data protection safeguards or consent from the data subject

The starting point of an examination of the Act within a media context is the definition of "*personal data*" which is defined in the interpretation section as any information relating to an "*identified or identifiable natural person*". The principles set out under section 25 of the Act provide for purpose limitation and data minimization, and further espouse the principle of accuracy. The aforesaid principles, which mirror the GDPR principles, were considered by the Court of Justice of the European Union (CJEU) in the case of *Google Spain SL, Google Inc. v Agencia Española de Protección de Datos, Mario Costeja González (2014)* and resulted in a victory for privacy campaigners on the "*right to be forgotten*" in respect of information which had become "*outdated and inaccurate*".

A similar application of these principles under the Act is likely to affect the obligations of journalists, as to the accuracy and relevance of content at a later date from publication notwithstanding that the same may have been true or accurate as at the time of publication. Section 52 (1) (c) of the Act, like Article 85 of the GDPR, does provide artistic, literary and journalistic exemption to the application of data protection principles where the data controller "*reasonably believes that, in all the circumstances, compliance with the provision is incompatible with the special purposes*". It does not help that the term "*special purposes*" is not defined in the Act, but the wording of the section suggests that exercise of the exemption would not be as simple as relying on the exemption where content is journalistic, artistic or literary in nature and will require an objective test as to the reasonable belief of the data processor prior to publication.

Section 52 (3) of the Act provides that the Data Commissioner will prepare a Code containing practical guidance in relation to processing of personal data for literature, art and journalism. In view of the test laid out by the said provision, it would be prudent for the Code to provide practical guidance against the background of the objective considerations which section 52 (1) (c) sets up.

The Data Protection Act is modelled largely on the European Union's General Data Protection Regulations whose ramifications are still not fully worked out – supplying an additional arsenal for claims of breaches of reputational and privacy rights.

A good example of the interplay between the principles of statutory provisions in data protection legislation and ordinary principles of the common law is the decision of English Court of Appeal in *WM Morrison Supermarkets vs Various Claimants (2018) EWCA Civ 2399*, where the Court upheld a finding that under data protection legislation – in this case the United Kingdom's Data Protection Act, 1998 (**UK DPA**) – an employer can be liable for data breaches by its employees. The case involved a disgruntled employee of Morrison's supermarket who copied and published personal data relating to thousands of its employees. The affected employees filed a suit against Morrison's claiming damages against Morrison's for its own breaches as well as vicarious liability in respect of their personal data which had been misused in by the disgruntled employee in breach of the UK DPA. The claim against Morrison's for breaches of the UK DPA, failed but the High Court held that Morrison's was vicariously liable for the statutory breach of the UK DPA committed by the disgruntled employee. Both findings turned on whether under the UK DPA either or both were a data controller. Though not a data controller, at common law, Morrison's was vicariously liable for the acts of the rogue employee – the data controller. The appeal on the question of whether Morrison' was vicariously liable was dismissed. The Court of Appeal rejected arguments by Morrison's that the UK DPA is an exclusive comprehensive code thus unless provided, the remedy was not available. Having analyzed the arguments as to silence of the liabilities for employers for breaches by employee data controllers, and the concession made that UK DPA did not exclude common law remedies, the Court of Appeal concluded:

"… the concession that the causes of action for misuse of private information and breach of confidentiality are not excluded by the DPA in respect of the wrongful processing of data within the ambit of the DPA, and the complete absence of any provision of the DPA addressing the situation of an employer where an employee data controller breaches the requirements of the DPA, lead inevitably to the conclusion that the Judge was correct to hold that the common law remedy of vicarious liability of the employer in such circumstances (if the common law requirements are otherwise satisfied) was not expressly or impliedly excluded by the DPA."

The Court of Appeal also noted that the UK DPA did not contain a provision addressing the situation of an employer, where an employee data controller breaches the requirements of the UK DPA but also did not exclude such vicarious liability by applying the principle that if the legislation had intended to exclude the application of ordinary common law principles it would have done so expressly. We cannot in this article do full justice to the reasoning of the judgment which essentially was an attempt to apply well established common law principles to legislation seeking to protect privacy to what perhaps, not too accurately has been christened the information age. The Supreme Court of England heard Morrison's appeal from the Court of Appeal in November 2019 and will give its latest thinking on the interplay between legislation and the common law in this area.

While the subject is new, it is a perennial debate across the common law world that is set to recur. When legislation is silent is it ever appropriate to judicially supplant its provisions with principles of the common law and thus, while enhancing the remedies available, impose liability where parliament chose not to?

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'TAX-ACIOUS':

WHEN TAX COLLECTION BECOMES RATHER TAXING

Amazon, Jumia, eBay, Alibaba - these names have steadily become more of a necessity than a luxury. The increasing capability of individuals to "go online" has blown open the world of consumption, as the rapid development of technology means that goods and services produced and developed in one state can just as easily be exported to and consumed in another. Through a simple click of a button, a product manufactured in Beijing could be on its way to Nairobi, ready for a customer to use. Modern technology has allowed businesses around the world to increase their market presence and grow revenue margins without necessarily having a physical presence in the jurisdictions within which they operate and compete.

However, while the world of commerce is moving online at lightning speed, the global tax system appears to be lagging behind. The vast universe that is the internet is virtually impossible for any taxing authority to oversee, resulting in numerous exchanges of value going undetected. This movement has the potential of severe knock-on effects, since consumption taxes, like Value Added Tax (**VAT**), are a primary and vital source of revenue for many states. The intention of these taxes has always been to generate revenue for a state by taxing final consumers for their personal expenditures. However, many developing countries – Kenya included – have not yet fully tapped into systems which make it easier to track online commerce, meaning that businesses are still taxed where they have a physical presence as opposed to an online presence, thereby seemingly growing the hole in the taxman's pockets.

Moreover, while it is extremely difficult (and some would argue, impossible) to regulate the online customer's virtual market, this difficulty does not mean that the issue should be ignored. Indeed, many states and trading blocs have taken heed of the danger in form of reduced government revenues, and so have taken matters into their own hands.

Developments

The starting point in determining payment of VAT on cross-border transactions are guidelines that govern the place of payment, which is either the *'destination principle'* or the *'origin principle'*. Under the destination principle, VAT is paid on a transaction where the 'supply is consumed', i.e. where the transaction ends. This is common in business-to-consumer (**B2C**) transactions where the place of consumption of cross-border transactions, and thus the place of payment of VAT, is the jurisdiction in which the recipient of the good or service has their usual residence. The approach is also taken in business-to-business (**B2B**) transactions where VAT is paid in the jurisdiction where the recipient's business presence is located. Under the origin principle on the other hand, VAT is paid on a transaction where the supplier 'has a fixed establishment', i.e. where the supply begins.

Neville March Hunnings, in his article *Casenote on Debauve and Coditel* published in 1980, compared the sale of a Financial Times newspaper from London to Frankfurt by post and by fax. He posited back then – and was proved correct many years later – that the means of transportation should not make a considerable difference in the legal consequences attached to the sale, being highly critical of old-fashioned lawyers dealing with modern technologies. Hunnings went on to say:

"…we are faced in reality with two different forms of transportation … The end result is exactly the same: the physical object in London has been transported into the hands of the recipient in Frankfurt. The conceptual blockage which prevents this equivalence being acted upon is the lawyer's reluctance to move from Newtonian physics to quantum physics, an inability to attribute physical characteristics to anything that cannot be held and thus an unwillingness to accept that one can 'import' electronic signals. This reluctance is likely to have more serious consequences than that of cable television".

However, the above propoundments notwithstanding, one of the first major developments in the field came about many years later in 1998 with the OECD Ottawa Electronic Commerce Taxation Framework Conditions (**OTFC Guidelines**). The OTFC Guidelines were set to apply to cross-border supply of services and intangible property by suppliers who are not registered or required to register, in the destination jurisdiction under existing mechanisms. In a bid to avoid double taxation or unintentional non-taxation, the OTFC Guidelines stipulated that cross-border trade of services and intangible property should be taxed in the jurisdiction where consumption takes place i.e. the destination principle. The OTFC Guidelines went further to encourage all member countries to amend their national legislation to comply with this principle.

This call for unification was then picked up a few years later by the European Commission when, as per its 2015 Communication, it listed the completion of the "Digital Single Market" as one of its top priorities. This was directly complemented with the coming in to force of the EU Directive 2008/8/EC on 1 January 2015 (**EU Directive**). Before this date, services supplied to private individuals i.e. B2C supplies were taxed at the supplier's place of establishment, as per the origin principle, resulting in some companies taking advantage of tax planning opportunities and setting up shop in countries where the most preferential VAT rates apply, and registering all their European sales there. The EU Directive thus sealed off the tax loophole used by these multinationals by providing that digital services provided to a non-taxable person (i.e. a private individual) were to now be taxed at the place where the customer of the good is located, following the approach under the OTFC Guidelines.

The vast universe that is the internet is virtually impossible for any taxing authority to oversee, resulting in numerous exchanges of value going undetected.

Difficulties

While the above mentioned efforts by the likes of the European Commission and OECD in the field of VAT for online commerce are hailed for being progressive and a step in the right direction, there are still hurdles that the implementation of an international tax system has to overcome. For instance, uncertainty in the classification of supplies poses difficulties for suppliers. This was exemplified in the cases of *Commission v France ECLI:EU:C:2015:141* and *Commission v Luxembourg ECLI:EU:C:2015:143,* where the European Court of Justice denied affording digital books the same VAT status as afforded to physical books (for which member States were permitted to apply a reduced VAT rate). The Court held that the reduced rate of VAT is applicable to supply of physical books, and while support is also required to read an electronic book (such as a tablet or computer), such support is not included in the supply of electronic books. Thus, such a classification of the supply as made by the European Court of Justice is likely to increase the administrative burden for companies and may even affect how companies price their supplies, as different rates will apply depending on the classification, albeit for the same product.

Another issue with the proposed VAT models, is that they do not contribute to legal efficiency as they complicate the applicable tax provisions. Whether looked at on a global scale or even a smaller scale such as within the European Union, one will notice that virtually every state has differing laws governing VAT and applies different rates. Therefore, in cross-border supplies, it is not only the provisions of one of the jurisdictions that will affect a supplier, but normally the VAT provisions in two or more jurisdictions. These complex rules increase the compliance costs for supplier companies, thereby affecting the legal efficiency of the tax system, and even carries the risk of double taxation which could raise consumer protection issues.

The issue is further aggravated by the fact that there is no international consensus on digital taxation, resulting in individual states taking unilateral action to prevent possible double taxation or unintentional non-taxation. For instance, India has placed an 'equalisation levy' on online revenue earned by non-resident companies, and in New Zealand businesses selling to customers online within their jurisdiction now must register for Goods and Services Tax (**GST**). These legislative advancements, while evidence of the enthusiasm of tax authorities to pave their way towards what they see as their rightful share of the tax-take, further complicate matters for the sale of products across international borders.

Going forward

The foregoing brings to light the fact that many tax authorities are aggrieved by, or face an imminent threat from, the significant amounts of tax they are unable to collect from businesses operating within their jurisdiction without a physical presence. It is therefore evident that international coordination is not only desirable, but necessary, in order to improve tax collection efficiencies particularly on online cross-border sales. This coordination means that principles need to be agreed upon on three levels: a policy level, so that jurisdictions effectively agree upon where cross-border supplies are to be subjected to VAT; a legislative level, so that agreements between nations are effectively transformed into legislation that courts and tax authorities can refer to and apply; and finally an interpretive level, so that courts and tax authorities alike do not alter the intended outcome of legislation through divergent means of interpretation.

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"ENOUGH, I'M OFF!":

CONSTRUCTIVE DISMISSAL AS A FORM OF TERMINATION OF EMPLOYMENT

For some time, a good number of employees related to the saying "*it's the straw that broke the camel's back*" as they quietly but bitterly left their places of employment due to the employers' domineering conduct, with no recourse. This was so until recently when the Courts stepped in to consider constructive dismissal as a form of wrongful and unfair termination.

Black's Law Dictionary (9th Edition) defines constructive dismissal as *"termination of employment brought about by the employer making the employee's working conditions so intolerable that the employee feels compelled to leave."* An employee often resigns in response to the intolerable conditions brought about by the employer.

What constitutes constructive dismissal?

Constructive dismissal has not been codified in Kenyan law and the Courts have therefore placed reliance on common law as well as statutory law from foreign jurisdictions in order to apply it as one of the grounds for wrongful and unfair termination. This is not to say that foreign jurisprudence is binding on Kenyan Courts, but the concept has received a significantly greater comment and development from foreign Courts.

In *Anthony Mkala Chitavi v Malindi Water & Sewerage Company Ltd Cause (2013) eKLR,* the Kenyan Employment and Labour Relations Court held that constructive dismissal is founded in the Constitution and stated that: *"The doctrine and principles developed in other comparative jurisdictions would be equally applicable in Kenya because of the entrenchment of a justifiable right to fair labour practices under Article 41 of the Constitution."*

One such comparative jurisdiction is the United Kingdom where Lord Denning in *Western Excavating (ECC) Ltd v Sharp (1978) ICR221,* stated as follows while considering the issue of constructive dismissal:

"If the employer is guilty of conduct which is a significant breach going to the root of the contract of employment, or which shows that the employer no longer intends to be bound by one or more of the essential terms of the contract, then the employee is entitled to treat himself as discharged from any further performance. If he does so, then he terminates the contract by reason of the employer's conduct. He is constructively dismissed."

This has been interpreted to mean that an employee is said to have been constructively dismissed if:

- the employer is in breach of a fundamental term of the contract which makes the employment relationship untenable; and
- the employee resigns in response to that breach

Examples of such fundamental breaches include but are not limited to:

(a) unilateral variation of the contractual terms without any consent or reasonable engagement of the employees
(b) failure to pay wages or an unlawful deduction of wages
(c) demotion or major change to the employee's duties or status or sexual harassment.

The criterion used to determine if constructive dismissal has taken place is whether repudiatory breach of contract has occured through the conduct of the employer. The burden of proof in this form of employment termination, unlike in other forms of termination, lies with the employee. While under the Employment Act, 2007 the duty in showing that termination was fair is on the employer, constructive dismissal demands that the employee demonstrates that his or her resignation was justified.

The Court of Appeal in the leading case of *Coca Cola East & Central Africa Limited v Maria Kagai Ligaga (2015) eKLR,* went further to develop the test in proving a claim of constructive dismissal as follows:

(a) The employer must be in breach of the contract of employment
(b) The breach must be fundamental as to be considered a repudiatory breach
(c) The employee must resign in response to that breach

While it is trite that one of the remedies awarded to claimants in wrongful and unfair termination is reinstatement of employment, this option is not available to a claimant whose ground for wrongful termination is constructive dismissal.

(d) The employee must not delay in resigning after the breach has taken place, otherwise, the Court may find the breach waived

Examples of conduct which has been found to lead to constructive dismissal include frequent unjustifiable transfers, forceful resignations, non-payment of salaries, unwarranted suspensions, non-consensual changes in the job descriptions and job titles, downgrades in positions among others.

A case in point is that of *Lear Shighadi Sinoya v Avtech Systems Limited (2017) eKLR,* where the Court held that failure to pay an employee her salary could be construed as constructive dismissal. It was however noted that the same does not justify the absenteeism of the employee from work. In essence, to keep away from work while failing to serve the employer with a resignation letter or making attempts to resolve the existing conflicts may compromise a claim for constructive dismissal.

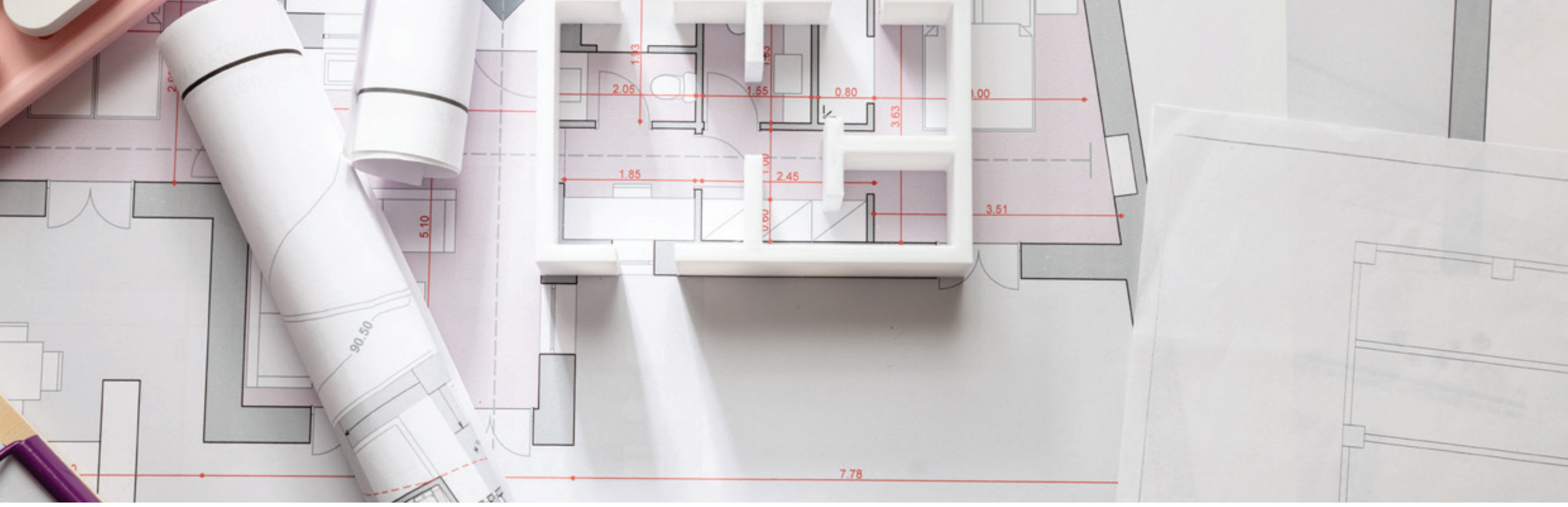
Although the Court looks at whether the employee delayed in resigning after the breach took place as was in the case of *Patricia Wangui v Standard Chartered Bank Limited (2019) eKLR,* it is important to note that notice of termination from an employee is not necessarily a bar to constructive dismissal claim. The employee may serve his or her notice and leave at the end of the said notice without affecting the merit of the constructive dismissal claim. Further, a quitting employee need not be unemployed for some period of time in order to succeed in a claim for constructive dismissal.

It has also been observed that the employee should be able to give a history of treatment that would be considered as a *"hostile environment at work",* leading to the employee's proverbial last straw. It may also be that the employee was frustrated by the employer to the extent of the employee believing that he or she was fired.

While it is trite that one of the remedies awarded to claimants in wrongful and unfair termination is a reinstatement of employment, this option is not available to a claimant whose ground for wrongful termination is constructive dismissal. A claim for constructive dismissal can be compromised if the employee takes steps that may be construed as intentions to remain in employment. This was seen in *Edwin Beiti Kipchumba v National Bank of Kenya Limited (2018) eKLR,* where the Court stopped a claim for constructive dismissal because an employee sought reinstatement a day after he had resigned.

Conclusion

Kenyan Courts have caught on to the trend of employers driving their employees out of employment by providing a "hostile work environment" and appear to be keen on curbing this practice. Therefore, employers need to evaluate their conduct towards their employees and their disciplinary procedures to ensure that they are able to successfully defend any claims of constructive dismissal raised by employees. Employers also need to maintain their records properly and ensure that they adhere to the law and their own human resource procedures to the letter.



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MASTER PLAN:

A LOOK AT THE NEW PHYSICAL AND LAND USE PLANNING ACT

Prior to the promulgation of the current Constitution in 2010, the Physical Planning Act, (Cap. 286) Laws of Kenya which came into force in 1998, regulated physical planning in Kenya. However, Article 66 (1) in the Constitution envisaged the need for the State to *"regulate the use of any land, or any interest in or right over any land, in the interest of defence, public safety, public order, public morality, public health, or land use planning and Article 60 on principles of land use."*

Accordingly, Parliament recently enacted the Physical and Land Use Planning Act, 2019 (**the Act**). The Act came into force on 5th August 2019 and repealed the previous statute of 1996. The Act not only integrates land use and devolution in physical planning, but also creates structures that are constitutionally sound. The main objectives of the Act under section 3 include providing the principles, procedures and standards for the preparation and implementation of physical and land use development plans at the national and county levels, in urban and rural areas as well the cities.

Sustainable Physical and Land Use Planning

Section 5 of the Act provides a number of principles and norms to be adhered to by every person engaging in physical and land use planning. Such principles include the need to ensure that physical and land use planning promote sustainable use of land in a manner that integrates economic, social and environmental needs of present and future generations. The Act also provides for the need to factor in the cultural heritage and emerging concepts, such as transit-oriented development, mixed land uses, in land use planning and development.

Shared Approach

Physical planning is both a national and devolved function under the Constitution. Whereas the national government is responsible for the general principles of land planning, each county government is responsible for its county's planning in terms of housing, land survey and mapping among others.

Nationally, an entity known as the National Physical and Land Use Planning Consultative Forum (**the National Forum**) has been established under section 6 of the Act. The National Forum comprises of, among others, cabinet secretaries responsible for physical and land use planning, economic planning, environment, roads and infrastructure, social community development, culture and defence or their principal secretaries as their representatives. The Director General for physical and land use planning (**the Director General**) and the Chair of the National Land Commission are also members of the National Forum.

The National Forum is responsible for physical planning and is intended to be a medium for consultation, coordination, resource mobilisation and advice concerning land use and physical planning in the country. The National Forum is required to meet at least four (4) times a year and may establish committees for the better discharge of its functions.

The Director General under sections 22 and 23 of the Act is mandated to formulate a National Physical and Land Use Development Plan (**the National Plan**), to ensure optimum, equitable and sustainable utilisation of land in physical planning in Kenya. In preparing the National Plan, the Director General is required to consider the relevant national policies, national security interests, ensure public and stakeholder participation and is also expected to consult the National Forum. The National Plan requires approval by both the Cabinet and Parliament before it is formally adopted and is also required to be reviewed every ten (10) years or on a need basis.

As far as counties are concerned, each county should have a County Director of Physical and Land Use Development Planning (**the County Director**), whose function is to, among other things, advise the county government on physical and land use planning matters, prepare the county physical planning and land use development plan (**the County Plan**) and participate in the preparation of the inter-county physical planning and land use development plans.

The Act provides that each county shall have a County Physical and Land Use Planning Consultative Forum (**County Forum**). The County Forum shall be chaired by the County Executive Committee Member (**CEC Member**) responsible for physical and land use planning with the County Director, CEC Members responsible for economic planning, environment, roads and infrastructure, social development as some of its members.

The County Forum is required to meet at least four (4) times a year and among other functions, is responsible for intra-county and inter-county consultation on physical and land use planning.

In line with the proposed inter-county deliberations, section 29 of the Act provides that two or more counties may through mutual consent or out of necessity formulate an Inter-County Physical and Land Use Development Plan (**the Inter-County Plan**). The preparation of this Inter-County Plan is to be spearheaded by the Inter-County Physical and Land Use Planning Joint Committee (**the Inter-County Committee**). The Inter-County Committee is required to also consider the interest of national security, public and stakeholders' input in the preparation of the plan. Inter-County Plans are subject to approval by the respective county assemblies and adoption by the governors of the said counties. A County Plan shall conform to both the National Plan and Inter-County Plan and shall be prepared once in every ten (10) years.

Special Planning Area

The Act, under section 52, authorises county governments to declare an area as a special planning area, if amongst other things, the area has a unique development, natural resource, environmental potential or challenges or that the area has been identified as suitable for intensive and specialised development activity. Where a county government has declared an area as a special planning area, the CEC Member by a Gazette notice may suspend for a period of not more than two (2) years any development in the special planning area until a Physical and Land Use Development Plan in respect of that area has been approved.

Development Control

Development is defined in section 2 of the Act as carrying out any works on land or making any material change in the use of any structures on the land. Section 55 of the Act imposes development controls to ensure an orderly, sustainable and optimal physical and land use that will promote public safety, health and public participation. As such, a person is not permitted to carry out development within a county without development permission granted by the CEC Member pursuant to section 57 of the Act. Where a person commences development without obtaining development permission, the CEC Member may pursuant to section 57 (4) of the Act, demand that, within ninety (90) days, the person restores the land on which the development is taking place to its original condition or as near to its original condition as is possible. The CEC Member is also empowered by sections 57 (6) and (7) of the Act to revoke development permission if the applicant contravenes any provision of the Act or imposed conditions on the permission. However, the CEC Member may also modify such conditions where necessary.

Section 58 of the Act demands that an applicant for development permission shall indicate the proposed use of the land, the population density to which that land shall be subjected to and the portion of the land the applicant shall provide for easements as a consequence of the applicant's proposed development. Where an applicant is not the registered owner of the land for which development permission is being sought, that applicant shall obtain the written consent of the registered owner of that land. An applicant is also required to notify the public and invite them to submit their objection(s) to the proposed project to the CEC Member, in the prescribed manner. This is pursuant to section 58 (7) of the Act.

Section 59 emphasises that a person applying for development permission is to ensure that any documents, plans, and particulars that are provided to the CEC Member have been prepared by the relevant qualified, registered and licensed professionals. If called upon, the applicant may need to prove the qualifications of those professionals.

The CEC Member is required by section 61(2) of the Act to either grant or deny (with reasons in writing) the permission sought within thirty (30) days of application. To curb unnecessary delays in seeking this approval – and the attendant window for corruption, section 58 (6) of the Act now dictates that where an applicant does not receive written response for development permission within sixty (60) days, such permission shall be assumed to have been given in terms of the Act. This is of course, a positive development towards rooting out corruption.

Right to Appeal

An applicant or an interested party aggrieved by the decision of the CEC Member regarding an application for development permission, may appeal against that decision to the County Physical and Land Use Planning Liaison Committee (**County Liaison Committee**) within fourteen (14) days of the decision, as provided for under section 61(3) and (4) of the Act. The County Liaison Committee is required to hear and determine the appeal, within fourteen (14) days of the appeal being filed. If a person is dissatisfied with the decision of the committee, the person may appeal further to the Environment and Land Court.

Development Fee

A CEC Member may levy a development fee against an applicant, for development permission subject to section 63 of the Act. However this fee may also be waived in which case the CEC Member may require the applicant to develop infrastructure in relation to the property in question for general use by the residents of the area where the property in question is located.

Physical planning is both a national and devolved function under the Constitution. Whereas the national government is responsible for the general principles of land planning, each county government is responsible for its county's planning in terms of housing, land survey and mapping among others.

Commencement and Completion Timelines

Section 64 of the Act is now categorical that an applicant must commence the proposed project within three (3) years of receiving the development permission, otherwise, such permission shall lapse unless an extension (on application) is granted, for a period not exceeding one (1) year.

Building works must also be completed within five (5) years of the grant of the development permission. This requirement is stipulated in section 65 of the Act. Failure to comply with this timeline, may lead the CEC Member to impose such conditions or fines. As part of the transition mechanisms under section 92 of the Act, any approval granted under the repealed Physical Planning Act shall lapse, if no development is carried out within twenty four (24) months from the commencement of the Act. Further, where an application was pending under the repealed statute, it shall be deemed to have been on the date of commencement of this Act.

Offences

The Act creates a number of offences. For example, it is an offence under section 57 (2) of the Act for a person to commence any development without obtaining development permission. This offence has a penalty of a fine not exceeding KES 500,000 or imprisonment for a term not exceeding two (2) months or both.

A CEC Member may serve an owner, occupier, developer or agent of a property with an enforcement notice where a development is commenced without permission or where any of the conditions that were imposed by a CEC Member when development permission was granted is contravened. A person who fails to comply after service of an enforcement notice commits an offence and is liable on conviction, to a fine of not less than KES 500,000 or to imprisonment for a term of not exceeding than two (2) months or to both pursuant to section 72(5) of the Act.

Under section 81 of the Act, failure to honour summons to appear before a County Liaison Committee or to produce any document before it as may be required, is also an offence which upon conviction, attracts a fine of not more than KES 25,000.

Failure by a member of the National Liaison Committee or a County Liaison Committee to disclose his or her interest in any matter under consideration is also an offence under section 85 of the Act. Upon conviction, such a person shall be liable to pay a fine not exceeding KES 100,000 or to a term of not more than two (2) months imprisonment or both.

Conclusion

The objects of the Act are extensive and include making provisions for the planning, use, regulation and development of land and for connected purposes, as noted in the preamble. Standards, principles and procedures are clearly provided for in the Act, to ensure the orderly implementation of physical development plans, at all levels, whether nationally or regionally, whether in cities or rural areas.

The provisions in the Act are far-reaching and it is important to note that despite the extensive legislative ambit, what is critical will be both the national and county governments' commitment to its successful implementation. As the Act is still new, any attempt at this stage to assess its impact or efficacy will be jumping the gun. One can only hope that the extensive provisions in the Act will be implemented, to enable the Act realise its objectives and to ensure that Kenya's limited land resources are properly exploited with effective planning and control, to avoid abuse.

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SIMILAR, BUT NOT SAME:

KEY DECISION BY INDUSTRIAL PROPERTY TRIBUNAL ON REGISTRATION OF INDUSTRIAL DESIGNS

Industrial Design

Section 84 of the Industrial Property Act, 2001 (**the Act**) defines an industrial design to mean *"any composition of lines or colours or any three dimensional form, whether or not associated with lines or colours: provided that such composition or form gives a special appearance to a product of industry or handicraft and can serve as a pattern for a product of industry or handicraft."*

To put it differently, an industrial design is concerned with the appearance of the property and the use of the said property for industrial purposes. It should be noted however that an industrial design does not in any way protect the method of producing or creating a property, which would fall under the realm of patent.

Prof. B. Sihanya in his book *Intellectual Property and Innovation Law in Kenya* identifies three (3) things that an industrial design must have. First, it must be novel or new. Secondly, it must be original i.e. not a copy. Finally, it must have an individual character which means that an informed user must be able to distinguish the design from any earlier designs.

An industrial design is protected for a specific duration, with the option of renewal of registration that does not exceed a pre-stated maximum period. If the maximum protection period expires or there is a failure to renew the registration, protection cannot be granted. The Act mandates the Kenya Institute of Industrial Property (**KIPI**) to register, renew and revoke industrial designs. It also establishes the Industrial Property Tribunal (**the Tribunal**), which is mandated to make determinations on disputes relating to industrial designs and other forms of intellectual property rights.

ARIPO Regime

The African Regional Industrial Property Organisation (**ARIPO**) is an inter-governmental organisation made up of various African states, that facilitates cooperation amongst member states in intellectual property matters. Towards this end, ARIPO member states recognise industrial designs registered under the ARIPO regime, within the local jurisdictions of the various member states. This is by dint of Article 1(3) of the Protocol on Patents and Industrial Designs within the Framework of the African Regional Intellectual Property Organization (**ARIPO Protocol**) which Kenya is a party to.

Section 92(4) of the Act recognises that *"An industrial design in respect of which Kenya is a designated State registered by ARIPO by virtue of the ARIPO Protocol shall have the same effect in Kenya as an industrial design registered under this Act unless the Managing Director has communicated to ARIPO, in respect of an application thereof, a decision in accordance with the provisions of the ARIPO Protocol that if a registration is made by ARIPO that registration shall have no effect in Kenya."*

Parallelism

It is clear that one can enjoy protection of an industrial design through registration of the design either under the Act or under ARIPO. But does this parallelism in registration regimes carry with it any potential conflicts? There is certainly a difference in the periods of protection offered under the two regimes. Whereas the national regime - pursuant to section 88 of the Act, provides that registration of an industrial design grants protection for five (5) years which may be renewed for two (2) further consecutive periods of five (5) years - thereby allowing for a potential cumulative period of protection of fifteen (15) years, the ARIPO regime on the other hand, at section 4 (6) of the ARIPO Protocol - stipulates that the duration of protection upon registration of an industrial design shall be ten (10) years albeit without an option for renewal.

This conflict arising from the different periods of protection came to the fore in a recent case filed before the Tribunal between RSA Limited (**RSA**) and the Managing Director, KIPI, and various interested parties including Toyota Kenya Limited and Cruise East Africa Limited (**the RSA Case**).

The RSA Case

RSA, a company incorporated in Tanzania, had registered fifteen (15) industrial designs for tour motor vehicles on various dates under the ARIPO regime for a term of ten (10) years. Nearly one (1) year after the registration period of the industrial designs had expired under the ARIPO Protocol, a dispute erupted over the use of the industrial designs between RSA and the interested parties, with RSA claiming that the industrial designs were "protected". RSA also ought to renew its designs with KIPI under the Act, (following their expiry under ARIPO), arguing that under the ARIPO Protocol, RSA was entitled to the same period of protection as Kenyan industrial designs.

Upon RSA applying to KIPI for renewal of the industrial design, the Managing Director, KIPI, filed a reference before the Tribunal under section 118(1) of the Act, allows the Managing Director to seek the Tribunals' directions on matters involving points of law or of unusual importance or complexity. The Tribunal was therefore called upon to determine the following issues:

(i) Whether or not registration of the industrial designs may be renewed in accordance with the provisions of section 88 of the Industrial Property Act upon expiry of the period of protection under the provisions of section 4(6) of the ARIPO Protocol?

The ARIPO and Kenyan registration regimes for industrial designs remain parallel even though they both operate within the same legal space. The main advantage of an ARIPO registered design is that it will enjoy protection within Kenya as well as other designated ARIPO states

(ii) Whether or not the provisions of section 89 operate as a bar to the application for restoration and renewal of the industrial designs?

On the first issue, the Tribunal found that as long as the applicable annual fee was remitted to ARIPO, then the industrial designs enjoyed unqualified protection in Kenya similar to any industrial design registered under the Kenyan Act for the duration of their protection under the ARIPO Protocol, even though this did not have the effect of "converting" the industrial designs into Kenyan designs.

The Tribunal also held that if the industrial designs were to be converted into Kenyan designs, it would mean that the designs would be protected for the period provided under the Kenyan Act, i.e. five (5) years, renewable for a further two (2) terms of five (5) years each, upon payment of the applicable annual fees to KIPI. The Tribunal however, found that the ARIPO Protocol did not authorise the Managing Director, KIPI to alter or even renew an industrial design registered under ARIPO and as such, RSA's designs could not be renewed by KIPI.

On the second issue, the Tribunal was called upon to consider the effect of section 88 (3) of the Act, which provides for renewal of a design at least a one (1) year before its expiry and section 89 of the Act, on restoration of an expired term within one (1) year from the date when the renewal fee was due. Here, it was the Tribunal's finding that these sections of the law were couched in mandatory terms both in respect of time for making the application and in giving reasons for failure to make the application within the set timelines. The Tribunal also emphasised that the Act's provisions on renewal and restoration could only apply to Kenyan designs, and that failure to comply with the said provisions would operate as a bar to renewal and/or restoration.

Conclusion

The ARIPO and Kenyan registration regimes for industrial designs remain parallel even though they both operate within the same legal space. The main advantage of an ARIPO registered design is that it will enjoy protection within Kenya as well as other designated ARIPO states.

However, an ARIPO registered design is disadvantaged in Kenya as the same is limited to the period of protection provided under the ARIPO Protocol and is not open to renewal or restoration by KIPI. Industrial designs registered under the Kenyan Act enjoy a longer cumulative period of protection of up to fifteen (15) years, subject to renewal after every five (5) years. However, the Kenyan industrial designs only enjoy protection within the confines of Kenyan jurisdictional limits.

It is important to note that following the Tribunal's decision, RSA has since moved to the High Court on appeal. It remains to be seen whether the High Court will affirm, vary or set aside the Tribunal's decision. Whatever the outcome, and the decision will undoubtedly be a jurisprudential moment on the matter, and hopefully put to rest to the apparent conflicts arising from parallel registration regimes of industrial designs.

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SYNERGY AND DISRUPTION:

A LAWYER'S PERSPECTIVE ON THE WORLD OF FINTECH

According to the Global System for Mobile Communications (**GSMA**), the world is home to over 9.3 billion mobile cellular connections, which surpasses the world's population of over 7.7 billion people. Kenya alone has 47.9 million mobile connections against a population of 47 million Kenyans.

Kenya is a country of particular importance to the subject of financial services having made a convincing case for itself as a global leader in mobile money through the success of M-PESA which has driven financial inclusion in the country to about eighty three per cent (83%) up from twenty six per cent (26%) before M-PESA was launched in 2007.

The main driver for the growth of financial services is technology, in particular, mobile cellular devices. The use of financial technology (**fintech**) does not occur only in financial services but is also now quite firmly entrenched in the daily lives of Kenyans, and other jurisdictions in the world such as China that are leading in financial innovation.

In a world where mobile technology is becoming a part of our daily lives, there is emerging space for opportunities across different industries that rely on the financial services sector. In the next few years, a lot of these opportunities in fintech will potentially provide a new revenue stream for law firms in the form of transaction advisory services as well as dispute resolution cases for litigation. Lawyers in Africa have recently started to equip themselves with skills that empower them to take up these new opportunities.

Emerging Trends, Risks and Opportunities

Regulation

Innovation in any economy is facilitated by an enabling regulatory framework and a friendly economic climate. In the financial sector, investors should expect applications for licensing to be more rigorous than other industries especially where new innovation is concerned.

The role of financial regulation is to protect consumers of financial services from fraud or related risks and any reasonable fintech should welcome regulation. In Kenya, investors seeking to set up fintech companies will usually require licenses and approvals from the Central Bank of Kenya (**CBK**) for banking, remittance or payment services, Capital Markets Authority (**CMA**) for wealth and investment management services, Communications Authority of Kenya (**CA**) for fintech products that have content and/or the Insurance Regulatory Authority (**IRA**) for insurance or pension products. Most regulators will usually require a fintech investor to make a presentation of their innovation at a meeting during or before the approval process is finalised.

A prudent investor would want to be accompanied by counsel who understands fintech regulations well in order to demonstrate full compliance with the law especially regulation around risk management and consumer protection.

Blockchain

In recent years, it is no longer new to read or hear about fintech companies around the world that are employing the use of blockchain in innovation of payment solutions. The key features of blockchain are its immutable nature, decentralisation and transparency. The typical use for blockchain in a court trial for instance would be in prosecution of fraud where a prosecutor or litigant would adduce before court, logs of a financial transaction whose details are seemingly "tamper-proof".

In Kenya, CBK issued a public notice on virtual currencies such as Bitcoin which run on blockchain technology. One therefore needs to be aware of that cryptocurrencies are not considered to be legal tender in Kenya, going by the regulatory notice issued by CBK to the public. There are however several other use cases for blockchain technology that are fast-emerging especially in the payments space. The fintech lawyer of the future will need to be well versed with the most modern trends in these and cutting-edge financial technology to represent their client's interests effectively.

Big Data, Artificial Intelligence and Data Protection

Fintech companies are some of the most data-heavy companies due to the inevitable volumes of digital transactions they process every day. Customer behaviour and transaction history has historically been used by financial institutions for purposes of establishing consumer insights and undertaking customer credit due diligence. Today, technologies such as artificial intelligence (**AI**) have enhanced the accuracy of consumer insights. Large fintechs are using AI and machine learning to tell apart good borrowers from bad borrowers and to scientifically assign them with a credit score. With the emergence of big data at the center of innovation of customer-focused products and services around the world, several risks arise to both consumers and fintech clients, highest among them being privacy and data protection concerns.

The Kenyan Parliament has recently enacted the Data Protection Act, 2019 (**DPA**), which requires all data controllers and data processors to hold a valid registration with the Data Commissioner. The DPA supplements the Constitution of Kenya, 2010 (**the Constitution**) which already provides for the protection of personal information as a constitutional right. Under Article 31 of the Constitution, every person has the right not to have information relating to their family or private affairs unnecessarily required or revealed.

Data controllers and processors now have a strict obligation to seek customer consent prior to the processing of personal data which consent must be express, unequivocal, free, specific and an informed indication of the data subject's wishes by a statement or by a clear affirmative action. It will no longer be sufficient to seek implied consent. It will be interesting to see the effects of this requirement which is likely to require data controllers and processors to adjust their business models which would come at a cost. A lot of fintech companies will for instance, need to substantially change the technological architecture of most of their products and re-design their product customer journeys adding certain critical steps to enable compliance with the requirements of the DPA. Fintech companies will need to move with speed and seek the services of data protection officers and data privacy lawyers as some of the key consultants needed to advise on the application of the DPA to their businesses.

The DPA prescribes stiff penalties for any person who violates the rights of a data subject which include financial sanctions as well as imprisonment for up to ten (10) years.

Money Laundering Concerns

All payment systems or financial services providers face a risk of money laundering particularly where there is an attempt by perpetrators to hide funds derived from or intended for criminal transactions. In Kenya, the Proceeds of Crime and Anti-Money Laundering Act, 2009 (**ProCAMLA**) and the regulations passed under the Act prescribe numerous compliance measures required to be undertaken by financial institutions including continuous reporting. ProCAMLA requires financial institutions to report any transaction of KES 1 Million (USD 10,000) or more to the Financial Reporting Centre (**FRC**) and to supply documentation related to the transaction.

Failure to comply with the ProCAMLA and regulations attracts steep sanctions including individual responsibility of senior management individuals of financial institutions.

Cyber Security

Every organisation, large mid-sized or small is a potential target for cybercrime and most individual internet or mobile device users interact with different variations of threats to cyber security every day. Cybercrime has been on the rise not just in Africa but across the globe thanks to the extensive digitisation of economic activities in the last decade. In the GSMA Mobile 360 Series held in Kigali, Rwanda, Africa was identified as both a source and target of cybercrime largely due to lack of a unified regulatory and institutional framework geared towards fighting or prevention of cybercrime. Lack of awareness was also cited as a contributing factor.

Kenya has interestingly led some of her African counterparts in enacting legislation specific to cyber security. The Computer Misuse and Cybercrimes Act, 2018 (**the Act**) seeks to provide a legal framework for prevention, prosecution and control of cybercrimes. The Act provides a framework for monitoring and enforcing action against cybercrime.

The fintech market is one of the key focus areas of the Act as evidenced by the express protection afforded to mobile device users under the Act. The legislation criminalises cyber offences including computer fraud and unauthorized access to computerized systems. There are still however unresolved concerns around the admissibility of digital evidence in cybercrime cases. Kenyan courts, prosecutors and members of the bar have recognized the challenges paused by an outdated Evidence Act (Cap. 80) Laws of Kenya and lack of institutional capacity to admit digital evidence among the factors that have weakened the fight against cybercrime.

Protecting Innovation

At the center of a typical fintech product, lies an innovative solution that may give rise to intellectual property rights attributable to the creator or owner. In Kenya, the owner of a globally recognised IP right does not need to register such rights locally to be able to enforce their IP rights. Kenya is a State party to the African Regional Intellectual Property Organization (**ARIPO**) on Patents and Industrial Designs which enables multi-jurisdictional rights with respect to patents, industrial designs and utility models.

These IP rights are further facilitated by the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (the Madrid Protocol) which continues to have the force of law in Kenya and therefore trade mark rights may also be registered and enforced in Kenya under its provisions. Kenya is also a party to the Patent Co-operation Treaty (PCT) that allows parties to file IP claims internationally though resulting in national rights only.

The growth of fintech in Africa has seen an increased number of requests by innovators to have their IP rights protected, while most large players in the global technology markets hold IP rights valued at billions of dollars. Counsel advising fintech clients will continue to play a critical role in securing their innovations whose registration processes will most probably evolve to digital channels.

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Established over 43 years ago by George Oraro SC (one of Kenya's top litigators), Oraro & Company Advocates is a top-tier, full-service Kenyan law firm providing specialist legal services both locally and regionally in Arbitration, Banking & Finance, Conveyancing & Real Estate, Corporate & Commercial, Dispute Resolution, Employment & Labour, Infrastructure, Projects & PPP, Restructuring & Insolvency and Tax. The firm has been consistently ranked by leading legal directories such as Chambers Global, IFLR 1000 and Legal 500 and its partnership includes well-recognised advocates who are regarded for their expertise in their respective areas as well as their significant contribution to Kenyan jurisprudence.

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