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EXPLORE

Insights from the DLA Piper Mining Sector

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Cover image courtesy of BC Iron.

WELCOME to the first edition of Explore, DLA Piper's magazine for the mining sector. Three times a year we will bring you a selection of insights from our global mining team.

Mining is one of the most diverse industries on the planet; not just in terms of geographic spread but also in respect of participation. Miners, institutional investors, off-takers, governments and financiers all play a critical role in the business of mining. And that means that priorities – and points-of-view – can be markedly different from one person to the next.

With that in mind we present a selection of contributions from team members in Australia, the United Kingdom, South Africa and Brazil. The topics covered are as diverse and varied as the locations of their authors.

If the recent lean times have taught us anything it is to maintain a strong focus on cost containment and efficiencies and our first two articles explore this theme. David Richardson's article on **technological innovation and IP protection** serves as a timely reminder to practice IP 'hygiene', while Matthew Saunders and David Harley tackle the vexed issue of **take-or-pay contracts** in a volatile commodities market.

Africa continues to be a hot destination but will the momentum survive the current round of regulatory reform? David Nancarrow and Patrick Mohen suggest that it is possible to develop a sophisticated and sustainable **mining regime** without putting the brakes on exploration and development. Jackwell Feris examines the proposed changes to the protection of **mining rights in South Africa** and considers the implications for foreign investment.

Finally, Louise Soper suggests that the traditional divide between public and private human rights protections is shrinking. The result? Participants at every stage of the supply chain will need to pay close attention to their **human rights footprint**.

And to draw this edition to a close, we turn the spotlight on one of our team members, update you on new arrivals, new office openings and offer some dates for your diaries.

We hope that this publication is useful to you and would appreciate receiving your comments or suggestions.
To provide feedback, click here.

Moscow to Mauritius, Poland to Perth, Jakarta to Johannesburg

Robert Edel
Global Head of Mining
Perth, Australia
robert.edel@dlapiper.com

INTRODUCING THE DLA PIPER MINING SECTOR

DLA Piper's mining-focused lawyers offer practical and relevant advice that is grounded in commercial reality. They advise on many of the world's most significant mining and logistics projects, involving the acquisition, operation and development of mines, road and rail systems, ports and new mineral provinces. DLA Piper has a network of experienced people across both traditional and emerging mining centres and the ability to support your business needs, wherever you do business in the world.

For further information, please contact one of our regional team leaders:

AMERICAS

Stuart Berkson
stuart.berkson@
dlapiper.com

Joseph Tato
joseph.tato@
dlapiper.com

ASIA PACIFIC

John Shi
john.shi@
dlapiper.com

Robert Caldwell
robert.caldwell@
dlapiper.com

EUROPE, MIDDLE EAST & AFRICA

Petra Billing
petra.billing@
dlapiper.com

Charles Severs
charles.severs@
dlapiper.com

We work where you work.

TAKE-OR-PAY CONTRACTS A DOUBLE EDGED SWORD

Take-or-Pay contracts are fundamental to the effective operation of contracts across the mining and energy sectors, but times change and what seemed a good deal may look very different when you are on the wrong end of the bargain. Matthew Saunders and David Harley suggest ways for buyers and sellers to protect themselves in a dynamic market.

Take-or-pay contracts are fundamental to the effective operation of contracts across the mining and energy sectors, providing certainty of income to sellers, a crucial feature for projects with very large initial capital investment. They are vital for project proponents who have invested large amounts of capital into a project for start-up purposes, and now need the commercial certainty of guaranteed income in order to finance project loans – indeed, lenders will often not fund projects without take or pay commitments in place to provide certainty of the ability to repay financing loans.

So far, so commercially prudent. But for every seller of a commodity or of a service such as rail haulage, there is a buyer – and times change; what seemed a good deal in the context of a certain competitive dynamic in a given market may change profoundly, or a market may shrink in size, sometimes overnight. Recent negative changes, especially in the Chinese economy, have led to falling demand for minerals across the board. All of a sudden take or pay obligations look different; for buyers they are excessively onerous where a market has disappeared and for sellers they may be a lifeline where products can no longer be sold on the "open market". Either way, the relevant contractual clauses will come under greater scrutiny, with those on the "wrong" end seeking to find a way of removing, or at least mitigating the burden. So what should parties be bearing in mind with such obligations?

The problem with take-or-pay clauses is that they are inherently vulnerable in times of economic difficulty and both sides are at risk if the take-or-pay commitment becomes too far removed from the reality of the current market.

On the buyer's side, clearly if markets are falling the obligation to pay for a commodity or service which is now over-priced, unsellable or simply economically burdensome is a significant draw-back. Sellers however should be alive to the fact that if prices crash, the most obvious consequence is a dispute caused by non-payment. Even if the legal solution to a dispute is relatively straightforward,

it can still be costly in both time and money to bring the necessary legal proceedings to force a buyer to comply with their obligations. The added problem with take-or-pay contracts is that more often than not the legal issues they raise are extremely complicated.

CHOOSE THE RIGHT DANCE PARTNER

A take-or-pay obligation is effectively pointless if the buyer is going to become insolvent because of the weight of its take/pay obligations. Sellers should:

- Investigate the buyer's ability to pay before the clause is agreed
- Consider the complexity of the relevant insolvency laws that will apply
- Require sufficient payment security for a year. Where a buyer chooses not to take delivery, in some sectors it is often not required to make interim payments and can wait until the end of the relevant period to pay the amount specified.

Given the scale of burden that such clauses can impose, it is hardly surprising that ingenious (or desperate) counterparties are running novel legal arguments seeking to undermine the critical obligations of take-or-pay contracts.

UNENFORCEABLE PENALTIES?

Recent court decisions in Australia and the United Kingdom leave miners open to a potential legal challenge on the basis that take-or-pay obligations amount to a penalty and are unenforceable.

To avoid this risk, sellers should take care to ensure that take-or-pay arrangements are commercially justifiable and, to the extent possible, achieved through arms-length commercial negotiations. They should consider including a provision for re-pricing of the commodity depending on the prevailing market conditions. This has long been a feature of long-term gas supply contracts, and the attractiveness of the flexibility it provides is clear.

In the gas sector, clauses generally give a right to seek negotiation of revised pricing if over a stipulated period of time there is change in the relevant defined market such that the gas can no longer be "economically marketed". Of course, this does not avoid disputes (scores of arbitration lawyers, including the authors, have spent many months arbitrating such clauses) but they do render workable against changed market conditions what are often very long term take-or-pay obligations.

Interestingly though, such clauses are less common in commodities contracts outside of the gas sector. Why such re-pricing provisions have not spread widely into other commodity sectors is unclear, not least because the sustainability they lend to contractual bargains would seem to have advantages for both sides to the bargain.

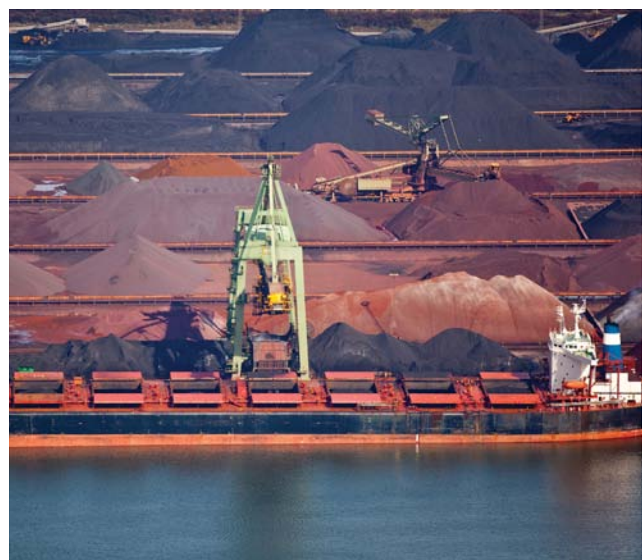
NO WAY OUT

Most business people will be familiar with the expression 'force majeure'- a standard clause in contracts that allows one party to cancel/suspend the contract or be excused from its performance on the basis of an event occurring that is beyond its control.

English law does not recognise a doctrine of force majeure outside of the wording of the contract itself so it is entirely up to the parties themselves to specify what constitutes 'force majeure' in relation to their agreement. (In stark contrast to many civil law regimes, where it does have an agreed meaning.)

The risk, of course, is that if it is not in the contract, it is not covered.

Let us imagine that a buyer is prevented from taking delivery because an earthquake has destroyed its processing plant and it cannot receive, store or process the commodity it is still committed to purchase. It could be argued by a seller that a buyer's real obligation under the take-or-pay contract is to pay for the commodity or service. The actual ability to pay will not be affected by its factory being destroyed. All that would do is make it very difficult (but not physically or commercially impossible) for them to pay (because of the likely adverse financial consequences). Unless the contract specifically refers to such a situation, these parties are in for a protracted legal dispute.



It is important to note that in English law economic hardship, even very severe economic hardship, will not be considered a force majeure event.

If such an "escape route" is wanted then express "economic hardship" provisions must be drafted, but such clauses are often vague and there is always the difficulty of objectively assessing when sufficiently severe "economic hardship" has arisen. And that means the lawyers get involved.

This, in brief terms, is a clause which excuses a party from performance where it has become unduly economically onerous for them to do so. Usually though there is a requirement for the parties to renegotiate their agreement, rather than simply letting one side "off the hook".

A problem with these clauses is that they are also open to quite different interpretation in civil and common law jurisdictions. Because economic hardship clauses are seen as a type of force majeure clause, all the risks and difficulties inherent in that doctrine apply to economic hardship clauses as well. In a common law system, everything will turn on the definition of "hardship" used in the contract. There is a good deal of unavoidable uncertainty, making this an especially fertile area for litigation and arbitration lawyers (hence, this article!).

For both buyer and seller, the key point is to consider whether the take-or-pay obligation is absolute or whether it is qualified in certain circumstances, such as in the event of force majeure or failure to supply.

PICK YOUR BATTLE GROUND

Another consideration for parties to a take-or-pay contract is the law of the place of dispute resolution ("lex fora") they have agreed and whether they have chosen litigation or international arbitration.

The lex fora may often not be the same as the law which governs the contract. For instance, a Chinese company could contract with an Australian company concerning commodities being mined in Australia. The law chosen for the take-or-pay contract is English law, but England would clearly not be a convenient location for hearing any dispute. Hence the parties choose Australia as the place of dispute resolution (or perhaps Singapore as a seat for arbitration). This means that the Australian/ Singaporean courts will be asked to apply English law. This is fairly common and courts are used to doing so, but it is just another consideration to bear in mind (not least because "sophisticated" courts may find this easier to achieve than others). The law of the place of dispute resolution will also affect the procedure of any dispute process which may be relevant as to how various issues are proven by use of expert and factual evidence.

A final consideration with take-or-pay contracts is that the dispute resolution process may also be affected by "mandatory" local laws, usually of the place where the contract is being performed. These are laws which cannot be contracted out of in a domestic situation through parties deliberately choosing a different governing law in order to circumvent them. The issue becomes very complicated when the contract is not domestic because it has an international element and legal doctrine in this area is far from clear or settled across different jurisdictions. Cynics (including the authors) observe that resort to mandatory law can sometimes represent little more than a "fig leaf" covering a court seeking to give a party "home player advantage" through negating the otherwise valid choice of a neutral foreign law. Clearly, this is an area in which it is prudent to seek specialist legal advice.

*This article has been edited for size. If you would like to receive the full-length version, please contact Stephanie Airey.

ABOUT THE AUTHORS

London-based partner **Matthew Saunders** is joint head of our International Arbitration group. He focuses on international arbitration and commercial litigation relating to international projects, including proceedings under bilateral investment treaties. He also focuses upon international fraud and asset tracing litigation and has experience of large scale judicial review proceedings.
matthew.saunders@dlapiper.com

David Harley is a partner based in Brisbane where he advises clients in the energy and resources sectors on project development work, procurement, construction and general commercial and corporate matters.
david.harley@dlapiper.com

AFRICA RISING

LEGISLATIVE CERTAINTY NEEDED TO KEEP THE RICHES FLOWING

David Nancarrow and Patrick Mohen look at the importance of certainty of law in delivering African resources projects.

United States President Barack Obama commenced his 2013 African tour with a speech in Senegal stating that "*Africa is rising… This is going to be a continent that is on the move. It is young. It is vibrant and full of energy*". Africa is indeed rising. According to the World Bank, half of the world's ten fastest growing economies are in Africa. However for Africa to continue its economic and social rise the continent must ensure it provides investors, both local and international, with political stability and clear, certain and transparent legislative systems.

PROJECTS IN THE PIPELINE

Recent years have seen unprecedented plans for modern infrastructure development in Africa.

On his recent tour President Obama announced the "Power Africa" initiative which plans to bring US$7bn of investment to African power and energy projects.

Huge plans are in place in East Africa in the form of the Lamu Port and Lamu Southern Sudan – Ethiopia Transport Corridor. In June the governments of South Sudan, Uganda, Kenya and Rwanda agreed to build two pipelines, one stretching from South Sudan to a new port at the Kenyan city of Lamu, and the other from Rwanda to the current Kenyan port of Mombasa.

In May, Tanzania announced that it had signed a framework agreement with China Merchants Holdings (International) Co Ltd for the construction of a new port, special economic zone and railway network that could require more than USD$10bn of investment.

Finding investors for such ambitious projects in Africa has historically been difficult to obtain from traditional sources. Countries suffering from political instability and legal uncertainty have often had little choice of investors but foreign aid and Chinese backed investors such as the China International Fund (CIF). Greater political stability and legal certainty will be required for Africa to attract a wider diversity of investors.

Drilling team on the Minbos Resources Phosphate Project in DRC. Image courtesy of Minbos Resources.

LEGISLATIVE CERTAINTY

While all legislation changes, law in a developing or politically unstable country is particularly uncertain, and in some cases unclear and lacking in transparency.

As democracy and peace spread wider over Africa, DLA Piper is seeing pressure for legislative reform across the continent as countries seek to develop greater legal certainty and transparency around their mining industries.

The OHADA Treaty, which aims to harmonise business laws across member states, also continues to gain traction with the Democratic Republic of the Congo becoming the 17th member state in July.

BENEFITS FOR GOVERNMENT

Clear, certain and transparent legal regimes for mining will mean that African nations reap the benefits from the present resources boom. In May former UN chief Kofi Annan told the BBC that tax avoidance, secret mining deals and financial transfers were costing Africa US$38bn a year adding that "Africa loses twice as much money through these loopholes as it gets from donors."

BENEFITS FOR INVESTORS

Stable and certain legal systems will also make life easier for investors in Africa.

A lack of legislative certainty in Africa has left investors:

- uncertain as to what the law may be in the future
- unclear on the present laws meaning
- concerned regarding the laws often arbitrary, and in some countries, retrospective application

SPECIFIC EXAMPLES

New laws and taxation

In developing countries such as the Democratic Republic of the Congo, DLA Piper has seen the difficulties investors face regarding:

- the uncertain and changing local regime on issues such as the use of foreign subcontractors and consultants
- concerns over the sometimes arbitrary and pecuniary way in which taxation laws are applied

Uncertainty regarding taxation means that contractors are rarely willing to take the risk for either the payment of taxes or any costs associated with a change in taxation law. These costs must then be borne by the investors. This is a serious deterrent for investors to develop projects in these countries.

Untried legislation in emerging jurisdictions

As new or developing jurisdictions create legislation, it is often unclear for investors how the new legislation will be applied.

In South Sudan, only independent since July 2011, the interaction between the newly passed Corporations Act and the Mining Act is unclear, untested and therefore unknown. Such lack of certainty is a serious deterrent to doing business.

Law with retrospective application

Law with retrospective application (law passed now that applies to events or deals in the past) is becoming an increasing concern for projects in Africa. Retrospective legislation can be an appropriate mechanism in some circumstances, however, if used indiscriminately law with retrospective application can shatter investor confidence and destroy planned projects or even make existing projects unviable.

Guinea Mining Review

At DLA Piper, as part of an international consortium of law firms, we are advising the Republic of Guinea on its review of current mining titles to ensure that existing mining titles comply with the new Mining Code 2011, brought in by the current government after the country transitioned to democracy in 2010.

Guinea is a prime example of newly found democratic political stability allowing a proper, transparent legislative system for mining to be established. DLA Piper's mission is to assist Guinea in ensuring the new Mining Code is followed and that Guinea's vast mineral resources provide a future for the nation.

A CONTINENT ON THE MOVE

Exploration projects have shown that Africa has huge mineral potential. However, business in Africa is still high risk leaving many investors reluctant to invest and governments in weak positions to attract quality investors. Political stability and a clear, certain and transparent legal system will be vital if planned projects are to eventuate and if African nations are to secure real and on-going benefits from their below the surface mineral wealth.

ABOUT THE AUTHORS

David Nancarrow is a partner based in our Perth office. He advises owners, developers, project companies and contractors on project delivery strategies and documentation for major infrastructure developments in Africa, Australia and the Middle East. David was previously a civil engineer and worked in the construction industry before taking up law.
david.nancarrow@dlapiper.com

Patrick Mohen is a solicitor in the Perth Finance & Projects team. Patrick assists on matters involving major projects and related infrastructure, focusing on construction and project delivery issues.
patrick.mohen@dlapiper.com

PROTECT, RESPECT AND REMEDY

HUMAN RIGHTS AND THE MINING INDUSTRY

The need to consider the impact of business operations and relationships on human rights is a growing feature of the corporate landscape, says Louisa Soper. Operational, social, economic, geographical and political factors inherent to the mining industry mean players at all levels of the metals and minerals supply chain should pay close attention to their human rights footprint.

In early September the UK government published its national action plan for implementing the UN Guiding Principles on Business and Human Rights, sending a clear message to businesses that they must understand and manage their human rights impacts both domestically and abroad. The UN Guiding Principles are highly relevant to the mining industry and this article explains how understanding the impact of the Guiding Principles and taking on their recommendations is vital to companies' future success.

Over the past two decades the significance given to the protection and promotion of human rights as a part of the wider concept of corporate social responsibility has grown considerably. As guardians of international law, states have traditionally held the primary responsibility of ensuring human rights standards are observed. While businesses have for a long time addressed some human rights standards through their internal operations, for example, implementing occupational health and safety policies, maintaining environmental protection standards and promoting equal opportunities, their responsibility has been limited to complying with the domestic laws set down at state level. However, this "public/private" distinction is becoming increasingly blurred by a growing recognition that businesses' actions and operations can severely impact on the enjoyment of human rights of others. Increasing focus on transparency and moral accountability for corporate entities through, for example, bribery and corruption legislation, has contributed to a shift in emphasis towards businesses taking greater levels of responsibility for the adverse impacts of their own operations wherever, and with whomever, they do business.

Any new large scale project is bound to have human rights implications and how those implications are assessed and addressed is of growing importance. Whether one is dealing with the development of a new mine in Central Africa or introducing fracking to the Home Counties in England, the scope for complex and sensitive human rights issues to arise is very real.

While some voluntary codes and practices already exist to encourage businesses to comply with international human rights standards (such as the UN Global Compact), prior to 2011 there were no detailed uniform guidelines in existence which provided practical recommendations for states and businesses alike to address their human rights impacts. In June 2011, the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights (**"UNGPs"**). The UNGPs set out a 'three pillar' approach with respect to businesses and human rights – the Protect, Respect, Remedy framework.

THE UNGPS' 'THREE PILLARS'

Under the second pillar, businesses should: (i) avoid causing, contributing to or being linked to adverse human rights impacts; (ii) seek to prevent or mitigate adverse human rights linked to their operations; and (iii) should address such impacts when they occur.

The State duty to PROTECT human rights

The corporate responsibility to RESPECT human rights

Access to REMEDY

UNGPS' RECOMMENDATIONS TO BUSINESSES

- Have a policy commitment to respect human rights
- Conduct human rights due diligence
- Establish or cooperate providing operational level grievance and remediation mechanisms
- Report on findings

Aim: Integrate human rights into business' key operational procedures

In addition to the UNGPs there are many other multi-stakeholder initiatives (**"MSIs"**) and other principles relevant to the mining industry. For example:

- *Voluntary Principles on Security and Human Rights* (established 2000) – an MSI that promotes implementation of a set of principles that guide oil, gas, and mining companies on providing security for their operations in a manner that respects human rights.
- *Equator Principles III* (***"EP III"***) (the third edition was released in June 2013) – an agreement amongst 76 global financial institutions to apply environmental and social standards to certain investment decisions. The most recent edition expressly refers to the UNGPs and recommends conducting human rights due diligence in specific "high risk circumstances".

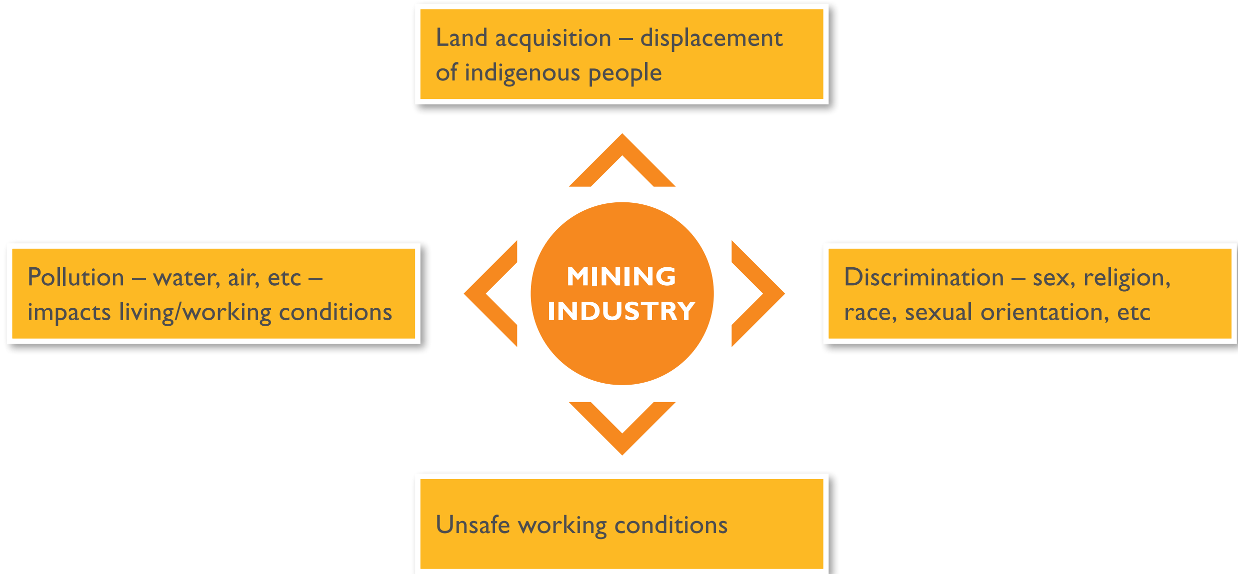
Such principles are now driving businesses to consider their human rights impacts outside the traditional parameters of CSR and treat them as a standalone risk which can be measured and reported on, much like any other compliance issue.

Currently, none of these principles are legally binding but, they are clearly gaining traction at government level and among intergovernmental bodies and it is expected that, over time, they will become the uniform global standard for UK business.

Operational, social, economic, geographical and political factors inherent to the mining industry mean players at all levels of the metals and minerals supply chain should pay close attention to their human rights footprint in order to comply with the UNGPs and other principles.

The UNGPs state that companies should take responsibility for human rights impacts throughout their supply chain.

POTENTIAL HUMAN RIGHTS IMPACTS OF THE MINING INDUSTRY



Industry participants should therefore carry out an appropriate level of human rights due diligence of both "upstream" and "downstream". As metals and minerals are used by a variety of end users, such due diligence can have a wide reach at the 'downstream' end.

It should be noted that operations in, or supply chains linked to, areas of conflict/political instability can implicate companies with adverse human rights impacts, even if they are not directly involved. The fact that companies operate in states with poor human rights records does not mean they should not adhere to the UNGPs.

Human rights due diligence is not merely another layer of corporate administration. A pro-active approach to human rights issues can generate competitive advantages.

Currently the UNGPs and other principles are not legally binding. In these tough economic times, why then should companies incur added costs of adhering to such principles if failure to do so does not create any immediate risk of civil or criminal sanction? Some incentives to adhere are set out below:

Enhanced operational efficiency: Actual or perceived involvement with human rights abuse can cause significant disruption to operations (eg investigations by domestic or international bodies, protests by stakeholders, NGOs or other interested parties, etc).

Reduced reputational risk: 'Social good' is increasingly a factor in the decision making of investors, consumers and other end users. Therefore, damage to a company's reputation caused by actual or perceived involvement with adverse human rights impacts can negatively affect its access to capital and markets.

Improved access to financing: For example, signatories to EP III are required not to provide certain loans to projects where the borrower will not or is unable to comply with the social requirements of EP III.

Investor pressure: There are increasing opportunities through 'ethical investors' who seek to invest in companies demonstrating commitment and leadership in the areas of human rights and sustainability.

Avoidance of legal claims/fines: The UNGPS have already been adopted into significant intergovernmental standards, such as the OECD Guidelines for Multinational Enterprises and the IFC Performance Standards on Social and Environmental Responsibility. This is significant because the OECD has the power to investigate a complaint.

TAKE CONTROL OF YOUR HUMAN RIGHTS FOOTPRINT

General approaches

- Always consider human rights risks/ challenges of the project/target jurisdiction
- Choose partners carefully – undertake due diligence, convey human rights expectations at an early stage, etc
- Where appropriate refer to third party standards in contracts – UNGPs, MSIs, etc

Joint Venture Agreements

- Select roles and responsibilities carefully – which partner is best placed to manage human rights issues?
- Seek financing from institutions that have a clear set of human rights standards to establish leverage over partners
- Stipulate operating procedures that address human rights
- A minority shareholder may seek to exert control on human rights issues by, amongst other means:
  - Having decisions on important human rights issues reserved for unanimous shareholder approval
  - Requiring the majority shareholder to report on human rights issues (this should be backed with an appropriate audit right for the minority shareholder)

M&A

- Update M&A due diligence checklists to include human rights issues
- A purchaser may find it difficult to price liabilities related to human rights impacts – instead, it should consider estimating the cost of bringing a target into compliance with its standards

Supply Chain Contracting

- Communicate human rights expectations for suppliers and service providers by developing codes of practice, standard terms and conditions and other policies

Investor-State Relationships

- Similar to joint ventures
- Consider use of contract stabilisation clauses
- Engage the community and include grievance resolution mechanisms

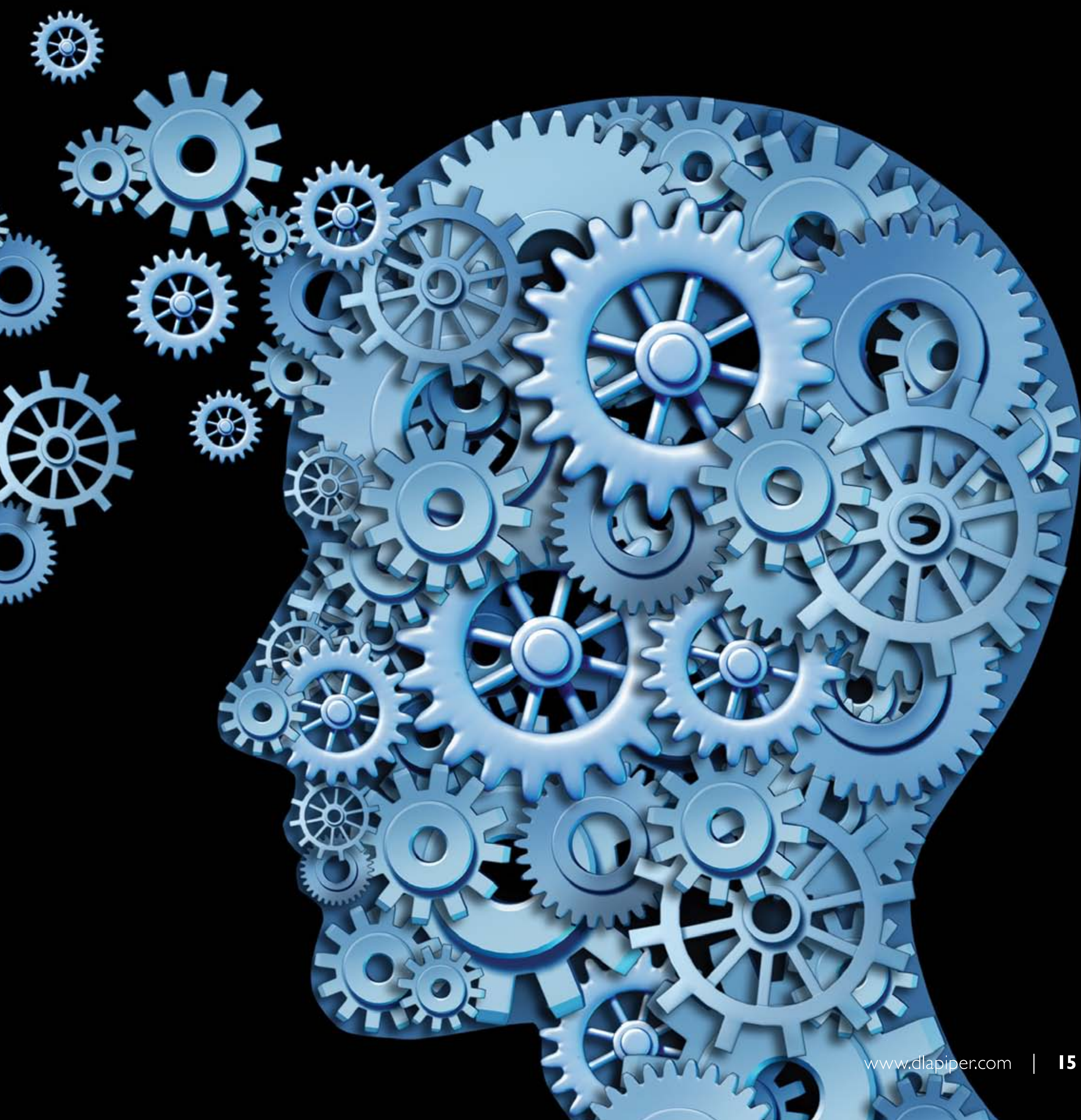
ABOUT THE AUTHOR

Louisa Soper is an associate in our Leeds office. She specialises in corporate and commercial litigation, international arbitration and human rights law.
louisa.soper@dlapiper.com

Mark Keeling is a transactional lawyer in our Sheffield office. He advises a number of mining clients on issues relating to their acquisition and use of property and the development of extractive and industrial sites.
mark.keeling@dlapiper.com

MINE YOUR OWN BUSINESS IP

As the mining sector becomes more competitive and increasingly driven by innovation to create value, an effective IP management strategy is becoming essential. Dave Richardson shares his IP 'hygiene checklist' – and offers some thought-provoking reasons as to why you should be following it.



At a recent Intellectual Property licensing conference, The Minerals Supplier Advocate for the Federal Government, Christian Larsen, observed that the Australian mining sector is at risk of falling behind in innovating new processes. "If mining doesn't capture and commercialise innovation in the next five years capacity and capability will go overseas."

A stern warning to an industry already under pressure from volatile commodity prices and a chronic shortage of capital.

The McKinsey Global Institute has identified 12 technologies that present key opportunities to drive economic transformations in coming years. The report explains that the combined application of all 12 technologies, including advanced robotics, energy storage, and mobile internet could have a potential impact of between $14 trillion and $33 trillion a year in 2025. The mining sector must utilise these new technologies and leverage off existing processes to increase efficiency, to automate processes and to increase the safety of workers by replacing dangerous activities through technology to plan and operate mining activity remotely.

While traditionally companies involved in mining may have focussed on their tangible assets as an indication of their value, many are now recognising the real value of IP and the need to properly protect and manage these valuable assets.

Having a robust intellectual property (IP) portfolio and management strategy is an essential part of any company that develops and innovates, not only because of the financial returns that it can help generate (through the sale or licensing of IP), but also because it contributes to other company objectives such as being a more attractive partner or supplier, and reducing the likelihood of IP infringement claims or patent troll attacks.

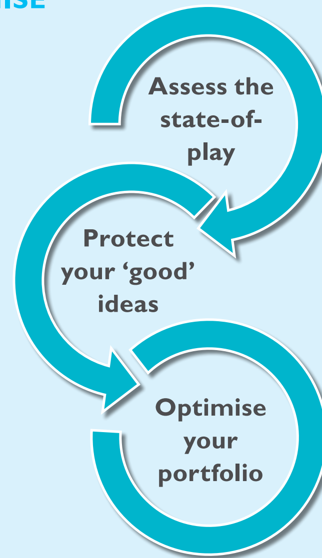
An effective IP strategy must work along-side the overall plan of the organisation and be integrated with other management activities. When properly implemented, the IP strategy enables decisions to be made regarding protection, use and enforcement of IP the way they should made – in terms of how they assist with achieving the objectives and adding value to the business.

Image courtesy of BC Iron

Imagine spending time, money and resources developing and implementing a new process or technology only to find out later that your competitor already holds the IP rights for that innovation. Not only would this usually prevent you from securing your own IP rights, but if the competitor enforces its IP rights against your organisation, you may be required to pay damages and suspend sales, with a huge impact on profits and reputation.

In addition, directors of listed companies who do not adequately manage and protect their organisation's IP may be failing to fulfil their corporate responsibilities as custodians of shareholder value and to build the company's value.

A 3-STEP STRATEGY – ASSESS, PROTECT, OPTIMISE



1. ASSESSING THE STATE-OF-PLAY

One of the most important issues for organisations to consider is whether it has a 'Freedom to Operate'; the rights to be doing what it is doing in the market. That is, there are no third party rights prohibiting or compromising the commercial value of the project or product/service in development.

Organisations must determine at an early stage:

- What IP rights it owns and what IP rights its otherwise has a right to use
- The extent of such IP rights
- How such rights can be properly used by the organisation (including any limitations or restrictions on use)

A detailed assessment of the IP assets held by the organisation is needed to determine the quality of the IP rights attaching to those assets. This includes reviewing the relevant contracts which affect the business' IP rights including licences, supplier agreements, partnering arrangements and employment contracts and determining what limitations and restrictions apply with respect to those IP rights.

Research should also be conducted into what your competitors are doing – you need to assess the IP rights held by competitors and the overall IP landscape within the relevant market to identify any potential infringement issues – either infringement by your organisation of third party rights or potential infringement by third parties of your organisation's IP rights.

If a Freedom to Operate issue does arise, the organisation will need to consider a costs/ benefit analysis of either:

- Invalidating the third party IP rights
- Obtaining a licence (or cross-licence) from the third party
- Avoiding use of the IP and any infringement issues

2. PROTECTING YOUR 'GOOD' IDEAS

In order to capture the valuable IP, having adequate knowledge management systems are in place is critical. To facilitate the capture of IP, personnel should be required to:

- keep accurate and up-to-date records regarding creation and handling of IP
- comply with their obligations of confidentiality at all times
- assess new material and innovations at an early stage for its strategic and commercial importance
- feed this information into a central database (rather than individual personal databases)

Once valuable IP has been identified and steps have been taken to ensure third party infringement is avoided, the organisation needs to determine the best means of protecting the valuable IP with regard to the objectives of the business and the cost/benefits of such protection.

To create a stronger market position regarding IP protection, organisations will usually incorporate a range of protective mechanisms to create different layers of protection in the market. This includes use of patents to protect different aspects of innovation, trademarks to protect the brand, design rights to protect product appearance, copyright to protect valuable works and confidentiality to protect trade secrets and know-how.

Overseas protection

It is important for companies to secure IP rights (following a balanced assessment of costs and benefits) as early as possible in all jurisdictions which it plans to operate and exploit the new IP. Without proper protection, foreign companies may be able to exploit, or register IP created by another organisation and possibly prevent that organisation from exploiting the IP in that country.

Defensive publications

Organisations should also consider use of defensive publications – this is where you strategically publish an invention to create prior art which will then destroy the novelty of any future patent filed. This can be a very useful technique to ensure competitors are not able to obtain patent protection for inventions that you've found (and may need to use in future) but don't need to protect.

3. OPTIMISING YOUR PORTFOLIO

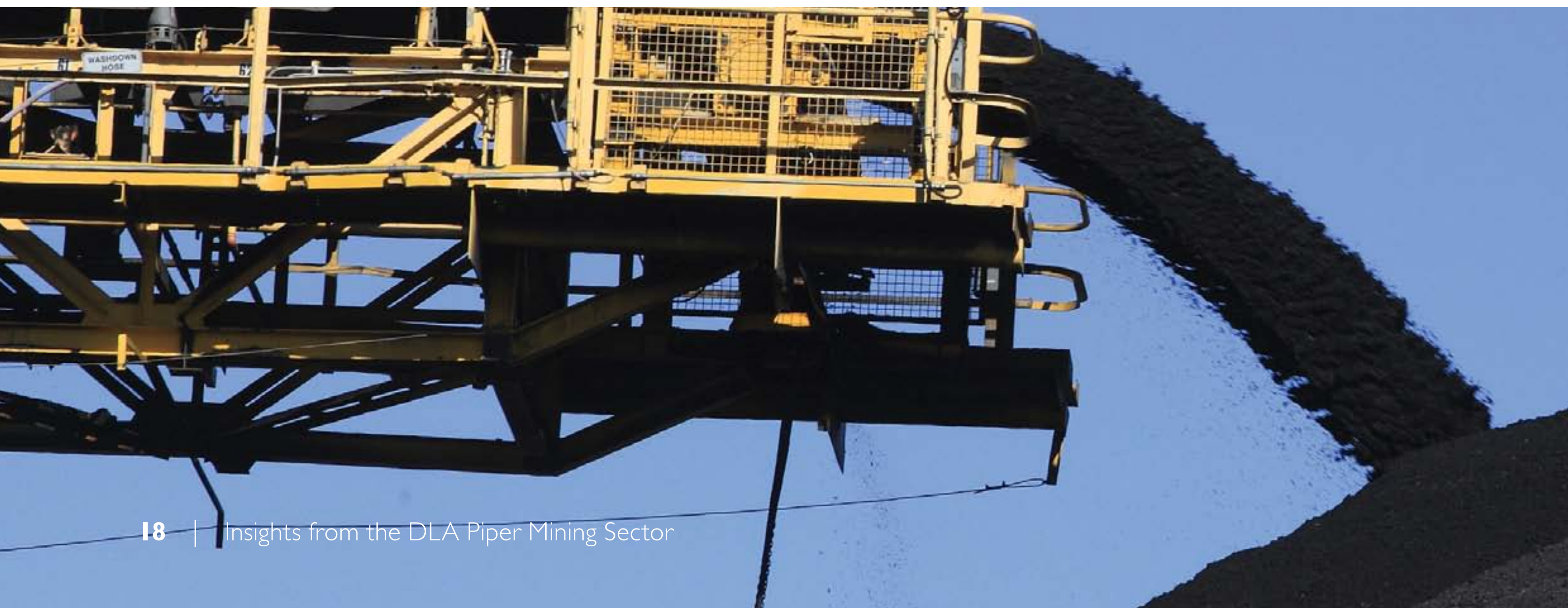
Once the initial development phase is over, and the IP has been properly captured and protected, it's important for the organisation to have clear policies and procedures to maintain and manage its valuable IP.

The principal elements of an effective corporate IP strategy should include:

- a statement on how IP management supports the overall mission of the organisation and actively communicating the strategy to staff
- the responsibilities of the IP management function
- the strategy to be adopted towards IP negotiations with suppliers/ third parties
- how to develop new IP opportunities in line with the business strategy and IP landscape
- various corporate policies and procedures that document how IP is to be captured, protected, commercialised and communicated within the organisation and externally

In the mining sector, development of new technologies is often undertaken with partners, suppliers or other third parties who bring existing (or background) IP and expect to obtain use of the results or benefit from the commercial exploitation of the IP. In these cases, it is critical that IP issues are considered at the initial contract negotiation stage for all new projects. The agreement needs to expressly and clearly confirm ownership of background IP and provide details regarding ownership of the new (or resulting) IP, including the specific rights (and any limitations) regarding use and exploitation of that IP for each party.

Companies these days may also find themselves unexpectedly on the defensive as non-practicing entities (NPEs or patent trolls) continue to grow in number and enforce patents on a large-scale. The NPEs generally are not trading or operational companies and exist solely to enforce patents by way of licensing or threatening litigation. Generally, the patents that are held by NPEs contain seemingly broad claims and are being enforced in a manner clearly not contemplated by the original patent. Licenses are offered to unsuspecting companies for a sum that is significantly less than the cost of disputing the matter in court and, based on a cost-benefit analysis, many companies choose to settle the dispute. Companies need to be aware of patent trolls and have a policy and procedure in place for dealing with these companies.



PRACTICAL EXAMPLES – MINING COMPANIES AHEAD OF THE GAME

- Mining equipment manufacturer **Keech** has invested in its 3D capabilities and its chief executive has publicly encouraged miners to set up strategic alliances with companies who can supply this technology. 3D printing (or additive manufacturing) allows mining companies to develop bespoke and tailored applications cheaply and on-site by developing a product on screen and then the 3D printing machine prints it. The dynamic and environmental factors at each mine site can greatly vary the technical components within products, and this allows bespoke one-of-a kind technologies to be created for that site. This reduces freight and shipping times and allows a single production copy without having to develop a pattern for each product.
- **BHP Billiton** has opened its Integrated Remote Operations Centre (IROC) in Perth. This facility uses innovative technology that provides an overview of the entire Western Australian Iron Ore network at a glance. The IROC also includes mine fleet management system, train control and fixed plant control systems for mine and port operations, and CCTV and radio systems to interact and communicate remotely with sites.
- **Rio Tinto** has made significant investments in the development of new extraction in an effort to minimise environmental impact, save energy and increase efficiency and production, it is developing block cave mining and rapid tunnel development technologies to extract ore from ore bodies without digging an open pit.
- The development of membrane-filtration technology to remove harmful substances from waste water as it passes through the filtration, reduces the volume and cost of waste treatment and also creates a useable by-products. Salt plant **Exportada de Sal S.A**. in Mexico is using innovative technologies to return residual brine to the sea from salt mining, generating electricity and also converting the remainder to drinking water.
- The development of technologies to assist in waterless fracking is a significant innovation to minimise environmental impacts. Canadian company **GasFrac** has developed a gel from LPG and propane to act as a substitute to water in fracking, which dissolves into the oil or gas and returns to the surface.

ABOUT THE AUTHOR

David Richardson is a Brisbane based partner who advises a number of mining and energy companies on IP and technology development and outsourcing arrangements, licensing, protection and management, research collaborations and commercialisation.
david.a.richardson@dlapiper.com

INVESTOR PROTECTION:
SECURITY OF TENURE OF MINING RIGHTS IN SOUTH AFRICA

Do South Africa's proposed changes to its mining legislation achieve the aim of creating more certainty for the industry? Or is it yet another blow for foreign investment? Jackwell Feris takes an in-depth look at the Draft Mineral and Petroleum Resources Development Bill, 2013 and asks; does South Africa afford sufficient protection to foreign investors in the mining sector?

With a relatively stable government and a regulatory environment that is widely considered as one of the best on the continent South Africa has been an attractive destination for mining. Its business regulatory framework is generally open to foreign investment, bar the usual obstacles foreign investors are confronted with when intending to enter a market. But, at a deeper level, does South Africa afford sufficient protection to foreign investors who hold mining rights or intend to acquire such rights?

The attractiveness of South Africa as an investment destination of choice for mining has seen a significant drop due to a number of factors. The mining industry has received a significant amount of bad publicity: policy uncertainty fuelled by the calls for the nationalisation of the country's mineral resources (which now appears to have been abandoned) during 2012; the recent proposed amendments to the country's mining legislation which are perceived to be unfriendly to investors; socio-economic concerns (i.e. black economic empowerment, job creation, huge economic disparities etc.); and dangerous labour unrest (evident from the Marikana tragedy in August 2012). All these events have added to South Africa's attractiveness as a mining investment destination decreasing annually.

The bad publicity in the mining industry has also had an effect on South Africa's economic outlook in general as is clear from the down-grading of South Africa's sovereign credit rating from a BBB+ to a BBB status by rating agency Fitch and Standard & Poor. The latest report released by Canadian-based Fraser Institute reflects that South Africa's ranking as a mining destination for 2013 has dropped from 53rd place in 2012 to 64th place out of 93 mining jurisdictions. As a country with a significant percentage of the world's exploitable mineral resources and at one stage considered as a very attractive mining destination something will drastically need to change in order to ensure that South Africa does not end-up as one of the least favourite mining investment destinations.

The South African government has attempted to create more certainty in the mining industry with the release of the Draft Mineral and Petroleum Resources Development Bill, 2013 which intends to amend the current mining legislation (Mineral and Petroleum Resources Development Act No. 28 of 2002 ("**the MPRDA**")). The Bill, however, seems to have added more fuel and uncertainty to the situation as it in a number of respects appears to increase the administrative hurdles for mining companies to comply with. The policy reason behind the South African government's proposed amendment to the mining legislation is to:

- improve the regulatory system
- remove ambiguities with the current legislation
- streamlining administrative process
- enhancing the beneficiation of minerals in the country

At an extensive public hearing process during September 2013 mining industry stakeholders raised their concerns with a number of proposed amendments in the Bill. At the top of the list were the new proposed regulation of the transfer of rights, new proposed system for application of rights and declaration of certain minerals or petroleum resources as strategic and/or designated minerals for beneficiation to a prescribed level prior to export. As a result of the overwhelming concerns raised by the interested and affected parties, the South African Department of Mineral Resources undertook to relook certain of the proposed amendments in order to achieve the objectives of the Bill. It will have to be seen to what extent the stakeholders' comments will be taken into account by government. There is still an extensive parliamentary process which needs to be followed prior to the Bill becoming force of law. In all likelihood any proposed amendments to the current mining legislation will only become law during 2014 or even later due to the general elections scheduled for 2014.

Security of Tenure for Rights

The main concern for any foreign investor is security of tenure for his/her investment. Investors generally feel threatened when governments start promoting policy changes which could potentially have an adverse effect on the rights they enjoy. The proposed amendment to the MPRDA does not intend to amend the principle in the South African mining law that any mining right granted to a holder is a *limited real right* (a form of real ownership) in respect of the mineral and land to which such right relates. That alone indicates a security of tenure.

South Africa like most other countries, concluded a number of bilateral investment treaties (**BIT**) with countries with which it has important trade and investment relationships. In most instances these BITs contain a provision which prohibits the expropriation

of investments made by foreign nationals in South Africa, save if such expropriation is "*for a public purpose or in the national interest*" accompanied by *"immediate, full and effective compensation"*. Any expropriation of an investment of a foreign national by South Africa would be open to a potential breach of its BIT should such expropriation fail to comply with terms and conditions for expropriation as contained in the relevant BIT.

Protection of Investment

The majority of South Africa's BITs are coming to an end or are being terminated by the South African government. The government intends to in future regulate foreign investment by means of national legislation, contained within the draft Promotion and Protection of Investment Bill, 2013 ("**the Investment Bill**") which intends to provide a legal framework for investments and to address the legal protection of all investors in line with the South African constitutional requirements.

The Investment Bill seeks to achieve several balances between the rights and obligations of all investors in South Africa, the need to provide adequate and equal protection of foreign and domestic investors. The Investment Bill raises some concerns whether sufficient protection will be granted to foreign investors from a security of tenure perspective and specifically compensation in the event of expropriation of rights or interests in South Africa.

Despite the concerns South Africa *does* have a regulatory regime which protects foreign investors, as recourse is available to South African court's for foreign nationals in the event of expropriation. Recourse to international arbitration is limited and dependant on terms of the BIT with the foreign investor's country of origin.

Going forward, as the BITs expire or are terminated to be replaced by the proposed Investment Bill, recourse to international arbitration would not be possible and will be an additional factor a foreign investor needs to take into account when deciding to invest in South Africa.

It is for the South African government to ensure that the policies and proposed legislative changes for the mining industry and investment protection in general do not result in a further deterrence of investments in South Africa due to overly burdensome and illogical administrative red-tape, but that South Africa's attractiveness as a mining investment destination be regained.

ABOUT THE AUTHOR

Jackwell Feris is a director in DLA Cliffe Dekker Hofmeyr's Dispute Resolution Practice. Based in Johannesburg, he advises on mining and petroleum law, corporate and commercial law, administrative law and procurement law and arbitrations.
jackwell.feris@dlacdh.com

SHORT CUTS

Last month our **Mexico City office welcomed the former President of Spain** (and Senior Advisor to DLA Piper's Global Board), His Excellency José María Aznar, together with other leading business figures, at a breakfast event, "Mexico and the Global Economy". Panelists discussed the role of Mexico's business leaders in a global economic environment and the opportunities available for investors in Mexico. For further details, or information about our Mexico City mining team, contact Carlos Valencia at carlos.valencia@dlapiper.com

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Indonesia update: Earlier this year, DLA Piper established a strategic alliance with Ivan Almaida Baely & Firmansyah Law Firm (IAB&F). While we have been actively involved in Indonesian matters for many years, international law firms have not been permitted to operate directly in Indonesia. The association with IAB&F formalises our relationship and strengthens our ability to provide trusted legal advice where it is needed. To find out more, contact Peter Monk at peter.monk@dlapiper.com

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Terence Trennepohl, a partner at DLA Piper's relationship firm in Brazil, Campos Mello Advogados in cooperation with DLA Piper, will be participating as a **Visiting Professor** at Queen Mary University's Masters of Law course. He will be in London from 15 November to 10 December.

Tom Sipemba, a partner at Ishengoma Karume Masha & Magai (IMMMA advocates), **returns to Tanzania** after completing a two month secondment with the Perth office where he supported a number of resources clients with their East African projects. IMMMA is a member of the DLA Piper Africa Group.

Date: 2-4 December 2013.

Location: London, England

DLA Piper recently sponsored this conference. We participated in two sessions on Tuesday 3 December: Around the World in Half a Day and New Sources of Liquidity – Chinese Outbound investment update. For more information contact Stephanie Airey at stephanie.airey@dlapiper.com

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Date: February – November 2014

Where: Perth, Australia

Legal and Commercial Issues Update for Resources and Major Projects

Now in its 3rd year, DLA Piper's popular seminar series for the Resources Sector returns in 2014. We will be holding a series of workshops throughout the year designed to assist you in identifying and managing the legal and commercial issues associated with resources and major projects.

To express your interest in attending please contact Joanna Verity at joanna.verity@dlapiper.com

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Our annual cocktail party on the eve of Mining Indaba returns to Cape Town in February 2014. Contact Katy Ericksen to register your interest at katy.ericksen@dlapiper.com

SPOTLIGHT
MEET OUR TEAM

Martim Machado
Partner
Campos Mello Advogados São Paulo, Brazil

Q HOW LONG HAVE YOU BEEN WITH THE FIRM?

I joined Campos Mello Advogados – CMA in March 2010, at about the same time that CMA and DLA Piper entered into their cooperation agreement. Before joining CMA, I worked at other major firms, including in the US. I have been working since 1992.

Q WHAT ARE YOU WORKING ON RIGHT NOW?

I am currently advising (a) a Korean heavy equipment manufacturing company to negotiate a joint-venture with a Brazilian partner; (b) a Canadian/US rolled aluminum products company to dispose of its power generation assets in Brazil; (c) a local iron ore producing company to implement a corporate reorganisation; and (d) an Indian aluminum manufacturing company to acquire an alumina refinery in Brazil. I have also recently assisted a local mining company in connection with an internal investigation to verify corruption and other wrongdoing allegations in the context of a land acquisition for the implementation of a port terminal.

Q DESCRIBE THE TYPE OF WORK THAT YOU TYPICALLY GET INVOLVED IN?

I am a corporate lawyer and the type of work that I do is divided into three areas: (a) foreign direct investments; (b) commercial contracts and (c) M&A

Q WHAT IS THE MINING INDUSTRY LIKE IN YOUR PART OF THE WORLD? WHAT TYPE OF WORK IS MOST COMMON?

Brazil is a country where natural resources abound. The mining industry is dominated by mining giant Vale. Other players include Anglo Ferrous Brazil (controlled by Anglo American), Namisa (controlled by steel company CSN and a consortium formed by Japanese, South Korean and Chinese companies), MMX (controlled by Brazilian billionaire Eike Batista) and Bahia Mineração (controlled by ENRC).

As the Brazilian market has mining companies of different sizes and in distinct developmental stages, the type of work normally done for such companies varies.

Q WHAT DO YOU LIKE TO DO IN YOUR SPARE TIME?

I do my best to spend time with my family (I have a beautiful wife and three wonderful daughters, ages 11, 9 and 4). I also love sports. After many years playing soccer – after all, I am Brazilian – I now swim, play tennis and run. Running gives me an excuse to travel, one of my other passions. And to be able to do that with my family is what I call a "perfect combination". I will be in Orlando next January with my wife and kids to run Disney's half-marathon.

Q ARE YOU PLANNING A HOLIDAY?

2012 was very intense and I was not able to enjoy any vacation time. This year will be different. In a few weeks I will be spending 15 days under the sun of Tuscany with my family and parents. I am really looking forward to it!

If you have finished with this document, please pass it on to other interested parties or recycle it, thank you.

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