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NIPMO INTERPRETATION NOTE 2: INTELLECTUAL PROPERTY TRANSACTION APPROVALS

The National Intellectual Property Management Office (NIPMO) is mandated to promote the objects¹ of the Intellectual Property Rights from Publicly Financed Research and Development Act, 2008 (Act 51 of 2008) (IPR Act). One of the functions of NIPMO, according to Section 9(4)(c)(iv)², is that NIPMO must provide assistance to institutions with any other matter provided for in the IPR Act.

This NIPMO Interpretation Note will provide clarity on which intellectual property (IP) transactions³ require NIPMOs approval, as well as indicate the associated section and/or regulation in the IPR Act mandating such approval requirements.

Should you have any questions or comments, please do not hesitate to contact us.

Warm regards

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¹ Section 2(1) of the IPR Act: The object of this Act is to make provision that intellectual property emanating from publicly financed research and development is identified, protected, utilised and commercialised for the benefit of the people of the Republic, whether it be for a social, economic, military or any other benefit.

² Section 9(4)(c)(iv) of the IPR Act: NIPMO must, furthermore provide assistance to institutions with any other matter provided for in this Act

³ Section 1 of the IPR Act: "intellectual property transaction" means any agreement in respect of intellectual property emanating from publicly financed research and development, and includes licensing, assignment and any arrangement in which the intellectual property rights governed by this Act are transferred to a third party

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1. **IP TRANSACTION TYPE AND RELATED PROVISIONS IN THE IPR ACT**

The following types of local IP transactions, with its associated paragraph number, will be dealt with below:

LOCAL IP TRANSACTIONS
Exclusive, royalty/revenue-bearing licence <i>paragraph 2.1</i>
Exclusive, royalty-free licence <i>paragraph 2.2</i>
Non-exclusive, royalty/ revenue-bearing licence <i>paragraph 2.3</i>
Non-exclusive, royalty-free licence <i>paragraph 2.4</i>
Non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence) <i>paragraph 2.5</i>

The following types of offshore IP transactions, with its associated paragraph number, will be dealt with below:

OFFSHORE IP TRANSACTIONS
Exclusive, royalty/revenue-bearing licence <i>paragraph 3.1</i>
Exclusive, royalty-free licence <i>paragraph 3.2</i>
Non-exclusive, royalty/revenue-bearing licence <i>paragraph 3.3</i>
Non-exclusive, royalty-free licence <i>paragraph 3.4</i>
Non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence) <i>paragraph 3.5</i>

2. LOCAL IP TRANSACTIONS

2.1 Local exclusive, royalty/revenue-bearing licence

An onus is placed on the recipient⁴ to ensure that benefits⁵ from IP generated using public funds accrue to the Republic⁶.

This onus is substantiated in Regulation 11(5) of the IPR Act, which states that: *“The recipient must ensure that before granting an exclusive licence in the Republic, it is satisfied that the prospective licensee is capable of developing the intellectual property further where required and of undertaking the commercialisation thereof...”*.

According to Section 15(1) of the IPR Act *“A private entity or organisation may become an exclusive licensee of intellectual property emanating from publicly financed research and development undertaken at an institution if such private entity or organisation has the capacity to manage and commercialise the intellectual property in a manner that benefits the Republic”*.

NO NIPMO approval is required for this transaction. A local exclusive, royalty/revenue bearing licence may be granted if the recipient is satisfied that the licensee has the capacity to develop the IP further and/or capability to manage and commercialise the IP to the benefit of the Republic.

2.2 Local exclusive, royalty-free licence

In terms of Regulation 11(3)(b)⁷, **NIPMO approval is required** for **any** licence in terms of which a recipient grants a licensee rights to commercialise its IP on a

⁴ Section 1 of the IPR Act: "recipient" means any person, juristic or non-juristic, that undertakes research and development using funding from a funding agency and includes an institution

⁵ Regulation 1 of the IPR Act: "benefits" means contribution to the socio-economic needs of the Republic and includes capacity development, technology transfer, job creation, enterprise development, social upliftment and products, or processes or services that embody or use the intellectual property

⁶ Section 5 of the IPR Act

⁷ Regulation 11(3)(b) of the IPR Act: NIPMO approval must be obtained for any licence in terms of which –(b) a recipient grants a licensee rights to commercialise its intellectual property on a royalty-free basis;

royalty-free basis. A Form IP8⁸ must be completed and submitted to NIPMO. A response will be provided within 30 calendar days.

2.3 Local non-exclusive, royalty/revenue-bearing licence

Section 11(1)(a)⁹ of the IPR Act prescribes that the recipient determines the nature and conditions of its IP transactions and further prescribes that the recipient must give preference to non-exclusive licensing.

Regulation 11(1)¹⁰ further states that the recipient may determine the terms and conditions for any non-exclusive licence within South Africa to IP fully owned by the recipient and determined on an arms-length basis.

NO NIPMO approval is required for this transaction.

If the consideration payable (the royalty/revenue) is **not determined on an arms-length basis** (for any licence; as per Regulation 11(3)(a)¹¹) then NIPMO approval is required. A Form IP8 must be completed and submitted to NIPMO. A response will be provided within 30 calendar days.

2.4 Local non-exclusive, royalty-free licence

In terms of Regulation 11(3)(b), **NIPMO approval is required** for **any** licence in terms of which a recipient grants a licensee rights to commercialise its IP on a royalty-free basis.

NIPMO **is prepared to grant** approval for a royalty-free licence in instances including the following:

- (a) the research and development (R&D) has been conducted by a recipient of public funds but at the end of the R&D agreement further R&D is required to be carried out by a related third party (i.e. the co-funding party) before

⁸ Referral of Intellectual Property clauses in a Collaborative Agreement

⁹ Section 11(1)(a) of the IPR Act: The recipient determines the nature and conditions of intellectual property transactions relating to any intellectual property held by it, but must take into account the following: (a) Preference must be given to non-exclusive licensing

¹⁰ Regulation 11(1) of the IPR Act: A recipient may, subject to section 11 of the Act and subregulations (2), (3) and (4) determine the terms and conditions for any nonexclusive licence in the Republic to intellectual property fully owned by the recipient, on an arms-length basis.

¹¹ Regulation 11(3)(b) of the IPR Act: NIPMO approval must be obtained for any licence in terms of which – (a) the consideration payable by a licensee to a recipient is not determined on an arms-length basis;

- the IP can be commercialised or utilised. A royalty-free licence may be granted for the period in which the further R&D is to be conducted. When the IP is reduced to a product or process, for example, which can be commercialised, the term for the royalty-free licence ends and a licence agreement for a reasonable royalty must be entered according to the value of the initial R&D (or background IP) in the final product or process; or
- (b) where a party funds 70% or more of the direct costs R&D, the party may, at the discretion of the recipient of public funds, be granted a non-exclusive royalty-free licence. When such a licence is granted, the onus for compliance with the requirements of Sections 10 (Rights of IP creators) and 11 (Conditions of IP Transactions) of IPR Act, rests heavily on the recipient.

In instances where one of the two scenarios exists, a **Form IP8 must be submitted to the NIPMO offices for prior approval.**

2.5 Local non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence)

In terms of Regulation 10(1)¹², a recipient may transfer a right fully owned or co-owned by it to a third party for research, development and educational purposes.

NO NIPMO approval is required for this transaction.

It should be noted that the term “*non-commercial license*” is limited to those issues to licenses for the use of the IP for research, development and/or educational purposes.

¹² Regulation 10(1) of the IPR Act: Subject to any contractual arrangement to the contrary, a recipient is deemed to have reserved the right to use the intellectual property falling under the Act –

(a) owned fully by the recipient, for research, development and educational purposes and may at any time transfer that right, to a third party on such terms and conditions as the recipient may determine, for the same purpose; or

(b) co-owned by the recipient with co-owner(s), for research, development and educational purposes and subject to the consent of such co-owner(s) of the intellectual property, which may not be unreasonably withheld, may transfer that right, to a third party on such terms and conditions as agreed by the recipient and the co-owner(s) of the intellectual property, for the same purpose.

3. OFFSHORE IP TRANSACTIONS

3.1 Offshore exclusive, royalty-bearing licence

In terms of Section 12¹³, **NIPMO approval is required** for an offshore exclusive licence. Regulation 12(7)¹⁴ further states that the recipient must lodge an application on a Form IP6. Furthermore, proof to satisfy NIPMO that there is (a) insufficient capacity in the Republic to develop or commercialise the IP locally, (b) that the Republic will benefit from such offshore transaction¹⁵ and (c) that the prospective licensee will ensure that the benefits of the IP are accessible to the Republic on reasonable terms¹⁶ must be provided.

3.2 Offshore exclusive, royalty-free licence

In terms of Regulation 12(3)(b)¹⁷ **NIPMO approval is required** where the recipient grant a licensee rights on a royalty free basis.

As set out in 3.1 above, the recipient must lodge an application on a Form IP6.

¹³ Section 12 of the IPR Act: (1) Offshore intellectual property transactions are subject to the following conditions:

- a. A recipient must advise NIPMO of its intention to conclude an intellectual property transaction offshore;
- b. subject to paragraph (c), offshore intellectual property transactions may occur only in accordance with prescribed regulations and any guidelines contemplated in section 9(4)(e); and
- c. any intellectual property transaction which does not comply with the regulations and guidelines requires prior approval of NIPMO.

(2) A recipient wishing to undertake an intellectual property transaction offshore in the form of an assignment or exclusive licence must satisfy NIPMO that:

- a. there is insufficient capacity in the Republic to develop or commercialise the intellectual property locally; and
- b. the Republic will benefit from such offshore transaction.

¹⁴ Regulation 12(7) of the IPR Act: A recipient must lodge an application in prescribed Form IP5 or IP6 with NIPMO for approval of an assignment of intellectual property offshore or grant of an exclusive licence, respectively, in terms of section 12(2) of the Act in compliance with the following conditions -

- (a) the application must detail compliance with section 12(2) of the Act and this sub-regulation (6); and
- (b) the recipient clearly articulates the benefits of the intellectual property to the Republic.

¹⁵ Section 12(2) of the IPR Act: A recipient wishing to undertake an intellectual property transaction offshore in the form of an assignment or exclusive licence must satisfy NIPMO that—

- (a) there is insufficient capacity in the Republic to develop or commercialise the intellectual property locally; and
- (b) the Republic will benefit from such offshore transaction.

¹⁶ Regulation 12(6) of the IPR Act: An exclusive licence agreement must in addition to the statement in sub-regulation (4) include appropriate terms and conditions, in particular -

- (a) require that commercialisation of the intellectual property by a prospective licensee must ensure that the benefits of the intellectual property are accessible to the Republic on reasonable terms;
- (b) an irrevocable and royalty-free right of the State to use or have the intellectual property used on behalf of the Republic, for the health, security and emergency needs of the Republic in terms of the Act; and
- (c) NIPMO's rights in terms of section 14(4) of the Act, if the intellectual property is not commercialised within the reasonable period set out in the exclusive licence agreement.

¹⁷ Regulation 12(3)(b) of the IPR Act: NIPMO approval must be obtained for any licence in terms of which - (b) a recipient grants a licensee rights to commercialise of its intellectual property on a royalty free basis;

3.3 Offshore non-exclusive, royalty/revenue-bearing licence

Regulations 12(1)¹⁸ and 12(2)¹⁹ state that the recipient may determine the terms and conditions for any non-exclusive licence outside of South Africa to IP fully owned or co-owned by the recipient and determined on an arms-length basis.

In terms of the above; **NO NIPMO approval is required** for this transaction.

Section 12(1)(c) of the IPR Act further states that “*any intellectual property transaction which does not comply with the regulations and guidelines requires prior approval of NIPMO.*”

3.4 Offshore non-exclusive, royalty-free licence

In terms of Section 12(1)(a) a recipient must advise NIPMO of its intention to conclude an offshore IP transaction. Regulation 12(3)(b) further requires that **NIPMO approval is required for any** licence in terms of which a recipient grants a licensee rights to commercialise its IP on a royalty-free basis.

As stated previously, NIPMO is prepared to grant approval for an offshore non-exclusive royalty-free licence in instances where:

- (a) the R&D has been conducted by a recipient of public funds but at the end of the R&D agreement further R&D is required to be carried out by a related third party (i.e. the co-funding party) before the IP can be commercialised or utilised. A royalty-free licence may be granted for the period in which the further R&D is to be conducted. When the IP is reduced to a product or process, for example, which can be commercialised, the term for the royalty-free licence ends and a licence agreement for a reasonable royalty must be entered according to the value of the initial R&D (or background IP) in the final product or process; or

¹⁸Regulation 12(1) of the IPR Act: A recipient may, subject to section 11 of the Act, and sub regulations (2), (3) and (4) determine the terms and conditions for any nonexclusive licence to intellectual property governed by the Act that is fully owned by the recipient, outside the Republic or with an off-shore entity or person, or on an arms-length basis or for the purposes of promoting or facilitating the recipient's research and development activities.

¹⁹ Regulation 12(2) of the IPR Act: Subject to the written consent of co-owner(s) of intellectual property co-owned by a recipient with co-owner(s), which may not be unreasonably withheld, a recipient may determine the terms and conditions for any non-exclusive licence outside the Republic or with an off-shore entity or person, to such co-owned intellectual property, on an arms-length basis.

- (b) where a party funds 70% or more of the direct costs R&D, the party may, at the discretion of the recipient of public funds, be granted a non-exclusive royalty-free licence. When such a licence is granted, the onus for compliance with the requirements of Sections 10 (Rights of IP creators) and 11 (Conditions of IP Transactions) of IPR Act, rests heavily on the recipient.

In instances where one of the two scenarios exists, a **Form IP8 must be submitted to the NIPMO offices for prior approval.**

3.5 Offshore non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence)

In terms of Regulation 10(1)²⁰, a recipient may transfer a right fully owned or co-owned by it to a third party for research, development and educational purposes.

NO NIPMO approval is required for this transaction.

It should be noted that the term “*non-commercial license*” is limited to those issues to licenses for the use of the IP for research, development and/or educational purposes.

²⁰ Regulation 10(1) of the IPR Act: Subject to any contractual arrangement to the contrary, a recipient is deemed to have reserved the right to use the intellectual property falling under the Act -

a. owned fully by the recipient, for research, development and educational purposes and may at any time transfer that right, to a third party on such terms and conditions as the recipient may determine, for the same purpose; or
b. co-owned by the recipient with co-owner(s), for research, development and educational purposes and subject to the consent of such co-owner(s) of the intellectual property, which may not be unreasonably withheld, may transfer that right, to a third party on such terms and conditions as agreed by the recipient and the co-owner(s) of the intellectual property, for the same purpose.

4. CONCLUSION

LOCAL IP TRANSACTIONS	
NIPMO APPROVAL REQUIRED	NO NIPMO APPROVAL REQUIRED
<input checked="" type="checkbox"/> Exclusive, royalty-free licence <i>paragraph 2.2</i>	<input checked="" type="checkbox"/> Exclusive, royalty/ revenue-bearing licence <i>paragraph 2.1</i>
<input checked="" type="checkbox"/> Non-exclusive, royalty-free licence <i>paragraph 2.4</i>	<input checked="" type="checkbox"/> Non-exclusive, royalty/revenue-bearing licence <i>paragraph 2.3</i>
	<input checked="" type="checkbox"/> Non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence) <i>paragraph 2.5</i>

OFFSHORE IP TRANSACTIONS	
NIPMO APPROVAL REQUIRED	NO NIPMO APPROVAL REQUIRED
<input checked="" type="checkbox"/> Exclusive, royalty-bearing licence <i>paragraph 3.1</i>	<input checked="" type="checkbox"/> Non-exclusive, royalty/ revenue-bearing licence <i>paragraph 3.3</i>
<input checked="" type="checkbox"/> Exclusive, royalty-free licence <i>paragraph 3.2</i>	<input checked="" type="checkbox"/> Non-exclusive, royalty-free licence for research, development and educational purposes (non-commercial licence) <i>paragraphs 3.5</i>
<input checked="" type="checkbox"/> Non-exclusive, royalty-free licence <i>paragraph 3.4</i>	