



Private Bag X727, PRETORIA, 0001 • Suite 15-16, The Enterprise Building, The Innovation Hub, Perseus Park, PRETORIA. Tel: +27 12 844 0222, www.dst.gov.za/nipmo

NIPMO INTERPRETATION NOTE 11: STATE-OWNED ENTERPRISES AND THE INTERFACE WITH THE IPR ACT

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, 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.

A state-owned enterprise (SOE) is a legal entity created by the government in order to engage in commercial activities on behalf of the government. SOEs are either wholly or partially publicly funded and may finance activities resulting in intellectual property (IP).

The scope of the IPR Act is limited to IP that was generated following a publicly financed research and development³ (R&D) activity. The distinction between publicly funded R&D activities and non-R&D activities is important since non-R&D activities, such as entering into a service level agreement and R&D funded with the SOE's revenue (i.e. not using direct funding from government), will fall outside the scope of the IPR Act. These aspects will be discussed in more detail to provide clarity to the SOE as to when and how the IPR Act will apply.

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

Warm regards

Dr Kerry Faul

Head: NIPMO

Date: 14 December 2018

NIPMO Ref No: NIN 11

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: "**publicly financed research and development**" means research and development undertaken using any funds allocated by a funding agency but excludes funds allocated for scholarships and bursaries

1. INTELLECTUAL PROPERTY

Intellectual property (IP) refers to creations of the mind. It can be divided into two categories namely industrial property (including inventions, designs, plant varieties, and marks or logos); and copyright (literary works, music, films etc., as well as computer programs).

Intellectual property rights (IPRs) are the rights given to persons over their creations of the mind that allow them to benefit from their own work and exclude others from copying, manufacturing or using their creations, such as

- a patent (IPR) for an invention (IP);
- a plant breeders' rights for a new plant variety; or
- a trade mark for a mark, logo or slogan.

South Africa has a suite of legislation that protects various types of IP, however, this NIPMO interpretation note (NIN11) will only focus on the Intellectual Property Rights from Publicly Financed Research and Development Act, 51 of 2008 (IPR Act).

2. THE IPR ACT

The National Research and Development (R&D) Strategy of 2002 identified “*inadequate intellectual property legislation and infrastructure*” as one of several factors that require addressing in South Africa’s R&D strategy going forward. In particular, “*inventions and innovations from publicly financed research [are] not effectively protected and managed*”.

Against this background the IPR Act was promulgated on 22 December 2008 and put into operation on 2 August 2010 with the publication of Proclamation for the commencement of the IPR Act.

The long title of the IPR Act reads as follows:

“To provide for more effective utilisation of intellectual property emanating from publicly financed research and development; to establish the National Intellectual Property Management Office and the Intellectual Property Fund; to provide for the establishment of offices of technology transfer at institutions; and to provide for matters connected therewith.” [own emphasis added]

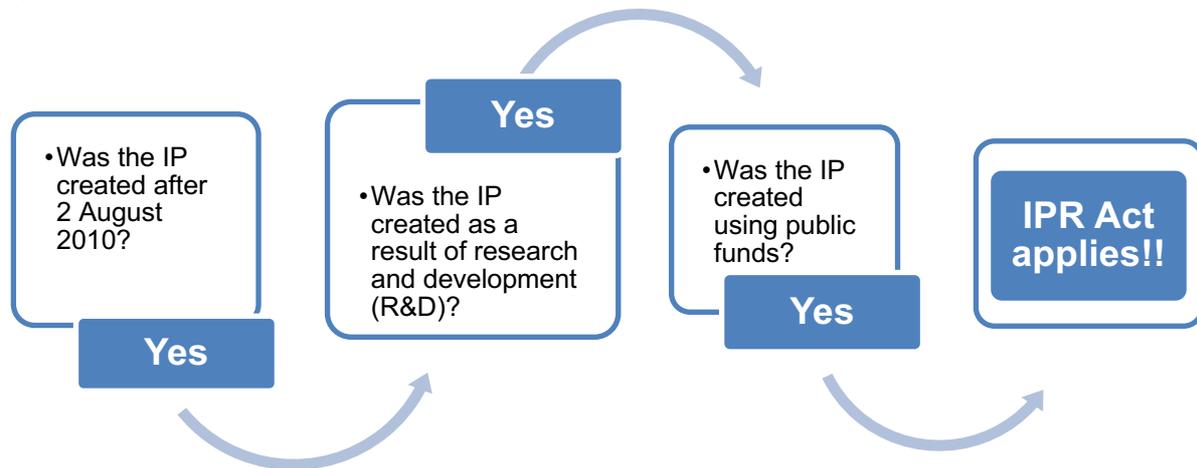
In particular, the objects of the IPR Act (Section 2(1)) are to:

“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 social, economic, military or any other benefit.” [own emphasis added].

3. SCOPE OF THE IPR ACT

In assessing the applicability of the IPR Act to outputs funded or generated by an SOE, it is important to note that **not all IP** generated using public funds (funds allocated to the SOE by National Treasury) falls within the scope of the IPR Act.

In order to determine whether the IPR Act applies to intellectual property (IP) created three questions must be asked, they are:



For further detail in this regard to NIPMO Interpretation Note 10 (NIN10) which is titled “*When does the IPR Act apply?*”

It is important to note that not all SOE funded activities may fall within the scope of the IPR Act.

It is thus necessary to distinguish between (a) publicly funded R&D, (b) the SOEs own funded R&D and (c) non-R&D agreements.

(a) Publicly funded R&D: This refers to instances where the SOE undertakes or contracts a third party to do the R&D using funding received from National Treasury (typically a Parliamentary grant). Any IP generated **will fall within** the scope of the IPR Act and in turn the obligations and requirements as set out in the IPR Act must be adhered to. If the SOE undertakes R&D itself, it will own the IP. If the SOE contracts a third party to undertake the R&D, that third party will own the IP (pending some exceptions discussed below).

(b) SOEs own funded R&D: This refers to **R&D activities** wherein an **SOE uses the its own revenue** (i.e. funds not received from National Treasury or a funding agency⁴ as defined in the IPR Act) to conduct R&D or to contract R&D. Any IP generated **will not fall within** the scope of the IPR Act. IP ownership may be negotiated contractually.

(c) Non-R&D agreements: This refers to other agreements such as Service Level Agreements (SLA) or employment agreements which do not involve R&D. Any IP that

⁴ Section 1 of the IPR Act: “funding agency” means the State or an organ of state or a state agency that funds research and development

may result fall outside the scope of the IPR Act and IP ownership will be determined contractually.

4. HOW TO ASSESS IF THE IPR ACT APPLIES AND WHAT TO DO

In order to assess if the IPR Act applies, the following need to be considered:

- (a) Does the SOE receives funds from National Treasury to conduct R&D? (*Please refer to Appendix 1 for a non-exhaustive list of entities that receive funds from National Treasury to conduct R&D*);
- (b) Is the activity in question R&D as defined in NIPMO Guideline 1.2 of 2018?; and
- (c) Was the R&D conducted after 2 August 2010?

If the answer to (a) (b) **or** (c) is 'NO', then the IPR Act does not apply.

If the answer to (a), (b) **and** (c) are 'YES' then, the SOE or third party who conducted the R&D using public funds (known as the recipient⁵) must, at least:

- (a) Assess the IP to determine whether it merits statutory protection and, where appropriate, apply for and use best efforts to obtain statutory protection in the SOEs (or recipient's) name⁶;
- (b) Report the IP to NIPMO biannually (April & October);⁷
- (c) Decide if and how the IP can best be utilised and/or commercialised; and
- (d) Decide on the potential IP transactions and were relevant request NIPMO approval.⁸

5. DEFINING RESEARCH AND DEVELOPMENT (R&D) AND EXCLUSIONS

As stated in NIPMO Guideline 1.2 of 2018, a definition for R&D is not provided in the IPR Act, NIPMO therefore opted to use the definition of the Organisation for Economic Co-operation and Development (OECD) *Frascati Manual* (2015), which states that:

"Research and experimental development (R&D) comprises creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge."

Further, according to the *Frascati Manual* (2015) an R&D activity can be distinguished from a non-R&D activity if five core criteria are met; namely the activity must be:

- (a) **novel** i.e. aimed at new findings;
- (b) **creative** i.e. based on original, not obvious, concepts and hypotheses;
- (c) **uncertain** i.e. uncertain about the final outcome;
- (d) **systematic** i.e. planned and budgeted; and

⁵ 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;

⁶ Section 5(1)(d) of the IPR Act

⁷ Section 5(1)(h) of the IPR Act: A recipient must report to NIPMO twice a year and as provided for in this Act, on all matters pertaining to the intellectual property contemplated in this Act, including all intellectual property from which it elects to obtain statutory protection and the state of commercialisation thereof, in a manner stipulated by NIPMO;

⁸ Section 5(1)(g) of the IPR Act: A recipient must negotiate and enter into intellectual property transactions with third parties on intellectual property belonging to the recipient;

- (e) **transferable and/or reproducible** i.e. leads to results that could be possibly reproduced.

“All five criteria must be met, at least in principle, every time an R&D activity is undertaken whether on a continuous or occasional basis.”⁹

Typical activities which are **excluded** from R&D includes routine tests, routine compliance with public inspection control and routine activities of collecting, coding, recording, classifying, disseminating, translating, analysing, and evaluating, which are carried out by scientific and technical personnel, bibliographic services, scientific and technical information extension and advisory services.

General purpose data collection **is typically also excluded** as these activities are carried out by government agencies to record natural, biological or social phenomena, for example routine topographical mapping, routine geological, hydrological, oceanographic and meteorological surveying. Market reviews/surveys are also excluded from R&D.

For a list of the activities that should be excluded from falling within the definition of R&D, as well as nuances of the activities which should be regarded as R&D please refer to NIPMO Guideline 1.2 of 2018.

6. WHEN R&D IS BEING PERFORMED – WHO OWNS THE IP?

The IPR Act governs the ownership and utilisation of IP which results from publicly financed R&D and provides for three possible IP ownership arrangements namely (a) the default position, (b) the co-ownership provision, and (c) the full cost arrangement in which IP ownership may be negotiated. NIPMO Guideline 4.1 of 2015 sets out the ownership options in more detail, however, a summary of possible IP ownership arrangements are briefly discussed below and applied to SOEs:

6.1. Default ownership provision

The default position on IP ownership, emanating from publicly financed R&D according to the IPR Act, is stipulated in Section 4(1) which states: *“Subject to section 15(2), intellectual property emanating from publicly financed research and development **shall be owned by the recipient**”*.

A *“recipient”* is defined as *“any person, juristic or non-juristic, that undertakes research and development using funding from a funding agency and includes an institution”*. A *“funding agency”* is further defined as the *“State or an organ of state or a state agency that funds research and development”¹⁰*.

Thus the default position on IP ownership in terms of the IPR Act is that the recipient (either SOE or third party) that undertakes R&D using funding received from the funding agency (State or SOE) will be the owner of the IP that emanates from that R&D.

⁹ Frascati Manual (2015)

¹⁰Section 1 of the IPR Act

6.2. Co-ownership provision

Section 15(2)¹¹ of the IPR Act, makes provision for a “*private entity or organisation*” to co-own IP emanating from publicly financed R&D undertaken at an institution¹² (Higher Education Institutions (HEI) or Schedule 1 institutions¹³) subject to four requirements – viz. contribution of resources; joint IP creatorship; benefit-sharing with IP creators; and agreement for commercialisation of the IP.

Section 15(5) of the IPR Act defines a “*private entity or organisation*” as a private sector company, a **public entity**, an international research organisation, an educational institution, or an international funding or donor organisation. The term “public entity” relates to **companies or business enterprises** established by local, provincial and national government.

Thus, an SOE is regarded as a “*private entity or organisation*” in terms of the IPR Act and can co-own IP emanating from publicly financed R&D undertaken at an institution if the stipulated four requirements are met.

6.3. Full cost arrangement

Section 15(4)¹⁴ of the IPR Act further provides for a “*private entity or organisation*” to pay the full cost of R&D undertaken at an institution, such that the R&D is deemed not to be publicly financed and the provisions of the IPR Act will not apply.

Similar to the earlier paragraph, the term “*private entity or organisation*” includes SOEs¹⁵, therefore the option to pay full cost (for the IPR Act to not be applicable) is available to the SOE for R&D undertaken at an institution.

6.4. SOE IP ownership

It is noteworthy that an SOE, in terms of the IPR Act, can:

¹¹ Section 15(2) of the IPR Act: Any private entity or organisation may become a co-owner of the intellectual property emanating from publicly financed research and development undertaken at an institution if -

(a) there has been a contribution of resources, which may include relevant background intellectual property by the private entity or organisation; (b) there is joint intellectual property creatorship; (c) appropriate arrangements are made for benefit-sharing for intellectual property creators at the institution; and (d) the institution and the private entity or organisation conclude an agreement for the commercialisation of the intellectual property.

¹² Section 1 of the IPR Act: “**institution**” means – (a) any higher education institution contemplated in the definition of “**higher education institution**” contained in section 1 of the Higher Education Act, 1997 (Act No. 101 of (1997)); (b) any statutory institution listed in Schedule 1; and (c) any institution identified as such by the Minister under section 3(2);

¹³ Schedule 1 institutions: Agricultural Research Council (ARC), Council for Geoscience (CG), MINTEK, Council for Scientific and Industrial Research (CSIR), Human Science Research Council (HSRC), National Health Laboratory Service (NHLS), National Research Foundation (NRF), South African Bureau of Standards (SABS), South African Medical Research Council (MRC), South African Nuclear Energy Corporation (NECSA), Water Research Commission (WRC)

¹⁴Section 15(4) of the IPR Act: (a) Any research and development undertaken at an institution and funded by a private entity or organisation on a full cost basis shall not be deemed to be publicly financed research and development and the provisions of this Act shall not apply thereto. (b) For the purposes of paragraph (a) “**full cost**” means the full cost of undertaking research and development as determined in accordance with international financial reporting standards, and includes all applicable direct and indirect cost as may be prescribed.

¹⁵ Public entity includes all entities listed under the Public Finance Management Act (PFMA) Schedules. According to Chapter 1 of the PFMA a public entity is defined as a national or provincial public entity which includes a national/provincial government business enterprise. The term “public entity” includes the 11 schedule 1 institutions listed in the IPR Act as well as all State Owned Companies.

- (a) own IP (default position - if the R&D is undertaken internally by the SOE);
- (b) co-own IP (if the SOE collaborates with a HEI or schedule 1 institution and the four requirements for co-ownership are met);
- (c) opt to pay the full cost of R&D undertaken at an institution for the provisions of the IPR Act not to apply¹⁶;
- (d) outsource the R&D (using public funds) to a third party, the third party will own the IP (default position – third party regarded as the recipient¹⁷).

7. ACCESS TO IP IN TERMS OF THE IPR ACT

In terms of the IPR Act, the recipient (in this case the entity which the SOE is funding, or the SOE if R&D is undertaken by the SOE) has certain compliance and approval requirements. NIPMO Interpretation Notes 1 and 2 set out all compliance and approval requirements.

Should an SOE want to own, co-own or have access any IP generated from R&D undertaken by a third party and financed through SOE's National Treasury allocation, the recipient may apply to NIPMO for full or partial assignment (transfer of ownership) or a licence (access to technology without ownership) to the SOE.

Assignment and certain licences requires NIPMO approval, please refer to NIPMO Interpretation Note 2 for a complete list of IP transactions.

8. WHEN R&D IS NOT BEING PERFORMED – WHO OWNS THE IP?

8.1. IP created through a service level agreement (SLA) with the SOE

In instances where the SOE funds/procures the development of IP through a service level agreement (R&D is not funded by service level agreements), sections 5(2) and 21 of the Copyright Act provides as follows:

“Copyright shall be conferred by this section on every work which is eligible for copyright and which is made by or under the direction or control of the state or such international organisations as may be prescribed [own emphasis].

Ownership of any copyright conferred by section 5 shall initially vest in the state or the international organization concerned, and not in the author.”

Section 21 of the Copyright Act states that all copyright made by or under the SOE's direction or control will be owned by the state. However, for all other forms of IP, the SOE should consider, on a case-by-case basis, whether such IP generated should be owned by the SOE.

8.2. IP created by employees in course and scope of employment or with the SOE's resources

¹⁶ Section 15(4) of the IPR Act

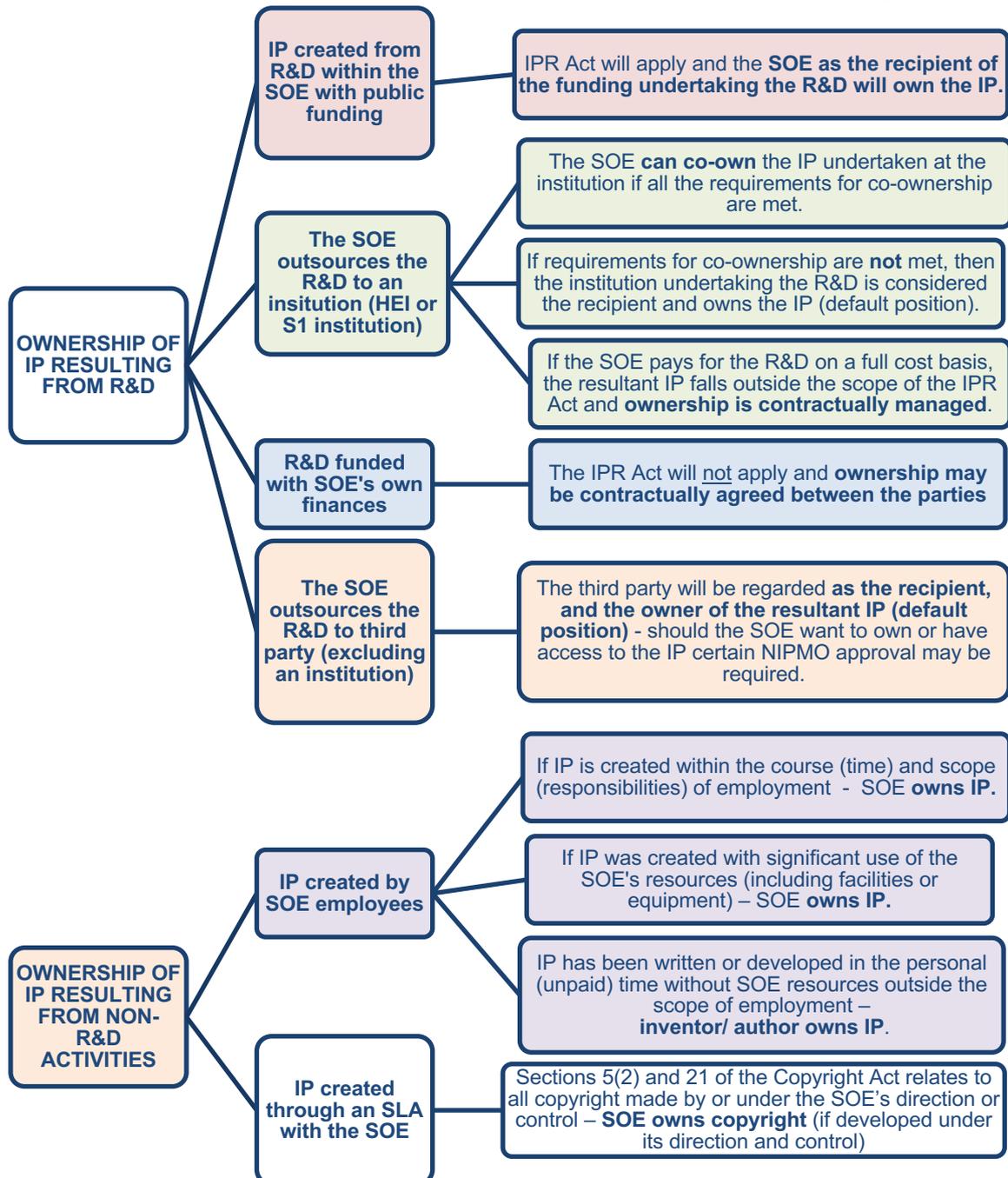
¹⁷ Section 1 of the IPR Act: **"recipient"** means any person, juristic or non-juristic, that undertakes research and development using funding from a funding agency and includes, an institution;

Any IP created by an employee of the SOE in the course (time) and scope (responsibilities) of his or her employment belongs to the SOE.

Furthermore, any IP created by an employee of the SOE that makes significant use of the SOE's resources (including facilities or equipment) in connection with the development of this IP belongs to the SOE.

9. ILLUSTRATIVE TABLE ON IP OWNERSHIP

A summary of the ownership of IP resulting from R&D and non-R&D activities is given below.



10. NIPMO DOCUMENTATION FOR FURTHER REFERENCE

NIPMO has drafted various documents to assist stakeholders in the interpretation of the IPR Act. Of particular interest to SOEs would be the following:

Document number	Title	Summary
NIPMO Guideline 1.2 of 2018 (as amended)	Interpretation of the scope of the Intellectual Property Rights From Publicly Financed Research And Development Act (Act 51 of 2008) (IPR Act): Setting The Scene	This document assists in interpreting and applying the IPR Act and provides clarity on which activities would be regarded as R&D and consequently fall within the scope of the IPR Act, and which activities would not be regarded as R&D.
NIPMO Guideline 4.1 of 2015	IP ownership	This document discusses the three possible IP ownership options provided for in the IPR Act namely (a) the default position, (b) the co-ownership provision, and (c) the full cost arrangement in which IP ownership may be negotiated.
NIPMO Interpretation Note 1	NIPMO Compliance in terms of the prescribed forms	This document provide clarity on the compliance/reporting requirements as prescribed by the IPR Act when submitted any one or more of Forms IP1 to 9.
NIPMO Interpretation Note 2	Intellectual Property Transaction Approvals	This document provides clarity on which IP transactions ¹⁸ require NIPMO approval, as well as indicate the associated section and/or regulation in the IPR Act mandating such approval requirements.

¹⁸ 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

Appendix 1:

National Treasury list of institutions receiving funding for R&D
Agricultural Biotechnology Industry (ABI)
Agricultural Research Council (ARC)
Armaments Corporation of SA (ARMSCOR)
Aurum Institute for Health Research
Biosafety SA
Cape Peninsula University of Technology (CPUT)
Central University of Technology (CUT)
Centre for the AIDS Programme of Research in South Africa (CAPRISA)
Centre for Proteomic and Genomic Research (CPGR)
Council for Geoscience (CGS)
Council for Mineral Technology (Mintek)
Council for Nuclear Safety (CNS)
Centre for Public Service Innovation (CPSI)
Council for Scientific and Industrial Research (CSIR)
Development Bank of Southern Africa (DBSA)
Durban University of Technology (DUT)
Fund for Research into Industrial Development, Growth and Equity (FRIDGE)
Forestry South Africa
Fresh Produce Exporters' Forum (FPEF)
Grain South Africa (Grain SA)
Human Sciences Research Council (HSRC)
Indigenous Knowledge Systems of South Africa Trust (IKSSA)
Institute of Natural Resources (INR)
International Centre for Genetic Engineering and Biotechnology (ICGEB)
Mangosuthu University of Technology (MUT)
Mine Health and Safety Council (MHSC)
National Health Laboratory Service (NHLS)
National Metrology Institute of South Africa (NMISA)
National Research Foundation (NRF)
National School of Government (NSG)
National Science and Technology Forum (NSTF)
Nelson Mandela University (NMU)
North West University (NWU)
Onderstepoort Biological Products (OBP)
Pelchem (Pty) Ltd
Productivity SA
Protechnik Laboratories
Rhodes University (RU)
South African Bureau of Standards (SABS)
South African Medical Research Council (MRC)
South African National Biodiversity Institute (SANBI)
South African National Energy Development Institute (SANEDI)

National Treasury list of institutions receiving funding for R&D

South African National Parks (SANParks)
South African National Space Agency (SANSA)
South African Nuclear Energy Corporation (NECSA)
South African Weather Service (SAWS)
Seda Essential Oil Business Incubator (SEOBI)
Sefako Makgatho Health Sciences University (SMU)
South African Institute of Physics (SAIP)
South African San Institute (SASI)
Stellenbosch University (SU)
Technology Innovation Agency (TIA)
The Composites Group (Pty) Ltd
Tshwane University of Technology (TUT)
University of Cape Town (UCT)
University of Fort Hare (UFH)
University of Johannesburg (UJ)
University of Kwazulu-Natal (UKZN)
University of Limpopo (UL)
University of Pretoria (UP)
University of South Africa (UNISA)
University of The Free State (UFS)
University of The Western Cape (UWC)
University of The Witwatersrand (WITS)
University of Venda (UNIVEN)
University of Zululand (UNIZULU)
Vaal University of Technology (VUT)
Walter Sisulu University (WSU)
Water Research Commission (WRC)
World Meteorological Organisation