science & technology
Department:
Science and Technology
REPUBLIC OF SOUTH AFRICA

NATIONAL INTELLECTUAL PROPERTY MANAGEMENT OFFICE
An initiative of the Department of Science and Technology

Private Bag X727, PRETORIA, 0001 • Suite 15-16, The Enterprise Building, The Innovation Hub, Persequor Park, PRETORIA. Tel: +27 12 844 0269, www.dst.gov.za/nipmo

# NIPMO INTERPRETATION NOTE 8: GOVERNMENT DEPARTMENT FUNDED IP AND THE INTERFACE WITH THE IPR ACT

The National Intellectual Property Management Office (NIPMO) is mandated to promote the objects[1] 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.

This NIPMO Interpretation Note (NIN 8) provides clarity to Government Departments (Departments) that fund activities resulting in intellectual property (IP) to determine if the IP generated falls within the scope of the IPR Act.

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

Warm regards

Dr Kerry Faul
Head: NIPMO
Date: 16 March 2018
NIPMO Ref No: NIN 8

[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

## 1. INTELLECTUAL PROPERTY

**Intellectual Property** (IP) refers to creations of the mind and can be divided into two categories namely (i) industrial property (including inventions, designs, plant varieties, and marks or logos); and (ii) 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 and allow them to benefit from their own work and exclude others from copying and using their creations, such as

- a patent for an invention;
- a plant breeders' rights for a new plant variety;
- copyright for a computer program; or
- a trade mark for a mark.

South Africa has a suite of legislation that protect various types of IP, however, this interpretation note 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. APPLICABILITY OF THE IPR ACT

In assessing the applicability of the IPR Act, it is important to note that **not all IP** generated under a Government funded (publicly financed) agreement falls within the scope of the IPR Act, but only output that **is as a result of R&D**.

Given that not all Department-funded agreements will fall within the scope of the IPR Act, it is essential to distinguish between R&D and non-R&D agreements as ownership of IP generated through these agreements may differ.

3.1 **R&D agreements**, wherein a Department contracts a party to do certain R&D (as set out in NIPMO Guideline 1.2 of 2018), **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.

3.2 **Non-R&D agreements**, such as a service level agreement (SLA) or employment agreements, will fall outside the scope of the IPR Act.

In light of the above, section 4 below defines what should be regarded as R&D activities and identifies some exclusions.

## 4. 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
(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*."[3].

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

[3] Frascati Manual (2015)

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.

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

As mentioned above, when a Department funds R&D, the IP emanating from that research agreement would be dealt with under the scope of the IPR Act.

The IPR Act governs the ownership and utilisation of IP which resulted from publicly financed R&D[4]. The IPR Act provides for three possible IP ownership options 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 provisions in more detail.

**IMPORTANTLY**, a Department, in terms of the IPR Act, **cannot** own or co-own from the outset IP emanating from publicly financed R&D or pay the full cost of the R&D activity for the IPR Act to not apply. The Department may, however, want access to the IP, this access can be obtained in various ways that will be discuss throughout this document.

The three possible IP ownership options are briefly discussed below:

### 5.1. 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*"[5].

Thus the default position on IP ownership in terms of the IPR Act is that the recipient that undertakes R&D using funding received from the Department will be the owner of any IP that emanates from that R&D.

[4]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
[5]Section 1 of the IPR Act

5.2. Co-ownership provision

Section 15(2)[6] of the IPR Act, makes provision for a "*private entity or organisation*" to co-own IP emanating from publicly financed R&D 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.

It is noteworthy that the term "public entity" only relates to **companies or business enterprises** established by local, provincial and national government and not the local, provincial or national department(s) itself (for example, CSIR is a business enterprise of the Department of Science and Technology (DST)). Thus the term *"private entity or organisation*" will by default assume to exclude Departments.

As stated previously, Departments[7] can therefore not co-own IP that falls within the scope of the IPR Act[8], from the outset, irrespective of creatorship.

5.3. Full cost arrangement

Section 15(4)[9] 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*" assume to exclude Departments, therefore the option to pay full cost (for the IPR Act to not be applicable) is not available to the Department.

Should a department want to own, co-own or have access any IP generated, the recipient may apply to NIPMO for full or partial assignment (transfer of ownership) or a licence (access to technology without ownership).

[6] 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.
[7] Local, provincial or national government departments
[8] In terms of section 15(2) of the IPR Act
[9]Section 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.

5.4. Practical application of the IPR Act

*5.4.1 Example 1*

**As per section 5.1 above,** if the Department of Agriculture, Forestry and Fisheries (DAFF) gives funding to the Agricultural Research Council (ARC) who undertakes R&D, then the ARC, as the recipient of public funds, will own the IP resulting from the R&D.

**As per section 5.2 above,** if the ARC uses funding received from DAFF and co-creates IP with private business XY (private entity or organisation), then the ARC and XY can co-own the IP provided the 4 conditions, as set out in the IPR Act, (1. resource contribution; 2. joint IP creatorship; 3. benefit-sharing with IP creators; and 4. agreement for commercialisation of the IP) are all met.

**As per section 5.3 above,** if an industry partner (private entity or organisation) funds the full cost of R&D undertaken at the ARC, it is deemed to be not publicly financed and the IPR Act does not apply. The IP ownership may be negotiated via contractual arrangements.

Should DAFF want to own, co-own or have access to the IP the ARC generated, then the ARC (recipient) may apply to NIPMO for a full or partial assignment (transfer of ownership) or a licence (exclusive or non-exclusive) for DAFF to have ownership/ access to the IP.

*5.4.2 Example 2*

**As per section 5.1 above**, if the Department of Energy (DoE) funds an R&D activity at ESKOM, ESKOM would be regarded as the recipient and own the IP which resulted from that R&D. As the IPR Act is applicable, ESKOM has now reporting and approval requirements in terms of the IPR Act.

*5.4.3 Example 3*

In instances where a Department funds an R&D agreement, and the R&D is conducted outside the borders of South Africa, the IPR Act will not apply and ownership may be contractually agreed between the parties.

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

6.1 IP created through a SLA entered into between Department and a service provider

In instances where the Department enters into a SLA with a service provider (NOTE: R&D is typically **not** funded by SLAs), the ownership of any IP generated (such as reports, surveys, databases etc), is governed by sections 5(2) and 21 of the Copyright Act which states 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 Department's direction or control will be owned by the state.

However, for all other forms of IP, the Department **should consider**, on a case-by-case basis, whether such IP generated should be owned by the Department or by the service provider.

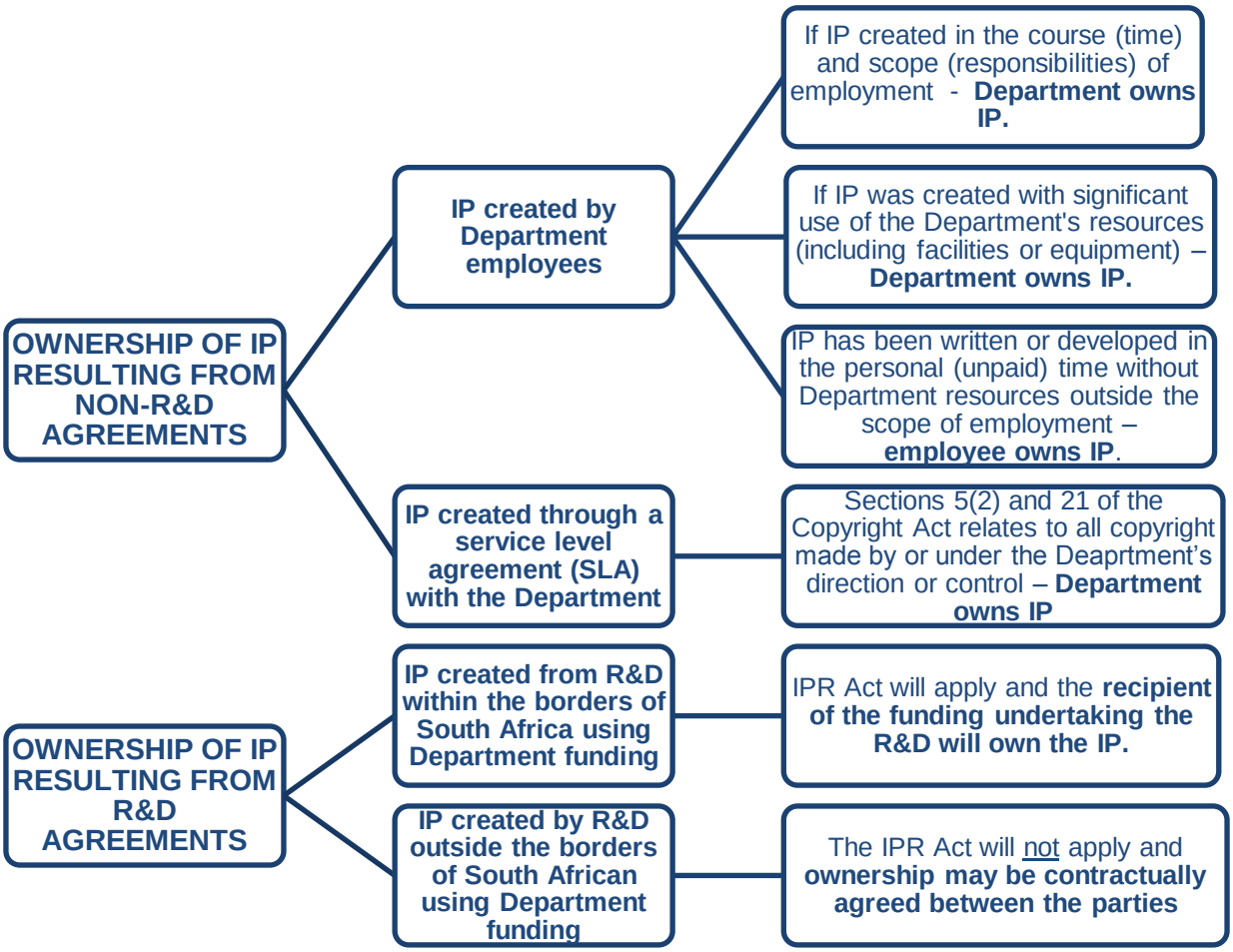
6.2 IP created by employees in the course and scope of employment or with the Department's resources

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

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

## 7. ILLUSTRATIVE TABLE ON IP OWNERSHIP

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




## 8. ACCESS TO IP IN TERMS OF THE IPR ACT

In terms of the IPR Act, the recipient (in this case the entity which a Department is funding) has certain compliance and approval requirements. NIPMO Interpretation Notes 1 and 2 set out all compliance and approval requirements.

Should a Department wish to have access to the IP, the recipient can agree with the Department to licence (for a royalty or royalty-free) or to assign (transfer of ownership) to the Department the IP that was created. **NIPMO approval may be required for such IP transactions**.

## 9. NIPMO DOCUMENTATION FOR FURTHER REFERENCE

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

| Document number | Title | Summary |
|---|---|---|
| **NIPMO Guideline 1.2** | Interpretation of the scope of the Intellectual Property Rights From Publicly Financed | This document assists in interpreting and applying the IPR Act and provides clarity on which activities would be regarded as |

| | | |
|---|---|---|
| **of 2018 (as amended)** | Research And Development Act (Act 51 of 2008) (IPR Act): Setting The Scene | 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[10] require NIPMO approval, as well as indicate the associated section and/or regulation in the IPR Act mandating such approval requirements. |

## 10. CONCLUSION

The IPR Act regulates all outputs resulting from publicly financed R&D.

In the instance where a Department funds an R&D agreement the IPR Act is applicable. In particular, the IPR Act provides that the recipient (of public funds) which undertakes the R&D shall be the owner of the IP generated.

The IPR Act does not provide for a Department to own or co-own the IP it funded from the outset. Should a Department want ownership or access to such IP an assignment or licence must be entered into between the parties (pending NIPMO approval for certain IP transactions).

[10] 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