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NIPMO INTERPRETATION NOTE 4: THRIP FUNDED RESEARCH

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)(ii)² of the IPR Act, is that NIPMO must provide assistance to institutions with intellectual property (“IP”) transactions.

This NIPMO Interpretation Note will provide clarity on Technology and Human Resources for Industry Programme (“THRIP”) funded research projects and compliance with the IPR Act.

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

Warm regards

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Head: NIPMO

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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)(ii) of the IPR Act: NIPMO must, furthermore provide assistance to institutions with intellectual property transactions

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1. INTRODUCTION

1.1 General

The THRIP is a flagship research and development (“R&D”) programme of the Department of Trade and Industry (“dti”) and the National Research Foundation (“NRF”).

THRIP’s aim is *“to enhance and to extend cooperation between Higher Education Institutions (“HEIs”) and Science, Engineering and Technology Institutions (“SETIs”) with industry and thereby to increase South African competitiveness by supporting research and technology development. This programme is designed to enable South African industry to access innovative responses to technological needs and to produce a flow of highly skilled researchers and technology managers, through applied research performed at HEIs and SETIs.”*³

Paragraph 4.9 of both the 2014/15 and 2015/16 *“THRIP Guide to Applicants”* (“Guide”, herewith attached) requires that certain arrangements (such as IP rights) between the HEI/SETI and the industry partner(s) be agreed on/be in place before commencement of a THRIP project. However, no standard THRIP agreement is provided and hence each HEI/SETI is required to develop their own agreement to regulate their relationship with the industry partner(s).

1.2 THRIP Funding Criteria and Funding Ratios

According to the Guide, every THRIP funded project will have at least one South African research institution as a recipient of funding and one industry partner providing matching funds to THRIP’s contribution. Any shortfall must come from the relevant HEI or SETI. THRIP funding works on a varying ratio basis in order to promote increased collaboration with large enterprises and to encourage greater participation by Small, Medium and Micro-sized Enterprises (SMME)⁴ as well as Black Economic Empowerment (BEE) entities.

The ratio basis is set out as follows:

1.2.1 Funding ratio 1:2

In this funding ratio the industry partner⁵ is:

³ <http://thrip.nrf.ac.za/>

⁴ Table 1 (page 15) of the *THRIP Guide to Applicants for 2015/16 Funding* provides the criteria for categorisation of industry partners as SMMEs. This table has been sourced from Government Gazette, Act No. 26 of 2003.

⁵ According to the *“THRIP Guide to Applicants”* Annexure 3: Definitions, an industrial partner is defined as follows: Industrial partner in the THRIP context refers to co-funding institutions/organisations whose funding may be matched. This term is often use interchangeably and loosely with “Enterprise”, and includes private enterprises, private associations, individuals and public enterprises partly or wholly owned by the State.

However, the *“THRIP Guide to Applicants”* further provides *Criteria defining eligibility of industry partners* and states: Typically [industry partner] is a registered enterprise but may also be an association. Must be South African or at least having a legal

- a large company⁶ only; OR
- a large company that partnered with an SMME; OR
- an association comprising large and/or SMME members.

THRIP will fund a certain percentage of the project's direct costs and the industry partner will fund a percentage that is equal to twice what THRIP has contributed. The HEI will contribute the funding shortfall necessary to conduct the research.

1.2.2 Funding ratio 1:1

In this funding ratio the industry partner is:

- an SMME OR
- an association comprising only SMME members OR
- a Black female grant-holder.

THRIP and the industry partner will each fund an equal amount of the project's direct costs. The HEI will contribute the funding shortfall necessary to conduct the research.

1.2.3 Funding ratio 2:1

In this funding ratio the industry partner is:

- an SMME and BEE member; OR
- an association comprising only SMME and BEE members.

THRIP will fund twice the amount the industry partner funds. The HEI will contribute the remainder of the funds necessary to conduct the research.

From our research and after consultation with the NRF, it is clear that the industry partner will not fund more than 70% of the project's direct costs (see below).

presence in South Africa. In the case of South African registered enterprises these may be from the private sector or they may be parastatals. Approval by the **dti** for participation by parastatals must be sought before THRIP matching funds are provided. Such approval only has to be secured once. This is generally in the interest of optimising inter-departmental cooperation and synergies. Non- South African industry partners without legal presence in South Africa may also participate as industry partners but this group may leverage THRIP matching funds to a maximum of 15% of the THRIP grants budget. Projects with such foreign enterprises should preferably include local enterprises (enterprises with a legal presence in South Africa). If no local enterprises are involved in the project, the project plan should clearly state the potential benefit of the project for South Africa.

⁶ The *THRIP Guide to Applicants for 2015/16 Funding* does not provide a definition for "large company", however NIPMO submits that a large company will be any company whose parameters and maximum values are larger than the parameters and maximum values of an SSME as stated in Table 1 mentioned in fn 7 above.

2. GRANTING OF ROYALTY-FREE LICENCE IN TERMS OF THE IPR ACT

Regulation 11(3)⁷ of the IPR Act states that NIPMO approval is required for any license that is not determined on an arms-length basis; or which is royalty free; or any license that is not determined on an arms-length or is royalty free but grants a right to sublicense on a consideration determined on an arms-length or for a royalty.

As you are aware, NIPMO is prepared to grant approval for a royalty-free licence in specific instances. Please see NIPMO Interpretation Note (NIN2), entitled “*Intellectual Property Transactions Approval*” for further information.

3. NIPMO APPROVAL PROVISIONS

NIPMO notes that the industry partner often wants a royalty-free licence from the HEI/SETIs to use the resultant project IP, owned by the HEI/SETIs, but does not fund at least 70% of the project's direct costs.

In light of this, for all THRIP funded projects, NIPMO is prepared to grant **upfront approval to HEI/SETIs to grant a royalty-free, non-exclusive licence provided the licence is ONLY for use⁸ by the private South African industry partners.**

The royalty-free, non-exclusive licence may only be sub licensed:

- (a) to South African subsidiaries⁹ and affiliates¹⁰ of the South African industry partner;
- (b) for business purposes of the subsidiaries and affiliates of the South African industry partner.

For purposes of this upfront approval, South African Industry partners will be limited to South African registered companies (including associations). This approval does not extend to state owned entities.

⁷ Regulation 11(3) 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

⁸ NIPMO does not differentiate between “*internal, internal commercial, external and commercial use*”. This view is subject to change and institutions will be notified accordingly.

⁹ Section 3(1)(a) and (b) of the Companies Act, No 71 of 2008: A company is -

(a) a subsidiary of another juristic person if that juristic person, one or more other subsidiaries of that juristic person, or one or more nominees of that juristic person or any of its subsidiaries, alone or in any combination-

(i) is or are directly or indirectly able to exercise, or control the exercise of, a majority of the general voting rights associated with issued securities of that company, whether pursuant to a shareholder agreement or otherwise; or

(ii) has or have the right to appoint or elect, or control the appointment or election of, directors of that company who control a majority of the votes at a meeting of the board; or

(b) a wholly-owned subsidiary of another juristic person if all of the general voting rights associated with issued securities of the company are held or controlled, alone or in any combination, by persons contemplated in paragraph (a).

¹⁰ An affiliate company is a company that is less than 50% owned by the parent company. Therefore, the parent company exercises less than 50% of the voting rights.

Should a non-exclusive royalty free licence be sought for a non-South African industry partner without legal presence in South Africa, separate approval will be required by submitting an IP8 form to NIPMO.

Please note that the granting of a royalty-free licence to an industry partner is at the discretion of the HEI/SETIs.

Please further note that this approval is an allowance from the standard approval that is granted for non-exclusive royalty-free licences. THRIP funding is a unique situation and as such has been granted this unique allowance after much consideration.

4. REPORTING REQUIREMENTS

Kindly note that although upfront approval is granted, ALL eligible IP transactions must still be reported to NIPMO in the form of a cover letter stating:

- (a) the number of THRIP royalty-free non-exclusive licences granted,
- (b) the field of application; and
- (c) the industry partner(s) to whom the royalty-free non-exclusive licence was granted.

This approval only applies to THRIP funded projects currently being administered by the NRF.

All royalty-free, non-exclusive licences which fall within the prescribed provisions must be submitted to NIPMO on a biannual basis. If the institution fails to report to NIPMO the transaction will be deemed to have taken place **without** NIPMO approval and will be declared **null and void**¹¹. The submission dates will coincide with those of the IP7 forms (Intellectual Property Status and Commercialisation Reports) and are as follows:

Reporting date	Report period
30 April	For royalty-free non-exclusive licences concluded between 1 September and 31 March regarding IP generated through THRIP funded research
31 October	For royalty-free non-exclusive licences concluded between 1 April and 30 September regarding generated through THRIP funded research

¹¹ Regulation 17 of the IPR Act: Failure by a recipient to obtain from NIPMO, approval for an intellectual property transaction for which approval is required in terms of the Act and these regulations; will render such intellectual property transaction and relevant agreement void from the beginning.