

**JOINT SUBMISSION ON BEHALF OF ANGLO OPERATIONS
LIMITED, ANGLO PLATINUM LIMITED, SAPPI LIMITED AND
SASOL LIMITED ON THE INTELLECTUAL PROPERTY RIGHTS
FROM PUBLICLY FINANCED RESEARCH AND
DEVELOPMENT BILL, No 46 of 2008**

24 July 2008

1. INTRODUCTION

- 1.1 The objective of the Intellectual Property Rights From Publicly Financed Research and Development Bill as published on 13 June 2008 (the “Bill”) is to ensure that the intellectual property (“IP”) created from publicly financed, or partially publicly financed, research and development by state financed institutions, and the benefits derivable therefrom, are held by and accrue to the institutions, alternatively, the state in the event that such institutions do not have an interest in securing statutory protection for such IP while deemed valuable by the state.
- 1.2 To that end, the Bill makes provision for the establishment of a national office, the National Intellectual Property Management Office (“NIPMO”), which will administer the institutions in securing statutory protection for the IP and commercialising the IP and the IP rights pertaining thereto.
- 1.3 The Bill draws a clear distinction between research and development work funded by a private entity or organisation on a so-called full cost basis and research and development work that is not so financed, i.e. financed at least partially with public funds.
- 1.4 The Bill further prescribes the manner in which publicly financed research and development and the IP created therefrom are to be managed and commercialised, with the assistance of NIPMO.
- 1.5 The Bill also provides for the commercialisation of the IP on a non-exclusive or exclusive basis by a private entity or organisation, or for the assignment of the IP to a private entity or organisation on specific terms and under specific conditions.

2. EXECUTIVE SUMMARY

- 2.1 The Bill goes a significant way towards ensuring that the benefits of publicly financed research and development inure to the institutions. Whilst the amendments thus far to the previous drafts of the Bill are welcomed and supported, there are a few remaining issues which we believe require attention and/or appreciation of their potential ramifications prior to acceptance of the Bill.
- 2.2 The remaining issues relate primarily to certain definitions as well as certain provisions pertaining to the basis for IP ownership, benefit sharing and the commercialisation of the IP by private entities or organisations. These issues include the following:

- 2.2.1 The definitions, such as:
 - 2.2.1.1 Commercialisation;
 - 2.2.1.2 Intellectual property;
 - 2.2.1.3 Intellectual property creator;
 - 2.2.1.4 Intellectual property transaction;
 - 2.2.1.5 Publicly financed research and development;
 - 2.2.1.6 Recipient; and
 - 2.2.1.7 Revenue;
- 2.2.2 The provisions, such as:
 - 2.2.2.1 The objects of the Act;
 - 2.2.2.2 Application of the Act;
 - 2.2.2.3 Choice in respect of intellectual property;
 - 2.2.2.4 Management obligations;
 - 2.2.2.5 Rights of intellectual property creators;
 - 2.2.2.6 Conditions for intellectual property transactions;
 - 2.2.2.7 Restrictions on offshore intellectual property transactions;
 - 2.2.2.8 Acquisition of intellectual property rights by the State;
 - 2.2.2.9 Co-operation between private entities and institutions;
 - 2.2.2.10 Confidentiality;
 - 2.2.2.11 Short title and Commencement.
- 2.2.3 This submission therefore wishes to address the remaining issues as well as to make corresponding recommendations.

3. DEFINITIONS

There are a number of definitions, as indicated above, that require attention, including the following:

3.1.1 The definition of “commercialisation”

It will be appreciated that any IP right has an inherently strategic value component and this definition in its current format is in essence thus applicable to all IP rights. It is often the approach of private funding companies to outsource research and development projects to institutions which could result in the creation of defensive IP and associated rights (e.g. the creation of an alternative process to achieve the same result and the associated right to block a competitor from using such alternative processes and/or to mislead a competitor regarding the actual operating process of the private funding company).

For these reasons, IP rights held solely for the above defensive purposes, should be within the ambit of commercialisation so as not to fall foul of the provisions of section 14 (acquisition of IP rights by State).

To interpret the meaning of “non-commercialised IP” in section 14(2), one needs to consider the definition of commercialisation. If defensive use of IP is excluded, this could lead to the exclusion of a significant number of research and development projects which would not be in the best interests of institutions.

To remove any doubt in this regard it is proposed that the words “. . . , including defensive use,” are inserted after the word “...purpose...” in the 3rd line.

3.1.2 The definition of “Intellectual Property” (“IP”)

The reference to “copyright” in the definition of intellectual property is a contradiction, as copyright is an intellectual property right (i.e. the negative bundle of rights of copyright entitling the owner of a copyrighted work to preclude others from copying it), while the copyrighted work is the object of such rights (i.e. IP, being a creation of the human mind).

It is therefore proposed that a separate definition for intellectual property rights be provided, or in the present definition of intellectual property, if it is retained, the word “copyright” is substituted with the words “and including all copyrighted works such as a thesis”.

In addition, it is worth noting that copyright only protects creativity in the choice and arrangement of words, musical notes, colours etc (i.e. the form in which ideas or the content are expressed) and not the content itself. In the context of research and development, the data relating thereto and the results thereof constitute confidential information and the publication thereof in a thesis and otherwise is usually keenly negotiated and regulated by mutual agreement between the parties. These agreements typically cater for the different circumstances and requirements of the research and development as well as the parties concerned – a “one size fits all” blanket statutory exemption therefore would be inappropriate.

3.1.3 The definition of “intellectual property creator”

This definition should precede the definition of intellectual property transaction to maintain the alphabetical order.

In addition, it is believed that the present words “involved in the conception” are too broad, as it arguably includes non-creators (e.g. administrative staff).

The Act relates only to publicly funded research and development.

It is therefore proposed that the definition is substituted by the following: “...means the person entirely or partially creating intellectual property arising from publicly funded research and development and identifiable as such for the purposes of enforcement of intellectual property rights, where applicable;”.

3.1.4 The definition of “intellectual property transaction”

The Act relates only to publicly funded research and development. It is therefore proposed that the words “arising from publicly funded research and development” are inserted after “intellectual property” in the body of the definition.

It is further believed that research and development agreements should fall within the ambit of this definition, as we believe that in the case of an “at full cost” research project, the research agreement would be the only agreement in respect of the subsequent assignment to the private funder. In addition and with regard to the benefit sharing provision, it would be the only consideration received by the institution and hence be apportioned in favour also of the intellectual property creator.

It is therefore proposed that the words “research and development,” are included after “includes” in the 2nd line.

3.1.5 The definition of “publicly financed research and development”

It is believed that substantial intellectual property could be the result of post graduate studies, incorporating research and development. The funder of such research and development or the employer of such student might therefore wish to engage the institution on a full cost basis as provided for in this Bill.

It is therefore proposed that the words “,including as part of a post graduate studies;” are added to the end of the definition.

3.1.6 The definition of “recipient”

The use of the word “incorporate” seems incorrect. It is therefore proposed that it is substituted with “unincorporate” in accordance with the Interpretation Act.

3.1.7 The definition of “revenue”

There exists uncertainty as to how non-monetary benefits are to be shared, valued and/or otherwise dealt with in terms of section 10 (Rights of Intellectual Property Creators).

It is therefore proposed that non-monetary benefits are excluded from the definition of revenue.

4. OBJECTS OF ACT (section 2)

The terms arising and developed are used interchangeably in the Bill.

It is therefore proposed that the term “arising” is substituted for “developed” in section 2(1) for consistency purposes throughout the Act.

5. APPLICATION OF THE ACT (section 3)

The extent to which the various provisions in the Bill are applicable to IP from research and development at full cost is uncertain.

It is therefore proposed that the word “only” is inserted after “applies” in section 3(1) to assist in clarifying the intent of the legislature, should it in fact be the intent that this Act applies only to intellectual property arising from publicly funded research and development, i.e. excluding intellectual property arising from research and development funded at “full cost”.

Concern has been expressed that the Act could impact adversely on existing research projects, which we understand is not intended. It is therefore proposed that a new sub-section 3(3) be inserted as follows: “This Act shall not apply to publicly financed research and development undertaken in terms of an agreement in force when this Act takes effect.”

6. CHOICE IN RESPECT OF INTELLECTUAL PROPERTY (section 4)

The legal basis for the claiming of ownership in favour of the institution in terms of this Bill is primarily public funding, regardless the identity of the creator, while the existing principles in the law of succession, devolution by operation of law and the relevant legislation dealing with the various forms of IP are based internationally, primarily on creatorship.

The relevant IP legislation is material law, while the Bill, it is believed, would constitute a combination of material and administrative law. The material law provisions in the Bill do not, however, repeal the material law in the relevant IP legislation that dictates the identity of IP proprietors and the rights of creators. It is therefore unlikely that the Bill, once promulgated, would override the relevant existing IP legislation. The Bill therefore would have to be interpreted in association with the existing IP legislation to determine the identity of IP proprietors and the rights of creators.

It is therefore foreseeable that the Bill would provide the institutions with conflicting rights and/or merely personal rights relative to that as provided in

terms of the existing IP legislation. It is therefore vital that one foresees the possible ramifications of such difference in legal basis, including possible national and even cross border litigation as to the proprietary rights to the intellectual property that fall within the scope of this Bill.

It is further uncertain, should an institution in terms of section 15(2), for any reason whatsoever, choose not to be the co-owner of the IP and NIPMO steps in as co-owner, what the responsibilities of NIPMO would be regarding the costs (e.g. prosecution, litigation and renewal fees) and duties (e.g. providing evidence and resources in litigation) associated with a co-owner.

7. MANAGEMENT OBLIGATIONS (section 5)

Some of the obligations and duties as set out in section 5 contain ambiguities. It is therefore proposed that:

- 7.1 The words in the first line of section 5(1) are incorrectly in bold format;
- 7.2 Should non-monetary benefits be retained in the definition of Revenue, section 5(1)(b) be more clearly defined in the Regulation regarding valuing and managing non-monetary benefits.

8. RIGHTS OF INTELLECTUAL PROPERTY CREATORS (section 10)

The references in section 10 to the term “heirs” is unnecessary as the existing law of succession deals with devolution by operation of law, while the incorporation of the term could lead to ambiguity.

The uncertainty as to the treatment of non-monetary revenue has been dealt with in our comment on the definition of “revenue” above.

In addition, it should be appreciated that the cash resources of the institutions needed to pay heirs could be impacted on detrimentally should substantial non-monetary benefits be recognised.

The infinite term in Section 10(1), particularly in the light of our comments regarding the broad definition of revenue, the inclusion of non-monetary benefits and the broad definition of commercialisation (i.e. the inclusion of strategic use of IP), due to the wording “as long as revenues are derived for such IP”, could put a very substantial and long term burden on the institutions.

As one example, the strategic benefit of a patent after it has expired lies also in the publication value such a patent has and hence the non-monetary benefit to use it as prior art. Therefore for as long as there are heirs of an IP creator, they are granted a right to this portion of the revenue forthcoming from the IP. Another example is a trade mark registration which can be renewed ad infinitum.

9. CONDITIONS FOR INTELLECTUAL PROPERTY TRANSACTIONS (section 11)

Preference should first be given to the research partner who funded and/or contributed resources and/or background IP. In the absence of such a preference private partners will rationally be disinclined to undertake the research because of the fundamental uncertainty regarding the exploitation of the IP arising therefrom.

Whilst the importance is recognised to use the IP in ways that provide optimal benefits to the economy and quality of life of the people of the Republic, the IP proprietor should not be restricted from exploiting the IP outside the Republic.

Within the broad definition of commercialise, including defensive use of IP, the application of this section to such IP should be reconsidered. Also further clarity should be provided on how to offset the defensive use of IP offshore, without any restrictions on the RSA component of the IP, and to value that in terms of providing optimal benefits to the economy and quality of life of the people of the Republic. As an example, would the fact that a private organisation using IP to negotiate a non-assert of third party patents to avoid litigation and enable it to continue its operations, be regarded as providing optimal benefits to the economy and quality of life of the people of the Republic? This regularly takes place in practice and therefore should be permitted.

10. RESTRICTIONS ON OFFSHORE INTELLECTUAL PROPERTY TRANSACTIONS (section 12)

Delete all reference to NIPMO's guidelines (in sub-sections 12(1)(b) and (c)) as this would have the undesirable effect of giving the force of law to questionable bureaucratic views and requirements which are not subject to the rigour of properly promulgated regulations by the Minister.

Insert "reasonably" before "satisfy" in the 2nd line of section 12(2) as the enquiry should be an objective one.

Delete sub-sections 12(2)(a) and (b) entirely and insert the following after "that" at the end of the 2nd line of section 12(2): "the requirements of the regulations applicable thereto have been complied with." It is undesirable that these requirements should be set out in more than one place. The regulations are the appropriate place for them.

We suggest that the regulations replacing this wording would read: "The recipient must reasonably satisfy NIPMO that the transaction is in the interests of the Republic having regard to (1) the capacity, willingness and ability in the Republic to develop and/or commercialise the intellectual property, and (2) whether or not it is economically viable to commercialise the intellectual property in the Republic."

It is not entirely clear from the wording in this section if this is applicable to any offshore IP transaction which is based on a RSA priority patent application. For example, should a RSA patent also have a USA equivalent

and an IP transaction is concluded only as far as the USA equivalent, are the provisions in this section still applicable? If so, this will seriously impact on private funding companies in terms of strategic use of IP and it is proposed to introduce wording into this section to make it clear that the provisions in this section are limited to the RSA statutory IP rights.

Section 12(1) - Within the broad definition of intellectual property transaction (which includes any agreement in respect of intellectual property and hence also include any agreement as to the strategic use of IP offshore), the Regulations need to provide clearly what is expected from the private funding company to disclose to the recipient in terms of its offshore IP transaction to enable the recipient to advise NIPMO in accordance with this section.

11. CO-OPERATION BETWEEN PRIVATE ENTITIES AND INSTITUTIONS (section 15)

11.1 Co-owned Intellectual Property

We note that, other than in terms of section 15(2) and (3), co-owned IP is not explicitly dealt with in potentially far reaching provisions, such as with sections 10, 11 and 12 respectively.

The Bill is therefore ambiguous about the provisions of co-owned intellectual property. In this regard, it is worth appreciating that the majority of research and development projects are co-financed research, and that a material portion thereof would give rise to co-owned intellectual property.

The Bill is therefore at risk of being interpreted as if the provisions dealing with publicly financed research and development apply equally to co-owned intellectual property, potentially to the material detriment of the private co-owner.

It is therefore proposed that the sections and/or sub sections that do not apply to co-owned intellectual property, should be marked clearly as such, alternatively, that the commercial agreement as provided for in section 15(2)(d) would determine the terms for such commercialisation up front, leaving it to the institutions to consider their obligations in terms of the Act prior to concluding such agreements.

The remaining issue however would then be the uncertainty regarding the validity of and risk pertaining to such agreements for the private co-owner, should the institutions not have fulfilled their obligations. The Bill is noticeably silent on the matter of penalties and validity under these circumstances.

11.2 Privately owned Intellectual Property

It is our interpretation of the Bill that full private ownership and the commercialisation of such privately owned IP fall only within the ambit of section 15(4).

However due to the reference in section 15(4) to "...and the provisions of the Act relating to publicly financed intellectual property...", it is arguable that privately owned intellectual property would be subject to all provisions that are not clearly qualified as such, regardless the reference to the application of the Act in section 3, referred to above. Examples of this are sections 10, 11 and 14.

In addition it is proposed that:

- 11.2.1 Substitute "arising" for "emanating" in the second lines of sections 15(1) and 15(2) for consistency throughout the Act.
- 11.2.2 The wording "if such private entity or organisation has the capacity to manage and commercialise the intellectual property in a manner that benefits the Republic" need to be defined more clearly in the Regulations;
- 11.2.3 The word "separate" in section 15(2) should be deleted, as it is not necessary and could complicate contractual arrangements chosen by the parties;
- 11.2.4 Section 15(2)(a) – The term "resources" needs to be defined more clearly in the Regulations;
- 11.2.5 Substitute "shall" for "may" in the first line of section 15(2) and insert a new sub-section 15(2)(e) as follows: "the institution and the private entity or organisation agree that the private entity or organisation will be a co-owner of such intellectual property." This is to make it clear that, provided the requirements of section 15(2) are satisfied, co-ownership will result and is not subject to any further discretion or decision by any other body, entity or person. (The word "may" would create this uncertainty).

In the last line of section 15(4)(a) substitute "publicly funded research and development" for "publicly financed intellectual property" (which is not defined). This is probably just a typing error.

- 11.2.6 We believe that the present concept of "full cost" funding in section 15(4) is really a concept of "exemption fee", i.e. a level of funding by the private entity or organisation, acceptable to the institution and NIPMO, above which the Act will not apply. We understand that it would be very difficult to determine all actual costs with clinical precision as this is a pre-estimate only. We believe that this is not necessary because the "mischief" aimed at here is the avoidance of a "rip-off" and therefore a fairly robust concept is all that is required. Reference should not be made in the Act or in the Regulations to "full economic costs" because (1) this would deprive NIPMO of the power to reduce such a level of funding where that should rationally be done because of changed circumstances or to deal with local or foreign competition, and (2) this could encourage disputes and claims which might undermine certainty of ownership of the IP by the private entity or organisation. The concept also needs to be reasonably flexible to cater for the different accounting principles and practices of the various institutions. "GAAP" may also be inappropriate and inadequate

here. IFRS or other compulsory accounting standards may apply from time to time.

In any event we believe that this concept should be defined in the regulations. Section 15(4)(b) could then be deleted and section 15(4) simply read as follows: "Any research and development undertaken at an institution and for which a private entity or organisation pays an exemption fee as defined in the Regulations to that institution shall be deemed not to be publicly financed research and development and the provisions of this Act shall not apply thereto." The definition of exemption fee in the Regulations could perhaps read along the following lines: "An amount equal to the institution's pre-estimate of its actual direct costs, determined in accordance with its accounting policies and procedures, to be incurred in the research and development plus a percentage of such costs approved by NIPMO as a contribution towards its indirect costs to be incurred therein. Such percentage shall be periodically reviewed by NIPMO." (The percentage would vary from institution to institution and from faculty to faculty within the institutions.)

- 11.2.7 In the last line of section 15(4)(a) substitute "publicly funded research and development" for "publicly financed intellectual property" (which is not defined). This is probably just a typing error.

12. CONFIDENTIALITY (section 16)

Substitute "shall" for "may" in the first line of section 16.

Section 16(b) should be deleted. The other subsections are adequate. The need to prevent details of intellectual property falling into the public domain is vital to preserve the intellectual property rights relating thereto.

13. SHORT TITLE AND COMMENCEMENT (section 18)

As the regulations contemplated by DST (the drafting of which is being actively participated in by stakeholders) are critical to the proper functioning of the Act, the Act should not take effect without the regulations. Ideally they should take effect simultaneously. If this were not to happen, stakeholders would be nervous of undertaking research and development with the institutions in the interim.

14. MISCELLANEOUS ISSUES

Should it be agreed that research and development be undertaken with an institution for which a private entity or organisation will pay an exemption fee, and that institution unbeknown to that entity or organisation obtains public funding thereof, this shall not effect the status of that research and development under section 15(4).

15. CONCLUSION

As stated above, the introduction of this Bill is welcomed. However and as highlighted above, there are issues which we believe require clarification or that could be dealt with in more detail before the Bill is enacted into law.

We therefore thank the Department of Science and Technology for this opportunity to make a written submission on the Bill. Should further information be required on this submission, please do not hesitate to contact us at your convenience.

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