# Funding R&D at Educational Institutions

The Financial Mail of 18 January 2013 ran a cover feature entitled “Mired in crisis: SA running out of time to tackle education woes”. While highlighting the problems in schools in particular, the feature again highlighted the dire state of education in South Africa and the need for dramatic action. As a way of contributing to such action in a mutually beneficial manner, certain industry players may be contemplating funding of research and development, especially at tertiary education institutions.

Historically there has been collaboration between industry and tertiary education institutions in South Africa where funding has been provided to these institutions for specific research projects. With such collaboration, the institution benefits from the funding and learning opportunities flowing from focussed and industry relevant research and, possibly, also from access to materials required for such research which may otherwise be difficult or expensive to obtain. The funder benefits by using the research results for commercial purposes, often also owning the intellectual property (such as patents and designs) emanating from such research. However potential funders need to be aware of an important shift in the law regarding ownership of any intellectual property flowing from such funding.

On 12 December 2012, the National Intellectual Property Management Office (NIPMO) issued its first guidelines. These guidelines are issued in terms of the Intellectual Property from Publicly Financed Research and Development Act (the “IPR-PFRD Act”), an act which came into effect following the relevant proclamation in the Government Gazette published on 2 August 2010.

In terms of the regulations issued in terms of the IPR-PFRD Act, these guidelines are "to assist Institutions in implementing and complying with their obligations in terms of the Act". The guidelines are entitled “Setting the scene” and do just that, clarifying certain aspects of the implementation of the IPR-PFRD Act and aiming to help affected persons understand who and what the IPR-PFRD Act has an impact on.

One of the major impacts of the IPR-PFRD Act from an industry perspective is its effect on who may own intellectual property emanating from institutions funded by public funds (for example, universities and other tertiary institutions in South Africa). In terms of the IPR-PFRD Act, the only case when an industry funder will acquire full ownership of intellectual property emanating from research and development done by a publicly financed institution is where the private entity funded the research and development on a “full cost basis”. Essentially the funder must have funded all the costs associated with the research, as determined by a relatively detailed list of criteria in the IPR-PFRD Act and its regulations.

In terms of the IPR-PFRD Act, the tertiary institution effectively has a first right to ownership of all other intellectual property emanating from publicly financed research and development. The IPR-PFRD Act contains specific provisions prescribing how the institution is to proceed to assess record, protect and ultimately enter into transactions to commercialise the intellectual property. The institution must also decide whether it wants to retain ownership of the intellectual property or whether it prefers not to retain ownership and not to obtain statutory protection for the intellectual property. When making this decision, the institution is bound by further restrictions in the regulations to the IPR-PFRD Act, such as how the intellectual property may contribute to the socio-economic needs of the Republic and the global competitiveness of the Republic.

If the tertiary institution chooses not to own the intellectual property or not to obtain statutory protection, it must notify NIPMO of its decision and provide reasons for the decision. This does not apply if the intellectual property requires further research and development before appropriate protection can be obtained nor if the intellectual property has prospects of addressing the socio-economic needs of South Africa or being commercialised.

NIPMO may then, after considering the reasons provided and any prejudice to be suffered by South Africa if no statutory protection for the intellectual property is obtained, itself acquire ownership of the intellectual property and, where applicable, obtain statutory protection for the intellectual property. If NIPMO chooses not to acquire ownership of the intellectual property, it must notify the institution in writing and the entity providing funding will only then be given an option to acquire ownership of the intellectual property. This could be a nasty surprise for any funder who thought it could acquire this intellectual property merely by agreement and because of its funding.

Even after this process, ownership of the intellectual property by the private entity will be subject to the benefit sharing right granted under the IPR-PFRD Act to the creator of the intellectual property (normally the researcher). This right entitles the creator of the intellectual property to a prescribed portion (20%-30%) of the revenues that accrue to the tertiary institution as a result of the commercialisation of the intellectual property. It seems that the funder has to give effect to this benefit sharing right, but it is however unclear how this is meant to work in practice.

In terms of IPR-PFRD Act, a private entity may also become a co-owner of intellectual property emanating from publicly funded research and development if:

1. there was a contribution of resources
2. there is joint intellectual property creatorship

3. appropriate arrangements are made with the intellectual property creators for benefit sharing

4. the institution and private entity conclude an agreement for the commercialisation of the intellectual property

In this case, if the private entity does not commercialise the intellectual property, the State (through NIPMO) may demand ownership of the intellectual property. The details of any co-ownership also need to take into account the provisions of the IPR-PFRD Act and its regulations with regard to benefit sharing and commercialisation.

The regulations of the IPR-PFRD Act also deal with cooperation between private entities or organisation and institutions and contemplate the possibility of a transfer by the institution of its share of the intellectual property. This is subject to further regulations, the main principle being that the transaction must take place on an arms-length basis.

Licensing of intellectual property by the institution is also contemplated and regulated by the IPR-PFRD Act and its regulations. If a funder wanted to fund research and obtain a licence to any intellectual property flowing from such research (ie instead of owning the intellectual property), it would also need to carefully examine these provisions of the IPR-PFRD Act which place a number of restrictions on such licensing, including:

1. preference must be given to non-exclusive licensing,
2. preference must be given to BBBEE entities and small enterprises,
3. exclusive licence holders must undertake, where feasible, to manufacture, process and otherwise commercialise in South Africa,
4. each intellectual property transaction must provide the State with an irrevocable and royalty-free licence authorising the State to use or have the intellectual property used throughout the world for health, security and emergency needs of South Africa,
5. each transaction must contain a condition that should a party fail to commercialise the intellectual property to the benefit of the people of South Africa, the State will be entitled to acquire ownership of the intellectual property.

Ultimately, any industry player that wants to fund , for example, research and development at a tertiary education institution with a view to commercially benefitting from the intellectual property flowing from such research (either by owning or licensing any intellectual property) must first carefully consider the IPR-PFRD Act and its implications.

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