



SUBMISSION ON THE DRAFT INTELLECTUAL PROPERTY RIGHTS FROM PUBLICLY FINANCED RESEARCH BILL¹

In our submission to the Department of Science and Technology (DST) on the draft Intellectual Property Rights from Publicly Financed Research Framework,² we noted that “[w]hile we continue to advocate for the development of an intellectual property framework in South Africa that generally facilitates access to essential products, our primary concern is that the legislation and regulations ... that will result from this process make particular provision for ensuring access to the products of research that were developed using public resources.” We explained further:

Not only is this desirable from a developmental perspective, but in our view is also required by the Constitution, as read in the light of Article 15 of the International Covenant on Economic, Social and Cultural Rights, which guarantees everyone “the right to enjoy the benefits of scientific progress and its applications”. In respect of research conducted – either in part or in whole – using public resources, the obligation on the state to ensure that the benefits are generally accessible is further strengthened.³

In general, the draft Intellectual Property Rights from Publicly Financed Research Bill (‘the draft Bill’)⁴ goes a significant way towards ensuring access to the benefits of publicly funded research. In our view, however, there are three specific areas of the draft Bill that require some attention and fine-tuning if access is indeed to be ensured. These are:

- Licence conditions (section 12);
- Government walk-in rights (sections 18 – 20); and
- Private funding (section 21).

¹ This submission is endorsed by the Treatment Action Campaign (TAC) and the AIDS and Rights Alliance for Southern Africa (ARASA).

² The ALP’s submission dated 6 April 2006 is available online at <http://www.alp.org.za/modules.php?op=modload&name=News&file=article&sid=287>

³ Footnotes omitted

⁴ *Government Gazette* No 29950 (8 June 2007)

This submission therefore addresses and makes specific recommendations in respect of each of these three areas. But before doing so, it addresses the issue of benefit sharing and incentives relating to commercially viable research. While the AIDS Law Project (ALP) – in principle – supports the concept of benefit sharing, it does not believe that the manner in which benefit sharing is addressed in the draft Bill is indeed in the public interest.

Benefit sharing and incentives relating to commercially viable research

Under the title “[t]he Rights of Inventor(s) to Benefit Sharing”, section 11 of the draft Bill provides as follows:

- (1) Royalties ensuing from licensing and other forms of commercial exploitation of Intellectual Property that falls under this Act, even if registered in the name of the State shall be subject to benefit sharing arrangement in terms of this Chapter.
- (2) The inventor(s) shall be entitled to a minimum percentage, determined by the Minister in Regulations, of net revenues or net royalties accruing to such Intellectual Property, after deduction of the following expenses:
 - (a) expenses and costs of statutory protection of the Intellectual Property and
 - (b) the ongoing expenses of commercially exploiting the Intellectual Property.
- (3) The inventor(s) shall be entitled to benefit sharing under this Chapter for as long as revenues or royalties are derived from such statutory intellectual property and the right of the inventor(s) to benefit sharing shall pass to his/her estate in the event of death of the inventor(s).
- (4) The Institution shall be entitled to distribute the balance of revenues or royalties as it deems fit, provided that best efforts must be made to distribute a reasonable portion of the balance of royalties towards the applicable research unit and also for the function of the IPMO, including costs of intellectual property protection.

Our concern regarding the draft Bill’s granting of benefits to inventors *in this particular way* is that it creates financial incentives for public institution employees to engage in research capable of yielding patentable inventions. This has the potential to skew research priorities, by attaching a potentially significant material benefit to research that may not necessarily have anything to do with the research priorities of government or the developmental needs of the country. In our view, the draft Bill needs to ensure that incentives address the country’s needs and research priorities – perhaps by circumscribing the categories of inventions in respect of which benefit sharing agreements are required.

In addition, benefit sharing should not be limited to inventors, but should also address the needs of researchers whose work is not necessarily patentable but nevertheless forms the foundation upon which patentable inventions are based. A useful analogy in this

regard is the manner in which the Patents Act 57 of 1978 and the National Environmental Management: Biodiversity Act 10 of 2004 collectively link patent protection in respect of inventions based on indigenous biological resources, genetic resources, traditional knowledge and/or traditional use to benefit sharing agreements between inventors and the communities who are key to accessing the relevant resources, knowledge or use. Benefits can and indeed should be shared by all those who play an integral role in the development and commercialization of the patentable invention.

Licence conditions

Section 12 of the draft Bill, entitled “Licence Conditions in Publicly Financed Intellectual Property”, provides as follows:

- (1) The Institution in consultation with NIPMO shall determine the licence conditions in all Intellectual Property under this Act, irrespective of who holds title to it, and these must include the following:
 - (a) Preference will be for non-exclusive licensing;
 - (b) Any exclusive licence must have a limited duration of 5 (five) years after which the Institution in consultation with NIPMO will again determine afresh the need for exclusivity;
 - (c) Exclusive licence holders must undertake, where feasible, to manufacture, process and otherwise utilise the invention within the geographic area of South Africa;
 - (d) In the event of a holder of an exclusive licence being unable to continue to manufacture, process, or otherwise utilise the invention within the geographic area of South Africa during the duration of his or her licence, full reasons thereof must be furnished to NIPMO within 30 (thirty) days of having been so requested in writing, failing which the exclusive licence shall be deemed to have been revoked.
 - (e) If NIPMO is not satisfied that it is untenable for the holder of an exclusive licence to continue to process or otherwise utilise the invention within the geographic area of South Africa during the duration of its licence, NIPMO shall issue a directive that the licence holder continue to exploit, and otherwise utilise the invention only within geographic area of South Africa, failing which the licence holder will lose exclusivity of its licence.
 - (f) An exclusive licence must be granted only if:
 - (i) it will not be economically viable to exploit the patent *via non* exclusive licensing, and
 - (ii) there is no overriding State interest that militates against granting of an exclusive licence.
 - (g) The onus of proving the conditions in paragraph (f) above shall be on the person seeking an exclusive licence.
 - (h) All types of licences must contain a condition to the effect that should the licence holder fail to or not fully exploit the licence to the benefit of citizens of the Republic of South Africa, NIPMO will have a right to suspend the licence after due enquiry of the reasons for non exploitation.

- (i) Each licence must contain a condition that wherever feasible the licence must have a BBEE partner as set out in the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).

While it contains numerous public interest provisions, section 12 of the draft Bill only addresses issues of access in subsection (1)(h), which requires that all licences have a clause that effectively empowers the DST's National Intellectual Property Management Office (NIPMO) to suspend a licence should the licensee "fail to or not fully exploit the licence to the benefit of citizens of the Republic of South Africa". Potentially a powerful provision, section 12 is likely to lose much of its utility because it is somewhat vague, lacks detail and asks more questions than it provides answers. For example:

- What is meant by a suspension of the licence?
- Can a suspended licence be revoked? If so, in what circumstances and by whom?
- Who is entitled to be licensed to exploit an invention following the revocation of a suspended licence?
- What is meant by "fail to or not fully exploit the licence to the benefit of citizens of the Republic of South Africa"?

In our view, DST may choose one of two ways to address these defects: by providing the requisite detail in the section or by expressly empowering and providing guidance to the Minister to make appropriate regulations. In addition, the provisions of section 20 of the draft Bill should be brought forward to section 12 – perhaps to be inserted as a new section 12(2) – as they deal squarely with licence conditions and not government walk-in rights (the subject of chapter IX of the draft bill, which includes sections 18 through 20).

Government walk-in rights

Section 12 of the draft Bill should be read together with those sections that deal with government walk-in rights:

18. Acquisition of Rights to Inventions and Patents by the State –

- (1) The rights obtaining in terms of this section are additional to the rights granted to the State in terms of the Patents Act, 1978 (Act No. 57 of 1978).
- (2) If the Minister, in consultation with the Minister of Trade and Industry, after due enquiry is of the *bona fide* opinion that:
 - (a) a patented invention that has been assigned or an exclusive licence granted to a private entity is not being utilised in the Republic on a commercial scale or to an adequate degree;

- (b) after the expiry of a period of four years after the assigning of the patent or grant of the exclusive licence, there is no satisfactory reason for non-utilisation of such patent or exclusive licence in the Republic;
- (c) there is sufficient reason to obtain a prohibited trade and business advantage as described in the Competition Act; or
- (d) after the expiry of a period of four years after the grant of a patent to an Institution, the patent is not being exploited and there is no satisfactory reason for non-utilisation of such patent,

the Minister shall publish in the *Government Gazette* a notice of intention to have the patent assigned to the State or to have the exclusive licence revoked within 90 days of publication of the notice.

- (3) Where a person who can show that he or she has a right to the patent or an exclusive licence and the assignment or revocation of his or her exclusive licence shall have an adverse effect on him or her that person may approach the Minister for a reconsideration of his or her decision within 30 days from the date of publication of the notice mentioned in subsection (2).

19. Representation by Assignee of Patent or Holder of Exclusive Licence –

- (1) The proprietor of an invention, assignee of a patent, or holder of an exclusive licence to a patent that is subject to this Act shall, if called upon to do so by any Minister of State assign the invention, patent, or grant an exclusive licence to that Minister on behalf of the State.
- (2) A Minister of State shall invoke the provisions of subsection (1) only in circumstances where acquisition of the invention, patent, or an exclusive licence is necessary for the Republic's health, security and other needs in the opinion of the Minister of State necessary to invoke the provisions of subsection (1).

20. Patent Assignments and Licences Contrary to the Provisions of this Act –

- (1) All owners and assignees of inventions and patents, as well as holders of licences in terms of this Act shall adhere to the operational licence conditions stipulated by NIPMO as set down in Section 12 and as contained in regulations made from time to time by the Minister.
- (2) In the event of an owner or assignee of a patent or holder of a licence not adhering to the stipulated licence conditions the Minister may by publication of a notice in the *Government Gazette* give notice of his or her intention to revoke the assignment or licence within a period of 90 (ninety) days from publication in the *Government Gazette*.
- (3) An owner or assignee of a patent or holder of a licence who is negatively affected by the notice may make written representation to the Minister within 30 days of publication of the notice in subsection (2).

Collectively, these three sections grant discretionary powers to the executive to take certain remedial action following the grant, assignment or licensing of a patent in respect of a publicly financed invention. Section 18 is primarily concerned with the non-utilisation of a patent or a licence; section 19 grants powers to the state necessary to secure the “health, security and other needs” of South Africa; and section 20 deals with the consequences of non-compliance with assignment and/or licensing conditions.

In our view, all three provisions are – in principle – to be welcomed. However, notwithstanding our principled support for these provisions, we have some concerns

regarding their precise scope and formulation. These concerns are set out in some detail below. In addition, whilst only section 18 of the draft Bill makes any express reference to the rights granted to the state in terms of the Patents Act, implicit in the language, structure and context of the other two provisions is a recognition that the rights they confer on the state (by granting specific powers to members of the executive) are in addition to the rights that are already vested in the state by legislation such as the Patents Act. However, this should be made express, as the inclusion of such a clause in section 18 and not in sections 19 and 20 may be read by some to suggest otherwise.

Section 18 and non-utilisation

Section 18 of the draft Bill makes provision for the state to acquire a patent, or for an exclusive licence under the patent to be revoked, in certain circumstances. Both of these actions relate specifically to the non-utilisation of the patent and can only be done by the Minister, who is obliged by the section to exercise this power in consultation with his or her trade and industry counterpart. As already indicated above, such a right of the state to act is expressly recognised by the section as being “additional to the rights granted to the State in terms of the Patents Act”.

As the Patents Act already grants the state powers to license itself or third parties to use patented inventions,⁵ with section 19 of the draft Bill (discussed below) granting additional powers to the state to enable it to protect health, security and/or other similar needs of the country, section 18’s limitation to non-utilisation seems wholly appropriate. The choice of remedy – assigning the patent to the state or revoking an exclusive licence under the patent – also seems largely appropriate.

Nevertheless, we still have two concerns in respect of section 18. First, there does not appear to be any reason why the choice of remedy should be limited to either assignment of the patent or revocation of the licence. In certain circumstances, both actions may be justifiable and indeed necessary. Second, relevant constitutional jurisprudence suggests that section 18 should provide guidance to the Minister.⁶ In granting discretionary powers that have the potential to limit constitutional rights, Parliament is under a constitutional obligation to ensure that it provides appropriate guidance on the exercise of such powers.

⁵ Section 4 of the Patents Act enables a minister of state to “use” a patented invention for a public purpose.

⁶ See, for example, *Dawood v Minister of Home Affairs*; *Shalabi v Minister of Home Affairs*; *Thomas v Minister of Home Affairs* 2000 (3) SA 936 (CC)

Section 19 and health, security and other needs

Section 19 of the draft Bill would permit any minister – on behalf of the state – to acquire a patent or an exclusive licence under the patent if and when this is necessary for the health, security and/or other needs of the country. It is important to understand how this provision differs from section 4 of the Patents Act, in terms of which any minister may use any invention for a public purpose – in other words, to get a non-exclusive licence or to grant such a licence to one or more other entities. A public purpose includes but is significantly broader than addressing the health, security and/or other comparable needs.

One can understand that in certain circumstances (such as national security) the state may need to be the only entity entitled to work a particular invention – either by way of assignment or by way of an exclusive licence. But in others, such as when health needs are to be addressed, the public interest may be best served by allowing any interested party with a demonstrated ability to work the invention to do so. The most efficient way for this to be done would be by way of the patent being deemed to have been endorsed with the words “licence of right”, as contemplated by section 53 of the Patents Act.

The consequences of this would then be regulated by section 53(2) of the Patents Act, which provides as follows:

Where a patent has been endorsed under this section—

- (a) any person shall at any time thereafter be entitled as of right to a licence under the patent upon such conditions as may, in default of agreement, be decided by the commissioner on the application of the patentee or the person requiring the licence;
- (b) the commissioner may, on the application of the holder of any licence granted under the patent before the endorsement, order such licence to be replaced by a licence to be granted by virtue of the endorsement on conditions to be decided by the commissioner;
- (c) no interdict shall, in proceedings for infringement of the patent (otherwise than by the importation of goods) be granted against the defendant if he undertakes to take a licence upon conditions to be decided by the commissioner, and the amount, if any, recoverable from the defendant by way of damages shall in such case not exceed double the amount which would have been payable by him as licensee if such a licence had been granted before the earliest infringement;
- (d) the renewal fee payable in respect of the patent after the date of the endorsement shall be one half of the renewal fee which would have been payable if the patent had not been so endorsed.

In other words, if demanded by the health, security and/or other comparable needs of the country, anyone with a demonstrated ability to work a particular invention would be entitled to claim a licence as of right.

As has been mentioned in relation to section 18, section 19 is also in need of an amendment that seeks to provide guidance to the relevant minister of state regarding the

exercise of the relevant power. Such an amendment could, for example, provide guidance regarding the circumstances within which it would be appropriate for the state to acquire a patent or to get an exclusive licence, or when it would be appropriate for the patent to be deemed to be endorsed with the words “licence of right”. In addition, what is lacking in section 19 and is likely to frustrate its use are provisions dealing with licensing terms and conditions (in particular the royalty rate) – default provisions in the absence of agreement, as well as mechanisms for dissatisfied parties to approach a relevant authority in circumstances that may justify a departure from the default position. In the absence of such clarity in the law, seemingly endless litigation may be used by a party to frustrate the licensing process.

Section 20 and non-compliance with assignment and/or licensing conditions

Section 20 of the draft Bill, which deals with a failure to comply with assignment regulations and/or licensing conditions in section 12, allows the Minister to revoke the assignment or licence. While we support the existence of such a provision, believing that it is better located alongside section 12 of the draft Bill (as it is not a walk-in right but rather a consequence of not complying with the licensing conditions and/or assignment regulations), we nevertheless have one major concern.⁷

The aim of such a provision should be to ensure proper compliance with regulations governing assignment and/or licensing conditions. While we believe that the draft Bill goes far enough in dealing with assignment, the same cannot unfortunately be said in respect of licensing conditions. The mere revocation of an exclusive licence does not place any pressure on the licensor, who should be ensuring that the terms of the licensing agreement are respected. In our view, the draft Bill needs to ensure that both parties to a licensing agreement have much to lose if there is non-compliance with the conditions attached to the licence.

A powerful mechanism to ensure that both parties to the licensing agreement remain vigilant is by way of a threat of the entire market being opened up – which would see an exclusive licensing arrangement making way for multiple licensees. This can be done by way of getting the patent to be endorsed with the words “licence of right” in the event of non-compliance with licensing conditions. Both the licensor and the exclusive licensee would not want to see a situation where their profit levels are placed at risk – which would

⁷ In addition, the draft Bill is silent on the management and validity of licensing agreements following the revocation of an assignment.

result from the market being opened up to competition – and would therefore be likely to place pressure on each other to ensure compliance with licensing conditions.

General

Collectively, the provisions do not recognise the corporate pressures that are likely to be placed on government not to make use of its walk-in rights. Internationally, few developing country governments have been able to withstand the pressures of the private sector when attempting to take any action that limits the reach of intellectual property protection. Yet the government walk-in rights in the draft Bill simply rely on the state to secure the public interest, without empowering any third parties to act.

In our view, the draft Bill could address this concern in one or both of two ways. First, it could place an obligation on the state to act in certain circumstances, providing some level of guidance to the responsible decision maker on what factors to consider in determining whether the relevant circumstances indeed exist. Second, it could empower third parties – such as civil society organisations, consumer groups or professional associations – to request the state to act on the basis of information that is placed before the relevant decision maker.

Private funding

Section 21 of the draft Bill, entitled “Funding from Private Entities and Enterprises”, provides as follows:

- (1) The Institutions may accept funding from private entities and enterprises for purposes of research and development which may have the result of generating new intellectual property which funding may be:
 - (a) project-specific or funded on a full cost model as defined in sub-section (3) and also in Regulations to be published by the Minister in terms of this Act; or
 - (b) non-specific, of a general nature or partially of a general nature;
- (2) Research carried out with funding in terms of sub-section (1)(b) shall be deemed to be Publicly Financed Research.
- (3) Funding will be regarded as project-specific or on a full cost model if an Institution has been approached by a private entity or enterprise to engage in specific research with specified results, the full costs of such research being paid for by the private entity or enterprise.
- (4) Funding will be regarded as non-specific, or a general nature, or partially of a general nature if an Institution has been allocated funds by a private entity or enterprise to conduct research either without expectation of a defined outcome or without the full cost of the research having been covered by such funds.
- (5) Where funding by a private entity or enterprise is as described in subsection (1)(a) and (3) above, the funding entity or enterprise may become the owner of the intellectual property emanating from its funded research provided that the funding agreement

makes provision for benefit sharing of royalties derived from exploiting the developed intellectual property on a minimum ratio determined by the Minister in Regulations after deduction of attendant expenses and recordal simultaneously with the application for protection and granting of protection of the contract confirming the right of the contracted researcher.

- (6) Where funding by a private entity or enterprise is as described in sub-section (1)(b) and (4), the funding entity or enterprise may become a co-owner or holder of the Intellectual Property emanating from the funded research provided that:
- (a) such private entity or enterprise is best placed to manage and commercialise the intellectual property in the national interest, or
 - (b) there has been a significant contribution of resources, including background intellectual property by the private entity or enterprise.

The funding agreement must provide for the private entity or enterprise being designated as a co-owner or holder of the Intellectual Property.

According to subsection (2), only research carried out with funding in terms of subsection (1)(b) – meaning funding that is “non-specific, of a general nature or partially of a general nature” – is deemed to be publicly funded research and therefore subject to the provisions of the draft Bill. What is therefore not deemed to be publicly funded research, for example, is project-specific funding that is not necessarily based on a full cost model. In our view, the only research that may arguably be exempt from the provisions of the draft Bill is research that is both project-specific and funded on a full cost model.⁸

Conclusion

We thank the DST for this opportunity to make written input on the draft Bill. Should you require any further input and/or clarification regarding this submission, please contact the ALP’s Jonathan Berger on (011) 356-4112 or bergerj@alp.org.za. For further information on the ALP, please contact Shalom Ncala on (011) 356-4100 or visit www.alp.org.za.

⁸ In our previous submission, we noted as follows:

“In our view, the policy framework should not be limited to research that uses public financial resources. Instead, research that makes any use of public resources – including infrastructure, equipment and human resources – should be deemed to constitute publicly funded research. *This should apply even in situations where the specific costs of a particular research project are covered by the private sector according to a full cost recovery model.* If this were not to be the case, public institutions may potentially use public resources purely to service the private sector. In our view, time spent doing private sector work takes away from any public sector mandate.” (Emphasis added)