Regulatory Impact Analysis:

The Intellectual Property Laws Amendment Bill

October 2009

A report to the Presidency and the dti

SBP was commissioned by the Presidency and the dti to undertake this RIA.

SBP is an independent South African company, with a depth of experience in regulatory impact assessment. In 2005 SBP led the consortium that investigated the feasibility of introducing RIA to South Africa on behalf of the Presidency and National Treasury.

NOTE

This report is based on the draft Bill presented to Cabinet on 1 July 2009.

The analysis is presented in the standard format of an RIA template.

In addition to the RIA Report, SBP has also developed two supporting papers to inform the RIA:

- A contextual review to situate the RIA covering initiatives to protect and promote indigenous knowledge at the international level, initiatives in South Africa, and experience from a selection of other countries
- A summary of key drafting issues within the Bill that require clarification.

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GLOSSARY

DAC	Department of Arts and Culture
DST	Department of Science and Technology
DTI	Department of Trade and Industry
IP	Intellectual property
IK	Indigenous knowledge
NERSA	National Energy Regulator of South Africa
NIKSO	National Indigenous Knowledge Systems Office
PFMA	Public Management Finance Act
RIA	Regulatory Impact Assessment
TK	Traditional knowledge
TIP	Traditional intellectual property
WIPO	World Intellectual Property Organisation
'The Bill'	The Intellectual Property Laws Amendment Bill
'The Policy'	The Protection of Indigenous Knowledge through the Intellectual Property System

SUMMARY

The dti's Intellectual Property Laws Amendment Bill was presented to Cabinet in July 2009. Cabinet requested that a regulatory impact assessment (RIA) be conducted on the Bill. SBP was commissioned by the Presidency and the dti to conduct the RIA.

The policy objective underpinning the Bill is the recognition, understanding, integration and promotion of South Africa's indigenous knowledge (IK) resources, and the need to ensure that communities receive fair recognition and, where appropriate, financial remuneration, for the use of IK.

The Bill aims to achieve this through amendments to South Africa's existing intellectual property legal framework.

The RIA assesses the likely impacts of the Bill, together with potential risks and challenges associated with implementation. It includes an assessment of costs and benefits, based on available information.

The Bill has the potential to achieve **social benefits** for communities, by preventing misappropriation of indigenous knowledge and promoting preservation of such knowledge. The likely **commercial benefits** for communities are however difficult to quantify, and may not be achieved on a significant scale.

There are considerable **cost implications** associated with the Bill. These include direct institutional costs to government, and compliance costs for the private sector and communities themselves.

The RIA process has identified a number of significant **risks and challenges** associated with the Bill in its current form, which would need to be carefully assessed before proceeding with implementation. These include inadequate definition of key concepts, introduction of uncertainty into the existing legal framework, and the possible breach of South Africa's obligations under international law.

On the basis of the RIA assessment, there appears to be insufficient evidence to conclude that the likely risks and costs associated with implementation, for government and society, will be justified by achievement of social and economic benefits for indigenous communities on a significant scale.

The RIA identifies *two alternative options* that appear to offer more effective and less costly ways of achieving the policy objectives. These are the development of *sui generis* legislation dealing specifically with the protection and promotion of indigenous

knowledge, in the form of a) a stand-alone Act, or b) through the insertion of discrete chapters on IK within the existing IP laws. The RIA also identifies a fourth 'do nothing' option, which would see the protection and promotion of IK using a combination of existing intellectual property law, contract law, moral suasion, and where necessary legal action, without introducing any changes to the regulatory framework.

PART 1: OBJECTIVES, RISK ASSESSMENT, OPTIONS

Title of Proposal: Intellectual Property Laws Amendment Bill 2009

Background to the Bill: Purpose and intended effect

The 2004 inter-departmental Indigenous Knowledge Systems Policy provides a guide for the recognition, understanding, integration and promotion of South Africa's indigenous knowledge (IK) resources. It also aims to ensure that communities receive fair recognition and, where appropriate, financial remuneration, for the use of IK.

The IKS Policy identified various options to protect IK, including amendments to intellectual property laws, the creation of sui generis laws, databases and registers.

In line with the first of these options, the dti developed a policy framework for *The Protection of Indigenous Knowledge through the Intellectual Property System* (the Policy). The policy document describes how the various forms of the South African intellectual property system - trademarks, geographical indications, patents, designs and copyright - can be used to protect IK systems, and argues for the protection and commercialisation of IK systems.

In line with the Policy, the dti recently introduced new legislation to address the protection and promotion of IK in respect of patent law (Patents Amendment Act 2005).

The proposed Intellectual Property Laws Amendment Bill (the Bill) expands the process of legislative change to other forms of IP. It proposes changes to the:

- Copyright Act 1978
- Performers' Protection Act 1967
- Trade Marks Act 1993
- Design Act 1993.

The Bill aims to achieve both social and economic benefits for some of the country's poorest and most marginalised communities. It aims to:

- Protect different types of indigenous knowledge by creating a new form of protection for 'traditional intellectual property' across the four Acts, and including a definition of geographical indications in the Trade Marks Act
- Prevent unauthorised exploitation and misappropriation of traditional IP
- Promote the commercialisation of traditional intellectual property
- Ensure that indigenous communities accrue economic benefit from commercialisation of their traditional IP

- Provide access to information regarding traditional IP through creation of a national database.

It also aims to regulate the activities of collecting societies, by providing for the use of collecting societies in the entire copyright regime as well as in the trademarks and designs regime.

In order to achieve these objectives, the Bill proposes the creation of an institutional framework including:

- A National Council to advise the Minister and the Registrars on traditional IP
- A National Trust Fund to facilitate the commercialisation of traditional IP and the application of income generated to the benefit of indigenous communities
- A National Database for traditional IP to facilitate access to information regarding traditional IP.

Public comment and Nedlac

The dti's Policy and a draft of the Bill were approved by the Parliamentary Portfolio Committee on Trade and Industry in December 2007, and published for comment on 5 May 2008.

The dti received a wide range of public submissions, which identified significant concerns and challenges associated with the Bill. Principal issues included:

- The risk of creating legal uncertainty in the existing IP regime
- The lack of clear and adequate definitions for key terms
- The risk of placing South Africa in breach of its international obligations
- The lack of detail regarding implementing mechanisms
- The absence of a dispute resolution mechanism
- The potential to divest individuals of existing rights
- The substantial impact on the status and operation of collecting societies.

In November 2008, industry associations requested that the Bill be submitted to a NEDLAC negotiation process. Discussions at NEDLAC were prolonged, and were ongoing at the time of the RIA exercise (August to September 2009). The RIA was conducted in parallel to the NEDLAC process. Agreements that may have been reached at NEDLAC are not reflected in the version of the Bill on which the RIA was conducted. The RIA thus does not incorporate the results of the NEDLAC process.

Risk assessment

This section provides an assessment of the risks associated with the status quo, and examines the extent to which there is a need for policy action.

It is widely recognised, in South Africa and internationally, that the effective protection of IK is critical to ensure that indigenous cultures, traditions, practices and folklore are afforded due recognition and respect. There is broad agreement that such protection should have a firm legal basis, and should be accessible and meaningful to the communities that it aims to serve. The issue has received a great deal of attention in the past few decades in international forums. Various developed and developing countries are exploring different mechanisms to protect and promote traditional knowledge systems and cultural practices.

In South Africa, as in many other countries, the existing regulatory framework governing intellectual property rights is not easily accessible to communities wishing to protect indigenous knowledge on a collective basis. While collective intellectual property registration is possible in some cases, communities generally do not exercise these rights. The dti's policy framework states that, in South Africa "there is no legal redress that addresses the protection or commercialisation of IK and no legal instruments that deal with collective ownership of IK."

South Africa's indigenous communities thus have little access to formal legal protection for their IK. Communities may be unaware of the commercial potential of their knowledge, and thus unaware of the value of asserting their rights to recognition and benefit sharing. This allows for the misappropriation of IK – individuals external to a particular community are able to gather information from the community for their own purposes, without necessarily providing the community with due recognition or benefit-sharing in the event of commercial success.

Recent legislative changes in the form of the Bio-prospecting Act and the Patents Amendment Act do however provide specific legal protection for IK related to *genetic resources*.[1] The Acts require that any use of such IK is subject to prior informed consent from the relevant indigenous community, negotiation of bio-prospecting permits, and conclusion of benefit-sharing agreements between the applicant and the relevant community to ensure that the latter have a share in any commercial benefit arising from derivative use of IK.

The problem of misappropriation in respect of *genetic resources* is thus dealt with by existing legislation and *does not appear to require additional legislative measures*.

[1] Any material of animal, plant, microbial or other biological origin containing functional units of heredity

Consideration of the potential scale of misappropriation, and/or opportunities for commercial benefit in respect of medicinal and pharmaceutical IK are thus excluded from this risk assessment, since they relate primarily to genetic resources as covered by the existing Acts.

There appears to be little need for legislative intervention to protect IK related to traditional medicines/ healing practices. Traditional healers tend to rely on trade secrets and, in some instances, patent protection, to protect and in some cases commercialise their IK. This sector is unlikely to benefit from proposed changed to the Copyright, Designs, Trademarks and Performers Protection Acts. Indeed, the dti's Policy states that trade secret "may be the best method of protecting IK under most circumstances."

The Policy notes that agricultural biodiversity is not catered for by the proposed Bill, and that IK protection in this area requires action from the Department of Agriculture.

It appears that there only significant area of risk which may justify intervention is in the area of indigenous folklore or expressions of creativity such as storytelling, music, designs, art and performances. Lack of intervention in this area may limit the ability of IK custodians to ensure proper recognition and protection of such knowledge, or to share in potential commercial benefits deriving from use of IK in the creative industries.

It is difficult to estimate the scale of risk of misappropriation of indigenous creative resources. A number of cases in other countries have demonstrated the importance of appropriate and accessible protection, and clear requirements in respect of benefit sharing. Experience in other countries does however show that the objectives of protection and benefit sharing do *not necessarily* require legislative intervention.

IK has been successfully protected in a number of instances using contract law or moral suasion, as well as through use of existing intellectual property laws to demonstrate prior art, for example. Recourse to existing contractual and legislative mechanisms appears to mitigate the risks of misappropriation in many cases.

The scope of protection also needs to be considered. The Policy notes that the largest threat of misappropriation is from foreign companies. Any legislative intervention would however pertain only to the use commercialisation and exploitation of IK by individuals or companies within South Africa – it would not prevent a third party from using the IK of South African communities in other parts of the world. Efforts to protect and promote South African IK on the international level rely on participation in international treaties, moral suasion and/or court action.

Alternative options to achieve the policy objectives

A standard characteristic of RIA exercises is the inclusion of alternative options to achieve the policy objective. These options should normally be identified and considered at a very early stage of the RIA process. The inclusion of alternatives allows the costs, benefits and risks associated with a particular proposal to be evaluated against feasible alternative approaches, in order to assess whether the best available option has been chosen.

The protection of IK through amendments to existing IP laws, as proposed by the Bill, is only one of a number of potential options. The Policy acknowledges that "in many circumstances, the IP system is not the best vehicle for the protection of TK, particularly if not adapted or used in conjunction with other mechanisms." However, an assessment of the costs, benefits and risks associated with alternative options does not appear to have been conducted by the dti prior to development of the proposed legislative approach.

This RIA exercise assesses three possible options, in addition to the proposed Bill:

- No legislative intervention
- Sui generis legislation
- Stand alone chapters with the four Acts under review

These alternative options were identified on the basis of international practice in the protection and promotion of traditional IP, and input from stakeholders in government, business and civil society. They are discussed below, together with an analysis of the risks associated with each option, and with the Bill itself.

Option 1: No legislative intervention i.e. 'do nothing'

As noted in the risk assessment above, there is no clear sense of the scale of the risk of misappropriation of creative IK (as noted, protection and commercialisation of genetic resources is dealt with under existing legislation).

Experience in both South Africa and internationally has demonstrated the ability to successfully protect and promote IK using existing legal mechanisms, without a need for legislation specific to IK protection. Non-legislative mechanisms which have been successfully employed to protect IK include:

- The use of customary law, in countries such as Australia, to ensure that IK is used in accordance and with respect to cultural norms and requirements. The risk associated with this approach is potential difficulty in proving the existence and continuance of particular rules regarding the reproduction and use of

folklore. This approach also fails to provide mainstream recognition for IK related rights

- Breach of confidence actions, which protect the confidentiality of particular information, and allow action to be taken against unauthorised use of information. The test of ‘obligation for confidence’ is an objective one – was the information communicated in circumstances in which a reasonable person would know that the information is confidential?
- Contractual agreements have been successfully used to protect IK in South Africa, New Zealand and Australia. Contract agreements can be set up to allow for benefit sharing. In South Africa the agreement between the San and the CSIR concerning the commercial exploitation of certain properties of the Hoodia plant provides an example of a contractual arrangement designed to protect and promote the interests of a specific indigenous community.
- Existing intellectual property law can in some instances be used to protect IK. The dti Policy refers to the song Mbube, derived from Xhosa folklore, which was the subject of disputed ownership between the family of the South African lyricist and an international company. The case was awarded to the family of the lyricist on the basis of the song being copyright protected under existing laws.

The disadvantage of this approach is that it fails to address the problems of low levels of rights awareness among indigenous communities, and limited access to the resources and technical knowledge required to exercise protection of rights under existing systems. The cost of using the IP system is a likely to remain a significant obstacle for IK holders.

Option 2: Sui Generis Legislation

A significant body of expert legal opinion has expressed strong concerns that concepts of IK cannot be accommodated within the framework of conventional IP statutes without creating legal uncertainty and damaging certain fundamental principles of IP law. These fundamental principles include:

- The requirement that the originator or author of a specific intellectual creation be identifiable (fundamental requirement for patents, copyright, and to some extent designs)
- The requirement that a specific intellectual creation must be novel or original to qualify for protection (fundamental requirement for patents, copyright, designs)
- The requirement that the prospective right holder must be legal proprietor of that intellectual creation (fundamental requirement for patents, copyright, designs, trade marks)

Legal experts argue that IK cannot comply with these requirements since it is by nature historic or traditional in origin, was created over time by an unidentifiable number of

people, and rightfully belongs to all these people. It is also noted that some IK exists across community boundaries and even across national boundaries. This makes it impossible to identify a single specific community as the rightful owner, or to exclude any member from commercial exploitation of such IK.

In this light, there is a strong preference among many legal experts to develop a *sui generis* mechanism to protect IK.

Sui generis is a Latin expression, literally meaning of its own kind, or unique in its characteristics.[2] In law, the expression identifies a legal classification that exists independently of other categorisations because of its uniqueness or due to the specific creation of an entitlement or obligation. In intellectual property law, *sui generis* rights may be awarded to owners of a small class of works, such as IP in databases or plant varieties. A *sui generis* protection law enables the extension of IP-type protection to concepts/matter that do not meet traditional definitions of protected intellectual property. Protection of this sort is confined or special to its own facts, and therefore not of broader application.[3]

A number of countries in South America, Asia and Europe have developed *sui generis* laws to protect and promote IK.[4]

In South Africa, the creation of a *sui generis* Act protecting IK offers a number of advantages. These include:

- The opportunity to create a more comprehensive framework for the effective protection and promotion of IK, without having to make piecemeal amendments to current IP legislation
- The opportunity for a range of relevant departments, including dti, Agriculture, Arts and Culture, Science and Technology and Cooperative Governance and Traditional Affairs to work together to develop a comprehensive and cohesive system for IK protection and promotion, beyond the confines of IP principles
- The ability to develop cross-departmental guidelines, awareness raising and support mechanisms to enable the development of formal legal entities at community level, which can operate as a juristic person and exercise IK rights

[2] Oxford English Dictionary, Oxford University Press 2nd ed. 1989

[3] The dti policy document states that 'what makes an IP system sui generis is the modification of some of its features so as to properly accommodate the special characteristics of its subject matter (IK) and the special policy needs which led to the establishment of a distinct system. This deviates from the legal meaning of the term.

[4] Costa-Rica, India, Peru, the Philippines and Portugal have adopted *sui generis* laws dealing specifically with the protection of bio-diversity and related IK. Panama has developed a Special IP regime governing the collective rights of indigenous people. Thailand has a *sui generis* law for traditional medicine.

- The ability to make provisions, in consultation with indigenous communities, to determine who is empowered to authorise commercial use of indigenous folklore within a particular indigenous community
- The ability to accommodate special requirements in respect of IK that cannot be easily accommodated within the IP Laws framework. For example:
    - Some IK is *already in the public domain,* i.e. is known beyond the originating community. If IP protection is awarded to known IK, it is effectively removed from the public domain, since it may no longer be freely used to stimulate or influence new innovations. To the extent that such IK may already be in use (influencing the development of musical styles for example), this could be very restrictive. Known IK is better protected using a *sui generis* system that does not need to remove knowledge from the public domain in order to protect such knowledge.
    - Typically, IP laws provide for protection for a limited period of time, after which the work falls into the public domain and is available for use by others (with the exceptions of trademarks which may be renewed in perpetuity). *Sui generis* legislation can allow for perpetual protection where appropriate.
    - IP laws typically require the formulation of knowledge/innovation in material form. Much IK does not exist in fixed material form, however. This provides significant challenges in documentation and recordal. It also introduces unique challenges in establishing proof of ownership. *Sui generis* provisions allow greater flexibility to facilitate recognition and protection of oral tradition.
    - IP laws are standardised and structured and may not always be appropriate to accommodate the needs of IK protection. A registered trade mark, for example, can be expunged from the Register for non-use. If a community merely wishes to register a cultural icon for protection against misappropriation, with no intention of commercial exploitation, such a trade mark is at risk of being expunged for non-use – rendering a Trade Mark as the wrong vehicle for such protection.

The primary advantage of the *sui generis* approach is the ability to allow recognition of IK works outside the normal IP framework. This allows for more effective and comprehensive protection and promotion, which is tailor-made and sensitive to the requirements of indigenous communities and customary law, and does not disrupt existing IP conventions. A *sui generis* law can provide for mechanisms for appropriate action against infringers of indigenous IP rights, which ensure accessibility and affordability to indigenous communities.

A model for *sui generis* protection

The UNESCO and WIPO 1985 *Model Provisions for National Laws on the Protection of Expressions of Folklore against Illicit Exploitation and other Prejudicial Actions*

> provides a *sui generis* protection mechanism. The model provides for prohibition of unauthorised use of expressions of folklore, misrepresentation of the source of expressions of folklore, and wilful distortion of folklore in a way prejudicial to the interests of a relevant community. It also provides for international extension of protection based on reciprocity.

The main challenge associated with this approach is that a specific new protection system will have to be created, with its own rules and enforcement mechanisms.

Option 3: Discrete, stand-alone sections/chapters specific to IK, within each IP Act

Where countries have opted to protect IK within existing IP laws, this has generally been done through provision of a **separate and discrete section within each affected existing IP Law**. In such cases, the protection of IK is dealt with in a stand-alone section within the existing IP law, outside the conditions governing normal IP, and is thus able to deal specifically with provisions such as community ownership and duration of IK protection.

Under this approach, South Africa could introduce a new and discrete chapter or section, specific to IP protection for traditional works, into each of the four Acts that have been identified for amendment.

This option offers very similar benefits to the option of a *sui generis* system, in that it provides the necessary flexibility to accommodate the unique characteristics and requirements of IK without disrupting the coherence and predictability of IP rights relating to non-IK IP.

It offers a less comprehensive and cohesive approach, however, since the framework for IK protection and promotion would be limited to the provisions contained within the individual IP Acts, with less scope for inter-departmental cooperation across a broader spectrum of IK related issues.

Option 4: The IP Laws Amendment Bill

As noted, the proposed Intellectual Property Laws Amendment Bill (the Bill) proposes legislative changes to the Copyright Act 1978, Performers' Protection Act 1967, Trade Marks Act 1993 and Design Act 1993 to include recognition and protection of IK. It proposes the creation of various institutional mechanisms, to be administrated by the dti, which will be responsible for IK protection, promotion and commercialisation.

These institutional mechanisms and the costs and benefits associated with their implementation are discussed in detail in the following section. There are a number of overarching implementation risks and challenges associated with this option, which are discussed briefly below:

1. There is significant potential for legal and practical difficulties to arise in the application of IP rights and laws to collectively owned indigenous knowledge (see fundamental principles of IP law, p10 above).

2. There is a risk of duplication of effort and overlapping of legislative jurisdictions - the institutional structures and processes proposed by the Bill do not appear to be situated within the framework of current inter-governmental initiatives in this area.

3. The intended scope of the Bill is uncertain. While it is clear that the Bill will impact on the creative industries, it is less clear whether its provisions will cover categories such as indigenous biological resources and traditional medicines.

   Exploitation of genetic and biological resources is governed by the Bio-prospecting Act and the Patents Amendment Act (which require negotiation of bio-prospecting permits and benefit sharing agreements between the applicant and the relevant community).

   It is unclear whether the mandate of the proposed National Council will extend to these types of IK, and/or whether royalties in respect of the use of such IK (which are currently governed by the Biodiversity Regulations and the Patents Amendment Act) will be subject to the authority of the proposed National Trust.

4. The Bill fails to provide clear and adequate definitions for key terms such as 'indigenous community,' 'traditional' and 'indigenous,' 'indigenous origin,' and 'traditional character.' The manner in which such concepts are defined has a critical impact on the applicability and scope of the provisions, the practicality of implementation, and the risk of disputed claims.

5. It is possible that the proposals will not result in significant material benefits for communities. South Africa is a net importer of IP. The scale of successful commercialisation of traditional IP in this country is relatively small.[5] Efforts to

[5] South Africa is a net importer of IP. The technology balance of payments (TBP) registers a country's commercial transactions related to international technology and transfer of know-how. It consists of payments made or received for the use of patents, licenses, know-how, trademarks, designs and technical services. In the period 2000-2007, South Africa's royalties *received* from abroad increased by 58 percent, a compound annual rate of 6.8 percent per annum. In the same period, royalties *paid* abroad increased by 360 percent, a compound annual growth rate of 20.1

commercialise IK-related products in South Africa have not to date reaped substantial economic benefits for developers.

6. There is a legal concern regarding the implications of the Bill for South Africa's international obligations in terms of the Paris Convention, Berne Convention and WTO TRIPS Agreement. These treaties require that member countries accord foreign works the same level of intellectual property protection as domestic works (the principle of 'national treatment'). Thus, for example, any copyright protection afforded to South African citizens must be extended to nationals of other convention countries, without a guarantee of reciprocal protection.[6] The limitation of protection to indigenous communities *from South Africa* within national IP law would be in breach of this principle.

These risks indicate potential challenges and limitations in the realisation of the policy objectives underpinning the Bill. There appears to be a significant risk that the valuable objectives of preserving, protecting and promoting IK may be undermined if these issues are not addressed.

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per cent per annum. Royalty payments greatly exceed royalty income (in 2007, royalty payments were 30 times royalty income).

[6] Article 3 of the TRIPS agreement states that 'Each Member shall accord to the nationals of other Members treatment no less favourable than it accords to its own nationals with regard to the protection of intellectual property;' Article 4 states that: 'With regard to the protection of IP, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members '

PART 2: IMPACT ASSESSMENT OF THE IP LAWS AMENDMENT BILL

Institutional arrangements

The IP Laws Amendment Bill proposes the creation of a number of new institutions. These institutions would operate across the regulatory framework in respect of the Copyright Act, Performer's Protection Act, Designs Act and Trade Marks Act.

These institutions are briefly described below. They are then examined in more detail, in terms of likely benefits, costs and implementation risks.

National Council for Traditional Intellectual Property

The proposed National Council will be responsible for protection and promotion of IK, advising the Minister on IK related matters, advising the Registrars of patents, copyright, trade marks, traditional terms and expressions, and designs on any matter relating to the registration of IP related to IK, and advising on the integrity of a database of copyright related traditional IP.

National Database for Traditional Intellectual Property

The proposed National Database will be established in the office of the Registrars of patents, copyright, trade marks and designs, to include all information regarding traditional innovations, traditional copyright works, traditional terms and expressions, traditional designs, and traditional performances. The Registrar will determine what constitutes traditional IP, under advice from the National Council. It is not clear whether such advice is binding on the Registrar.

- The Trademarks Act and Designs Act currently provide for registration rights – new applications are recorded on a searchable register. Under the provisions of the Bill, these *registers would be expanded* to include sections dedicated to traditional IP. In the case of the Designs Act, this will be achieved by the provision of a new category of Traditional (T) designs, in addition to the current categories of aesthetic design (A) or a functional design (F).

- The Copyright Act and the Performer's Protection Act currently provide for non-registration rights, i.e. no intellectual property record or register is currently kept. The Bill requires that traditional intellectual property in respect of copyright and

performances will be recorded – requiring the *establishment of new databases* specific to traditional IP.

National Trust Fund for Traditional Intellectual Property

The proposed National Trust Fund is tasked to:

- Receive income derived from the use of traditional IP (royalties and licence fees)
- Apply income generated to the benefit of indigenous communities
- Facilitate commercialisation of traditional intellectual property.

The Fund will vest in and be administered by the Registrars of patents, copyright, trade marks and designs. It will be made up of separate sub-funds. Money received by the Fund will be ring-fenced according to the type of IP to which the royalty/license fee relates.

Ownership of copyright in respect of traditional IP would vest in the Trust Fund. Any royalty payments received on such works would be payable to “the Trust as the owner of copyright” (ownership of IK trademarks and designs will however vest in the traditional community).

The new Companies Act: An expansion of CIPRO’s role

The new Companies Act, which becomes effective in April 2010, provides for the establishment of a Companies and Intellectual Property Commission (Companies Commission) which combines and enhances the services of the Office of Companies and IP Enforcement and CIPRO. The Companies Act provides for the transformation of CIPRO into a newly established independent statutory body, with significantly expanded functions and powers. New duties which will be performed by the Commission but were not performed by CIPRO include a positive duty to promote dispute resolution through the Companies Tribunal or other similar accredited agencies, research and reporting to the Minister on matters of national policy relating to IP law, and a statutory duty to increase public knowledge about IP law.

Intended Benefits of the Bill

The intended benefits of the IP Laws Amendment Bill are both social and economic in nature:

- **Social benefits**: to prevent misappropriation of traditional IP, and preserve IK
- **Commercial benefits**: to ensure indigenous communities are empowered to share in any economic benefits that arise through the exploitation of their IK.

This section provides an assessment of the potential social and commercial benefits of the Bill, together with a discussion of risks and possible limitations in realising these benefits.

Social benefits

Prevent misappropriation of traditional IP

It offends one's sense of natural justice when private companies or individuals claim ownership of indigenous knowledge, and derive commercial benefits from such IK in which the indigenous community does not share. Ethical and legal challenges arise when IK is accessed, collected, disseminated, used and exploited in non-traditional ways and by external entities, without the consent of indigenous communities, and with no formal recognition of that community as the custodians of the knowledge.

The Bill aims to prevent knowledge that belongs to indigenous communities from being misappropriated, thereby promoting social inclusiveness and justice. The principal mechanism used by the Bill to achieve this objective is to allow indigenous communities to register IK onto an IK database. Protection is thus achieved by the use of a recordal system.

Risks and possible limitations

- Under the proposed amendment, traditional IP receives protection when it is entered onto the database to be developed by CIPRO.[7] The Bill however provides relatively limited detail on what information will be included on the database and what verification procedures will be used. As it currently stands, it is not clear that the Bill provides **adequate safeguards against misuse** of the database.

[7] In contrast, the amendment to the Patents Act does not require such registration to have taken place before protection is afforded to traditional IP - the mere fact that something is a form of IK qualifies it for protection, although such protection only comes into being on the voluntary admission of the patent applicant.

- By relying on a system of recordal, the proposed mechanism may not address the difficulties associated with protecting **oral traditions.**
- Where indigenous communities are impoverished or isolated, their practical ability to access the IK database may be impaired. It is therefore necessary to provide **legal or technical resources** to such communities to translate legal rights into practical rights. This is potentially very costly, and it is unclear how funding for such support would be provided.
- IP placed on the database effectively **leaves the public domain**, and is no longer freely available for wider use. This reduces the richness of the existing public domain, and potentially reduces the scope for innovation and creativity. Kwaito provides an example of an evolutionary musical style drawing extensively on international musical influences. Its evolution has been influenced by the bubblegum music of the 1980s, which in turn evolved from the mbaqanga style of the 1960s. Mbaqanga in turn drew on traditional influences. The development of the style was directly influenced by the richness of the public domain. It would have been significantly inhibited if excessive registration of traditional IP had taken place - for example, if mbaqanga had been identified as a form of traditional IP and all subsequent innovators had been required to pay royalties.

Preservation of IK

If the IK of indigenous communities is not recorded, there is a risk that valuable cultural resources will be lost to future generations. The IK database envisaged by the Bill may contribute to the preservation of IK.

The intended scope of the proposed Database is however not clearly explained in the Bill. There are two possible interpretations:

A. Expansion of existing databases to enable registration of IK associated with applications for patents, copyright, trademark or other IP protection in existing IP databases maintained by CIPRO, or
B. Establishment of a new database incorporating all applications for the registration of IK, as brought forward by community representatives and/ or their authorised representatives, in order to record and preserve IK on a broader basis.

Risks and possible limitations

- If the Database is envisaged as a registration system, affording enforcement or proprietary rights, it is **not clear whether works not registered on the Database still qualify for IP protection**.
- The Bill provides that indigenous communities and/or their representatives may submit a request to the Council for traditional IP to be recorded in the database. The registration process appears to allow a first come first served approach,

which would favour those with access to resources above other potential claimants. A **validation mechanism** will be required to assess ownership claims.

- The database could provide a valuable preservation function. However there is a **risk of overlap and inconsistency** in relation to other recordal initiatives. The Department of Arts and Culture (DAC) and Department of Science and Technology (DST) are also actively involved in the development of IK registers. DST's NIKSO has plans to establish a National IK Recordal System which will standardise capture, storage, maintenance, dissemination and protection of IK systems across South Africa. DST also is piloting recordal at the community level, educating and empowering communities to record their own IK where this is not yet in the public domain. The dti needs to ensure synergy with these recordal initiatives to avoid overlap and duplication of effort.
- Many **government agencies and private sector organisations hold extensive databases of traditional knowledge and works**. Examples include the MRC's databases which capture knowledge of traditional medicines and medicinal plants, claims for traditional cures, and areas of practice of traditional health practitioners. Extensive records of traditional musical works are held by organisations such as SAMRO, SARRAL, Gallo, EMI and the SABC. It will be important to ensure that the proposed National Database is developed in a manner which complements and adds value to existing recordal processes.
- **Communities may not necessarily welcome recordal of their IK**. Experience in other countries shows a strong resistance among some indigenous communities to recordal initiatives. Concerns include possible misappropriation of IK once it is recorded in publicly accessible databases, and loss of control over the use of IK. While some of these concerns may be addressed through differentiated levels of access to IK databases, such provisions are difficult to accommodate within the existing IP framework. Indigenous peoples also note the difficulties of documenting IK in a fixed form, given that it is essentially dynamic and even intangible.[8]

Commercial benefits

Many of the poorest and most rural communities in South Africa are repositories of traditional intellectual property. Facilitating the ability of these communities to reap commercial benefits from their traditional IP is in line with wider policy goals of reducing poverty and empowering communities, particularly in rural and isolated areas. There is however a danger that communities' expectations of commercial benefits may not be realised.

[8] Yovana Reyes Tagle, The Protection of Indigenous Knowledge Related to Biodiversity: The Role of Databases

Traditional IP will vary in its commercial usefulness. One blockbuster traditional IP application may be accompanied by scores of other applications which, for various reasons, are of limited commercial use. South Africa generally displays a low level of successful commercialisation of IP – very few publicly-funded research institutions in SA have earned revenues from the licensing of patented inventions, and institutional arrangements for managing and commercialising IP are at an early stage in the country.[9]

The potential scale of demand for traditional IP registrations is unknown. The IP Laws Amendment Bill essentially introduces a new legal concept, namely traditional intellectual property, into the South African commercial landscape. Because the legal concept of traditional IP is so new, it is not possible to estimate the potential take-up of registrations. Response to the recent Patents Amendment Act may provide a cautionary indication. Since the amendment was enacted in December 2007, no patent applications have included a traditional IP declaration.

The distinction between 'original works' and 'works derived from IK' is likely to be a source of contention.

A thorough assessment of the commercial benefits of the proposed legislation is not possible at this point, given the number of sources of uncertainty.

Risks and possible limitations

- The Bill states that the proposed **National Trust Fund will own copyright in relation to traditional works.** On the other hand, ownership of IK *trademarks and designs* will vest in the traditional community. It is not clear why ownership of IK related copyright should not vest in communities. In the case of copyright, communities would essentially become licensees of their own works.
- The extent of the commercial benefit accruing to indigenous communities will be affected by the **details of the regulatory structure**. This is yet to be finalised. The manner in which indigenous communities are defined (and certain potential members included or excluded based on particular criteria), the percentage of commercial value at which royalties are charged, and the mechanisms for distributing funds back to communities, will all impact on the level of potential funding generated under the new legislation, and available for community benefit.
- The scale of benefits achieved by beneficiaries of the proposed Trust Fund will be highly dependent on the **speed and efficiency with which collected royalties are distributed**. The structure envisaged for the Trust Fund is relatively complex, in that it appears that benefits accruing from IK will be ring-fenced by type of IK.

[9] The Economics of Intellectual Property in South Africa, WIPO, June 2009

- The possible **cost of the litigation** that could attend the process of attributing ownership could substantially decrease the amount of money available to the community.
- The poorer the indigenous community is, the less likely it is to have available to it the **legal or administrative skills necessary to claim IK rights**. For such marginalised communities, the benefits of traditional IP will be achieved only if support is provided in registering and collecting on IK rights. The provision of such support systems will increase the cost to government of implementing and running the traditional IP system.
- The recording or registration of a work in the name of a community makes **every member of that community a co-owner** of the work. Thus each community member owns an undivided share in the rights flowing from the performance. It appears that this will require that every co-owner must be consulted in any negotiations regarding the work. If the consent of co-owners is not obtained they can veto any administrative or legal act in respect of the object of co-ownership – creating potential for legal complexity and litigation. Brazil's recent experience in this area demonstrates the potential difficulties. Brazil's law requires free and informed consent of all local communities that hold or potentially hold the IK. According to a recent review, "the way that laws are interpreted, many villages, many communities are considered to own some share of the TK. The outcome of Brazil's efforts to create a viable framework for TK has instead led to an overabundance of overlapping property rights where high transaction costs and the inability to negotiate prevent any progress at all."[10]

SUMMARY OF LIKELY BENEFITS	
Social justice benefits	
Prevention of misappropriation	Unknown – may be counter-balanced by impact on public domain, divestment of existing rights
Preservation of indigenous knowledge	Unknown – dependent on scope and intended objective of national database, and extent of coordination with DST and DAC
Commercial benefits	
Royalties on traditional intellectual property	Unknown – dependent on number of applications, commercial application and institutional and regulatory details

[10] *Toward a New Era of Intellectual Property: From Confrontation to Negotiation,* Tania Bubela, School of Public Health, University of Alberta, Canada, and Edson Beas Rodrigues Jr, University of Sao Paulo

Costs associated with implementation of the Bill

The cost assessment provides an estimation of the direct and indirect costs associated with implementing the changes proposed by the Bill. Limited available information about the proposed institutional mechanisms, and the likely scope of activity, has prevented an estimation of costs in a number of areas.

Direct costs to government

The Bill provides for the creation of a number of new institutions. Where possible, both once-off establishment costs and ongoing operational costs are estimated. The Bill provides insufficient detail about proposed institutional mechanisms to enable a comprehensive costing exercise to be carried out.

Institutional costs

National Council	
Structure	A new institution with 12 members The Council may make appointments, constitute and maintain committees, and appoint external members to committees. The Registrar is responsible for administration of the Council and committees.
Start up costs	The Council will be housed at the dti. The Bill provides no information about anticipated resources required to fulfil administrative duties in respect of the Council. The dti has indicated that the Council will be a **part-time body**, convened when there are IK related decisions to be adjudicated.
Ongoing operational costs	Operational costs are dependent on the employment and/or remuneration structure chosen for Council members. Assuming a part-time body, costs are estimated on a meeting-by-meeting basis, using per-meeting costs of NERSA part-time regulators for comparative purposes. In the financial year ended March 2008, five part-time regulators made in total 125 appearances at NERSA committee meetings, for a total cost of R1.4m (including reimbursable allowances, ad-hoc meetings, special assignments etc). This equates to an average of R11 200 a meeting, or around R12 200 including inflation. If we assume that the twelve Council members will meet six times a year,[11] this would result in total compensation costs of **R876 000 annually**. Sub-committees are likely to meet more often - these meetings represent additional costs.
Risks and limitations	It should be noted there is **no Registrar** in office at present. The **composition** of the Council will be critical in establishing its credibility and building relationships of trust with communities.

[11] Discussions with the dti suggest that it is anticipated that the Council will meet at least four times a year, with ad hoc meetings as issues for discussion arise.

National Database for Traditional Intellectual Property	
Structure	The Database will reside in the office of the Registrar. The scope and purpose of the database are unclear - at least two interpretations are possible: **Option A**: only *IK associated with IP applications* is registered, and is registered in *existing IP databases* maintained by CIPRO (i.e. limited to registration of patents, trademarks and designs). **Option B**: a *new database* is established, which incorporates *all applications* for the registration of IK as brought forward by community representatives and/ or their authorised representatives.
Start up costs	**Option A**: It may be possible to implement requirements with no additional staff resources and with only minor changes to existing IT systems, *if* the volume of IK related registrations is relatively small. Costs could be fairly low. **Option B**: New databases will be required in respect of copyright and performances, and additional staff resources will be required to undertake research and outreach with communities to gather information. Costs would be significant.
Ongoing operational costs	In the absence of information about the anticipated volume of registrations, and verification procedures to be used in assessing applications for inclusion in the database, ongoing administrative costs are difficult to estimate. The DST currently has a number of pilot projects in place which provide an indication of the scale of funding that may be required. The NIKSO pilot at Zululand University, which covers only three communities, has running costs in the order of **R0.6m per annum** (this excludes staff costs, staff comprise secondees from the university and funded graduate students). If compilation of the database is to be actively directed toward the protection of IK through registration as prior art (option B), the process needs to be both robust and comprehensive. India's Traditional Knowledge Digital Library (TKDL), covering genetic and biological resources, as an example, is managed by a permanent staff of 40 people, and incurs operational costs in the order of $US0.3 million per annum. The initiative is shared across several Indian Government Agencies.
Risks and limitations	Each community can decide for itself what constitutes a traditional work. There is no provision for objective validation/authentication regarding the ownership of IK by communities. The system is vulnerable to invalid ownership claims and ownership disputes.

The National Trust Fund	
Structure	The Registrar of patents, copyright, trade marks and designs will administer the proposed National Trust Fund and report to the Council on an annual basis.
Start up costs	CIPRO has no expertise in the running of a trust fund - collection, administration and disbursal of funds is outside the parameters of its current role. Governance mechanisms and administrative processes for collection and disbursement of funds need to be established. A fund management entity may need to be appointed. Offices may need to be established in a number of regional centres to enable liaison with communities.
Ongoing operational costs	Ongoing costs of administration, collection of royalties and license fees, and disbursement of funds to communities will depend on the administrative and governance mechanisms established, and the scale of activities in relation to income-generation as a result of commercialisation of traditional IP.
Risks and limitations	The Bill does not provide for the establishment of a Trust to administer the Trust Fund. A Trust, as a legal entity, is required to take fiduciary responsibility for the Trust Fund. The National Treasury has advised that the provision for a public trust fund with 'ring-fenced' funds is inconsistent with the provisions of the Constitution and the PFMA. The Constitution requires that funds paid to national government are paid into the National Revenue Fund. Funds are allocated according to the national budget and distributed in terms of an Appropriation Act. National Treasury indicates that there are no trust funds operating in the public sector at national level. The speed and efficiency with which the proposed National Trust Fund disburses royalty collections to indigenous beneficiaries is a significant cost risk. The financial achievements of the telecommunications industry's Universal Service and Access Fund provides an indicator of potential cost implications. In the 2007 financial year, the fund distributed approximately R26.8m to beneficiaries, and incurred administration and other costs of R5.5m. In addition, the fund carried over an undistributed surplus of R23.5m, which would have earned interest of approximately R2.9m at prevailing prime overdraft rates. If this unearned interest is regarded as an opportunity cost, then the total cost of the fund was approximately a quarter of expenditures.

Other direct costs to government

Commercialisation of traditional IP	
Issue	Proposed amendments to the Copyright Act make the Registrar responsible for the commercialisation and exploitation of traditional IP. This assumes that the Registrar will need to develop strategies and implementation plans to market and promote IK on a commercial basis to generate royalties.
Start up costs	Commercialisation of IP is outside the current functions and powers of the Registrar. Significant new resources would need to be allocated to enable the Registrar to perform this role.
Ongoing operational costs	Commercialisation and exploitation of IK would require ongoing outreach to and engagement with indigenous communities, many of which are in very remote and difficult to access parts of the country. If the Registrar – or indeed any other dti entity – is to perform this function effectively, extensive operational resources (staff and capital costs) will be required.
Establishment of traditional IP collecting societies	
Issue	It is not clear whether traditional IP collecting societies will be run on a self-sustaining basis, or will receive some form of state subsidies.
Cost	Subsidies are noted as a possible cost going forward, but cannot be quantified at this stage.

Summary of costs to government of proposed institutions and activities

National Council	**Start- up costs**: Unknown **Operational costs**: Staff costs of R876 000 annually, assuming part-time Council Administrative costs unknown
National Database	Unknown Will vary substantially depending on institutional structure
National Trust Fund	Unknown
Commercialisation of IK	Unknown
Establishment of traditional IP collecting societies	Unknown

Costs to communities and business

The Bill represents substantial direct and indirect costs to business, particularly collecting societies and licensees of IP works. In addition, it may result in significant costs to indigenous communities, if they need to transact through the proposed National Trust in order to exercise their rights in respect of traditional IP. Likely costs to key stakeholder groups are summarised below.

Issue	Impact
Impact on communities: Direct costs	
The Bill requires all parties using IK, including members of the originating indigenous community, to pay royalties if any commercial benefit is derived from such use.	Individual community members will be required to pay **royalties** for the commercial use of their own IK.
Impact on communities: Indirect costs	
It is not clear whether a community that has established its own legal entity to promote or exploit its IK would need to pay royalties to the Fund, nor whether a community can collect royalties independently of the proposed National Trust.	Proposed amendments to the Copyright Act identify the National Trust Fund as the owner of traditional copyright works, suggesting that communities of IK copyright works **may not establish their own mechanisms** to commercialise and exploit their IK independently of the National Trust.
Impact on collecting societies: Direct costs	
Collecting societies administer copyright in musical works and literary works on behalf of their members. Under the existing copyright regime, any person who makes an arrangement of a traditional musical work and displays a substantial amount of originality in the making of such an arrangement, owns the copyright on the work. Such works are notified as works of a traditional nature in which the artists have exerted original input and arrangement, registered in an international database (the Works Information Database, part of the CISAC Information System), and recognised internationally as belonging to the members who notified these works.	SA collecting societies will need **change the way in which traditional works are registered and administered**, in South Africa and abroad. The indigenous community from which the works emanate will need to be identified. Societies will need to establish mechanisms to identify the royalty payable to the fund and the procedures for payment of such royalties. These provisions apply retrospectively for 50 years preceding commencement of the Act. The **administration costs** of such changes are likely to be substantial for collecting societies.
The Bill provides that "copyright in a traditional work shall not be transmissible by assignment, testamentary disposition or operation of law, but the commission of an act which is the subject of the copyright may be licensed."	Collecting societies will need to review the repertoire of rights and works currently administered to identify traditional works and performances assigned to them, and transfer administration of such works to the proposed Fund – creating **administrative costs and loss of future revenues** from these works.

Impact on collecting societies: Indirect costs	
Section 9A of the Copyright Act regulates the amount of royalties to be paid based on agreement between the user and the owner of copyright, and/or relevant collecting societies. The existing provision is specific to copyright in sound recordings and the collective management of needle-time rights. The amendment extends this section to all other forms of copyright (literary and artistic works, cinematographic films, broadcasts, programme carrying signals and published editions, computer programmes), in addition to traditional works.	The amended provision provides for compulsory licenses in respect of all copyright works. This could be interpreted to limit all exclusive rights of all copyright protected works. Experts argue that this would amount to expropriation and would be contrary to the Berne Convention and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). If South Africa is perceived to be in breach of **international IP obligations,** there is a risk that international users of South African IP may choose to default on royalty payments – representing a potential loss of millions of Rand.[12]
Impact on artists: Indirect costs	
The Bill does not include provisional arrangements for the collections of royalties on IP which includes IK. The period between the Bill becoming law and the establishment of the relevant institutions (including IK collecting societies) may see disputes over the ownership of existing IP.	During this period, the legal obligations of the licensee on any IP that could be argued to include IK are unclear. If the ownership of IP might come under dispute, **licensees may refuse to make payments on recognised IP until ownership has been clarified**.
There is a risk that lack of clarity over IP rights, potential ownership disputes and possible claims for royalties could create uncertainty and risk aversion among innovators and investors.	This could result in self-censorship by potential innovators, and reluctance to invest in creative and innovative works. The publishing industry, for example, might see local publishers reluctant to accept manuscripts from authors who are using or referring to IK. Foreign publishers would be free to accept such works – potentially resulting in publication of works including or about IK shifting outside South Africa's borders.
Impact on licensees: Indirect costs	
At present, the number of collecting societies is small - a licensee has to negotiate with very few counterparties. The Bill provides for indigenous communities to establish their own community trusts. Licensees will thus need to interact with a larger number of entities when negotiating licensing rights.	The IP licensing negotiating environment will become more complex, requiring licensees to spend more time and money in licensing negotiations with multiple parties.

[12] The scale of potential loss is significant. By way of example, a single collecting society, SAMRO, collected international royalties of R7.3m in 2008.

<table>
<tr><th colspan="2">Impact on educational institutions, libraries and museums: Direct costs</th></tr>
<tr><td>IK related works that are currently in use/on display in libraries, educational institutions, museums and similar institutions would become protected under the Bill. These institutions would need to seek permissions from the relevant communities/the National Trust.</td><td>In the absence of adequate limitations and exceptions in respect of library, archival and educational activities, such institutions would incur significant administrative and financial costs.</td></tr>
<tr><th colspan="2">Litigation risks: Indirect costs</th></tr>
<tr><td>Lack of clarity in key definitions in the Bill, together with grey areas over ownership rights more broadly, has the potential to generate expensive and protracted legal disputes. Potential areas of contention include disputes over issues such as:
• Who qualifies as an indigenous community
• Who qualifies as a member of such a community
• Which community has rights to what IK, particularly if use of the IK is distributed over several communities
• What constitutes IK, and what is public domain.</td><td>Although it may be possible to reduce such litigation risks by careful drafting of the regulations, as the Bill currently stands these risks are acute.

In the creative industries in particular increased litigation has the potential to be highly destructive. In many of these industries, the value of a piece of work is closely associated with its release date - a piece that is fashionable today may be outdated in six months. Delays associated with litigation could thus be extremely destructive of value.

Many creative industries are highly risky enterprises. Relatively few recording artists are profitable to a label. Relatively few movies repay their initial investment. The introduction of the risk of litigation will make investments in the creative industries even more risky, and will tend to reduce the amount of money invested in promising new projects.</td></tr>
</table>

Summary of costs to business and communities		
Affected group	**Direct costs**	**Indirect costs**
Indigenous communities	Payment of royalties on own IK to National Trust and/or community trust	Nationalisation of copyright on traditional works; Potential for costly ownership disputes
Collecting societies	Substantial initial and ongoing costs - reclassification and administration of traditional works; Transferral of certain rights to National Trust Fund; Payment of royalties on works previously classified as individually owned, and loss of future royalties on such works	Potential limitation of all exclusive rights of *all* copyright protected works; Potential for international users to default on payments; Potential for litigation
Artists	Potential loss of royalties during provisional period	Potential for self-censorship to avoid risk; Possible reluctance of SA based investors to back projects with IK influence/components; Potential loss of existing IP rights
Licensees	Greater number of licensing bodies means increased administrative time and fees	
Educational institutions, libraries, museums	Significant administrative costs and royalty payments	Removal of known IK from public domain

Other considerations

Establishing community trusts

In order to exercise their rights, and collect and receive royalties on their traditional IP, indigenous communities will need to organise themselves as legal entities. The Bill states that "any indigenous community may establish a legal entity, business or other enterprise to promote or exploit traditional intellectual property."

Creation of such legal entities is however likely to involve complex negotiations at community level. Newly established community trusts will need to **establish criteria for membership**, and actively identify and make contact with members. It is not yet clear what a collecting society will need to do to demonstrate that it has the authorisation of a **quorum of its members**, but negotiation processes may well be time-consuming and costly. Expert legal advice may well be required.

The experience of the San, in negotiating for recognition of their IP rights in relation to the use of Hoodia, is illustrative. In its efforts to negotiate with the San for use of Hoodia IK, the CSIR faced the problem of trying to establish a juristic person, representing the San, with which it could enter into legal agreements. The CSIR provided funding to the San to enable them to undertake workshops and negotiations among themselves, to establish a juristic person. In total, the San were reimbursed for expenses of approximately R150 000 over two years of negotiations (starting in 2002), which resulted in the formation of the San Council which now negotiates on their behalf.

The costs of rolling out a similar negotiating process for a larger community could be much more substantial. If this model is used to establish other collecting societies, it is not clear whether the cost of funding such negotiations will accrue to the state or to the negotiating counterparty.

Once up and running, the **administrative costs** of such entities are likely to be significant, particularly in the first few years of operation. Experience in South Africa and other countries shows that new collecting societies often **do not make distributions for as long as three years** after establishment, as the costs of establishment absorb royalty collections.

Analysis of existing collecting societies shows that the **smaller the entity, the larger the proportion of collections consumed by administrative costs**.

Community trusts are likely to have limited ability to commercialise their traditional IP at the international level. **International collection capacity** relies on the ability to sign reciprocal collection agreements with international collecting societies. Such

agreements are facilitated by membership of CISAC, the international collecting society body. It is likely that newly created societies/community trusts will take some time to meet CISAC membership requirements.

PART 3: ENFORCEMENT AND MONITORING

Enforcement and sanctions

The IP Laws Amendment Bill does not provide any guidance on enforcement mechanisms or sanctions for non-compliance.

It is unclear which government department/agencies would be responsible for enforcing the provisions.

Effective application of the Bill will require that indigenous communities are made aware of their rights, and empowered and resourced to exercise these rights effectively. It is not clear who will be responsible for this.

The Bill currently makes no provision for dispute resolution mechanisms. Given the potential for disputes over ownership claims, as identified above, this is a serious gap in the proposed institutional structure. If IP protection is to be accessible and *affordable* for indigenous communities, it is critical that such communities do not have to rely on the courts in order to exercise their rights.

There are two other major concerns relating to enforcement issues:

- The Bill will not be effective beyond South Africa's borders, and will thus not prevent the misappropriation of traditional intellectual property by any person or entity outside the country.
- Particular provisions within the Bill risk placing South Africa in breach of our obligations under international law. This potentially undermines the extent to which South Africa is able to claim protection for existing and traditional IP rights at international level.

Monitoring and review

The Bill does not provide for a monitoring and review process. However this is a standard element for consideration within the RIA. The following illustrative model has been developed for consideration.

The Presidency's new Monitoring and Evaluation Framework[13] provides an outcomes performance management system against which government will measure its impact. This model has been applied for the purpose of developing an illustrative monitoring and evaluation framework for the IP Laws Amendment Bill. Inter-departmental consultation and negotiation would be required in order to finalise targets and responsibilities.

Outcome measures
• Indigenous communities - have easy and affordable access to IP protection for innovations related to IK - are aware of and exercise their IP rights in relation to IK - receive a portion of any material benefits resulting from commercial use of their IK. • IK is preserved through registration on a database.
Output measures
• Guidelines and criteria are developed for the establishment of community trusts • Indigenous communities establish community trusts to support promotion and commercialisation of their traditional IP • Use of traditional IP by external entities explicitly acknowledges the originating community, and creates commercial benefits for that community where applicable • The National Council is recognised as a credible authority on IK related issues • The National Trust provides efficient and effective management of monies raised through commercialisation of traditional IP • The National Trust Fund is a viable fund, and funds are used to achieve visible benefits for communities • The dti tracks and monitors IK-related litigation costs to government on an annual basis. Sustained costs in excess of RXX per annum to trigger regulatory reviews/amendments.

[13] Improving Government Performance: Our Approach, The Presidency of the Republic of South Africa, September 2009

Inputs
Within a specified time period following promulgation of the Act: The dti to establish a National Council to provide advice and guidance to the Minister and National Trust on issues related to traditional IP. The dti to establish a National Trust which: • efficiently administers the process of royalty/license fee collection and distribution through the National Trust Fund • effectively works with communities to promote commercialisation of IK related IP. The National Trust to establish a National Trust Fund: • as a ring-fenced fund managed by National Trust which collects IK related payments from users of IK • efficiently distributes such payments to authorised representatives of relevant indigenous communities • keeps administrative costs to a specified minimum level (i.e. no more than x% of collections by specified year of operation). The dti to establish a National Database for traditional IP which: • facilitates access to information re traditional IP • complements and adds value to existing DST and DAC initiatives re IK recordal • provides effective processes for authentication/verification of ownership claims • provides mechanisms for challenges to ownership claims • provides adequate protection and controlled access for IK which is deemed sensitive or private by communities. The dti in partnership with DST and DAC to implement a wide-reaching outreach campaign: • to educate indigenous communities about their IP rights and how to exercise them • publicise the institutions created to support protection and promotion of traditional IP • advise on the establishment of community trusts/ other legal entities. The dti in consultation with the National Council to establish an alternative dispute resolution mechanism to: • provide communities with access to an affordable and accessible process to resolve ownership claims and misappropriation claims. The National Council and National Trust, supported by the dti, to publish an annual report that provides information on: • the number of IP registration applications that incorporate IK • commercial benefits achieved by communities as a result of such registration • use of the database (how it is being used, by whom, and to what end/benefit) • challenges and successes over the course of the year • cost v benefit (monetary and other) for the financial year. The dti to develop regulations to enable practical implementation of the Act.

PART 4: SUMMARY AND RECOMMENDATIONS

The IP Laws Amendment Bill aims to provide legislative mechanisms to protect different species of traditional intellectual property and ensure that indigenous communities share in any material benefits arising from commercialisation of their IK. This is to be achieved through amendments to the

- South African Copyright Act 1978
- Performers Protection Act 1967
- Trade Marks Act 1993
- Designs Act 1993.

Options to achieve the policy objectives

The policy objective underpinning the Bill is the recognition, understanding, integration and promotion of South Africa's indigenous knowledge (IK) resources, and the need to ensure that communities receive fair recognition and, where appropriate, financial remuneration, for the use of IK.

It is not clear that amendments to existing IP laws in the manner proposed by the Bill provide the best mechanism to achieve these policy objectives. The RIA exercise has identified a number of alternative options to achieve these policy objectives, which offer more effective and efficient alternatives for consideration. These include:

- No legislative intervention
- Sui generis legislation specific to IK
- Creation of IK specific chapters or section within each of the relevant IP Acts, which recognise the specific characteristics and requirements of IK protection, without challenging the integrity of existing IP laws.

Risks

The RIA exercise has identified a number of significant risks associated with the IP Laws Amendment Bill that may undermine the realisation of the policy objectives:

- The institutional structures and processes proposed by the Bill are not clearly situated within the framework of current inter-governmental initiatives in this area. There appears to be a risk of duplication of effort and overlapping of legislative jurisdictions.
- The intended scope of the Bill is not clear. If the scope extends to categories of IK such as indigenous biological resources and traditional medicines, it will be important to review the mandate of the institutions proposed by the Bill in light of existing legislative requirements and institutional processes under the Bio-

prospecting Act, Patents Amendment Act, and Department of Health legislation in respect of traditional healers.
- The scale of successful commercialisation of traditional IP to date is relatively small. It is possible that the proposals will result in few if any significant material benefits for communities.
- The Bill risks placing South Africa in breach of its obligations under certain international conventions.

Benefits

The Bill is intended to provide both social and commercial benefits to communities. Intended social benefits include provision of accessible and appropriate protection for traditional IP and prevention of misappropriation, together with preservation of IK through the creation of a National Database. There are however risks associated in the achievement of these benefits. The Bill does not specify how ownership claims will be authenticated, or how applications for inclusion in the database will be verified.

Provisions for the database are not situated within the context of current initiatives by other government departments in this area (particularly DAC and DST).

Commercial benefits to communities may be limited. The potential scale of demand for commercialisation of traditional IP is unknown. Experience in South Africa and other countries has demonstrated that there are challenges involved in successful commercialisation of traditional IP. The scale of benefits achieved by communities will also be highly dependent on the speed and efficiency with which any collected royalties are distributed. It will be important to manage community expectations regarding likely commercial benefits.

SUMMARY OF LIKELY BENEFITS	
Social justice benefits	
Prevention of misappropriation	Unknown – may be counter-balanced by removal of IK from the public domain, divestment of existing rights
Preservation of indigenous knowledge	Unknown – dependent on scope and intended objective of national database, and extent of coordination with DST and DAC
Commercial benefits	
Royalties on traditional intellectual property	Unknown – dependent on number of applications, commercial application and institutional and regulatory details

Institutional and other costs to government

The Bill provides for the creation of:

- A National Council to advise the Minister and the Registrar of intellectual property on traditional intellectual property
- A National Trust Fund to facilitate the commercialisation of traditional intellectual property and the application of income generated to the benefit of indigenous communities
- A National Database for traditional IP to facilitate access to information regarding traditional IP.

These proposed institutional arrangements are likely to represent significant direct costs to the government. An accurate estimate of such costs has not been possible in the absence of fuller information regarding implementation mechanisms and the potential scale of activity related to traditional IP.

The Bill also proposes that CIPRO should be responsible for commercialisation and exploitation of traditional IP – a role that is outside CIPRO's current experience and capability. If CIPRO is to play an active role in commercialisation, relevant expertise will need to be resourced.

An additional cost may be incurred in the establishment of collecting societies to support the collection of royalties related to traditional IP. It is not clear whether such societies would be subsidised by government.

SUMMARY OF LIKELY COSTS TO GOVERNMENT	
National Council	**Start- up costs**: Unknown **Operational costs**: Staff costs of R876 000 annually, assuming part-time Council, Administrative costs unknown
National Database	Unknown Will vary substantially depending on institutional structure
National Trust Fund	Unknown
Commercialisation of IK	Unknown
Establishment of traditional IP collecting societies	Unknown

Costs to communities and business

The proposed provisions represent substantial costs to affected industries, and to indigenous communities themselves.

Indigenous communities will be required to pay royalties on commercialisation of their own IK. These royalties may be payable to the National Trust or to a community trust if one has been established. However, the effective nationalisation of copyright on

traditional works suggests that indigenous communities will be unable to manage the commercialisation of their copyrighted IK without working through the National Trust.

Collecting societies will incur substantial administrative costs in relation to the traditional works and performances currently under their administration. Royalties on works previously classified as individually owned may become payable to the National Trust – this applies both retrospectively (for a period of 50 years prior to the Act being passed) and to all works with IK content in the future.

Licensees of works with IK content will need to negotiate with multiple community trusts/collecting societies – increasing administrative time and cost for such negotiations.

Educational institutions, libraries and museums may incur significant administrative costs and royalty payments if appropriate exceptions are not included in the Bill.

Enforcement

The Bill currently provides no guidance on enforcement mechanisms. The extent to which indigenous communities achieve the benefits provided by the Bill is largely dependent on broad-based awareness-raising among affected communities, to create awareness of IP rights and to inform and empower communities regarding the exercise of such rights. Outreach of this kind requires cross-departmental coordination and significant resource commitment if it is to achieve the desired impacts.

Summary conclusion

On the basis of the RIA assessment, there appears to be insufficient evidence to conclude that the likely costs of implementation, to government and society, will be justified by achievement of social and economic benefits for indigenous communities on a significant scale.

In addition, the RIA has identified critical implementation risks inherent in the current version of the Bill, including inadequate definition of key concepts and the possible breach of South Africa's obligations under international law.

On this basis it is recommended that the Bill should not proceed in its current form. A *sui generis* approach appears to offer the best option for a comprehensive, tailor-made solution, sensitive to community requirements and amenable to cross-departmental cooperation and support.

PART 5: CONSULTATION: Aug/Sept 2009

A record of consultation is a standard feature of the RIA template. The following people were interviewed during the RIA process (August to September 2009).

National Treasury	Fundi Tshazibana, Chief Director: Macroeconomic policy; Devan Naidoo, Chief Director Economic Services
CIPRO	Elena Zdravkova, Acting Registrar of Patents and Designs; Kadi Petje, Manager Copyright Unit
Dept of Agriculture, Forestry & Fisheries	Dr Jonathan Mudzunga, Director: Food Safety
Dept of Arts and Culture	Moleleki Ledimo, Director: Arts Social Development and Youth; Mbhazima Makhubele, Director: Heritage
Dept of Science and technology, NIKSO	Gaboile Tiro, Dep. Director: Policy Development & Advocacy; Shumikazi Rodolo, Dep. Director: Advocacy and Policy Development/Institutional Collaboration; Carol van Wyk, Dep. Director: Knowledge Management
Dept of Cooperative Governance	Prof. W Sobahle, Chief Director: Traditional Affairs
University of Zululand IK Centre	Prof TAP Gumbi, Director
National Heritage Council	Nosipho Matanzima, Company Secretary
SAMRO	Nicholas Motsatse, CEO; Adv Joel Baloyi, General Manager: Legal and Governance Services
Dramatic, Artistic and Literary Rights Organisation (DALRO)	Gérard Robinson, Executive Director
Southern African Federation Against Copyright Theft (SAFACT)	James Lennox, CEO
Pharmaceutical Industry Association of South Africa	Vicki Ehrich, Chief Operating Officer; Kirti Narsai; Maureen Kirkman; Jay Hooghuis
Academic and Non-Fiction Authors Association of Southern Africa	Kundayi Masanzu, Director
Law Society South Africa	Andre van der Merwe, Head of Committee: IP Amendment Bill
SA Institute of IP Law	Brian Wimpey, President
Burrells Law Firm	Dr Tim Burrell, Patent Attorney
Spoor and Fisher	Dr Owen Dean
Legal consultant (IP)	Anne Stern
Adams and Adams	Esme Du Plessis, Patent Attorney
Chennells Albertyn Legal Firm	Roger Chennells
Supreme Court of Appeal	Judge LTC Harms, Deputy President
Research Contracts & IP Services; IP Research Unit, UCT	Piet Barnard, Andrew Bailey, Andrew Rens, Charles Masango, Johanna von Braun, Debbie Collier
Wits University Legal Office	Denise Nicholson, Shobhna Morar, Merryl Vorster, Iain Currie, Ntipi Maepa
MRC Technology and Innovation and IKS Lead Programme	Prof. Tony Mbewu (President), Dr. Matsabisa, Dr. Tony Bunn, Shelley Mulder
National Research Foundation	Dr Albert van Jaarsveld, President and CEO
CSIR	Dr Vinesh Maharaj, Rosemary Wolson, Helena Heystek
Dept of Plant Science, Pretoria University	Dr Emmanuel Tshikalange
Nisa Global Entertainment	Graeme Gilfillan
NEDLAC	Dr Laurraine Lotter

The Project Team

The project team for the RIA comprised SBP staff including Chris Darroll, Douglas Irvine and Kerri McDonald, as well as economists Matthew Stern (DNA) and Sarah Truen (DNA), and legal expert Anne Stern.