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# Contractors, copyright and computer programs – what should business owners know?

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## A common misconception about copyright

There appears to be a common misconception that copyright created by third-party consultants will always vest in the instructing party who also generally pays for the creation thereof. In the employment context, the differences between independent contractors and contracts of employment have given rise to much debate.

However, an issue often overlooked by business owners is the implications when a "work" is produced by an employee on the one hand and an independent contractor, on the other. This article considers the ownership of copyright-protected works, particularly computer programs, created by a consultant or independent contractor.

### Computer Programs and Copyright

The **Copyright Act 98 of 1978** (as amended) (the Act) defines a computer program as a "set of instructions fixed or stored in any manner and which, when used directly or indirectly in a computer, directs its operation to bring about a result".

According to **Section 21(1)(a) of the Act**, ownership of copyright vests in the author. An exception to this rule is found in section 21(1)(d) which provides that where a work is made during the author's employment by another person under a contract of service or apprenticeship that the other person, i.e., the employer, will be the owner.

This is distinguished from a contract of work which is usually the type of contract governing a consultancy agreement, the object of which is the performance of a specified work.

The object of a contract of service is rendering a personal service to the employer i.e., the labour or productive capacity rendered. An employee is in terms of their employment agreement subordinate to the employer's will and instructions whereas a contractor is bound by the contract of work, and not bound by supervision or control of the contracting party.

A **further exception is found in section 21(1)(c) of the Act** in terms of which ownership of copyright of some commissioned works vests in the instructing party and not the independent contractor; however the section is subject to very specific works, which excludes a computer program.

The definition of an author varies depending on the type of work created. The author of a literary work, for example, is defined as the person who first creates the work, whereas the author of a computer program is "the person who exercised **control** over the making of the computer program".

Therefore, the element of "control" in relation to authorship of a computer program created by an independent contractor should be carefully considered owing to the consequence of ownership in the work. It is only where the instructing party exercised control over the making of the computer program, that it will be the copyright owner thereof.

## Ownership of a computer program

The notion of "control" in the context of authorship of a computer program has been developed in South African case law. In *Haupt t/a Soft Copy v Brewers Marketing Intelligence (Pty) Ltd* (Haupt Case), the **Supreme Court of Appeal (SCA)** held that "control" is intended to have a wider meaning than the ordinary concept of control in the employment context and even if the creator of the program is an independent contractor.

Haupt had instructed Coetzee as to the result to be achieved. Coetzee was at all times in contact with Haupt, accepted and executed instructions from him and submitted the work to Haupt for his checking and approval. The properties section of the computer program also indicated that the copyright was owned by Softcopy, being Haupt's trading name.

It was held that as Haupt could at any time direct the development of the program and could elect to continue or terminate the development, he was in a position of authority over Coetzee. The Court found that there is no need to be a computer programmer to be able to control the writing of a computer program and concluded that Haupt was the author.

The SCA had to consider the concept of "control" once again in *Bergh and Others v The Agricultural Research Council* (ARC Case) in which it held that the mere provision of functional requirements and a periodic review of the progress made, and testing it against its purpose, did not establish the necessary "control".

This case was concerned with the ownership of the copyright of a software program for beef cattle management called "Beefpro". **The Agricultural Research Council** ("ARC") through its employee, Bergh, instructed a software developer, Mr Pauw, to develop BeefPro who had been willing to develop the software inter alia on condition that he retained the copyright which had been included in unsigned draft agreements.

The ARC claimed that Pauw had acted under the instruction and control of Bergh, being the former employee, who the ARC alleged developed the computer program. It therefore maintained that as Bergh's employer, it owned the copyright to the software. Referring to the Haupt Case, the SCA dealt with the concept of "control" and found that the necessary control had not been established as Pauw had not received detailed instructions from the ARC or its employee/s in relation to the development of the program nor had the program been the subject of, *inter alia*, a direct feedback approval process or payment. The SCA found that Pauw was the author.

## Question of ownership

As the **question of ownership** in these circumstances will depend on the facts of each case, it is essential to record such facts, including in correspondences and documents like the minutes of a meeting and memoranda. It is recommended that contracting parties deal with the proprietorship of copyright and not leave it up to the interpretation of facts. This is important in light of the fact that copyright can only be assigned to an assignee in writing which is to be signed by the assignor.

**The assignment of copyright to a foreign entity** however requires exchange control approval. The Exchange Control Regulations 1961 made under the Currency and Exchanges Act, 1933 (Regulations) governs the cross-border assignment of intellectual property rights including copyright.

According to regulation 10(1)(c) of the Regulations, "no person shall, except with permission granted by the Treasury enter into any transaction whereby **capital** or any right to capital is directly or indirectly **exported from the Republic**". "Capital" is defined as including any intellectual property right, whether registered or unregistered (which would include copyright) and "exported from the republic" is defined as including the assignment or transfer of any intellectual property right, to or in favour of a person who is a non-resident of South Africa.

As a result, it is important when contracting with consultants / independent contractors that the above factors are taken into account in order to ensure that copyright vests in the correct entity and that the exchange control approvals are obtained, if necessary.

## Conclusion

When instructing or commissioning a consultant / independent contractor, the ownership of intellectual property, including copyright should carefully be considered together with any possible exchange control implications which could be applicable.

It is best to ensure that these aspects are dealt with by way of written agreement prior to the briefing of an independent consultant and prior to any work being carried out.



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