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**FUNDING OF TECHNOLOGY THAT IS NOT IN THE PUBLIC DOMAIN:  
FOLLOW UP TO DECISION 36/52**

## **FUNDING OF TECHNOLOGY THAT IS NOT IN THE PUBLIC DOMAIN**

### **FOLLOW-UP TO EXECUTIVE COMMITTEE DECISION 36/52**

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At its 36<sup>th</sup> meeting, the Executive Committee considered document UNEP/OzL.Pro.ExCom/36/31 entitled "Funding of Technology that is not in the Public Domain." This document served three functions. First, it provided readers with an overview of intellectual property rights, in particular in relation to national laws and international conventions including the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) made under the umbrella of the World Trade Organisation (WTO). Second, it discussed the evaluation by the Secretariat of funding requests that involve the use of protected technology. Third, the report discussed possible mechanisms the Secretariat could use to evaluate the technical aspects of funding requests where some or all of the underlying technical information is protected by trade secrets.

At that meeting, the Executive Committee took the following decision:

"The Executive Committee decided:

- (a) To take note of the study;
- (b) To request the Secretariat to invite members of the Executive Committee and relevant implementing agencies to provide additional comments on the study, and to incorporate those in a working paper for consideration by the Executive Committee at a future meeting;
- (c) Also to request the Secretariat to pursue consultations with relevant international organizations dealing with intellectual property issues and to report thereon at a future meeting."

(Decision 36/52)

The present report addresses this Executive Committee decision as well as certain issues raised by participants at the 36<sup>th</sup> Executive Committee meeting and by China, and the Implementing Agencies (IAs) following that meeting. These issues are as follows:

1. To describe the obligations established under TRIPs with respect to patents and the obligation of one WTO Member State to accord patent protection over an invention patented in another Member State.

2. To assist the Fund in developing policies to ensure that it is not directly or indirectly responsible or seen as being responsible for encouraging patent infringement.
3. To describe the circumstances under which the Implementing Agencies will require access to confidential information and their role in providing confidential information to the Secretariat and Executive Committee of the Multilateral Fund.
4. To describe the circumstances under which the Executive Committee and Secretariat of the Multilateral Fund will require access to confidential information including mechanisms to evaluate that information

This report will deal with these issues in order.

### **TRIPs and Patent Rights**

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) made as Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization came into force on January 1, 1995. Attached as Appendix A to this report is that part of the detailed summary of the TRIPs Agreement prepared by the World Trade Organization that applies to patent rights.

TRIPs establishes a framework within which Member States are to construct their individual intellectual property systems. It does not set up an international patent system nor does it require Member States to adopt the same standards with respect to the award and enforcement of patent rights. (Currently, a committee of the World Intellectual Property Organization (WIPO) is considering a draft Substantive Patent Law Treaty that would, in fact, partially harmonize patent laws in Member States). Instead, TRIPs established minimum standards that all patent systems must satisfy. Nevertheless, TRIPs recognizes that each country's patent laws are independent of those in other countries.

The importance of TRIPs for the purposes of document UNEP/Ozl.Pro/ExCom/36/31 is the acknowledgement that each Member State must provide inventors or their assignees with the right to apply for a patent in that Member State on the same basis as nationals and that no Member State may discriminate between fields of technology. The actual decision regarding whether to apply for a patent in a particular Member State rests with the inventor or his or her assignee. Thus, TRIPs does not mandate that once an inventor or his or her assignee obtains a patent in one Member State that he or she will necessarily obtain a patent in the other Member States. Rather, it merely provides that the inventor or his or her assignee has a right to apply for a patent in each Member State on the same basis as a national of that Member State.

It is infrequent, in fact, that an inventor or his or her assignee will seek patent protection in all Member States of the WTO. This is so for several reasons. First and foremost, the inventor may not intend to market his or her product in a particular Member State. In these circumstances, it would not make sense for the inventor to seek patent protection in that particular Member State. Second, given the differences in the

application of the patent criteria of novelty, inventive step, and industrial application between the various Member States, an invention may be patentable in certain Member States but not others. This difference in application is permitted under TRIPs.

### **Responsibility of the Fund for Patent Infringement**

Although the Fund is not a direct user of the technology that it funds, it does provide funding to enable others to use technology. The Fund thus takes on, at least at the policy level, responsibility for the selection of technology being used. It potentially could be held legally (as opposed to morally) responsible for this selection, depending on the laws of the particular nation in which the technology is being used. This latter possibility is, however, beyond the scope of this paper as its investigation would necessitate a legal analysis of the laws of each country in which a technology could be used. We thus concentrate our analysis on the policy level. This should not be taken to imply, however, that no legal responsibility exists.

At the policy level, the Fund cannot be seen to be encouraging the infringement of intellectual property rights. It must therefore take steps to ensure, to the degree practicable, that the proposed use of technology does not constitute a violation of these rights. This places the Fund in a similar position to that of a venture capital firm deciding whether to invest in a particular company. While it is obvious that the Fund provides funding on a completely different basis and for completely different reasons than does the venture capital firm, their positions with respect to possible intellectual property infringement are not dissimilar. By using this albeit imperfect analogy between the Fund and a venture capital firm, we can better investigate the policy options available the Fund.

A venture capital firm will normally seek some assurance that the company in which it is investing is not using technology in breach of any intellectual property right in any country in which it is operating. The venture capital firm obtains this assurance through the combination of two techniques. First, in its contract with the company, it seeks guarantees that no intellectual property rights are being infringed. Second, it conducts its own, independent, due diligence. This means that it conducts an investigation of the technology and the possible intellectual property rights that may attach to it. This due diligence is most often carried out by patent lawyers or patent agents.

The Executive Committee has already developed practices and procedures to deal with the great bulk of project applications involving enterprise use or acquisition of technology. The Executive Committee lacks experience, however, in the area of potential intellectual property infringement with respect to commercially sensitive information that is not in the public domain. It is in respect of this information that the Executive Committee may wish to consider the practices of venture capital funds with respect to due diligence. That experience suggests that the Executive Committee develop similar due diligence strategies in respect of this type of information. In the context of this type of information, such due diligence strategies would normally require the opinion of legal counsel expert in intellectual property matters.

As suggested in document UNEP/Ozl.Pro/ExCom/36/31, the necessary assurance can be obtained through an opinion of counsel in the relevant country that the technology is not infringing on any known rights. Such an opinion is customary in commercial transactions such as the investment of the venture capital firm discussed above. When such an opinion is not possible because the technology will be used in too many countries, document UNEP/Ozl.Pro/ExCom/36/31 suggested that the Fund obtain a declaration from the technology user that, to the best of their knowledge after due inquiry, the use of the technology will be non-infringing. This suggestion again matches commercial practice.

Care in the preparation of project applications and the application of the recommendations contained in UNEP/Ozl.Pro/ExCom/36/31 will provide the Fund with a 'due diligence' defence that, from a policy perspective, protects the integrity and reputation of the Fund.

### **Implementing Agencies and Confidential Information**

Decisions to provide compensation from the Fund are ultimately made by the Executive Committee with the assistance of the Secretariat based on the input of the IAs. The responsibility of bringing projects forward to the Fund rests with the IAs as agents of the Fund. The role of the IAs is thus of high importance in determining whether and how a particular project is entitled to compensation from the Fund. Given their unique and important role and their particular needs with respect to confidential information, we discuss the role of the IAs before proceeding with those of the Secretariat and the Executive Committee.

The IAs, using the criteria for project eligibility established by the Executive Committee, design and select projects to submit to the Executive Committee for final approval. To accomplish this task, the IAs could require access to information relating to technology not in the public domain. From this information, some of which will be confidential in nature, the IAs prepare the project for consideration by the Executive Committee.

The IAs have developed working relationships with the countries requesting compensation under which they accept to hold confidential information secret. In carrying out their various duties with respect to project preparation, the IAs act in accordance with their obligations of confidentiality. One of these obligations is not to disclose information except when needed.

This last obligation means that the IAs must make an initial screening of the confidential information they possess to determine which information to pass on to the Secretariat and, eventually, the Executive Committee to assist them in carrying out their responsibilities with respect to the Fund. At the same time, as the IA is ultimately responsible for ensuring that the Executive Committee has a firm and complete basis on

which to base its decisions, the IA cannot withhold information that the Executive Committee could consider necessary.

To balance these two obligations – that of preserving confidentiality by not disclosing more than necessary and that of providing the Executive Committee with full and complete information – the following is suggested. First, the IA should make an initial triage of the confidential information in its possession to determine what confidential information, in its opinion (taking into account its obligation to the Executive Committee), is needed for the Executive Committee with the assistance of the Secretariat to make a final determination with respect to the project. Second, the IA should pass on this information to the Executive Committee via the Secretariat together with a list of other confidential information in its possession that it has determined is not likely to be needed. This list would ensure both respect for the confidential nature of the information and transparency in the project proposal prepared by the IA. The list would enable the Secretariat, in carrying out its responsibilities for the Executive Committee, to itself determine whether it requires access to further information. If it does, then it can make a request to the IA for this information.

The above-suggested procedure balances the protection of confidential information with the fiduciary responsibility of the Executive Committee. It provides a mechanism to contain confidential information within the IA except in those circumstances where the Executive Committee or the Secretariat on behalf of the Executive Committee decides that that information is needed to reach a decision or a recommendation, as the case may be.

### **Confidential Information: The Executive Committee and Secretariat**

The previous section examined confidential information in the hands of the IAs and their obligation to provide some of that information to the Executive Committee or the Secretariat on behalf of the Executive Committee. This section continues the discussion by analyzing how confidential information is used by the Executive Committee and the Secretariat in carrying out their respective responsibilities.

According to its terms of reference, the Executive Committee develops the criteria for project eligibility (UNEP/OzL.Pro.4/15 Annex X, article 10(d)) and monitors and evaluates expenditures (article 10(f)). The Secretariat is charged, according to its Terms of Reference, with assisting the Executive Committee in assessing project proposals and in offering recommendations to the Executive Committee with respect to project proposals.

This division of responsibility means that when a project proposal is made to the Fund, it is first the Secretariat that reviews it. The Secretariat, according to its Terms of Reference, must assess the programme as developed by the IA. This implies that the Secretariat must exercise independent judgment and cannot simply rely on the recommendation of the IA. In conducting this assessment, the Secretariat may require

access to confidential information. Once again, it cannot simply rely on the IAs assessment of this information but must itself review it.

Given that the Secretariat staff is bound by the United Nations form of confidentiality obligation, the sharing of confidential information between the IA and the Secretariat presents no difficulty in itself. While the Secretariat has not direct relationship with the enterprises involved (the Secretariat deals only with governments), and thus could not enter into specific confidentiality agreements with enterprises, the confidential nature of the information shared between the IAs and the Secretariat is preserved using existing UN confidentiality obligations. Thus, any confidential information shared by the enterprise with the IA will maintain its confidential nature when passed on to the Secretariat. The difficulty arises with respect to the sharing of confidential information by the Secretariat with consultants and the Executive Committee.

Should the Secretariat staff need to consult with an external consultant to evaluate the merits of a proposal, the situation can be delicate. Often, the Secretariat will need to consult with highly skilled individuals with detailed knowledge of the particular technology. It can be expected that, on occasion, the only consultants possessing this very high level of knowledge will have some form of conflict of interest. This is a common problem in highly technical areas of expertise. Science journals have, for example, found that it is often difficult to find individuals qualified to peer review another scientist's research who do not have some form of conflict of interest. It is now widely accepted that such conflicts exist. Similar difficulties are likely to have also been faced by the Technical and Economic Assessment Panel in relation to its engagement of experts.

The situation of the Secretariat with respect to consultants is thus not unusual. It does provide one pause, however, since in order to fulfill its responsibility to independently review project proposals, the Secretariat may need to engage a consultant. In these circumstances, the current United Nations form of confidentiality clause will be insufficient. No consultant with a high degree of expertise would, if properly advised, enter into a broad and nebulous confidentiality agreement. Instead, a more detailed and clear confidentiality provision would be needed. The Secretariat may wish to consider developing an appropriately structured confidentiality agreement for use with its consultants. Such agreements would need to recognize the possibility that a consultant will have a conflict of interest.

Even if the positions of the Secretariat and its contractors with respect to confidential information can be resolved, there remains one large difficulty. Given that it is the Executive Committee and not the Secretariat that is responsible for taking final decisions with respect to the funding of any project, the Executive Committee must have available to it all information relevant to the project whether or not that information is confidential. The Secretariat possesses no right to withhold confidential information from members of the Executive Committee and the Executive Committee would inappropriately fetter its ability to fulfill its responsibility should it instruct the Secretariat not to share confidential information with it. That is, in order to fulfill its obligations to

consider and approve project proposals, the Executive Committee must consider all relevant information whether or not that information happens to be confidential.

Members of the Executive Committee are not bound by the United Nations confidentiality provisions nor would it be appropriate for the Secretariat to insist that they agree to these provisions. Thus, when it determines necessary or when requested by the Executive Committee, the Secretariat must pass on confidential information to members of the Executive Committee outside the scope of any confidentiality provision. However, this act of passing on confidential information to members of the Executive Committee who are not bound by a confidentiality agreement exposes Secretariat staff to a breach of their obligations of confidentiality. This is, should the Secretariat agree to accept confidential information from the IA, its staff members will be placed in the position of either violating their obligations of confidentiality or of breaching their obligations to the Executive Committee. Neither position is tenable.

To summarize, the IA responsible for a proposal must share confidential information with the Secretariat. While the IA may initially determine that some confidential information is not relevant to the project proposal, and thus not initially forward it to the Secretariat, it must be in a position to provide any and all confidential information in its possession to the Secretariat. Similarly, while the Secretariat may determine that certain confidential information is not necessary to be passed on to members of the Executive Committee, it must be in a position to forward any confidential information to those members at their request. In sharing information with the Executive Committee, however, the Secretariat staff risk violating their obligations of confidentiality.

It was for these reasons that document UNEP/Ozl.Pro/ExCom/36/31 suggested that the Secretariat not be put in the position of reviewing project proposals where the assessment of that project requires the consideration of confidential information related to a protected technology. This means that either the obligation of confidentiality of the Secretariat staff will need to be waived by the IA – lifting any confidentiality obligation – or the Secretariat will not be able to consider the project until the needed information ceases to be confidential.

An IA considering a project proposal must balance the need for funding against the country's need to maintain critical information required to assess the project confidential. Essentially, it is a business decision whether the country is willing to reveal its confidential information in return for funding. This situation is not unusual. Companies seeking funding from investors often face the same situation. Many investors, particularly those who may hold investments in potentially competing companies, will not agree to be bound by a confidentiality clause. If the company wishes to seek funding from that investor, it will have to reveal its confidential information without requiring the investor to contractually agree to keep that information secret.



## **Conclusion**

In circumstances where technology is not in the public domain, it is advisable for the Fund to engage in a due diligence process to determine whether the enterprise's use of that technology as contemplated in the project application violates an existing intellectual property right. As noted above, it will be the rare case where there is any serious concern about such a violation. Nevertheless, where a technology is developed in-house or where a particular technology is not in the public domain, the possibility of an intellectual property right infringement exists.

Where technology is used within a single country, only the intellectual property laws of that country need be examined to ensure compliance. However, where the technology is sold internationally, the situation is more complex. Given that patents are granted on a country-by-country basis, determination of whether an intellectual property right exists must similarly be made on a country-by-country basis.

IAs may consider confidential information in preparing a project proposal for consideration. Once it is decided to request the Fund to fund that proposal, the IA be sure that the assessment of that request can proceed (a) either without the need for confidential information or (b) without any obligation of confidentiality on the Secretariat and the members of the Executive Committee. As indicated earlier, most of the time confidential information will not pose any serious problem since the IAs and the Secretariat can cooperate to minimize the amount of confidential information shared between them. Nevertheless, in the present circumstances, where the Executive Committee and/or the Secretariat need access to confidential information which the enterprise is unwilling to freely release, the enterprise will need to make a business decision about whether to pursue funding or another solution will need to be found.

## APPENDIX A

### WTO OVERVIEW OF THE TRIPS AGREEMENT WITH RESPECT TO PATENTS

The three main features of the Agreement are:

**Standards.** In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection. The Agreement sets these standards by requiring, first, that the substantive obligations of the main conventions of the WIPO, the Paris Convention for the Protection of Industrial Property (Paris Convention) and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) in their most recent versions, must be complied with. With the exception of the provisions of the Berne Convention on moral rights, all the main substantive provisions of these conventions are incorporated by reference and thus become obligations under the TRIPS Agreement between TRIPS Member countries. The relevant provisions are to be found in Articles 2.1 and 9.1 of the TRIPS Agreement, which relate, respectively, to the Paris Convention and to the Berne Convention. Secondly, the TRIPS Agreement adds a substantial number of additional obligations on matters where the pre-existing conventions are silent or were seen as being inadequate. The TRIPS Agreement is thus sometimes referred to as a Berne and Paris-plus agreement.

**Enforcement.** The second main set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights. The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.

**Dispute settlement.** The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.

In addition the Agreement provides for certain basic principles, such as national and most-favoured-nation treatment, and some general rules to ensure that procedural difficulties in acquiring or maintaining IPRs do not nullify the substantive benefits that should flow from the Agreement. The obligations under the Agreement will apply equally to all Member countries, but developing countries will have a longer period to phase them in. Special transition arrangements operate in the situation where a developing country does not presently provide product patent protection in the area of pharmaceuticals.

The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

### **Certain general provisions**

As in the main pre-existing intellectual property conventions, the basic obligation on each Member country is to accord the treatment in regard to the protection of intellectual property provided for under the Agreement to the persons of other Members. Article 1.3 defines who these persons are. These persons are referred to as “nationals” but include persons, natural or legal, who have a close attachment to other Members without necessarily being nationals. The criteria for determining which persons must thus benefit from the treatment provided for under the Agreement are those laid down for this purpose in the main pre-existing intellectual property conventions of WIPO, applied of course with respect to all WTO Members whether or not they are party to those conventions. These conventions are the Paris Convention, the Berne Convention, International Convention for the Protection of Performers, Producers of Phonograms and Organizations (Rome Convention), and the Treaty on Intellectual Property in Respect of Integrated Circuits (IPIC Treaty).

Articles 3, 4 and 5 include the fundamental rules on national and most-favoured-nation treatment of foreign nationals, which are common to all categories of intellectual property covered by the Agreement. These obligations cover not only the substantive standards of protection but also matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in the Agreement. While the national treatment clause forbids discrimination between a Member's own nationals and the nationals of other Members, the most-favoured-nation treatment clause forbids discrimination between the nationals of other Members. In respect of the national treatment obligation, the exceptions allowed under the pre-existing intellectual property conventions of WIPO are also allowed under TRIPS. Where these exceptions allow material reciprocity, a consequential exception to MFN treatment is also permitted (e.g. comparison of terms for copyright protection in excess of the minimum term required by the TRIPS Agreement as provided under Article 7(8) of the Berne Convention as incorporated into the TRIPS Agreement). Certain other limited exceptions to the MFN obligation are also provided for.

The general goals of the TRIPS Agreement are contained in the Preamble of the Agreement, which reproduces the basic Uruguay Round objectives established in the TRIPS area by the 1986 Punta del Este Declaration and the 1988/89 Mid-Term Review. These objectives include the reduction of distortions and impediments to international trade, promotion of effective and adequate protection of intellectual property rights, and ensuring that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade. These objectives should be read in conjunction with Article 7, entitled “Objectives”, according to which the protection and

enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations. Article 8, entitled “Principles”, recognizes the rights of Members to adopt measures for public health and other public interest reasons and to prevent the abuse of intellectual property rights, provided that such measures are consistent with the provisions of the TRIPS Agreement.

## **Patents**

The TRIPS Agreement requires Member countries to make patents available for any inventions, whether products or processes, in all fields of technology without discrimination, subject to the normal tests of novelty, inventiveness and industrial applicability. It is also required that patents be available and patent rights enjoyable without discrimination as to the place of invention and whether products are imported or locally produced (Article 27.1).

There are three permissible exceptions to the basic rule on patentability. One is for inventions contrary to ordre public or morality; this explicitly includes inventions dangerous to human, animal or plant life or health or seriously prejudicial to the environment. The use of this exception is subject to the condition that the commercial exploitation of the invention must also be prevented and this prevention must be necessary for the protection of ordre public or morality (Article 27.2).

The second exception is that Members may exclude from patentability diagnostic, therapeutic and surgical methods for the treatment of humans or animals (Article 27.3(a)).

The third is that Members may exclude plants and animals other than micro-organisms and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, any country excluding plant varieties from patent protection must provide an effective sui generis system of protection. Moreover, the whole provision is subject to review four years after entry into force of the Agreement (Article 27.3(b)).

The exclusive rights that must be conferred by a product patent are the ones of making, using, offering for sale, selling, and importing for these purposes. Process patent protection must give rights not only over use of the process but also over products obtained directly by the process. Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts (Article 28).

Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties (Article 30).

The term of protection available shall not end before the expiration of a period of 20 years counted from the filing date (Article 33).

Members shall require that an applicant for a patent shall disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art and may require the applicant to indicate the best mode for carrying out the invention known to the inventor at the filing date or, where priority is claimed, at the priority date of the application (Article 29.1).

If the subject-matter of a patent is a process for obtaining a product, the judicial authorities shall have the authority to order the defendant to prove that the process to obtain an identical product is different from the patented process, where certain conditions indicating a likelihood that the protected process was used are met (Article 34).

Compulsory licensing and government use without the authorization of the right holder are allowed, but are made subject to conditions aimed at protecting the legitimate interests of the right holder. The conditions are mainly contained in Article 31. These include the obligation, as a general rule, to grant such licences only if an unsuccessful attempt has been made to acquire a voluntary licence on reasonable terms and conditions within a reasonable period of time; the requirement to pay adequate remuneration in the circumstances of each case, taking into account the economic value of the licence; and a requirement that decisions be subject to judicial or other independent review by a distinct higher authority. Certain of these conditions are relaxed where compulsory licences are employed to remedy practices that have been established as anticompetitive by a legal process. These conditions should be read together with the related provisions of Article 27.1, which require that patent rights shall be enjoyable without discrimination as to the field of technology, and whether products are imported or locally produced.

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