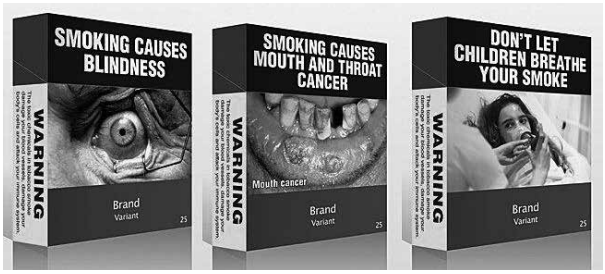
Plain Packaging: A Growing Threat To Trademark Rights

By Carmela Rotundo Zocco

What is Plain Packaging?

Plain packaging refers to laws or regulations requiring that cigarettes be sold in standardized packs (also referred to as "generic packaging") without any stylized trademarks, logos, colors. In lieu of branding information, the packs would be dominated by large health warnings and other legally mandatory information and tax-paid stamps with only a small space reserved for the brand name in a plain uniform typeface. As a result, each cigarette pack would appear exactly the same as every other pack that is legally sold in the market.

So far, only one country, Australia, has adopted plain packaging. The *Tobacco Plain Packaging Act* 2011 ("the TPP Act") requires cigarettes to be sold in drab brown packets, with large (and often grotesque) graphic health warnings as of December 1, 2012. The TPP Act imposes significant restrictions upon the color, shape and finish of retail packaging for tobacco products, and prohibits the use of trademarks on such packaging, other than in small plain uniform typeface. Pre-existing regulatory requirements for health messages and graphic warnings remain in place. Embellishments on cigarette packs and cartons are proscribed.



The United Kingdom and New Zealand have also recently conducted public consultations on the possibility of implementing plain packaging. Moreover, on December 19, 2012, the European Commission published its proposal for the revision of the Tobacco Products Directive, which expressly notes that Member States will remain free to introduce plain packaging in "duly justified cases."

Challenges by the Tobacco Industry

Litigation in the Australian Domestic Courts

In 2011, tobacco companies sued Australia claiming that its plain packaging legislation violated their property rights under the Australian Constitution. On August 15, 2012, the High Court of Australia rejected this challenge on the basis of the weak property protections in the Australian Constitution. The narrow issue before the High Court, which turned on the specific nature of the Australian Constitution, was whether Australia's plain packaging legislation effected an "acquisition" of the tobacco companies' property. Section 51(xxxi) of the Australian Constitution, which was the focus of the High Court challenge, requires that the Australian government provide compensation only if it "acquires" property from a property owner. In other words, *taking* or *depriving* an owner of its property is not enough to merit compensation. This distinction proved critical to the outcome of the case. While the High Court recognized that plain packaging is in fact a "taking" or "deprivation" of the tobacco companies' property, it found that the government did not receive any proprietary benefit from the taking such as to characterize it as an "acquisition" that would merit compensation.

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Potential EU Implications

While the tobacco companies failed to satisfy the peculiar standard at issue in the Australia challenge, the Australian High Court's findings on deprivation are instructive as to how courts in jurisdictions with stronger property protections—such as in the European Union and its Member States—would evaluate a similar case. In these jurisdictions, a deprivation alone that is not accompanied by compensation would most likely be struck down as invalid. Thus, the High Court's findings on deprivation—while not determinative under Australia's weak constitutional protections—would likely be sufficient in most jurisdictions to defeat a plain packaging measure.

International Repercussions

Currently, there are two additional legal challenges to Australia's pain packaging law:

- Philip Morris Asia Limited ("PM Asia"), is pursuing a Bilateral Investment Treaty ("BIT") arbitration against Australia in which it claims, among other things, that Australia's plain packaging legislation constitutes an expropriation or deprivation of its investments (*e.g.*, brands and IP rights) without compensation; and
- Three countries are challenging the legality of Australia's PP measure before the World Trade Organization ("WTO") on the grounds that plain packaging violates the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement"); Article 10bis of the Paris Convention for the Protection of Industrial Property ("Paris Convention"), which is incorporated into the TRIPS Agreement; and the Agreement on Technical Barriers to Trade ("TBT Agreement").

What Are Intellectual Property Rights Associations Saying About Plain Packaging?

Numerous intellectual property rights associations such as INTA, ECTA, MARQUES, ITMA, ASIPI and AIPPI have submitted letters in connection with the public consultations in New Zealand and the United Kingdom strongly condemning plain packaging as an unjustified attack on basic and essential property rights.

For example, LES (Britain and Ireland) wrote in its response to the UK Department of Health Consultation on stardardised packaging of tobacco products that it "is concerned at the proposal that tobacco products only be sold in the UK in plain packaging because of:

- The loss of value to intellectual property rights;
- The financial loss that is likely to result from the loss of intellectual property rights;
- The risk of increased counterfeiting and smuggling; and
- The possibility, raised in The Systematic Review,[1] that making smoking "forbidden" might increase its appeal."

INTA wrote:

(New Zealand)

"INTA submits that the imposition of mandatory plain packaging for tobacco products puts New Zealand at risk of depriving trademark owners of valuable property, which is inconsistent with its trademark legislation, its Bill of Rights safeguards, and its international obligations. It would also risk counter-productive results such as increasing the dangerous trade in counterfeit tobacco products. We envisage that if plain packaging of tobacco products is to be implemented in New Zealand, a regime will be created in which a large number of very valuable registered (and unregistered) trademarks could not be used. Deprivation of owners' rights in this way would set an unsound legislative precedent that is inconsistent with national and international trademark laws, and democratic freedoms."

(United Kingdom)

"[G]iven the risks of increasing the availability of counterfeit and black market tobacco products to consumers, the unfair and disproportionate impact on the interests and rights of all trademark owners concerned as well as its likely adverse impact on the balance and integrity of the trademark system, INTA respectfully urges the DoH to take no further steps towards the implementation of the proposed standardized packaging requirements for tobacco products."

In a similar vein, MARQUES asserted in connection with the United Kingdom's public consultation: "Standardised packaging legislation would deny one sector of industry the benefits of its intellectual property rights, and would be a dangerous precedent for the potential loss of rights in other industries. The issue is, therefore, a matter of concern to trade mark owners across the EU. Consequently, MARQUES opposes the introduction of standardised packaging for tobacco products."

The Slippery Slope: Do Other Industries Have Cause for Concern?

Although the plain packaging debate is currently focused on tobacco products, there is growing concern that it will be extended to other "disfavored" products, such as alcohol, candy, sugars, and processed foods. For example, a parliamentary committee in the United Kingdom recently considered plain packaging for alcoholic beverages. Similarly, in the Philippines, the Department of Health has taken the position that it is entitled to prohibit firms from using registered trademarks on infant milk products that may "erode the efforts of the government to promote breast-feeding."

Summary

In summary, plain packaging constitutes a deprivation of trademark owners' intellectual property rights and violates several international agreements. To date, Australia is the only jurisdiction where plain packaging has been implemented, although

1. It deals with the following review: "Plain tobacco packaging: A systematic review," Lead Investigator: Gerard Hastings, Institute for Social Marketing, University of Stirling.

other countries like UK, New Zealand and European Union, are currently considering it as well. Although the plain packaging debate is currently focused on tobacco products, there is growing evidence that it will be extended to other "disfavored" products, such as alcohol, candy, sugars, and processed foods. For that reason, all trademark owners have cause to be concerned. Plain packaging sets a dangerous precedent for elimination of product differentiation and the deprivation of other industries' intellectual property rights.

Note: While the author has undertaken some unrelated work for tobacco manufacturers in the past, the opinions expressed in this article are the author's. I understand that LES provided Professor Davison, a member of the Australian government's "Expert Advisory Group," which advocates in favor of plain packaging, with an opportunity to comment on my article. While I will refrain from responding to the individual points addressed in his rebuttal, I note that Professor Davison's views are particularly troubling from an IP perspective in that they suggest that intellectual property rights should be made contingent on a government's approval (or disapproval) of the right holder's lawful activities. While Davison suggests that tobacco products are a special case, I query whether IP practitioners and right holders in other industries would be comfortable with such a subjective assessment. ■

Editorial Comment

Plain Packaging Of Tobacco Decision

By Professor Mark Davison, Member of the Australian Government's Expert Advisory Group

The conclusions that plain packaging constitutes deprivation of intellectual property rights and violates several international agreements may not necessarily be accurate. The High Court decision consisted of six different judgments which made no cross references to any of the other judgments. There was no definitive statement by a majority of justices that the tobacco companies had been deprived of property as opposed to being deprived of some of the value of their property. The latter occurs on a regular basis when governments impose regulatory requirements. More importantly, the concept of 'deprivation' in other jurisdictions also entails a consideration of the public purposes behind the challenged regulatory measure and the nature of the harm to the public interest caused by the property in question. It may be unhelpful to attempt to correlate the meaning of deprivation in those jurisdictions with any discussion of the concept in Australian Constitutional cases where the focus is on the concept of acquisition.

The conclusion that plain packaging violates several international agreements will be tested in the relatively near future. Since tobacco companies themselves received legal advice in 1994 that plain packaging does not violate TRIPS or GATT and plain packaging supporters are confident of the outcome of the international disputes, it is very possible that the outcome of current disputes may not be positive from the perspective of tobacco companies.

The 'slippery slope' argument has some limitations. For example, Australia banned mass media advertising of cigarettes over 30 years ago. Since then, there have been no similar bans on any other product. In addition, the addictive nature of tobacco and the harmful effects of long term use that follows use by those addicted is such that the only broad regulatory response that is available is to encourage abstinence and discourage any promotion of tobacco. The Framework Convention on Tobacco which recommends in its guidelines plain packaging for tobacco is administered under the auspices of the World Health Organisation and has been signed by over 170 countries. No similar treaty exists in respect of any other product and political realities would suggest that governments are unlikely to advocate complete abstinence from alcohol, sugar and fat. Public health statistics clearly indicate that the death toll attributable to tobacco use is many times higher than that attributable to other products such as alcohol. In terms of both its detrimental health effects and the international regulatory environment that has developed over some decades, tobacco stands out from other products. The characterization of tobacco companies as the champions of property rights needs to be counter-balanced by the reality that they are, by a very wide margin, the vendors of the product responsible for the highest number of preventable deaths due to non-communicative means on the planet.

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