

15 June 2015

Clerk to Panel on Health Services
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Via email: panel_hs@legco.gov.hk

To the Panel on Health Services:

Re: Legislative Proposals to Strengthen Tobacco Control

The International Trademark Association (INTA) welcomes this opportunity to comment on the proposed additional measures by Hong Kong's Legislative Council Panel on Health Services in a recent report titled "Progress of Tobacco Control Measures." The report proposes several additional measures, one of which is to alter "the prescribed form of health warning and indication of tar and nicotine yields on packet or retail container of cigarettes and relevant tobacco products." More specifically, it proposes that "the area of the graphic health warning shall be of a size that covers at least 85% of two largest surfaces of the packet and of the retail container."

The International Trademark Association (INTA) is a global organization of 6,500 trademark owners and professionals from over 190 countries, including 76 members in Hong Kong SAR. INTA is a not-for-profit membership association dedicated to the support and advancement of trademarks and related intellectual property as elements of fair and effective commerce. The Association was founded in 1878 and today INTA leads the way in global trademark research, policy development, and education and training. More details about INTA and its roles are available at www.inta.org.

INTA takes no position on the particular health issues that are the focus of the proposed measures, however, we strongly believe that the amendments would amount to a serious encroachment on the rights of trademark owners and would frustrate the ability of trademarks to serve their function to protect consumers and foster fair commerce. Specifically, we have concerns about the above proposal, because if implemented, it would require cigarette packs and retail containers of cigarettes and other tobacco products to bear graphic health warnings covering 85% of the two largest surfaces of the pack, leaving only 15% of the front and back surface of a cigarette pack or the retail container available for trademarks and branding. This reduced area will impede the function of trademarks and represents a possible violation of Hong Kong's international obligations.

Importance of Trademarks

Trademarks and trade dress play an integral role in facilitating consumer choice by distinguishing products from an enterprise which consumers know and trust from those of unknown or unsatisfactory origin. These proposed amendments to reduce the area available to trademarks and trade dress will make it more difficult for consumers to identify the brand of their choice. This inability to recognize a trademark on a product will lead to consumer confusion and thereby impair and diminish the goodwill acquired in a trademark through investment and effort over time.

Because these requirements would significantly restrict the area available for branding, tobacco companies would be forced to give up elements of those brands and trade dress due to space limitations. Many of the brand elements that trademark owners would be forced to give up have already been recognized as distinctive signs, and as such, registered and protected under the Hong Kong Trade Marks Ordinance and its predecessor laws and ordinances. Thus, trademark owners would be prevented from using their trademarks or, in the alternative, would be forced to alter their trademarks from the form in which they have been registered and used because of restrictions on pack space. Forced alterations of existing registered

trademarks could lead to the cancellation of those trademarks or require trademark owners to apply for registration of the altered marks, incurring costs and other uncertainties.

It is important to remember that trademark rights are a vital aspect of the global economy and play a significant role in free trade and competition. By forcing brand owners to give up or alter their trademarks, these amendments not only set a dangerous legislative precedent for other industries but also undermine Hong Kong's intellectual property protection system as a whole and send a negative signal to the foreign investment community. This is especially relevant now, as Hong Kong was recently ranked highest in The Heritage Foundation's *Index of Economic Freedom*, and had one of the highest rankings in the protection afforded to property rights.

Violation of Hong Kong Law

A violation of the intellectual property rights of a trademark owner is a violation of the Basic Law of Hong Kong. As prescribed in the Basic Law of Hong Kong, in articles 139 and 140, in principle intellectual property is protected, including science and technology as well as literary and artistic works.

"The Government of the Hong Kong Special Administrative Region shall, on its own, formulate policies on science and technology and protect by law achievements in scientific and technological research, patents, discoveries and inventions. The Government of the Hong Kong Special Administrative Region shall, on its own, decide on the scientific and technological standards and specifications applicable in Hong Kong." (Article 139)

"The Government of the Hong Kong Special Administrative Region shall, on its own, formulate policies on culture and protect by law the achievements and the lawful rights and interests of authors in their literary and artistic creation." (Article 140)

By preventing the use of trademarks or forcing trademark owners to alter them from their form as registered in order to use them within the limited pack space, the proposed amendments would put these trademarks at risk for cancellation. This is of particular concern for trademarks that protect the get up/trade dress of goods in Hong Kong.

The proposed increase in restricted pack space would prevent an owner of a package or label trademark from using such trademarks as they have been registered or from using them at all, should they be unusable within the limitation of 15% of pack space available. Under the Trade Marks Ordinance Cap. 559, Section 52(2), a registration for a trademark may be subject to revocation by a third party if the trade mark has not been genuinely and continuously used for at least three years. In this instance, the meaning of "genuinely" can be construed to mean in the manner in which it was registered. The provisions would prevent right holders from using some of those marks, violating this basic principle of trademark law and putting those trademarks at risk of being cancelled for non-use.

Violation of International Treaty Obligations

In addition to violating Hong Kong Law, the proposed amendments are inconsistent with the World Trade Organization's Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention for the Protection of Industrial Property.

Specifically, the proposed amendment conflicts with Article 20 of TRIPS, which states that

*"the use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, **use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings...**"*(emphasis added)

Additionally, TRIPS (Art 15) and the Paris Convention (Art. 7) provide that the nature of goods to which a trademark is applied shall in no case form an obstacle to the registration of the trademark. It is a well-established principle that unless the proprietor is free to use a mark for whatever product he wants, irrespective of its kind, a fundamental aspect of trademark rights is endangered.

There are those that argue that Article 8 (1) of TRIPS¹ exempts public health measures from a WTO Member's obligations under TRIPS. On the contrary, Article 8 provides guidance in this area, allowing measures which are "*necessary to protect public health.... Provided that such measures are consistent with the provisions of TRIPS.*" A Member seeking to adopt a public health measure under this provision must prove that such measure is **necessary** to protect public health and consistent with TRIPS. The Hong Kong Department of Health has provided no evidence that health warning labels covering 85% of the two largest surfaces of packs will benefit public health in any way, let alone that they are **necessary** to protect public health or that there are no less restrictive alternative measures that would achieve the same objective. Looking to the views of other jurisdictions, a U.S. federal appellate court has considered whether large graphic health warnings are effective. The court rejected the assertion that, when it comes to health warnings on tobacco, bigger is better, and found "*no evidence showing that such warnings have **directly caused** a material decrease in smoking rates.*" (emphasis in original)² The court concluded that this lack of evidence "*strongly implies that such warnings are **not** very effective at promoting cessation and discouraging initiation.*" (emphasis in original)³

Furthermore, the prohibition of the use of complete and legitimate trademarks and trade dress on packaging would violate Article 10bis of the Paris Convention and its provisions against unfair competition, a risk not only to trademark owners but also to consumers.

The challenges caused by the amendments with respect to recognizing trademarks, as well as the limited space for the application of security and authentication features on packaging, would make both counterfeiting and smuggling more attractive. This would create the risk of an uncontrolled market for illegal products, potentially undermining the intention of this regulation to reduce smoking and instead leading to a prevalence of cheaper counterfeited or smuggled items.

Finally, as a WTO Member, Hong Kong has certain obligations under the WTO Agreement on Technical Barriers to Trade (TBT Agreement), including obligations under Article 2.9 to notify other WTO Members prior to the adoption of a new technical regulation that would have a significant effect on trade but is not based on relevant international standards. The amendment amounts to a proposed technical regulation under Article 2.9 of the TBT Agreement, is not based on an international standard and would significantly impact trade by requiring substantial alterations to current packaging, including for imported tobacco products.

Loss of Business Opportunity: Co-branding

Restricting trademark owners from using their original trademarks on their products effectively limits their business opportunities. For example, the prospect of co-branding becomes almost inconceivable due to the limited ability to create a brand and trade dress that is recognizable and attributable to both entities. Implementing such restrictive provisions contributes to an environment which is hostile to producers and can lead to situations of a lost business opportunity or "loss of chance" as some jurisdictions call it.

Freedom of Expression

The proposed amendments directly undermine the ability of corporations to be able to use their trademarks freely, thereby infringing on the guaranteed right of freedom of expression. Entrenched in article 27 of The Basic Law of Hong Kong, the right ascertains that "Hong Kong residents shall have the freedom of speech, of the press and of publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike."

Furthermore, article 16 of the Bill of Rights stipulates that "everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice." Should the proposed amendments be implemented, and should the ability of right holders to freely place their trademarks on their product be hindered, the rights of individual consumers will also be

¹ "*Members may...adopt measures **necessary** to protect public health and nutrition, and to promote public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are **consistent** with the provisions of this Agreement.*"

² *R.J. Reynolds Tobacco Co., et al. v. Food & Drug Administration, et al.*, 696 F.3d 1205, 1219 (D.C. Cir.2012), rehearing denied, 2012 U.S. App. LEXIS 24976 and 24978.

³ *Ibid.*, 696 F.3d at 1220.

curtailed. Trademarks play a dual role and are valuable for both the consumer and the producer. Restraining the use of trademarks on cigarette packaging makes it difficult for consumers to make informed decisions regarding product preference. The Bill of Rights guarantees the freedom to seek, receive and impart information. Preventing the use of trademarks in their original and recognizable form, in effect puts the consumer at a disadvantage by impeding on their ability to seek and receive important consumer information.

Conclusion

In light of the foregoing, INTA submits that the proposed amendments would deprive trademark owners of valuable property and violate Hong Kong's trademark legislation and Hong Kong's international obligations. We strongly urge the Legislative Council to consider the highly negative effects the proposed amendments would have on consumers and trademark owners. INTA is confident that the Hong Kong authorities will be able to identify alternative, less restrictive policy options that can achieve the country's important public health objectives without undermining intellectual property rights.

These comments were prepared by the Legislation and Regulation Committee Asia-Pacific Subcommittee and INTA policy staff. Should you have any questions or concerns, please contact Mr. Seth Hays, Chief Representative, China, at shays@inta.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Etienne Sanz de Acedo', written in a cursive style.

Etienne Sanz de Acedo
Chief Executive Officer
International Trademark Association