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By email to jozsef.schlammdinger@emmi.gov.hu

Dr. Joseph Schlammdinger
Ministry of Human Resources, Health Policy Law Department
Budapest, Arany János u. 6-8 H- 1051

Dear Dr. Joseph Schlammdinger,

Re: TRIS Notification 2015/529/HU – X40M by Hungary of the Amendment to Government Decree 39/2013 of 14 February 2013 on the manufacture, placement on the market and control of tobacco products, combined warnings and the detailed rules for the application of the health-protection fine (the 'Implementation Decree'- Proposal 28425-11/2015/JOGIEÜ)

The International Trademark Association (INTA) is a global association of trademark owners and professionals dedicated to supporting trademarks and related intellectual property in order to protect consumers and to promote fair and effective commerce. INTA's primary strategic direction is to advocate for the vigorous enforcement of strong laws that provide protection for trademarks so that: (1) trademark owners can market their goods and services with confidence and protect consumers from counterfeits and other unauthorized products; and (2) customers and consumers can rely on trademarks to differentiate sources of goods and services in the marketplace.

Our membership includes more than 6,500 trademark owners and professional firms spanning all fields of commerce and industry from more than 190 countries throughout the world, including Hungary and all other EU Member States. Headquartered in New York City, INTA also has offices in Shanghai, Brussels and Washington D.C. and representatives in Geneva and Mumbai.

INTA makes this submission on behalf of all its members and speaks only on the potential implications for trademark rights, taking no position on the public health issues with regard to tobacco consumption.

Summary remarks

Trademarks are a vital aspect of the global economy and serve an important function in the European marketplace. Trademarks are used on virtually every type of product to indicate a product's origin and to guarantee the consistency of its quality to consumers. In addition to being an important aspect of the daily life of consumers, trademarks are economically crucial as they facilitate trade and promote innovation and competition. **Trademark-intensive industries account for nearly 22% of all direct jobs in Hungary and for 38% of Hungarian GDP¹.** An

¹ http://ec.europa.eu/internal_market/intellectual-property/docs/joint-report-epo-ohim-final-version_en.pdf

efficient protection of trademarks is therefore crucial to protect consumers and the business community.

INTA cautions against legislation that prohibits or severely restricts the use of trademarks and prevents them from fulfilling their functions in the marketplace to the detriment of consumers, trademark owners, and competition as such.

Accordingly, INTA is opposed to prohibiting the use of trademarks through full standardization of packaging (i.e. plain packaging) as proposed by the Hungarian Draft Implementation Decree. While plain packaging legislation would still allow the use of word marks on packages, it would restrict the use of such word marks to a prescribed unitary form which does not correspond to their intended registered graphic representation. Furthermore, plain packaging would prevent rights holders from using any of their other registered trademarks as well as other design elements, which in turn could cause consumer confusion.

INTA has submitted comments² outlining its concerns on plain packaging when similar proposals have arisen in other jurisdictions, including Australia, the European Union, France, Ireland, Israel, Thailand and the United Kingdom.

INTA offers the following further specific observations on the Hungarian Draft Implementation Decree:

1. The Hungarian Draft Implementation Decree infringes the Community Trade Mark Regulation and Community Design Regulation. It also impairs the different functions of trademarks in Hungary, and undermines the EU's internal market principles.
2. The Hungarian Draft Implementation Decree violates fundamental rights of trademark owners and consumers under European Law. Plain packaging constitutes an impairment of property rights under the Charter of Fundamental Rights of the European Union (Charter)³, the jurisprudence of the European Court of Human Rights (ECtHR) under the European Convention of Human Rights (European Convention)⁴ and the Hungarian Trade Mark Act⁵. The Hungarian Draft Implementation Decree also impairs commercial free speech rights.
3. The Hungarian Draft Implementation Decree sets a dangerous precedent for other products and industries.
4. The Hungarian Draft Implementation Decree risks increasing illicit trade.
5. The Hungarian Draft Implementation Decree is contrary to international trade agreements, such as the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention for the Protection of Industrial Property.

² See at <http://www.inta.org/Advocacy/Pages/Testimony.aspx>

³ See Article 17(2) of the Charter of Fundamental Rights of the European Union.

⁴ ECtHR, *Anheuser-Busch v. Portugal*, of 11 January 2007, paragraph 72: "In the light of the above-mentioned decisions, the Grand Chamber agrees with the Chamber's conclusion that Article 1 of Protocol No. 1 is applicable to intellectual property as such."

⁵ Section 12(1) of the Act XI of 1997 on the Protection of Trademarks and Geographical Indications explicitly states: „On the basis of trademark protection, a trademark owner has exclusive right to use the trademark.”

Specific observations

1. The Hungarian Draft Implementation Decree infringes the Community Trademark and the Community Design Regulations and impairs the functions of trademarks in Hungary

The Hungarian Draft Implementation Decree directly infringes the Community Trademark Regulation (CTMR)⁶ and the Regulation on the Community Design (CDR)⁷ and undermines the internal market principles that those regulations pursue. According to Article 1(2) CTMR, a Community trademark has a unitary character. This means that the Community trademark shall have equal effect throughout the EU and its use may not be prohibited save in respect of the whole EU. Article 1(2) of CDR provides the same for Community designs. The Hungarian Draft Implementation Decree would prohibit the use of numerous Community trademarks and Community designs in a single Member State, namely Hungary, therefore directly violating Article 1(2) of these Regulations.

Community trademarks and designs are important internal market instruments. Recital 2 CTMR describes the purpose of the Community trademark as follows:

“(...) to promote throughout the Community a harmonious development of economic activities and a continuous and balanced expansion by completing an internal market which functions properly and offers conditions which are similar to those obtaining in a national market. (...) trademarks enabling the products and services of undertakings to be distinguished by identical means throughout the entire Community, regardless of frontiers, should feature amongst the legal instruments which undertakings have at their disposal.”

Recital 4 further explains:

“... In order to open up unrestricted economic activity in the whole of the internal market for the benefit of undertakings, trademarks should be created which are governed by a uniform Community law directly applicable in all Member States. ”

Plain packaging introduced by a Member State therefore directly undermines the internal market purpose that the Community trademark system is designed to serve. The Hungarian Draft Implementation Decree, by introducing packaging requirements well beyond the bounds of the standardized packaging required by the Tobacco Products Directive, creates the need for trademark owners to provide different packaging in Hungary than elsewhere in the Community, thereby creating a specific national requirement that substantially impacts upon the free movement of goods within the Community as a whole.

Moreover, plain packaging implemented at national level will distort inter-brand competition within the Internal Market by removing or restricting many of the elements that manufacturers use to differentiate their products from other manufacturers. The proposal reduces package, product and brand differentiation, and restricts manufacturers' ability to innovate across either the product or the packaging.

This will lead to reduced competition and increased barriers to entry, as it is increasingly difficult for new brands to enter the market without an ability to differentiate their offering from existing brands. Both the reduction of brand differentiation and the difficulty for new brands to enter a market were mentioned as expected consequences of plain packaging in the Commission's

⁶ Council Regulation (EC) No 207/2009 on the Community trade mark (<http://ow.ly/zUO42>)

⁷ Council Regulation (EC) No 6/2002 on Community designs (<http://ow.ly/zUObT>)

Impact Assessment⁸. INTA believes that manufacturers should benefit from a normal use of all aspects of their trademark rights in order to compete with one another, and that there should be the same freedom to do so across all EU Member States.

Reduction of brand differentiation also impacts consumers. Trademarks are not only words, names and logos, but can also be colours or the very shape or design of the package itself (trade dress). Any graphical component that adds to the distinctiveness of a product can be registered as a trademark, thereby playing an integral role in facilitating consumer choice by distinguishing one product they know and trust from products of another entity. The Hungarian Draft Implementation Decree, if adopted, would make it extremely difficult to distinguish one brand from another, thereby seriously limiting consumers' ability to buy the product of their choice.

Furthermore, trademarks indicate the source of goods and/or services and assure consumers of the consistency of a product's quality and proper accountability. This fundamental function could not be effectively fulfilled if registered trademarks were banned from packaging, or if such trademarks were only permitted in a prescribed, standardized form that does not correspond to the intended registered graphic representation of such trademarks.

A deprivation of this function constitutes a violation of the EU's internal market principles and law. The Court of Justice of the European Union (CJEU) has frequently held that trademarks are

“an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services. For the trademark to be able to fulfil this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality.”⁹

As the CJEU has recognized, trademarks also perform other functions such as those of communication¹⁰ designed to inform consumers¹¹, and of investment¹². All these functions are, in the words of the Advocate General Jacobs, “values which deserve protection as such”¹³, but are disregarded by the Hungarian Draft Implementation Decree.

2. The Hungarian Draft Implementation Decree violates fundamental rights of trademark owners and consumers under European Law

Firstly, the Hungarian Draft Implementation Decree would effectively deprive trademark owners of their property rights. The European Court of Human Rights (ECtHR) has confirmed that intellectual property, including trademarks, is covered by the right of property¹⁴, and the Lisbon Treaty proclaims that the European Convention for the Protection of Human Rights and Fundamental Freedoms of the Council of Europe (ECHR) shall constitute the general principles

⁸ Commission's impact assessment accompanying the document proposal for a directive of the European Parliament and of the Council: SWD(2012) 452 final, pages 92 and 93.

⁹ See, *inter alia*, CJEU Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, [1990] ECR I-03711, paragraph 13.

¹⁰ See, for example, Case C-487/07, *L'Oreal v. Bellure*, [2009] ECR I-05185, paragraph 58.

¹¹ Joined Cases C-236/08 to C-238/08, *Google et. al.*, [2010] ECR I-02417, paragraph 91.

¹² See, for example, Case C-487/07, *L'Oreal v. Bellure*, paragraph 58; Joined Cases C-236/08 to C-238/08, *Google et. al.*, paragraph 91; Case C-323/09, *Interflora*, [2011] ECR I-08625, paragraph 39.

¹³ Opinion of the Advocate General Jacobs delivered on 29 April 1997, Case C-337/95, *Christian Dior*, [1997] ECR I-06013, paragraph 41.

¹⁴ See ECHR case law “Anheuser Bush vs. Portugal, GC 73049/01, judgement of 11 January 2007

of the Union's law¹⁵. Section 12 of the Hungarian Trade Mark Act also explicitly states: "On the basis of trademark protection, a trademark owner has exclusive right to use the trademark."¹⁶ Plain packaging would deprive trademark owners of the use of their property in their established trademark rights. Accordingly, plain packaging also infringes the right to property protected by Article 17 of the Charter of Fundamental Rights of the European Union and by Article 1 Protocol 1 of the ECHR. Therefore, failure to protect intellectual property would constitute a breach of EU Treaty principles. Plain packaging also appears to violate Article XIII. (1) of the Hungarian Constitution.

As Advocate General Capotorti explained in the famous Hauer case as early as 1979,¹⁷ considerations in assessing whether an interference with property amounts to a deprivation are: "the extent to which the prohibitions have ... precluded ... enjoyment of [the] right" and the "scale of the economic sacrifice of the person to whom the measure is addressed" and whether the property "is deprived of any appreciable economic value." The ECtHR has similarly held that an interference with property rights amounts to a deprivation where the measure takes away "all meaningful use of the propert[y] in question"¹⁸.

The Hungarian Draft Implementation Decree renders the affected trademarks meaningless. It would deprive trademarks for tobacco products of all their accepted functions, including guaranteeing the identity of origin of the marked goods or services to the consumer or end user which constitutes the essential function of trademarks.¹⁹ The affected trademarks could not carry out any of their functions as they could no longer be *used*.

Article 12 of the EU Trademarks Directive explicitly requires:

"A trademark shall be liable to revocation if, within a continuous period of five years, it has not been put to genuine use in the Member State in connection with the goods or services in respect of which it is registered, and there are no proper reasons for non-use."²⁰

This is reflected in Article 18(1) of the Hungarian Trademark Act:

"If, within a period of five years following the date of registration, the holder has not commenced genuine use of the trademark in the country in connection with the goods or services for which it is registered, or if such use has been suspended during an uninterrupted period of five years, trademark protection shall be subject to the legal consequences provided for in this Act [...], unless the holder duly justifies non-use."

If the Hungarian Draft Implementation Decree is accepted, trademark owners will not be allowed to use their trademarks on tobacco products. Therefore, tobacco trademarks will be susceptible for cancellation for non-use; trademark owners will thus lose their trademark rights on tobacco products due to the proposed legislation. This would mean that tobacco brands cease to exist and become public domain, which could be seen as indirect nationalisation. The nationalisation of foreign-owned property "*shall be based on grounds or reasons of public utility, security or the national interest which are recognized as overriding purely individual or private interests, both domestic and foreign. In such cases the owner shall be paid appropriate compensation, in*

¹⁵ Article 6(3) TEU.

¹⁶ See also Section 4 Community Trademark Regulation (Regulation (EC) No 207/2009).

¹⁷ Opinion of the Advocate General Capotorti delivered on 8 November 1979, Case 44/79, *Hauer*, paragraph 8.

¹⁸ ECtHR *Fredin v. Sweden* (No 1), of 18 February 1991, paragraph 45.

¹⁹ See for example: CJEU Case C-206/01, *Arsenal Football Club*, [2003] ECR I-10273, paragraph 48.

²⁰ Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks. See also Recital 9 of the Directive which states: "*it is essential to require that registered trademarks must actually be used or, if not used, be subject to revocation.*"

*accordance with the rules in force in the State taking such measures in the exercise of its sovereignty and in accordance with international law.*²¹

Moreover, the Hungarian Draft Implementation Decree would interfere with trademark owners' freedom of expression and consumers' corresponding right to receive information. Article 10 of the ECHR and Article 11 of the Charter protect the freedom of expression.²² Trademarks serve a communication function in allowing trademark owners to communicate the qualities of their products by means of their trademarks. Such communication, however, would be prohibited under the Hungarian Draft Implementation Decree in violation of fundamental rights.

The European Court of Human Rights (ECtHR) has held that the right to freedom of expression also protects commercial free speech. In *Germany v European Parliament* (Case C-376/98), Advocate General Fennelly noted that the effect of the ECtHR's jurisprudence²³ was that freedom of speech protected *"the provision of information, expression of ideas or communication of images as part of the promotion of a commercial activity and the concomitant right to receive such communications"*.

Trademark owners' freedom of expression would be denied by the Hungarian Draft Implementation Decree, as it compels them to carry a message against their will that would entirely supplant the trade dress, logos and other brand imagery, and is intended to be detrimental to the sales of their goods. Plain packaging is not a mere health or safety warning; nor is it intended to prevent false advertising. Instead, plain packaging would completely cover the entire surface area of the package but for one small mention of the brand name. Much less restrictive requirements have been rejected in the United States on freedom of speech grounds in the case of *RJ Reynolds Tobacco Co. v. Food and Drug Administration*, 696 F.3d 1205, 1208 (D.C. Cir, 2012)²⁴.

3. The Hungarian Draft Implementation Decree sets a dangerous precedent for other products and industries

Intellectual property rights such as trademarks contribute significantly to economic growth. According to an extensive study jointly conducted by the European Patent Office and the Office for Harmonisation in the Internal Market, approximately 50% of industries in the EU are IP-intensive.²⁵ These industries generate almost 39% of total economic activity (GDP) in the EU, worth EUR 4.7 trillion, and directly support 26% (56 million) of all jobs in the EU. The study found that trademark-intensive industries are responsible for the highest shares of both employment and GDP contribution.

However, the Hungarian Draft Implementation Decree, rather than promoting intellectual property rights, unduly restricts those rights and thereby endangers economic growth and jobs. INTA is concerned that prohibiting the use of trademarks for tobacco products sets a dangerous legislative precedent, including for Hungarian branded products exported abroad.

²¹ UN General Assembly Resolution 1803 (XVII) on *Permanent Sovereignty over Natural Resources* (1962)

²² See also Article IX(1) of the Hungarian Constitution

²³ E.g., *Casado Coca v Spain* [1994] ECHR 8 and Markt-Intern.

²⁴ [http://www.cadc.uscourts.gov/internet/opinions.nsf/4C0311C78EB11C5785257A64004EBFB5/\\$file/11-5332-1391191.pdf](http://www.cadc.uscourts.gov/internet/opinions.nsf/4C0311C78EB11C5785257A64004EBFB5/$file/11-5332-1391191.pdf)

²⁵ European Patent Office and Office for Harmonization in the Internal Market, Intellectual property rights intensive industries: contribution to economic performance and employment in the European Union; Industry-Level Analysis Report, September 2013.

Proposals such as the Hungarian Draft Implementation Decree are likely to trigger calls for further regulations restricting or banning the use of trademarks on other products. There are already indications that the Australian plain packaging law has led other countries to consider similar regulations for other industries. South Africa, for example, has already restricted the use of certain trademarks for infant milk.²⁶ The Indonesian government is considering a plain packaging regulation for alcoholic beverages.²⁷

There is a real danger that plain packaging requirements on tobacco products may be the harbinger for the global erosion of trademark rights across other industries in violation of fundamental rights of trademark owners and to the detriment of consumers.

4. The Hungarian Draft Implementation Decree risks increasing illicit trade

As an intellectual property organisation, INTA is very concerned by the issue of illicit trade regardless of the industry affected. INTA is concerned that overly standardizing or restricting the labelling or packaging of products will facilitate the spread of counterfeit products by making them easier to produce and more difficult to detect.

The illicit trade in tobacco is a major problem in Europe. The EU customs enforcement of IPR Report for 2014, published 27 October 2015, stresses that customs authorities in the EU detained over 35 million items suspected of violating intellectual property rights in 2014, with cigarettes being top of the list of detained items (35%). Detailed figures on tobacco smuggling (number of cases, articles and retail value of original goods) are included in this report²⁸.

Illicit trade affects not only rights holders and the IP community but also society at large. Indeed, many of the protagonists involved in illicit trade in Europe also commit other IP crime offences and serious non-IP related crime such as smuggling drugs and money laundering. This makes it an issue of much broader societal concern. There is evidence that, following the introduction of plain packaging in Australia in October 2012, illicit trade in cigarettes in Australia has increased by almost 20% between 2012 and 2013.²⁹

The Hungarian Tax and Customs Office has confiscated 50% more counterfeit cigarettes in 2014 than the year before. The numbers have gone up from 60-70 million pieces to 100 million last year and the weight of tobacco withdrawn from the black market increased from 4,5 metric tons to 26 metric tons.³⁰ Another estimation claims that the percentage of counterfeit cigarettes has grown from 5% to 10% between 2013 and 2014.³¹

5. The Hungarian Draft Implementation Decree is contrary to international trade agreements

²⁶ South Africa Department of Health, Regulation relating to foodstuff for infants and young children, No. R. 991, of 6 December 2012.

²⁷ The Drinks Business, *Indonesia threatens plain alcohol labels*, published on 19 May 2014 by Rupert Millar, available at <http://www.thedrinksbusiness.com/2014/05/indonesia-threatens-plain-packaging-on-alcohol-labels/>.

²⁸ http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2015_ipr_statistics.pdf

²⁹ KPMG (2014), *Illicit tobacco in Australia*, Full Year Report.

³⁰ http://index.hu/gazdasag/ado_es_koltsegvetes/2015/05/19/oriasi_uzlet_a_dohanycsempeszet/

³¹ http://www.hirhatar.hu/index_cikk.php?hh=hala-a-trafikrendszernek-viragzik-a-dohanycsempeszet

The Hungarian Draft Implementation Decree also violates the trademark provisions of the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS") and the Paris Convention³².

Plain packaging is an unjustifiable encumbrance on the use of trademarks. Article 20 of TRIPS provides that there shall not be an unjustifiable encumbrance "by special requirement" in the use of a trademark. Plain packaging would constitute an encumbrance on the use of the trademark and the issue is, therefore, whether it is justifiable or not. In this respect, Article 8.1 of TRIPS provides some guidance, allowing measures which are "necessary to protect public health... provided that such measures are consistent with the provisions of [TRIPS]". However, this proposal does not appear to qualify for this exception as Hungary to date has not demonstrated that plain packaging meets the test under Article 8, and therefore would be inconsistent with TRIPS and would constitute an unjustified encumbrance in breach of Article 20. Moreover, the effectiveness of plain packaging on tobacco consumption is not supported by real-life evidence³³.

Plain packaging would be an obstacle to the registration of tobacco trademarks, as there is little value for a trademark proprietor to register a trademark he will be unable to use, knowing that they may ultimately be invalidated or held unenforceable due to non-use. Plain packaging could also result in the invalidation of existing tobacco trademarks, in breach of the Paris Convention and Article 15(4) of TRIPS. Article 7 of the Paris Convention and its equivalent Article 15(4) of TRIPS provide that "the nature of the goods" shall not form an obstacle to the registration of trademarks. However, plain packaging requirements on tobacco products would mean that tobacco trademark owners would be unable to use non-word marks due solely to the nature of the goods, i.e. tobacco products. Trademarks must be used to remain valid and to avoid being subject to cancellation, but this use requirement would effectively mean that existing non-word tobacco trademarks could not stay registered as they could not be used. This would also run contrary to the Article 6*quinquies*(B) of the Paris Convention which prohibits trademarks from being either denied registration or invalidated³⁴.

Plain packaging leads to a failure to provide effective protection to trademark rights, in breach of the Paris Convention. Plain packaging would fail to comply with Article 10*bis* of the Paris Convention, a risk not only to trademark owners but also to consumers. Among other factors that would impede effective national-level enforcement of plain packaging legislation is the existence of massive counterfeit, black market, and grey market trade of consumer goods, including tobacco products.

INTA is concerned that the legislator selectively takes away IP rights and ignores the strong protection they are given under the law regardless of the economic sector to which the proprietor belongs. Any regulation must be proportionate and must respect the basic, fundamental legal principles and rights that apply to all legal products.

This approach is echoed by the international community, as following the implementation of plain packaging in Australia, five countries have commenced dispute settlement proceedings before

³² See the Opinion of the Committee on Legal Affairs of the European Parliament <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-510.734+03+DOC+PDF+V0//EN&language=EN>

³³ See for instance, the Commission's impact assessment accompanying the document proposal for a directive of the European Parliament and of the Council: SWD (2012) 452 final, pages 92 and 93.

³⁴ Except for a definite number of very narrow exceptions, none of which apply here.

the WTO over this measure. The proceedings are currently ongoing and many other WTO members have echoed the concerns raised by the complainants³⁵.

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In conclusion, the implementation of plain packaging by Hungary would set an unsound legislative precedent which would fundamentally change the Hungarian, EU and global frameworks for trademarks, which have been developed over hundreds of years to encourage the creation, protection and use of trademarks, for the benefit of the business community, consumers and the society at large.

INTA submits that the Hungarian Draft Implementation Decree would severely impair the function of trademarks, create a dangerous precedent for other sectors, increase the risk of consumer confusion, violate several international treaty obligations as well as EU laws, and significantly increase the risk of counterfeit products being made available on the market.

Therefore, INTA respectfully opposes the prohibition of the use of trademarks through plain packaging as proposed by the Hungarian Draft Implementation Decree.

INTA stresses that the adoption of the Hungarian Draft Implementation Decree should be postponed until the legality of plain packaging is confirmed in the WTO Dispute Settlement Proceedings.

INTA would be happy to answer any questions you may have on these issues. Should you require further information, please contact Ms. H  l  ne Nicora at hnicora@inta.org.

Sincerely,



Etienne Sanz de Acedo
Chief Executive Officer

³⁵http://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm?year=none&subject=G11&agreement=none&member1=none&member2=none&complainant1=true&complainant2=true&respondent1=true&respondent2=true&thirdparty1=false&thirdparty2=false#results