

5 August 2014

By email to tobaccopackaging@dh.gsi.gov.uk

Department of Health
Standardised Tobacco Packaging Consultation
PO Box 1126
CANTERBURY
CT1 9NB
United Kingdom

To the Department of Health:

Re: Consultation on the introduction of regulations for standardised packaging of tobacco products

The International Trademark Association (INTA) is a global association of trade mark owners and professionals dedicated to supporting trade marks and related intellectual property rights (IPRs) in order to protect consumers and to promote fair and effective commerce. Our membership includes more than 6,700 trade mark owners, professionals and academics from more than 190 countries, including the United Kingdom (UK), who benefit from INTA's global trade mark research, policy development, education and training, and international network. Founded in 1878, INTA is headquartered in New York City, with offices in Brussels, China and Washington, D.C., and representatives in Geneva and Mumbai.

This letter is in response to your second consultation on the issue of standardised packaging of tobacco products, published on 26 June 2014. INTA submitted a response to the 2012 consultation, a copy of which is enclosed with this letter.

At the outset, we would again like to clarify that our comments on standardised packaging and the draft regulations are limited to their potential implications on trade marks and other IPRs. We fully understand the importance of improving public health and appreciate your role and responsibility in furthering this vital objective. We take no position on public health-related issues.

Furthermore, INTA raises these concerns on behalf of all our members and as the representative of a broad spectrum of trade mark owners spanning all fields of commerce and industry. While INTA's broad membership includes tobacco companies, INTA does not have any direct or indirect links to, or receive funding from, the tobacco industry, other than membership fees applicable to all members, regardless of their

industry and country. INTA is not an association which represents or defends the interest of a specific industry or a specific member, but is dedicated to promote and support trade mark rights and related rights as rights per se.

We set out below our responses to your consultation questions:

Q1. Do you have any observations about the report of the Chantler Review that you wish to bring to our attention?

Since the purpose of the Chantler Review was to consider the effect of standardised packaging on public health¹, which is outside our remit as noted above, we confine our observations on this question to two points:

I. Omission of the legal issues related to trade marks and IPRs

The absence of references to trade marks, IPRs or any other legal issues from the policy deliberation process after the 2012 consultation and from the Chantler Review is concerning. In fact, the Chantler Review expressly excluded legal issues from its scope. The Method Statement stated: *“My Review is not concerned with legal issues, such as competition, trade-marking and freedom of choice.”*²

The Department of Health also decided not to provide for any other simultaneous investigation of the legal issues, including implications for trade marks and IPRs. This is disappointing, particularly given that the Summary report of the 2012 consultation stated: *“There were 2,264 detailed responses that addressed Question 6. Many of the businesses and business related organisations that responded to this question stated that standardised packaging could have legal implications and some suggested the measure would be illegal.”* In INTA’s view, the preponderance of submissions highlighting these legal concerns made it absolutely necessary that they should be investigated further in the event that the policy was revived after the 2012 consultation closed.

When the Chantler Review’s findings were published on 3 April 2014, the Department of Health announced that it was “minded to proceed” with standardised packaging. This was based on the recommendations of the Chantler Review and without any separate investigation on the legal impacts, including implications for trade marks and IPRs, despite the concerns that were raised by INTA and others in 2012.

The Chantler Review would appear to be the reason for the Department of Health being “minded to proceed” as of April 2014, since the 2012 consultation had previously led the Department of Health to a different conclusion (i.e., its former ‘wait and see’ position).

¹ See paragraph 1 at page 3 of the Chantler Review
(<http://www.kcl.ac.uk/health/10035-TSO-2901853-Chantler-Review-ACCESSIBLE.PDF>)

² See page 1 of the Method Statement
(<http://www.kcl.ac.uk/health/Packaging-review/packaging-review-docs/method-statement.pdf>)

We would urge the Department of Health to rectify this flaw and now commission a proper study on the legal implications of implementing the draft regulations, taking full account of the concerns of legal stakeholders, including those in the area of trade marks and IPRs.

II. Illicit trade

As an intellectual property organisation, INTA is very concerned by the issue of illicit trade regardless of the industry affected. Indeed, many of the protagonists involved in illicit trade in the UK also commit other IP crime offences and serious non-IP related crime such as smuggling drugs and money laundering.³ This makes it an issue of much broader societal concern. The impact of standardised packaging should thus be properly considered and given full weight before deciding whether to proceed.

The European Commission published on 31 July 2014 its report on EU customs enforcement of IPR in 2013⁴. It stresses that customs authorities in the EU detained almost 36 million items suspected of violating intellectual property rights in 2013. Figures on tobacco smuggling (number of cases, articles and retail value of original goods) are included in this report.

We are concerned that the Chantler Review did not adequately investigate the potential for standardised packaging to exacerbate illicit trade. As a result, the Department of Health is unable to gauge the risk that standardised packaging poses, as the Impact Assessment acknowledges. We discuss this in further detail below.

Q2. Do you have any information, in particular any new or additional information since the 2012 consultation, relating to the wider aspects of standardised packaging, that you wish to bring to our attention?

I. New information on the economic value of trade marks

Trade marks and IPRs are a vital aspect of the global economy, and play a significant role in free trade and competition. Used in virtually every type of product and service, trade marks facilitate trade, promote efficiency in commerce and play an important role in job creation, both directly and indirectly. Requiring standardised packaging could have a major impact on the economic benefits derived from trade marks.

In our response to the 2012 consultation, we referred to the report, “Trade Mark Incentives”, commissioned by the UK Intellectual Property Office and published in July

³ See for instance the IP Crime Annual Report 2012-13 which stated that “there are tangible links between IP crime and organised crime groups” (see pages 7, 24 and 79 available at <http://www.ipo.gov.uk/ipcreport12.pdf>).

⁴<http://ow.ly/zPWGk>

2011. That report explained that employment is significantly higher in firms that are trade mark active.

Since the 2012 consultation, there is further evidence of the significant value of trade marks to industry in the EU, including in the UK. According to an extensive study⁵ jointly conducted by the European Patent Office and the Office for Harmonisation in the Internal Market, published in September 2013, approximately 50% of industries in the EU are IP-intensive. These industries generated 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 trade mark-intensive industries are responsible for the highest shares of both employment and GDP contribution.

II. A dangerous precedent

In our response to the 2012 consultation, we stated that, in our view, regulating a particular product by placing limits on the form or style in which trade marks may be used, and, in effect, preventing the use of some trade marks, sets an extremely dangerous legislative precedent. We made it clear that we were concerned that standardised packaging provisions for tobacco products could trigger additional regulations restricting the use of trade marks on other products. Globally, there are already indications that such restrictions are being considered for other products whose impact on public health is being scrutinised. South Africa, for example, has already restricted the use of certain trade marks for infant milk⁶.

The Indonesian government is also currently considering adopting a regulation requiring beverages with alcohol content in excess of 20% to either carry graphic health warnings or to adopt the standardised packaging “format”. Standardised packaging requirements on tobacco products may indeed be the harbinger for the erosion of trade mark rights across other industries.

III. Developments at the World Trade Organisation (WTO)

As the Department of Health is no doubt aware, since the 2012 consultation closed, five countries (Ukraine, Honduras, the Dominican Republic, Cuba, and Indonesia) have initiated formal complaints at WTO in relation to Australia’s law on standardised packaging of tobacco. Among the legal constraints we outlined in 2012 were provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention.

At the time of the 2012 consultation, three countries (Ukraine, Honduras and the Dominican Republic) had requested consultations with Australia in respect of its standardised packaging measures. However, no panel had yet been requested in order

⁵ Intellectual property rights intensive industries: contribution to economic performance and employment in the European Union (http://ec.europa.eu/internal_market/intellectual-property/docs/joint-report-epo-ohim-final-version_en.pdf)

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

to resolve the dispute. Since the 2012 consultation closed, not only have those three countries requested formal arbitration, but they have been joined by a further two WTO members (Cuba and Indonesia).

The complainants cite the very same provisions that we identified in our response to the 2012 consultation - Article 20 TRIPS (and the failure to meet the 'necessity' test under Article 8); Article 7 of the Paris Convention (and its equivalent, Article 15(4) of TRIPS), and Article 6quinquies(B) of the Paris Convention. It is noteworthy that even IP Australia, the government agency that administers IP rights in the country, considers that "plain packaging may not be consistent with Australia's intellectual property treaty obligations."⁷

The investigation of formal proceedings at the WTO (on some measures now the largest dispute in WTO history)⁸ since the closure of the 2012 consultation is a reminder that the legal obstacles that we outlined in our 2012 response are not merely theoretical. This makes the omission of legal issues by the Department of Health, as noted above, even more incomprehensible. We would urge the Department of Health to redress this as a priority.

Q3. Do you have any comments on the draft regulations, including anything you want to draw to our attention on the practicalities of implementing the regulations, as drafted?

I. Impact on the function of trade marks

Trade marks 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 another entity. The draft regulations, 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, trade marks 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 trade marks were banned from packaging, or if such trade marks were only permitted in a prescribed, standardised form that does not correspond to the intended registered graphic representation of the trade marks.

Trade marks are not only words, names and logos, but can also be colours or the very shape or design of the package itself (trade dress or "get-up")⁹. Any graphical component that adds to the distinctiveness of a product can be registered as a trade mark, illustrating the role that different types of trade marks play in the consumer experience. While a standardised packaging requirement would still allow the use of

⁷ FOI 138 of 1660, briefing by IP Australia to Parliamentary Secretary ref B09/4084

⁸ At least 32 members of the WTO have registered as third parties with an interest in the outcome. See for example <http://ow.ly/zUIXR>

⁹ See Article 15 of the TRIPS Agreement, Article 4 of the Council Regulation (EC) No 2007/2009 of 26 February 2009 on the Community trade mark.

word marks on packages, it would nevertheless prevent right holders from using any of their many other registered trade marks as well as other design elements, potentially leading to consumer confusion.

II. Infringement of EU law, EU treaty and the fundamental rights of property and freedom of expression

In our view, the draft regulations would clearly infringe EU law. Article 1(2) of the Regulation on the Community trade mark¹⁰ provides that Community trade marks shall have unitary character, having equal effect throughout the European Union and the use of a Community trade mark shall not be prohibited save in respect of the whole Community. Article 1(2) of the Regulation on the Community design¹¹ provides the same for Community designs. Adopting standardised packaging as proposed would prevent the use of non-word Community trade marks and Community designs in the UK, thereby breaching the unitary character of these EU-wide rights.

The European Court of Human Rights (ECtHR) has confirmed that intellectual property, including trade marks, is covered by the right of property¹². The UK TMA 1994, Article 22, also stresses that “*a registered trade mark is personal property*”. 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 of the Union’s law. Standardised packaging would deprive trade mark owners of their property in their established trade mark rights, and would as such infringe the right to property protected by Article 17 of the Charter of Fundamental Rights of the European Union and by the ECHR. Therefore, failure to protect intellectual property would constitute a breach of EU Treaty principles.

Another important consideration is Article 10 of the ECHR and Article 11 of The Charter (following the signing of the Lisbon Treaty in 2009, the Charter became legally binding on the EU institutions and Member State governments) which both guarantee the right to freedom of expression. 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),^[4] Advocate General Fennelly noted that the effect of the ECtHR’s jurisprudence (e.g., *Casado Coca v Spain* [1994] ECHR 8 and *Markt-Intern* [ref]) 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*”.

AG Fennelly also noted that commercial speech should receive protection:

¹⁰ Council Regulation (EC) No 207/2009 on the Community trade mark (<http://ow.ly/zUO42>)

¹¹ Council Regulation (EC) No 6/2002 on Community designs (<http://ow.ly/zUObT>)

¹² European Court of Human Rights, 11 January 2007, *Anheuser-Busch v. Portugal*, 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*”.

“(...) individuals’ freedom to promote commercial activities derives not only from their right to engage in economic activities and the general commitment, in the Community context, to a market economy based upon free competition, but also from their inherent entitlement as human beings freely to express and receive views on any topic, including the merits of the goods or services which they market or purchase”.

The Court of Justice of the European Union (CJEU) has consistently identified the functions of the trade mark as including communication. Within the context of decisions by the courts, companies have the right to impart information to consumers through the use of their trade marks (including word marks, logos, colours and other distinguishing features of their packaging) as to the origin and quality of their products.

III. Impact on registered trade marks

The draft regulations propose protecting tobacco companies’ registered trade marks. However, the proposed regulations create an anomaly which would be impossible for rights holders to effectively maintain their registered trade marks in practice in the UK. We refer to each in turn below:

A. Registrability of trade marks

Under UK trade mark law, the trade mark owner is required to legitimately state that they have a genuine intention to use their trade mark in the UK¹³. The draft regulations seek to address the issue of bona fide intent to use and the prohibition of use in relation to UK national trade marks. They create a fiction *“if the applicant would have had such an intention but for the operation of these regulations”*¹⁴. These provisions make reference to subjective elements which are difficult, if not impossible, to prove in case of a dispute. Practically speaking, it would be impossible for owners to fulfil the requirements for registrability to prove their intention, particularly where there is no ability for owners to use their trade marks. This creates the following unintended negative consequences:

- Introducing undue risks and uncertainties for trade mark owners regarding the protection and enforceability of their trade mark rights; and
- Introducing an unethical practice for trade mark owners and their legal representatives filing trade marks.

¹³ Article 32(3) Trade Marks Act 1994, *“The application shall state that the trade mark is being used, by the applicant or with his consent, [...] or that he has a bona fide intention that it should be so used.”*

¹⁴ Draft regulation 14

B. Oppositions, validity of registered trade marks and changes in ownership

The draft regulations propose¹⁵ protecting trade marks from being removed from the register and cancelled on non-use grounds on the basis that the owner had a *bona fide* intention to use the trade mark. However, if tobacco companies' trade marks were challenged it would be practically impossible to prove any *bona fide* intent to use their trade marks as their marks would be registered and protected in a vacuum of non-traditional commercial use of a trade mark.

The proposal of creating protection on ground of "proper reasons for non-use" would, under current UK trade mark law, create an exception which has historically been an unlikely ground of defence, reserved purely for unique conditions such as *force majeure*. It would in effect also grant tobacco manufacturers (and possibly other industries in future) an indefinite protection on UK non-word trade marks, inconsistent with the basic principles of trade mark law, and not available to trade mark owners of other industries.

Added to this anomaly of creating a "special" protective right for owners of trade marks for tobacco companies, the restrictions around their use would devalue their brands and impede the future assignment and licensing potential of their trade marks.

The draft Regulations are also in direct conflict with the principle that trade marks must be used to justify their continued protection. Recital 9 of the Trade Marks Directive states: "*it is essential to require that registered trade marks must actually be used or, if not used, be subject to revocation.*" Recital 10 of the Regulation on the Community trade mark provides that "*there is no justification for protecting Community trade marks or, as against them, any trade mark which has been registered before them, except where the trade marks are actually used*".

As we noted in our response to the 2012 consultation, and as set out above, there are also international treaty obligations to consider. INTA believes that restricting or prohibiting trade marks through actions such as overly burdensome labelling provisions and packaging requirements set out in the draft regulations erode internationally protected intellectual property rights under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), including Article 20, which prohibits unjustifiable encumbrances on the use of a trade mark in the course of trade, as well as the Paris Convention for the Protection of Industrial Property. The UK is a contracting party to the Paris Convention, and the EU is a member of the WTO: the UK is thus subject to these agreements, including TRIPS.

¹⁵ Draft regulation 15

Q4. Are you aware of any further evidence or information which would improve the assumptions or estimates we have made in the consultation-stage impact assessment?

INTA is also concerned that standardising or restricting labelling provisions of the packaging of products will facilitate the spread of counterfeit products by making them easier to produce and more difficult to detect. In our response to the 2012 consultation, we warned that implementing standardised packaging provisions in the UK would make producing counterfeit goods more attractive to criminals who profit from such activities and would risk creating an uncontrolled market for illegal products, potentially undermining the intention of standardised packaging legislation to reduce smoking and instead leading to a prevalence of cheaper counterfeit items.

The illicit trade in tobacco is a major problem, both internationally and in the UK. It affects not only rights holders and the IP community but also society at large.¹⁶ HM Revenue and Customs estimated the loss to the UK Government at up to £2.9bn in 2012-13.¹⁷ In INTA's view, standardised packaging will increase the risk of illicit trade, but the Department of Health appears unable to quantify this risk. Before proceeding, further greater effort should be made to gauge this risk effectively.

There is evidence that, since standardised packaging was introduced in Australia in October 2012, illicit trade in cigarettes in Australia has increased. A study by KPMG found that counterfeit cigarettes in Australia had increased by 187% between 2012 and 2013 following the introduction of standardised packaging.¹⁸ INTA notes that the Chantler Review did not find the KPMG study credible; however, we question the robustness of some of the Chantler Review's conclusions regarding the illicit trade.

While we note that the Chantler Review's dismissal of the risks to the illicit trade are predicated on the assumption that any increased risk could be effectively mitigated by increased resources/enforcement, INTA advises the Department of Health against any complacency surrounding the ability of law enforcement to combat increased risks effectively. Notwithstanding the record of the UK authorities in reducing the illicit trade in tobacco in recent years, we note with some concern that the UK authorities are likely to face increasing challenges in making further progress, since HMRC data indicates that the illicit trade in tobacco increased in 2012-13 (the last year for which data is available), reversing a long term trend,¹⁹ and resources available to law enforcement to combat the illicit trade are likely to decrease further in future years. For example, by 2016 most trading standards services in England and Wales will have been cut by an average of 40% since 2010. As a result of these cuts, more than 70% of the trading standards services that responded to a recent survey will restrict or stop some services.²⁰

¹⁶ See The IP Crime Annual Report 2012-13, op. cit.

¹⁷ The upper estimate of cigarettes and hand rolled tobacco combined. See Tobacco Tax Gap Estimates 2012-13 (published by HMRC) <http://ow.ly/zQkC2>

¹⁸ See KPMG's report 'Illicit tobacco in Australia' 2013 at page 29, <http://ow.ly/zQk5Y>

¹⁹ See Tobacco Tax Gap Estimates 2012-13 (published by HMRC): <http://ow.ly/zQvkZ>

²⁰ See Trading Standards Workforce Survey 'Report of the TSS 2014 Survey March 2014',

The Impact Assessment acknowledges the risk of the illicit trade increasing, but does not quantify it because the Department of Health has “no means of quantification”.²¹ However, as the Impact Assessment acknowledges, the lack of certainty presents a large risk to the cost of the policy: *“If the illicit market increased significantly it could significantly increase the costs of a standardised packaging policy.”*²²

INTA appreciates that there are inevitable challenges in measuring the illicit trade, which is by definition, hidden. Nevertheless, both government agencies as well as private consultancy firms produce regular studies in this area, as the Impact Assessment notes.²³ Given the capacity for serious harm to brand holders, society generally and the very public the draft regulations are intending to protect, we urge the Department of Health to commission a credible independent study and to publish its conclusions before deciding to implement the policy.

Finally, the absence of any discussion of the implications of standardised packaging for trade marks and IPRs means that no account is taken of the cost to businesses from the resulting loss of certainty. Inevitably this uncertainty will have consequences for business investment and therefore the broader economy.

* * * *

In summary, INTA submits that introducing standardised packaging in the UK would severely impair the function of trade marks, 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.

INTA respectfully urges the Department of Health not to proceed with the proposal for standardised packaging.

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

Sincerely,



Etienne Sanz de Acedo
Chief Executive Officer

available at <http://www.tradingstandards.gov.uk/extra/news-item.cfm/newsid/1464>

²¹ See the Impact Assessment op. cit. at paragraph 142, page 36.

²² See paragraph 126 at page 32, op. cit.

²³ See paragraph 182 at page 48, op.cit.