

March 1 ,2017

Health Promotion Administration, Ministry of Health and Welfare
Taipei Office: No.36, Tacheng St., Datong Dist., Taipei City 103, Taiwan (R.O.C.)

Dear Madams and Sirs:

The International Trademark Association (INTA) is a global organization of 7,000 trademark owners and professionals from over 190 countries, including 41 member organizations in Taiwan. 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 is pleased to submit comments to the amendment draft of Tobacco Hazards Prevention Act (菸害防制法) proposed by Health Promotion Administration, Ministry of Health and Welfare and published on 4 January 2017. We would like to draw your attention to our Association's concerns with respect to Article 6 of the amendment draft proposes that **"the area of the graphic health warning in Chinese shall be of a size that covers at least 85% of two largest surfaces of the pack and the health warning shall be printed with a single background color, font, size, font color of the nationally uniform standard."**(菸品容器標示方式應於最大外表正反面積明顯位置處，以中文標示吸菸有害健康之警示圖文及戒菸相關資訊，標示面積不得小於最大外表面積百分之八十五，且以全國統一之單一底色、字型、字體大小、字體顏色印製。)

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 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 available for trademarks and branding. This reduced area will impede the function of trademarks and represents a possible violation of Taiwanese 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, 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 Taiwan Trademark Act and its predecessor laws and regulations. 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 Taiwanese intellectual property protection system as a whole and send a negative signal to the foreign

investment community. This is especially relevant, as Taiwan was recently ranked at No. 11 in The Heritage Foundation's *Index of Economic Freedom*, and Taiwan has consistently afforded protection to property rights.

Violation of Taiwan Law

A violation of the intellectual property rights of a trademark owner is a violation of Taiwan Constitution. As prescribed in Taiwan Constitution, in Article 15, intellectual property as a kind of the right of property should be protected and guaranteed.

The right of existence, the right of work, and the right of property shall be guaranteed to the people. (Article 15)

Article 1 of Taiwan Trademark Act made it clear that this Act is enacted for the *protection of the rights of trademark, certification mark, collective membership mark, collective trademark and the interests of consumers, maintenance of fair competition, and promotion of development of the industry and commerce.* Article 2 further stresses that any person who wishes to obtain the rights of trademark, certification mark, collective membership mark, or collective trademark *shall apply for registration* therefor in accordance with this Act. That is, the purposes for protecting trademarks, according to the Trademark Act, includes not only the private interests of trademark owners but also the public welfare, such as consumers' interests, fair competition and economic development.

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 in fact restrict consumers' rights to identify the badge of origin and therefore jeopardize the purposes of trademark protection under the Trademark Act. In some cases, where the trademarks are meant to protect the trade dress of goods, 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.

According to Article 63 of Taiwan Trademark Act, the Registrar Office shall, *ex officio* or upon an application, revoke the registration of a trademark if such trademark is in any of the following:

- (1) where **the trademark is altered by the right holder in different forms in which it was registered** or supplemented with additional notes whereby the trademark is identical with or similar to another person's registered trademark in relation to goods or services which are identical with or similar to those for which another person's registered trademark is designated, and hence there exists a likelihood of confusion on relevant consumers;
- (2) where **the trademark has not yet been put to use or such use has been suspended for a continuous period of not less than three years** without proper reasons for non-use, unless the trademark has been put to use by a licensee;

Obviously, the amendment would prevent right holders from using some of those marks, violating this basic principle of Taiwan Trademark Act and putting those trademarks at risk of being cancelled for non-use under Article 63 of Taiwan Trademark Act.

Violation of International Treaty Obligations

In addition to at odds with Taiwan 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 State'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 State 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 Health Promotion Administration, Ministry of Health and Welfare 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 US 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, Taiwan has certain obligations under the WTO Agreement on Technical Barriers to Trade (TBT Agreement), including obligations under Article 2.9 to notify other WTO Member States 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 10 of Taiwan Constitution, the right ascertains that "*The people shall have freedom of speech, teaching, writing and publication.*"

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 curtailed.

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.

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. 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 Taiwanese trademark legislation and Taiwanese 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 Taiwanese 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, Asia-Pacific, at shays@inta.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Etienne Sanz de Acedo". The signature is stylized and cursive.

Etienne Sanz de Acedo
Chief Executive Officer