

The European Commission Proposal for a Revised Tobacco Products Directive [COM (2012)0788]: Potential Impact on Trademark Rights

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The International Trademark Association (INTA) is a not-for-profit membership association dedicated to the support and advancement of trademark rights. Its membership includes nearly 6,000 trademark owners and professional firms spanning all fields of commerce and industry, from more than 190 countries throughout the world, including all 27 Member States of the European Union and its candidate countries.

SUMMARY REMARKS

INTA is opposed to restricting or prohibiting trademarks through such actions as overly burdensome labeling provisions and plain packaging requirements. We believe that such measures erode internationally protected intellectual property (IP) rights under the World Trade Organization's (WTO) Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention for the Protection of Industrial Property. INTA is also concerned that standardizing or restricting labeling provisions of the packaging of products will facilitate the spread of counterfeit products by making them easier to produce and more difficult to detect.

INTA is apprehensive that such restrictions on packaging, which are currently targeted at tobacco products, will set a dangerous precedent. There are already indications that such restrictions are being considered for other products whose impact on public health is being scrutinized. Plain packaging requirements on tobacco products may indeed be the harbinger for the erosion of trademark rights across other industries.

INTA would like to emphasize that we understand the importance of improving public health and appreciate the European Union's role in furthering this vital objective. Accordingly, we take no position on the public health issues with regard to tobacco consumption, but are speaking only in our capacity as the representative of a broad spectrum of trademark owners; our views are limited to the potential implications on trademarks resulting from the draft Proposal.

Trademarks and their use are already highly regulated at EU and international levels. They serve an important function, since they are used on virtually every type of product and service to indicate a product's source and to guarantee the consistency of its quality. In addition to being an important aspect of the daily life of EU citizens, trademarks are also crucial for the EU economy as they facilitate trade, promote innovation and competition, and play an important role in job creation and investment, both directly and indirectly.

INTA is therefore concerned about any legislation that could limit those important functions of trademarks. As regards the **Revised Tobacco Products Directive (TPD)**, INTA would like to draw attention to the specific issues below, which are described in further detail later in this paper.

Certain provisions on labeling

The proposal calls for enlarged health warnings together with other mandatory features which would significantly reduce the space left on the packaging for trademarks. The position of the health warnings on the top edge of the pack would also prevent the visibility of trademarks in retail display, and the proposed standardization of the shape and size of packs will further restrict the ability to use registered trademarks. If introduced, these provisions could affect the legitimate use of trademarks and their function of allowing consumers to distinguish among products¹.

Additionally, some provisions could lead to misinterpretation and legal uncertainty: Article 12.2 in particular needs to be reformulated since it lists trademarks as potential “prohibited elements”, without providing the rationale and objective grounds to do so.

When considering these labeling provisions, we recommend that their disproportionate effects on trademark rights be acknowledged and that a balanced and fair approach be adopted.

Plain packaging

Although the proposal does not introduce plain packaging per se, it offers the possibility for EU Member States to implement full standardization of packaging (so-called plain packaging)² through measures such as restricting the use of certain types of trademarks and prohibiting the use of others. Because of this significant impediment to trademark rights, plain packaging is being legally challenged at the World Trade Organization, with claims introduced by three different countries through the dispute settlement mechanism currently underway. As outlined in the Impact Assessment, plain packaging is also under scientific consideration, since there is currently no real-life evidence regarding its effectiveness. Without legal certainty and scientific evidence to support plain packaging, INTA questions the necessity of retaining such possibility in the TPD. We recommend that EU Member States carefully assess the impact on trademarks that the introduction of plain packaging would have.

Delegated acts

The possibility to adopt delegated acts are very broad as outlined in the TPD, and may result in further extension of the negative effects of the labeling provisions on trademarks. Article 9.3(c) in particular includes the possibility to modify the size of health warnings, through delegated acts.

To mitigate the uncertainty and potential lack of transparency of the adoption process of delegated acts, we recommend that trademark-related experts be part of the adoption process. We recommend that the scope of those delegated acts be further defined and clarified, and that the health warning size not be part of this aspect of comitology.

¹ Articles 7 to 13 of the TPD.

² 41 of the recital, 24.2 and 3.2 of the memorandum of the TPD.

Finally, we would also like to call your attention to the negative precedent that the TPD provisions on labelling and plain packaging would set for other products. This potential erosion of trademark rights is an area of great concern to INTA members from numerous industries, and would have a negative impact on the economy at large. As the EU institutions have consistently stressed the necessity of efficient trademark protection to protect consumers and to enhance innovation, competition and investment within the EU, the negative implications that these provisions would have, should they be applied to other industries, must be carefully considered.

DETAILED COMMENTS ON THE COMMISSION TPD PROPOSAL

Provisions on labelling (p. 3), plain packaging (p. 4), and delegated acts (p. 8)

1) PROVISIONS ON LABELLING

A) Diminished space for legitimate trademarks

The TPD's call to increase the size of health warnings to cover 75% of the front and back of packs and 50% of the sides (with specified width and height) for tobacco-smoking products³ will:

- severely reduce the space available for trademarks;
- impede manufacturers' ability to distinguish their products from those of their competitors; and
- eliminate one of the essential functions of these trademarks.

Moreover, the increase in the size of health warnings to the proposed level may not be compatible with the Court of Justice of the EU's and Advocate-General Geelhoed's position that health warnings need to leave "sufficient space"⁴ available to trademark owners so that "normal usage" can still be possible. It is noteworthy that the Advocate General found that while a health warning label of less than 50% does not affect the ability of trademarks to function, a continuous increase in size will lead to a point where this will occur⁵. Importantly, Article 11 of the FCTC recommends clear, visible and legible health warnings of "50% or more of the principle display areas but no less than 30%."

In addition, large health warnings need to be taken into consideration with other required features when assessing the exact space left for trademarks. These include the tax stamps and the safety device of a minimum of 1 square cm⁶, together with the tamper proof security feature of at least 1cm² additional to the Member States' tax stamps and price mark rules – all of which use a portion of the remaining free space and thus further reduce the space available for the trademark.

³ Articles 8 and 9 of the TPD.

⁴ Case C-491/01 Secretary of State for Health, ex parte British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd [2002], paragraph 132.

⁵ Opinion of AG Geelhoed; Paragraph 266.

⁶ Article 14.8 of the revised TPD.

B) Reduce the visibility of trademarks in retail display

The provision in Article 9.1(e) that the health warning shall be placed on top of the pack will further reduce the visibility of trademarks in retail display, since the only remaining part on the front of the package where trademarks can be affixed is likely to be hidden by the railing used to present tobacco products in those retail displays.

C) Restrict the ability to use legitimate registered trademarks

The proposal calls for regulating the shape and size of tobacco products (Articles 13(2) and 13(4)), which may further restrict manufacturers' ability to use their trademarks and other IP rights.

D) Trademarks incorrectly listed as “prohibited elements”

Article 12.2 lists trademarks as “prohibited elements and features”, without providing the rationale and objective grounds to do so. Misleading, false or deceptive trademarks are already addressed in the EU trademark legislation, with inherent definitions, conditions and enforcement rules, and should thus not be addressed through another legal text. Accordingly, the reference to trademarks should be removed from this article.

2) PLAIN PACKAGING

A) Plain packaging leads to a restriction or a prohibition of certain trademarks.

According to international agreements and EU legislation⁷, any sign or combination of signs capable of distinguishing the goods or services of one undertaking from those of another can be registered as a trademark. Accordingly, trademarks are not only words or names, but can also be logos, colors or the very shape or design of the package itself (trade dress or “get-up”), illustrating the role that different types of trademarks play in the consumer experience.

Recital 41 of the TPD⁸ expressly allows Member States to retain powers to introduce plain packaging of tobacco products. In practice, plain packaging typically means that the brand name (word trademarks) would be required in a standard font, color and size, and that all other trademarks (graphics, logos, color schemes, shapes, etc.) would be prohibited⁹.

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.

⁷ Article 15 of the TRIPs Agreement of the World Trade Organization, Article 4 of the Council Regulation (EC) No 2007/2009 of 26 February 2009 on the Community Trademark.

⁸ Also see Article 24.2 of the TPD and Article 3.2 of the memorandum of the TPD.

⁹ See complete definition of plain packaging provided by the 2008 UK Department of Health Consultation on the Future of Tobacco Control:

http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_085114

B) Plain packaging has several negative effects on the functioning of the Internal Market.

The revised Directive¹⁰ aims to improve the functioning of the Internal Market by removing disparities and barriers to trade liable to impede its operation. Yet, rather than improving the Internal Market, plain packaging implemented at national level will distort intra-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 the EU market are mentioned as expected consequences of plain packaging in the Impact Assessment¹¹. 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.

C) There is no real-life evidence of the effectiveness of plain packaging on consumption.

The effectiveness of plain packaging on tobacco consumption is not supported by real-life evidence, as emphasized in the Impact Assessment¹²: *“the precise economic effects of plain packaging in real life are difficult to quantify at present due to a lack of empirical data and experience with plain packaging in Member states or other countries”*. Yet, the draft legislation, if adopted, would still allow Member States to introduce plain packaging at national level.

D) The legality of plain packaging is being debated at the international level.

INTA believes that implementing plain packaging at national level would violate the EU's obligations under the Charter of Fundamental Rights of the European Union as well as several international trade agreements, namely TRIPS and the Paris Convention.

It should be noted that Australia, which implemented mandatory plain packaging provisions for tobacco products in December 2012, is currently subject to three claims under the WTO dispute settlement mechanism, which were introduced by Ukraine, Honduras and the Dominican Republic. All three claims question the compliance of plain packaging with Australia's WTO obligations. 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.”¹³

¹⁰ Article 19 of the Memorandum

¹¹ 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.

¹³ FOI 138 of 1660, briefing by IP Australia to Parliamentary Secretary ref B09/4084.

It is within this context that INTA questions the compliance of plain packaging with the relevant treaties and raises the following points:

i) Plain packaging is an obstacle to the registration of tobacco trademarks and may result in the invalidation of existing tobacco trademarks

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 6quinquies(B) of the Paris Convention which prohibits trademarks from being either denied registration or invalidated¹⁴.

Because plain packaging legislation in the EU is unprecedented, the exact effect that such a proposal would have at both the EU and Member States level is unclear. However, a possible scenario could arise in which trademarks become vulnerable to cancellation for non-use.

ii) 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 the Commission 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.

iii) Plain packaging leads to a failure to provide effective protection to trademark rights

Plain packaging would fail to comply with Article 10bis 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. Indeed, the 2007 European Commission Taxation and Customs Union Report on Community Customs Activities on Counterfeit and Piracy notes that cigarettes are one of the two main sectors for large seizures of counterfeit goods, accounting for 34.35% of the total seized articles.¹⁵

Because plain packaging has only recently been implemented for the first time (in just one jurisdiction, Australia) the exacerbating effect of plain packaging on counterfeits has yet to be quantified. We are very concerned that plain packaging, which diminishes brand differentiation, would make both counterfeiting and smuggling significantly easier.

¹⁴ Except for a definite number of very narrow exceptions, none of which apply here.

¹⁵ http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics2009.pdf at page 21

Furthermore, we note that Article 14 requires several traceability and security features to fight against counterfeits and illicit trade of tobacco products. While this is a welcome move, it remains unclear how these features would be implemented by Member States and how they would work in practice, and thus what their impact on counterfeits would be.

iv) Plain packaging infringes the fundamental right of property and EU Treaty Principles

The European Court of Human Rights (ECHR) has confirmed that intellectual property, including trademarks, is covered by the right of property¹⁶, and the Lisbon Treaty proclaims that the ECHR shall constitute the general principles of the Union's law¹⁷. Plain packaging would deprive trademark owners 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 the European Convention for the Protection of Human Rights and Fundamental Freedoms of the Council of Europe. Therefore, failure to protect intellectual property would constitute a breach of EU Treaty principles.

v) Plain packaging is NOT an obligation under the WHO FCTC

It is important to note that Guidelines on Article 11 of the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC), paragraph 46 only refer to a possibility to consider plain packaging, not an obligation to implement it: *“Parties should consider adopting measures to restrict or prohibit the use of logos, colours, brand images or promotional information on packaging other than brand names and product names displayed in a standard colour and font style (plain packaging).”*

Again, INTA urges that the impact on the EU'S treaty obligations by introducing plain packaging be carefully assessed. Allowing the possibility of plain packaging through the TPD may trigger WTO litigations against the EU. New Zealand, which intends to introduce plain packaging legislation similar to Australia's legislation, has acknowledged that it will need to manage legal risks and the possibility of legal proceedings: *“To manage this, Cabinet [of the Minister of Health Tariana Turia] has decided that the Government will wait and see what happens with Australia's legal cases, making it a possibility that if necessary, enactment of New-Zealand legislation and/or regulation could be delayed pending those outcomes.”*¹⁸

Since the Commission is due to review the Directive and its efficacy five years after the entry into force of the Directive¹⁹, it seems sensible to “wait and see” what happens during this interim period before allowing EU Member States to implement plain packaging at national level. Significant restrictions on trademarks should be postponed until the legality of such actions is confirmed and the necessary scientific evidence to sustain their necessity over other legitimate objectives and interests has been established.

¹⁸ TRIPs Council Meeting, 5 March 2013. Announcement of Minister of Health Tarian Turia on 19 February 2013.

¹⁹ Article 23 of the TPD.

3) DELEGATED ACTS

While INTA is supportive of certain aspects of the new comitology to facilitate decision-making in areas where the Commission has competence, we are concerned that the current proposal grants unspecified powers to the Commission to further regulate aspects of the packaging of tobacco products, which may in turn also affect trademarks. The scope of these delegated acts also appears to be very broad and not limited in time²⁰.

Article 9.3(c), for example, empowers the Commission to adopt delegated acts to define the proportions of health warnings, and thus leaves the door open to a further reduction of the space left for trademarks. We believe that the proportion of the health warning should not be addressed through a delegated act, but rather through a transparent legislative adoption process, which ensures that all interests at stake are taken into account.

In addition, uncertainties remain as to how these delegated acts will function in practice with regard to the implementation and further fine-tuning of the draft Directive's provisions. The impact of decisions taken through delegated acts on trademarks cannot be fully and properly assessed and may lead to further undermining of trademarks and their function.

Accordingly, INTA recommends that the reference to the term "proportions" in Article 9.3(c) be removed and that the elaboration of any delegated acts concerning labeling be fully transparent and involve trademark experts, to guarantee a fair balance between intellectual property protection and any other objectives.

For more information about INTA, please visit our website: www.inta.org

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²⁰ Article 22 of the TPD.