

AUSTRALIAN PLAIN PACKAGING: ITS FUNCTIONAL AND LEGAL FLAWS AND AN ALTERNATIVE WITHOUT THEM

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ABSTRACT

This study explores the potential impact of the Australian Plain Packaging Act 2011 (APPA) on public health by analyzing its functional and legal properties.

Ch. 1 is devoted to the analysis of functional properties of APPA. By preventing socially beneficial functions of trademarks, APPA is bound to generate two significant threats to public health. The first threat represents creation of an uncontrollable "brandless" tobacco market, which is bound to generate much the same harmful effects known from the black "brandless" market for illegal drugs. The second threat represents creation of chaotic situation on the marketplace called counterfeiting legalization. Bearing in mind that even noted plain packaging advocates acknowledge the "little effect" of plain packaging in the course of trade, it then follows that APPA is likely to worsen public health.

Ch. 2 is devoted to legal aspects. While Article 11 of the Framework Convention on Tobacco Control (FCTC) represents a perfectly acceptable legal basis for combating inappropriate marketing practices, it is shown that APPA extends well beyond its scope. Moreover, it contains a cardinal self-contradiction, because it unmistakably recognizes that *none* of prohibited tobacco trademarks is either false, misleading or erroneous in the sense of Article 11 FCTC (and in the sense of Article *6quinquies* of the Paris Convention). And the analysis of APPA in respect of the TRIPS Agreement reveals that it generates a substantial impact on a much greater number of the Agreement's articles, well beyond those containing provisions on trademarks.

Ch. 3 is devoted to the analysis of the claim put forward by a leading Australian plain packaging advocate, who justifies tobacco trademark limitations in the course of trade in order to prevent their most harmful effect outside the course of trade. Though the claim is not supported by evidence and disregards the principle of exhaustion of trademarks, the main point is that the claimed harmful "biggest effect" can be effectively eliminated by an alternative solution without the need to prohibit use of trademarks in the course of trade. By this, the solution does not generate any public health threats inherent to current plain packaging regime and is fully consistent with FCTC and TRIPS Agreement.

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FOREWORD

This study is the result of personal, non-commissioned and self-financed research project. The incentive and motivation for undertaking it was my doubt whether plain packaging could indeed make any worthy contribution to its unreservedly supported objective of improving public health.

My doubt has had origins in my profession; I have been professionally and academically engaged in intellectual property in general and in the area of trademarks in particular over more than four decades. When I learned about the core idea of the Australian Plain Packaging Act, my spontaneous reaction was that plain packaging cannot work. At the same time, I could not put aside my sympathies for the noble objective of plain packaging; I never smoked, and I have disliked tobacco since my childhood. Eventually, I decided to clarify my doubts and dilemmas, being aware that spontaneous thinking may all too often be found as false, unless confirmed by a thorough analysis.

My main conclusion is that plain packaging in its *current* form is inherently inefficient, due to misinterpreted promotional role of trademarks; on the other hand, prohibition of trademarks in the course of trade is bound to make *more harm than good* to public health. This unpleasant conclusion inspired me to expand my analysis by looking for, and developing of, an alternative plain packaging model, which would allow to achieve desired public health objectives without its identified functional and legal flaws.

I commenced seriously working on the study in 2011, and then I have continued my research until 2014; after being less active in 2015, I eventually decided to complete it in first half of 2016. The study is now made available to public.

Due to the strictly private and personal origin, the study was neither peer-reviewed nor professionally edited, and thus it is likely that it contains various semantic, grammatical and typing errors and defects. I kindly ask the readers to accept my apologies.

Portoroz (Slovenia), June 2016

Bojan Pretnar

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EXECUTIVE SUMMARY

1. FUNCTIONAL MISCONCEPTIONS OF PLAIN PACKAGING

In Chapter 1 of the study, it is first shown that the central premise of plain packaging – harmful appeal of tobacco trademarks on tobacco consumption – does not hold. Any appeal, be it harmful or not, is tied to a product, not to a trademark as such; the latter is just the main object in creating the product's appeal through advertising. Tobacco advertising however has been banned for more than two decades, the obvious consequence being that the alleged negative appeal has been effectively eradicated long before the adoption of Australian Plain Packaging Act 2011. The Australian official statistics supports this view; it records a steady decline of smoking in Australia (and in many other high-income countries where tobacco advertising was banned) since the prohibition of tobacco advertising. Consequently, tobacco trademarks have eventually lost their advertising function, and their current role has been thus reduced only to their two inherently socially beneficial functions, the origin function and quality function. It is shown that these two functions could actually be useful in pursuing various public health related policies, including tobacco-related policy. The same is true for brand loyalty, erroneously misinterpreted in the plain packaging context as an allegedly harmful brand appeal.

Apart from being conceptually misconceived, the much more worrying fact however is that plain packaging inadvertently generates two serious public health threats, which are actually bound to worsen the current level of public health, rather than improving it.

The first threat represents what is called tobacco “brandless” market created under plain packaging regime. Such a market is *a priori* uncontrollable, as (sadly) demonstrated by the only existing “brandless” market in real life – the alarmingly growing black market for illegal drugs, one of globally most dangerous threats for public health. The devastating consequences of this illegal market are to a large extent attributed precisely to the fact that it is absolutely “brandless,” meaning that the origins of (*i. e.*, suppliers of) illegal drugs for obvious reasons remain unidentifiable. Moreover, the steadily growing consumption of illegal drugs in total absence of brands casts serious doubts on validity of the central premise of plain packaging: if it is true that tobacco trademarks are indeed so harmful that they must be prohibited, how can then the alarmingly growing consumption of absolutely “brandless” illegal drugs be explained?

Last but not least, a kind of “plain packaging” experiment was actually carried out in Pakistan in 1972, when an Act was passed that required (1) the medicaments to be labeled only by their generic names, and (2) explicitly prohibited the use of sellers’ brands. The experiment was short-lived; the Act was repealed just 4 years later, in 1976, due to the serious public health threats caused by substandard and fake medicaments that have had meanwhile flooded the market. In absence of brands, the government was simply unable to control the quality of supplied medicaments; on the other side, paradoxically, a black market for branded drugs had emerged.

The second threat comes from what is conveniently though *jus strictum* not quite correctly termed as counterfeiting legalization. Plain packaging prohibits the use of legitimate trademarks; however, illegal act of counterfeiting is in the TRIPS Agreement defined (footnote No. 14 to Article 51) as an infringement of legitimately used trademarks. Yet legitimate but prohibited trademarks evidently cannot be infringed, with the implication that plain packaging leads to a kind of *de facto* legalization of illicit trade with fake tobacco products. Plain packaging effectively disarms enforcement and public health authorities, as well as trademark owners, in their demanding efforts to combat the worrying and alarmingly escalating tobacco trade with counterfeit tobacco products, which have been regularly found as a serious threat to health.

The misinterpreted socially beneficial role of trademarks, the real-life evidence on inherent inefficiency of plain packaging and public health threats it generates imply that the evidence in favor of plain packaging apparently lacks sufficiently solid professional credibility. Interestingly, even two noted plain packaging advocates have acknowledged little effect of plain packaging in the course of trade. And several studies prepared by noted scholars have revealed serious conceptual and methodological errors of the pro-plain-packaging studies. The first available evidence has confirmed inefficiency of plain packaging; smoking prevalence has not additionally fallen beyond long-term trends in first year of plain packaging regime in Australia. And the predicted rise in counterfeiting seems to be confirmed, forcing Australian Government to establishing a special unit for combating illicit tobacco trade.

2. PLAIN PACKAGING AND RELEVANT INTERNATIONAL LAW

Chapter 2 is devoted to the analysis of relevant international law. The Framework Convention on Tobacco Control (FCTC) is discussed first, because its Article 11 is *the* legal foundation for plain packaging. The provisions of this Article are about prohibition of use of false, misleading and deceptive tobacco trademarks for promotional purposes, and thus absolutely reasonable, being actually strikingly similar to Article 6*quinquies* of the Paris Convention for the Protection of Industrial Property (Paris Convention). However, plain packaging is neither explicitly nor implicitly mandated by this - or any other - Article of the FCTC. While this fact may be legally problematic, the much more problematic fact is that plain packaging actually does not address the very essence of Article 11.1; the essence of plain packaging is a general and indiscriminate *en gros* prohibition of *all* tobacco trademarks, without any examination of which of them could be possibly found as false, misleading and/or deceptive. And it goes almost without saying that such an examination needs to be carried out within fair and equitable *inter partes* procedures, in which the trademark owners ought to have the right to be heard.

On the other hand, Australian Plain Packaging Act (APPA) in s28 explicitly prevents prohibited tobacco trademarks from being revoked for reasons of their non-use. This provision is *prima facie* reasonable and fair; above all, it is likely to serve as *the* evidence that no expropriation of trade marks has taken place. But it turns out that this very provision may be literally fatal for the whole plain packaging case. Defending trademarks from being cancelled when their use being prevented against the will of their owners

obviously makes sense only when it is necessary to defend "correct" trademarks; however, it is completely irrelevant in case of false, deceptive or misleading trademarks, which can be at any time cancelled under ordinary procedure found in every trademark law, including Australian Trade Marks Act 1995. This means that APPA contains a cardinal self-contradiction, because its s28 represents an explicit confirmation that *none among* prohibited tobacco trademarks is false, deceptive, or misleading, and thus not a single tobacco trademark falls under provisions either of Article 11.1 FCTC or Article 6quinquies of the Paris Convention. The APPA by itself (1) *de facto* acknowledges that there is no ground for prohibiting the use of all those trademarks, (2) negates FCTC as its legal basis, and (3) disqualifies its expressly stated objective to giving rise to obligations Australia has as a Party to FCTC.

Next, plain packaging is explored in the context of the TRIPS Agreement. The most extensive discussion is devoted to Article 16.1. It is argued, *inter alia*, that without the non-mentioned positive exclusive right of use, the explicitly stated negative exclusive right cannot be exercised at all. The reasoning is essentially based on the fact that throughout the TRIPS Agreement, that is, "*in addition to the text, including its preamble*" (Article 31.2 of Vienna Convention on the Law of Treaties), the frequently used term "use" leaves no doubt that its "*ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose*" (Article 31.1 of Vienna Convention on the Law of Treaties) consistently and strictly refers only to the positive right of use.

It is further argued that the impact of APPA extends well beyond provisions of TRIPS articles mentioned in publicly available official documents submitted by States that have initiated the dispute settlement procedure against Australia at the WTO. APPA *de facto* derogates a number TRIPS Agreement articles, by making them either inapplicable or meaningless. Under one among several possible interpretations, inapplicability holds for Article 16.1, as well as for Article 20. On the other hand, Article 51 is meaningless under plain packaging regime due to its public-health-worsening impact termed in Ch. 1 above as counterfeiting legalization. Last but not least, plain packaging is an act of "de-acquisition," of tobacco trademarks, that is, an act of their expropriation (or "taking"), while there are divergent views in this respect, in any case the said "taking" implies a violation of Article 62.4 of the TRIPS Agreement.

3. ALTERNATIVE IMPLEMENTATION OF PLAIN PACKAGING

In Chapter 3, a proposal for an alternative implementation of plain packaging is presented. The proposal is based on reasonings of Prof. Sweanor and Prof. Davison, two influential plain packaging advocates. Both of them claim that plain packaging has little effect *in the course of trade*; if so, then plain packaging *a priori* cannot benefit from limitations and exceptions available under Article 8.1 of the TRIPS Agreement. However, Prof. Davison further claims that plain packaging "biggest effect" lies *outside the course of trade*, after tobacco products being sold to smokers, and this fact justifies prohibition of trademarks *in the course of trade*. The author does not refer to any evidence supporting his claim. However, such a prohibition is completely at odds with

one of most fundamental principles of trademark law – the exhaustion principle, under which (Article 6 of the TRIPS Agreement) trademark owners do not and cannot bear any responsibility whatsoever in respect of any acts made by smokers in respect of tobacco products once they buy them - that is, acts taking place *outside the course of trade*. If so, then plain packaging as enacted in Australia has simply failed to address smokers who are *de facto* responsible and consequently legally liable for the alleged "biggest effect" that plain packaging ought to resolve; on the other hand, APPA has literally punished trademark owners for acts, which are legally and *de facto* outside their control and responsibility.

This insight opens the way towards identification and subsequent setup of an alternative solution for plain packaging implementation. Assuming that Davison is right, then the following solution is at hand.

1. Tobacco products should be further allowed to be sold in trademarked packets, just as before the adoption of plain packaging;
2. however, the package with trademarks ought to be made in a way that being fully destroyed by opening the packet. Consequently, there ought to be a second package beneath the first one, which would then be "plain".

The proposed solution would effectively prevent the claimed "biggest effect" of the health-damaging tobacco promotion *outside the course of trade*, *i.e.* tobacco promotion made by smokers in social settings, but without controversial prohibition of use of trademarks *in the course of trade*. Moreover, the proposed solution would not generate *any* of the two public health threats discussed in Ch. 1, an advantage that outweighs the loss of prevention of the "little effect" of current plain packaging regime in the course of trade.

Last but not least is the proposal in full compliance with the FCTC, the Paris Convention, and the TRIPS Agreement, and therefore offers an alternative that is equally efficient but “zero-trade” restrictive, in sharp contrast to the current Australian Plain Packaging Act. This fact could be relevant in the context of current plain packaging disputes at the WTO; it is an established WTO principle that, if there are two equally efficient alternatives available for implementing a justifiable public health policy, then the less trade-restrictive alternative must be chosen.

1. FUNCTIONAL MISCONCEPTIONS OF PLAIN PACKAGING

1.1. THE NOTION AND CENTRAL PREMISE OF PLAIN PACKAGING

The Notion of Plain Packaging

Roughly speaking, plain packaging is a binding legal measure to standardize the appearance of tobacco packaging by prohibiting the use of all elements, which are currently serving the purpose of distinguishing tobacco products of one manufacturer from same or similar competing products of other manufacturers. Most, if not all of these elements are protected as trademarks, meaning that plain packaging is an *en gros* prohibition of use of trademarks in the course of trade. Under the plain packaging regime, all tobacco products should have more or less the same appearance – that is, all tobacco packets should be thus practically indistinguishable in retail trade.

An influential definition of the notion of plain packaging is the following recommendation of the World Health Organization (WHO), contained in the *Guidelines for implementation* in respect of Article 11 of the *Framework Convention on Tobacco Control* (FCTC):

“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). This may increase the noticeability and effectiveness of health warnings and messages, prevent the package from detracting attention from them, and address industry package design techniques that may suggest that some products are less harmful than others.”¹

Much shall be said about Article 11 of the FCTC below; ignoring rather confusing terminology (e.g., brand images brand names), two points are worth to be briefly mentioned. First, the term “plain packaging” appears only in the *Guidelines*, but not at all in Article 11, which the quoted recommendation is explicitly referring to. Second, the above text actually does not necessarily suggest a complete prohibition of use of all elements that serve the purpose of distinguishing of products of one company from those offered by its competitors. While strong recommendations, including prohibition of use refer to “logos, brand images or promotional information”, the recommended measure for “brand names” and “product names” is that they be displayed “in a standard colour and font size.”

The WHO recommendation is closely followed by the Australian Plain Packaging Act 2011 (APPA)². This fact justifies to use the notion “plain packaging” as just shorthand reference to provisions of APPA.

The most relevant provisions are contained in s20 of APPA:

¹ WHO *Framework Convention on Tobacco Control, Guidelines for implementation*, 2011 edition, FCTC, Geneva 2011, p. 59. The document is available at the WHO/FCTC website.

² Australian Plain Packaging Act 2011, available at <http://parlinfoph.gov.au>.

“20 Prohibition on trade marks and marks generally appearing on retail packaging

No trade marks

(1) No trade mark may appear anywhere on the retail packaging of tobacco products, other than as permitted by subsection (3).

(Note omitted)

No marks

(2) No mark may appear anywhere on the retail packaging of tobacco products, other than as permitted by subsection (3).

(Note omitted)

Permitted trade marks and marks

(3) The following may appear on the retail packaging of tobacco products: the brand, business or company name for the tobacco products, and any variant name for the tobacco products; the relevant legislative requirements; any other trade mark or mark permitted by the regulations.”

It may be useful to mention *in passim* also s26, which is essentially the same as the quoted s20; the only difference is that the former refers to tobacco products, whereby the latter refers to the retail packaging of them.

The Main Objective of Plain Packaging: Improving Public Health

Plain packaging is intended to achieve certain objectives, which are specified in s3 of APPA:

“3 Objects of this Act

(1) The objects of this Act are:

(a) to improve public health by:

(i) discouraging people from taking up smoking, or using tobacco products; and

(ii) encouraging people to give up smoking, and to stop using tobacco products;

and

(iii) discouraging people who have given up smoking, or who have stopped using tobacco products, from relapsing; and

(iv) reducing people’s exposure to smoke from tobacco products; and

(b) to give effect to certain obligations that Australia has as a party to the Convention on Tobacco Control.

(2) It is the intention of the Parliament to contribute to achieving the objects in subsection (1) by regulating the retail packaging and appearance of tobacco products in order to:

(a) reduce the appeal of tobacco products to consumers; and

(b) increase the effectiveness of health warnings on the retail packaging of tobacco

products; and
(c) *reduce the ability of the retail packaging of tobacco products to mislead consumers about the harmful effects of smoking or using tobacco products.*”

In short, the two objectives of plain packaging are

1. **to improve public health** (Section 3(1)(a) of APPA), and
2. **to give effect to certain obligations that Australia has as a Contracting Party to the FCTC** (Section 3(1)(b) of APPA).

The two objectives obviously make sense, and especially the objective to improve public health – the main objective of plain packaging - certainly deserves an unreserved support. And the central subject matter of this study is whether plain packaging, at least in the form as enacted by APPA is indeed the right and the only available choice for achieving the main objective.

In concluding this brief presentation, it may be convenient to add the definitions of the two relevant terms, taken from the WHO *Glossary of Terms Used in the FCTC and its Instruments*;³ the two terms are *Attractiveness* and *Illicit Trade*, respectively:

“Attractiveness refers to factors such as taste, smell and other sensory attributes, ease of use, flexibility of the dosing system, cost, characteristics of a product designed to stimulate use.”

“Illicit Trade means any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase including any practice or conduct intended to facilitate such activity.”

note that the above definition of attractiveness is much broader than the notion of “appeal” used in the APPA. Therefore, I shall predominantly use the word “appeal” rather than the word “attractiveness.” As far as the term “illicit trade” is concerned, one may notice that no reference is made to counterfeiting; the reasons for this somehow unusual approach are explained below.

The Main Premise of Plain Packaging

The provisions of the APPA and of the WHO *Guidelines* clearly reveal the fundamental premise of the plain packaging: removing tobacco trademarks and other labeling features (e.g. color) from the packages is necessary in order to *reduce the appeal* of tobacco products, what in turn ought to reduce tobacco consumption; in this way the main objective - improved public health – ought to be achieved.

In other words, the premise is that *any* use of trademarks on packaging and labeling makes tobacco products appealing to current smokers and – importantly – to potential consumers, especially among the juveniles. And this appeal is apparently *per se* having

³ The document is available at http://www.who.int/fctc/reporting/en_glossary_final.pdf.

such a negative impact on tobacco consumption that it cannot be tolerated from the public health point of view. Consequently, in order “*to improve public health,*” it is necessary to reduce “*the appeal of tobacco products;*” and the most obvious way to reduce this allegedly harmful appeal is, at least *prima facie*, to prohibit completely the use of tobacco “*trade marks and marks.*” In addition, the use of permitted “*brand, business or company name for the tobacco products, and any variant name for the tobacco products,*” is subject to severe limitations - place where they may appear, their form, font, size, color etc. As far as other “*permitted trade marks and marks*” are concerned, they are discussed separately later below.

Taking into account all prohibitions, restrictions and limitations imposed by plain packaging, it is clear that they are so severe that *all* distinctive signs of tobacco products – trademarks, brands, logos, product names, colors etc. - are eventually bound to lose *de facto* their *capacity to distinguishing the related goods in the course of trade*, the most fundamental property that any trademark must possess in order to be a trademark. This fact then justifies why plain packaging shall be further referred to as an act of prohibition of use of tobacco trademarks (though, strictly speaking, this may not necessarily be correct in strict literal sense).

Two Main Implications of Plain Packaging

The notion of plain packaging spontaneously evokes two implications.

Firstly, a trademark, the use of which being prohibited, obviously cannot be a trademark at all, irrespective of whether it being distinctive or non-distinctive by its very nature. While non-distinctive signs *a priori* cannot serve as trademarks, and thus cannot be registered,⁴ a prohibition of use of distinctive and otherwise legally acceptable trademarks - as this being the case with plain packaging – creates a very different situation. A “prohibited trademark” – a rather self-contradicting term - cannot perform *any* of its most fundamental functions, the *origin function*, the *quality function*, and the *advertising function*, respectively.⁵

Secondly, it is obvious that plain packaging prohibition of legally “correct” trademarks used on legally sold products raises a number of legal issues, especially as far as relevant international law is concerned.

These two crucial implications and consequences of plain packaging represent the core of the subsequent analysis. I begin by analyzing plain packaging in the context of the universally recognized trademark functions, followed by exploring some legal issues in the context of relevant international law.

⁴ Cf. Article 15(1) of the TRIPS Agreement, or indeed virtually any national trademark legislation in the world.

⁵ Cornish, W., Llewelyn, D., and Aplin, T., *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights*, Sweet & Maxwell, London 2010, p. 655.

1.2. TRADEMARK FUNCTIONS AND PUBLIC HEALTH

The Principal Role of Trademarks in Pursuing Public Health

There is virtually no disagreement in the academic literature that trademarks are not only socially beneficial - they are indeed indispensable in a modern market economy. In fact, they were equally indispensable even in socialist non-market planned economies and in the barter economies in the past. However, the central premise of plain packaging is evidently based on precisely the opposite view. It is then worth emphasizing the generally acknowledged beneficial socioeconomic role of trademarks, especially in the light of some astonishing recent developments at the WHO; in the recently concluded *Protocol to Eliminate Illicit Trade in Tobacco Products*,⁶ the notion of “counterfeiting” has been completely removed. This is indeed strange; after all, the very purpose of the Protocol is precisely to combat illicit trade in tobacco products, counterfeiting being its major form.⁷ Interestingly, the preamble of the Protocol contains the following paragraph: “*Considering that this Protocol does not seek to address issues concerning intellectual property rights.*”⁸

How could this approach of the Protocol be reasonably explained? It can apparently be interpreted in several, and quite different ways. Does it mean that issues concerning intellectual property rights in general, and counterfeiting in particular are considered as irrelevant for illicit trade in tobacco products? This could hardly be the case, because precisely counterfeiting is the dominating form of illicit tobacco trade; yet counterfeiting is legally defined as a trademark infringement, thus inherently a prominent intellectual property issue. Or, does it then mean that intellectual property issues relevant for public health are to be dealt with only by intellectual property experts?

The inherent link of trade and public health was clearly recognized about a decade ago by Gro Harlem Brundtland, then the Director-General of the WHO, and Mike Moore, then the Director-General of the WTO, who took care of preparing and publishing a joint study of the two Organizations in 2002, entitled *WTO Agreements & Public Health*.⁹ In the joint Foreword, the two Heads, *inter alia*, say the following:

“As the world becomes increasingly integrated, it becomes less and less possible for different policy areas to be handled independently from each other.

...

In both the WHO and the WTO questions of trade and public health feature high on the agenda, and significant advances have been made in the recent past. The endorsement by the international community of the Doha Declaration on the TRIPS Agreement and Public Health is a very visible expression of governments’

⁶ WHO, *Protocol to Eliminate Illicit Trade in Tobacco Products*, available at http://www.who.int/fctc/protocol/illicit_trade/en/.

⁷ See Intellectual Property Watch, “Counterfeit” Dropped From New WHO Protocol On Illicit Tobacco Trade. The document is available at <http://www.ip-watch.org>.

⁸ Intellectual Property Watch, *op. cit.*, *ibid.*

⁹ *WTO Agreements & Public Health, A joint study by the WHO and the WTO Secretariat*, World Trade Organization / World Health Organization, Geneva 2002.

commitment to ensuring that the rules-based trading system is compatible with public health interests.

...

*In our common pursuit of sustainable human development, the WTO and the WHO are important partners. We are honoured to present this joint study on WTO Agreements and public health, the first of its kind. It is an encouraging testimony of our good and growing cooperation.”*¹⁰

In 2004, the WHO publication “*Tools for advancing tobacco control in the 21st century tobacco control legislation: an introductory guide,*” was published, which is also addressing, *inter alia*, issues concerning the TRIPS Agreement. Last but not least, the recent 2012 WHO publication “*Confronting the Tobacco Epidemic in a New Era of Trade and Investment Liberalization*” is also addressing the TRIPS Agreement, albeit very briefly.¹¹

In 2006, the WHO International Conference “*Combating Counterfeit Drugs: Building Effective Collaboration*” took place 2006 in Rome. There, the “*Declaration of Rome*” was adopted as the basis for establishing the International Medical Products Anti-Counterfeiting Taskforce (IMPACT) – thus evidently dealing with counterfeiting as a public health related issue, in stark contrast to the above quoted statement from the Preamble of the most recent *Protocol to Eliminate Illicit Trade in Tobacco Products*. Indeed, up to 2013, WHO has been combating counterfeiting in the field of medical products through its International Medical Products Anti-Counterfeiting Taskforce (IMPACT) established in 2006 on the basis of the said Declaration of Rome;¹² however, the IMPACT project has been recently abandoned and replaced by a self-invented and probably unique new mechanism called as “*substandard, spurious, falsely-labelled, falsified, and counterfeit (SSFFC) medical products.*”

Whatever the correct explanation for the subsequent WHO policy changes may be, the above ambiguities give rise to the assumption that, as far as plain packaging is concerned, it seems that the fundamental socioeconomic role of trademarks has not been properly taken into account. In fact, one may even get an impression that the role of trademarks has been heavily misinterpreted. If so, then there is an urgent need to show that trademarks *as such* are inherently beneficial not only in respect of tobacco related public health, but indeed in almost every socially relevant aspect.

Generally speaking, trademarks are socially beneficial, because they serve *solely to the benefit of*

- ! Consumers (transparent purchases and lower search costs),
- ! Producers (pressure for consistent quality) and, importantly,
- ! Governments and other authorities in charge of pursuing social objectives, including public health.

¹⁰ *WTO Agreements & Public Health, op cit.*, p.1.

¹¹ All mentioned documents are available via the WHO website www.who.org.

¹² See the notice published in WHO Bulletin Vol. 84, No. 9, September 2006, and available at <http://www.who.int/bulletin/volumes/84/9/06-010906/en/>.

One may immediately notice that I am emphasizing solely trademark benefits; do trademarks indeed have no harmful properties at all? One could quite rightly argue that the relevant professional literature is overwhelmingly dealing only with socially “unproblematic” trademarks, that is, trademarks used for labeling goods and services, the consumption of which is not problematic from the public health perspective. One could also argue that the literature is predominantly emphasizing the (beneficial) role of trademarks for consumers (by lowering their search costs) and producers (pressure for maintaining consistent quality) *only*,¹³ but their impact on public policies pursued by governments is barely mentioned, if mentioned at all.

We have to deal with two related but separate issues. The first issue is my claim that trademarks are beneficial only; the second issue being the rather neglected impact of trademarks on social policies pursued by governments.

My claim that trademarks are solely beneficial for consumers is based on provisions found in virtually all trademarks worldwide - namely that any “...trademarks which are contrary to public policy or to accepted principles of morality...” and/or “...which are of such a nature as to deceive the public, for instance as to the nature, quality... of the goods or service ... shall not be registered or, if registered, shall be declared as invalid”, just to borrow the terminology from the EU Directive (EC) 2008/95. In other words, any “problematic” trademark simply cannot exist. Of course, the Australian Trade Mark Act contains essentially same provisions as well, which I discuss in next Chapter (Section 2.2.).

Let me now move to the second issue. I believe that trademarks play not only a beneficial, but indeed a crucially beneficial role in respect of governments and other authorities in charge of pursuing policies of social and national interest, which of course includes public health. However, it goes almost without saying that this claim holds as long as trademarks are not misleading, deceptive, or false - but such trademarks simply cannot exist, as just explained in preceding paragraph.

The claimed benefits of trademarks for governments can be substantiated by looking at the three main functions of trademarks - the origin function, the quality or guarantee function, and the advertising or investment function. Cornish, Llewelyn and Aplin neatly summarize these three universally accepted functions as follows:

*“(1) **Origin function.** Marks deserve protection so that they may operate as indicators of the trade source from which goods or services come, or are in some way connected;*

*(2) **Quality or guarantee function.** Marks deserve protection because they symbolise qualities associated by consumers with certain goods or services and guarantee that the goods or services measure up to expectations.*

¹³ The classic reference in this respect is Landes, W. M., and Posner, R. A., *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts 2003, Ch. 7, pp. 166-209. See also Taubman, T., Wager, H., and Watal, J. (Eds), *A Handbook on the WTO TRIPS Agreement*, ©World Trade Organization, Cambridge University Press, Cambridge 2012, p. 55.

*(3) Investment or advertising function. Marks are cyphers around which investment in the promotion of a product is built and that investment is a value which deserves protection as such, even when there is no abuse arising from misrepresentations either about origin or quality.”*¹⁴

Let me analyze the three functions in the context of plain packaging.

The Origin Function

The origin function is inseparably linked to the fundamental feature of trademarks: they must be “*capable of distinguishing the goods or services of one undertaking from those of other undertakings*”, according to Article 15.1 of the TRIPS Agreement. Whenever trademarked goods or services of one firm can be distinguished from (competing) trademarked goods or services of other firms, then the origin of goods or services is immediately and unambiguously determined simply by finding out who is the trademark owner (or its authorized user). Knowing the origin of goods or services is thus crucial in order to know who is legally liable for any wrongdoings in respect of the goods or services at stake. And this is an essential benefit of trademarks:

*“The benefit of the brand name is thus analogous to that of designating individuals by names rather than by descriptions. To perform its naming function a trade mark or brand name (these are rough synonyms) must not be duplicated.”*¹⁵

In other words, the origin function means that trademarks primarily act as the badges of origin of the goods, so that makers of goods can be recognized and identified not only by consumers (as overwhelmingly emphasized in the literature), but also by various governmental bodies in charge of general social welfare. This is the very reason why the origin function is indeed so indispensable: it is *the* means, which enables an efficient control of markets by the relevant governing bodies, allowing them to undertake all appropriate actions and interventions in protecting society at large.

In fact, there is virtually no other possibility of controlling the market; if the State is not able to identify the source of the marketed goods, then it also cannot control whether the goods do comply – or not comply – with relevant legislative norms. The situation is much the same as this being the case with individuals mentioned in the above quotation: if the address and the name of a person who is a suspected criminal is known to the police, then arresting him or her is much easier task compared to the situation when the name and/or address of a suspected person is not known at all.

In short, an utterly necessary governmental control of *any* marketed product is *a priori* precluded in absence of trademarks as badges of origin. However, precisely for products that may cause harm for, say, public health, their source must be recognizable in the most direct way – and trademarks are this way. The best way to recognize this

¹⁴ Cornish, W., Llewelyn, D., Aplin, T., *Intellectual Property: Patents, Trade Marks and Allied Rights*, Seventh Ed., Sweet & Maxwell, London 2010, p. 655.

¹⁵ Landes, W. M., and Posner, R. A., *The Economic Structure of Intellectual Property Law*, *op. cit.*, p. 167.

“controlling” function of trademarks is just to look at “brandless” markets; as shown below, the only currently known “brandless” market is the market for illegal drugs – and which has run out of any control, with devastating consequences for public health (and other public policies).

The origin function is indisputably considered to be the most essential, and historically *the* function of trademarks since their first appearance several millennia ago, the function that eventually matured especially during Industrial Revolution. No wonder, then, that, in words of Prof. Cornish, “everyone agrees [that] the origin function...is the starting point for legal protection ...”¹⁶

The origin function is naturally fully recognized in Australia as well; in the authoritative textbook on Australian intellectual property law, Prof. Davison says the following:

*“The most traditional explanation of trade marks is that they act as an indicator of origin of the goods or services in relation to which they are used. This view permeates Australian trade mark law and was expressly acknowledged in the definition of a trade mark in s6 of the 1955 legislation ... In the current legislation, that role of trade marks is expressed slightly differently... Judicial comments to date suggest that the different definition in the new legislation has not made any fundamental change in the nature of a trade mark ...”*¹⁷

It is worth emphasizing that trademarks have indeed a long historical path, during which both the need of identifying the origin of goods, as well as the need of preventing counterfeiting has been always their underlying rationale:

*“Trademarks already existed in the ancient world. Even at times when people either prepared what they needed themselves or, more usually, acquired it from local craftsmen, there were already creative entrepreneurs who marketed their goods beyond their localities and sometimes over considerable distances As long as 3000 years ago, Indian craftsmen used to engrave their signatures on their artistic creations before sending them to Iran. Manufacturers from China sold goods bearing their marks in the Mediterranean area over 2000 years ago and at one time about a thousand different Roman pottery marks were in use, including the FORTIS brand, which became so famous that it was copied and counterfeited.”*¹⁸

Apart from the historical insights, the above quotation offers another important point: the dominating reason for the adoption of trademark laws throughout the history was

¹⁶ Cornish, William, *Intellectual Property – Omnipresent, Distracting, Irrelevant?* Clarendon Law Lectures, Oxford University Press, Oxford 2003, Chapter 3, p. 89.

¹⁷ Davison, Mark J., Monotti, Ann L. and Wiseman, Leanne, *Australian Intellectual Property Law*, Cambridge University Press, Melbourne and New York 2012, p.66/7. Prof. Davison is author of the chapter from which the quotation is taken.

¹⁸ *WIPO Intellectual Property Handbook*, WIPO publ. No. 480, Geneva 2008, p. 67.

prevention of illicit trade. More precisely, trademarks should at least diminish, if not eliminate, counterfeiting as one of most spread forms of illicit trade:

*“The legal protection of trade marks was developed to eliminate piratical imitation, and in justification of this was usually said that the trade mark was an indication of origin; unauthorised imitation of the mark could accordingly be described as indicating false information about the origin of the product.”*¹⁹

Counterfeiting (“*piratical imitation*”) is thus illicit trade with fake products wrongfully bearing trademarks of established manufacturers, and can be described as an act of “stealing” of the origin of the goods. It is then certainly not surprising that the recent international law, notably WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement), contains a formal definition of counterfeiting:

*“[C]ounterfeit trademark goods’ shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of country of importation.”*²⁰

I have to repeat again and again that counterfeit tobacco products are one of most counterfeited products; some evidence in this respect is presented later in this document. Moreover, it is also worth repeating that counterfeit tobacco products have been persistently found as an immensely serious threat to public health, a fact fully and aptly recognized by the WHO itself with the recent adoption of the already mentioned *Protocol to Eliminate Illicit Trade in Tobacco Products*. So, it is clear that counterfeiting is of obvious relevance in the context of plain packaging, especially as far as achieving its main objective – to improve public health – is concerned.

That said, it is not difficult to recognize two main reasons why the origin function has been socially indeed indispensable throughout the history, and even more so in our current times – and especially in pursuing public health policies for (at least) the following two main reasons.

First, governments, international organizations and other competent institutions would be severely limited, if not completely incapable, to exercise any control over the origin of products offered to consumers, unless the origin of such products being properly identified. In other words, a satisfactory and efficient control is possible only when the origin of respective products is identifiable – that is, when they are properly labeled with their respective trademarks. This rule is especially relevant and important in case of products, the production and sales of which are highly regulated for public health related

¹⁹ Cornish, W. R., and Phillips, J., *The Economic Function of Trade Marks: An Analysis With Special Reference to Developing Countries*, [1982] 13 IIC 41, p. 44.

²⁰ Footnote 13(a) to Article 51 of the TRIPS Agreement.

reasons, such as cigarettes, alcoholic drinks, and medicaments. No efficient control is possible without trademarks, as they unmistakably identify all the persons – natural and legal – responsible for ensuring compliance of their respective products with all the legal requirements.

Second, trademarks are *the means* allowing governments to combat illegal and criminal practice of sales of *counterfeit* products - fake products of unknown origin but falsely labeled by trademarks of reliable manufacturers. In this respect, it is important to be aware of public health threats caused by counterfeit products, especially when public-health sensitive and thus highly regulated products – medicines, cigarettes, alcoholic drinks, food products – are subject to counterfeit practices. I shall discuss these public health threats to some detail below.

In short, it is an undeniable economic truth that throughout the several millennia virtually no society had been capable of its economic functioning without trademarks, along with its all policies in public interest such as public health. This holds even more so in the contemporary global market economy, in which trademarks are indeed “*an inescapable part of the current free-market economies.*”²¹ In this respect, one must not forget that *genuine* (but not fake!) tobacco products are goods the sales of which are legal, and are thus subsequently subject to competitive forces on markets of “*current free-market economies.*”

It follows from the above that the core impact of plain packaging – to prohibit the use of trademarks and thus to unreasonably sacrifice their origin function – represents not just a revolutionary step against the whole known and long history of trademarks, but also a step against the fundamental principles of the current economic and institutional framework all around the globe.

By way of corollary, an elimination of trademarks must be replaced by an alternative system of control, especially in case of public-health sensitive products. But if so, how efficient could such an alternative be, and how could it look like?

Cornish and Phillips have studied the issue back in 1982 and their answer to the questions is that “*simple elimination [of trademarks] will only bring about deterioration of standards.*”²² But if trademarks being indeed eliminated, then authors make clear that then ... “*it becomes necessary to replace the market mechanism with such alternatives as state purchasing houses; and to take steps to eliminate illegitimate sources.*”²³

In other words, plain packaging is completely incompatible with the current market economy; its adoption effectively precludes *any* reasonable governmental control over the tobacco market - unless an alternative purchasing and marketing system being put simultaneously in place. However, such an alternative system, in words of Cornish and Phillips, “*state purchasing houses,*” obviously does not make any sense in a modern

²¹ Cornish, William, *Intellectual Property – Omnipresent, Distracting, Irrelevant?*, *op. cit.*, p. 80.

²² Cornish, W. R., and Phillips, J., *The Economic Function of Trade Marks*, *op. cit.*, p. 59.

²³ Cornish, W. R., and Phillips, J., *The Economic Function of Trade Marks...*, *op. cit.*, *ibid.*

economy; but this simply means that the adoption of plain packaging *alone* is likely to having no sense either. Last but not least, it is almost impossible to imagine how the task of taking “*steps to eliminate illegitimate sources*” could be reasonably, and with an adequate effect, implemented by governments in the absence of trademarks, which may actually formally exist in trademark registers, but are nonetheless prohibited to be used in the course of trade.

It then follows that any responsible government pursuing a sound public health policy, or any other socially relevant policy, ought to rely on legitimate use of trademarks as badges of origin. The simplest way in this respect is twofold: (1) to recognize legitimate interests of trademark owners in preserving distinctiveness of their respective trademarks, because there is no conflict between the governments’ interests and interests of trademark owners, and (2) to take care that every sign that is contrary to accepted moral principles, false, deceptive or misleading is prevented not only to be registered, but indeed prevented to be used. This is why virtually all national laws, as well as relevant international treaties - notably the Paris Convention - provide for such trademarks either their denial of registration, or their invalidation if being registered. In this way is the beneficial role of the origin function of trademarks always assured.

But the interests of trademark owners in using their trademarks have to be respected as well. The right of trademark owners for preserving the distinctiveness of their trademarks is clearly reflected in the TRIPS Agreement and in various Panel Reports, among which the following passage from the Panel Report in *Canada – Pharmaceutical Patents* case is indeed worth to be quoted:

“The function of trademarks can be understood by reference to Article 15.1 [of the TRIPS Agreement] as distinguishing goods and services of undertakings in the course of trade. Every trademark owner has a legitimate interest in preserving the distinctiveness, or capacity to distinguish, of its trademark so that it can perform that function. This includes its interest in using its own trademark in connection with relevant goods and services of its own and authorized undertakings. Taking account of their legitimate interest will also take into account of the trademark owner’s interest in the economic value of its marks arising from the reputation that it enjoys and the quality it denotes.”²⁴

Clearly, limitations or exceptions that do not preserve the distinctiveness of (some) trademarks (i.e., the origin function), evidently do not take into account the legitimate interests of trademark owners; such limitations are thus principally inconsistent with a number of provisions contained in various Articles of the TRIPS Agreement, especially as far as provisions of Articles 15 to 17 are concerned.²⁵ Nevertheless, the crucial point I am making here is that respecting these provisions ought to be in the prime interest of any government that is pursuing a sound public health policy; sound policy must inevitably include an efficient control of sources of related goods (medicaments, tobacco products,

²⁴ WTO, WT/DS174/R, Panel Report, par. 7.664 (emphasis added).

²⁵ Cf. Rodrigues, Edson Beas Jr., *The General Exception Clauses of the TRIPS Agreement*, Cambridge University Press, Cambridge 2012, p. 110 ff.

alcoholic drinks ...), as well as the compliance of all these goods with rather complex regulative legislation.

That said, it must be clear that plain packaging, looked at from a socioeconomic perspective, is actually a self-contradicting measure: with the prohibition of trademarks, it completely destroys one of most historically proven ways of controlling *any* market, including the tobacco market. And the tobacco market, due to the nature of tobacco products, actually *ought to be* controlled even more stringently precisely for reasons of protecting public health.

The Quality or Guarantee Function

An almost natural consequence of the origin function of trademarks is the incentive of trademark owners to maintain consistent quality of their products.²⁶ Maintaining consistent quality over time consequently means that trademarks also serve as a sign of a guarantee, in the sense that customers may reasonably believe that the quality of products known to them is at least maintained, if not improved, over time. However, such a guarantee has its roots in the quality; therefore, I shall henceforth use only the term “quality function.”

Clearly, both the origin and the quality function of trademarks are closely tied to each other; in words of Cornish,

*“... [t]he origin function ... inevitably coalesces with quality functions to a considerable degree. By and large, consumers are not interested in the source of what they buy for its own sake but for the qualities which they associate with the source-sometimes specifically, more often only generally.”*²⁷

Davison also underlines the origin and the quality function as related functions, and emphasizes their benefits to consumer protection:

*“In any event, a related function [to the origin function] of a registered trade mark is the function of indicating in shorthand the quality of a product to consumers. In this way, the trade mark reduces what economists refer to as search costs of consumers ...
... These functions of registered trade marks are functions that are consistent with consumer protection objectives.”*²⁸

It may be useful to remark that the notion of “quality” in the context of trademarks is for consumers of subjective nature – qualities they associate with the source through their personal preferences, confidence, or beliefs.

However, in case of highly regulated products, the use of which being sensitive from the public health perspective such as pharmaceuticals and/or tobacco products, the quality

²⁶ Landes, W. M., and Posner, R. A., *The Economic Structure of Intellectual Property Law*, *op. cit.*, p.167.

²⁷ Cornish, William, *Intellectual Property – Omnipresent, Distracting, Irrelevant?*, *op. cit.*, p. 89.

²⁸ Davison *et al*, *Australian Intellectual Property Law*, *op. cit.*, p.67.

function gets an additional meaning: as already mentioned, such sensitive products must meet various and usually very strict legal requirements imposed by relevant authorities in order to preserve public health.

In other words, the compliance with these requirements can be reasonably interpreted as kind of a more “objective” quality function of trademarks. This fact then just reinforces all what was said above about the beneficial role of the origin function of trademarks. However, it goes almost without saying that the quality function of trademarks is equally lost with introduction of plain packaging, just in the same way as this being the case with the origin function.

The Advertising Function

The term “advertising function” may be easily misleading unless its real meaning is known, because a trademark *as such* **has no advertising function by itself**; a trademark is just the *object* within advertising activities. It is then necessary to read the definition of advertising function carefully; Cornish et al. correctly note that “[M]arks are *cyphers around which investment in the promotion of a product is built ...*”²⁹

Pires de Carvalho equally correctly notes that a distinction has to be made between (abusive) advertising and trademarks:

*“Abusive advertising seeks to promote distinctive signs, but the fault for such an abuse **should not be attributed to the signs. The brand is the object, the tool, not the subject.**”*³⁰

In other words, advertising function is *not* inherently embodied in trademarks *as such*, in stark contrast to its other two main functions discussed above. This fact implies that the notion “advertising function” is actually far from being an adequate denomination.

Leaving aside this rather semantic issue and retaining the established terminology, it is in any case true that advertising function, due to its specific nature, is the only function that may be indeed easily “separated” from any trademark – just by mere prohibition of advertising.

While prohibition of advertising may significantly reduce the economic value of the affected trademark, it principally does not affect or diminish the two other inherently built-in functions – the origin function and quality function – *as such*. Prohibition of advertising is therefore not only acceptable, but indeed desirable whenever advertising promotes products the consumption of which is socially undesired, e.g., tobacco products. Moreover, *any* misleading or deceptive advertising, e.g. by creating a false impression about the nature of advertised products, ought to be prohibited as well. But note that it is advertising that creates false impression about the nature of products, not advertised trademarks *as such*; in absence of any advertising, the non-advertised trademarks are

²⁹ Cornish, W., Llewelyn, D., Aplin, T., *Intellectual Property...*, *op. cit.*, p. 655 (emphasis added).

³⁰ Pires de Carvalho, Nuno, *The TRIPS Regime of Trademarks and Designs*, Wolters Kluwer, Austin etc. 2011, par. IN.107, p.50.

inevitably reduced to perform solely their origin function - to their “*capacity to distinguish*”, and related quality function.

The best evidence confirming the above reasoning are precisely tobacco trademarks, which have been “stripped off” of their advertising function in many countries more than a decade or even more than two decades ago. Prohibition of tobacco advertising is also specifically provided for in Article 13 of the FCTC. On the other hand, one must not forget that tobacco products are obligatorily labeled with highly visible health warnings, which thus serve not as badges of origin, but as signs that point to their health-damaging nature of tobacco products. Consequently, in absence of advertising and in presence of health warnings, the simultaneous use of trademarks as badges of origin on tobacco products evidently cannot evoke any false impression about their health-damaging nature; on the other hand, use of trademarks brings the benefits in respect of easier control of the tobacco markets, and are thus virtually indispensable.

The prohibition of advertising at least *prima facie* suggests that there is no need to say anything more about the advertising function of trademarks. However, once again we should not forget that the main objective of plain packaging is to “*reduce the appeal of tobacco products to consumers.*” The prohibition of use of trademarks in order to achieve the said objective thus implies that tobacco trademarks *themselves* somehow possess a kind of their own appeal; otherwise, the prohibition cannot be reasonably defended. This implies that the “brand appeal” has to be distinct from the appeal of tobacco products themselves. It is therefore worth exploring whether the existence of said “brand appeal” indeed exists.

The very name of the advertising function clearly indicates that this function cannot come to existence without some sort of communication. Nevertheless, while the very aim of the legal protection of trademarks has always been the protection of their origin and quality functions, this does not necessarily hold for the advertising function, the (legal) protection of which has remained an issue of widely divergent views even nowadays.³¹

It is worth noting that the advertising (or investment) function is of a more recent origin, and thus much younger than the other two trademark functions. It was actually the growing spread of newspapers and new forms of mass media (radio, TV) that has led to the birth of the advertising function.³²

In stark contrast to the universally accepted views that the origin and quality functions are socially useful or even indispensable, the relevant point here is that the opinions about the *pros* and *cons* concerning (legal protection of) advertising function are much more divided. Legal protection of the advertising function, which, let us not forget, is also labeled as investment function, essentially means much broader protection than that concerning the origin function. For example, extension of protection “*to goods or services not similar to those in respect of which a trademark is registered,*” as provided

³¹ See Cornish, William, *Intellectual Property – Omnipresent, Distracting, Irrelevant?*, *op. cit.*, pp. 77 ff.

³² Bently, Lionel, *The making of modern trade mark law: the construction of the legal concept of trade mark (1860-1880)*, in Bently, Lionel, Davis, Jennifer, and Ginsburg, Jane C. (Editors), *Trade Marks and Brands*, Cambridge University Press, Cambridge 2008, p.11.

for in Article 16.3 of the TRIPS Agreement (protection against the so-called dilution) represents such a broader protection, which however is not unequivocally supported. As Cornish puts it:

*“As I want to show, there are other factors, emotive as much as rational, which still today divide attitudes towards the legal protection of trademarks. Pro-branders argue for generous, extensive support, branding-sceptics for limited and controlled assistance ... Tensions between the cautious and the liberal are no novelty in this field.”*³³

The main issue behind the divergent views is actually the multi-faceted nature of advertising. Advertising is defined as “[A]ny form of paid-for media used by the marketer to communicate with his target audience.”³⁴ Advertising is essentially just communication; and precisely this fact creates the problem in respect of its *nature*. Roughly speaking, advertising may be, in principle, just honest and purely informative, so that consumers can become aware of the existence of the trademarked products; on the other hand, it may be abusive, grossly misleading, deceptive or false. And there is an immense space in-between these two extremes, though the practice may tend more to the “bad” direction, as noted by Cornish *et al.*:

*“The seller’s interest is to emphasise qualities (including price) that differentiate his product from those of his competitors. Inevitably, if those differences are in reality slight, he will be tempted to exaggerate them, or to bolster them with appeals to sentiment of one kind or another. **There is a strong case for controlling the claims of advertisers in the interest of consumers. The approach may be by persuasion or by legal prohibition.** In either case, it will probably aim first to eliminate factual inaccuracies, then points of spurious differentiation and ultimately the more oppressive manipulation of feeling – naked appeals, for instance, to fear or aggression.”*³⁵

Given the ambiguous nature of advertising and considering the harmful effect of tobacco products, the advertising ban on them has without any doubt its merits and thus can be convincingly considered as a justified measure.

However, whenever governmental interventions are necessary in order to eliminate undesired forms of advertising, one should be careful to make the above mentioned distinction between harmful forms of *advertising communication as such* and *trademarks themselves*. Recall that trademarks are just the *object* within advertising communication; however, if communication is socially unacceptable, then this fact does not so to say automatically imply that the advertised trademarks themselves are unacceptable as well. Harmful advertising can be, and indeed ought to be prohibited. Yet such a prohibition *per se* in no way warrants any *further* prohibitions in respect of “normal” use of trademarks, which would prevent their use of other two socially indisputably beneficial functions (the

³³ Cornish, William, *Intellectual Property – Omnipresent, Distracting, Irrelevant?*, *op. cit.*, p. 77.

³⁴ Yeshin, Tony, *Advertising*, Thomson Learning, London 2006, p.XV.

³⁵ Cornish, W., Llewelyn, D., Aplin, T., *Intellectual Property: Patents, Trade Marks and Allied Rights*, *op. cit.*, p. 656 (emphasis added).

origin and quality function) - save for an obvious exception when the use of a trademark would be contrary to law on other grounds. Cornish *et al.* make the point that, whenever “laudable pursuits” of prohibiting harmful advertising are justified and subsequently undertaken, one has to take care that the origin and quality functions of trademarks are not restrained, let alone eliminated by such “laudable pursuits:”

*“In such laudable pursuits, the continuing importance of being able to distinguish the source of goods and services should not be forgotten. To remove the possibility of differentiation (save for goods that can be tested by inspection) is, indeed, to eliminate the incentive to provide goods of superior quality.”*³⁶

In other words, if a trademark *as such* - more correctly, the product labeled by it - is to be recognized as “negatively appealing,” then such an appeal has been created and attributed to it *solely and only* through (the abuse of) the advertising function. Chevalier and Mazzalovo appropriately call provocative or otherwise socially unacceptable advertising practices simply as “Anti-Brand Communication,” and they stress that “*it is not brands that are being criticised so much as their communication.*”³⁷

It then follows that “correct” trademarks (i.e., trademarks that meet all the required criteria to be registered) simply do not possess their own appeal. The notion of “brand appeal” is actually just an inadequate expression for *products’ appeal*, being created through the advertising, in which trademarks are only the tool; whether this tool being abused through socially unacceptable advertising is a completely separate issue, and thus should not be misinterpreted as an evidence about “bad” appeal of trademarks. In short, the origin and quality trademark functions do not and cannot generate any socially unacceptable appeal *per se*, with direct implication that the *en gros* prohibition of use of tobacco trademarks could hardly have a reasonable justification.

Bently and Sherman eloquently explain how advertising function transforms trademarks from “attractive-neutral signals” of origin and quality into “associations-and-meanings evoking symbols.”

*“Literally the sign attracted custom, not as a result of some idea or assumption of origin or quality, but as a result of so-called ‘advertising quality’. Indeed, the mark **itself** (reinforced by advertising) gave rise to a desire for the product that was distinct from a desire based on a belief that the product would be of a particular quality. **The trade mark served more as a marketing tool and less as a means of identifying a product’s source or sponsorship.** This change in the function of trade marks has been described as a transformation from ‘signals’ to ‘symbols’. As ‘signals’, trade marks trigger an automatic response and serve to identify the maker of the product. In contrast, as ‘symbols’ trade marks evoke a broader set of associations and meanings.”*³⁸

³⁶ Cornish, W., Llewelyn, D., Aplin, T., *Intellectual Property: Patents, Trade Marks and Allied Rights, op. cit.*, p. 656.

³⁷ Chevalier, Michael, and Mazzalovo, Gerald, *Pro Logo*, Palgrave MacMillan, New York 2004, pp. 41/2.

³⁸ Bently, L., and Sherman, B., *Intellectual Property Law, op. cit.*, p. 712.

The ability of advertising to transform trademarks from signals (of origin) into symbols that may evoke either socially adequate or inadequate associations and meanings additionally speaks in favor of advertising ban for tobacco products. By prohibiting advertising, the very source of any possible harmful appeal (of products, not trademarks) is effectively removed. As far as Australia is concerned, advertising of tobacco has been prohibited since 1992, that is, for more than two decades.

While the above reasoning is a bit theoretical, it has also a historical real-life confirmation precisely in respect of tobacco products:

*“According to one history of American advertising, its most important development occurred in the 1930s. Cigarette manufacturers discovered that smokers could not distinguish various cigarette brands on the basis of taste or smell alone. So manufacturers either had to change their product to make it truly distinctive, or make consumers **believe** it was distinctive, a generally easier and less costly strategy.”³⁹*

The quotation reveals that the initial function of “*various cigarette brands*” was limited to the origin function of the brands *only*, for the reason that consumers were unable to distinguish competing products by their inherent characteristics (taste or smell). In other words, the cigarette trademarks initially did not possess any so-called appeal on their own; however, it was a natural reaction to invoke the then legally allowed advertising function of trademarks as well, being the only function that could have been capable of making products somehow attractive among otherwise identical products.

In addition to confirming the conclusion that there is no such thing as trademark appeal, and that any product's appeal is created through advertising, the above quotation offers some further insights as well. The need to introduce advertising of cigarette trademarks was initially targeted on *existing smokers* only; clearly, only smokers were unable to distinguish various competing products from each other. So the story suggests that, at that time, it was not the trademark advertising which had made smoking attractive, but it was rather the other way around: the inability of smokers to distinguish competing products by the taste and smell of cigarettes alone has led tobacco manufacturers to “add” the advertising function to their trademarks.

In short, smoking was first, and advertising has followed later. In any case, smoking habits had not been caused by any kind of “appeal” of trademarks as such at that time.

Of course, one has to acknowledge the enormous social and other differences between 1930s and present times; yet the current situation is nevertheless very similar to that before the 1930s; the only essential difference is that the advertising has been nowadays prohibited, whereas it was initially simply not practiced before more than eight decades ago.

³⁹ Aldred, Jonathan, *The economic rationale of trade marks: an economist's critique*, in Bently, Lionel, Davis, Jennifer, and Ginsburg, Jane C. (Editors), *Trade Marks and Brands*, *op. cit.*, p. 275. The author refers to Twitchell, J., *Lead us into Temptation: The Triumph of American Materialism*, Columbia University Press, New York 1999.

The Difference Between Brand Appeal and Brand Loyalty

In discussing the trademark functions, one must further distinguish between the appropriate notion of “brand loyalty” and the inadequate notion of “brand appeal.” Again and again, it is a product which may be appealing, not its brand *per se*. By the way, this distinction is correctly stated in the definition of *attractiveness* in the WHO Glossary (see above). So the inadequate term “brand appeal” is used here just as shorthand term in comparing it with the term “brand loyalty.”

Brand loyalty is defined as

“*[A]n intrinsic commitment to repeatedly purchase a particular brand.*”⁴⁰

Brand loyalty can come to existence only after *some initial purchases were made*. and after these purchases have satisfied the buyer’s expectations (the trademark quality function). Initial purchases may be motivated either by the origin function, as well as by advertising function – provided of course that advertising is allowed. In case of tobacco products, advertising has been banned, and thus brand loyalty can be just a logical *consequence* of smoking, but definitely not the *cause* for the (first) purchase and consumption of a tobacco product. However, an initial purchase alone is not sufficient to developing brand loyalty; a consumer must also be satisfied with the expected quality of the product *after* initial purchase.

In short, in any absence of advertising is brand loyalty to the tobacco product tied exclusively to the origin and quality function of the trademark that it bears. This further means that brand loyalty *as such* does not, and cannot, encourage people to take up smoking; it is of relevance only for current smokers.

As far as new smokers are concerned, the situation is a bit different. They have to be attracted somehow to take up smoking. While there are likely to be numerous incentives, the trademark appeal may, at least *prima facie*, be one of them.

In contrast to brand loyalty, which are inherently tied to origin and quality function, is “brand appeal” generated by the advertising function *only*; but again, it would be actually more correct to speak either about *advertising appeal* (of the product), rather than about trademark appeal. This is generally true not only in the context of plain packaging, where however it plays a crucial role. Note that *advertising appeal* has also its formal definition:

“*[T]he particular approach, based on rational or emotional arguments, which seeks to develop a direct link between the product or service and the consumers’ needs or wants.*”⁴¹

In this definition, neither brands nor trademarks are - correctly - mentioned, what reconfirms the fact that brands as such are just the object of advertising and its

⁴⁰ Peter, Paul J., and Olson, Jerry C., *Consumer Behavior & Marketing Strategy*, McGraw-Hill, Boston etc. 2010, p. 522.

⁴¹ Yeshin, Tony, *Advertising, op. cit.*, p. XV.

subsequently generated products' appeal, but brands *per se* are not the source of the appeal. No wonder that even advertising experts define brand as

*“[A] name, term, design, symbol or any other feature that identifies one seller’s goods or services from those of other sellers.”*⁴²

It is easy to note that this definition is much the same as the definition of trademarks in trademark laws, including the definition in the first sentence of Article 15.1 of the TRIPS Agreement. In short, the terms "brand" and "trademark" may be taken as synonyms, though the term "brand" may refer to a sign that conveys "a host of other meanings"⁴³ beyond the basic meaning of trademark as a badge of origin.

Spending so much time about proper recognition of the difference between brand loyalty and the non-existing brand *appeal* has its reason, because of its crucial importance in the context of plain packaging. Without distinguishing the real meaning of the two terms and considering them more or less as synonyms has apparently led to erroneous conclusions, as best illustrated by the recent (2011) reasoning of Prof. David Sweanor, one of the earliest plain packaging advocates from Canada:

*“My interest [for plain packaging] began when trying to understand why the generic cigarettes sold by a major Canadian grocery retailer in the mid-1980s had few purchasers despite these products being markedly cheaper than brand names. When subsequently reading through an issue of Forbes in early 1987 [note omitted] the importance of package imagery was driven home by the report of a study that showed only 21% of regular Marlboro smokers were willing to buy half price Marlboros that came in generic packages. Clearly, the marketing of cigarettes was heavily tied to imagery and the package was an essential part of that marketing. Reducing package imagery seemed a logical extension of cigarette ad bans that should reduce uptake, continuation and relapse of smoking. By 21 January 1988 I was promoting plain packaging in testimony before a committee of Canada’s House of Commons.”*⁴⁴

The author’s reasoning is erroneous, because he makes no distinction between the “imagery”, that is, appeal (of the product) and the “brand loyalty,” the latter being not mentioned at all. As shown is brand loyalty tied to the origin and quality functions of trademarks *only*, and thus it has nothing to do with the product's package imagery, the latter being the result of advertising function. Consequently, the author is erring in his reasoning why “only 21% of regular Marlboro smokers were willing to buy half price Marlboros.” Note that it was the vast majority - 79% - of Marlboro smokers, and not smoking newcomers(!) who were *not* willing to buy “half-price Marlboros.” Clearly, existing smokers just relied on brand loyalty, known to them from previous smoking

⁴² Yeshin, Tony, *Advertising, op. cit.*, p. XVI.

⁴³ Davis, Jennifer, *Between a sign and a brand: mapping the boundaries of a registered trade mark in European Union trade mark law*, in in Bently, Lionel, Davis, Jennifer, and Ginsburg, Jane C. (Editors), *Trade Marks and Brands, op. cit.*, p. 67.

⁴⁴ Sweanor, T. David, *Effective beats dramatic: A commentary on Australia's plain packaging of cigarettes*, Drug and Alcohol Review (2011), DOI: 10.1111/j.1465-3362.2011.00370.x., p. 2.

experience. By way of corollary, the brand to which the existing smokers were showing their loyalty thus served them only as the badge of origin, rather than being appealing to the extent that it was influencing their decision of what to buy. In other words, the appeal of “package imagery” was virtually irrelevant for their decisions to buy more expensive cigarettes.

It is therefore not correct to tie the described behavior of *existing* smokers to the “package imagery.” Perhaps the package imagery could have certain (though quantitatively unspecified) impact only on the smoking “newcomers;” but if so, then this impact was generated solely by advertising rather than by the “package imagery” alone; after all, Sweanor is referring to year 1987, when advertising of tobacco products was still allowed in Canada, being prohibited by Canada’s Tobacco Products Control Act a year later.

In other words, while “[R]educing package imagery” may have indeed *prima facie* “seemed a logical extension of cigarette ad bans,” it is not so logical when making proper distinction between correct notion of “brand loyalty” and incorrect notion of “brand appeal” (“package imagery” in Sweanor’s terminology).

Brand Loyalty As Useful Tool for Improving Public Health

The correct interpretation of the above quotation of Sweanor implies, perhaps a bit surprisingly, the insight that brand loyalty may actually help in “*encouraging people to give up smoking, and to stop using tobacco product,*” to quote yet again the APPA. This would obviously contribute to lower tobacco consumption, thus giving some substance in favor to the main objective of plain packaging.

The assumption has its roots in the well-known fact that one of the most efficient tools to reduce smoking is increase of prices for tobacco prices. According to the World Bank, “... [P]rice increases will discourage non-smokers from taking up smoking and induce many smokers to quit or reduce consumption...Only a certain portion of smokers will not be affected and some of them manage to maintain their levels of tobacco consumption through substitution.”⁴⁵ Of course, the WHO is also aware that the price and tax measures are “*an effective and important means of reducing tobacco consumption by various segments of population, in particular young persons.*”⁴⁶

The meaning of the term “substitution” in the above World Bank quotation is the same to what is also known as “brand switching,” the latter being defined as

“[A] purchasing pattern characterized by a change from one brand to another.”⁴⁷

Nevertheless, the emphasis here is on the fact that “*only a certain portion of smokers*” substitutes their current tobacco brand for a less expensive brand after price increase; this observation of the World Bank is perfectly confirmed by the described but

⁴⁵ World Bank, *Economics of Tobacco Control – Myths and Facts*, (Myth 9). The document is available via the World Bank website <http://web.worldbank.org>.

⁴⁶ Article 6.1. of the FCTC.

⁴⁷ Peter, Paul J., and Olson, Jerry C., *Consumer Behavior & Marketing Strategy*, *op. cit.*, p.522.

by Sweanor misinterpreted behavior of Marlboro smokers in Canada. It is brand loyalty behind the observed behavior, not the “appealing imagery.”

That said, and however paradoxically it may sound especially for plain packaging advocates, it is true that brand loyalty could actually serve as useful policy measure in order to induce many smokers to reduce, or even to quit, smoking of their preferred brands when their prices go up, rather than to switch to a cheaper brand. And this particular measure ought to be actually recommended by all who are concerned with public health. Just imagine the harmful effect on public health if Canadian Marlboro smokers, including smoking newcomers, would have indeed all of them switched to the “half-price “Marlboros”; obviously, they could buy, and subsequently smoke the double quantity of cigarettes for the same budget, or they could alternatively buy another pack of cigarettes and invite their friends to take up smoking – indeed a disastrous scenario for tobacco-related public health, but which fortunately did not occur precisely due to the fact that there was a loyalty to the brand and not the so detesting “package imagery.”

It then follows that plain packaging effectively impairs two important policy measures that could help to improve public health by reducing tobacco consumption. The first measure is an inevitable loss of brand loyalty, which apparently prevents smokers to switch to cheaper products that could be otherwise sold in larger quantities for the same spending. The second measure, further discussed below, is an expected fall of prices for tobacco products, which may potentially contribute to higher sales of tobacco products - unless prices are kept administratively at high levels. However, the rise of tobacco prices must have certain limits, because the higher the prices, the more attractive is such a market for counterfeiters, and counterfeiting is more than a challenge especially in Australia and any other country which adopts plain packaging laws, as I show at some length below in next section.

Plain Packaging Principal Inability to Improve Public Health

To summarize, the main insight gained from the above predominantly non-legal analysis is that tobacco trademarks themselves do not possess *any* appeal. Moreover, the advertising ban has been sufficiently long period in place, and thus any possible advertising manipulation of consumers has been effectively prevented. I shall show below that even two noted plain packaging advocates have recently and quite correctly admitted that tobacco trademarks have lost their appeal in the period following the prohibition of advertising, with the consequence that plain packaging is almost pointless in the course of trade (see Section 1.4 below and Ch 3).

All this actually means that the implicit but central premise of plain packaging - to reduce the appeal of tobacco trademarks - simply does not hold. Any undesired appeal of tobacco products has been effectively removed in the period following the prohibition of their advertising; the clear evidence being the steadily decreasing tobacco consumption in all relevant countries, including Australia.

The erroneous central premise of the APPA naturally means that its main objective – to improve public health – cannot be achieved by plain packaging, at least not in the form

as embedded in the APPA. Public health obviously cannot be improved by reducing the non-existing appeal of trademarks. In other words, plain packaging is conceptually wrong in its most fundamental point.

On the other hand, plain packaging inadvertently generates some undesired consequences that go far beyond its inherent ineffectiveness; indeed, plain packaging shall give rise to two major public health threats, both being so serious that deserve every attention.

1.3. TWO HEALTH THREATS INHERENT TO PLAIN PACKAGING

Public Health Threat No. 1: The Tobacco Brandless Market

The Brandless Market for Illegal Drugs

An obvious and inevitable consequence of plain packaging is that it is bound to create a rather unique “brandless” tobacco market. No brandless market currently exists in reality, except one, and from viewpoint of public health highly relevant market - black market for illegal drugs.

Much of the “... *devastating consequences for individuals and societies around the world ...*”⁴⁸ of this market on public health (and even beyond the public-health concerns) are directly attributed precisely to the fact that - for obvious reasons - not a single trademark has been ever used on it. If trademarks were used as badges of origin (the origin function), then it would have been indeed an easy task for enforcement authorities to identify the suppliers of illegal drugs and put them into jail.

In other words, the total absence of trademarks is one of reasons, if not *the* reason why the market for illegal drugs has become virtually uncontrollable. It is then not surprising that there are strong appeals from eminent international bodies,⁴⁹ as well as from academia⁵⁰ to legalize this market. Legalization would evidently imply the introduction of trademarks (brands), though without advertising, of course - and possibly with some additional limitations in retail trade.⁵¹

Plain packaging is inadvertently bound to transform the “branded” tobacco market into the market with much the same characteristics as those prevailing on the “brandless” market for illegal drugs. This simply means complete loss of control over the origin of products and their compliance with all regulatory requirements, proliferation of substandard-quality products, creation of black market for branded genuine cigarettes (see below) and their counterfeit copies, reduced possibility for placing health warnings on packets, etc.

⁴⁸ Quoted from *War on Drugs*, Report of the global commission on drug policy, June 2011, p. 2. The whole document is available at www.globalcommissionondrugs.org.

⁴⁹ *War on Drugs*, *op. cit.*, *ibid.*

⁵⁰ See Bean, P., *Legalising Drugs*, The Policy Press (University of Bristol), Bristol 2010, esp. pp. 115-131.

⁵¹ Bean, P., *op. cit.*, *ibid.*, esp. P. 117.

Moreover, it is worth noting again that statistics shows, in stark contrast to the “brandless” black market for illegal drugs, that tobacco consumption has been gradually falling in most of high-income countries in the last decades,⁵² despite the regular use of tobacco trademarks which, in absence of prohibited advertising are currently serving only as badges of origin. This is also true for Australia.

A look at some Australian statistical data on consumption of cannabis and other illegal drugs reveals the following:

“In 1995, thirty-nine percent of Australia’s population aged fourteen or older had tried at least one illicit drug in their lifetime, including non-medical use of prescription drugs...The most common illicit drug is cannabis, with 31 percent of surveyed persons admitted having tried cannabis. More than half of all individuals aged fourteen to thirty-nine have tried cannabis ... Cannabis is the most widely used illicit drug in Australia. A 1998 survey for Australian Institute of Health and Welfare (AIHW) reported that 40 percent of Australians over the age of fourteen have used the drug at least once. It is also noted that 17 percent had used it in the last twelve months. The survey reported that 46 percent of all Australians have experimented with at least one illicit drug, and 22 percent had done so in the previous year.”⁵³

How can all this real-life evidence about high consumption of cannabis (much higher than that of tobacco, see below) and other illegal drugs be explained in the total absence of *any* trademarks? As shown above, the obvious answer is that trademarks evidently cannot be blamed at all for highly undesired consumption habits of health-threatening products.

But there is more than that. Looking at statistical data published by Australian Bureau of Statistics on smoking, one may immediately notice that the situation is much different in case of tobacco than that in respect of cannabis; while cannabis consumption went up in 1998 from that in 1995, the tobacco consumption was been steadily declining:

“TRENDS OVER TIME

- ! Rates of smoking in Australia are steadily decreasing over time.
- ! Young people were less likely to smoke in 2007-08 than in 1989-90, with a drop from 36% to 24% in rates of current smoking for men aged 18-24 years, and a drop from 36% to 22% for women of the same age.”⁵⁴

The point I wish to make here is that the decreasing smoking rates are reported for periods when tobacco trademarks have been allowed for use, though after introduction of advertising ban. On the other hand, the brandless cannabis market went up, despite the

⁵² See World Bank, *Economics of Tobacco Control - Myths and Facts*, op. cit., Myth 1.

⁵³ Roman, C. G., Ahn-Redding, H., and Simon, R. J., *Illicit Drug Policies, Trafficking, and Use the World Over*, Lexington Books, Lanham etc. 2005, pp. 213/4.

⁵⁴ Australian Bureau of Statistics, *Tobacco Smoking in Australia, 2007-08*, available at <http://www.abs.gov.au/austats/abs@.nsf/Lookup/4841.0Chapter32011#>.

same fact that - for obvious reasons - there was no advertising as well. In other words, the rising cannabis consumption can be to a large extent attributed to absence of trademarks (brandless market!), whereas declining tobacco consumption can be attributed solely to advertising ban, but with allowed use of trademarks. The above statistics is thus yet an additional proof that the central measure of plain packaging by prohibiting the use of trademarks has no ground.

However, the statistics is actually predicting that plain packaging is likely to cause *increased* tobacco consumption, thus reversing the current trends. There is no reason to believe that this newly established “brandless” market for tobacco should behave differently from the known “brandless” market for illegal drugs.

The Pakistani “Plain Packaging” 1972 Experiment

Interestingly, the “brandless” market for illegal drugs is actually not the only real-life evidence. While the (former) Australian Minister of Health once admitted that plain packaging is just an experiment, what apparently should mean that it has no precedence,⁵⁵ a look at the not-too-distant history reveals that such an experiment of prohibition of use of trademarks was actually undertaken about four decades ago, though in respect of legally sold medicaments – goods that are obviously indispensable for public health. The lesson learned from this short-lived and completely failed experiment is indeed instructive for plain packaging case.

The experiment took place in 1972 in Pakistan, when the government prohibited the use of trademarks for pharmaceuticals, allowing only the use of their respective generic names. However, the prohibition was indeed short-lived; it had come to its end just after four years after its enactment in 1976, when the government repealed the respective Act. The following was reported – *nota bene*, in a *WHO Drug Information* review – about the Pakistani experiment:

*“Despite strong opposition, Pakistan was one of the first countries, in 1972, to introduce a Generic Drugs Act. Opponents argued that generic drugs were of poor quality and low efficacy. Unfortunately, the subsequent lack of regulation or control of generics led effectively to the market being flooded by poor quality drugs and the scheme needlessly failed some few years later.”*⁵⁶

Some years later, the Pakistani experiment induced the World Intellectual Property Organization (WIPO) to commission a study on economic functions of trademarks with special reference to developing countries. In 1979, Mr. Arpad Bogsch, then the Director General of WIPO, invited Prof. W. R. Cornish (Cambridge University) and J. Phillips to prepare the study, which eventually appeared as WIPO document TM/S/6 in December 1979; the International Bureau of WIPO then separately prepared a summary of the

⁵⁵ In an interview on plain packaging, the (then) Australian Minister of Health, Ms. Roxon admitted »...you're right that there is some level of experiment...« (Neil Mitchell interview with Nicola Roxon on Radio 3AW on 8 April 2011).

⁵⁶ Bhutta, T. I., *The continuing need for rational selection and use of drugs*, WHO Drug Information Vol. 11, No.4, 1997, p. 233.

study.⁵⁷ While the study subsequently appeared also as an article in IIC in 1982,⁵⁸ to which I am referring to already above, the point here is that WIPO has paid attention to the whole issue at the initiative of its Director General.

Of course, the crucial question is what could be actually learned from the failed “medicaments-plain-packaging” Pakistani experiment. The answer is much the same as in case of the market for illegal drugs: due to the absence of trademarks, there was a complete loss of control over required compliance of medicines with regulatory legislation, with an inevitable harmful consequence of significantly worsened level of public health.

Last but not least, Pires de Carvalho also reports about a similar experiment in early 1990s, when a developing country “took the extreme measure (which lasted for a few months only) of prohibiting the use of trademarks in any manner or size on prescription drugs.”⁵⁹

The short life of the described but unspecified experiment is no surprise in the light of the origin function of trademarks; if the (true) source of goods is not identifiable, then the market for respective goods is by definition uncontrollable, irrespective whether goods in question are of legal or illegal nature. And inability of controlling the market is indeed hazardous in case of goods that are of vital importance for public health.

Public Health Threat No. 2: Counterfeiting Legalization

Health Threats of Counterfeiting

The second public threat has its roots in what I call here conveniently - though not necessarily correctly in strict legal sense - as counterfeiting legalization. I clarify the term a bit later, after presenting some relevant data in respect of counterfeiting.

Generally speaking, counterfeiting is a serious problem indeed. In its July 14, 2011 press release, the European Commission published statistics of customs detentions recorded at the external borders of the EU for 2010.⁶⁰ This statistics shows “an amazing upward trend.” The report gives, for the first time, an indication of the estimated value of the equivalent genuine products, which was over 1 billion EUR.

Importantly, the report also indicates that cigarettes are the top category among counterfeit goods in the EU, accounting for 34% of total. The estimated financial losses in taxes etc. in the EU caused by contraband and counterfeit cigarettes were in 2010 estimated at 10 billion EUR annually, whereby about 65% of the seized cigarettes were counterfeit.⁶¹

⁵⁷ The document is available in WIPO library.

⁵⁸ Cornish, W. R., and Phillips, J., *The Economic Function of Trade Marks: An Analysis With Special Reference to Developing Countries*, [1982] 13 IIC 41.

⁵⁹ Pires de Carvalho, Nuno, *The TRIPS Regime...*, *op. cit.*, par. 20.37, p. 442.

⁶⁰ European Commission, document available at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics.

Combating counterfeiting is not just an obvious part of the governmental tasks related to maintaining fair competition and to controlling the compliance of branded products with relevant regulatory legal requirements; it is actually much more, especially in respect of public health. The crucial point here is the fact that there is ample evidence about the alarmingly dangerous impact of *any* sort of counterfeiting on public health. *All* counterfeit products, be they as diverse as automobile spare parts, cigarettes, drinks, food products, or medicaments, have been repeatedly found to be a serious threat to public health ever since.

But the health threat is especially acute in case of tobacco, alcohol and pharmaceuticals:

*“The social marketing literature has been established in terms of decreasing consumption of cigarettes and alcohol and **there are parallels that can be made between a 'Joe Chemo' campaign and fake pharmaceuticals – the fear is the same – severe public health.**”⁶²*

And there is a lot of telling evidence specifically about how counterfeit tobacco products are threatening public health. Here are few recent examples:

- ! To begin with, the following can be read in a book published in 2005: *“Our desire to earn a discount on our addiction gives fakers guaranteed revenue. Take counterfeit cigarettes. At CIB, Matz picks two boxes of Benson & Hedges cigarettes off the shelf: it's a CIB test for visitors, to see who can tell the difference. It's virtually impossible...The two packages look identical, **but when the fakes were tested they contained five times the carcinogens of the genuine brand.**”⁶³*
- ! Similarly alarming findings can be found in a number of more recent reports. The following was reported in the December 9, 2011 issue of the Public Service Europe: *“Some 10 per cent of cigarettes smoked in Europe are counterfeit or contraband, creating serious health concerns for citizens and major financial headaches for industry and governments ... [...] **Cigarettes recently intercepted by the UK Border Agency contained asbestos, rat droppings and human faeces among other substances.**”⁶⁴*
- ! Few weeks later, on 30 December, Financial Times reported about illegal cigarettes in Spain: *“Another option for the hard-pressed Spanish smoker has been to try a fresh wave of Chinese-manufactured bootleg cigarettes that have become increasingly common, or to buy contraband. **The former's untested***

⁶¹ See <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/448&format=HTML&aged=0&language=en&guiLanguage=fr>.

⁶² Chaudry, P., and Zimmerman, A., *The Economics of Counterfeit Trade*, Springer Verlag, Berlin Heidelberg 2010, at p. 174. (emphasis added). Note that the 'Joe Chemo' campaign refers to an anti-smoking campaign.

⁶³ Phillips, Tim, *Knockoff – The Deadly Trade in Counterfeit Goods (The true story of the fastest growing crime wave)*, Kogan Page, London and Philadelphia 2005, p. 22 (emphasis added). The acronym CIB stands for the Counterfeiting Intelligence Bureau in the UK.

⁶⁴ Witt, Daniel A., *How big is the illicit tobacco trade in Europe?*, Public Service Europe, available at <http://www.publicserviceeurope.com> (emphasis added).

- contents, and possible immediate danger to health, can make contraband more appealing.*"⁶⁵
- ! On January 30, 2012, the BBC News reported about toxic risks of counterfeit cigarettes sold in Sussex.⁶⁶
 - ! The Center for Regulatory Effectiveness has recently summarized findings of four peer-reviewed studies, (published between 2005 and 2009) which are dealing with health related issues specific to contraband cigarettes; the findings are indeed alarming, as they consistently show that counterfeit cigarettes represent an enormous risk for public health.⁶⁷
 - ! On August 23, 2014, the newspaper The Guardian published the article *New efforts to stop fake cigarettes filled with excrement, mould and asbestos*. The article begins by the following sentence: "*Efforts to reduce smoking and improve health are being hampered by the black market trade of millions of illegal cigarettes filled with human excrement, dead flies, rat droppings, mould and asbestos, local authority leaders have warned*".⁶⁸

In respect of the above evidence, it is important to bear in mind that it predominantly refers to the current situation, in which the use of tobacco trademarks has been allowed, and thus combating counterfeiting was still highly demanding; however, it can be shown that the adoption of plain packaging is going, for a number of reasons, to make the already worrying situation much worse.

To begin with, one of much exposed reasons is that plain packaging is going to create a kind of textbook-like situation of perfect competition, meaning that only non-differentiated, that is non-branded, generic goods shall be present. Such a market inevitably leads to a fierce price-based competition with lowering prices, what is likely to "*increase the level of [tobacco] consumption, especially amongst those individuals with fewer financial resources.*"⁶⁹

While these predictions are obviously correct from economic point of view, the counterclaim is equally obvious - prices can be administratively set at quite high level. Indeed, this is a reasonable policy, because it is well known fact that high prices do reduce tobacco consumption. However, the higher are prices, the more attractive is illicit trade with counterfeit products, and plain packaging obviously makes counterfeiting technically much easier, as all packets shall look virtually the same, and thus producers of counterfeit cigarettes shall not need to spend money on more demanding printing of counterfeit branded packets. But there is more than that: counterfeiting shall get an

⁶⁵ Financial Times of 30 December 2011, *Hard-pressed Spanish smokers find contraband more appealing*, p. 14 (emphasis added).

⁶⁶ See <http://www.bbc.co.uk/news/uk-england-sussex-16786358>.

⁶⁷ See <http://www.thecre.com/tpsac/wp-counterfeit/uploads/2011/02/Health-Effects-of-Contraband.pdf>

⁶⁸ See <http://www.theguardian.com/society/2014/aug/23/councils-crack-down-fake-cigarettes-excrement-mould-asbestos>.

⁶⁹ See London Economics, *The Role of packaging imagery on consumer preferences for experience goods – A consumer behavioural experiment*, January 2012, p. 15. The document is available at <http://www.smoke-free.ca> via sub-site Plain Packaging (Industry Positions).

immense push by another and indeed far-reaching change of the legal situation: plain packaging means *de facto* what I call *counterfeiting legalization*.

The Meaning of Counterfeiting Legalization

The term “counterfeiting legalization” needs clarification. The TRIPS Agreement defines counterfeiting as an unauthorized use (that is, infringement) of a trademark. Now, if a legally valid trademark is prohibited to be used in the course of trade by *anyone* – be it its owner or an infringer - then the otherwise criminal act of counterfeiting *jus strictum* cannot be committed at all. It is simply not possible to infringe a trademark, which being prohibited to be used in the course of trade, and thus the otherwise illegal practice of making fake copies of genuine but “brandless” tobacco products could not be anymore formally proclaimed as an act of counterfeiting.

This is true either when fake products shall be labeled with the prohibited trademarks and offered on black markets with the aim to (misleadingly) attract smokers seeking “branded” tobacco products, or in the opposite and more probable case that fake products shall just look like the genuine plain-packaged products.

Whatever strategy of illicit trade may prevail, it is clear that plain packaging is going to make the life of criminals selling fake cigarettes significantly easier. At the same time shall counterfeiting legalization, in combination with the "brandless" market, make the work of enforcement authorities much harder; the recently established Tobacco Strike Team in Australia (see below) as a special unit devoted exclusively to tobacco illicit trade could be seen as a confirmation of predicted additional troubles caused by adoption of APPA.

Introduction of plain packaging would obviously require a lot of additional resources for enforcement authorities to identify sellers of fake tobacco products - but oddly, even if the criminals behind production and sales of fake products being identified, they could hardly be subsequently charged for illegal acts of counterfeiting, due to lack of the relevant legal basis. In fact, one could not speak anymore about “counterfeit trademark goods” as defined by the TRIPS Agreement. It is this scenario, which I call counterfeiting legalization, despite the fact that, strictly speaking, there is no legalization in its ordinary meaning as an act that would make counterfeiting lawful.

All the above unmistakably implies that plain packaging is bound to create a paradise for illegal trade with illicit tobacco goods, and thus the market share of fake cigarettes is likely to become significantly larger as this being currently the case. And the end effect of such developments can only be a significant worsening of the current level of public health.

In this respect, it is worth recalling the already mentioned fact that the new WHO *Protocol to Eliminate Illicit Trade in Tobacco Products* intentionally does not contain the word “counterfeiting” *at all*. While the adoption of the Protocol itself is the best recognition of how serious public health threats illicit trade with tobacco may generate, it is indeed difficult to understand why the WHO decided to avoid anti-counterfeiting

policy and to launch its own new policy not only in respect of counterfeit tobacco products, but also in respect of counterfeit medical products. Up to 2013, WHO has been combating counterfeiting in the field of medical products through its International Medical Products Anti-Counterfeiting Taskforce (IMPACT) established in 2006;⁷⁰ however, the IMPACT project has been recently abandoned and replaced by a self-invented, unproven and rather unique new mechanism called as “*substandard, spurious, falsely-labelled, falsified, and counterfeit (SSFFC) medical products.*”

1.4. INTIAL CRITIQUE AND FIRST EVIDENCE

The above analysis suggest that plain packaging as a policy measure is likely to be not only fundamentally false, but that it is eventually threatening public health - in direct contradiction to its main objective. Consequently, one may have every reason to ask what kind of evidence in favor of plain packaging is available, and if so, whether it was exposed to a critical evaluation and assessment.

There is a lot of "pro-plain packaging" supporting evidence, of course. However, I do not feel myself to be sufficiently competent to analyze this evidence, which is to a large extent based on various statistical surveys. On the other hand, I noticed that the most influential pieces of the “pro-plain-packaging” literature were critically reviewed. I am aware that these critical reviews were commissioned by major tobacco firms; however, this fact alone in my opinion cannot warrant their outright dismissal. I believe that the studies need to be subject of a constructive and professional critique as to their substance. Anyhow, I am limiting myself to commenting just on few studies authored by internationally noted experts of high personal integrity, and who explicitly state that they are expressing their own views and positions.

But let me first present how two prominent plain packaging advocates openly acknowledge that not much could be expected by plain packaging.

Skeptical Remarks of Professor Davison

Prof. Mark Davison, a respected Australian scholar in intellectual property in general, and in trademark law in particular, notes (in his analysis of the legitimacy of Australian Plain packaging Act in respect of relevant international intellectual property law) *inter alia* the following:

*“It is true that plain packaging will have little effect ‘in the course of trade’ because of existing prohibitions on advertising and point of sale display of tobacco products.”*⁷¹

Davison actually strongly defends plain packaging as a measure that does not violate either the Paris Convention or the TRIPS Agreement. His main argument is that none of

⁷⁰ See the notice published in WHO Bulletin Vol. 84, No. 9, September 2006, and available at <http://www.who.int/bulletin/volumes/84/9/06-010906/en/>.

⁷¹ Davison, Mark, *The legitimacy of plain packaging under international intellectual property law: why there is no right to use a trademark under either the Paris Convention or the TRIPS Agreement*, in Voon, Tania, Mitchell, Andrew D., and Liberman, Jonathan with Ayres, Glyn, *Public Health and Plain Packaging of Cigarettes – Legal Issues*, Edward Elgar Publishing, Cheltenham 2012, p. 107.

the two treaties provide for positive right of use of trademarks, and thus prohibition of use does not violate them. While I strongly disagree with the views of respected colleague on the issue of trademarks use (see my discussion of the Paris Convention and the TRIPS Agreement in next Chapter), I obviously agree with the quoted message. On the other hand, one may ask how the author justifies his strong support of plain packaging by defending it as a legally correct measure, if he himself recognizes its “little effect in the course of trade;” I address the issue below, in Ch. 3.

Skeptical Remarks of Professor Sweanor

Professor Sweanor is already quoted in Section 1.2 above, where I show how he came to an erroneous conclusion in respect of behavior of smokers in Canada in late 1980s, caused by his misinterpreted distinction between the “trademark appeal” and “brand loyalty.” However, Sweanor also makes the following observation as well:

“Oddly, making the case for plain packaging might be harder now than in the 1980s. Firstly, we have already largely destroyed the imagery of cigarette packages in many markets through large graphic health warnings, mandatory toxicity labelling, bans on descriptors and package imagery and the end of cigarette advertising that was linked to packaging. Secondly, and far more important, the ongoing battle between a public health approach and the abstinence-only approach to tobacco/nicotine now sadly associated with the formerly general moniker ‘tobacco control’ has led to anti-smoking measures being far less effective than they could otherwise be.”⁷²

There is every reason to agree with Sweanor here, in contrast to his earlier discussed erroneous conclusions. He is actually questioning the fundamental premise of plain packaging much in the same way as I do in section 1.2 above. In fact, he essentially confirms the findings of a number of studies such as 2010 LECG study authored by Padilla and Watson, the 2010 Devinney Analysis, the 2010 Gervais Analysis, the 2011 Montreal Economic Institute Opinion and the 2012 London Economics Behavioral Experiment. For this reason, I shall limit myself to a very brief exposition of these studies, emphasizing arguments directly related to the issues I have exposed above.

The 2010 LECG Critical Review

In January 2010, the study entitled *A critical review of the literature on generic packaging of cigarettes*, carried out by two prominent economists, Dr. Jorge Padilla and Dr. Nadine Watson, both working for LECG, was published⁷³. The authors show that the reviewed literature has serious limitations both in terms of data analysis and data collection methods, to the extent that the findings are likely to be erroneous and misleading; so the authors eventually conclude that “[A]ll the empirical evidence found in the literature is based on the unrealistic comparison between generic and branded

⁷² Sweanor, David T., *op. cit.*, p. 2.

⁷³ Padilla, Dr. Jorge, and Watson, Dr. Nadine, *A critical review of the literature on generic packaging of cigarettes*, LECG, January 4, 2010, available at <http://www.smoke-free.ca>

packaging, a comparison that smokers will never have to make if generic packaging is introduced.”⁷⁴

In other words, most of the evidence supporting plain packaging is based on surveys where respondents were asked to express their preferences between branded tobacco products on one hand, and plain-packaged products on the other. But such surveys are *a priori* bound to show preferences for branded products, irrespective of the nature of goods.

I allow myself to suppose that a methodologically more correct approach for establishing the alleged attractiveness of trademarks and its related contribution to the enhanced tobacco consumption would be to conduct a survey along the following lines: the respondents ought to be confronted with two cigarette packs, one being branded but *empty*, and another being plain-packaged but *filled with cigarettes* – and then the respondents ought to be asked, which pack they would prefer to choose. Common sense suggests that respondents would choose the plain packaged pack; however, such an outcome would convincingly refute the very basic premise of the plain packaging – that is, the harmful impact of trademark appeal on buying decisions. On the other hand, the virtually unlikely reversed result – that respondents would choose the empty branded package - would confirm the central premise of plain packaging. Yet such an unbelievable outcome would at the same time imply that tobacco industry could still make a lot of money by selling just empty packs bearing their trademarks...

In short, consumers are buying tobacco products because they - regrettably – want to smoke, and not because they want to buy brands due to their alleged attractiveness, which then subsequently “wakes up” their desire to smoke. As explained above is the decision to choose this or that brand tied only to the brand loyalty, not to the (non-existing) appeal. Obviously, this simple logic can be refuted only by conceptually inadequate surveys.

In addition to the insights of the authors of the LECG study, it is worth mentioning that the very concept of the plain packaging further ignores the basic economic truth that trademarks *as such* do not generate any additional (aggregate) demand for goods or services labeled by them - they only channel the demand.⁷⁵ The economic theory of advertising is predominantly devoted to the question how firms could create certain level of monopoly power through advertising; such a power enables a firm to charge prices for its product above its purely competitive price, which equals marginal costs – but this monopoly power, if established, has no impact on the overall aggregate demand for the product in question as such.⁷⁶ Anyhow, due to the advertising ban is monopolistic pricing for tobacco products obviously *a priori* ruled out.

⁷⁴ Padilla and Watson, op. cit., p.4 (emphasis added).

⁷⁵ Champniss, G., and Rodes Vila, F., *Brand Valued*, John Wiley and Sons Ltd., Sussex 2011, pp. 26-31 (Section entitled *Which came first – brands or demand?*).

⁷⁶ This theory is based on the so-called Dorfman-Steiner theorem, which can be found in virtually every textbook on Industrial Organization.

The 2010 Devinney Analysis

Prof. Timothy Devinney, an academic authority in his field, made a study entitled *Analysis of Consumer Research Evidence on the Impact of Plain Packaging for Tobacco Products*.⁷⁷ The author reviews a number of articles on plain packaging, and his conclusions are equally critical as those by authors of the LECG study:

“It is my conclusion that none of the studies examined meet reasonable incentive compatibility requirements. There is no indication that the studied individuals’ attitudes and intentions, as measured, align with their actual or future behaviours. Because the studies all focused on packaging absent other other salient attributes of the products (such as price) and factors that would potentially lead to an achievement of the policy goal outlined in paragraph 1.4, we do not know the degree to which the studies provide realistic information about the degree to which plain packaging matters ...

It is my conclusion that the studies examined also failed to provide experimental or situational contexts that created scenarios in which the individual would be applying the decision model that they used when making purchasing decisions or decisions related to policy goals outlined in paragraph 1.4 ...

Finally, it is my conclusion that, as the studies concentrated entirely on stated preferences and attitudinal measures, one cannot assume any predictive accuracy with respect to actual purchasing behaviour or the intended policy goals outlined in paragraph 1.4.”⁷⁸

No comment is necessary to be made here; only an explanation that the “policy goals outlined in paragraph 1.4, “ which the author is referring to in his conclusions, are

“(a) reducing smoke uptake (also known as initiation) among minors;

(b) reducing smoking consumption among minors and/or adults; or

(c) increasing smoking cessation among minors and/or adults.”⁷⁹

In other words, policy goals are the main objectives of plain packaging.

Nevertheless, it is worth noting the Devinney's unusually strong critique of some papers, some of which were also reviewed – and criticised - by Padilla and Watson:

“In case of Hammond, et al. (2009), Hammond and Parkison (2009), Doxey (2009) and Bansal-Travers, et al. (ND), it is my conclusion that they fail to meet even the most basic standards of good experimental design, implying that one can make no conclusions at all about the relevance of their findings with

⁷⁷ Devinney, Timothy M., *Analysis of Consumer Research Evidence on the Impact of Plain Packaging for Tobacco Products*, November 30, 2010. The study is available at <http://www.smoke-free.ca> .

⁷⁸ Devinney, Timothy, *Analysis of Consumer Research...*, *op. cit.*, p. 41/2.

⁷⁹ Devinney, Timothy, *Analysis of Consumer Research...*, *op. cit.*, p. 3.

*respect to the importance of the components of cigarette packaging that they study.”*⁸⁰

The 2010 Gervais Analysis

Prof. Daniel Gervais, one of most respected legal scholars especially in respect of the TRIPS Agreement, analyzed the “*Compatibility of certain Tobacco Product Packaging Rules with the TRIPS Agreement and the Paris Convention;*” the document is dated on November 30, 2010.⁸¹ Since I shall return to this study more extensively below, but here it suffices to draw attention to the following observation of the author:

*“... it seems fair to say that there is **some** evidence that certain proposed plain packaging measures do not work as planned and may even have unintended consequences.”*⁸²

The 2011 Montreal Economic Institute Opinion

The Montreal Economic Institute – an independent economic research institution – warns that plain packaging may lead to the emergence of low-price, low-cost competition and increase in illicit trade, and concludes that the overall effect of plain packaging is likely to be “*at best marginal.*”⁸³

The 2012 London Economics Behavioral Experiment

The last document I wish to mention is the study prepared in 2012 by the London Economics, an economics and policy consultancy, and entitled *The Role of packaging imagery on consumer preferences for experience goods*.⁸⁴ This study describes findings of an online behavioral experiment that was conducted with 3,000 consumers resident in UK. The study apparently intends to avoid flaws of surveys supporting plain packaging identified by Padilla and Watson and by Devinney; the London Economics experiment takes several relevant behavioral and other parameters into account. The findings confirm that plain packaging is likely to result in an increased price competition, meaning falling prices. And while the authors “*believe that the removal of packaging imagery from cigarettes reduces the willingness of consumers to pay for premium cigarette brands (and mid range brands to a lesser extent),*” they nevertheless eventually conclude the following:

*“If greater price competition were to occur (and given the importance of price signals in the marketplace), there may be **a possible increase in the level of***

⁸⁰ Devinney, Timothy, *Analysis of Consumer Research...*, *op. cit.*, p. 42 (emphasis added).

⁸¹ Gervais, Daniel, *Analysis of the compatibility of certain Tobacco Product Packaging Rules with the TRIPS Agreement and Paris Convention*, 30 November 2010, available at <http://www.smoke-free.ca>.

⁸² Gervais, Daniel, *Analysis of the compatibility of certain Tobacco Product Packaging Rules with the TRIPS Agreement and Paris Convention*, 30 November 2010, available at <http://www.smoke-free.ca>, p. 27.

⁸³ *Plain Packaging and its Unintended Consequences*, August 2011 Economic Note of the Montreal Economic Institute, *op. cit.* The document refers to the 1995 Appendix C of the Expert Panel Report of Health Canada entitled *When Packages can't speak: Possible Impact of Plain and Generic Packaging on Tobacco Products*.

⁸⁴ London Economics, *The role of packaging imagery on consumer preferences for experience goods*, London January 2012, available at <http://www.smoke-free.ca>.

*consumption, especially amongst those individuals with fewer financial resources. Other factors held constant, the removal of all packaging imagery and possible subsequent price falls may also encourage younger people to take up smoking in the first instance.”*⁸⁵

As before, there is no need to make any comment, except of noting that the described experiment confirms reasoning exposed above in Section 1.2, where I claim how brand loyalty could actually be useful for achieving the main objective of plain packaging.

First Evidence on Plain Packaging Impact

Analysis of Prof. Davidson

All the above studies were made before the Plain Packaging Act has entered into force; but now, in 2016, it is worth paying attention to an initial evidence about its performance - that is, to establish whether its basic objectives have been met.

Sinclair Davidson, Professor of Institutional Economics at the School of Economics, Finance and Marketing at RMIT University in Melbourne, has carefully followed the issue, paying special attention to the correctness and interpretation of various data collected on behalf of Australian Department of Health and Treasury. The most complete presentation of his findings in respect of plain packaging impact in Australia is presented in his recent document (April 2016) *Submission to Public Consultation on Potential Measures to Enhance Singapore's Tobacco Control Policies*.⁸⁶ I allow myself just to quote Conclusions of the document:

"Australia was a world leader is(sic!) adopting standardised packaging for tobacco products in 2012. Substantial data relating to that policy experiment are now available for analysis. The data itself, as opposed to the commentary associated with that data, do not support the notion that standardised packaging has met its stated policy objectives. Health Department officials and anti-tobacco lobbyists have been reduced to claiming the policy will be successful because smokers dislike the packs. That is the proposition that must be proven in order for the policy to be declared to be successful, yet it remains unproven.

[.....]

The following conclusions can be drawn:

- 1. There is no evidence to support the notion that standardised packaging reduces the prevalence of tobacco consumption - as such it cannot be said to reduce the appeal of tobacco products.*
- 2. Enhancing the graphic warnings has had little impact on reducing smoking prevalence.*

⁸⁵ London Economics, *The role of packaging imagery on consumer preferences...*, *op. cit.*, p.15.

⁸⁶Davidson, Sinclair, *Submission to Public Consultation on Potential Measures to Enhance Singapore's Tobacco Control Policies*, available at <http://catallaxyfiles.com/files/2016/04/Davidson-Singapore-Submission.pdf>

The anti-tobacco policy package introduced into Australia in 2012 cannot be described as having met its stated objectives and should not be adopted in other jurisdictions. Rather the public health authorities should focus their efforts on public education and pursuing policies that are likely to reduce the prevalence of smoking without imposing high social costs on society."⁸⁷

Newly Established Tobacco Strike Team

The predicted growth of counterfeit tobacco trade under plain packaging regime seems to be indirectly confirmed in Australia. On October 16, 2015, Hon. Peter Dutton, Minister for Immigration and Border Protection, announced on his website that a dedicated strike team established within the Australian Border Force (ABF) "*will target and disrupt serious organised crime syndicates smuggling illicit tobacco into Australia.*"⁸⁸ Several further reports followed, showing the success of the new Tobacco Strike Team, e.g. report on November 25, 2015⁸⁹, or the more recent report on April 16, 2016.⁹⁰ While one has to applaud to the impressive results achieved by the new Team, the point here is that the Team has been established in October 2015. This fact could be interpreted that illicit tobacco trade has disproportionately gone up in last few years, that is, after APPA entered into force. However, it has to be admitted that this interpretation is a bit speculative, and a more reliable conclusion could be drawn only after analyzing reliable statistical data on tobacco illicit trade before and after introduction of plain packaging regime.

Gained Insights and their Impact on WTO Law

The main insight of this chapter is that the desired effect of plain packaging is likely to be at best marginal, whereas its unintended but harmful consequences on public health are predictably substantial. It is then not difficult to recognize a crucial impact of the insight: plain packaging could hardly be justified as an appropriate measure for improving public health of vital importance - with the consequence that the stringent *necessity and justification tests* under respective provisions of the GATT 1994 (Article XX(b)), and/or TRIPS Agreement (Article 8.1.) simply cannot be met. If so, then no exceptions and limitations potentially allowed under provisions of the two articles can be invoked in respect of all other relevant provisions of the TRIPS Agreement.

However, provisions of GATT and TRIPS Agreement are not the only relevant sources of (international) law; for obvious reasons, Framework Convention of Tobacco Control (FCTC) is crucially relevant. Let me therefore review and analyze plain packaging in respect of relevant international law.

⁸⁷Davidson, S., *op. cit.*, p. 26.

⁸⁸ See <http://www.minister.border.gov.au/peterdutton/2015/Pages/record-illicit-tobacco-seizure-leads-to-new-strike-team.aspx>

⁸⁹ <http://www.minister.border.gov.au/peterdutton/2015/Pages/abf-strike-team.aspx>

⁹⁰ <http://www.minister.border.gov.au/peterdutton/2016/Pages/abf-tobacco-strike-team.aspx>

2. PLAIN PACKAGING AND RELEVANT INTERNATIONAL LAW

2.1. FRAMEWORK CONVENTION ON TOBACCO CONTROL (FCTC)

The first task worth exploring is to looking at those provisions of FCTC, which constitute the legal basis of plain packaging, despite the fact that it is the TRIPS Agreement which is in the forefront within WTO plain packaging dispute(s). While the issue whether international agreements that are not incorporated by reference into a WTO agreement can serve as a source of WTO law is highly controversial, it is nonetheless “*broadly accepted that these other international agreements may play a role in the interpretation of WTO legal provisions.*”⁹¹ At least, the undisputed objective of FCTC is to improve public health, what almost spontaneously suggests direct relevance and subsequently a possible applicability of Article 8.1 the TRIPS Agreement, and/or Article XX(b) of GATT 1994.

Relevant Provisions: Articles 11 and 13

As the starting point, it is convenient to recall that the APPA explicitly states that one of its objectives (objects) is also “*to give effect to certain obligations that Australia has*” under the FCTC.

The relevant provisions of both Articles are Par.1 (a) of Article 11, and Par. 4(a) of Article 13. Both provisions contain practically identical wording, the only difference being that Article 11 refers to *Packaging and labeling*, while Article 13 refers to *Advertising, promotion and sponsorship*. Since the provisions of Article 13 have been already met by advertising ban, it suffices to deal with the said Par. 1(a) of Article 11 only. This paragraph obliges Contracting Parties to adopt and implement effective measures to ensure

“[t]hat tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics, health effects, hazards or emissions, including any term, descriptor, trademark, figurative or any other sign that directly or indirectly creates the false impression that a particular tobacco product is less harmful than other tobacco products.”

The Absence of Plain Packaging in FCTC

The quoted provision of Article 11 is without any doubt entirely acceptable from public health point of view; importantly, it is also equally perfectly acceptable from the viewpoint of trademark and unfair competition law. However, the most immediate observation here is actually well known fact that the FCTC does *not* provide *any* legal basis for plain packaging, as it is *not* mentioned anywhere in the FCTC, let alone to be defined. It is mentioned only in the WHO *Guidelines*:

⁹¹ Peter, Van den Bossche and Werner, Zdouc, *The Law and Policy of the World Trade Organization*, Cambridge University Press, Cambridge 2013, p. 57.

*“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). This may increase the noticeability and effectiveness of health warnings and messages, prevent the package from detracting attention from them, and address industry package design techniques that may suggest that some products are less harmful than others.”*⁹²

In respect of the *Guidelines*, it must be first noted that this document is a non-binding document, as correctly pointed out by Gervais;⁹³ generally speaking, guidelines and other similar documents represent the so-called “soft law” in international law.⁹⁴ This fact seems to be a reasonable explanation for the very cautious wording: “*Parties should consider ...*” In any case, the wording *per se* implies the optional nature of plain packaging; in fact, the non-binding nature of this particular wording were maintained even if it were part of a binding article within the FCTC.

In short, the adoption of plain packaging is *jus strictum* neither foreseen nor required by FCTC, what implies that adoption of plain packaging cannot be proclaimed as an act of fulfilling certain obligations by a Contracting Party to the FCTC. In other words, the provision of Section 3(1)(b) of the APPA simply does not hold.

Irrespective of the binding or non-binding nature of *Guidelines* provisions in respect of plain packaging, there is no doubt that the scope of Article 11 is limited to deal with the advertising function of trademarks *only*, despite the fact that the issue of advertising is apparently the subject matter of Article 13 FCTC. The wording of Article 11 clearly emphasizes *promotion*: “... *product packaging and labeling do not promote ... [or] ... likely to create an erroneous impression.*”

This provision is reasonable, though a bit redundant in the light of Article 13. As I argue above, it is just the advertising function that may generate a negative impact on public health. However, it is immediately clear that all tobacco trademarks, which *do not promote* tobacco products by any false, misleading or deceptive means are *neither affected nor covered by Article 11.1(a) at all*. In other words, Article 11 FCTC definitely does not call for prohibition of *all* tobacco trademarks - in direct contrast to Australian Plain Packaging Act.

This is an important insight, because it implies that FCTC Contracting Parties, which have prohibited advertising and other forms of promotion (e.g., sponsoring), have apparently fulfilled virtually all of their obligations under the par. 1(a) of Article 11. If so, then there is neither any need nor any justification for plain packaging in the form as enacted in Australia, let alone in the form along the recommendations of the *WHO Guidelines*.

⁹² *WHO Framework Convention on Tobacco Control, Guidelines for implementation*, 2011 edition, FCTC, Geneva 2011, p. 59. The document is available at the WHO/FCTC website.

⁹³ Gervais, D., *op. cit.*, footnote 70 on p. 30.

⁹⁴ Dixon, Martin, *Textbook on International Law*, Oxford University Press, Oxford 2013, p. 52.

The only task that could possibly be relevant would be an identification of tobacco trademarks that could be eventually found as false, deceptive, and/or misleading on their individual merits, and if so, be subsequently revoked or cancelled. Of course, such an exercise ought to be done under appropriate administrative and/or legal *inter partes* proceedings as provided for in virtually every trademark act around the globe, and also as required by the TRIPS Agreement (Article 62.4); in Australia, this is the Trade Marks Act 1995, to which I shall revert later.

Plain Packaging Justification: FCTC Guidelines

In concluding the discussion about Article 11.1, it may be useful to recall the last sentence of the above quoted paragraph from the WHO *Guidelines*:

“This [plain packaging] may increase the noticeability and effectiveness of health warnings and messages, prevent the package from detracting attention from them, and address industry package design techniques that may suggest that some products are less harmful than others “.

The quoted paragraph clarifies what actually is the *main purpose* of plain packaging - which is that it *“may increase the noticeability and effectiveness of health warnings and messages.”* It is easily recognized that the said purpose is in no way related to the substance of Article 11.1, the aim of which is to prevent undesired promotion of false, misleading or deceptive nature of trademarks. A trademark may be found as false, misleading etc., though in vast majority of cases trademarks serve just as a legally and otherwise correct badges of origin; however, the size of a trademark as actually displayed on related product has no impact whatsoever on the issue whether a trademark is - or is not - false, misleading and/or deceptive.

On the other hand, the smaller the size of a trademark, the more is its inherent distinctiveness likely to be diminished.⁹⁵ Yet distinctiveness *per se* is neither the purpose nor the subject matter of Article 11.1. Moreover, even the issue of the (increased) noticeability of health warnings as mentioned in the *Guidelines* is not contained in Article 11.1. Last but not least, note that the *Guidelines* state that plain packaging just *“may”* increase the noticeability of health warnings; in other words, plain packaging may not necessarily have the desired effect of an increased noticeability of health warnings at all.

Irrespective of literal reading of the FCTC and the related *Guidelines*, the alleged ability of a tobacco package to *“detract attention”* from health warnings is a rather doubtful concept. Recall that par. 1(b) of Article 11 of the FCTC requires that health warnings must cover at least 30%, but preferably 50% or more of the principal display areas of each tobacco package. If so, then it is indeed difficult to imagine that trademarks or other distinctive elements of packages are detracting attention from the evidently much larger and thus much more visible health warnings.

That said, the crucial question whether a tobacco trademark is promoting tobacco by being false etc. still remains unanswered. To answer it, one must first weigh the

⁹⁵ Cf. Pires de Carvalho, *op. cit.*, par. 20.16., p. 426.

presumed “*detracting ability*” against the fundamental origin function of the trademark at issue. Answering this question is likely to be essential in proving - or refuting - the very assumption of the plain packaging, according to which *all* tobacco trademarks are *a priori* considered to be of false, misleading and/or deceptive promotional nature in the sense of Article 11.1 FCTC. This question is in my view of key importance, and thus it would hopefully be addressed by the panel in the plain packaging WTO dispute(s).

On the other hand, one must not ignore the Paris Convention for the Protection of Industrial Property (Paris Convention), which is incorporated by reference into the WTO TRIPS Agreement and is thus part of the WTO law. The reason is simple: Paris Convention also contains provisions in respect of false, deceptive and/or misleading trademarks, just like this being the case with Article 11.1 FCTC.

2.2. THE PARIS CONVENTION

Articles 6quinquies and 10bis

The provisions of the Paris Convention that are most relevant in respect of plain packaging are contained in par. B. 3. of Article 6quinquies, which reads as follows:

“B. Trademarks covered by this Article may be neither denied registration nor invalidated except in the following cases:

...

3. when they are contrary to morality or public order and, in particular, of such a nature as to deceive the public. It is understood that a mark may not be considered contrary to public order for the sole reason that it does not conform to a provision of the legislation on marks, except if such provision itself relates to public order.

This provision is subject, however, to the application of Article 10bis.”

And the relevant part of Article 10bis reads as follows:

“(1) The countries of the Union are bound to assure to nationals of such countries effective protection of unfair competition.

(2) Any competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited:

[omissis]

3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability of their purpose, or the quantity, of the goods.”

So far, there is nothing new in quoting these provisions; they are indeed mentioned by many commentators, though there are differences in their interpretation, of course. My purpose however is different; I wish to compare said provisions of the Paris Convention with provisions of Article 11.1. FCTC, and then subsequently draw conclusions from that exercise.

Similarity between Article 6quinquies and Article 11FCTC

Comparing the quoted Articles of the Paris Convention with Article 11.1 FCTC, one can realize the sheer similarity among them, both in terms of terminology and objectives. Compared articles in the two Conventions aim at prevention of any confusion and deception that may be caused by false, misleading, and/or deceptive signs.

Of course, there are also differences between the two Conventions, especially in respect of obligations and allowed measures. While FCTC obliges contracting Parties to “*adopt and implement ... effective measures to ensure that ... tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive ...*”, the Paris Convention allows its Contracting Parties to deny registration or invalidation trademarks “*when they are contrary to morality or public order and, in particular, of such a nature as to deceive the public,*” (and by taking into account the obligatory application of Article 10bis).

Neither the FCTC nor Paris Convention contain any procedural rules under which a trademark can be declared false, misleading, deceptive, or contrary to morality and public order. However, given practically the same substantive contents of the articles under consideration in both Conventions, there is no reason why such rules should not be the same. After all, both Article 11 of the FCTC and Article 10bis of the Paris Convention (the provisions of which are applicable in respect of Article 6quinquies) are legally binding for Contracting Parties to the two Conventions, and a vast majority of Parties to either Convention are also Parties to another Convention. Therefore, identical procedural rules would obviously ensure a mutually consistent application of both the FCTC and the Paris Convention from this particular point of view.

Whatever the relevant procedures for rejecting or canceling registration of a “wrong” trademark may be, they must not violate the provisions of Article 62.4 of the TRIPS Agreement; these provisions require that procedures for acquisition and maintenance of intellectual property rights must be “*fair and equitable*”, and parties must have “*an opportunity to be heard*”.⁹⁶

Since the Paris Convention is much older than the FCTC, it is obvious that the relevant procedures have been developed and more than well tested well before the FCTC was concluded. National trademark laws in virtually all countries contain provisions concerning rejection or cancellation of registration of any false, deceptive, misleading etc. trademark. It is the duty either of the relevant administrative body – a trademark office – or by a court to prevent the registration of such a trademark, as well as to revoke and/or cancel it if being registered. And a possibility for judicial review of any of such a decision must be in any case available to *all* the parties involved, as required by 62.4 of the TRIPS Agreement.

As far as Australia is concerned, the relevant provisions in the Australian Trade Marks Act 1995 (Trade Marks Act) in respect of rejecting a “wrong” trademark are contained in s42 (*Trade mark scandalous or its use contrary to law*) and s43 (*Trade mark likely to*

⁹⁶ Article 62 of the TRIPS Agreement refers to paragraphs 2 and 3 of Article 41.

deceive or cause confusion); provisions concerning cancellation (revocation) of such “wrong” trademarks are contained in s38 and s84A-D. Needless to say, the provisions are fully compatible with the TRIPS Agreement. It is indeed worth quoting Davison what he says in respect of s43:

*"The use of some trade marks would be contrary to law and if an opponent can prove that to be so, registration would be denied. The key word here is "would", not "could" or "might". The use of the trade mark must necessarily contravene some law in order for this provision to apply; hence it would not be sufficient to show that use of the trade mark may involve misleading or deceptive conduct as that would depend on the particular circumstances of its use."*⁹⁷

The Relevance of Australian Trade Marks Act 1995

Given the sheer similarity of Article 11.1. FCTC with Article 6*quinquies* (and related Article 10*bis*) of the Paris Convention, the following question can be almost naturally raised:

Why Australia has not simply opted to make use of the existing, well proven provisions of the Trade Marks Act, instead of adopting the APPA?

In principle, nothing is wrong to choose a different procedure by adopting a special act such as the APPA – but one could reasonably expect that it fully complies with established standards and provisions laid down by relevant international law.

However, a crucial difference is immediately recognized between the Trade Marks Act and APPA precisely in respect of procedural issues. Under Trade Marks Act, rejection/revocation of a false, deceptive etc. trademark is obligatorily judged under considerations of *particular* circumstances for *each and every affected trademark individually*; in addition, such a trademark must contravene some law. And the owner of such an "attacked" trademark has every right to be heard, including his right to a judicial review. Yet, APPA *en gros* prohibits the use of *all* tobacco trademarks without any considerations of all relevant particular circumstances for each and every affected trademark individually; moreover, trademark owners have had no right to be heard, nor having any possibility of judicial review.

The observed differences between the two acts are worth of some comments.

First, individual treatment of each and every trademark that may be revoked for reasons of being false, misleading etc. under the Trade Marks Act is obviously in full compliance with the Paris Convention. The following comment of Bodenhausen in his seminal *Guide to the Application of the Paris Convention* in respect of par. B.3 of Article 6*quinquies* is clear:

⁹⁷ Davison, Mark J., Monotti, Ann L., and Wiseman, Leanne, *Australian Intellectual Property Law* (Second edition), Cambridge University Press, Cambridge 2012, p. 100 (Prof. Davison is author, *inter alia*, of Ch. 3 (Registered Trade Marks), from which the above quotation is taken.

*“The third permissible ground for refusal or invalidation of trademarks covered by the Article exists when such mark, **considered on its individual merits**, is contrary to morality or public order...A mark contrary to public order would be a mark contrary to the basic legal or social concepts of the country concerned. ... The Revision conference of London in 1934 added to this provision, as a special category of trademarks contrary to morality or public order, those trademarks which are **of such a nature as to deceive the public**. The purpose of this addition was to enable the member States to refuse or invalidate **trademarks containing suggestions that the goods concerned possessed non-existing qualities, or unjustified references to rewards ...**”⁹⁸*

Therefore, if a trademark is to be declared as contrary to morality or public order, or to be found false, misleading or deceptive, then, under Paris Convention, it must be *considered on its individual merits*.

In this respect, one has to agree with Gervais who, in commenting Article 6quinquies, correctly observes that “...*this Article could not provide a justification for restricting tobacco trademarks **generally**.*”⁹⁹ In other words, the *en gros* prohibition of use of all tobacco trademarks represents a violation of Article 6quinquies of the Paris Convention.

Turning attention back to FCTC, it is also worth noting that the literal interpretation of par. 1(a) of Article 11 FCTC also presumes an individual consideration of each and every tobacco trademark. Note that the wording is in singular - “*a tobacco product*.” In other words, the literal interpretation of par. 1(a) of Article 11 apparently also presumes an individual treatment of every trademark that may be false, deceptive and/or misleading, much in the same and equally reasonable way as this being the case with Article 6quinquies of the Paris Convention.

To summarize: APPA significantly deviates from the Australian Trade Marks Act in respect of procedural provisions concerning how false, deceptive, misleading etc. trademarks are identified and subsequently sanctioned. Even if plain packaging were indeed justified (what I consider as unlikely, see the arguments against its justification above), then

1. the false, misleading and/or deceptive nature ought to be proved *for each and every trademark under consideration on its individual merits*;
2. and the trademark owner of his trademark subject to such a procedure ought to have the right of judicial review of any decision he may consider as incorrect.

None of the two conditions is met by APPA. General surveys serving as the evidence for alleged public-health threatening attractiveness of tobacco trademarks are surely not a sufficient justification for adoption of the APPA; at least, prohibition of use can in no case be simply “extended” to *all those* trademarks, which have *not* been used in said surveys.

⁹⁸ Bodenhausen, G. H.C., *Guide to the Application of the Paris Convention for the Protection of Industrial Property*, BIRPI, Geneva 1969 (now available as WIPO publication No. 611), p. 116 (emphasis added).

⁹⁹ Gervais, D., *op. cit.*, p. 20 (emphasis added).

In the light of the above, it is then easy to show that the APPA is actually a superfluous piece of law; all the objectives of Article 11 FCTC could be achieved by relying on the Trade Marks Act, though through an obviously more demanding but legally flawless administrative and/or judicial procedures concerning rejection or invalidation of any trademark that is false, misleading or deceptive on its individual merits.

Interestingly, if such a procedure were applied, then another two important benefits would have been achieved:

1. further use of any false, deceptive etc. tobacco trademark revoked or cancelled in this way would be declared invalid *ab initio*, and subsequently so to say prohibited *for ever*, at least by virtue of Article 10*bis* of the Paris Convention, the application of which is tied to the application of relevant provisions of the first par. of Section B of Article 6*quinquies*; and
2. such a rejection or invalidation of a trademark would *a priori* and fully relieve the Government of any pecuniary obligations such as, for example, compensations for damages caused to trademark owners in case that the WTO dispute finds that APPA has violated some provisions of the TRIPS Agreement.

APPA does not provide for these two important benefits; in fact, it precisely generates the opposite, and self-contradicting situation.

Cardinal Self-Contradiction of Plain Packaging

Let me first note that however superfluous and unlawful APPA may be, one could nonetheless reasonably expect that APPA contains certain justification in respect of tobacco trademarks that could be considered as false, deceptive and/or misleading in the sense of Article 11.1. Such a justification could be reasonably expected at least due to explicitly stated objective of APPA “*to give effect to certain obligations that Australia has as a party to the Convention on Tobacco Control.*” But there is no such justification.

On the other hand, it is an astonishing fact that APPA actually contains provisions, which unmistakably recognize that not a single prohibited tobacco trademark being false, deceptive, or misleading. In other words, *none* among *all* prohibited trademarks under APPA meets criteria laid down in par. 1 of Article 11 FCTC (and/or Article 6*quinquies* of the Paris Convention).

This almost unbelievable fact follows directly from s28 of the APPA, the most relevant part of which reads as follows:

“28 Effect on the Trade Marks Act 1995 of non-use of trade mark as a result of this Act

(1) For the purposes of the Trade Marks Act 1995, and regulations made under that Act, an applicant for the registration of a trade mark in respect of tobacco products is taken to intend to:

- (a) *use the trade mark in Australia in relation to those products; or authorise another person to use the trade mark in Australia in relation to those products; or*
 - (b) *assign the trade mark to a body corporate that is about to be constituted with a view to the body corporate using the trade mark in Australia in relation to those products; if the applicant would intend to do so but for the operation of this Act.*
- (2) *To avoid doubt, for the purposes of paragraph 42(b) of the **Trade Marks Act 1995**, this Act does not have the effect that the use of a trade mark in relation to tobacco products would be contrary to law.*
- (3) *To avoid doubt, for the purposes of sections 38 and 84A of the **Trade Marks Act 1995**, and regulations 17A.27 and 17A.42A of the **Trade Marks Regulations 1995**:*
- (a) *the operation of this Act; or*
 - (b) *the circumstances that a person is prevented, by or under this Act, from using a trade mark on or in relation to the retail packaging of tobacco products;*
are not circumstances that make it reasonable or appropriate:
 - (c) *not to register the trade mark; or*
 - (d) *to revoke the acceptance of an application for registration of the trade mark; or*
 - (e) *to register the trade mark subject to conditions or limitations; or*
 - (f) *to revoke the registration of the trade mark.”*

Two points stand out. First, note that par. (2) of the quoted s28 clearly says that it *"it does not have the effect that the use of a trade mark in relation to tobacco products would be contrary to law."* But which law then represents the legal basis for their prohibition?

However, the main point here is that every “correct” trademark - correct in the sense that it is not false, deceptive or misleading under relevant provisions either under FCTC or Paris Convention - must be continuously used “in the course of trade” in order to retain it validly registered. Virtually all national trademark laws,¹⁰⁰ including Australian Trade Marks Act, provide for obligatory use as condition for maintaining the validity of registered trademarks, despite the fact that this obligation is optional under Article 15.3 of the TRIPS Agreement. The obligation of use however does not apply in “*circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions on or other government requirements for goods or services protected by the trademark,*” to quote Article 19.1. of the TRIPS Agreement.

¹⁰⁰ Cf. Pretnar, Bojan, *Use and Non-Use in Trade Mark Law*, in Phillips, J., and Ilanah, S. (Eds), *Trade Mark Use*, Oxford University Press, Oxford 2005, Ch.2.

Davison comments the relevant provisions of the Trade Marks Act concerning the obligatory use of trademarks as follows:

*“Once registered, there are also various grounds upon which a trade mark may be removed from the Register or the Register may be rectified. In particular, a trade mark is liable for removal for non-use or the Register may be rectified if the trade mark should never have been registered and has not subsequently become eligible for registration.”*¹⁰¹

The obligation of use obviously refers only to the use of “correct” trademarks – i.e. trademarks, the registration of which was neither rejected nor (later) cancelled on the basis of being found as false, deceptive or misleading. The corresponding provisions of the Trade Marks Act are contained in s43; Davison explains when this section is applicable:

“For example, while a trade mark might be distinctive, it might also suggest that the goods in relation to which it is used have qualities that they do not in fact possess ... One can also readily imagine trade marks that would be dangerously deceptive ... or even attractive scents that may encourage a young child to consume the product ...

*In addition to these situations where the trade mark suggests a quality that is in fact absent, the trade mark may also suggest other associations that it does not have.”*¹⁰²

It is indeed worth noting how much the above quoted provisions from Trade Marks Act resemble Article 11.1 FCTC ...

Coming back to APPA, it is beyond any doubt that the prohibition of use it imposes on tobacco trademarks represents “*circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark ...*”, to quote Article 19.1 again. It is then *prima facie* absolutely correct that APPA contains adequate “safeguarding” provisions in this respect in its s28. Moreover, s28 may evidently be interpreted as an indeed powerful defense against claims of trademark owners that plain packaging represents an act of expropriation of their prohibited trademarks; clearly, as long as the owners retain the title to their trademarks in the Register, claiming expropriation could hardly make any sense.

However, a second look at s28 makes a totally different picture.

The point is that provisions of s28 of APPA unmistakably and also beyond any doubt testify that *all* trademarks affected by APPA are absolutely “correct” trademarks, which are fulfilling all the requirements for being registered. Were these trademarks not “correct”, then there would have been no need whatsoever for defending them against

¹⁰¹ Davison *et al.*, *Australian Intellectual Property Law*, *op. cit.*, p.69 (emphasis added).

¹⁰² Davison *et al.*, *Australian Intellectual Property Law*, *op. cit.*, p. 101.

their cancellation for the reason of their non-use, because they would have been in any case liable for being cancelled and subsequently removed from the Register.

In other words, s28 APPA represents an indisputable confirmation that *none* of prohibited tobacco trademarks is false, deceptive or misleading.

Put differently, s28 is an explicit proof that APPA is actually *not* related to Article 11.1(a) FCTC (nor to any other article of the Convention) *at all*. Recall that Article 11 FCTC obliges Parties “*to adopt and implement ... effective measures to ensure that ... tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression ... including any term, descriptor, trademark ...*”

Therefore, APPA is prohibiting the use of trademarks, which are by the very same Act recognized as trademarks that in no way contravene the relevant provisions of FCTC, the Paris Convention, and the TRIPS Agreement. The APPA is thus self-contradicting in its most essential point, what eventually makes its public-health-based justification for allowing use of “exceptions” (Articles 8.1 and 17 of TRIPS Agreement) groundless and irrelevant.

That said, it is also worth noting that s28 of APPA *de facto* disqualifies FCTC as its legal background, and thus the Act's objective “*to give effect to certain obligations that Australia has as a party to the Convention on Tobacco Control*” simply has no ground.

The very same contradiction is contained in the paper of Voon and Mitchell, written when the draft of APPA was available but which did not differ from the adopted Act. They first agree that Article 6quinquies of Paris Convention ...

*“could indeed be used to restrict certain deceptive trademarks, such as marks that use the words ‘light’ or ‘mild’ in connection with cigarettes in a manner that it is likely to deceive the consumer into believing that those cigarettes are more healthy than any others.”*¹⁰³

Apart from noting rather vague justification (“... *in a manner that it is **likely to deceive the consumer** ...*”), the authors then state that

*“[P]lain packaging does not prevent the registration of new trademarks or require the invalidation of any registered trademarks. Indeed, the draft Australian legislation explicitly prevents the Registrar of Trade Marks from refusing to register or revoking the registration of a trade mark on the grounds that plain packaging requirements prevent the mark from being used or from distinguishing the relevant product.”*¹⁰⁴

¹⁰³ Voon, T., and Mitchell, A., *Implications of WTO Law...*, *op. cit.*, p. 6.

¹⁰⁴ Voon, T., and Mitchell, A., *Implications of WTO Law...*, *op. cit.*, *ibid.*

In other words, the authors correctly acknowledge that certain tobacco trademarks that do not comply with provisions of Article 11.1(a) FCTC, may be “*restricted*” under Article 6*quinquies* of the Paris Convention. And they also correctly acknowledge that plain packaging affects a number of other trademarks which evidently are not false, misleading etc. – and this is the reason why the plain packaging legislation “*explicitly prevents the Registrar*” to refuse an application or revocation of such “correct” trademarks. But this then undoubtedly implies that all such “correct” trademarks do not fall under Article 11.1(a) FCTC.

Voon and Mitchell further claim, that “*while Article 6quinquies (B) may not provide a justification for plain packaging, it does not preclude plain packaging.*”¹⁰⁵ It is a rather obvious fact that the said Article, given its historical context,¹⁰⁶ could hardly offer any justification for plain packaging. Nevertheless, Article 6*quinquies*, read in conjunction with other articles of Paris Convention (notably Article 7), *does* preclude plain packaging, at least in the sense that it does not imply *en gros* prohibition of trademarks for the whole class of products. As shown above, it would be legally correct to prohibit only trademarks that, judged by individual merits of each of them, would be found as false, misleading or deceptive under fair and equitable *inter partes* procedures.

In this respect, it is worth recalling the fact mentioned above that individual treatment of each tobacco trademark is actually foreseen by literal reading of Article 11.1(a) FCTC. Apart from the fact that FCTC nowhere refers to plain packaging and thus is not providing for any basis for its justification (see section 2.1), this Article is strictly limited, let me repeat again and again, to “*adopt and implement ... effective measures to ensure that ... tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive ...*”

And the last observation in respect of Article 11 FCTC: the terms “low tar”, “light”, “ultra-light”, or “mild” listed in the last sentence of paragraph 1(a) apparently represent an exhaustive list, at least if interpreted literally, because the sentence does not contain the usual phrase “but are not limited to.”

All these arguments may be of crucial relevance. Bearing in mind that several WTO Members initiated a WTO dispute against Australia, it is then clear that the outcome of the disputes shall crucially depend on whether plain packaging is violating - or not violating - the TRIPS Agreement. Although I would personally prefer that plain packaging be rejected due to its inherently functional flaws explained in Ch. 1 above, it nevertheless makes sense to look at the TRIPS Agreement and identify Articles that are possibly affected by plain packaging. I shall simply comment relevant provisions in order as they appear in the Agreement.

¹⁰⁵ Voon, T., and Mitchell, A., *Implications of WTO Law...*, *op. cit.*, *ibid.*

¹⁰⁶ Bodenhausen, *op. cit.*, p. 114ff.

2.3. THE TRIPS AGREEMENT

Preamble: The Ordinary Meaning of the Term Use

The Relevance of the Preamble

One of central issues, if not *the* issue in the context of plain packaging and its possible violation of the TRIPS Agreement is proper interpretation of the scope of rights conferred by a trademark. There is no doubt that Article 16.1 confers what is known as negative exclusive right to prevent an unauthorized use; however, the crucial question whether the TRIPS Agreement provides also for positive right of use in the course of trade that is exclusively conferred to the owner of a registered trademark is hotly disputed. Most of my analysis is devoted to this issue, which however is not limited to Article 16; the point is that it is absolutely essential to understand, and subsequently properly interpret, the real meaning of the term “use” in the context of the Agreement.

The basic framework for a proper interpretation is Articles 31 of the Vienna Convention on the Law of Treaties (VCLT), which in par. 2 expressly provides that “*the context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes.*” Therefore, it makes sense to begin the analysis by paying attention to the Preamble of the TRIPS Agreement.

The relevant part of the Preamble reads as follows (emphasis added):

“Members,

Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;

Recognizing, to this end, the need for new rules and disciplines concerning:

...

(b) the provision of adequate standards and principles concerning the availability, scope and use of trade-related intellectual property rights; ...”

The Term “Use”

So, the word *use* appears in lit. (b) of the second paragraph in the Preamble; the same text of lit. (b) is also *verbatim* taken as the title of PART II, the Section 2 of which is devoted to trademarks (Articles 15 –21).

The word “use,” if properly interpreted under Article 31 VCLT in “*accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose,*” has evidently a wider meaning than the notion of the exclusive right of the owner of a registered trademark as determined in Article 16.1.

Since the purpose of the TRIPS Agreement is “to reduce distortions and impediments to international trade,” it is clear that “use” in its ordinary meaning primarily refers to the positive use of intellectual property rights in the course of trade by their owners, which is by far the most exploited and thus the dominating right; all other rights, i.e., the right to prevent unauthorized use, the right to assign and/or license a trademark etc. are applied significantly less frequently, and thus they just complement the basic right of positive right of use.

Therefore, the meaning of the word “use” in Preamble and elsewhere in the TRIPS Agreement cannot be interpreted to mean only the basic right conferred under Article 16.1. If it were so, then Preamble could refer simply to the right conferred, without applying the word use; alternatively, Article 16.1 could simply refer to the use, if its meaning were strictly limited only to the negative right of preventing any unauthorized use.

The above reasoning is further confirmed by the fact that the word “use” appears in several other articles, where it evidently means the right of exclusive use of intellectual property rights, including trademarks. I shall explain more detailed arguments in this respect below (in Addendum to Article 16). Nevertheless, let me here make just a brief comment: Article 19 refers to “use” required to maintain a registration – and the meaning of “use” in this context without any doubt refers to the positive (right of) use, not to the right conferred by Article 16. And the same is true in respect of Article 20, where “use” also refers to positive right of use.

Article 8.1 and Doha Declaration

Article 8.1 of the TRIPS Agreement is likely to be the most essential in the WTO disputes; if plain packaging is going to be recognized as a measure in compliance with Article 8.1, then it is likely that Australia wins the dispute. Article 8.1 explicitly provides that countries 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 its (all other) provisions. Understandably, this is why proponents of plain packaging are persistently referring to Article 8.1, the provisions of which being reinforced by the 2001 *Doha Declaration Public Health and TRIPS* (the Declaration), and by the 2003 *WTO General Council Decision*¹⁰⁷ (Council Decision).

It may be convenient to begin by recalling the four conditions established in respect of Article 8.1, as presented by Pires de Carvalho:

“Article 8.1. establishes four conditions that public policy measures affecting intellectual property rights conferred by the Agreement must observe:

- (a) measures must be taken by means of laws and regulations ...;*
- (b) secondly, those measures must be **necessary** to protect public health...;*

¹⁰⁷ Both documents are available via www.wto.org.

- (c) *thirdly, the sectors benefited by promotional measures must be of vital importance ...; and*
(d) *all measures taken must be consistent with provisions of the TRIPS Agreement.*”¹⁰⁸

Chapter 1 of this study puts forward a number of arguments, which show that none of the conditions (b) to (d) being met. The necessity condition (b) is not met for the crucial reason - that plain packaging is *a priori* missing its main objective (improved public health), and that it inevitably established circumstances with negative impact on public health. As far as condition (c) is concerned, it is questionable whether plain packaging can be considered as being of *vital importance*. Finally, condition (d) is not met, as shown later in this Chapter and in Chapter 3 below.

Let me now turn to the Doha Declaration, which plain packaging advocates are frequently referring to.¹⁰⁹

It is already mentioned above that there are different views whether the Declaration is a binding¹¹⁰ or non-binding¹¹¹ for interpretation of the TRIPS Agreement. However, I believe that this issue is actually irrelevant for plain packaging issue. The reason is simple indeed: trademarks have been completely overlooked by the Declaration, as correctly noted by Pires de Carvalho.¹¹² The Declaration and the related Council Decision are devoted to patents only. Pires de Carvalho also offers interesting comments on what the Declaration, by completely overlooking trademarks, ought to clarify in this respect – but it did not. The author agrees that prohibition of advertising of trademarks as a means of reducing consumption of “*products that, even if not prohibited, is at least not recommended.*”¹¹³ However, he also observes that “*... on the other hand, it seems that Article 16.2. speaks in favor of activities – any activities – leading to the promotion of a trademark.*”¹¹⁴

The Declaration therefore offers no basis for defending plain packaging as a measure compatible with its provisions. Moreover, the fact that the Council Decision was incorporated into the TRIPS Agreement as Article 31*bis*, which is part of Section on patents, further excludes its applicability to trademarks.

Finally, the inapplicability of trademarks as a measure necessary to protect public health is reinforced by explicit provision of Article 21 of the TRIPS Agreement, according to which compulsory licensing of trademarks is not permitted. This provision is obviously in direct opposition to all public health related provisions in the TRIPS Agreement and Doha Declaration – provisions, which obviously deal only with non-

¹⁰⁸ Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, p. 252.

¹⁰⁹ Cf. Voon, T., and Mitchell, A., *op.cit.*, p. 13.

¹¹⁰ Voon, T., and Mitchell, A., *op. cit.*, *ibid.*

¹¹¹ Gervais, D., *op.cit.*, p. 18.

¹¹² Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, p. 262ff.

¹¹³ Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, p. 265.

¹¹⁴ Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, *ibid.*

voluntary licensing of patents. As Pires de Carvalho puts it: ... “*compulsory licenses do not apply in the field of trademarks. This is what Article 21 says clearly.*”¹¹⁵

Despite its principal irrelevance for plain packaging, I nevertheless want to conclude by a brief comment of the Par. 1 of the Declaration, which essentially is a recognition of “*the gravity of the public health problems afflicting many developing and least-developed countries, especially those resulting from HIV/AIDS, tuberculosis, malaria and other epidemics.*”

This wording rather unambiguously means that:

- the Declaration concerns only developing and least developed countries; Australia does not belong to either of the two groups; and
- that it concerns epidemics only. If so, then the question whether smoking could be declared as an epidemic in Australia needs to be answered first. It is of course up to competent experts to present a convincing answer; however, I allow myself to say that the official statistical data about smoking quoted above do not necessarily make an impression that Australia has been suffering epidemic proportions of smoking prevalence.

Article 16.1

Rights Conferred

The ubiquitous first sentence of Article 16.1 reads as follows:

“The owner of a registered trademark shall have the exclusive right to prevent all third parties not having owner's consent from using in the course of trade identical or similar signs ... where such use would result in a likelihood of confusion.”

The fact that the TRIPS Agreement refers solely to the exclusive negative right of prohibition of unauthorized use of a trademark, without mentioning the fundamental positive right of exclusive use, has led Davison (and some other commentators) to claiming that “[T]here is no right to use a trade mark under either the Paris Convention (Paris) or the TRIPS Agreement (TRIPS);”¹¹⁶ if so, then it is indeed not difficult to derive the *prima facie* correct implication that prohibition of use does not constitute a violation of the two treaties.¹¹⁷

However, the situation is not as simple as it look at the first sight. An immediate and rather plausible objection to the above conclusion is simple fact that both treaties contain various provisions in respect of the positive right of use. In respect of the Paris

¹¹⁵ Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, *ibid.*

¹¹⁶ Davison, Mark, *Plain Packaging of Tobacco and the “Right” to Use a Trade Mark*, [2012] EIPR, Issue 8, p. 498.

¹¹⁷ Voon, T., and Mitchell, A., *Implications of WTO Law*, *op. cit.*, p.3; also Davison, M., *The Legitimacy of Plain Packaging*, *op. cit.*, p. 82 ff.

Convention, Bodenhausen explicitly claims that Section C of Article 5 of the Paris Convention “concerns various questions related to **the use of trademarks.**”¹¹⁸

Second, recall the issue of proper interpretation of the term “use” as it appears in the Preamble of the TRIPS Agreement; again, why should then Preamble, the title of PART II, and a number of articles refer to “use” if, according to Davison, there is no such right of use?

On the other hand, it is true that the positive right of use is not explicitly stated; I discuss the reasons why the TRIPS Agreement provides for negative rights in the Addendum below.

Nevertheless, if Davison is right by claiming that “*there is no right to use*” in the TRIPS Agreement, then his claim implies that the (non-mentioned) positive right is separated and independent from the explicitly conferred negative exclusive right. If so, then the two rights are evidently capable of being treated individually and separately from each other. In fact, the presumption that such a separation is legally correct is indeed the essence of plain packaging; the governmental prohibition of the positive use of tobacco trademarks presumably does not affect the negative right at all – and thus the TRIPS Agreement is not violated, as Davison explains: “*A limit on the right to use a trademark is not a limit on the right to prevent others from using that trademark.*”¹¹⁹

While arguments against such an interpretation are already known from some intensively discussed documents,¹²⁰ I wish to present some additional arguments why the prohibition of use violates the TRIPS Agreement. Moreover, I specifically show that the two rights simply cannot be separated, because a “*limit on the right to use*” eventually and invariably implies also “*a limit on the right to prevent others from using that trademark*” – and vice versa.

The Exclusive Nature of Negative Rights

The first argument is based on the exclusive nature of negative rights conferred on to trademark owners by Article 16.1: “*The owner ... shall have the **exclusive** right to prevent **all** third parties ...*”

The literal meaning of having *the exclusive right* is that no person other than the owner of a registered trademark is entitled to dispose with this particular (negative) right to prevent the unauthorized use of his trademark. Exclusive right to prevent “*means that the owner of a registered trademark must have the exclusive right – i.e. he or she must be the only person or legal entity authorized – to authorize the use of his or her trademark or signs confusingly similar to it on similar or identical products.*”¹²¹

¹¹⁸ Bodenhausen, *op. cit.*, p. 75 (emphasis in original).

¹¹⁹ Davison, M., *The Legitimacy of Plain Packaging...*, *op. cit.*

¹²⁰ Notably Gervais, D., *op. cit.*; also LALIVE, *Why Plain Packaging is in Violation of WTO Members' International Obligations under TRIPS and the Paris Convention*, available at <http://www.smoke-free.ca>.

¹²¹ Taubman et al., *A Handbook...*, *op. cit.*, p. 67.

Therefore, the strictly exclusive nature of the negative right undoubtedly implies that it is only the trademark owner who is entitled to prevent the use of his trademark to any third party. However, in the case of plain packaging in Australia, it is the State that has actually exercised this right to prevent the use of tobacco trademarks, though not against third parties, but astonishingly precisely against their owners, and obviously without their consent. But this then means that, by enacting plain packaging, the State has somehow usurped the “**exclusive right to prevent all third parties not having the owner’s consent**”, which under Article 16.1 of the TRIPS Agreement belongs exclusively to trademark owners.

The above reasoning is confirmed by the Panel in *EC – Trademarks and Geographical Indications (2005)*:

*“The text of Article 16.1 stipulates that the right for which it provides is an ‘exclusive’ right. This must signify more than the fact that it is a right to ‘exclude’ others, since that notion is already captured in the use of the word ‘prevent’. Rather, it indicates that this right belongs to the owner of the registered trademark **alone**, who may exercise it to prevent certain uses by ‘all third parties’ not having the owner’s consent. The last sentence provides for an exception to that right, which is that it shall not prejudice any existing prior rights. Otherwise, the text of Article 16.1 is unqualified.”*¹²²

TRIPS and Right of Use under Australian Trade Marks Act

It can be also argued that there is an important link between the Australian national trademark legislation and the TRIPS Agreement in respect of the positive right of exclusive use of trademarks.

Australian Trade Marks Act in s20 explicitly grants exclusive positive right of use of a registered trademark:

“20 Rights given by registration of trade mark

(1)If a trade mark is registered, the registered owner of the trade mark has, subject to this Part, the exclusive rights:

(a) to use the trade mark; ...”

The provision is rather obvious, as the same Act requires use for maintaining protection of the registered trademark.

Of course, the TRIPS Agreement does not grant such a positive right of use *explicitly*; provisions concerning the use requirement are only optional; Article 15.3 provides that “[M]embers **may** make registrability depend on use.” And the last sentence of Article 16.1 stipulates that “[T]he rights described above shall not prejudice any existing prior rights, nor shall they affect **the possibility** of Members making rights available on the

¹²² Panel Report, *EC – Trademarks and Geographical Indications (2005)*, par. 7.602.

basis of use.” Article 19.1 further says that “[I]f use is required to maintain a registration may be cancelled only after an uninterrupted period of at least three years of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner.”

Before touching upon the main issue of the optional nature of the provision, let me briefly note that the word “use” here obviously means the positive use, thus having the same meaning as the same word in the Preamble (and elsewhere) of the Agreement.

The optional nature of use requirement, as provided for in Article 15.3 (and few other Articles) may *prima facie* imply that the provisions concerning the obligatory use in the national Australian Trade Marks Act are irrelevant in respect of the WTO plain packaging disputes, as it is only the WTO law – the TRIPS Agreement, the TBT Agreement etc. – that is relevant, whereas national law is of no relevance.

However, if a Member has opted for mandatory use, then such a choice is invariably having a number of repercussions on applicability of provisions in several Articles of the TRIPS Agreement, especially as far as the last sentence of Article 16.1 is concerned. As Bossche and Zdouc explain:

*“Therefore, a Member may decide for itself whether it will not only provide these exclusive rights to owners of registered trademarks, but also confer these rights on the basis of use. In US – Section 211 Appropriation Act (2002), the European Communities challenged Section 211 of the US Omnibus Appropriations Act, which effectively prohibits registration and renewal – without the consent of the original owner or bona fide successor-in-interest – of trademarks and trade names **used** in connection ...”*¹²³

While the case is well known for its interpretation of the notion of ownership of a registered trademark, the point here is that the option available under the last sentence of Article 16.1 falls within the scope of the TRIPS Agreement, and thus the option of “*making rights available on the basis of use,*” if applied, cannot be interpreted in the sense that it is then left to national law alone.

More generally, one must not ignore also the following provision of Article 1.1. of the TRIPS Agreement:

“Members may, but shall not be obliged to, implement in their laws more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.”

There is no doubt that s20 of the Australian Trade Marks Act grants more extensive protection than that required by the literal interpretation of Article 16.1 of the TRIPS

¹²³ Van den Bossche, Peter, and Zdouc, Werner, *The Law and Policy of the World Trade Organization*, Cambridge University Press, Cambridge 2013, p. 983 (emphasis added).

Agreement; and it is also beyond any doubt that this more extensive protection does not contravene the provisions of the Agreement.

But it then follows that provisions concerning a more extensive protection must be taken into account in a WTO dispute. A provision granting more extensive protection (the positive right of exclusive use in our case) cannot subsequently be discriminately applied by the Member that has enacted it. However, the plain packaging prohibition of trademarks for the whole class of products (tobacco) is a discriminatory measure when compared to all other classes of products.

The above reasoning seems to be confirmed also by Taubman et al. in their comment on TRIPS provisions concerning trademarks:

*“The TRIPS Agreement also stipulates which rights a trademark owner must enjoy in a Member (Article 16) and what type of exceptions to these rights are permissible (Article 17). As noted in Chapter 1, the TRIPS Agreement is a minimum standards agreement. This means that the rights described here [in TRIPS Agreement] only constitute the minimum level of protection required by this Agreement, and that Members may – and in many cases actually do – provide for higher or more stringent protection in their national legislation. **Therefore, in order to establish what rights a trademark owner has in any individual Member, reference should be made to the national laws of that country.**”¹²⁴*

In short, the provisions of the Australian Trade Marks Act concerning the exclusive right to use a trademark are inherently linked with the TRIPS Agreement through a number of its Articles, and thus ought to be considered in the plain packaging disputes; after all, s28 of APPA (reproduced in preceding Section above) explicitly refers to the Trade Marks Act for the purpose of preventing a possible revocation of tobacco trademarks due to their non-use caused by APPA. Therefore, one may reasonably conclude that APPA, by denying the exclusive positive right conferred by the Trade Marks Act, does not comply with the TRIPS Agreement in this particular respect.

Inapplicability of the Negative Right under Plain Packaging

The third argument differs from the first two arguments above, because it is based on a conceptually different logic.

Since plain packaging affects *all* tobacco trademarks, it is clear that *any* form of unauthorized use by a third party of *any* tobacco trademark is *a priori* precluded. An unauthorized use simply cannot occur, because all actual and/or potential infringers of tobacco trademarks (i.e., counterfeiters) are equally affected by the very same general and total prohibition of use as this being the case with trademark owners, as Klopschinski correctly observes.¹²⁵

¹²⁴ Taubman et al., *A Handbook...*, *op. cit.*, p. 66 (emphasis added).

¹²⁵ Klopschinski, S., *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionverträge*, Carl Heymanns Verlag, München 2011, p. 462.

Under such circumstances, owners of registered but prohibited tobacco trademarks simply cannot exercise their fundamental negative and exclusive right “to prevent all third parties not having owner’s consent from using it in the course of trade,” despite the fact that it is more than likely that a new illegal market with branded cigarettes shall become active with both genuinely branded but smuggled products, as well as with their counterfeit copies (see the Pakistan case in Ch. 1). In other words, plain packaging effectively deprives trademark of exercising their fundamental negative exclusive right conferred to them under article 16.1. This is just the mirror-side interpretation of what I call counterfeiting legalization in Chapter 1 above.

But all this eventually means that plain packaging makes Article 16.1 simply inapplicable by an act of its *de facto* derogation; derogation is here interpreted as “[T]he partial repeal or abrogation of a law by a later act that limits its scope or impairs its utility and force,” and/or as “[D]etractio[n], prejudice, or destruction of a grant or right.”¹²⁶ If so, then such “derogation” is likely to constitute a violation of Article 1.1 (“Members shall give effect to the provisions of this Agreement.”) in connection with Article 72 of the TRIPS Agreement (“Reservations may not be entered in respect of any of the provisions of this Agreement without the consent of other Members.”).

Impossibility of Separating Negative and Positive Right

Let me now change the perspective once again and show that, irrespective of the arguments above, the two exclusive rights, the positive right of use and the negative right to prevent unauthorized use are actually under *all* circumstances *mutually inseparable*.

Let me begin with the classic interpretative principle of *argumentum a contrario*. Assume (hypothetically) that the TRIPS Agreement provides only for the exclusive *positive* right of use of a trademark by its owner, without explicitly providing for the *negative* right of prevention an unauthorized use. Now further imagine that a government prohibits a pharmaceutical firm to exercise his negative right to prevent an unauthorized use of his trademark by a competitor (counterfeiter), whereby the government would justify such a prohibition (1) as a measure that is beneficial for improving public health (two suppliers instead of one, what would lower prices), and (2) as a legally correct measure, because the negative right to prevent unauthorized use is not explicitly granted to the trademark owner under the hypothetically modified TRIPS Agreement. Though this hypothetical case is absurd, it is illustrative because it just mirrors the same logic as applied in plain packaging case.

The next and probably more convincing argument why the positive and negative rights cannot be separated can be deduced directly from the very first sentence of Article 16.1. All what has to be done is to read the sentence in its entirety; that is, the two phrases, (1) “... *in the course of trade*” and (2) “... *where such use would result in a likelihood of confusion*” must be taken into account. apart from the fact that registered trademarks are protected only *in the course of trade* naturally implies their use,¹²⁷ the emphasis is on the term *likelihood of confusion*. The term unmistakably says that

¹²⁶ Black’s Law Dictionary, *op. cit.*, p.509.

¹²⁷ Cf. Taubman et al., *A Handbook...*, *op. cit.*, p. 67.

exercising the negative right is *conditional* upon the *actual use* of the “infringed” trademark; clearly, likelihood of confusion can occur only if the owner of infringed trademark has exercised his positive right of exclusive use *in the course of trade* by himself (or by a person authorized by him)¹²⁸ at the time when another identical or confusingly similar trademark appears in the course of trade as well. Confusion obviously takes place only if there are *several* competing products on the market under the same or confusingly similar trademark, but which originate from several sources. In words of Pires de Carvalho:

*“Because trademarks perform the function of distinguishing goods and services, the owner's right is determined by that function. Their right to prevent others from using identical or similar signs is, therefore, determined by the distinctiveness of registered marks: they are entitled to prevent the use of marks similar or identical to registered marks by third parties to the extent that such use would not permit consumers to distinguish the goods or services in question. The criterion for assessing when the use of mark similar or identical to a registered trademark is incapable of distinguishing similar or identical goods or services is 'likelihood of confusion'.”*¹²⁹

The said conditionality between likelihood of confusion and the exclusive right to prevent unauthorized use is also evident from the following reasoning of the panel in the *EC – Trademarks and Geographical Indications (2005)*:

*“Rather, they [rights conferred in Section 2] confer, inter alia, the right to prevent uses that would result in a likelihood of confusion, which can lead to the removal of products from sale where they are marketed using particular signs ...”*¹³⁰

In short, the fundamental negative right as embedded in the first sentence of Article 16.1 of the TRIPS Agreement is simply meaningless as long as the owner either by himself or by an authorized party *is not using his registered trademark in the course of trade*. This fact is clearly stated also in the *WIPO Intellectual Property Handbook*: *“Confusion in the marketplace can only arise from actual use on similar goods.”*¹³¹ But this is just another expression of the fact that the two rights cannot be separated.

As a corollary, all this yet once again means that the plain packaging prohibition of the positive right of exclusive use of registered trademarks for lawfully sold goods effectively prevents all trademark owners from exercising their fundamental exclusive negative right accorded to them under Article 16.1 of the TRIPS Agreement. It is then also clear that *any* prohibition of the positive right of use naturally implies violation of Article 16.1. And this fact has some further implications on Article 17 and Article 20, which are discussed below.

¹²⁸ Cf. Cornish, W., *Intellectual Property- Omnipresent, Distracting, Irrelevant?*, *op. cit.*, p. 76ff (Rights Dependent on Trading).

¹²⁹ Pires de Carvalho, N., *The TRIPS Regime of Trademarks...*, *op. cit.*, par. 16.8, p. 349.

¹³⁰ Panel Report, *EC – Trademarks and Geographical Indications (2005)*, para 7.651.

¹³¹ *WIPO Intellectual Property Handbook*, *op. cit.*, par. 2.480, p. 88.

The above arguments are, in addition to Pires de Carvalho as quoted above, also confirmed by Taubman et al:

“Again, “where such [unauthorized] use would result in the likelihood of confusion” means that only the use:
(1) of a sign that is similar or identical to that registered as a trademark,
(2) on products similar or identical to those in respect of which the trademark is registered,
(3) that is likely to confuse the relevant group of consumers,
*falls under the exclusive right of the trademark owner ...”*¹³²

In fact, on page 1 of the book, from which this quotation is taken, it is correctly held that the negative right is just an integral part of the *positive right of use*:

*“IPRs can be characterized as rights given to persons over the creations of their minds. They usually take the form of a limited ‘exclusive right’ granted under national law to a creator over the use of the creation for a certain period of time. Such a right allows the creator to exclude others from using the creation in certain ways without the creator’s authorization. **The right holder can then extract economic value from the IPRs by using them directly or by authorizing others to do so.**”*¹³³

WIPO also underlines that exclusive rights of use comprise both positive as well as negative right of use:

*“The registered owner has the exclusive right to use the trademark. This short definition of the specific subject matter of trademark rights encompasses two things: **the right to use the trademarks and the right to exclude others from using it.**”*¹³⁴

It is a bit astonishing that the fact that the negative exclusive right comes to existence and can be invoked by a trademark owner only when he is exercising his positive right of exclusive use has been somehow overlooked even by some distinguished scholars. For example, Gervais in his analysis of plain packaging defends the positive right of use only with the “*spirit*” of the TRIPS Agreement.¹³⁵ And Annette Kur is taking the similar view by maintaining that plain packaging “... *would contradict, not the letter, but the spirit of international conventions.*”¹³⁶

In contrast to Gervais and Kur, Correa however correctly notes that... “[T]he exclusive rights conferred [by Article 16.1 of the TRIPS Agreement] are subject to

¹³² Taubman et al., *A Handbook...*, *op. cit.*, p. 67 (emphasis added).

¹³³ Taubman et al., *A Handbook...*, *op. cit.*, p. 1 (emphasis added).

¹³⁴ *WIPO Intellectual Property Handbook*, *op. cit.*, par. 2.444, p. 84 (emphasis added).

¹³⁵ Gervais, D., *op. cit.*, p. 11.

¹³⁶ Kur, A., *The right to use one's own trademark: a self-evident issue or a new concept in German, European and international trade mark law?*, *EIPR* 1996, 18(4), p. 203.

several conditions and limitations.”¹³⁷ The author then mentions three conditions, the third one being most relevant for our purpose:

*“Third, the use of the trademark should result in a “likelihood of confusion.” This requirement...implies that a mere possibility of confusion is not sufficient for legitimizing the exercise of the exclusive rights. The meaning of “confusion” should be understood in the light of Article 15.1; that is, in relation to the capacity of a trademark to distinguish identical or similar goods or services of one undertaking from those of another.”*¹³⁸

Last but not least, much the same “conditionality” apparently exists also in the Paris Convention. Recall that the above quoted provision of par. B of Article 6quinquies is explicitly subject to the application of Article 10bis, which, let me repeat, provides “... in a directly applicable form, a definition of what an act of unfair competition is and examples of such acts which must, in particular, be prohibited. These provisions are so worded that they must be considered self-executing...”¹³⁹

It is actually worth adding what Bodenhausen says in respect of the relevant part of Article 10bis:

*“Paragraph (3) of the Article under consideration gives **examples** of acts which are particularly to be regarded as acts of unfair competition and must therefore be prohibited. This provision again contains **common legislation** for all countries of the Union and must either be accepted as part of their domestic legislation or be directly applied by their judicial or administrative authorities. The enumeration of examples given of acts of unfair competition is not limitative and constitutes only a minimum.”*¹⁴⁰

...

*The third example given of acts of unfair competition concerns **misleading allegations** ... The provision under examination [point 3 of par (3) of Article 10bis] applies to all **indications or allegations** the use of which, **in the course of trade**, is liable to **mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity**, of the goods concerned. It does not relate to similar indications or allegations as to **the origin or source** of the goods [footnote omitted] or the **identity of the producer, his establishment or his industrial or commercial activities**. As to such acts ... national legislation or case law will determine whether they are acts contrary to honest practices in industrial or commercial matters and for that reason must be deemed to be an act of unfair competition.”*¹⁴¹

¹³⁷ Correa, C. M., *Trade Related Aspects of Intellectual Property Rights, A Commentary on the TRIPS Agreement*, Oxford University Press, Oxford 2007, p. 186.

¹³⁸ Correa, C. M., *Trade Related Aspects of Intellectual Property Rights, op.ct., ibid.*

¹³⁹ Bodenhausen, G. H. C., *op. cit.*, p. 143 (emphasis in original text).

¹⁴⁰ Bodenhausen, G. H. C., *op. cit.*, p. 145 (emphasis in original text).

¹⁴¹ Bodenhausen, G. H. C., *op. cit.*, p. 146 (emphasis in original text).

All the above then also implies that the notion of “registered trademark” in the Paris Convention and in the TRIPS Agreement generally means a trademark that is *de facto* used in the course of trade, even though the use as such is not explicitly mentioned.

In other words, attempts to interpret TRIPS and Paris Convention provisions concerning registration of trademarks as provisions that are separated from the issue of use of registered trademarks are far from being convincing. For example, the history of British trademark law clearly indicates that the trademark registers have been introduced in order to give trademarks a more efficient protection in their use in the course of trade than protection based on passing-off/unfair competition:

*“The key provisions of the Trade Marks Registration Act 1875, relating to registration as a means of establishing property in a trade mark as a precondition for instigating defence against infringement have been already discussed. Judging by the number of trade mark registrations which followed the 1875 Act, it does appear that businessmen responded enthusiastically.”*¹⁴²

As a corollary, this also generally means that provisions concerning the grounds on which a trademark registration may be refused or registered trademark invalidated under provisions of par. B.1. and B.3. of Article 6quinquies, actually imply a complete prohibition of its use as well; this conclusion is unmistakably drawn from the binding provisions of Article 10bis of the Paris Convention, which are tied to the application of Article 6quinquies. Only trademarks refused/invalidated under provisions of par. B.2 (lack of distinctiveness, descriptive signs etc.) are for obvious reasons not subject to prohibition of use, because they may be freely used (except when use would be deceptive), although there is little economic or business justification, if any, to do so.

To summarize: just one right, be it positive or negative, simply cannot be exercised without (simultaneously) exercising the other. This further means that it actually does not matter whether only *one* of the two rights is specified in a relevant legal instrument, which in our case being Article 16.1 of the TRIPS Agreement.

Addendum to Article 16.1

Why TRIPS Refers to Negative Rights Only

Despite having explained why the positive and negative rights of use are inseparable in case of trademarks, it is nonetheless worth explaining, in more general terms, why only the negative right is explicitly referred to in the TRIPS Agreement.

It may be useful to begin with the explanation offered by Pires de Carvalho, with which he actually intends to explain “[T]he major reason for the generalized confusion between intellectual property and monopolies.”¹⁴³ In comparing “classic” property rights

¹⁴² David, M., Higgins, *The Making of Modern Trade Mark Law in UK, 1860-1914. A Business History Perspective*, in Lionel Bently, Jennifer Davis, and Jane C. Ginsburg (Eds), *Trade Marks and Brands*, Cambridge University Press, Cambridge 2008, p. 49.

¹⁴³ Pires de Carvalho, *The TRIPS Regime...*, *op. cit.*, par. IN.30, p. 13.

on tangible goods such as a rose with intangible rights such as a smell of the rose, he says:

*“As for tangible goods, domain over them excludes others per se. For example, if I hold a rose with my hand, the material nature of that rose prevents any other person from holding it at the same time. [...] Therefore, property rights in tangible goods are defined as rights to use and exploit. [...] When it comes to intangible goods, such as knowledge, ideas, reputation, things work the other way around. The right in those goods must be the right to exclude others from using and exploiting ideas, for possession alone is not enough to secure exclusivity. When I hold that rose, for example, I will benefit from its perfume. But because the rose’s scent is intangible, the fact that I smell it does not prevent others from doing the same. Therefore, I need the power to interfere in other persons’ freedom to benefit from that same perfume ... [...] But this explains why intellectual property rights are usually stated in a negative manner.”*¹⁴⁴

Cornish et al. similarly remark that that the exclusive negative right in respect of intellectual property is frequently misunderstood:

*“The fact that intellectual property right gives a [negative] right to control the activities of others has a number of implications, often inadequately understood. The right-owner does not need the right in order to exploit a market for its goods or services: a patent is not a pre-condition to exploiting one's own invention. By way of corollary, the right gives no liberty to ignore the rights of other individuals (including their IPRs) or to override public liabilities: a trade mark registration does not justify its use to advertise illegal goods.”*¹⁴⁵

In other words, the actual right of use depends upon various legal requirements in respect of related *goods*, that is, upon requirements that are *outside* patent or trademark law *as such*. Cornish et al. eloquently point out how a trademark registration – meaning that the registered trademark is perfectly “correct” - cannot be used for advertising illegal goods; however, tobacco products are legal goods, subject to a number of other regulatory requirements. And much the same is true, for example, for selling pharmaceuticals without their official marketing approval.

WIPO Intellectual Property Handbook also draws attention to this fact in more general terms:

*“This positive right of use belonging to the trademark owner is recognized in most trademark laws. It would indeed be contradictory not to grant such a positive right of use while imposing an obligation to use. **Of course, the right of use is subject to other laws and rights, as is any other right provided by law.**”*

¹⁴⁴ Pires de Carvalho, *The TRIPS Regime...*, *op. cit.*, para. IN.31 and 32, p. 13/4.

¹⁴⁵ Cornish, W., Llewelyn, D., and Aplin, T., *Intellectual Property...*, *op. cit.*, p. 7 (emphasis added).

What is allowed under trademark law may be prohibited under competition law or public enactment.¹⁴⁶

In other words, it is the *product*, which may prevent the exclusive positive right of use of a patent or trademark to declare as an absolute right. It is the sale of a product that may be restricted, e.g., to be sold only after being approved in respect of safety, or to be sold only on certain places, or only to adult persons, or is not allowed to be advertised, or even completely prohibited, etc.; but note that such restrictions do not apply to the exclusive positive right of use of trademarks *per se*. In other words, the non-absolute nature of the exclusive right of use is the *consequence* of restrictions on, or prohibition of, sales of related products, not its reason; and this is why positive use cannot be proclaimed as an absolute exclusive right.

However, the just described situation – that a registered and thus legally correct trademark is not allowed to be used for labeling illegal goods - must not be confused with the situation when a trademark, the registration of which is rejected/revoked on grounds based on paragraphs B.1 (infringement of existing rights) or B.3 (contrary to moral principles, public order, or deceptive) of Article 6quinquies of the Paris Convention; rejection/revocation evidently implies that such a sign is in any case prohibited to be used *as such*, irrespective of the legal or illegal nature of related goods or services.

Let me *in passim* mention here that the same logic applies to patents; granted patent for a new medicament that has not been (yet) approved (or any other product which must be somehow approved before being put on market) is not the permit to commence its sales. In fact, the reference to the negative right in respect of patents has been for long known.¹⁴⁷ Creators of the TRIPS Agreement have therefore decided to apply the negative-right approach throughout the Agreement for virtually all IPRs,¹⁴⁸ but certainly without the slightest intention to separate the fundamental positive right of use from its negative counterpart, as best documented in respect of patents, where their use is not mandatory, but their use may be imposed, if necessary, through compulsory licensing.

It therefore follows that the positive right of use, though undoubtedly the most fundamental proprietary right, cannot be *generally* declared as an absolute right for reasons explained above. However, this fact as such in no way precludes the exclusive positive right of trademark use as long as the relevant requirements in respect of sales of legal goods are met. In stark contrast, however, the negative right of prohibiting unauthorized use is indeed an absolute right, because it is tied solely to *registered* trademarks (Article 16.1 of the TRIPS Agreement). Registered trademarks are by definition “correct” trademarks, because they had passed the tests of not being in conflict with any of “use-prohibiting” grounds listed in paragraphs B1 and/or B3 of Article 6quinquies of Paris Convention, and thus they can be always used on *any* goods or services that may be legally sold - and tobacco products are among such legal goods.

¹⁴⁶ *WIPO Intellectual Property Handbook, op. cit.*, par. 2.445, p. 84.

¹⁴⁷ Cf. Grubb, P. W., and Thomsen, P. R., *Patents for Chemicals, Pharmaceuticals, and Biotechnology* (5th Ed.), Oxford University Press, Oxford 2010, p. 4.

¹⁴⁸ See Articles 14(1), 16(1), 22(2), 26(1), 28(1), 36, and 39(2). See also Carvalho, *op. cit.*, p. 343.

In contrast to patents, a registered trademark *must* be used in course of trade, not only because mandatory use being prescribed by a vast majority of national trademark laws, but primarily for the reason of maintaining the exclusive negative right so to say “active,” that is, to maintain it to be “capable of being invoked.” Invoking the negative right is conditional upon the occurrence of likelihood of confusion – and the mere registration of a trademark, which is otherwise not in use, cannot establish the likelihood of confusion *at all*. On the other hand, it is also clear that likelihood of confusion can occur only in respect of legally sold goods, but obviously not in the case of illegal goods, where the guaranteed negative right to prevent unauthorized use is *a priori* inapplicable and consequently irrelevant.

Plain packaging is an exposed example where all the distinctions between correct and legally unacceptable trademarks, as well as between legal and illegal goods are overlooked and subsequently misinterpreted. Tobacco trademarks *as such* are explicitly recognized by APPA (s28) as absolutely correct trademarks, meaning that from this point of view there is no obstacle for their legitimate use in the course of trade; and next, tobacco products *as such* are legally manufactured and sold on the marketplace as well; certain restrictions, e.g. mandatory health warnings on packets, prohibition of their advertising, limitations of the points of sale, etc. do not change this fact, because they concern tobacco products, not their trademarks.

And the final remark: the above discussion shows that the claim of Vonn and Mitchell that “... *Article 6quinquies (B) is directed not towards the use of trademarks but towards their registration ...*” and that *Article 6quinquies “does not preclude plain packaging”*¹⁴⁹ does not hold *universally*. Clearly, denying registration of a trademark on grounds laid down in par. B.1 and B.3 of *Article 6quinquies* evidently means that the use of such a “denied trademark” is completely prohibited, i.e. also as a non-registered sign. Consequently, the claim of Voon and Mitchell holds only when denial of registration being based on paragraph B.2 of this Article – but this particular case is irrelevant in the context of plain packaging.

Article 17

Limited Exceptions and the Positive Right of Use

In the above analysis of Article 16.1, I show that the non-mentioned positive right of use is always an inseparable part of the explicitly conferred negative right of preventing any unauthorized use. Nevertheless, even rejecting my conclusion, and even additionally ignoring the possibly relevant fact that the exclusive positive right of use is explicitly stated in the Australian Trade Marks Act, it is indeed not difficult to recognize that plain packaging is violating Article 17, because no “*exceptions to the rights conferred,*” whatsoever, be they limited or unlimited, simply cannot be imposed *at all* on any trademark, the use of which being prohibited. The exception such as “*fair use of descriptive terms*” evidently makes no sense in respect of any non-used trademark; how could “*fair use*” occur if the use of the related trademark is prohibited?

¹⁴⁹ See, for example, Voon, T., and Mitchell, A., *op. cit.*, p.6:

However, there is one but relevant special case - when an initially non-distinctive sign (“a purely descriptive term on its own is not distinctive and not protectable as a trademark”¹⁵⁰) has acquired distinctiveness and was subsequently registered on the basis of its prior *actual use*. The emphasis is on the term *actual use*, the meaning of which Pires de Carvalho neatly explains with the following words: “The expression ‘actual use’ in the second sentence [of Article 15.3] is aimed at contrasting with the expression ‘intended use’ in the third sentence. Otherwise, ‘use’ and ‘actual use’ are the same thing.”¹⁵¹ Article 17 evidently makes sense in this particular case of acquired distinctiveness, which can be acquired solely through *actual use* of a trademark; however, the limited exception of “fair use of descriptive terms” to the benefit of other “correct” trademarks is justified in such a case - but provided that these “other trademarks” are in actual use, of course. Article 17 is obviously applicable solely in circumstances of actual use of trademarks, and have nothing to do with the negative right conferred under Article 16.1.

Last but not least, the relevance of Article 17 is evidently not limited just to those relatively rare trademarks that have acquired distinctiveness through actual use; if it were so, then Article 17 would have been part of Article 15, and not a self-standing Article with general applicability. In other words, this means that “*actual use*” is *conditio sine qua non* for allowing “limited exceptions” under Article 17 to *any* distinctive trademark that is not only validly registered, but also genuinely used. This is why the Panel in the *European Communities* case recognized this fact, though in a bit different context, by noting that “[T]he example in the text [of Article 17], ‘fair use of descriptive terms’, provides guidance as to what is considered as a ‘limited exception’, although it is illustrative only.”¹⁵² The term “guidance” evidently refers to a general applicability of Article 17.

In the light of the above analysis, and taking into account the correct interpretation of the word “use” in the Preamble and as *the* title of the whole PART II of the TRIPS Agreement, the interpretation by Davison that “Article 17 gives an example of an exception ... which clearly refers to use by a third party, thus providing confirmation, if any were needed, that Article 16 does not confer any positive right to use a trademark”¹⁵³ appears as incorrect.

Limited Exceptions and Legitimate Interests of Third Parties

Nevertheless, even without taking the above reasoning into account, it is clear that complete prohibition of use of tobacco trademarks (see s3 of the APPA) is well beyond “a limited exception,” which must be interpreted as narrowly as possible, as stated by the panel in *EC – Trademarks and Geographical Indications (2005)*:

“The addition of the word ‘limited’ emphasizes that the exception must be narrow and permit a small diminution of rights. The limited exceptions apply ‘to the rights conferred by a trademark’. They do not apply to the set of all trademarks

¹⁵⁰ Panel Report, *EC – Trademarks and Geographical Indications (2005)*, para 7.654.

¹⁵¹ Pires de Carvalho, *The Trips Regime...*, *op. cit.*, par115.72, p. 327.

¹⁵² Panel Report, *EC – Trademarks and Geographical Indications (2005)*, para 7.654.

¹⁵³ Davison. M, *The Legitimacy...*, *op. cit.*

*or all trademark owners.” Accordingly, the fact that it may affect only few trademarks or few trademark owners is irrelevant to the question whether an exception is limited. The issue is whether the exception to the rights conferred by a trademark is narrow.*¹⁵⁴

Moreover, Article 17 does not allow (limited) exceptions that would significantly diminish distinctiveness of a trademark. Many commentators point to this fact, which was also confirmed in a number of WTO cases, notably in the *Canada – Pharmaceutical Patents*¹⁵⁵ case, and in the two *EC – Trademarks and Geographical Indications* cases.¹⁵⁶ In essence, preserving the distinctiveness of a trademark is one of fundamental legitimate interests of the owner of the trademark at stake.

At this point, it may be worth noting academic proposals for changes in the TRIPS Agreement by Kur, Levin *et al.* in their attempts to suggest improvements of the TRIPS Agreement to the benefit of achieving “*A Fair World Trade System.*”¹⁵⁷ While they propose certain amendments in respect of Articles 7 and 8 (plus a proposal for the new Article 8b), the only amendments in respect of trademarks are proposed precisely to Article 17; however, they definitely do not propose that exceptions/limitations of such a severe nature as this being the case with plain packaging be allowed. In fact, quite the opposite is true:

*“2. Members may further restrict the protection conferred by trademarks subject to the provisions of Articles 7 to 8b, provided that this does not impair the capability of trademarks to convey correct and reliable information as to the commercial origin of the goods or services.”*¹⁵⁸

If this provision were already part of the TRIPS Agreement, then plain packaging, the main effect of which is precisely impairment of the capability of tobacco trademarks to convey correct and reliable information as to the commercial origin, would have been straightforwardly recognized as its violation.

Last but not least, Article 17 provides for taking into account also the legitimate interests of *third parties*. While consumers are clearly such third parties, the relevant governmental authorities, such as those in charge of combating counterfeiting (police, customs ...), and those in charge of ensuring fair competition ought to be also included as third parties; in fact, they are having more than legitimate interests, because it is their duty to act against illicit trade etc. But, what about trademark owners? Are they in this particular case "third parties"?

¹⁵⁴ Panel Report, *EC – Trademarks and Geographical Indications (2005)*, para 7.650 (emphasis added).

¹⁵⁵ WTO DS114.

¹⁵⁶ WTO DS174 and 290.

¹⁵⁷ Kur, A., and Levin, M.(Eds), *Intellectual Property Rights in a Fair World Trade System – Proposals for Reform of TRIPS*, Edward Elgar, Cheltenham, UK 2011.

¹⁵⁸ Kur, A., and Levin, M.(Eds), *Intellectual Property...op. cit.*, p. 478 (emphasis added).

Article 19

Use as Requirement

Article 19 was already mentioned above several times. Here, I wish to concentrate on two points.

The first point is about *use* of trademarks: “*If use is required to maintain a registration ...*” As known, the Australian Trade Marks Act explicitly requires use as a condition for maintaining the registration (see above). And Article 19.1 unmistakably refers to the positive right of use of a trademark, what yet once again – just like Article 17 – confirms the assertion that this right is part of exclusive rights conferred.

Pires de Carvalho also underlines the fact that Article 19 is about the trademark use:

*“Perhaps the most striking feature of Article 19 is that, unlike the vast majority of the other provisions of Part II of the TRIPS Agreement, it does not concern the substantive rights of intellectual property owners. **Indeed, Article 19 does not speak to the use of trademark rights, but to the use of trademarks themselves. In Part II there is only another provision that has an identical scope, which is Article 20.***

[...] The term ‘use’ means ‘normal commercial transactions [...]. To say it in a more rigorous manner, ‘use’ would refer to all those acts of trade in which the trademark is expected to perform the function for which it was created (and protected by law).”¹⁵⁹

Restrictions on Goods as Obstacles to Trademark Use

The second point is related to the following provision in the second sentence (emphasis added) of Article 19.1:

*“Circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, **such as import restrictions on or other government requirements for goods or services protected by the trademark**, shall be recognized as valid reasons for non-use.”*

Article 19.1 thus provides for a possibility of (presumably valid and justified) “*import restrictions or other government requirements*,” which however affect the (imports or other commercial restrictions of) *goods or services*, but *not* the trademarks *as such*. The non-used trademarks in such cases are actually “victims,” and the very purpose of Article 19.1 is to minimize the damage made to them by restrictions imposed on related goods or services, by explicitly exempting them from a possible sanction of being deleted for the reason of their involuntary non-use.

As far as tobacco products are concerned, it is well known that their sales are legal, though subject to a number of in my view valid and justified limitations such as restrictions on points of sale, prohibited advertising, mandatory health warnings etc.

¹⁵⁹ Pires de Carvalho, *The Trips Regime...*, *op. cit.*, para 19.1 and 19.2, p. 403 (emphasis added).

These restrictions obviously affect the limited use of tobacco trademarks as well; if the sales of tobacco products were completely prohibited, then related tobacco trademarks could have benefited from provisions of Article 19.1. However, plain packaging turns the whole logic upside-down, as it prohibits the use of (legally correct) trademarks on legally sold tobacco products beyond the scope of limits imposed on their sales. The consequence of this logic is what is labeled above as cardinal self-contradiction of APPA in the preceding section.

In other words, we are once again confronted with the frequently mentioned confusion between restrictions in respect of goods *vis-à-vis* restrictions in respect of trademarks. In Addendum to Article 16.1 above, I quote Cornish, who correctly warns that this important distinction is all too often overlooked even by prominent scholars, with the consequence of misleading interpretations that tobacco trademarks as such are harmful for public health, not the products bearing them. One of them is likely to be, perhaps a bit surprisingly, also Prof. Davison:

“If there is an implied right to use trademarks, what, precisely, is the nature and extent of that right?

Does the right to use mean that the goods or services in relation to which the trademark is used can be offered for sale anywhere, anytime, to anyone? Would alcohol licensing provisions regulating the age of patrons who may enter the premises where branded alcohol is served and restrictions on opening hours be contrary to the right? Would adult magazines with their many trademarks such as Hustler and Penthouse be permitted for sale to anyone of any age, anywhere? Would tobacco companies be permitted to return to the days when advertisements containing their trademarks were used extensively in television, radio and newspaper advertisements?”¹⁶⁰

Note how the first question refers to the implied right to use *trademarks*, whereas all subsequent questions refer to commercial restrictions in respect of *goods*, without making an appropriate distinction between the two terms. If the said distinction is made, then the answers to his questions are rather simple and straightforward.

First, the nature and extent of the “*implied right to use trademarks*” is “*generally understood as meaning the sale of goods bearing such mark*, as Bodenhausen, referring to *Actes de la Haye*, explains.”¹⁶¹ While sale of goods may be restricted in one way or another, such restrictions do not affect the use of trademarks *per se*. Trademarks still remain in their normal use, albeit within limits imposed on sales of goods bearing them. And here Davison mistakenly equates “*the implied right to use trademarks*” with an absolute, virtually limitless freedom of *sales of goods* bearing them.

Take, for example, alcoholic drinks and erotic magazines, which Davison is mentioning. It is clear that branded alcoholic drinks are bearing their respective trademarks, despite the fact that sales of drinks are subject to restrictive “*alcohol*

¹⁶⁰ Davison, *The Legitimacy...*, *op. cit.*, p. 88.

¹⁶¹ Bodenhausen, G. H. C., *op. cit.*, p. 75.

licensing provisions;” and the same is true for adult magazines, which are not allowed to be “permitted for sale to anyone of any ages and anywhere”, yet they are allowed to remain branded and sold within legally allowed though limited channels of commerce. Lastly, the “*implied right to use trademarks*” definitely cannot be interpreted as a permission for tobacco companies to return to the days when sales and advertisements containing their trademarks were virtually unrestricted.

In short, trademark use has nothing to do with possible commercial restrictions on goods bearing them, although it is clear that they to some extent share the consequences of such restrictions. This is true as long as trademarks themselves are not prohibited – but this is entirely different story; even goods that may be sold without any restrictions are not allowed to bear trademarks prohibited to be used *per se*; but such prohibitions are subject to provisions concerning refusal, revocation and/or cancellation of trademarks.

By clarifying the noted confusion between commercial restrictions on goods and (unwarranted) restrictions on trademarks, it is clear that plain packaging is in direct contradiction with Article 19.1, by turning it “upside-down.” Plain packaging prohibits “correct” tobacco trademarks used on products that are allowed to be legally sold, whereas Article 19.1 refers to exactly the opposite situation, where the use of correct trademarks is affected by restrictions on goods bearing them.

Article 20

Precluded Applicability of the Article

Much is also written about Article 20, the provisions of which are also considered as crucial for either proving or disproving the compatibility of plain packaging with the TRIPS Agreement. For example, Australian plain packaging advocates claim that prohibition of use is perfectly consistent with the whole TRIPS Agreement, thus also with Article 20;¹⁶² Gervais, however believes that the argument – “*that Article 20 prevents WTO Members from imposing use of a mark in a special form but not use altogether*” – is “*of questionable validity.*”¹⁶³

In this respect, my view is that the main effect of plain packaging is a kind of derogation of the Article as such.

The first sentence of Article 20 begins with following words:

“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 special form or use detrimental to its capability to distinguish the goods ...”

So, it is the *use* of a trademark, which “*shall not be unjustifiably encumbered.*” It then clear that Article 20 is relevant under the “normal” regime, practiced before enactment of plain packaging. For example, the compulsory use of health warnings

¹⁶² Cf. Voon, T., and Mitchell, A., *Implications of WTO Law, op. cit.*, esp. p. 119ff; also Davison, M., *The Legitimacy of Plain Packaging...*, *op. cit.* esp. p. 93ff.

¹⁶³ Gervais, *Analysis...*, *op. cit.*, p. 14, par. 39/40.

jointly with tobacco trademarks is apparently a justifiable encumbrance; the mandatory use of health warnings is actually analogous to use of “another trademark” (it is analogous because health warnings are not trademarks). However, in Australia “[P]re-existing regulatory requirements for health messages and graphic warnings remain in place and include under a recent Information Standard, a requirement for the inclusion of Quitline logo of the Victorian Anti-Cancer Council and a telephone number for the Quitline service.”¹⁶⁴ Noting *in passim* that certain versions of Quitline logo are registered as trademarks in Australia,¹⁶⁵ then the inclusion of these logos would evidently violate Article 20 - if tobacco trademarks were allowed to be used in the form as registered.

Nevertheless, under the plain packaging regime, there is no use of “*a trademark in the course of trade,*” because their appearance is marginalized to the extent that they definitely cannot perform their origin function (see Ch. 1) - a fact that in any case represents a direct violation of Article 20. Yet the point is that non-used trademarks *a priori* cannot be subject to any “*special requirements,*” that could encumber their non-existing use. It then follows that Article 20 under plain packaging regime is *de facto* not applicable at all. In other words, plain packaging somehow “derogates” Article 20 from the TRIPS Agreement much in the same way as this being the case with Article 16.1 (see above). If Australia insists in defending plain packaging as a measure compatible with Article 20, then the situation so created leads to a result, which is manifestly unreasonable, if not absurd: how could mandatory placement of Quitline trademarks and/or health warnings on plain-packaged tobacco packets be reasonably interpreted as “*use of another trademark*” in absence of the principal trademark, the use of which being prohibited?

The very unusual situation caused by plain packaging thus requires a rather complex interpretation of Article 20. Given the extreme impact of Article 20 on the ultimate fate of plain packaging, it is no wonder that there are so many different interpretations, including my claim that plain packaging has created almost an absurd situation. If so, then one may reasonably expect that in interpreting Article 20 one may apply not only Article 31 of the Vienna Convention on Law Treaty (VCLT), but also its Article 32, which provides for

“supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of Article 31, or to determine the meaning when the interpretation of article 31:

(a) leaves the meaning ambiguous or obscure; or

(b) leads to a result which is manifestly absurd or unreasonable.”

I raise this point, because Gervais in his analysis explains that “*an original (June 1990) TRIPS proposal on which the final version of Article 20 is based would have prohibited a requirement **limiting the function of a trademark as an indication of***

¹⁶⁴ Decision of the High Court of Australia in case No. [2012] HCA 43, *Facts and Proceedings* of Chief Justice French, as reproduced in IIC (2013) 44: 105-112, p. 105.

¹⁶⁵ For example Registered Trade Marks No. 829376, 829377, or 1083423.

*source. Words chosen later were apparently meant to explain this notion, not transform it.*¹⁶⁶ This fact is likely to be important for an interpretation of the real meaning of Article 20, if Article 32 VCLT being applied; in my opinion has plain packaging created a situation which leaves the meaning of Article 20 indeed “ambiguous or obscure.”

Article 51

Counterfeiting and Rights of Trademark Owners

It is a bit surprising that little attention is paid to Article 51, despite the fact that it defines the legal basis for combating counterfeiting, and contains important obligations for Members in this respect. The relevant part of this article reads as follows:

“Members shall, in conformity with provisions set out below, adopt procedures [note omitted] to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods [note omitted] may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the custom authorities of the release of such goods.”

Plain packaging evidently makes the mandatory procedures required by Article 51 (“Members shall ...”) *de facto* meaningless. Owners of prohibited tobacco trademarks (“right holders”) *a priori* cannot make use of Article 51, due to the very peculiar position; they simply cannot lodge an application for the suspension of allegedly counterfeit trademark goods, because their trademarks, being prohibited to be used, *a priori* cannot be infringed under plain packaging regime. Counterfeiting in the sense of Article 51 cannot take place at all, due to the counterfeiting legalization (see Ch. 1) established under plain packaging. Moreover, procedures enabling trademark owners to act as required by Article 51 have also not been adopted. In short, plain packaging derogates also Article 51 in a similar way as this being the case with Articles 16.1 and 20, or at least is it violated by not adopting procedures enabling trademark holders to act.

Article 62

Procedures Concerning Acquisition of Trademarks

Plain packaging is an act of *en gros* prohibition of *all* tobacco trademarks without providing for *any* administrative and/or judicial procedures that could be considered as fair and equitable *inter partes* procedures in respect of acquisition and/or maintenance of trademarks, as required by provisions of Article 62; more specifically, par. 4 of the Article needs to be taken into account:

“Paragraph 4 of Article 62 requires that procedures concerning the acquisition or maintenance of IPRs and, where a Member’s law provides for such procedures, administrative revocation and inter partes procedures such as opposition, revocation and cancellation, must be governed by the general principles concerning decisions and review set out in paragraphs 2 and 3 of

¹⁶⁶ Gervais, *Analysis...*, *op. cit.*, p. 14, par. 41.

Article 41 of the Agreement. These general procedures require that procedures be fair and equitable ... Final administrative decisions in such procedures must generally be subject to review by a judicial or quasi-judicial authority (paragraph 5 of Article 62).”¹⁶⁷

It is already mentioned above several times that no *inter partes* procedures have been available to owners of tobacco trademarks in respect of plain packaging. But there is the additional question whether plain packaging represents an act that conflicts with the term "acquisition" as used in the Article. Acquisition of a trademark as an item of property is obtained by its registration, as provided for in par. 2 of Article 62. The term "acquisition" in legal parlance means "[T]he gaining of possession or control over something."¹⁶⁸ Acquisition under virtually any trademark law establishes ownership and in this way a trademark (or any other intellectual property right) becomes property of its owner.

In this respect, it is worth paying attention to s15 of APPA, entitled *Acquisition of Property*; the first two paragraphs of s15 read as follows:

- “(1) This Act does not apply to the extent (if any) that its operation would result in an acquisition of property from a person otherwise than on just terms.*
- (2) In particular, if, apart from this section, this Act would result in such an acquisition of property because it would prevent the use of a trade mark or other sign on or in relation to the retail packaging of tobacco products, or on tobacco products, then despite any other provision of this Act, the trade mark or sign may be used on or in relation to the retail packaging of tobacco products, or on tobacco products, subject to any requirements that may be prescribed in the regulations for the purposes of this subsection.”*

Let me add that s4 of the APPA (*Definitions*), explains that ... *“acquisition of property [by Commonwealth of Australia] has the same meaning as in paragraph 51(xxxi) of the Constitution.”*

As known, the Australian High Court in the (joint) Case No. [2012] HCA 43¹⁶⁹ (JT International SA [JTI] and British American Tobacco Australasia Ltd [BAT] v. The Commonwealth of Australia), ruled that, while plain packaging may be seen as an act of “taking” (i.e., expropriation), it does *not* constitute an act of acquisition under par. 51(xxxi) of the Constitution for a rather specific reason that plain packaging does not “involve the accrual of a benefit of a proprietary character to the Commonwealth,” as High Court Chief Justice French puts it:

“19. In summary, the TPP Act [Plain Packaging Act 2011] is part of a legislative scheme which places controls on the way in which tobacco products can be marketed. While the imposition of those controls may be said to constitute a taking in the sense that plaintiffs’ enjoyment of their intellectual property rights

¹⁶⁷ Taubman, A., Wager, H., and Watal, J. (Eds), *A Handbook on the WTO TRIPS Agreement*, Cambridge University Press, Cambridge 2012 (! World Trade Organization), p. 20-1 (emphasis added).

¹⁶⁸ Black’s Law Dictionary, *op. cit.*, p.26.

¹⁶⁹ Available at <http://www.hcourt.gov.au>.

*and related rights is restricted, the corresponding imposition of controls on the packaging and presentation of tobacco products does not involve the accrual of a benefit of a proprietary character to the Commonwealth which would constitute an acquisition. That conclusion is fatal to the case of both JTI and BAT.”*¹⁷⁰

Three main points can be drawn from the quoted text. First, trademarks are, quite correctly, recognized as property. Second, plain packaging requirements *may* constitute an act of expropriation, that is, “taking” this property from its owners. Third, the plaintiffs lost the case in Australia due to the (fatal) fact that plain packaging, while constituting “a taking,” it “*does not involve the accrual of a benefit of a proprietary character to the Commonwealth.*”

Two questions emerge from the above reasoning. First, does the TRIPS Agreement deal with expropriation of intellectual property rights? And second, if the answer to the first question is in affirmative, is the “*fatal conclusion*” of Australian High Court (absence of accrual of proprietary benefit) compatible with relevant provisions of the TRIPS Agreement?

Expropriation in the Context of Article 62

In respect of the first question, the answer is in affirmative; the TRIPS Agreement deals with the issue of expropriation, including its extreme form of confiscation, albeit in an indirect way. For convenience, let me add that “expropriation” is defined as “[A] governmental taking or modification of an individual’s property rights,”¹⁷¹ whereas “confiscation” means “[S]eizure of property by actual or supposed authority.”¹⁷² It is generally understood that expropriation presupposes some sort of just compensation, whereas this is not the case of confiscation.

Following the reasoning of Pires de Carvalho, the fourth paragraph of the Preamble of the Agreement recognizes intellectual property rights as *private rights*. In respect of this provision, the author notes that ... “*intellectual property rights are recognized as private rights, recognition which, even if not explicitly stated or intended by GATT negotiations, ultimately protects the owners of intellectual property against confiscation or diminution of their rights by arbitrary acts of governments.*”¹⁷³ A bit later is the author more specific:

“If, on the one hand, the first paragraph of the Preamble implies that intellectual property rights are to be protected against acts of infringement by foreign competitors, the fourth paragraph, on the other entails the right of private citizens to protect their legitimate interests against governments. The immediate implications of this affirmation of capitalistic principles have unequivocally been translated into the provisions:

- *of Article 20, which prohibits unjustified encumbrances to the use of trademarks in the course of trade [footnote omitted];*

¹⁷⁰ Quoted from the report on the decision in IIC (2013), 44: 105-112, p. 112 (emphasis added).

¹⁷¹ Black’s Law Dictionary, *op. cit.*, p. 662.

¹⁷² Black’s Law Dictionary, *op. cit.*, p. 340/1.

¹⁷³ Pires de Carvalho, *The TRIPS Regime...*, *op. cit.*, par. P13, p. 68.

- of Article 31(h), which mandates that, in the event of compulsory license is granted, the patent owner shall receive adequate remuneration...;
- and of Article 44.2, which establishes that Article 31(h) shall apply where the unauthorized use of the patented invention is carried by the government or by a third party authorized by the government.

In other words, the TRIPS Agreement clearly prohibits the confiscation of intellectual property rights [footnote omitted]”¹⁷⁴

If the author is right, then plain packaging represents an act of confiscation, with direct implication that plain packaging violates the TRIPS Agreement in this particular respect. However, if plain packaging would have provided for an adequate (just) compensation of tobacco trademark owners, then the situation could have been quite different, as it would have much resembled the case of patent expropriation by a compulsory license, for which the TRIPS Agreement in Article 31(h) explicitly provides for the payment of “adequate remuneration.”

Nevertheless, we still have to answer the second question, that is, whether the Australian condition, that is, that expropriation must also “involve the accrual of a benefit of a proprietary character,” is relevant in the context of the TRIPS Agreement.

Provisions concerning compulsory licensing of patents *prima facie* suggest that the TRIPS Agreement contains no such a condition like “accrual of a benefit of proprietary character.” However, a closer look reveals that the situation is much more complicated. In order to remain within reasonable scope, let me concentrate on just few salient points.

Firstly, the condition that State (Commonwealth) must also accrue a benefit of proprietary character is virtually always met in case of expropriation of tangible property, e.g. land; there is almost no other possibility other than that that the transfer of ownership from expropriated owner to the State takes place. However, trademarks constitute intangible property, and thus the situation in case of their expropriation is inherently not as straightforward as this being in case of expropriation of tangible property.

Secondly, the very purpose of plain packaging is to prevent the use of trademarks, and thus there is obviously no reason why the State should endeavor to “acquire” tobacco trademarks as intangible property, which has been “taken” from legitimate owners with the very aim to making it “inactive,” what is much the same as destructing the essence of this property. On the other hand, the explicitly stated main objective of plain packaging is to improve public health, what is certainly a kind of benefit to the State, though not necessarily of a “proprietary character,” at least not in the classic interpretation of the term “property.”

And thirdly, plain packaging is apparently meant to last literally forever, as it does not provide for any time limits for prohibited use of trademarks. This fact, which reinforces the view that plain packaging is an act of confiscation with the purpose of destructing the

¹⁷⁴ Pires de Carvalho, *The TRIPS Regime, op. cit.*, Par. P22, p. 72/3 (emphasis added).

intangible trademark property rights, stands in sharp contrast to the timely limited, and adequately remunerated, compulsory licensing in case of patents.

Nevertheless, it is the fact that the Australian High Court acknowledges that plain packaging represents an act of (some kind of) expropriation (“taking”). And the Australian High Court is not alone; a scholar from South Africa - where adoption of plain packaging has been discussed - also considers it as an act of expropriation that is not compatible with the Constitution; last but not least, the view that plain packaging is an act of expropriation was presented in Canada much earlier, back in 1991.¹⁷⁵

However, what remains to tobacco trademark owners under plain packaging regime is just the *formal* ownership of their trademarks, by assuring their further existence and maintenance in the Australian trademark register under s28 of APPA. Leaving aside the self-contradicting nature of this formal ownership for reasons explained above, trademark owners have thus *formally* retained the ownership, and at least theoretically they are entitled to assign, license or otherwise dispose with their trademarks; and this fact is *prima facie* a strong argument against any claims that plain packaging is an act of expropriation and/or confiscation. But one cannot overlook the fact that this formal property is *de facto* of no value, as there is nobody willing to buy or take the license for a trademark, the use of which is prohibited for an indefinite period. In other words, the ultimate effect of plain packaging is much the same as if tobacco trademarks were revoked, despite the fact that they remain registered.

Whatever the ultimate interpretation may be in respect of the issue of whether there must be an accrual of proprietary benefit, the fact that plain packaging constitutes an act of “taking” could possibly be sufficient for the purposes of analyzing its impact on Article 62. The point is that, generally speaking, an act of expropriation invariably constitutes also an act of “de-acquisition” of property (rights) previously belonging to the owners, irrespective of the fact whether such an act implies – or not implies - accrual of property by State. However, an act of de-acquisition is an issue that certainly falls under Article 62, though not merely due to the fact that de-acquisition is a natural counterpart of an acquisition; rather, the wording of par. 4 of the Article is instrumental. It explicitly refers to procedures of “*administrative revocation and inter partes procedures such as opposition, revocation and cancellation,*” and which “*shall be governed by the general principles set out in paragraphs 2 and 3 of Article 41.*”

Therefore, the Article covers not only procedures in respect of acquisition of intellectual property rights, but also procedures concerning their possible *loss*: any de-acquisition of rights acquired either by grant or registration obviously represents a loss comparable to revocation and/or cancellation of a trademark. In case of revocation, loss may be either partial, say, just for some but not all goods/services, or complete by revocation or cancellation of the whole trademark. And since APPA does not provide for any time limits in respect of prohibited use of trademarks, the effect of plain packaging is

¹⁷⁵ See the South African blog of The Anton Mostert Chair of Intellectual Property entitled *Trade Marks Going Up In Smoke*, dated 19 April 2012, available at <http://blogs.sun.ac.za/iplaw/2012/04/20/trade-marks-going-up-in-smoke/>, visited on May 22, 2012; for Canada, see Potter, S. V., *The Expropriation of Intellectual Property*, Canadian Intellectual Property Review 8/1991, pp. 59-72.

much the same as if trademarks were revoked or cancelled under the Trade Marks Act. If so, then plain packaging is likely to represent an act of expropriation under TRIPS Agreement, especially when bearing in mind that no fair and equitable *inter partes* procedures were available to trademark owners.

Fair and Equitable Procedures

Article 62.4 also requires that all the relevant procedures “*shall be governed by the general principles set out in paragraphs 2 and 3 of Article 41,*” meaning that the procedures “*shall be fair and equitable*” (par.2), and “[D]ecisions on the merits of the case shall be based only on evidence in respect of which parties were offered the opportunity to be heard” (par. 3).

Plain packaging evidently has not met any of these requirements. It is then not difficult to recognize that plain packaging violates paragraph 4 of Article 62.

3. AN ALTERNATIVE PLAIN PACKAGING IMPLEMENTATION

3.1 THE NEED FOR ALTERNATIVE SOLUTIONS

Conceptual Reasons

The central premise of plain packaging as explicitly stated in APPA is that *all* tobacco trademarks generate such a harmful appeal of related products that their use must be prohibited in order to improve public health by reducing smoking prevalence. I investigate the premise in Ch. 1, and the main insight gained is that the central premise does not hold; in essence, trademarks that cannot be advertised also cannot contribute to *any* (product's) appeal, irrespective whether such an appeal may be socially desirable or not. In short, plain packaging is conceptually misshaped in its very core. This fact then gives rise to serious concerns precisely in respect of public health. Also in Ch.1, I expose two main public health threats, the first being the “brandless” market, and the second one being what is labeled as “counterfeiting legalization.” On this basis, I conclude that the current model of plain packaging is likely to cause more harm than good to the tobacco related public health.

Nevertheless, one cannot ignore the noble objective of improving public health as proclaimed but inadequately implemented by plain packaging in its current form. Therefore, it is worth to looking for possible improvements and/or for alternatives, which could possibly be free of undesired but harmful effects of the current plain packaging regime, but which could still serve the said noble objective.

Legal Reasons

Apart from conceptual flaws, there are some legal concerns that also justify the quest for an alternative plain packaging policy. In Ch. 2, I analyze the legal side of the current model of plain packaging in the context of the relevant international law – FCTC, the Paris Convention, and the TRIPS Agreement. In this respect, the misconceived concept elaborated in Ch. 1 is strongly reflected in all the legal controversies of plain packaging, including the fact that plain packaging has actually missed its second explicitly stated objective to meet the obligations Australia has a Contracting Party to the FCTC.

That said, it is then worth to looking for plain packaging policy alternatives, which would not only be conceptually correct, but which would be free of legal controversies as well.

Developing an alternative and technically viable proposal for plain packaging that would be capable to achieving the same result as the currently practiced policy, but without legally controversial exceptions and limitations, would obviously be of crucial importance. If such a solution exists, then it could have a dramatic impact not only on current WTO disputes in this respect, but hopefully on all countries intending adoption of plain packaging laws that follow the APPA. In fact, the WTO disputes could have become completely superfluous if a functionally and legally non-controversial alternative could were available. It is well-established WTO principle that, “*if two or more measures are available for achieving the same result, governments of WTO Members are*

*obliged to take the least-trade restrictive measures. This principle is set in the TBT Agreement and its application in the context of intellectual property was discussed by the Panel in European Communities II [note omitted].*¹⁷⁶ The same principle was explicitly confirmed also in the adopted report on the case *Brazil – Retreaded Tyres* (case WT/DS332).¹⁷⁷

3.2 STARTING POINT: THE DUAL IMPACT OF PLAIN PACKAGING

The Meaning of the Term “Dual Impact”

In looking for a possible alternative to, or improvement of, the existing plain packaging regime, I have noticed that plain packaging is having what I call here as “double impact.”

By the word “impact” I simply mean the plain packaging *efficiency* in respect of its desired effect, that is, to improve public health by decreasing the smoking prevalence. As argued in Ch. 1, is efficiency of crucial importance for the question whether plain packaging could be justified under Article 8.1 of the TRIPS Agreement; if plain packaging efficiency is low, then it obviously cannot pass the necessity test under this Article and thus eventually cannot be recognized as necessary measure in terms of its numerous trade restrictions required for its implementation.

Next, the phrase “double impact” means that plain packaging is having its first impact in the principal domain of trademarks, that is, *in the course of trade*; the second impact refers to its impact generated by (the use of) trademarks *outside the course of trade*.

The relevance of dealing with the first impact is rather obvious; plain packaging prohibits the use of tobacco trademarks *in the course of trade*, the very and the only domain covered by the TRIPS Agreement; in words of Pires de Carvalho, “[N]on-commercial use of trademarks is therefore not covered.”¹⁷⁸ Taubman et al. similarly note that “*trademarks only have to be protected in commercial dealings and there is no obligation to protect against use in a private context.*”¹⁷⁹

Talking about the use of trademarks outside the course of trade at least *prima facies* makes no sense, whether generally or in the specific context of plain packaging; trademark use outside the course of trade, such as use in the private context, could hardly be labeled as its use. Clearly, the basic functions of trademarks - the origin function and the quality function - and/or their capacity to distinguish one undertaking from another make no sense, once certain items bearing their respective trademarks enter into the sphere of private use.

¹⁷⁶ Pires de Carvalho, *The Trips Regime...*, *op. cit.*, Par. 8.5., p. 253. The WTO case referred to by the author as European Communities II is the case WT/DS290.

¹⁷⁷ See Rodrigues, Edson Beas Jr., *The General Exception Clauses of the TRIPS Agreement*, Cambridge University Press, Cambridge 2012, p. 50ff.; For a brief summary of the case, see World Trade Organization, *WTO Dispute Settlement: One-Page Summaries 1995 – 2005*, 2010 Edition, p. 128.

¹⁷⁸ Van den Bossche, Peter, and Zdouc, Werner, *The Law and Policy...*, *op. cit.*, p. 983.

¹⁷⁹ Taubman et al., *A Handbook...*, *op. cit.*, p. 67.

In other words, talking about a non-commercial use of trademarks is virtually an oxymoron. Nevertheless, let me mention *in passim* that non-commercial use had apparently existed in the very distant history, when marks were used to indicate ownership, not the origin of goods.¹⁸⁰ But nowadays, trademarks serve solely as badges of origin in commerce and trade. The TRIPS definition makes absolutely clear that capacity of distinguishing goods or services of a trademark is relevant only in the course of trade, because the term “undertaking” is used “*with the meaning of ‘firm’ or ‘commercial business.*”¹⁸¹

In short, the notion of "trademark use outside the course of trade" apparently makes no sense at all.

That said, one may really wonder which reasons then justify to talk about the second impact of plain packaging.

It sounds strange, but it is explicitly claimed that tobacco trademarks do have an (undesired) effect outside the course of trade, that is, they do have the second impact. In fact, this effect is actually claimed to be even of prime relevance, surpassing the (first) plain packaging impact in the course of trade.

Before turning attention to thus unusual claim, let me begin simply for reasons of convenience with the discussion of the first impact of plain packaging.

First Impact: Effect in the Course of Trade

In Ch. 1, I refer, *inter alia*, to two noted plain packaging advocates – Prof. Sweanor from Canada and Prof. Davison from Australia – who both unanimously admit that the effect of plain packaging shall be modest (little effect), mainly due to the long-lasting advertising ban and other related restrictions. It is convenient to repeat here the claims of Sweanor and Davison. Sweanor claims that

*“Oddly, making the case for plain packaging might be harder now than in the 1980s. Firstly, we have already largely destroyed the imagery of cigarette packages in many markets through large graphic health warnings, mandatory toxicity labelling, bans on descriptors and package imagery and the end of cigarette advertising that was linked to packaging. Secondly, and far more important, the ongoing battle between a public health approach and the abstinence-only approach to tobacco/nicotine now sadly associated with the formerly general moniker ‘tobacco control’ has led to anti-smoking measures being far less effective than they could otherwise be”*¹⁸²

Referring to similar reasons mentioned by Sweanor, Davison explicitly acknowledges that plain packaging will have just “*little effect*”:

¹⁸⁰ Bently and Sherman, *Intellectual Property Law*, *op. cit.*, p.712.

¹⁸¹ Pires de Carvalho, *The TRIPS Regime...*, *op. cit.*, par. 15.12, p. 282.

¹⁸² Sweanor, David T., *op. cit.*, p. 2.

*“It is true that plain packaging will have little effect ‘in the course of trade’ because of existing prohibitions on advertising and point of sale display of tobacco products.”*¹⁸³

The difference in respect of the two quoted statements is that Davison additionally clarifies that plain packaging is having its *“little effect” in the course of trade*; in other words, he explicitly refers to the first impact of plain packaging.

It goes almost without saying that I agree with both authors. Indeed, they just compactly say what I elaborate at some length in Ch. 1, where I show that tobacco trademarks have effectively lost their allegedly harmful impact after being deprived of their advertising function with the imposition of the advertising ban.

It may be a bit astonishing that the assertions of Sweanor and Davison as strong defenders of plain packaging are actually a powerful argument *against* it; their claims about *“largely destroyed imagery”* (Sweanor) and *“little effect in the course of trade”* (Davison) directly confirm the fact that plain packaging, with its prohibition of use of tobacco trademarks in the course of trade, could hardly fulfill the necessity and justification requirements, which are instrumental to justify application of such extreme exceptions and limitations, at least under relevant WTO law.

Yet the prime issue here is that the desired first impact of plain packaging could only marginally improve public health. On the other hand, the price for this marginal improvement is more than high; one simply cannot ignore serious public health threats inherently generated by the plain packaging regime in the course of trade.

Despite his view about "little effect" of plain packaging is Davison nonetheless strongly defending plain packaging. He claims, *inter alia*, that neither the Paris Convention nor the TRIPS Agreement provide for the (positive) right of use, and thus plain-packaging-related prohibition of use as enacted by APPA does not constitute a violation of the two treaties.¹⁸⁴ While I disagree with his interpretation (see my opposite interpretation in Ch. 2), the point here is that *any* discussion whether Paris Convention and TRIPS do provide or not provide for positive right of use is actually irrelevant and thus superfluous as long as plain packaging is having just some *“little effect.”*

However, Davison is having yet another - and apparently crucial - argument in defending plain packaging:

¹⁸³ Davison, M., *The Legitimacy of Plain Packaging under International Intellectual Property Law: Why there Is No Right to Use a Trademark under either The Paris Convention or The TRIPS Agreement*, Chapter 5 in Voon, T., Mitchell, A. D., and Liberman, A. With Ayres, G. (Ed), *Public Health and Plain Packaging of Cigarettes – Legal Issues*, Edward Elgar Publishing Limited, Cheltenham, UK 2012, p. 107/8.

¹⁸⁴ Davison, M., *The Legitimacy...*, *op. cit.* Also Davison, M., *Plain Packaging of Tobacco and the “Right” to Use a Trade Mark*, [2012] EIPR, Issue 8, *op. cit.*

*“But the biggest effects of the legislation will be in relation to the use of trademarks outside ‘the course of trade’”.*¹⁸⁵

And here the so-called second impact of plain packaging enters the scene.

Second Impact: Effect outside the Course of Trade

It is first worth repeating that the quoted statement is surprising; what author means by *“the use of trademarks outside the course of trade,”* if such "use" is non-existent, since the *only* relevant domain for trademarks is *in the course of trade*?

As a brief digression in this respect, I allow myself to note that Davison is the author of the chapter on trademarks in the recent textbook on Australian intellectual property law.¹⁸⁶ The following few excerpts from the textbook may serve as an illustration of Prof. Davison’s thoughts:

“The registration of trade marks was a reasonably natural development beyond the law of passing off.

...

The most traditional explanation of trade marks is that they act as an indicator of the goods or services in relation to which they are used.

...

In any event, a related function of a registered trade mark is the function of indicating in shorthand form the quality of a product to consumers.

...

These functions of registered trade marks are functions that are consistent with consumer protection objectives.

...

The phrase ‘to distinguish goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person’ goes to the essence of what it means to use a sign as a trade mark...

...

The course of trade is a very broad expression and refers to almost any form of commercial dealing in goods or services prior to ‘consumption’.

...

*The primary activity that would not be ‘in the course of trade’ might be importation for personal use or consumption ... However, even situations such as those would have to be examined individually to ascertain whether the vendor was actively dealing with Australian consumers.”*¹⁸⁷

Here, the author (correctly in my view) maintains that trademarks under Australian Trade Marks Act play their role only in the course of trade. He also explicitly labels the two main functions of trademarks, the origin function and the quality function, as

¹⁸⁵ Davison, *The Legitimacy...*, *op. cit.*, *ibid.*

¹⁸⁶ Davison, Mark J., Monotti, Anna L., and Wiseman, Leanne, *Australian Intellectual Property Law*, Cambridge University Press, Melbourne 2012.

¹⁸⁷ Davison, Mark J., Monotti, Anna L., and Wiseman, Leanne, *Australian Intellectual Property Law*, *op. cit.*, pp. 64-78.

beneficial for consumers ("*consistent with consumer protection objectives*"), much in the same vein what I claim in Ch. 1 above.

Turning attention back to his above quoted statement in respect of plain packaging, there is yet another surprise: the "*biggest effects*" of plain packaging legislation "*will be in relation to the use of trademarks outside the course of trade*".

Author explains the essence of these "*biggest effects*" in the following way:

*"It is in the display of trademarks in social settings where smokers show their packets to each other and non-smokers that the plain packaging legislation will have its biggest impact. No longer will the packaging be able to make a 'statement' about the image of the smoker other than a statement consistent with the essential nature of the product, namely, that it is addictive and extremely dangerous to health [footnote omitted]."*¹⁸⁸

This claim represents an almost revolutionary shift within the whole discussion about plain packaging. Suddenly, the allegedly most harmful impact of tobacco trademarks is tied to their "use(?)" *outside* the course of trade - a statement that absolutely deserves to be looked at.

To begin with, it is necessary to observe that Davison incorrectly maintains that tobacco trademarks are "*in the display in social settings*"; what is in the display outside of the course of trade are *tobacco products* (or items) bought and owned by smokers, not trademarks *as such*. This fact is well known, and even Davison himself points to it in his textbook (see above), where he notes that the "*primary activity that would not be 'in the course of trade'*" might be "*importation for personal use or consumption.*" Personal use or consumption obviously refers to products, not to trademarks *as such*. Trademarks *per se* as an intangible right simply cannot be imported (or exported, let alone purchased) for personal use by consumers; what consumers import, export and, above all, buy, are *products*, which however are in normal circumstances labeled by their respective trademarks.

Secondly, a rather plausible but relevant question is whether there is any evidence available that could justify the asserted plain packaging "*biggest effects*" outside the course of trade. Davison is not referring to any analytical source or evidence, nor is he referring to any statistical or other similarly quantifiable data that would support his claim; as before, such evidence on the alleged biggest effect is of utmost relevance at least in the context of the necessity test under Article 8.1 of the TRIPS Agreement (or under any other relevant piece of WTO law). In this respect, it is also worth noting that the main body of literature supporting plain packaging refers mostly to surveys in respect of the allegedly harmful appeal of tobacco trademarks *in the course of trade* (surveys in shopping malls etc).

¹⁸⁸Davison, *The Legitimacy...*, *op. cit.*, *ibid.*

But even if certain evidence on the impact of tobacco trademarks outside the course of trade might be available, then the next question would be whether it meets professional standards in order to be recognized as credible; recall that the existing pro-plain-packaging evidence was subject to a rather strong critique.

Thirdly, one cannot ignore the fact – acknowledged by plain advocates as well – that tobacco trademarks have long ago lost their allegedly harmful "appeal", due to the advertising ban, as correctly acknowledged by Sweanor (see Ch. 1). If so, then "*displaying tobacco trademarks (sic!) in social settings*" *a priori* cannot make any harm. The only imaginable impact of showing differently branded tobacco packets in social settings could be brand switching, which however does not seem to be likely in the presence of brand loyalty (again, see Ch. 1). In short, just a mere showing of tobacco packets in social settings and the subsequent brand switching, if any, cannot have any negative impact on the main plain packaging objective of improving public health.

The last point that deserves attention is *to whom* are tobacco products displayed in social settings; Davison refers to both smokers and non-smokers. For convenience, let me deal with the effect of showing cigarette packets for each group separately.

As far as showing cigarette packets to smokers is concerned, a mere intuition would spontaneously suggest that displaying tobacco products, be they branded or plain packaged, among *smokers themselves* could hardly have any noticeable impact on tobacco consumption; in any case, all persons within this group are by definition smokers, and thus it is hard to imagine how any "*displaying*" of branded tobacco packets (trademarks in Davison's inaccurate terminology) could have an(y) effect on smoking prevalence. The only imaginable argument in favor of plain packaging could be that plain packets could make health warnings even more visible than this being the case with "branded" packets.

Yet even this rather fictitious beneficial effect could barely be beneficial. A number of studies repeatedly and consistently show that young smokers are highly indifferent to health warnings. For example, on September 2013, BBC News reported about findings of the study carried out by Stirling University (UK):

*"But the Stirling University study, which involved 2,800 children, found the [health warning] images have had almost no effect on deterring 11-16-year-old smokers."*¹⁸⁹

This fact is not new; it is actually known at least since late 90's of previous century, when an anti-smoking campaign commissioned by the UK Health Education Authority (HEA) was carried out by the UK Account Planning Group (APG); the campaign eventually won the title of Gold Winner for Creative Planning Awards in 1999¹⁹⁰ and was

¹⁸⁹ BBC News Health, *Graphic images 'don't deter young smokers*, reported on BBC website on September 5, 2013.

¹⁹⁰ Miller, Kara, *HEA Anti-smoking-method planning*, available at request from www.warc.com. I am grateful to Mrs. Sai Watson from WARC for providing me with the document.

subsequently reported by Yeshin in his popular textbook.¹⁹¹ The core target of this prize-winning campaign were girls between 16 to 24 years of age, after it was found that 1/3 of them were smoking. Here are the relevant findings of the author of the campaign, Kara Miller:

“Young women who smoke experience very few noticeable side effects (well nothing serious enough to motivate quitting en masse), not only do they lack the motivation to quit, they are also extraordinarily adept at creating loopholes to escape anti-smoking messages directed at them.

...

‘Anti-smoking messages are redundant ‘everybody knows smoking is bad for you.’

...

There is no scope for even a hint of a prescriptive ‘just say no’ anti-smoking message.

...

*In order to attract the attention of our rather discriminating target, the visuals used had to be of intrinsic interest to them. **Unlike the dark, bewildering visuals we were using which they said bored and repelled them!**”¹⁹²*

The last report worth mentioning here was published in *Addiction* in March 2011 about the study, for which the authors claim that their results are based on first objective behavioral measures. The authors arrive at much the same findings as the two above mentioned studies, what is indicated already in the title of the paper, and summarized in the abstract:

*“**Findings** Analysis of variance indicated more eye movements (i.e. greater visual attention) towards health warnings compared to brand information on plain packs versus branded packs. **This effect was observed among non-smokers and weekly smokers, but not to daily smokers.**”¹⁹³*

Therefore, the message of the above campaign and studies, all aimed at reducing tobacco prevalence, is clear: showing cigarette packets without trademarks but with health warnings to smokers have no significant impact on them. On the other hand, one could reasonably expect that the telling insights such as that there is *"almost no effect of health warnings"*, or on boring and repelling *"bewildering visuals"* etc. should be adequately taken into account by Governmental Public Health authorities in countries around the globe, and above all, by the WHO; but instead of adequately adopting anti-smoking policies in order to make them more effective is adoption of plain packaging legislation, along with much greater and *"bewildering"* health warnings strongly promoted by WHO.

¹⁹¹ Yeshin, Tony, *Advertising*, Thomson Learning, London 2006, p. 238/9.

¹⁹² Miller, Kara, *HEA Anti-smoking...*, *op. cit.*, p.2 (emphasis added).

¹⁹³ Munafò, Marcus R., Roberts, Nicole, Bauld, Linda & Leonards, Ute, *Plain packaging increases visual attention to health warnings on cigarette packs in non-smokers and weekly smokers but not daily smokers*, *Addiction*, 106, pp. 1505-1510, doi:10.1111/j.1360-0443.2011.03430.x (emphasis added).

In any case, the presented evidence suggests that Davison's claim about the plain packaging "biggest effect in social settings where smokers show their packets to each other" may not be very convincing, irrespective of the question whether there is any evidence in its favor or not. It then follows that the only effect that possibly could be achieved is that individual smokers would not be anymore able "to make a 'statement' about the image of the smoker;" while this effect could be at least presumed, it could hardly be considered as a measure capable of any significant improvement of public health, at least as long as it is not proved by reliable evidence. On the other hand, if one is indeed "making a 'statement' about the image of the smoker", then this fact may be interpreted that smoking as such is considered as a positive 'statement'; if so, then anti-smoking campaigns concentrated on alleged harmful impact of tobacco trademarks are actually missing the main question, why smoking is considered as a means for making a 'statement' about the smoker. Indeed, at least the mentioned award-winning campaign clearly points to this fact.

Last but not least, if some smokers would indeed persist in "quasi-advertising" of their favorite tobacco brands by showing their branded packets to their smoking fellows in order "to make a 'statement' about the image of the smoker," they could easily outplay plain packaging by making at home envelopes (or boxes or wrappers etc.), labeled with the chosen brands, and then by covering plain packaged packets with them – possibly in the way that such labels would also cover health warnings. Would such a practice amount to an infringement of the "use of trademarks outside the course of trade?"

Turning attention now to the effect in respect of showing cigarette packets to non-smokers, the situation is different. For example, the above quoted BBC news reporting on Stirling University study says that, while health warnings "have had almost no effect on deterring 11 to 16-year-old smokers," they "did have an effect on non-smokers and experimental smokers."¹⁹⁴ A similar conclusion offers the study of Munafo et. al:

“Conclusion Among non-smokers and daily cigarette smokers, plain packaging appears to increase visual attention towards health warning information and away from brand information”.¹⁹⁵

These findings *prima facie* speak in favor of plain packaging. Nevertheless, what they clearly state is that non-smokers are *sensitive* to health warnings, in contrast to non-sensitive smokers. However, this fact *as such* does not necessarily imply that the presence of trademarks would generate an undesired and apparently unspecified impact (appeal). All what the study says is that "[A]mong non-smokers and daily cigarette smokers, plain packaging appears to increase visual attention towards health warning information and away from brand information." Common sense would suggest the same conclusion; one almost inevitably pay (visual) attention to the most visible element on otherwise plain surface. In other words, greater visual attention *as such* does not necessarily imply habitual preferences; at least, such a correlation ought to be explicitly and convincingly demonstrated.

¹⁹⁴ BBC News Health, *Graphic images 'don't deter young smokers, op. cit., ibid.*

¹⁹⁵ Munafo et. al., *Plain packaging increases visual attention to health warnings..., op. cit., p. 1509.*

Next, if brands were indeed appealing, then one could have reasonably expected that precisely non-smokers would have paid more visual attention to brands on branded packets, rather than to health warnings. But the studies demonstrate the opposite, what may be interpreted as a confirmation that trademarks - in absence of advertising - do not possess any harmful appeal. If tobacco packets would bear both health warnings and their trademarks, then health warnings would apparently attract greater attention of non-smokers than trademarks; but if so, then a possible presence of trademarks on packets seems to be of minor importance, what does not necessarily speak in favor of plain packaging.

In other words, the conclusion of Munafo et. al that *“it is plausible that plain packaging will increase the salience and impact of health warnings in those yet to establish a smoking habit, and therefore those who are potentially more amenable to behaviour change”*¹⁹⁶ may not be so plausible; some reservations as to its asserted validity seem to be justified. Last but not least, the validity of the conclusion is further limited to *“those who are potentially more amenable to behaviour change.”*

But there is yet another, a more pragmatic point: when smokers go for smoking, they are more often than not separated from non-smokers, due to widely spread restrictions in respect of areas permitted for smoking. This fact further diminishes the alleged harmful effectiveness of *“showing packets in social settings by smokers to non-smokers.”* Consequently, it is highly unlikely that *“showing packets in social settings by smokers to non-smokers”* could barely convince any significant number of non-smokers to take up smoking *solely* on the basis of such “showing.”

That said, one must not ignore the other side of the story, which once again concerns plain packaging health threats discussed in Ch. 1. The point is that precisely smokers as regular tobacco consumers are going to be the most exposed group to increased health threats caused by proliferation of health-threatening fake tobacco products (brandless market and counterfeiting legalization). This fact, even if taken alone, seems to be a strong argument against plain packaging.

To summarize, the claim about the *“biggest effect”* of plain packaging *outside* the course of trade appears to rest on rather weak and by evidence poorly supported arguments.

Given the fact that all stakeholders - plain packaging advocates, its opponents and neutral scholars - agree that the impact of plain packaging in the course of trade is at best marginal, then the ultimate conclusion can only be that none of the two plain packaging impacts - the impact in the course of trade and the impact outside it - could make any, let alone significant improvement of public health.

But the story does not end here. The logic of Prof. Davison in respect of the *“biggest effects”* outside the course of trade completely neglects a fundamental legal issue, which possibly might be even fatal for plain packaging in its current form.

¹⁹⁶Munafo et. al., *Plain packaging increases visual attention to health warnings...*, *op. cit., ibid.*

3.3. PLAIN PACKAGING AND EXHAUSTION OF TRADEMARK RIGHTS

Two Relevant Articles of the TRIPS Agreement

Article 20 Again

In the plain packaging context, the neglected exhaustion doctrine has its roots in already discussed Article 20 (Ch.2), which actually is not related to the exhaustion, and to which Davison is explicitly referring to as follows:

“There is no doubt at all that once the packets of cigarettes or other tobacco products are sold at the retail level to consumers, the packets are no longer ‘in the course of trade’.

*Article 20 relates only to encumbrances ‘in the course of trade’. Encumbrances outside the course of trade are not encumbrances that are regulated by Article 20. However, encumbrances outside the course of trade are a vital part of the necessary measures designed to increase the efficacy of health warnings, reduce existing smoking rates and reduce the uptake of smoking, especially by minors. In other words, WTO Members have an untrammelled right to encumber trademarks outside the course of trade.”*¹⁹⁷

Davison is absolutely correct in stating a rather obvious fact that *“there is no doubt at all that once the packets of cigarettes or other tobacco products are sold at the retail level to consumers, the packets are no longer ‘in the course of trade’.*” And he is equally right that *“[A]rticle 20 [of the TRIPS Agreement] relates only to encumbrances ‘in the course of trade’, and that “[E]ncumbrances on trademarks outside the course of trade are not encumbrances that are regulated by Article 20.”*

Last but not least, it is indeed easy to agree with Davison that... *“WTO Members have an untrammelled right to encumber trademarks outside the course of trade.”* The TRIPS Agreement deals with trademarks exclusively in respect of their use *in the course of trade*, and thus has no applicability whatsoever on acts done *outside the course of trade* – though only as long as such acts do not encumber the legitimate use of trademarks *in the course of trade*, at least not beyond exceptions and limitations permitted by the TRIPS Agreement. This is precisely the logic behind my discussion of Article 20 above (Ch. 2), where I claim that the Article is simply inapplicable within the current plain packaging regime; a prohibition of trademarks *in the course of trade* represents more than an extreme encumbrance.

Nevertheless, Davison’s analysis gives rise to an entirely different point: if plain packaging has indeed its (questionable) biggest impact outside the course of trade, then plain packaging has at least neglected, if not violated the principle (or doctrine) of exhaustion. The TRIPS Agreement deals with exhaustion in Article 6.

¹⁹⁷ Davison, M., *The Legitimacy...*, *op. cit.*, p. 107/8.

Article 6

Article 6 reads as follows:

"For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."

The exhaustion doctrine is so ubiquitous that it is seldom explicitly defined in intellectual property laws as such. Much the same is true for Article 6, which does not contain any definition or explanation of the term "exhaustion." Let me therefore just for convenience recall the essence of exhaustion in respect of trademarks (though it is generally valid for other intellectual property rights). A compact definition offers the Black's Law Dictionary:

"exhaustion-of-rights-doctrine. Int'l law. The principle that once the owner of an intellectual property right has placed a product covered by that right into the marketplace, the right to control how the product is resold within that internal market is lost."¹⁹⁸

Taubman et al. clarify the term "exhaustion" in the context of the TRIPS Agreement in a bit more extensive manner:

*"[T]he term 'exhaustion' refers to the generally accepted principle in IP law that a right owner's exclusive right to control the distribution of a protected item lapses after the first act of distribution. In many countries, once the item has been put on the market by or with the consent of the right owner, the exclusive right is 'exhausted' (which is why the principle is referred to in some jurisdictions as the 'first-sale doctrine') and further circulation of that item can no longer be controlled by the right holder."*¹⁹⁹

It is worth emphasizing that, after a "trademarked" item, say a pack of cigarettes, has been put on market by the trademark owner (or with his consent by someone else), *the further circulation of that item can no longer be controlled by the right holder*. Apart from few exceptions, which are not relevant in the context here (such as inappropriate repackaging etc.) is the loss of control complete; all trademark rights (indeed, any industrial property right) cease to exist in respect of any trademarked product legitimately sold by the trademark owner. A very illustrative case how trademark owner is losing his trademark rights under exhaustion principle is the judgement of German Federal Court in the "Rolex" case in 1998;²⁰⁰ in brief, a buyer of a Rolex watch changed it so that it has appeared as a much more expensive model with diamonds; Rolex sued for infringement of his famous trademark, but lost the case.

¹⁹⁸ Garner, A. B., *Black's Law Dictionary*, op. cit., p. 655.

¹⁹⁹ Taubman, A., Wager, H., and Watal, J., *A Handbook...*, op. cit., p. 18, also Pires de Carvalho, *The Trips Regime...*, op. cit., p. 186.

²⁰⁰ BGH 12.02.1998 I ZR 241/95 "Rolex-Uhr mit Diamanten", GRUR 1998, pp. 696/7.

The exhaustion principle is actually the (legal) basis for my observation above that Davison incorrectly maintains that tobacco *trademarks* are “*in the display in social settings*”; what is in the display outside of the course of trade are sold *tobacco products*, not *trademarks per se*.

Returning to Article 6, it is well known fact that it represents “*one of most contentious provisions*”²⁰¹ within the TRIPS Agreement, because it essentially allows WTO Members free choice in respect of determining *the type* (or form) of exhaustion in their respective national laws. In other words, WTO Members are free to choose either the regime of international exhaustion or the regime of national exhaustion, though the ubiquitous territorial nature of intellectual property rights would, at least *prima facie* somehow imply the national type of exhaustion. In some cases, the regional type of exhaustion is enacted, e.g. in the internal market of the European Union.

However, the contentious issue of the exhaustion regime chosen by a Member – be it national international or regional – is actually without any relevance in the context of our deliberations. The only relevant fact is that the fundamental principle – or doctrine - of exhaustion *as such* is part of the TRIPS Agreement; indeed, it is one of its main pillars.

Exhaustion and the Second Plain Packaging Impact

Taking exhaustion principle into account in the context of the so-called second impact of plain packaging, it is not difficult to recognize its fundamental legal defect. If it is true that plain packaging is having its “*biggest effects*” outside the course of trade, that is, after tobacco products being legitimately sold to users,²⁰² then the current form of plain packaging is in a flagrant conflict with the exhaustion doctrine. As said, the very effect of exhaustion is that tobacco manufacturers inevitably lose every control over their trademark rights in respect of their legitimately sold tobacco products. Consequently, owners of tobacco trademarks can in no way be held liable in respect of acts – *any acts* - undertaken by buyers. Buyers have an unlimited freedom to do with the purchased products whatever they are pleased to do; normally, they may consume them, but they may also destroy them, resell them, donate them, change their appearance²⁰³, throw them away, or indeed put them on tables and thus display them – packets, not trademarks! - in various social settings to their companions.

Exhaustion doctrine therefore *a priori* precludes *any* enactment of *any* limitations concerning the use of tobacco trademarks *in the course of trade* for the sole purpose of preventing an alleged but unproven public-health-threatening behavior of smokers *outside the course of trade*. Only smokers and not trademark owners - or indeed anyone else - bear every, full and sole responsibility for their acts of “*displaying of tobacco trademarks[sic!] in social settings*” outside the course of trade. In other words, trademark owners are therefore in no way liable, nor in any position be able and/or

²⁰¹ Pires de Carvalho, *The Trips Regime...*, *op. cit.*, p. 183.

²⁰² The notion of »Tobacco user« is defined by the WHO as »*a person who uses any tobacco product.*« See *Glossary of Terms Used in the WHO FCTC and its Instruments*, available at http://www.who.int/fctc/reporting/en_glossary_final.pdf.

²⁰³ See the "Rolex" case reported above.

allowed to intervene in respect of what smokers are doing with tobacco packets “in social settings,” or elsewhere in their private spheres *outside the course of trade*.

Therefore, the immediate question is how could then the current plain packaging regime of preventing use of trademarks in the course of trade, be reasonably justified, if the “*the biggest effects*” of plain packaging are (arguably) outside the course of trade.

Davison is offering the following explanation:

*“If some relatively small encumbrance on word trademarks in the course of trade is necessary in order to achieve health objectives outside the course of trade, that objective too forms part of equation as to whether the encumbrances in the course of trade are necessary for public health. In short, encumbrances on word trademarks in the course of trade that are imposed by plain packaging legislation are relatively small, but the effect of those encumbrances is to assist in achieving health objectives by having a direct impact on the social promotion of tobacco products.”*²⁰⁴

The first obvious observation in respect of the above quotation is that plain packaging could hardly be considered as “*small encumbrances on word trademarks in the course of trade*.” Plain packaging is such a severe measure on use of trademarks in the course of trade that it certainly cannot be considered as a small encumbrance - especially if one takes into account the not-so-small and primarily public-health threatening effects caused by those “*small encumbrances*”, e.g., brandless market and counterfeiting legalization (see Ch.1).

Nevertheless, leaving aside the questionable minimization of rather radical plain packaging measures by proclaiming them as “*small encumbrance on word trademarks in the course of trade*,” and further leaving aside the equally questionable claim about the “*biggest effects*” outside the course of trade, the above reasoning is in any case in flagrant conflict with the exhaustion principle. Whatever the scope of any “*encumbrance in the course of trade*” may be in order to achieve the desired plain packaging effect outside the course of trade, they are completely precluded under the exhaustion doctrine. Davison himself correctly states that Article 20 of the TRIPS Agreement “*relates only to encumbrances in the course of trade*,” and that “*WTO Members have an untrammelled right to encumber trademarks outside the course of trade*.” However, he also explicitly - and correctly - acknowledges that plain packaging does encumber tobacco trademarks in the course of trade - yet just in order to achieve the desired “biggest effect” outside it.

If so, it is then indeed hard to accept the view that “*some relatively small encumbrance on word trademarks in the course of trade is necessary in order to achieve health objectives outside the course of trade, that objective too forms part of equation as to whether the encumbrances in the course of trade are necessary for public health*.”

²⁰⁴ Davison, M., *The Legitimacy...*, op. cit., *ibid*.

How unacceptable is this justification in the light of exhaustion doctrine can be best illustrated by some hypothetical examples. Imagine that the plain packaging principle of “penalizing” trademark owners with the prohibition of their trademarks in the course of trade were generally applicable in case of any undesired acts caused by irresponsible purchasers of products bearing respective trademarks. If so, then the carmakers of fast sporty cars could have been prevented to using their trademarks, the justification being improved public health by reducing heavy traffic accidents caused by the car owners driving sporty cars too fast; or perhaps the car manufacturers ought to pay at least fines for over-speeding committed by car owners. And imagine if the same logic being applied to an almost unlimited number of other products that are potentially harmful for public health, such as motorbikes, snowboards, sweetened drinks, wine and spirits etc ...

Next, it is also worth recalling here what I call the cardinal self-contradiction of plain packaging. As I show in Section 2.2 above, APPA in s28 explicitly prevents a possibility to remove these trademarks from the Trade Marks Register for reasons of their involuntary non-use, what is the most straightforward confirmation that *all* prohibited trademarks are absolutely “correct”. This fact also obviously speaks against the justification, according to which encumbrances in the course of trade could be “*part of [Davison’s] equation*” in achieving the desired objective outside the course of trade.

Finally, there is the last but perhaps most powerful argument against Davison's “*equation*”: plain packaging “*biggest effect*” outside the course of trade (“*in social settings*”) can be actually achieved without *any* encumbrances that would affect the legitimate use of trademarks *in the course of trade*. Just a small change in the implementing method of the current plain packaging regime can actually make it significantly different, so that indeed *all* violations and *all* other controversies in respect of the TRIPS Agreement and any other piece of WTO law are completely avoided.

3.4 AN ALTERNATIVE SOLUTION

The Essence of the Proposed Alternative

In fact, the proposed solution is extremely simple, and requires just few, presumably modest technical measures.

The idea is that each unit packet (box) of a tobacco product would have double packaging; each packet ought to be wrapped by two envelopes. The most outer envelope would be thus visible in the retail trade, and its design should look just like the packaging used before adoption of plain packaging legislation; that is, it should look in the manner as currently practiced in countries where plain packaging has not been introduced so far. As far as Australia is concerned this would mean that the outer envelope would look in the same way as allowed before APPA has entered into force. In short, the outer packaging would still feature trademarks and other design elements of respective manufacturers, including the health warning of a reasonable size.

Now, the main trick of the proposed solution is that the visible outer envelope of the packet would be designed in a way that it would be completely destroyed (disintegrated) when the packet would be opened. Consequently, only the second outer envelope would

then become the only visible exterior of the packet; and this envelope ought to be designed in accordance with (reasonable) plain packaging requirements. In contrast to the first packaging envelope, this second “plain packaging” design ought to be an inseparable part of the cigarette packet (box) itself, and thus it could not be physically removed. Eventually, what would remain in the hands of a buyer (smoker) would be just the plain packaged packet.

The proposal is presented in a rather crude way; clearly, its implementation in practice may obviously take various forms, depending primarily upon technical possibilities related to available packing technologies. Nevertheless, the main objective of the proposal is just to show that there is a simple and practical possibility of achieving the arguably plain packaging “*biggest effect*” in an at least equally efficient manner by means, which – in stark contrast to APPA – is functionally and legally absolutely non-controversial.

Functional Benefits of the Alternative

The proposed solution would evidently achieve the claimed “*biggest effect*” of plain packaging, as “*displaying tobacco trademarks in social settings*” would be completely eliminated. However questionable and unverified this “*biggest effect*” of preventing displaying tobacco trademarks(sic!) in social settings may be, the proposal makes it possible to achieve it much in the same way than by the current plain packaging regime. In fact, if Davison is indeed right, then the proposal would likely to be even a more effective measure within anti-smoking campaigns, by targeting arguably the most sensitive surroundings.

Clearly, the solution would not affect the normal use of trademarks in the course of trade. In this respect, recall the fact that not only plain packaging advocates, notably Davison and Swenor, but also a number of other respected scholars, e.g. Gervais and Kur, acknowledge that the desired impact of plain packaging *in the course of trade* is likely to be more than modest; it could have at best just “*little effect*,” to quote Davison once again. Yet it is clear that his “*little effect*” would be sacrificed by proposed solution.

However, this loss would be more than compensated by significant positive gains; the two health threats inherent to the current plain packaging regime – the threat of “brandless” market, and the threat of “counterfeiting legalization” (Ch. 1) would be *a priori* prevented. And the benefits gained by precluding these threats are likely to significantly outweigh the lost “*little effect*”; just consider the statistically well proven harmful impact of the two threats.

In fact, I believe that precisely these two threats ought to be *the “part of the equation”*, which Davison is referring to, rather than “*some relatively small encumbrance on word trademarks in the course of trade*”, as he puts it. Recall the fact that tobacco products as one of the most counterfeited goods have been regularly found as a serious threat to health; now, if they would remain remain “trademarked” in the course of trade, then the already highly demanding efforts of enforcement authorities in charge of

combating counterfeiting would be significantly less demanding than in case of plain packaging.

To summarize, the alternative represents a kind of trade-off that is exactly reversed when compared to APPA. While APPA inevitably opens the door to the two highly undesired health threats, the alternative proposal *a priori* precludes the appearance of brandless market and counterfeiting legalization - though for the price of sacrificing the “*little effect*” of plain packaging in the course of trade.

Legal Benefits of the Alternative

The proposal evidently constitutes an encumbrance on the use of trademarks only outside the course of trade, and it is thus completely outside the domain of the TRIPS Agreement. Moreover, it also displays crucial legal advantages in respect of the two most relevant treaties, that is, in respect of the FCTC and the TRIPS Agreement.

FCTC

First of all, the proposed alternative is fully compatible with Article 11.1 FCTC, irrespective of the fact that this absolutely reasonable Article does not mandate plain packaging. On the other hand, any false, misleading or deceptive trademark covered by Article 11.1 is always invariably covered also by Articles 6*quiennes* and 10*bis* of the Paris Convention, and can therefore always be revoked or cancelled under virtually every national trademark law in any country Member of the WTO - though under procedures as enacted in virtually all national trademark laws worldwide in accordance with Article 62.4 of the TRIPS Agreement. Nevertheless, the proposal does affect *all* tobacco trademarks just like this being the case with plain packaging. However, there is a crucial difference; while plain packaging affects all trademarks in the course of trade, the proposal affects trademarks (more precisely, trademarked items) solely outside the course of trade, where the control over them by their owners ceases to exist under exhaustion principle.

Moreover, the proposal could be rightly claimed by Governments as a measure by which, if implemented, obligations in respect of FCTC are fully met in this particular respect - a claim that does not hold for the current plain packaging regime. Last but not least, since the proposal *a priori* rules out both the creation of the “brandless” tobacco market and prevention of counterfeiting legalization, its enactment could be equally rightly claimed as an important contribution towards achieving the goals of the *Protocol to Eliminate Illicit Trade in Tobacco Products*.

TRIPS AGREEMENT

Perhaps the most exposed important advantage of the proposal is that, by affecting trademarks only outside the course of trade, it completely precludes any controversy in respect of the (violation of) the TRIPS Agreement, or any other piece of WTO law (e.g., the TBT Agreement). There simply cannot be any violation of the TRIPS Agreement under the proposal if being put to practice, in sharp contrast to the currently enacted regime. It is immediately clear that all affected Articles that have been violated, made

inapplicable (e.g., Articles 20 and 62) or meaningless (Article 51) under the current plain packaging regime would retain their full applicability and meaning.

Last but not least, the proposal does not, and cannot, give rise to any claims in respect of expropriation of tobacco trademarks; trademarks do remain in use in the course of trade, what is obviously an entirely different story than this being the case with the current, and utterly self-contradicting provision of s28 of APPA, according to which tobacco trademarks are protected from being revoked for the reason of their non-use.

To summarize: the proposed solution effectively

- ! prevents the claimed "biggest (harmful) effect" of tobacco trademarks;
- ! does not generate any harmful public health effects; and
- ! is absolutely "zero-trade" restrictive and thus incomparably superior to the current controversial plain packaging regime.

If the proposed solution were eventually adopted, then all WTO current plain packaging disputes would have become completely irrelevant.

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