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### **Australia's Move to the Plain Packaging of Cigarettes and its WTO Compatibility**

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# AUSTRALIA'S MOVE TO THE PLAIN PACKAGING OF CIGARETTES AND ITS WTO COMPATIBILITY\*

*Andrew D. Mitchell*\*\*

## ABSTRACT

*Tobacco companies have expressed concern that Australia's plain cigarette packaging initiative breaches international trade obligations. This article begins by providing a background to cigarette packaging. It then examines developments worldwide and in Australia that have led to this initiative, and finally examines the claim of cigarette companies that the move is incompatible with the TRIPS Agreement. It concludes that the general move towards plain packaging in Australia and elsewhere falls within the scope of permissible regulation under Article 20 of the TRIPS Agreement and that concerns about plain packaging violating the TRIPS Agreement should not prevent WTO Members from placing plain packaging firmly on the public health agenda.*

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**KEYWORDS:** *World Trade Organization (WTO); Agreement on Trade-Related Aspects of Intellectual Property (TRIPS); encumbrance; the Paris Convention; Trademarks; Public Health; Tobacco Control; Plain Packaging*

## I. INTRODUCTION

The Australian Commonwealth Government announced on 29 April 2010 that it would require all cigarettes to be sold in plain packaging by 1 July 2012.<sup>1</sup> If implemented, it is likely to be the world's first cigarette plain packaging scheme,<sup>2</sup> and given the restrictions on other forms of marketing, will shut down one of the last remaining avenues for the advertising of tobacco in Australia. Predictability, cigarette companies have taken issue with the initiative.<sup>3</sup> Their objections include<sup>4</sup> a claim that it violates Australia's WTO obligations, in particular the minimum obligations for the protection of intellectual property rights under the WTO Agreement on Trade Related Aspects of International Property Rights [TRIPS Agreement]. The Australian Government's National Preventative Health Taskforce, in a cursory statement, declared that plain packaging is "not inconsistent with international trade agreements."<sup>5</sup> This article begins by providing a background to cigarette packaging, then examines developments in Australia and internationally that have led to this initiative, and finally examines the claim of cigarette companies that the move is incompatible with the WTO. It is important to examine the issue of WTO compatibility because concerns about breaching trade obligations, fueled by the tobacco industry, may have a chilling effect on a move to plain packaging.

## II. CIGARETTE PACKAGING

### A. *Packaging as Advertising and Subversion*

Cigarette companies heavily invest in the design of cigarette packaging and in the brand names on those packets.<sup>6</sup> In part this is because approximately half of smokers cannot distinguish between similar

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<sup>1</sup> Media Release, Prime Minister of Australia, Anti-Smoking Action (Apr. 29, 2010).

<sup>2</sup> THE COMMONWEALTH OF AUSTRALIA, TAKING PREVENTATIVE ACTION – A RESPONSE TO AUSTRALIA: THE HEALTHIEST COUNTRY BY 2020 – THE REPORT OF THE NATIONAL PREVENTATIVE HEALTH TASKFORCE 10, 62 (2010).

<sup>3</sup> Phillip Morris made submissions to the Canadian Standing Committee on Health in 1994 when Canada was contemplating plain packaging. See submission from R. J. Reynolds Tobacco Co., to the Canadian Standing Comm. on Health, at TAB 3 (May 3, 1994). See also Steve Farnsworth, *Tobacco Puffery*, 15(6) MULTINAT'L MONIT. 7 (1994).

<sup>4</sup> Another reported objection is the initiative requires the Australian Government to pay compensation since it is acquiring property it must do so on just terms. Deprivation of rights does not constitute acquisition under the Constitution.

<sup>5</sup> NATIONAL PREVENTIVE HEALTH TASKFORCE, AUSTRALIA: THE HEALTHIEST COUNTRY BY 2020 – NATIONAL PREVENTATIVE HEALTH STRATEGY – THE ROADMAP FOR ACTION 181-82 (2009).

<sup>6</sup> John Slade, *The Pack as Advertisement*, 6 TOBACCO CONTROL 169 (1997); SIMON CHAPMAN, PUBLIC HEALTH ADVOCACY AND TOBACCO CONTROL: MAKING SMOKING HISTORY 176 (2007).

cigarettes,<sup>7</sup> and therefore packaging is necessary for product differentiation. However, packaging's role extends beyond this. Marketing theory emphasises that the "product package is the communication life-blood of the firm" and that packaging "act[s] as a promotional tool in its own right."<sup>8</sup> Packaging aims to promote a particular cigarette brand to existing customers, to those who smoke competitors' products and to those who might start smoking.<sup>9</sup> Packaging designers have stated:

[W]e will increasingly see the pack being viewed as a total opportunity for communications – from printed outer film and tear tape through to the inner frame and inner bundle. Each pack component will provide an integrated function as part of a carefully planned brand or information communications campaign.<sup>10</sup>

Packaging is particularly important in "dark" markets, such as Australia, where tobacco advertising is banned.<sup>11</sup> Tobacco industry trade journals acknowledge this repeatedly, noting for example, that "if your brand can no longer shout from the billboards, let alone from the cinema screen or the pages of a glossy magazine . . . it can at least court smokers from the retailer's shelf."<sup>12</sup>

Morgan Stanley in 2007 stated that after taxation: "[T]he other two regulatory environment changes that concern the industry the most are homogenous packaging and below-the-counter sales. Both would significantly restrict the industry's ability to promote their products."<sup>13</sup>

Studies have also shown that brand imagery distracted from and reduced the impact of health warnings.<sup>14</sup> Packaging can even be used to subvert bans on deceptive descriptors such as "light" and "mild". For example, cigarette manufacturers have used "different colour gradations and intensities . . . to perpetuate smokers' understanding that a brand is

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<sup>7</sup> "One of every two smokers is not able to distinguish in blind (masked) tests between similar cigarettes . . . for most smokers and for the decisive group of new, younger smokers, the consumer's choice is dictated more by psychological, image factors than by relatively minor differences in smoking characteristics." D. Germain et al., *Adolescents' Perceptions of Cigarette Brand Image: Does Plain Packaging Make a Difference?*, 46(4) J. ADOLESC. HEALTH 385 (2010).

<sup>8</sup> Becky Freeman et al., *The Case for Plain Packaging of Tobacco Products*, 103 ADDICTION 580, 581 (2008).

<sup>9</sup> *Id.* at 581.

<sup>10</sup> Nigel Mawditt, *Putting Pack Opportunities into the Frame*, 36 WORLD TOBACCO 212 (2006).

<sup>11</sup> *Supra* note 8, at 583.

<sup>12</sup> G. Eindhoven, *Elegant Packs Promote Image, Defend Property Rights*, 16 WORLD TOBACCO 170 (1999).

<sup>13</sup> Morgan Stanley Research Europe, *Tobacco: Late to the Party* (2007); *Supra* note 8, at 580.

<sup>14</sup> *Supra* note 8, at 582-83.

allegedly lower- or higher-yielding.”<sup>15</sup> It can also be used as a means of subverting advertising restrictions. A packaging firm has suggested:

Where cigarette advertising is banned by law . . . the retailer can “quite coincidentally” stack up a kind of billboard using the products at the point of sale if, for example, the cigarette cartons of a particular brand bear different parts of an overall design, which complete a puzzle or a caption when stacked up.<sup>16</sup>

### ***B. Plain Packaging***

Requiring the plain packaging of cigarettes is a response to cigarette companies’ use of cigarette packets as a marketing tool and as a means to reduce the impact of health warnings. Broadly, plain packaging requires “the removal of colours, brand imagery, corporate logos and trademarks, permitting manufacturers to print only the brand name in a mandated size, font and place, in addition to required health warnings and other legally mandated product information such as toxic constituents, tax-paid seals or package contents.”<sup>17</sup> It can also mandate the appearance of the cigarettes inside the package, and standardize the texture of the packaging, wrappers, and the interiors of the package, and prohibit perfuming, audio chips and inserts.<sup>18</sup>

There have been a number of experimental studies regarding plain packaging.<sup>19</sup> A study by Wakefield, Germain and Durkin has shown that as brand design information was progressively removed from cigarettes, they were seen as less appealing and the cigarettes in the packs were considered to be less satisfying and of lower quality.<sup>20</sup> A major Canadian study concluded:

Plain and generic packaging of tobacco products (all other things being equal), through its impact on image formation and retention, recall and recognition, knowledge, and consumer attitudes and perceived utilities, would likely depress the

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<sup>15</sup> *Id.* at 584.

<sup>16</sup> *Conjuring Pack Appeal*, 200 WORLD TOBACCO 35 (2004).

<sup>17</sup> *Supra* note 8, at 581.

<sup>18</sup> *Id.*

<sup>19</sup> See in particular Marvin E. Goldberg et al., *When Packages Can’t Speak: Possible Impacts of Plain and Generic Packaging of Tobacco Products*, Mar. 1995 (unpublished expert panel report).

<sup>20</sup> M. A. Wakefield et al., *How Does Increasingly Plain Cigarette Packaging Influence Adult Smokers’ Perceptions About Brand Image? An Experimental Study*, 17 TOB. CONTROL 416 (2008).

incidence of smoking uptake by non-smoking teens, and increase the incidence of smoking cessation by teens and adult smokers.<sup>21</sup>

Plain packaging, “denormalises” cigarettes,<sup>22</sup> reminding consumers of their difference from ordinary grocery items.

The tobacco industry has made a number of policy (non-legal) arguments against plain packaging proposals. One argument is that packaging has no impact on consumption, and is designed to encourage existing smokers to switch brands and build brand loyalty, rather than encourage the uptake of smoking.<sup>23</sup> In other words it is about increasing market share rather than the size of the market. A contradictory argument is that packaging limits consumption, since plain packaging forces competition on prices, which would lower prices, and therefore increase consumption.<sup>24</sup> Obviously a tax increase could offset any drop in price. They have also argued that plain packaging would increase youth smoking because it would be seen as “more risky and anti-authoritarian.”<sup>25</sup> The tobacco industry also dismisses conclusions from plain packaging studies that are based on measuring consumers’ assumptions about their behavior (what they think they would do) rather than their actual behavior (what they actually do).<sup>26</sup>

### III. FCTC

On 21 May 2003, the World Health Assembly adopted the Framework Convention on Tobacco Control [hereinafter the FCTC]. As one of the first and most widely embraced treaties negotiated under the auspices of the WHO, the FCTC is an evidence-based treaty that promotes public health and was developed in response to global concerns about the tobacco epidemic. Guidelines for the implementation of Article 11 of the FCTC,<sup>27</sup> concerning the Packaging and labelling of tobacco products, adopted by the WHO’s Conference of Parties to the FCTC states:

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<sup>21</sup> *Supra* note 19.

<sup>22</sup> S. Chapman & B. Freeman, *Markers of the Denormalisation of Smoking and the Tobacco Industry*, 17 *TOB CONTROL* 25, 28 (2008).

<sup>23</sup> *Supra* note 8, at 584.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at 585.

<sup>26</sup> *Id.* at 584.

<sup>27</sup> The Conference of the Parties to the WHO FCTC, *Guidelines for Implementation of Article 11 of the WHO Framework Convention on Tobacco Control on Packaging and Labelling of Tobacco Products*, Decision FCTC/COP3(10) (Nov. 2008).

### Plain Packaging

46. 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.

Article 13 of the FCTC requires each Party in accordance with constitutional limits, to “undertake a comprehensive ban of all tobacco advertising, promotion and sponsorship.” Article 1(c) of the FCTC defines “tobacco advertising and promotion” as meaning “any form of commercial communication, recommendation or action with the aim, effect or likely effect of promoting a tobacco product or tobacco use either directly or indirectly.” Similarly, paragraphs 15 to 17 of the guidelines for the implementation of Article 13 of the FCTC, concerning “Tobacco advertising, promotion and sponsorship,” refer to the potential for plain packaging to eliminate the effect of advertising and promotion on packaging. Paragraph 16 defines plain packaging as packaging with “black and white or two other contrasting colours, as prescribed by national authorities; nothing other than a brand name, a product name and/or manufacturer’s name, contact details and the quantity of product in the packaging, without any logos or other features apart from health warnings, tax stamps and other government-mandated information or markings; prescribed font style and size; and standardized shape, size and materials.”

## IV. INTERNATIONAL MOVEMENTS TO PLAIN PACKAGING

In 1989, the New Zealand Department of Health’s Toxic Substance Board “recommended that cigarettes be sold in white packs with simple black and white text and no colours or logos.”<sup>28</sup> The Canadian House of Commons Standing Committee on Health “endorsed plain packaging and recommended that enabling legislation be implemented pending the outcome of research on the probable effectiveness of plain packs.”<sup>29</sup> However, in both countries plain packaging later dropped off the policy agenda.

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<sup>28</sup> *Supra* note 8, at 581.

<sup>29</sup> *Id.* at 582; the Canadian Standing Committee on Health, *Towards Zero Consumption: Generic Packaging of Tobacco Products*, June 1994.

## V. AUSTRALIAN DEVELOPMENTS

### A. *National Preventative Health Taskforce*

In Australia, recommendations for plain packaging were made in the early 1990s. The Center for Behavioral Research in Cancer recommended in 1992 that “regulations be extended to cover the colours, design and wording of the entire exterior of the pack.”<sup>30</sup> However, the current Australian initiative arose from the National Preventative Health Taskforce [hereinafter the Taskforce], which was announced on 9 April 2008.<sup>31</sup> Comprised of Australian health experts, it was asked to provide evidence-based advice to government and health providers regarding the health challenges caused by obesity, tobacco and alcohol, and provide a National Preventative Health Strategy [hereinafter the Strategy] by June 2009.<sup>32</sup> In October 2008, the Taskforce released a Discussion Paper, *Australia: the Healthiest Country by 2020*, together with a various Technical Reports, including one presenting international and Australian evidence about tobacco. On the basis of these documents, the Taskforce then called for public submissions and conducted consultations. Following this process, the Taskforce released its final report in September 2009. It contained 136 recommendations and in the case of tobacco, recommended significantly increasing tobacco excise and stronger regulatory control on the manufacture, packaging, marketing and use of tobacco. Specifically, the Strategy recommended to eliminate the promotion of tobacco products through design of packaging:

- Amend the *Tobacco Advertising Prohibition Act 1992* to require that no tobacco product may be sold except in packaging of a shape, size, material and colour prescribed by government.
- Amend the *Trade Practices CPIS (Tobacco) Regulations 2004* to specify exact requirements for plain packaging.<sup>33</sup>

The strategy also recommended “mandating standard plain packaging of all tobacco products to ensure that design features of the pack in no way

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<sup>30</sup> CENTRE FOR BEHAVIOURAL RESEARCH IN CANCER, HEALTH WARNINGS AND CONTENTS LABELLING ON TOBACCO PRODUCTS: REVIEW, RESEARCH AND RECOMMENDATIONS (1992).

<sup>31</sup> Media Release, The Hon Nicola Roxon MP, Minister for Health and Ageing, New Health Taskforce on Prevention – Tobacco, Alcohol and Obesity Priorities (Apr. 9, 2008).

<sup>32</sup> Terms of Reference of the National Preventative Health Taskforce, *available at* <http://www.preventativehealth.org.au/internet/preventativehealth/publishing.nsf/Content/terms-of-reference-11p> (last visited Sept. 15, 2010); *supra* note 5, at 287-88.

<sup>33</sup> *Supra* note 5, at 19, 181-82.

reduce the prominence or impact of prescribed government warnings.”<sup>34</sup>

It noted that packaging “has become a cornerstone of marketing strategy. Brand names and package design enable the communication of personal characteristics, social identity and aspirations, and are a crucial aspect of marketing tobacco products. Market-testing studies show that package design – through the use of varying colour and other design elements – induces smokers to expect, and then actually experience, their cigarettes to be lower strength, lower in tar and lower in health risk than exactly the same cigarettes presented without this packaging. These misperceptions are part of the constellation of modifiable tobacco marketing factors that make smoking easier to take up and harder to quit.”<sup>35</sup>

On 11 May 2010 the Minister for Health and Ageing, the Hon Nicola Roxon MP, released *Taking Preventative Action*, the Government’s response to the report of the National Preventative Health Taskforce.<sup>36</sup> The Commonwealth accepted the Strategy’s recommendations on packaging. It committed itself to developing legislation to introduce mandatory plain packaging of tobacco products from 1 January 2012 with a compliance date of 1 July 2012.<sup>37</sup> The government stated that plain packaging would “increase the noticeability, recall and impact of health warning messages; reduce the ability of packaging to mislead consumers to believe that some products may be less harmful than others; reduce the attractiveness of the tobacco product, for both adults and children; and reduce the appeal and desirability of smoking generally.”<sup>38</sup> The Government noted the 2008 Taskforce would begin that month to “develop and test plain packaging design for tobacco products.”<sup>39</sup> It was noted that this research was needed to “determine the optimal design to achieve the public health objectives of the measure” and “[t]he concerns of retailers in handling plain packaged products, and anti-counterfeit measures.”<sup>40</sup>

### ***B. The Fielding Bill***

On 20 August 2009, Senator Steve Fielding introduced the *Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009* into the Australian Senate.<sup>41</sup> This Bill requires all tobacco product

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<sup>34</sup> *Id.* at 20.

<sup>35</sup> *Id.* at 181.

<sup>36</sup> *Supra* note 2.

<sup>37</sup> *Id.* at 10, 66.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 10, 111.

<sup>40</sup> *Id.* at 10, 66.

<sup>41</sup> Sen. Steve Fielding, Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill (Aug. 20, 2009), available at <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fs724%22> (last visited Sept. 15, 2010).

packaging to be matt brown and prohibits the use of any brand imagery, colours or graphics on tobacco packages, other than the brand name itself in 12-point Helvetica font. It requires that all tobacco product packages be the same size and contain the same number of cigarettes. On 26 November 2009, the Australian Senate, on the recommendation of the Selection of Bills Committee, referred this Bill to the Senate Community Affairs Legislation Committee for inquiry. The Committee is scheduled to deliver its report by 26 August 2010.

## VI. TRIPS

One of the key legal objections tobacco companies have to plain packaging<sup>42</sup> is that it violates minimum obligations for the protection of intellectual property rights under the TRIPS Agreement — specifically the protection for trademarks under Section 2. Trademarks are signs or combinations of signs capable of distinguishing goods or services from other goods or services. Signs include “words, person names, letters, numerals, figurative elements and combinations of colors.”<sup>43</sup> The TRIPS Agreement and the Paris Convention (which is incorporated into the TRIPS Agreement by TRIPS article 2.1) requires WTO Member States to maintain a register of trademarks and establish minimum standards governing the registration of such marks. It has been argued by tobacco companies that plain packaging should not be implemented as it would be contrary to WTO obligations. In particular, it would constitute breaches of TRIPS Articles 15(4), 17 and 20 and Paris Convention Article 6 *quinquies* (B). The alleged violations of each of these provisions will be analyzed separately.

### A. *TRIPS Article 15.4 and Paris Convention Article 6 Quinquies (B)*

Article 15.4 of the TRIPS Agreement, which reproduces Article 7 of the Paris Convention, provides that “[t]he nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark.” Opponents of plain packaging have argued that because it specifically targets tobacco products, that is, the nature of the good itself, this would form an obstacle to the use and therefore

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<sup>42</sup> Other legal objections assert that plain packaging is a violation of the TBT Agreement.

<sup>43</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights [hereinafter TRIPS], Jan. 1, 1996, art.15.

registration of any tobacco trademark.<sup>44</sup> Plain packaging would create a discriminatory “two-tier” trademark system where the trademark rights of tobacco products are severely restricted and the trademark rights of all other products are afforded the minimum standards of protection.<sup>45</sup>

Further, it has been argued that plain packaging violates a Member State’s obligations under Article 6 *quinquies* (B) of the Paris Convention, which provides:

Article 6 *quinquies* (B):

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

1. When they are of such a nature as to infringe rights acquired by third parties in the country where protection is claimed;
2. When they are devoid of any distinctive character . . . ;
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.<sup>46</sup>

As none of the three aforementioned situations are applicable in the context of tobacco trademarks, tobacco companies argue that plain packaging would violate this provision.<sup>47</sup> Again, this finding is based on plain packaging creating a barrier to the use and therefore registration of a tobacco trademark.

Despite the force with which the tobacco companies have put these arguments, their reasoning confuses registration with use. These concepts are separate and distinct. TRIPS Article 15.4 and Paris Convention Art 6 *quinquies* grants the right to “register” a trademark. However, there is no

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<sup>44</sup> Memorandum from LALIVE, to Philip Morris Int’l Mgmt. SA, Why Plain Packaging is in Violation of WTO Members’ International Obligations Under TRIPS and the Paris Convention, at 6 (July 23, 2009), *available at* [http://www.plain-packaging.com/downloads/LALIVE\\_Analysis\\_23\\_July\\_2009.pdf](http://www.plain-packaging.com/downloads/LALIVE_Analysis_23_July_2009.pdf) (last visited Sept. 15, 2010).

<sup>45</sup> *Id.*

<sup>46</sup> Emphasis added.

<sup>47</sup> Submission from Philip Morris Ltd., to S. Cmty. Affairs Comm., Inquiry into Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009 (Oct. 9, 2009), *available at* [http://www.aph.gov.au/senate/committee/clac\\_ctte/plain\\_tobacco\\_packaging\\_09/submissions/sub4\\_5a.pdf](http://www.aph.gov.au/senate/committee/clac_ctte/plain_tobacco_packaging_09/submissions/sub4_5a.pdf) (last visited Sept. 15, 2010).

provision in either agreement that obliges WTO Members to grant the owner of a registered trademark, an affirmative right to actually “use” that mark. Rather, TRIPS accords with the traditional conception of a trademark right, which is a right to prevent or exclude others from using the mark in question. This is confirmed by TRIPS Article 16 which states, “The owner of a registered trademark shall have the exclusive right to prevent all third parties . . . from using in the course of trade, identical or similar signs.” In this regard, the Panel in *EC – GIs* explained that the TRIPS Agreement generally provides negative rather than positive rights. The Panel stated:

[T]he TRIPS Agreement does not generally provide for the grant of positive rights to exploit or use certain subject matter, but rather provides for the grant of negative rights to prevent certain acts. This fundamental feature of intellectual property protection inherently grants Members freedom to pursue legitimate public policy objectives since many measures to attain those public policy objectives lie outside the scope of intellectual property rights and do not require an exception under the TRIPS Agreement.<sup>48</sup>

While the shift towards plain packaging would affect the “use” of tobacco trademarks, the “registration” of such trademarks would remain unaffected. The plain packaging initiative seeks to prevent use of the tobacco trademark, not to limit the right to register. The fact that a trademark has been registered for a particular good does not give the owner the right to use that mark or be exempted from any regulatory limitation on the use of the mark. Indeed, TRIPS envisages in articles 17 and 20 (to be discussed below) that limitations on the use of trademark rights may exist in certain circumstances. In any event, plain packaging does not affect “registration” and there is therefore no violation of TRIPS Article 15(4) and Paris Convention Article 6 *quinquies* (B).

However, even if it were accepted that plain packaging did affect registration of tobacco trademarks, it may fall within the morality and public order exception in Paris Convention Article 6 *quinquies* (B)(3). Given the public significance that the tobacco epidemic has assumed, tobacco trademarks may be contrary to the public order. In particular, the tobacco trademark may be of “such a nature as to deceive the public.” This is because plain packaging aims to overcome public misconception that certain cigarette packets are “healthier.” By standardizing the marketing of trademarks, this makes health-warning signs more visible and consumers are less likely to believe that a particular type of cigarette is “healthy.”

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<sup>48</sup> Panel Report, *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs*, ¶ 7.246, WT/DS290/R (Mar. 15, 2005).

### **B. TRIPS Article 17**

TRIPS Article 17 reads that “Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.” Opponents of plain packaging have argued that plain packaging does not meet the requirements of this exception.<sup>49</sup> This is because plain packaging does not take into account the legitimate interests of owners of tobacco trademarks in using their trademark and tobacco consumers in being able to distinguish between competing brands of tobacco. It is therefore not a “limited exception.”

However, the Article 17 exception is not even engaged when read in the context of Article 16. Article 17, titled “Exceptions”, refers to “exceptions to the rights conferred by a trademark”. Article 16 governs the rights to be conferred by a trademark. As stated above, these rights do not grant a positive right to use a trademark, only a negative right to stop others from using it. Accordingly, plain packaging of tobacco products cannot fall within the scope of Article 17 as an exception to a right to use a trademark since no such right is conferred with a trademark. There is no interference with the rights conferred by Article 16. As such, Article 17 cannot be invoked. The focus for this analysis must then turn to the Article 20 provision.

### **C. TRIPS Article 20**

The strongest argument raised by tobacco companies is that plain packaging violates TRIPS Article 20, which is set out below with emphasis added to the key clauses relevant to plain packaging:

#### Article 20: Other Requirements

The use of a trademark in the course of trade shall not be *unjustifiably* encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to *its capability to distinguish the goods or services of one undertaking from those of other undertakings*. This will not preclude a requirement prescribing the use of the trademark identifying the undertaking producing the goods or services along with, but without linking it to, the trademark distinguishing the specific goods or services in question of that undertaking.

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<sup>49</sup> Tim Wilson, Dir. of IP and Free Trade Unit, Inst. Pub. Affair, *Governing in Ignorance: Australian Governments Legislating Without Understanding*, Intellectual Property (version 2.1) (May 4, 2010), at 16.

Plain packaging is likely to fall within the scope of Article 20,<sup>50</sup> because it constitutes a special requirement encumbrance. Article 20 does not define the term “encumber.” However, according to its ordinary meaning, the term refers to special requirements that would have the effect of “hampering” or “limiting” the use of a trademark. Some have argued that because plain packaging effectively prohibits the use of a tobacco trademark, this is not a mere “encumbrance” and Article 20 does not apply.<sup>51</sup> Instead, the encumbrance is so high that it amounts to an impermissible interference with the trademark owners’ rights. However, it seems that the degree of encumbrance is irrelevant to the question of whether a measure is *prima facie* captured by Article 20. As de Carvalho states, “Article 20 applies to . . . requirements imposed by governments . . . [which] may reach the level of prohibiting the use of trademarks — prohibition of use is, indeed, the ultimate encumbrance.”<sup>52</sup> The analysis, therefore, turns on whether the “ultimate encumbrance” is justifiable. It may be that the higher the degree of encumbrance, the higher the level of justification. In any case, it appears that plain packaging is clearly an encumbrance within the meaning of Article 20.

Plain packaging measures also appear to be a “special requirement.” Limited guidance as to the meaning of this term has been provided by the Panel in *Indonesia – Autos*, the only WTO case to interpret Article 20. The Panel did not consider the operation of the Indonesian subsidy program to constitute “requirements” under Article 20. This is because companies that participated in the subsidy program did so voluntarily and in the knowledge of any consequent implications for their ability to use their pre-existing trademark.<sup>53</sup> In contrast, plain packaging measures will be mandatory in nature and apply to all tobacco companies and their trademarks.

If it is established that Article 20 applies, the main issue is whether the special requirement encumbrance can be *justified*. It has been argued that the three examples of special requirements listed in Article 20 “are examples of requirements that unjustifiably encumber the use of trademarks in the course of trade.”<sup>54</sup> The three examples listed are (i) use with another trademark; (ii) use in a special form; and (iii) use in a manner detrimental to [a trademarks] capability to distinguish the goods or services of one undertaking from those of other undertaking. If a special

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<sup>50</sup> *Supra* note 48, refers to trademark owners legitimate interests in “using its own trademark in connection with the relevant goods and services of its own.”

<sup>51</sup> Submission from British American Tobacco Australasia, to S. Cmty. Affairs Comm., Inquiry into Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009 (May 6, 2010).

<sup>52</sup> NUNO PIRES DE CARVALHO, *THE TRIPS REGIME OF TRADEMARKS AND DESIGNS* (2006).

<sup>53</sup> Panel Report, *Indonesia – Certain Measures Affecting the Automobile Industry*, ¶ 14.277, WT/DS54/R, WT/DS55/R, WT/DS59/R, WT/DS64/R (July 2, 1998).

<sup>54</sup> *Supra* note 44, at 11.

requirement corresponds to one of these three examples, it is “unjustifiable.”

It appears that plain packaging falls within the third listed example. It is clearly detrimental to the capability of tobacco trademarks to distinguish between tobacco products from different producers. The claim that special requirements expressly listed in Article 20 can never be justifiable, however, is contrary to the ordinary wording of the provision. The provision reads that the use of a trademark “shall not be unjustifiably encumbered by special requirements, such as” the three listed examples. These examples are illustrative of what constitutes a “special requirement,” not an “unjustifiable special requirement.” Had the drafters of TRIPS intended to remove these three special requirements from the realms of justifiability, they would have done so using clear language to that effect. TRIPS Article 20 would read that the use of a trademark “shall not be encumbered by unjustifiable special requirements, such as” the three listed examples. None of the examples address potential justifications for the limitations on trademark use. Therefore, the term “unjustifiable” is a separate, independent qualification that is not inherent in all three examples.

Despite plain packaging falling within the third listed example, justifiability is to be determined on a case-by-case basis. The concept of “justifiability” under Article 20 is ambiguous and has not been considered in any WTO jurisprudence. Nevertheless, I consider that plain packaging would be “justifiable” under Article 20, based on public health grounds. Support for this is found in TRIPS Article 8(1):

#### Article 8: Principles

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.

Unlike GATT Article XX or GATS Article XIV, TRIPS Article 8 is not an exception to the other obligations in the TRIPS Agreement. This is made clear by the clause: “provided that such measures are consistent with the provisions of this Agreement.” However, Article 8 can provide interpretative guidance on what would be reasonable for the purposes of Article 20. Further interpretive guidance may also be found in paragraph 4 of the Doha Declaration on the TRIPS Agreement and Public Health:

We agree that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health . . . .

By reading Article 20 in light of the objectives and principles of the TRIPS Agreement as outlined in TRIPS Article 8 and paragraph 4 of the Doha Declaration,<sup>55</sup> Article 20 should be read as granting Members significant flexibility in enacting public health measures.

The precise boundaries of these public health flexibilities under the TRIPS Agreement are unclear. The context of GATT Article XX(b), however, may be instructive. GATT Article XX(b) exempts a Member's measure from compliance with the provisions of GATT where that measure is "necessary to protect human, animal or plant life or health." Arguably, the "necessity" test under GATT Article XX(b) imports a higher threshold than the "justifiability" test under TRIPS Article 20. Despite this, the Appellate Body in *EC – Asbestos* held that, "it is undisputed that WTO Members have the right to determine the level of protection of health that they consider appropriate in a given situation."<sup>56</sup> In that case, France's chosen level of protection was the "halt to the spread of asbestos-related health risks," which they were entitled to achieve through banning asbestos.

Further, the more important a Member considers a particular health issue, the more likely is the measure necessary. A treaty interpreter may take into account the relative importance of values that the law to be enforced is intended to protect. The more vital or important those values are, the easier it would be to accept as "necessary" a measure designed as an enforcement instrument.<sup>57</sup> Given that the protection of public health is "vital and important in the highest degree" and that "few interests are more vital"<sup>58</sup> it appears that TRIPS Article 20 should be interpreted to allow Members broad discretion in designing their policy space to respond to important health concerns.

Following the approach of the Panel in *EC – Biotech* it might be possible to use the guidelines to FCTC Articles 11 and 13 as factual evidence or ordinary meaning. In other words it may be used as evidence in

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<sup>55</sup> Ministerial Conference, *Declaration on the TRIPS Agreement and Public Health*, at ¶ 5(a), WT/MIN(01)/DEC/W/2 (Nov. 14, 2001); Vienna Convention on the Law of Treaties, May 23, 1969, art. 31.

<sup>56</sup> Appellate Body Report, *European Communities – Measures Affecting Asbestos and Asbestos-Containing Products*, ¶ 168, WT/DS135/AB/R (Mar. 12, 2001).

<sup>57</sup> Appellate Body Report, *Korea – Measures Affecting Imports of Fresh, Chilled and Frozen Beef*, ¶162, WT/DS161/AB/R, WT/DS169/AB/R (Dec. 11, 2000).

<sup>58</sup> *Supra* note 56, at ¶ 172.

the way a dictionary might be, especially if justifiability is deemed to have an “evolutionary” meaning so it is necessary to know its current status.

The plain packaging of cigarettes is unlikely to amount to a violation of TRIPS. Article 20 envisages significant regulatory freedom for Members to enact their health measures. For the policy and scientific reasons stated in Section II above, plain packaging promotes public health by reducing the incidence of smoking and is therefore “justifiable.” This is the same conclusion reached by de Carvalho who states that special requirements for tobacco trademarks are justifiable under TRIPS Article 20 “in order to reduce the good-will associated to those marks and thus limit their power to induce consumption.”<sup>59</sup>

Finally, tobacco companies could also argue that plain packaging constitutes a non-violation complaint. Under GATT Article XXIII(1)(b), a contracting party may bring a WTO complaint where it considers its rights under the WTO Agreements are being nullified and impaired as a result of the application of another contracting party measure, “whether or not it conflicts with the provisions of this Agreement.” This provision is not open for tobacco companies to use, however, because non-violation complaints do not currently apply to TRIPS.<sup>60</sup> In any event, the claim would probably fail.

## VII. BEYOND TRIPS

Philip Morris International, in a submission to the United States Trade Representative [USTR] regarding the proposed Trans-Pacific Trade Agreement, expressed particular concern about Australia’s plain packaging initiative. In what might be seen as an implicit concession that TRIPS does not prevent plain packaging, PMI expressed support for a “TRIPS-plus” intellectual property chapter to increase the protection given to trademarks.

## VIII. CONCLUSION

It is important that the concerns raised by tobacco companies about breaching international trade obligations be critically examined. In light of the Australian Government’s desire to introduce plain packaging of cigarettes by 1 July 2012, paper has argued that moves to such a scheme are WTO compliant. It does not violate any provisions of the TRIPS Agreement or the Paris Convention. It is implicit within the TRIPS Agreement itself, and especially Article 20, that a high degree of domestic regulatory autonomy shall be afforded to a Member State to enact measures

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<sup>59</sup> *Supra* note 52.

<sup>60</sup> *Supra* note 43, art. 64.

to protect and promote public health. While detail of the Government's proposal has yet to be released, the general move towards plain packaging is consistent with the FCTC Guidelines and should fall within the scope of permissible regulation under Article 20. No violation of WTO obligations exists. No concern about plain packaging doing so should prevent the Government from implementing what is an important initiative at the top of the global public health agenda.

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