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Standing Committee on Health and Ageing
House of Representatives
Australian Parliament
Canberra, Australia

Submission No. 10 (Plain Packaging Bill) A.O.C. Date: 18/07/2011

To Whom it May Concern:

On behalf of the National Foreign Trade Council (NFTC), we submit the following statements in response to the request for comments from the DHA on the Tobacco Plain Packaging Bill 2011. The proposed legislation prohibits the use of brands, trademarks, and logos on tobacco packaging and mandates that cigarettes be packaged in matte olive green paper. The bill is scheduled to be introduced during this year's winter parliament sitting and would effectively destroy the value of the trademarks and trade dress used by companies that sell cigarettes in Australia. As currently drafted, we believe the proposed legislation would be inconsistent with Australia's obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), the WTO Agreement on Technical Barriers to Trade (TBT Agreement), the Paris Convention for the Protection of Industrial Property (Paris Convention), and the U.S.-Australia Free Trade Agreement.

Founded in 1914, the National Foreign Trade Council is a trade association representing global companies on matters of international trade and tax policy, export finance, and international human resources.

Importance of Maintaining the Integrity of Trademark Protection

Trademarks play a central role in the global economy. They convey to consumers important information about the quality and characteristics of the products they purchase, and prevent consumer confusion and deception. As such, building a brand's reputation is critical to the success of companies competing against one another in the marketplace, and trademarks are often a company's most valuable asset. Trademarks and branding drive innovation across all sectors, which results in important advances for consumers. Trademarks and branding strengthen pricing capacity. Not surprisingly, the lack of trademarks and branding capacity undermines a firm's capacity to command higher prices in the market which in turn undermines innovation. Companies with established and respected brands create million of jobs around the world and contribute to the continued growth of the global economy. The protection of trademarks and the integrity of the rules governing trademarks are priorities for the NFTC and its members.

The NFTC understands the health concerns associated with smoking and supports well-designed measures that mitigate those health risks. We also support measures that prevent consumer deception.

However, we are concerned that the proposed plain packaging legislation will violate Australia's intellectual property obligations without advancing these legitimate and commendable objectives.

The Bill Is Inconsistent with Australia's International Obligations

As a signatory of the WTO agreement, the Paris Convention and the U.S.-Australia Free Trade Agreement, Australia is bound to the intellectual property clauses within those commitments. The Tobacco Plain Packaging Bill is contrary to Australia's domestic intellectual property policies and violates Australia's international commitments.

- Article 20 of the TRIPS Agreement: TRIPS Article 20 provides that “[t]he use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as . . . 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.” The bill requires manufacturers to adapt their trademarks to a special form, *e.g.*, the use of 12-point Helvetica font for the brand name. This special form, combined with the prohibition on the use of other identifying marks, eliminates a critical means for consumers to distinguish among products. As a result, and when one takes into account the already existing tobacco control regime in Australia, the bill could actually exacerbate consumer confusion and increase cigarette consumption by creating yet stronger incentives to manufacture and distribute counterfeit/illicit products while at the same time driving downward pricing competition in the legal market. Given the lack of any evidence of the bill's effectiveness (discussed above), the encumbrance placed on the trademarks is unjustifiable.
- Article 15 of the TRIPS Agreement and Article 7 of the Paris Convention: TRIPS Article 15(4) 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.” Article 7 of the Paris Convention includes an identical requirement. Currently, in Australia, trademarks and in turn branding for tobacco products may only be used on packaging. All other forms of product differentiation for the benefit of consumer choice are prohibited. The proposed bill would effectively eliminate even this narrow use (apart from the plain type brand name). Australian trademark law allows the government to reject a trademark application if “its use is contrary to law.”¹ If Australian authorities were able to reject an application for registration of a cigarette trademark because its use would be contrary to law, the Australian government will contradict Article 15(4) of TRIPS agreement which specifically states that the nature of the good cannot be used as justification for denial of trademark protection. Although the current exposure draft of the bill would prevent the Registrar of Trade Marks from rejecting an application for trade mark registration merely because the trademark could not be used, the effect of the bill would render registration of tobacco trademarks meaningless, since they could not be used.
- Articles 6quinquies of the Paris Convention: The Paris Convention further requires that “[e]very trademark duly registered in the country of origin shall be accepted for filing and protected as is in the other countries of the Union.” As discussed above, the bill may result in rejection or invalidation of trademarks that are registered and protected in their country of origin, and thus, be in violation of what is required in Paris Article 6quinquies.

¹ Trade Marks Act of 1995, Act No. 119 of 1995, as amended, at Section 42. Available at: www.ipaustralia.gov.au.

- Article 2.2 of the TBT Agreement: Article 2.2 requires that “technical regulations shall not be more trade-restrictive than necessary to fulfill a legitimate objective, taking account of the risks non-fulfillment would create.” In assessing the risk, the TBT Agreement directs countries to consider “available scientific and technical information.” By prohibiting use of the brand on the package, the bill is likely to impair or restrict trade in brand name cigarettes, because tobacco trademarks convey to consumers important information about the quality and characteristics of the products they purchase, and prevent consumer confusion and deception. As a result, the bill would likely reduce both imports of brand name cigarettes and imports of tobacco and other materials used in cigarette manufacture. The measure is more trade restrictive than necessary because (i) as discussed above, there is no credible evidence that the bill will advance its stated health objective (and may, in fact, actually increase smoking), and (ii) there are less trade-restrictive means to achieve those objectives. Such less trade-restrictive measures include, *e.g.*, prudent tax measures, youth smoking prevention campaigns and increased resources to enforce minimum age smoking laws. Of particular concern to the NFTC is that the bill, if implemented, will set a troubling precedent whereby a government – one that has a tradition of abiding by its international obligations – will have mandated the destruction of an entire industry’s intellectual property rights giving a shot in the arm to an ongoing global onslaught on intellectual property rights impacting many industries.
- U.S.-Australia Free Trade Agreement: A number of U.S. investors have made significant investments in intellectual property, as well as production and manufacturing facilities, in Australia. Article 11.5 of the FTA requires Australia to provide “fair and equitable treatment” to all investors. The proposed Bill violates this standard because it is arbitrary and undermines the investor’s legitimate expectations when it invested in its intellectual property and brand development in Australia. Furthermore, Article 11.7 of the FTA requires Australia to pay “prompt, adequate, and effective compensation” if it decides to “expropriate or nationalise a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization.” If adopted, the proposed Bill would result in an uncompensated expropriation of investor’s trademarks by effectively destroying their value.

Precedent Cases Support Trademark Protection

In 1983, the government of Guatemala enacted a law that required producers of baby formula to remove images of babies from their packaging and to declare on the packages that breast milk is superior to baby formula. Among others, the Gerber Products Company complained that the removal of the image from the packages was a violation of the trademark protection afforded by the WTO agreement. Following appeals by the U.S. government, Guatemalan officials acknowledged that their policy constituted a trademark violation and as a result changed their laws to reflect their WTO commitments.

Conclusion

For the reasons outlined above, the Tobacco Plain Packaging Bill 2011 is inconsistent with Australia's international obligations. The NFTC urges the Committee to carefully consider the implications of the proposed bill and consider alternative, less trade-restrictive approaches to achieving its stated health objectives. There are several alternative approaches that are much more effective, including, as noted, prudent tax measures, youth smoking prevention campaigns and increased resources to enforce minimum age smoking laws.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. A. Reinsch', with a stylized flourish at the end.

William A. Reinsch
President

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