Feature
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Plain packaging for cigarettes – Australia leads the way, but will others follow?

While Australia's Tobacco Plain Packaging Act is the first of its kind, similar rules may be implemented in other jurisdictions before long – and there are even indications that plain packaging rules may be extended to other sectors

Logos, graphics and trade get-up are some of the most valuable assets of businesses in the consumer goods sector. Yet since December 1 2012, anyone in Australia selling products bearing some of the world's best-known and most valuable trademarks has been subject to fines of up to A$1.1 million.

How did we get to this point and, more importantly, what does it mean for those that make a substantial investment in their brands in Australia and elsewhere in the world?

The effect of plain packaging on brands

The issue is that of plain packaging for tobacco products – currently one of the most controversial IP topics for legislators, brand owners and the public worldwide. Since December 1 2012 all tobacco products sold in Australia – including cigarettes, hand rolling and pipe tobacco and cigars – must be sold in identical packaging, with 75% of the front and 90% of the back of the pack showing one of a selection of graphic health warnings. The remainder of the inner and outer surfaces of the pack must also appear in an officially mandated "drab dark brown" (aka Pantone 448C). The only trademark allowed is the brand name and any brand variant (eg, menthol), both of which must appear in a standardised font (Lucida Sans), size (no larger than point 10) and colour (Pantone Cool Gray 2C). The mark must appear in a pre-specified location on each pack.

The name used in tobacco brands, as with the majority of other brands, obviously plays an important role in the brand identity. However, brands are more than just a name – they are also made up of, and protected by, device marks for logos, colours and colour combinations. Many brands are also closely linked with their trade dress, which can be protected by statutory IP rights (eg, three-dimensional trademarks, registered and unregistered design rights and copyright), and other legal rights covering the 'look' of products (eg, passing off in the United Kingdom and unfair competition in Germany). Stripped of these elements, a brand is reduced to a pure identifier which, on close inspection, differentiates one identical-looking product from another. The introduction of plain packaging in Australia has impaired even this *de minimis* identification function, with many retailers complaining that the similarity of packs means that it takes longer for staff to find the brands requested by customers and restock shelves. For this practical reason alone, it is difficult to think of any other class of product currently branded in such a regimented manner.

Mounting regulation

What makes plain packaging particularly significant is that in many countries, on-pack branding is the only way in which tobacco companies can communicate their brands to the public. This is the result of a historical trend of increasing regulation of the sector. In Australia, for example, all broadcast advertising for tobacco products has been prohibited since 1976. This was followed by a ban in the 1990s on all print media advertising and restrictions on point of sale promotion. A similar path has been followed in many other countries. The effect of these measures has been to shrink the visibility of tobacco brands until the only place that consumers can see the brand is on cigarette packaging and, to a lesser extent, printed on cigarettes themselves.

In parallel, the Australian government has required that an increasing proportion of packs be used to display prescribed health information. By 2004, at least 30% of the front and 90% of the back of packs had to display warning messages accompanied by graphic images of conditions caused by smoking and other prescribed information. Many other governments have taken or are taking similar steps, although the US government's recent attempts to introduce specific warnings and graphic images covering 50% of the front and back of packs were deemed unconstitutional by the US Court of Appeals for the District of Columbia, as they violated the tobacco companies' right to free speech by compelling them to express anti-tobacco messages "on their own dime" (*RJ Reynolds*

Tobacco Company v Food & Drug Administration (August 24 2012). Decision by majority, Circuit Judge Brown dissenting).

It was against this backdrop that in April 2010, four months before the federal election, the Australian government announced that all tobacco products sold in Australia would have to be sold in plain packaging by July 1 2012. Following the election, the government published a draft bill in April 2011 and ran a 60-day public consultation on the draft legislation.

Many concerns were raised by tobacco companies and other professional and trade organisations in response to the draft bill. These included doubts about the efficacy of plain packaging in delivering the public health objectives specified by the government, the impact on the illicit trade in tobacco and the illegality of the proposed measures under domestic and international IP provisions. Despite these serious concerns, the government pushed ahead with the legislation, which was finally passed on November 21 2011 with a revised implementation date of December 1 2012.

Not an isolated issue

While Australia is the first jurisdiction to introduce plain packaging, a number of other jurisdictions are actively considering similar measures. In the summer of 2012, governments in both the United Kingdom and New Zealand ran public consultations on the introduction of plain packaging laws. Private members' bills containing similar proposals have also been introduced in France (December 2010), Belgium (May 2011), India (September 2012) and most recently Ireland (November 2012).

Plain packaging measures were also reportedly being considered as part of the European Union's updated Tobacco Products Directive, which would replace Directive 2001/37/EC. When the proposal was published by the European Commission on December 19 2012 (COM(2012) 788 final; 2012/0366 (COD)), it stopped short of mandating EU-wide plain packaging, proposing instead that member states remain free to introduce such measures. However, the proposal does include requirements for combined health warnings made up of text and graphic images, such as mandatory warnings to cover 75% of both the front and the back of the packs. It also seeks to control the shape of a packet of cigarettes, stating that they must be cuboid with a flip-top lid, hinged only at the back of the pack. Such proposals seem to have ignored the comments from the tobacco companies and the IP community as to the prejudicial effect they will have on the tobacco companies' IP rights and, in particular, their trademarks.

Challenges to the legality of plain packaging in Australia

Although plain packaging measures in Australia have now been implemented, they are still a source of intense legal controversy.

The first challenge to Australia's Tobacco Plain Packaging Act 2011 came from JTI, BAT, Philip Morris and Imperial Tobacco, who requested a ruling from the High Court of Australia on the question of whether the act violated the Australian Constitution.

On August 15 2012 the High Court issued orders rejecting the tobacco companies' cases and on October 5 2012 the judges gave their reasons. The key question was whether the act resulted in an acquisition of the tobacco companies' intellectual property and goodwill other than on just terms. The majority (six to one) were of the opinion that there was no such acquisition by the Commonwealth of Australia. As a consequence, the act came fully into force in Australia on December 1 2012.

Although the decision revolved around one specific section of the Constitution, it is nevertheless interesting to look at some of the details that were aired, since they are relevant to the issues being fought out in other jurisdictions. In particular, the decision sheds light on the distinction between an acquisition of property by the state, which is prohibited under the Australian Constitution, and protection from the deprivation of property applicable in other jurisdictions.

The IP rights at issue included not only trademarks and goodwill, but also copyright, design rights and patents protecting some of the most famous brands in the world, such as Camel, Dunhill and Marlboro.

The majority of the judges held that the tobacco companies' intellectual property was made up of a bundle of negative property rights, in that they enabled the proprietors to exclude others from their monopoly through infringement actions. However, a number of the majority were clear that this property was damaged by the Tobacco Plain Packaging Act in a number of ways. In particular, the judges commented that:

- the rights to exclude others from using property have no substance if all use of the property is prohibited;
- the trademarks are – in substance, if not in form (because they remain on the register) – denuded of their value and thus of their utility by the imposition of the regime under the act. In particular, their value and utility for assignment and licensing are very substantially impaired;
- volumes of sales may be reduced together with the value of goodwill in the trademarks and associated rights; and
- some or much of the value of the intellectual property has been lost in Australia, as a trademark that cannot be used is unlikely to be readily assignable. Further, the restriction on the use of the marks is likely to have effects upon the custom drawn to the tobacco companies' business and upon their profits (French CJ at paragraph 37; Gummow J at paragraphs 138 and 139; Crennan J at paragraph 295; Kiefel J at paragraph 356).

These types of damage were sufficient for a finding by a number of the judges that there would be a "taking" of the tobacco companies' intellectual property under the act. However, there was an important distinction between that and the Commonwealth acquiring the intellectual property. The Commonwealth could not be said to have accrued any benefit of a proprietary character.

The Australian decision in the European context

The test that the Australian court had to apply under the Constitution was somewhat peculiar. In Europe, one of the hurdles that plain packaging will face is whether it effects the fundamental rights of the tobacco companies – particularly the right to the protection of property. This is a less stringent test than that in Australia. Article 17 of the Charter on Fundamental Rights and Freedoms states "1. Everyone has the right to own, use, dispose of and bequeath his or her lawfully acquired possessions. *No one may be deprived of his or her possessions, except in the public interest* and in the cases and under the conditions provided for by law, subject to *fair compensation being paid in good time for their loss*. The use of property may be regulated by law in so far as is necessary for the general interest. 2. Intellectual property shall be protected" (emphasis added). Note that the charter has the same legal value as the Treaty on European Union and the Treaty on the Functioning of the European Union.

While the tobacco companies failed to satisfy the peculiar standard of an "acquisition" under the Australian Constitution, the court's finding that the damage done to the tobacco companies' trademarks amounted to a "taking" of their property is instructive. Under Article 17 of the charter, the test of whether there is a "deprivation" and a deprivation that is not accompanied by compensation may well be struck down as invalid. Thus the

Australian court's findings on a taking (effectively synonymous to a deprivation) – while not determinative – would, if followed, likely be sufficient to defeat any plain packaging proposals.

The framers of the proposed EU Tobacco Products Directive were obviously conscious of the legal disputes arising from the Tobacco Plain Packaging Act and the legal challenges that they would face if they adopted plain packaging legislation. The executive summary of the impact assessment (SWD (2012) 453 final) published on the same day as the draft directive states that the decision not to adopt plain packaging was made "given the current lack of real life experience in the EU, pending legal disputes and concerns expressed by some stakeholders".

Nevertheless, by reducing step by step the area on the pack available to tobacco companies for printing their trademarks, the commission seems to want to make it easier to adopt plain packaging eventually. At present, health warnings and graphic images cover at least 30% of the front and 40% of the back of packs and are surrounded by a black border, which serves to increase the size of the warnings. The new proposals require 75% health warnings on each side; but once other mandatory elements such as tax stamps are added to a pack, the total area on one side available for branding may be a low as 7%. It is a small step from leaving 7% for the brand owner's use to adopting plain packaging.

In their current form, the proposals raise the significant issue of whether brand owners have sufficient space to affix their own material and whether this leaves normal usage of their trademarks possible. Similar issues were considered previously in *R v Secretary of State for Health, ex parte BAT* (Case C-491/01) in relation to the labelling provisions in the then current directive. The European Court of Justice noted in this case that pack warnings must leave "sufficient space for the manufacturers … to affix other material." In particular concerning their trademarks.

Finally, the proposals for plain packaging set out in the UK Department of Health consultation document would face the same issue referred to above. The Human Rights Act 1998, which incorporates Article 1 of Protocol 1 of the European Convention on Human Rights – Article 17(3) of the charter states that where the rights under the charter and the convention correspond, they shall have the same meaning as in the convention – is framed in similar terms to Article 17(1) of the charter, and also states that no one should be "deprived" of their possessions.

Further challenges

The Australian court case is not the end of the tale as far as enforcement of the Tobacco Plain Packaging Act in Australia is concerned. A World Trade Organisation (WTO) Dispute Settlement Body panel has been set up at the request of Ukraine (and separately requested by Honduras and the Dominican Republic) to consider the legality of the act under the Trade-Related Aspects of Intellectual Property Rights Agreement. It will also consider whether the act will create unnecessary barriers to trade in violation of the WTO Agreement on Technical Barriers to Trade, and whether it will create confusion in violation of the Paris Convention for the Protection of Industrial Property.

In addition, the act faces international arbitration proceedings brought by Philip Morris Asia against the Australian government under the Hong Kong-Australia bilateral investment treaty, which protects investments in Australia, including those in intellectual property. The arbitration is expected to take between two and three years to reach a conclusion.

While the legal challenges continue, a lucrative secondary market in selling skins and stickers to cover up the health warnings is flourishing, with slogans such as "It's your box, its your choice" printed on them. The Department of Health and Ageing has had to admit that the sale of these products is not illegal.

The threat to other industries

For those outside the tobacco sector, there is always the temptation to try to turn a blind eye to issues faced by the owners of tobacco brands. However, there are a number of reasons why brand owners from all industries should take notice of what is happening with plain packaging.

Plain packaging could set a precedent for other industries. If public health grounds justify depriving tobacco companies of their brand, then why should this not be the case for other products with proven impacts on the health of consumers? It increasingly looks like owners of alcoholic drinks brands will also have to deal with tighter restrictions on how their brands can be presented to the public, with tobacco setting the precedent for how such regulation will evolve.

In Summer 2012 the UK Faculty of Public Health – which represents 3,300 public health specialists working in the National Health Service, local government and academia – called on the UK government to introduce cigarette-style graphic health warnings to make it clear that alcohol is linked to cancer, infertility and violence.

This move towards greater regulation of brand owners' communication with the public and the packaging of the products themselves is not limited to tobacco and alcohol, but has the potential to spill over into other consumer goods, such as high sugar/fat foods. Although the Danish government recently abandoned its controversial tax on foods containing over 2.3% saturated fat, the move does exemplify the increasing willingness of governments to make significant interventions into the food sector in the purported interests of public health. Obesity is widely acknowledged as an epidemic in many countries and governments worldwide are under pressure to come up with public health measures to try to deal with the issue and the associated healthcare costs.

While the UK government's current approach is to engage with the food and beverage industry on a voluntary basis as part of its "responsibility deal", there is always the possibility that this could give way to legislation in future. For example, there has been increasing rhetoric from the government in the last few months that it will consider introducing legislation if the food industry fails to tackle childhood obesity. Research from 2009 funded by the UK Department of Health Policy Research Programme entitled "How do Young People Engage with Food Branding?" concluded that "Future research in this area could explore whether policy responses which have been advocated in relation to tobacco and alcohol, such as 'disrupting' brands by placing prominent warnings on packaging, are feasible or appropriate in the context of food".

These examples all suggest that what may appear at present to be a tobacco-only issue may soon become critically important to a much wider group of brand owners. If other industries fall out of favour on public health grounds, then do they also run the risk of losing their intellectual property? What is clear is that the outcome of the debate surrounding plain packaging for tobacco will have implications far beyond the tobacco industry. WTR

This article is based on research conducted on instructions from Philip Morris International, but the opinions expressed are the authors' own.

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