



association des praticiens du droit des marques et des modèles

**Department of Health Standardised
Tobacco Packaging Consultation**

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CANTERBURY
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United Kingdom

To the Department of Health:

Paris, August 1st, 2014

By email to tobaccopackaging@dh.gsi.gov.uk

Re: Consultation on the introduction of regulations for standardised packaging of tobacco products

Dear Sirs,

On behalf of APRAM, we would like to submit the following observations in relation to the Consultation on the introduction of regulations for standardised packaging of tobacco products which was launched on 26 June.

WHAT IS APRAM?

APRAM – *Association of Trade Marks and Designs rights Practitioners*– is an international Association for French-speaking specialists in industrial and intellectual property, in particular Trade Marks and designs.

The association, which now has more than 800 members, was founded more than 30 years ago and is opened to all French-speaking lawyers practising, all over the world, in the field of Trade Marks and designs. It gathers together in-house intellectual property specialists, Attorneys at law and Trade Mark Attorneys.

The purpose of the association is notably to play an active role in, and be at the forefront of discussions concerning intellectual property and business law in France, Europe and the world, further to consultation or on its own initiative.

Generally speaking and based upon its previous submissions and statements, APRAM is much concerned about proposed legislation and measures to impose plain packaging and its consequences to Intellectual

Property (IP) like deprivation of Intellectual Property Rights (IPRs) and diluting the legal effects of IPRs and mainly trade mark rights on EU-wide and national level within the EU.

Following our participation to the 2012 consultation of the UK Department of Health (DoH), APRAM makes this submission on behalf of all members of its organization and would like to respond to the consultation's questions as follows:

1. Do you have any observations about the report of the Chantler Review that you wish to bring to our attention?

➤ **Limited scope of the Chantler Review**

The Chantler Review does not address the legal issues, and the objections based on serious legal concerns that APRAM raised in response to the 2012 consultation, have not been appraised by the Government to our point of view.

➤ **Conclusion is tentative**

The conclusion that standardized packaging will achieve its intended objective seems to be quite tentative. At paragraph 6.11 the Chantler Review concludes: *"In conclusion research cannot prove conclusively that a single intervention such as standardised packaging of tobacco products will reduce smoking prevalence."*

Given the serious consequences that will flow from the policy (as outlined in our 2012 submission) we consider there to be a lack of evidenced benefits to justify proceeding.

➤ **Findings contain flaws**

Some of the Chantler Review's findings do not appear to be particularly robust, especially regarding the illicit trade and the role of branding.

APRAM is sceptical of the Chantler Review's conclusions concerning the illicit trade. We do not consider the Chantler Review sufficient basis for the Government to dismiss the concern that standardized packaging would increase the illicit trade. Indeed, the Impact Assessment itself appears to acknowledge that the Chantler Review is not robust in this respect. We have highlighted below three contradictions between them.

The Chantler Review did not accept any link between standardized packaging and the illicit trade including counterfeit. It also rejected the argument that standardized packaging would lead to commoditisation of the industry, and suggested that, even if this did occur, taxes could be increased to compensate (not considering how further tax increases might create further incentives for the illicit trade). Finally, it considered that any increase in the illicit trade could be mitigated by increased enforcement. Each of these arguments is contradicted in the Impact Assessment, notably paragraph 120, which concludes:

"Given that standardised packaging may increase the attractiveness of counterfeit and/or illicit products (such as those illicit products that still carry branding) the policy may lead to a more elastic duty paid market (increased behavioural response to future duty changes) if the industry doesn't change its pricing strategy. For example, a duty increase, if it is passed on as a price increase, is very likely to reduce consumption of duty paid cigarettes more under this scenario than in a pre-standardised packaging environment. This is because product differentiation between duty paid and illicit or counterfeit will be minimized (or at least reduced) in a plain packaging environment. A more elastic duty paid cigarettes market has wider implications. Although increased price elasticity might increase the effectiveness of duty

changes as a means for limiting tobacco consumption, but only if reduced distinction between legal and illicit packaging were compensated by stronger measures to deter illicit imports, these stronger measures are likely to involve additional resources and funding which cannot be assumed or guaranteed”.

The inferences surrounding the role of branding in creating aggregate demand also lacked rigour and did not give the impression of having been fully considered. This is even more concerning given the precedent plain packaging in the UK would set (with respect to packaging of non-tobacco products in the UK and tobacco products in both the UK and other countries).

➤ **Conclusion are based on mere suppositions**

The Chantler Review attempted to draw a link between branding and smoking, describing the sight of branded packaging as a stimulus to smoking. Although conjecture, the Chantler Review appeared to treat this as persuasive evidence (paragraph 3.21): *“I have learned that the way in which nicotine addiction works, appealing to the smoker at both a conscious and unconscious level makes them susceptible to visual triggers to smoke the next cigarette. According to Professor Robert West, branded packaging could act as one of these triggers.”*

Despite noting only the possibility that branded packaging “could” act as a trigger (i.e., speculation rather than evidence), the Chantler Review concluded (at paragraph 3.21): *“In my view, such an analysis provides a plausible model whereby branded packaging can stimulate smoking in experimental and established smokers.”*

However, the quoted statement of Professor West (at 3.21 also), makes clear that he is only guessing what role branding performs: *“In adolescence, opportunities to smoke are typically relatively limited but after school years these increase and the ‘islands’ of smoking impulses typically become ‘continents’. A constant feature that until now has been present in every case is distinctive brand imaging on the packet. [...] branding probably also plays an important role in maintaining smoking behaviour while the ‘nicotine habit’ and ‘nicotine hunger’ develop.”*

In spite of this, branding is attributed to “probably” playing an important role in maintaining smoking behaviour without any effort to distinguish between causation and correlation.

APRAM submits that such casual and vague assertions are not a sufficient basis to introduce the policy of standardized packaging given the serious collateral consequences for among others, property owners and businesses who depend on a strong and stable IP regime.

2. Do you have any information, in particular any new or additional information since the 2012 consultation, relating to the wider aspects of standardised packaging, that you wish to bring to our attention?

➤ APRAM would like to draw the Government’s attention to the international IP community’s concern at these proposals and its almost universal lack of support for standardized packaging. In fact it seems to us that opposition has hardened and this should cause the Government to at least pause for consideration.

While we are aware that the Government did effectively pause in July 2013 before announcing the Chantler Review later that year, it does not appear to have been influenced by the legal considerations. In fact, it does not appear that the legal considerations have been given any further thought since 2012. We find this surprising, not least since standardized packaging was considered and rejected by the EU during this period, in the context of the Tobacco Products Directive (TPD).

- We also note the evidence from Australia to indicate that the illicit trade has increased since standardized packaging was introduced there. For example, a study by KPMG¹ recorded that the illicit market increased from 11.8% to 13.9% of the total tobacco market between 2012 and 2013, which is a significant increase in 12 months. The KPMG report was given little credence by the Chantler Review, but its conclusions seem unlikely to withstand close scrutiny, particularly given its contradiction by the Impact Assessment. We would therefore urge the Government to ascertain the facts by conducting an independent review capable of weighing the evidence objectively and thoroughly.

Tobacco illicit trade in the UK is particularly worrying given the greater exposure of the EU to illicit trade. On 31st of July 2014, the European Commission published its report² on EU customs enforcement of IPR in 2013 which underlines that customs authorities in the EU detained almost 36 million items suspected of violating IPR in 2013. According to this report, Tobacco products are amongst the most counterfeit products.

- Finally, five countries (Ukraine, Honduras, Dominican Republic, Cuba, and Indonesia) have been challenging since 2012 the Australia's law on plain packaging of 2012 before the World Trade Organisation. These countries have based their challenges on the TRIPS, Paris Convention and Technical Barriers to Trade Agreements. Panels have recently been constituted and we could reasonably expect a final decision from the WTO in 2016. We therefore consider that it makes great sense to wait for this final decision before any Member State proceeds with standardised packaging legislation.

3. Do you have any comments on the draft regulations, including anything you want to draw to our attention on the practicalities of implementing the regulations, as drafted?

Based upon our general concerns relating to plain or standardised packaging APRAM is sharing the EU Parliaments and Council position which have rejected mandatory plain packaging provision from the TPD and only have admitted plain packaging on a Member State level if – and only if – certain requirements and conditions are met amongst which are compatibility with the Treaty of Functioning of the EU and with the WTO obligations. According to APRAM's opinion, these conditions have to be set and followed in a very restrictive manner and only be seen as an exception.

The proposed draft regulations have many specific implications which are negative for the IP. We would like to reaffirm our legal concerns raised in our submission of 2012 and take the opportunity to insist on some of these implications while adding some additional legal issues.

¹ https://www.imperial-tobacco.com/assets/files/cms/KPMG_FY2013_Illicit_Trade_Report_FINAL_11_April_2014.pdf

² http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2014_ipr_statistics_en.pdf

A. Expropriation of IPRs

Aside from general protection attributed to rights of property, Article 17 of the Charter of Fundamental Rights of the European Union and the First Protocol to the European Convention on Human Rights (ECHR) provide protection to rights of property (including express right of use). IPRs benefit from this protection.

The CTM (Community Trade Marks) Regulation and the UK trade mark law, implementing the Harmonization Directive, also treat registered trade marks as property rights.

The draft regulations do not take into account these provisions and deprive trade mark owners from the right to use their trade marks other than word marks. IPRs create – by making use of such rights - significant goodwill and especially in the case of trade marks used on the market for a long period of time. Depriving IP owners from using their trade marks is tantamount to expropriation of such rights and would automatically result in considerable and unjustified losses to the right holders.

The proposed draft regulations do not take into account such losses and completely ignore any arising of claims of damages for such losses resulting from lack of compensation. It is not understandable why the draft regulations do ignore the European Court of Human Rights' jurisprudence on compensation³.

The attributed compensation for such damages would have to be imposed to the general public in the UK which would lead to unjustified additional burden for all consumers and create an imbalance between any alleged positive effects of the regulation on the public versus the above mentioned additional burden. This burden could easily amount to billions of pounds based on the well-known and proven value of trade marks as assets.

B. Violation and breach of international treaties, national and EU laws and regulations

- The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Paris Convention for the Protection of Industrial Property (Paris Convention) and the WTO's Agreement on Technical Barrier to Trade (TBT) are applicable to its adhering member states amongst which is the UK as well.

The draft regulations would be contrary to or do not meet the requirements of some articles of these treaties (article 20 TRIPS, article 2.2 TBT...).

- The draft regulations are not compatible with the CTMR and distort the internal market. Article 1(2) CTMR provides that CTM shall have equal effect throughout the Community, in particular their use shall not be prohibited, save in respect of the whole Community. The stated purpose of the unitary CTM is to facilitate the free movement of goods within the Union's internal market. The draft regulations are incompatible with this regulation since, in UK, it would effectively prohibit the use of CTM other than word marks and restricts the use of CTM word

³ *European court of Human Rights – 21 September 1994 – case n°13092/87 and n°13984/88; European Court of Human Rights – 22 september 1994- Case n°13616/88, Heinrich v. France, in which the compensation granted did not strike a fair balance.*

marks to a prescribed form not used the same way in other member states, and as such violates the unitary character of the CTM.

- The draft regulations' provision allowing the registration of Trade Marks that cannot be used is contrary to the EU Trademark Directive and conflicts with fundamental principles of Trade Mark law. It seems that the UK Government does itself not seem to consider the remaining use allowed vis-à-vis the trade to be meaningful. Otherwise, it would not have been necessary to explicitly provide that trade marks affected by the draft regulations can still be registered and shall not be revoked even though they cannot be used anymore.

However, it is a fundamental principle of trade mark law that trade mark owners either use their trade marks or, eventually, lose their trade marks. This principle is designed to justify the monopoly in the trade mark and is clear to trade mark law.

Accordingly, Article 12 of the EU Trade Mark Directive (2008/95) provides: “[a] trade mark shall be liable to revocation if, within a continuous period of five years, it has not been put to genuine use in the Member State in connection with the goods or services in respect of which it is registered, and there are no proper reasons for non-use”.

This provision is not optional, but rather compulsory. We therefore believe that the draft regulations not only contradict fundamental principles of trade mark law, but also violate Article 12 of the EU Trade Mark Directive.

C. Destruction of fundamental function of trade marks and impact on consumers

The draft regulations undermine the very substance of trade mark rights, namely the essential function of trade marks to act as designations of origin.

The Court of Justice of the European Union (CJEU) has repeatedly stated that it is the essential function of a Trade Mark “to guarantee the identity of the origin of the marked product or service to the consumer or end-user by enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin”⁴.

Furthermore, the CJEU has found that aside from its essential distinctive function, a trade mark also fulfils other functions, namely to guarantee the quality of the goods or services in question and those of communication, investment or advertising⁵.

The draft regulations undermine all of these accepted trade mark functions. Trade marks (other than those covering the word mark) could neither be used to enable the consumer to distinguish tobacco products nor to guarantee the quality of tobacco products.

The CJEU has just recently again confirmed that trade marks carry out their functions when used vis-à-vis consumers⁶. While the draft regulations seem to allow trade mark owners to continue to use their trade marks vis-à-vis the trade (wholesalers, distributors...), such provision is meaningless. Trade marks cannot serve their essential function in the marketplace to act as source identifiers if they cannot be used to distinguish goods with consumers.

⁴ See in particular CJEU, 16 July 2009, C-202/08P and C-208/08P, *American Clothing Associations v OHIM*, para 40; CJEU, 29 September 1998, C-39/97, *Canon*, para 28; CJEU, 17 October 1990, C-10/89, *Hag II*, para 14; CJEU, 23 May 1978, 102/77, *Hoffmann-La Roche*, para 7.

⁵ CJEU, 8 July 2010, C-558/08, *Portakabin v Primakabin*, para 30; CJEU, 25 March 2010, C-278/08, *BergSpechte*, para 31; CJEU (Grand Chamber), 23 March 2010, C-236/08 to C-238/08, *Google France*, para 77; CJEU, 18 June 2009, C-487/07, *L'Oréal v Bellure*, para 58.

⁶ See in particular CJEU, 6 March 2014, C-409/12, *Kornspitz*; CJEU, 19 Dec 2012 *Leno Merken BV v Hagelkruis Beheer BV* Para 29, C-149/11

In the case of tobacco products, it has been proven that they are amongst the most counterfeited products detected and seized. Applying the proposed regulations would considerably increase the market for counterfeit products. At the same time it would become more difficult for authorities to distinguish counterfeit product packaging from genuine one.

D. Impact for other industries- slippery slope

The draft regulations may not limit their effects to tobacco products but would at the end set a dangerous precedent for many other sectors such as alcohol, food, medicines, confectionary, etc.; this “expansion” of effects are so far totally underestimated by the relevant bodies and kept hidden to the public but will have far reaching (also financially) effects for the public and consumers. For example the already mentioned compensation claims affecting consumers will be multiplied in number and amounts.

4. Are you aware of any further evidence or information which would improve the assumptions or estimates we have made in the consultation-stage impact assessment?

The Impact Assessment cannot be considered adequate while the impact on the illicit trade is not quantified. This omission needs to be tackled as a priority.

We also consider that the Government should either explain why the legal concerns that APRAM outlined in great details in 2012 are not applicable.

We remain at your disposal if you need any further information or clarification.

Yours Sincerely,

Clotilde PIEDNOEL
Présidente APRAM

