



February 22, 2010

To: Committee Secretary
Senate Standing Committee on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

RE: Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009

1. The following is a submission from the Property Rights Alliance to the Senate Community Affairs Legislation Committee regarding the Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009 (hereafter referred to as The Bill). The Bill seeks to amend product information standards to remove brands trademarks, and logos from tobacco packaging.
2. We thank the Senate Community Affairs Legislation Committee for the invitation to make a submission regarding The Bill and its implications.
3. We note our significant concern that, if enacted, the Bill will fail to achieve its objectives, whilst violating intellectual property rights and breaching numerous treaties to which Australia is a signatory.
4. We submit in the strongest terms possible that the Committee recommend against passage of this Bill.

The Property Rights Alliance

5. The Property Rights Alliance (PRA) is an advocacy organisation dedicated to the protection of physical and intellectual property rights throughout the world.
6. The PRA produces the annual International Property Rights Index, a comparative study that measures the significance of both physical and intellectual property rights and their protection for economic well-being. In order to incorporate and grasp the important aspects related to property rights protection, the Index focuses on three areas: Legal and Political Environment (LP), Physical Property Rights (PPR), and Intellectual Property Rights (IPR). The 2010 study analysed 125 countries around the globe, representing ninety-seven percent of world GDP. The PRA partners with the Melbourne-based Institute of Public Affairs to access Australia's property rights protections.
7. The PRA notes that in 2010 Australia was ranked as having the 8th highest property rights protection of any nation surveyed, and commends Australia for his strong history of protecting both physical and intellectual property rights.

Overview of the Bill

8. The Plain Tobacco Packaging (Removing Branding from Cigarette Packs) Bill 2009 is a Private Member's Bill introduced into the Australian Senate by Senator Steve Fielding (Family First, Victoria). On 26 November 2009, the Senate, on the recommendation of the Selection of Bills Committee, referred Bill to the Community Affairs Legislation Committee, for inquiry and report by 17 March 2010.

9. This bill proposes to amend Australia's Trade Practices Act 1974 and Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 2004 product information standards
10. The stated aims of the Bill are set out in Section 3 as *"to regulate tobacco packaging, in order to: (a) reduce initiation of tobacco use, tobacco consumption and quitting relapse; enhance the effectiveness of package warnings; and remove the package's ability to mislead and deceive consumers."*
11. The practical effects of the Bill are to remove brands, trademarks, and logos from tobacco packaging.

Current Law stopping tobacco advertising

12. Australia has in place some of the most stringent restrictions on tobacco products in the world, including prohibition on tobacco advertising & sponsorship,
13. Under the Tobacco Advertising Prohibition Act 1992 (Cth.), Tobacco advertising is expressly prohibited in Australia.
14. Under the Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 2004, tobacco products sold in Australia feature graphic health warnings occupying 30% of the front of a cigarette pack, and 90% of the back of the pack.
15. As a result of the Tobacco Advertising Prohibition Act, and the Trade Practices Regulations, the right of tobacco companies to promote their product is extremely limited under current law.

Intellectual Property Rights

16. If enacted, the Bill will clearly violate the intellectual property rights of companies, through forbidding them from displaying their trademarks, and differentiating their products on the basis of said trademark.
17. The right to own and enjoy property is a fundamental part of rights of people and referred to as an extension of human rights. As such, the protection of property rights, both physical and intellectual, is critical to economic development, and is the most important guarantee of freedom. Creating and maintaining an environment where both forms of property are protected and legally enforceable contributes to economic growth and stability.
18. The importance of protecting property rights is not limited to merely physical property, but intellectual property rights. Intellectual property rights are defined by the World Intellectual Property Organisation as exclusive rights over *".....creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce."*
19. We note that the Australian economy revolves significantly around businesses related to Intellectual property, whether it is pharmaceuticals, movies, music, books, software or inventions and industrial designs. As such, the continued protection of intellectual property is critical for the Australian economy to continue flourishing.
20. The protection of trademarks is a vital part of protecting intellectual property rights. The World Property Rights Organisation defines a trademark as *"a **distinctive sign** which identifies certain goods or services as those produced or provided by a specific person or enterprise."* It notes that *"A trademark provides **protection** to the owner of the mark by ensuring the **exclusive right** to use it to identify goods or services, or to authorize another to use it in return for payment."*

21. It is noted that, as previously mentioned, the present legislative scheme prohibits both the use of tobacco trademarks on non-tobacco products as well as tobacco advertising. As such, packaging is the critical way brand information can currently be provided to consumer. Aside from pricing, therefore, it is the essential mechanism through which tobacco manufacturers can compete with each other for consumers. As such, it is submitted that as tobacco companies have created significant intellectual property rights through their trademarks, as demonstrated in the significant degree of 'brand loyalty' in the market, and that plain packaging legislation would significantly erode the value of these property rights.
22. It is submitted that by denying tobacco companies their right to use their trademark to identify their product, this Bill strikes at the very core principles of corporate identity and consumer information that the Australian economy is based upon. As such, it not only violates the legal rights of the companies affected, but furthermore sets a very dangerous principle for the future of a government unwilling to honour or respect intellectual property rights.
23. It is finally submitted that as tobacco remains a legal product, the assault on the centuries-old protection of trademarks represents a grave threat to the future of property rights, individual freedom, and freedom of speech, and as such, ought to be rejected without reservation.

Effects of The Bill

No Reduction in Smoking Rates

24. It is submitted that the Bill will fail in its objectives to reduce the consumption of tobacco. The PRA notes that there is no evidence in existence whatsoever to demonstrate that the implementation of plain packaging will lead to any decrease in the total quantity of tobacco products sold. Rather, it is submitted that the only effect would be brand substitution.

Cheaper Cigarette Prices

25. By denying companies to compete on the basis of logo/trademark differentiation, consumers will be unable to differentiate products in any meaningful manner other than on price. As such, the Bill will result in some cigarette manufacturers choosing to compete on the basis of price, leading to a fall in tobacco prices. As such, it is submitted that the bill might have the counter-intuitive effect of potentially *increasing* tobacco consumption.

Increased counterfeiting

26. The counterfeiting and falsification of tobacco products is an international problem of significant magnitude. According to the World Health Organization Framework Convention on Tobacco Control, the estimated 600 billion counterfeited and smuggled cigarettes crossing national borders each year represents a staggering \$50 billion (U.S.) in lost revenue, affecting nations throughout the world.
27. Counterfeit cigarettes harm individuals, who are unwittingly duped into smoking inferior and more unhealthy cigarettes. A 2003 report by the BBC noted that counterfeit cigarettes contain 75% more tar, 28% more nicotine and about 63% more carbon monoxide" than genuine cigarettes in the UK market.
28. Counterfeit cigarettes have a significant deleterious impact on governments, with a significant loss of taxation revenue, as well as associated societal problems with the increase in organised crime.

29. It is submitted that all available evidence demonstrates that trademarks remain one of the best controls on counterfeiting. By preventing the display of trademarks on tobacco products, this Bill threatens a significant increase in illicit tobacco products, with negative effects for individuals, the Australian government, and Australian government as a whole

Threaten jobs

30. It is submitted that if passed, this bill poses a serious threat to numerous jobs in small and medium-sized enterprises throughout the supply chain, such as graphics designers and paper producers. At a time of rising unemployment following the global economic downturn, this legislation will cost jobs and seriously hurt many working families.

Violation of International Obligations

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

31. The TRIPS Agreement is an Agreement to provide minimum standards of intellectual property protection, and is administered by the World Trade Organisation. As present, 153 countries are signatories to TRIPS. Australia became a member of TRIPS as of January 1, 1995.
32. It is submitted that if passed, this Bill would violate Articles 15 and Article 20 of TRIPS

TRIPS Article 15

33. Article 15(4) of TRIPS states that *“The 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.”*
34. It is submitted that the Bill may grant Australian authorities the power to reject an application for registration of a cigarette trademark effectively solely on the grounds of the nature of the good being tobacco. As such, it is submitted that the Bill may potentially be in breach of Trips 15(4).

TRIPS Article 20

35. Article 20 of TRIPS states that *“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.”*
36. It is noted that this article *specifically* prohibits encumbering a trademark with special requirements to make it difficult to distinguish the good from a competitors products.
37. Section 55(3) of the Bill states that a cigarette package *“must not contain any words, trademarks or logos”*
38. Senator Fielding’s Second Reading speech states that *“Under the provisions set out in this Bill, tobacco companies will be banned from advertising their logos or trademarks on their products... Forcing tobacco companies to sell their products in unbranded packets”*
39. It is submitted the prohibition upon displaying a trademark as proscribed by the Bill represents a clear and unequivocal breach of TRIPS Article 20 in two respects.

40. By preventing the display of a trademark in full colour, with appropriate font and style as recognised by consumers, this would result in the prohibition of using a trademark in anything other than the “special form” dictated by the proposed legislation. This is a breach of TRIPS Article 20
41. By preventing use of a logo, this will be ‘seriously detrimental to distinguishing a particular brand from a competitor, as such, being a further breach of TRIPS Article 20.
42. It is further submitted that there is no justification for this as per the agreed meaning of the term in international law.

Paris Convention

43. The Paris Convention is an international convention dealing with the protection of industrial property, which includes patents, industrial designs, and trademarks. At present, 173 countries are members of the convention. Australia has been a member of the Convention since October 1925.
44. It is submitted that if passed, this Bill would violate Article 6 and Article 7 of the Paris Convention

Article 6(quinquies)

45. Article 6(*quinquies*) of the Paris Convention deals with the protection of trademarks registered in one participant country with another.
46. Article 6(*quinquies*)B states that Trademarks covered by this Article may be neither denied registration nor invalidated except in the following cases: (i) when they are of such a nature as to infringe rights acquired by third parties in the country where protection is claimed; (ii) when they are devoid of any distinctive character, or consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, place of origin, of the goods, or the time of production, or have become customary in the current language or in the bona fide and established practices of the trade of the country where protection is claimed; (iii) 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.
47. A significant number of cigarette trademarks are registered and protected in their country of origin
48. It is submitted that the proposed Bill has the practical effect of invalidating trademarks through preventing their use, and may also grant Australian authorities the power to reject their registration, for reasons outlined in paragraph 34
49. It is further submitted that the trademarks of tobacco products in question do not infringe upon rights acquired by third parties, are not devoid of distinctive character, and are not contrary to morality and public order in a manner defined by the section. As such, the exceptions allowing for such invalidation are not applicable
50. It is submitted that by invalidating trademarks registered in countries other than Australia, and potentially preventing their registration, the Bill is in contravention of Article 6(*quinquies*) of the Paris Convention.

Article 7

51. Article 7 of the Paris Convention states “*The nature of the goods to which a trademark is to be applied shall in no case form an obstacle to the registration of the mark.*”

52. It is submitted that the Bill is in potential breach of this Convention, for reasons articulated in paragraph 34

The Agreement on Technical Barriers to Trade (TBT)

53. The TBT Agreement deals with procedures of testing and certifying conformity to technical regulations. All WTO members, of which Australia is one, are required to uphold the principles of the TBT Agreement
54. It is submitted that, if enacted, this Bill violates Section 2.2 of this Agreement

Section 2.2

55. Section 2.2 of the Technical Barriers to Trade agreement states that “*Members shall ensure that technical regulations are not prepared, adopted or applied with a view to or with the effect of creating unnecessary obstacles to international trade. For this purpose, technical regulations shall not be more trade-restrictive than necessary to fulfil a legitimate objective, taking account of the risks non-fulfilment would create. Such legitimate objectives are, inter alia: national security requirements; the prevention of deceptive practices; protection of human health or safety, animal or plant life or health, or the environment. In assessing such risks, relevant elements of consideration are, inter alia: available scientific and technical information, related processing technology or intended end-uses of products.*”
56. If enacted, it is submitted that this Bill is likely to cause a significant decrease in the importation of tobacco used in brand named products, and that sales of brand name tobacco products are likely to be affected relative to unbranded or generic products.
57. It is submitted that, for the reasons outlined in paragraph 24, this bill does not fulfil a legitimate objective due to the total absence of any evidence for its effectiveness, and creates a significant and unnecessary obstacle to trade. As such, it is submitted that it is in contravention of TBT 2.2

Australia- U.S. Free Trade Agreement (AUSFTA)

58. The AUSFTA is a preferential trade agreement between Australia and the United States, which came into force on 1 January 2005.
59. It is noted that under AUSFTA, investment is specifically defined to include “every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk”, and provides a list which includes ‘intellectual property rights’. As such, it is submitted that trademarks are clearly covered in this treaty.
60. It is submitted that if passed, this Bill violates Articles 11.5 and 11.7 of AUSFTA

Article 11.5

61. Article 11.5(1) of AUSFTA states that “*Each Party shall accord to covered investments treatment in accordance with the customary international law minimum standard of treatment of aliens, including fair and equitable treatment and full protection and security.*”
62. It is submitted that the broad and restrictive nature of this bill, coupled with the lack of any credible evidence on its effectiveness (as discussed in paragraph 24) make the provisions of this Bill ‘unfair’ to U.S. tobacco companies, as defined under both Australian and international law, and as such is a violation of this provision

63. It is further submitted that as U.S. tobacco companies have invested significant sums of money into their brand name and trademark, on the reasonable commercial expectation these would be honoured, then in undermining these legitimate expectations, the Bill once violates this provision

Article 11.7

64. Article 11.7 of AUSFTA states that “[n]either Party may expropriate or nationalise a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization” unless for a public purpose, in a non-discriminatory manner, in accordance with due process of law, and “prompt, adequate, and effective compensation” is paid.
65. It is submitted that the Bill seeks to expropriate the trademarks of companies. As mentioned in paragraphs 22-21, companies have dedicated significant resources in developing their brand identity, and earning the goodwill of consumers. This bill would destroy the value created in this. As such, under AUSFTA, Australia would be required to pay tobacco companies significant compensation for the value of trademarks expropriated under this Bill. This Bill fails to do so, and as such, violates Article 11.7 of the Agreement.

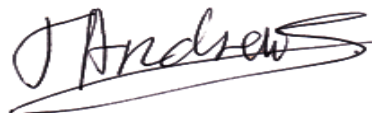
Conclusion

66. For the reasons outlined above, it is submitted that this Bill would fail to achieve its objectives, whilst violating fundamental intellectual property rights and breaching numerous international obligations to which Australia is party to.
67. We submit in the strongest terms possible that the Committee ought find against passage of this Bill.
68. Please do not hesitate to contact Kelsey Zahourek on kzahourek@propertyrightsalliance.org for any further information.

Sincerely,



Kelsey Zahourek
Executive Director



Timothy Andrews
Associate Fellow