Philip Morris International

Opinion

1. On 16 April 2012 the Department of Health launched a consultation on whether it should promote legislation to require standardized packaging of tobacco products. This would mean, according to paragraph 4.6 of the consultation document, that (among other things):

- All text on the pack, including brand names, to be in a standard colour and typeface.
- No branding, advertising or promotion to be permitted on the outside or inside of packs, or attached to the package, or on individual tobacco products themselves. For this purpose 'branding' includes logos, colours or other features associated with a tobacco brand.

2. In paragraph 5.2 of the consultation document, the Department sought views on the legal implications of its proposals.

3. In many cases, the "branding" which it is proposed to prohibit will be the subject matter of a registered trade mark. The question which I propose to address is whether a prohibition on the use of such a trade mark (at any rate, without payment of compensation) would be contrary to Article 1 of the First Protocol ("A1P1") to the European Convention on Human Rights, as incorporated in the Schedule to the Human Rights Act 1998:

> Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law.
>
> The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties.

4. There is a similar doctrine in the law of the European Union, which was discussed in the case of *Case C-491/01 R v Secretary of State for Health, ex parte British American Tobacco (Investments) Ltd* [2002] ECR I-11453 ("the *BAT* case"). That case concerned the validity of Directive 2001/37 requiring health warnings on tobacco products and therefore raised a question of European law. It is not directly applicable to the present case, in which national legislation is proposed and the point therefore arises under the Human Rights Act 1998. But the applicable principles are the same and therefore the observations of Advocate General Geelhoed and the Court are very relevant.

5. The first question which arises under A1P1 is whether trade mark rights are a "possession". In appears to be settled in the jurisprudence of the European Court of Human Rights ("ECHR") that intellectual property rights are possessions: see *Anheuser-Busch Inc v Portugal* (2007) 45 EHRR 36, paras 66-78, in which an application to register a trade mark was held to be a possession for the purposes of A1P1. In the *BAT* case, Advocate General Geelhoed remarked that

> "...the essential substance of a trademark right does not consist in an entitlement as against the authorities to use a trademark unimpeded by provisions of public law. On the contrary, a trademark right is essentially a right enforceable against other individuals if they infringe the use made by the holder."

6. It is of course true of trade marks and other intellectual property rights such as patents that the registration of the right does not create a statutory right to use it. The Trade Mark Regulation is concerned only with remedies for infringement by others. The right to use the mark exists under the general law and it is the combination of this right (or, properly analysed, liberty) and the exclusivity conferred by the Trade Mark Regulation which gives the mark its value and makes it a "possession" for the purposes of A1P1. The rights conferred by the Regulation would be useless without the liberty, because there is no point in being able to stop other people from using the mark if you cannot use it yourself. Advocate General Geelhoed seems to have recognized that, for the purposes of the question before him, his analysis of the right conferred by a mark led nowhere because he went on to say:

> "It is only if normal usage is no longer possible as a result of provisions of public law that a situation can arise in which the substance of the right is affected by reason of those provisions."

7. I take this to mean that a change in public law which makes "normal usage" of the mark no longer possible can affect the substance of the right and may, in appropriate circumstances, constitute a disproportionate interference which "undermines the very substance of the right": see paragraph 260 of the Advocate General's opinion.

8. The jurisprudence of the ECHR on A1P1 is complicated and I do not think it would be helpful to subject it to a prolonged analysis. Generally speaking, the Court inquires into whether the owner has been "deprived" of his possessions or whether the State has merely regulated their use. In either case, the regulation or deprivation must be (at least in the opinion of the State) in the public interest, but in the case of deprivation, fairness and proportionality will ordinarily require the payment of compensation. On the other hand, the regulation of use does not normally require compensation. Examples of cases which fall on either side of the line are compulsory purchase of land for public purposes, in which compensation is required, and planning control of the use of land, where no compensation is paid. (I discussed these distinctions in giving the opinion of the Privy Council in *Grape Bay Ltd v Attorney-General of Bermuda* [2000] 1 WLR 574.) In European law, as applied in the *BAT* case, the notion of "deprivation" is conveyed by saying that "the very substance of the right" must have been taken or undermined.

9. There are cases in which deprivation in the public interest does not have to be accompanied by compensation. These are cases in which the purpose of the law is to deprive someone of property which he should not have got; for example, where the law provides for the confiscation of the proceeds of crime. It would obviously defeat the purpose of such a law if compensation had to be paid. But the sale of cigarettes, although subject to restrictions in the interests of public health, has never been unlawful and there is no proposal to prohibit it. Manufacturers of cigarettes have therefore been able to acquire trade mark rights by lawful means

and therefore I think that the cases in which compensation has been denied can have no application here. The question is therefore likely to be: would the proposed ban on the use of a given trade mark (a logo, for example) amount to a complete deprivation of that right?

10. At this point it is necessary to look at the reasoning in the *BAT* case, where the impugned Directive required (by article 5) that a part of the surface of the package be devoted to a health warning and also (by article 7) prohibited the use of certain marks (for example, including the word "Mild") which might give the impression that the cigarettes were less harmful than others. It is important to notice that, with the exception of Article 7, the Directive did not prohibit the use of any trade mark, although it reduced the area within which it could appear.

11. The Advocate General accepted (at paragraph 265) that trade marks fell within the general principle which I have discussed:

> It is also the case in regard to trademark rights that their exercise may be made subject to restrictions on grounds of general interest, but the very substance of the rights themselves may not be undermined.

12. On the facts of the case, however, the requirement under article 5 of the Directive to reserve space for health warnings did not have this effect:

> 266. I fail to see how the obligations resulting from Article 5 can be regarded as undermining the very substance of the trademark right. The trademark can normally be displayed on the packaging. Only part of the packaging — which itself amounts to even less than 50% — must be reserved for the statements and warnings prescribed in Article 5.

13. That reasoning is clearly inapplicable to the present case, in which the use of a logo mark would be altogether prohibited.

14. In the case of those marks which were prohibited by article 7, the Advocate General said that they were in any event liable to be invalidated as tending to mislead the public, or alternatively, that their misleading content provided a public

interest justification for prohibiting their use without compensation. This reasoning aligns the case with those in which there is a public interest justification for deprivation without compensation, such as the proceeds of crime cases. However, it seems to me to have no relevance in cases like the present, in which it is not suggested that there is anything harmful or misleading in the logo marks. Although the point is controversial, Parliament may be entitled to take the view that there is a public interest justification in extinguishing the use of the marks on the ground that their use encourages people to smoke. But that is not enough to justify extinguishment of the marks *without compensation*. Depriving the owner of property without compensation on grounds of public interest can be justified only in the unusual case in which it gives effect to a public interest which would be defeated if compensation had to be paid.

15. The judgment of the Court (at paragraph 150) accepted the reasoning of the Advocate General in paragraph 12 above on the effect of article 5:

> "...the only effect produced by Article 5 of the Directive is to restrict the right of manufacturers of tobacco products to use the space on some sides of cigarette packets or unit packets of tobacco products to show their trade marks, without prejudicing the substance of their trade mark rights"

16. However, in relation to those marks which were altogether prohibited by article 7, the Court adopted a somewhat different reasoning (in paragraph 152) from that of the Advocate General:

> While that article entails prohibition, in relation only to the packaging of tobacco products, on using a trade mark incorporating one of the descriptors referred to in that provision, the fact remains that a manufacturer of tobacco products may continue, notwithstanding the removal of that description from the packaging, to distinguish its product by using other distinctive signs.

17. The question is whether this paragraph supports the argument that prohibition of the use of a mark can never impair the substance of the right because the proprietor can always use some other mark (for example, a name without reference to any particular typography) to distinguish his goods. In my opinion it does not go nearly so far. The Court was concerned with a general prohibition

(under article 7) of marks "suggesting that a particular product is less harmful than others". In this context, it is understandable that the Court of Justice should have thought that the manufacturer could equally well use a mark which did not convey that impression, particularly since (as the Court remarked) it had been given a substantial time in which to make the change. If, however, the principle is extended to saying that prohibition of the use of any mark does not impair the substance of the right conferred by that mark because the proprietor can distinguish his goods in some other way, then I think it is contrary to recent European jurisprudence on the function of a trade mark.

18. It used to be thought, at any rate in the United Kingdom, that the sole function of a trade mark was to denote the origin of the goods, so that any mark which had this effect was as good as any other. But the Court of Justice has made it clear that this is not the case. In *Case C-487/07 L'Oreal SA v Bellure NV* [2009] ECR I-5185 the Court of Justice said that while the "essential function" of the mark was to "guarantee to consumers the origin of the goods or services", it also had other functions which included "guaranteeing the quality of the goods or services in question" and (rather more obscurely) "communication, investment or advertising". In other words, the mark may do far more than convey information about the identity of the manufacturer. Experts on branding would no doubt be able to give evidence about the way in which such marks enable the consumer to make choices in according with his image of himself and the image he wishes to convey to others. Thus the mark may convey a brand image which mere identification of the manufacturer is unable to do. In practice, very large sums of money are invested in creating such a brand image attached to distinctive marks.

19. I therefore do not think that the judgment of the *BAT* case can be given the broad interpretation which I suggested in paragraph 17 might be put upon it. A prohibition on the use of a mark is in my view a complete deprivation of the property in that mark, notwithstanding that the proprietor might be able to distinguish his goods by the use of some other mark.

20. Apart from this point, I can see no reason why depriving someone of his proprietary interest in a trade mark for a tobacco product (however much it may be in the public interest to do so) should be different in principle from any other deprivation in which compensation is required. The only contrary argument is that tobacco trade marks fall into the same category of non-compensatable deprivations as the proceeds of crime, because smoking is deleterious to health. But this, as I have already suggested, seems to me to be a confusion of thought. It would, I think, be lawful on such grounds to prohibit trade in tobacco altogether. One may compare *Ian Edgar (Liverpool) Ltd v United Kingdom* (Application No 37683/97), a decision of the ECHR arising out of the legislation banning handguns introduced after the Dunblane massacre. The legislation provided for owners and dealers to be paid compensation for guns which had to be surrendered, but some dealers claimed compensation for loss of future business as well. The ECHR said that it was not deprivation of a possession because they had no legitimate expectation that they would be able to continue dealing in guns for the indefinite future. But there is no suggestion that trade in cigarettes should be prohibited. It therefore seems to be wrong to argue that a prohibition on the use of a trade mark, which has the effect of disadvantaging those with strong marks against those with weak marks, can be justified on the basis that selling cigarettes is undesirable.

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