



# Plain Packaging of Tobacco Products: The new Australian laws and the legal challenges to them

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**Summary:** I. The legislation. II. The High Court challenge. III. The World Trade Organisation (“WTO”) challenges. IV. TRIPS. V. The GATT. VI. The technical barriers to trade agreement. VII. The Bilateral Investment Treaty. Conclusion.

In 2012, the first laws in the world mandating plain packaging of tobacco products were implemented in Australia after the laws were passed by the Australian parliament in 2011. Three legal challenges have been launched in different fora against the new laws. The first of those challenges which was based on the Australian Constitution has already been dismissed by the High Court of Australia.<sup>1</sup> Two other challenges are currently under way. The second consists of a number of complaints made at the World Trade Organisation (WTO) by Ukraine, the Dominican Republic and Honduras pursuant to, primarily, the TRIPS agreement but which are also based on the GATT and the Technical Barriers to Trade Agreement (TBT).<sup>2</sup> The third challenge is by Philip Morris Asia (PMA), a Hong Kong company, pursuant to a bilateral investment treaty (BIT) between Australia and Hong Kong under which individual investors from either country may initiate arbitration proceedings relating to the BIT.<sup>3</sup> This article explains the nature of the new laws, describes the legal bases of the three legal challenges and provides some insights into the key issues to be addressed during those challenges.

## I. THE LEGISLATION

The Tobacco Plain Packaging Act of 2011 (Cth) (the ‘Act’) and the Tobacco Plain Packaging Regulations of 2011 (the ‘Regulations’), came into effect in 2012. In addition, new standards were introduced for mandatory text and graphic warnings on tobacco pac-

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1 *JT International SA v Commonwealth of Australia* [2012] HCA 43

2 Three disputes have been initiated in respect of Australian legislation for the plain packaging of tobacco products. Australia — Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging DS 434 and see also DS 435 and DS 441.

3 Relevant documents relating to the dispute can be found at <http://www.ag.gov.au/InternationalLaw/Pages/Investor-State-Arbitration---Tobacco-Plain-Packaging.aspx>, viewed 20 August 2012.

kaging<sup>4</sup> (the ‘information standards’ and, together with the Act and the Regulations, the ‘legislation’).

From December 1, 2012, all tobacco products sold at a retail level in Australia had to comply with the legislation. The legislation heavily regulates the nature of packaging of tobacco products and dictates the size, nature and placement of text and graphic warnings on tobacco products. For ease of reference, most of the discussion in this article will focus on cigarette packaging but the legislation applies to all tobacco products such as cigars and roll your own tobacco.

One effect of the legislation is that the background colour for cigarette packets is a drab brown, Pantone 448C.<sup>5</sup> The only trademarks permitted on the packets will be a brand name in 14 point font in Lucida Sans font face.<sup>6</sup> The lettering must be in Pantone Cool Gray 2C.<sup>7</sup> In addition, a variant of the brand may appear in 10 point font in the same colour and font face.<sup>8</sup> These trademarks can only appear once at the bottom of the front of the packet.

A text warning and graphic warning must cover at least 75% of the total area of the front of a cigarette packet<sup>9</sup> and 90% of the back of a packet.<sup>10</sup> The effect of the warning requirements is that a cigarette packet is anything but plain. It is dominated by somewhat gruesome pictures such as the picture of a 34 year old man dying from lung cancer.<sup>11</sup>

There are many other requirements for tobacco packaging imposed by the legislation. For example, trademarks cannot be printed on the cigarette sticks themselves and those sticks must be white or predominantly white with an imitation cork tip.<sup>12</sup>

From an intellectual property perspective, the effect is to prevent the use of any trademarks other than word trademarks on retail packaging. There is still some opportunity for use of trademarks in limited circumstances. For example, the trademarks can be used in a non-retail setting such as in the context of correspondence at the wholesale level. Those word trademarks that are used at the retail level must be in the specified font size and font face and restricted to the particular placement on the packet specified by the legislation. It is worth noting that the legislation is written in such a way that the opportunity to register trademarks for tobacco products is still available and existing registrations are protected from removal actions for non-use.<sup>13</sup> Hence, while it is usually the case in Australia that an applicant must either have used or be intending to use a trademark in order to obtain registration, that requirement is waived if the reason for non-use or lack of an intention to

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4 Competition and Consumer (Tobacco) Information Standard 2011 made pursuant to s134 of Schedule 2 of the Competition and Consumer Act 2010 (Cth) (the ‘information standards’).

5 Regulation 2.2.1

6 Regulation 2.4.1

7 Regulation 2.4.1

8 Regulation 2.4.1

9 The information standards at 9.13

10 The information standards at 9.20.

11 The information standards at 3.3

12 Regulation 3.1.1.

13 Section 28 of the Act.

use is the prohibition on the use at the retail level. Similarly, non-use of a tobacco trademark as a consequence of the legislation is not a ground for removal for non-use.<sup>14</sup>

The legislation also needs to be considered in the context of the pre-existing scheme for the regulation of cigarettes in Australia. Prior to the passing of the legislation, the promotion of cigarettes was already significantly restricted. For example, all advertising via media such as television, radio or newspapers had been banned for many years as had tobacco company sponsorship of sporting activities.<sup>15</sup> In addition, point of sale prohibitions on display of cigarettes had been implemented and smoking had been banned in most public, indoor areas.<sup>16</sup> Heavy taxes have also been imposed on cigarettes with the intention of both reducing consumption and, of course, raising government revenue.<sup>17</sup>

## II. THE HIGH COURT CHALLENGE

The first legal challenge to the legislation to be finalised was a challenge pursuant to the Australian Constitution.<sup>18</sup> As the challenge was based on the Australian Constitution, the High Court's decision has limited but some application to other challenges to the legislation. The relevant constitutional provision states that the Australian government may pass legislation to acquire property but only if it acquires that property on just terms.<sup>19</sup> Mere deprivation of property is not sufficient to invoke the relevant provision, the government or a third party must be actually acquiring the property that has allegedly been taken away or a corresponding piece of property.<sup>20</sup>

The Australian High Court held by a 6-1 majority that the legislation does not contravene the Australian Constitution. While the decision was obviously based purely on the Australian Constitution and the interpretation of it developed by the High Court over many years, some aspects of the decision or at least the arguments developed by the parties as part of the court challenge may be relevant to issues that will be raised in other legal challenges. The Australian government's case resisted the claim of a breach of the Constitution on several grounds. The first ground related to the definition of the property allegedly taken by the legislation. The government's argument was based on the proposition that the rights associated with trademarks are essentially negative in nature. They consist of the right to prevent others from using that trademark or a similar trademark rather than a right to use the trademark itself. The 'right' of use is simply a liberty that every person has in the absence of government regulation restricting that liberty. Ownership of a trademark preserves that liberty for the owner or those licensed by the owner, but removes the

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14 Ibid

15 For a timeline of measures relating to restrictions on promotion of tobacco see <http://www.acosh.org/about-acosh/acosh-timeline/> viewed 15 January 2013.

16 Ibid.

17 The taxes on cigarettes increased by 25% in April, 2010.

18 *JT International SA v Commonwealth of Australia* [2012] HCA 43

19 Section 51(xxxi) of the Australian Constitution states that the Commonwealth may make laws 'for the acquisition of property on just terms from any State or person ...'

20 *JT International SA v Commonwealth of Australia* [2012] HCA 43 per Hayne and Bell JJ at para 69

liberty of others. The right conferred on the trademark owner and, therefore, the property conferred is the right to enforce that restriction on use by others.

The second argument of the Australian government was that, even if trademark owners had been deprived of property, the government did not acquire that property. The government did not acquire the right to prevent others from using tobacco trademarks. The lack of any identifiable acquisition of a property interest would be fatal to any claim that the Constitution has been breached.

A third argument was based on the proposition that the characterisation of any acquisition must take into account the nature of the property allegedly being acquired. The provision is simply not intended to apply to some types of property. For example, property which is the proceeds of crime would not be subject to the provision in question and the acquisition of such property would not require the payment of compensation. The argument made by the government was that the nature of tobacco is such that its negative health effects are so significant that it is inappropriate to compensate those companies selling such a product for any property acquired from them. In that regard, the Australian government pleaded a great number of facts in relation to both the negative health effects of tobacco use and the relationship between the use of trademarks and the promotion of consumption of tobacco.

A related but slightly different argument was that ‘just terms’ in this context did not require the payment of money. It was quite ‘just’ to reduce the property rights of tobacco companies in the light of the detrimental effects of their product on the health of the Australian population.

The six different judgments of the High Court rendered by the seven justices focussed almost exclusively on the first two of those arguments, namely, the nature of the property allegedly taken by the legislation and whether there had been any acquisition of that property. However, some of the pleadings and written submissions of the parties on the other issues are worthy of consideration and will be mentioned towards the end of this discussion of the Constitutional challenge.

As the six majority justices wrote 5 different judgments focussing on different aspects of the case, it is difficult to identify any particular findings on any one issue. However, all 6 majority justices were of the view that the government had not acquired any property and therefore the second argument of the Australian government was decisive. As to the nature of the property allegedly taken from the tobacco companies that launched the proceedings, different views were expressed and with different degrees of precision. For example, the Chief Justice noted that the rights of a trademark owner were negative in their nature but, at some point, the right to exclude others from using property ‘have no substance if all use of the property is prohibited’.<sup>21</sup> He did not indicate whether the legislation had gone that far. Justice Gummow expressed the view that the positive rights of trademark owners were the right to licence others to use the trademark and the right to assign the trademark

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21 Ibid per French CJ at para 37

or, in other words, the right to give others the liberty to use a trademark when those others would be otherwise prohibited from use.<sup>22</sup>

On the other hand, other justices were not necessarily convinced that the plaintiffs had been deprived of the substance or reality of their proprietorship. For example, Justice Crennan said that ‘The complaint that the plaintiffs were deprived of the “substance” and “reality” of their proprietorship in their property because they could not use their registered trade marks as registered, or their associated product get-up, left out of account the significance of their ability to continue to use their brand names so as to distinguish their tobacco products, thereby continuing to generate custom and goodwill’<sup>23</sup>.

In any event, none of the majority judges were satisfied that even if any property had been taken away that it had, in turn, been acquired by the government or any third party. Most of the justices did not deal in detail with the arguments of the government relating to whether the nature of the property in question was such that the Constitutional provision should not apply at all or whether monetary compensation was the only means of establishing that an acquisition had occurred on just terms.

However, the pleadings of the parties in the High Court provide an interesting insight into some more general matters concerning the nature of trademarks and their functions. A basic issue relating to the legislation is whether or not trademarks and the get up of cigarettes have the effect of promoting the consumption of tobacco. All parties agreed that tobacco trademarks are designed to differentiate between different brands of cigarettes. However, there was disagreement as to whether trademarks are used to promote tobacco consumption. Most of the tobacco companies that brought the proceedings or which were joined as parties to it denied that their trademarks performed the function of promoting cigarettes as opposed to the function of differentiating their cigarettes from other cigarettes. However, British American Tobacco Australia Ltd did seem to formally acknowledge in its pleadings that its trademarks did promote its cigarettes as well as differentiate them from other cigarettes.<sup>24</sup> In addition, Justice Crennan formally acknowledged in her judgment that a key function of trademarks is to promote a product as well as to differentiate the particular brand of the product from other products.<sup>25</sup> In many ways, this issue is at the crux of the plain packaging debate. The Australian government wishes to prevent the promotion of tobacco products and, in doing so, intends to greatly restrict the use of trademarks for that

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22 Ibid per Gummow J at para 137

23 Ibid per Crennan J at para 294.

24 See the Reply of British American Tobacco Australasia in its case against the Commonwealth of Australia filed 24 February 2012 in which it refers to using its packaging to both distinguish and promote its cigarettes. High Court of Australia S389 of 2011.

25 *JT International SA v Commonwealth of Australia* [2012] HCA 43 at para 286 where Crennan J stated ‘Whilst the prime concern of the Trade Marks Act is with the capacity of a trade mark to distinguish the goods of the registered owner from those of another trader, trade marks undoubtedly perform other functions. For example ... it may be accepted that distinctive marks can have a capacity to advertise, and therefore to promote sales of products sold under or by reference to them. The advertising function of a trade mark is much more readily appreciated than it once was, and that function may be of great commercial value.’

purpose. In doing so, the legislation clearly has some effect on the function of trademarks of distinguishing between different brands.

### III. THE WORLD TRADE ORGANISATION ('WTO') CHALLENGES

Complaints against the legislation have been initiated at the WTO by Ukraine, Honduras and the Dominican Republic.<sup>26</sup> The complaints allege that the legislation breaches various provisions of TRIPS (Trade Related Aspects of Intellectual Property), GATT (General Agreement on Tariffs and Trade) and the TBT (Technical Barriers to Trade) agreements of the WTO. At the time of writing, the complaint by Ukraine is proceeding and a dispute panel is in the process of being formed. The complaints by Honduras and the Dominican Republic may well be joined with the Ukrainian complaint in due course as they obviously have many issues in common.

### IV. TRIPS

Various breaches of the TRIPS agreement have been alleged. These include alleged breaches of the obligations of national treatment and provision of most favoured nation status to other members in Articles 3 and 4, Article 16 relating to the rights of trademark owners, Article 20 relating to the unjustifiable imposition of encumbrances on the use of trademarks and Article 22 relating to the protection of geographical indications.

As parties are not yet at the point of providing their detailed submissions in relation to these claims, some speculation is required as to the nature and basis of the claims. Consequently, what is now written here is subject to the disclaimer that precise details of the nature of the claims will have to be considered and addressed in due course.

The claims in relation to national treatment and most favoured nation status would seem to be based on arguments that the legislation indirectly favours one nation's tobacco products over those of another. The legislation itself clearly applies to all tobacco products, whatever their geographical origin or national origin and, in that sense, does not directly contravene the requirements of national treatment or provision of most favoured nation status.

One of the arguments may be that the effect of the legislation is to favour the market position of brands of cigarettes that were established in the Australian cigarette market at the time of the implementation of the legislation. By preventing the use of non-word trademarks and limiting the use of word trademarks, the effect may be to 'fossilise' the existing market shares that cigarette brands have because new entrants would be restricted in their capacity to differentiate their new products from existing products and thereby to compete with existing, established brands. Whether this is in fact the case and whether, even if it is true, such measures would therefore contravene national treatment and most favoured nation status is questionable. If such measures were found to contravene those requirements, such a decision would suggest that any significant limitation on marketing of cigarettes would also breach those requirements. For example, bans on other forms of

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<sup>26</sup> See fn 2 above.

promotion or advertising such as bans on television advertising or sporting sponsorships would, presumably, have a similar effect. Those countries that have not yet initiated some bans but which are contemplating doing so may therefore have some concerns about the potential implications of a decision that the legislation contravenes national treatment and most favoured nation status.

Article 16 of TRIPS confers certain rights on trademark owners. As with the discussion of the rights of trademark owners discussed above concerning the Australian Constitutional challenge, the debate concerning Article 16 will centre around the fact that the rights in question are negative in their nature.<sup>27</sup> Article 16 provides that the owners of registered trademarks have the right to prevent the use of their trademarks or similar trademarks by others. An argument may be mounted on the basis that the restriction on the use of trademarks effectively nullifies the value of the right to exclude others from using those trademarks. However, any acceptance of that argument would open up a number of issues about the nature and extent of the legitimacy of existing restrictions on the use of tobacco trademarks. For example, it would be difficult to craft a decision that effectively converts Article 16 into a right to use tobacco trademarks without opening up the possibility of challenges to other restrictions on the promotion of tobacco which have been adopted in many nations for some years. In addition, the exceptions to Article 16 identified in Article 17 are predicated on the assumption that the rights granted under Article 16 are negative rights to prevent use by others rather than a right of use. Consequently, if Article 16 becomes a vehicle for the creation of right to use trademarks, the means of determining the scope of the right and identifying and acknowledging exceptions to that right are not entirely clear.

The most likely provision to receive detailed attention in the disputes will be Article 20 of TRIPS. It provides that the ‘use of a trademark in the course of trade will 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.’ The provision has not yet been the subject of detailed interpretation by a WTO panel.<sup>28</sup> Numerous aspects of the wording of it will need to be addressed. One of those issues is the meaning of the words ‘encumbered by special requirements’. One possibility is that an encumbrance, in this context, does not include a prohibition on use of trademarks. An interpretation to the contrary which prohibits a government prohibition on use effectively confers a right to use a trademark. Such an approach would, in turn, generate considerable difficulties.<sup>29</sup> For example, Article 20 clearly applies to unregistered as well as registered trademarks, including unregistered

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27 *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* WTO Doc WT/DS290/R (2005) (Panel Report)

28 *See Indonesia - Certain Measures Affecting the Automobile Industry* WTO Doc WT/DS54/R, WT/DS55/R, WT/DS59/R, WT/DS64 (1998) (Report by the Panel) for some discussion of Article 20 but the dispute did not deal with the issues that will be addressed in relation to plain packaging.

29 See Mark Davison ‘The legitimacy of plain packaging under international intellectual property law’ in *Public Health and Plain Packaging of Cigarettes: Legal Issues* (ed T Voon, A Mitchell and J Liberman with G Ayres, Edward Elgar, Cheltenham, 2012).

and non-inherently distinctive trademarks that have acquired distinctiveness through use, and conferring a right of use on unregistered trademarks generates difficulties in itself, especially in many civil law countries where unregistered trademarks are not protected per se. Even in common law countries, the protection provided for unregistered trademarks is via the tort of passing off which protects the goodwill associated with the reputation of such trademarks rather than the trademarks themselves. Other difficulties would include defining the exceptions to such a right of use.

However, the requirements for the manner of use of word trademarks clearly do come within the scope of Article 20 as they relate to requirements in relation to actual use of those word trademarks. In that regard, a few matters need to be considered. One is that the only use in question is use 'in the course of trade'. As Australia already prohibits the display of cigarettes at the point of sale, the use of trademarks on packaging in the course of trade is already significantly restricted even in the absence of the legislation. In addition, use of the trademarks after sale to consumers, such as display of packets in a social setting, would not be 'in the course of trade'.<sup>30</sup>

The other key issue will be the meaning of 'unjustifiably' within the context of Article 20. Several writers suggest that the word needs to be interpreted quite broadly and that the onus is on a complainant to demonstrate that the special requirements are not justified.<sup>31</sup> There are several reasons why the word may be interpreted quite generously from the perspective of a nation imposing special requirements. From a purely literal point of view, the concept of unjustifiability is not constrained by any other criteria as is the case with other exceptions or limitations within TRIPS. For example, Article 17 requires the taking into account of the legitimate interests of trademark owners and other parties and Article 13 which permits exceptions to rights in copyright provided that they are restricted to certain special cases that do not unreasonably prejudice the legitimate interests of copyright owners and which are consistent with the normal exploitation of the copyright works. The absence of similar criteria in Article 20 suggests that there is considerable scope for members to impose special requirements on the use of trademarks.

At the absolute minimum, 'unjustifiably' in this context would include measures that are necessary for public health. Article 8 of TRIPS permits measures that are necessary for public health provided they are consistent with the other provisions of TRIPS. The discretion for action suggested by the word 'unjustifiably' would include such measures. While Article 8 of TRIPS has not itself been the subject of interpretation by the WTO, a similar provision concerning measures necessary for human health within the meaning of the GATT has been considered on a number of occasions.<sup>32</sup>

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30 Ibid.

31 N de Carvalho *The TRIPS Regime of Trademarks and Designs* (Kluwer Law International, 2011, 2<sup>nd</sup> ed) [20.12 – 20.24] and T Voon and A Mitchell 'Implications of WTO law for plain packaging of tobacco products' in *Public Health and Plain Packaging of Cigarettes: Legal Issues* (ed T Voon, A Mitchell and J Liberman with G Ayres, Edward Elgar, Cheltenham, 2012).

32 See T Voon and A Mitchell 'Implications of WTO law for plain packaging of tobacco products' in *Public Health and Plain Packaging of Cigarettes: Legal Issues* (ed T Voon, A Mitchell and J Liberman with G

While the jurisprudence surrounding the provision is itself complex, the basic proposition seems to be that a measure will be necessary for public health if no less trade restrictive measure is available that will make or be likely to make the same contribution to the achievement of the relevant health objective.<sup>33</sup> At this point, the other measures already taken by Australia to discourage the consumption of tobacco become relevant. As these measures have already been implemented and the Australian government wishes to go further still in its attempt to discourage the consumption of tobacco, any alternative measure posited by a complainant would need to go beyond those measures but fall short of plain packaging while being as likely or more likely to achieve the desired outcomes. It may be difficult for a complainant to provide evidence of such measures.<sup>34</sup> On the other hand, the current strict Australian regulation of the tobacco industry might suggest that other countries may not be able to move from less strict regulation directly to plain packaging without at first attempting to discourage tobacco consumption and promotion of tobacco by adopting less onerous requirements than plain packaging.

Objection has been made to plain packaging legislation on the grounds that there is no evidence that it will work. This assertion depends to a large extent on the standard of proof to be met. In one sense, there is no evidence that plain packaging will be effective because it has never been adopted anywhere in the world until now. However, if measures cannot be implemented unless there is certainty that they will work as a consequence of them actually having been implemented, the argument becomes circular. No measure could be introduced unless it had already been implemented and shown to work. Unsurprisingly, the WTO jurisprudence has a different standard which provides that evidence of the likely effects of proposed measures will suffice to demonstrate that they are necessary for public

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Ayres, Edward Elgar, Cheltenham, 2012) for a discussion.

33 Ibid

34 The objects of the Act are:

to improve public health by

discouraging people from taking up smoking, or using tobacco products

encouraging people to give up smoking, and to stop using tobacco products

discouraging people who have given up smoking, or who have stopped using tobacco products, from relapsing and

reducing people's exposure to smoke from tobacco products and

to give effect to certain obligations that Australia has as a party to the FCTC.

The Act states that the Parliament intends to achieve the objects set out above by regulating the retail packaging and appearance of tobacco products in order to:

reduce the appeal of tobacco products to consumers

increase the effectiveness of health warnings on the retail packaging of tobacco products and

reduce the ability of the retail packaging of tobacco products to mislead consumers about the harmful effects of smoking or using tobacco products.

Complainants may need to address the specific targeting of packaging as a means of promotion of tobacco when offering alternative means of achieving the Act's objectives. Doing so may be difficult.

health.<sup>35</sup> A number of studies demonstrate the likely effectiveness of plain packaging in meeting the relevant objectives. While objection may be made by complainants to those studies, it is unlikely that the WTO will receive evidence that would justify discounting those studies while at the same time demonstrating what alternative measures could be adopted that would be likely to make a material contribution to the same objectives.<sup>36</sup>

Finally, as regards the TRIPS agreement, reliance may be placed on the provisions of TRIPS relating to geographical indications. Some geographical indications for cigars are graphic rather than textual and the effect of the legislation is to prevent the use of such non-word geographical indications. However, as with Article 16 in relation to the rights of trademark owners, the obligation in relation to geographical indications is to prevent the use of them by those not entitled to their use.<sup>37</sup> There is no equivalent of Article 20 that prevents encumbrances on the use of geographical indications.

## V. THE GATT

While the GATT has been invoked as a basis for objecting to the legislation, it is difficult to see how the claims in that regard will be successful.<sup>38</sup> As already pointed out, it will be difficult to establish that the legislation contravenes the obligations of national treatment. In addition, Article XX of the GATT permits measures that are necessary for human health.

## VI. THE TECHNICAL BARRIERS TO TRADE AGREEMENT

An argument will be made based on the TBT. Article 2.2 of the TBT 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 ... protection of *human health* or safety ... 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.<sup>124</sup>

The definition of a technical regulation includes:

terminology, symbols, *packaging*, marking or *labelling* requirements as they apply to a product, process or production method.<sup>117</sup>

Consequently, it would appear that the legislation constitutes a technical regulation within the meaning of the TBT and it is therefore subject to Article 2.2 of the TBT. There are several issues relating to the TBT that will need to be resolved in the course of the current disputes. One is that a complainant would have to demonstrate that there is a less

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35 See eg Tania Voon and Andrew Mitchell *Face off: Assessing WTO challenges to Australia's scheme for plain tobacco packaging* (2011) 22 Public Law Review 218.

36 Ibid.

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38 See fn 35 above.

trade restrictive alternative to plain packaging that would achieve the same health objectives. The onus is squarely on the complainant to demonstrate what that alternative measure is and to provide evidence of its likely effectiveness.<sup>39</sup>

The other issue is the relationship between TBT and TRIPS. This relationship has not yet been addressed in a WTO decision. In particular, it would seem that packaging, marking or labelling requirements may include trademarks but there must be some demarcation between the operation of the provisions in TRIPS dealing with trademarks and the TBT provisions dealing with packaging, marking or labelling. One possible distinction is that the function of trademarks of distinguishing between different products is not the relevant function of packaging, marking or labelling requirements that is to be considered under the TBT. It may be, for example, that in terms of obstacles to international trade, the key question under the TBT will be whether the goods in question can be identified by traders while still complying with the plain packaging requirements. Hence, provided there is sufficient scope to identify the products by placing the name of the product on the packaging, no relevant obstacle to international trade would be occurring. In any event, if the measures are necessary for human health within the meaning of that expression in WTO jurisprudence, there will be no contravention of the TBT.<sup>40</sup>

## VII. THE BILATERAL INVESTMENT TREATY

The final legal challenge currently underway to the legislation is based on a bilateral investment treaty ('BIT') between Australia and Hong Kong.<sup>41</sup> Under the treaty, individual investors can initiate arbitration proceedings alleging a breach of the obligations under the treaty. Philip Morris Asia ('PMA') is incorporated in Hong Kong. It currently owns all the shares in Philip Morris (Australia) Ltd which, in turn, owns all the shares in Philip Morris Ltd. The latter two companies are Australian companies that own or have licences to use a number of well known tobacco trademarks.<sup>42</sup> As the owner of those companies, PMA is claiming that the legislation contravenes several obligations imposed on the Australian government by the treaty. These alleged contraventions include allegations that the legislation expropriates or deprives PMA of its property and that those investments have not been accorded fair and equitable treatment.

The legal position in relation to the BIT is somewhat less certain than that under other legal challenges due to the nature of arbitration proceedings relating to such treaties. For example, there is no applicable doctrine of precedent such as that in common law systems and there is no appeal from the decision of the arbitrators. However, other deci-

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39 Ibid

40 Ibid

41 Agreement between the Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments executed 15 September 1993.

42 Notice of Arbitration served by Philip Morris Asia Limited against the Commonwealth of Australia 21 November 2011 ('Notice of Arbitration') at 1.3. Relevant documents relating to the dispute can be found at <http://www.ag.gov.au/Internationallaw/Pages/Investor-State-Arbitration---Tobacco-Plain-Packaging.aspx>.

sions relating to similar provisions in other bilateral investment treaties have established some principles that are often adopted by arbitrators in later disputes. For example, most arbitration decisions relating to expropriation provisions adopt a view that expropriation in this context involves some form of acquisition of property by the relevant government. While this concept of expropriation is not identical to the concept of acquisition discussed in relation to the Australian Constitution, most arbitration decisions adopt a somewhat similar position in that acquisition or the lack of acquisition of property is highly relevant to whether expropriation has occurred.<sup>43</sup>

In addition, another highly relevant issue is the extent to which the investor is able to demonstrate that it had a reasonable expectation that the measures in question would not be implemented.<sup>44</sup> In this regard, PMA has a considerable obstacle to overcome. It did not acquire any interest in Philip Morris (Australia) Ltd until nearly 10 months after the Australian government announced its intention to introduce the legislation. In addition, the Philip Morris group of companies made submissions to the government objecting to the legislation prior to PMA acquiring its interest. In the circumstances, it is difficult to envisage a finding that PMA had a reasonable expectation at the time of acquiring its interest in Australia that the legislation would not be introduced. Its position is not assisted by the fact that Australian governments of all political persuasions have imposed increasing restrictions on the promotion of tobacco products over several decades. The government's initial response to PMA's claim has been to deny that there is any dispute even capable of being arbitrated due to the fact that PMA acquired its interest in Australia when it was well aware of the government's intentions. It will have to overcome this objection in order for the substance of its claims to be adjudicated upon.

Finally in this regard, PMA may be overstating the value of the intellectual property held by its Australian subsidiaries. While the subsidiaries own some Australian tobacco trademarks, many of the trademarks that they use are owned by other overseas companies and the Australian companies simply have a licence to use those trademarks. As a general rule, licensors usually provide in their licence agreements that all the goodwill associated with a licensed trademark remains with the licensor and the licensee agrees that it has no rights in relation to those trademarks.<sup>45</sup> Consequently, PMA's intellectual property may not be as valuable as it has suggested. In addition, as already noted, word trademarks can continue to be used and the primary effect of the legislation is to prevent the use of non-word trademarks. Those latter trademarks are less valuable than the word trademarks which remain in use, albeit subject to considerable restrictions.

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43 See B McGrady 'Implications of ongoing trade and investment disputes concerning tobacco: Philip Morris v Uruguay' and T Voon and A Mitchell 'Implications of international investment law for plain tobacco packaging: lessons from the Hong Kong-Australia BIT' in *Public Health and Plain Packaging of Cigarettes: Legal Issues* (ed T Voon, A Mitchell and J Liberman with G Ayres, Edward Elgar, Cheltenham, 2012).

44 T Voon and A Mitchell *Time to Quit? Assessing International Investment Claims Against Plain Tobacco Packaging in Australia* (2011) 14 *Journal of International Economic Law*

45 See eg Davison M and Horak I *Shanahan's Australian Law of Trade Marks and Passing Off* (Thomson Reuters, Sydney, 2012, 5<sup>th</sup> ed) at [80.1005].

## VIII. CONCLUSION

Two legal challenges to plain packaging are still in progress and it may be some time before they are both ultimately resolved. In the interim, Australia is the first country to introduce plain packaging for tobacco. If the legislation survives the legal challenges to it, other countries are likely to follow in due course although, as mentioned above, plain packaging probably needs to accompany other regulatory measures. For example, introducing plain packaging requirements without also prohibiting other forms of advertising of tobacco would almost certainly be unproductive. If the legislation is successfully challenged, the actual decisions challenging it would need to be carefully scrutinised. It is difficult to envisage a decision prescribing that no limitations can be imposed on the packaging of cigarettes. Indeed, many limitations are already imposed in many countries with, for example, graphic and text warnings being required to take up a considerable percentage of packets. Any tribunal deciding to impugn plain packaging would face the difficult task of identifying what restrictions are not permitted and which ones are permitted and on what basis the distinction is to be made.

On the other hand, the legality of plain packaging in individual jurisdictions would be subject to the domestic laws of those jurisdictions. Hence, the Constitutional provisions of those jurisdictions may generate legal obstacles that are peculiar to those jurisdictions. In any event, it seems inevitable that legal and political debate about plain packaging will continue for some time to come.

