

**Bills Committee on Smoking (Public Health) (Amendment) Bill 2005  
Administration's Reply to the Assistant Legal Adviser's Letter of 6 June 2006**

This paper provides the following responses to the letter from the LegCo Assistant Legal Adviser to the Secretary for Health, Welfare and Food dated 6 June 2006.

**Summary**

2. The conclusions under this paper are summarized as follows:
  - (a) Although clause 11 of Smoking (Public Health) (Amendment) Bill 2005 (“the Bill”) taken on its own does not necessarily constitute (de facto) deprivation of property without compensation within the meaning of BL 105, there is a serious risk that the cumulative effect of clause 11 and other provisions of the Bill (particularly those relating to tobacco advertisements) and the existing law as contained in the Smoking (Public Health) Ordinance (“the Ordinance”) amounts to such a deprivation as far as registered trademarks incorporating the words mentioned in clause 11 are concerned.
  - (b) This proposition applies to a certain extent also to trademarks duly registered after the gazetting of the Bill and before its enactment and commencement.
  - (c) Considerations should also be given to Hong Kong’s international intellectual property legal obligations, as set out in the Annex.
  - (d) In view of the serious risk highlighted above, it is decided that a “grandfathering” provision (with notation) is to be introduced to cover registered and unregistered trademarks referred above.

## **Deprivation of Property**

3. It is argued in the letter (at p. 7) that the Bill “does not affect the exclusive rights of the Owner in his trade mark. His right to take legal action against infringement of his trade mark remains unchanged. Notwithstanding the expansion of prohibitions on the use of his trade mark, no one can use his trade mark without his consent”. It is, however, to be noted that the restrictions imposed by clause 11 of the Bill on the use of the relevant trademarks apply equally to the owners and any unauthorized user of the trademarks. If the Bill is passed in its present form, it is arguable that the opportunities for infringement of the owners’ rights (just as those for the owners’ own use of the trademarks) will be so extensively reduced that the “right to take legal action against infringement” will become insignificant and meaningless.

4. It is also argued in the letter (p. 8) that (even if the Bill is passed) “the owner is still entitled to use his trade mark in other aspects, including the uses set out under section 18(5) [of the Trade Marks Ordinance (Cap. 559)]. He can still apply his trade mark to his goods (except on the packaging), *offer or expose the goods for sale under the trade mark (e.g. in retail outlets under the trade mark)*, import or export his goods under his trade mark, use his trade mark on his business papers or *in advertising* subject to the restrictions set out in the Ordinance.” (emphasis added). Given the provisions of the Ordinance and the Bill on tobacco advertising (with “tobacco advertisements” extremely broadly defined as discussed in para. 8 below) and the circumstances analyzed in paras. 5-9 below, it is doubtful that the two italicized uses (see the italicized words in the above quotation in this paragraph) of the trademark will still be possible for all practicable purposes. As regards other aspects of use mentioned in this quotation, it is arguable that they are so insignificant as to leave the relevant trademarks with no meaningful and economically viable use.

5. The effect of clause 11 of the Bill is that the relevant trademarks may no longer be used on the packets and retail containers containing the cigarettes. In order to ascertain whether there would a (de facto) deprivation, it is necessary to consider whether such a prohibition would leave the relevant trademarks without any meaningful alternative use or without any reasonable economically viable use (applying the European and American jurisprudence summarized in LegCo Paper No. CB(2) 1897/05-06(01)).

6. First, the relevant trademarks may still be printed on the paper body of each cigarette. However, section 8 of the Ordinance requires all cigarettes to be sold in a packet of a least 20 sticks, and the packets must bear the prescribed health warning. Thus, it is not lawful in Hong Kong for individual sticks of cigarettes to be sold.

7. This means that even if the relevant trademarks are printed on the body of the cigarette, they will not be visible to potential customers who can only see the packets but not the cigarettes themselves at the time and place of purchase.

8. If there were no restriction or prohibition regarding cigarette advertisements, it would still be possible to use the relevant trademarks in various contexts other than the package or retail container so as to identify the cigarette product, distinguish it from other cigarette products and attract customers' attention to it. However, under the Ordinance, the contexts in which tobacco advertisements (which are extremely broadly defined in section 14 of the Ordinance to include any object displayed to the public in the course of business that includes as part of the object the trademark or brand name of a tobacco product) are already very limited. Furthermore, the Bill proposes to eliminate the very few remaining contexts in which tobacco advertisements may be used under the Ordinance (i.e. in the stall or pitch of a licensed hawker and in the premises of a retail dealer employing two or fewer persons – see clause 14 of the Bill).

**9. It is therefore arguable that the cumulative effect of the Bill and the Ordinance is to leave the owners or licensees of the relevant trademarks with no meaningful and economically viable use of the trademarks. There is a serious risk that they would amount to a (de facto) deprivation as far as registered trademarks incorporating the words mentioned in clause 11 are concerned.**

10. In reaching this conclusion, consideration has been given to the fact that as far as registered trademarks are concerned, under section 42(1) of the Trade Marks Ordinance (“Cap 559”), the Registrar must examine all applications to see if they fulfill the requirements for registration under the Ordinance. If an application meets these requirements, there is no power to refuse the application. The absolute and relative grounds for refusal of registration are set out in sections 11 and 12 of Cap. 559.<sup>1</sup> The registration of a trademark confers various rights on the trademark owner. “A registered trade mark is a property right obtained by the registration of the trade mark under this Ordinance.” (Cap. 559, section 10(1)) Upon such registration, the owner may expect that he will be entitled to use the trademark during the prescribed period (10 years under Cap. 559).

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<sup>1</sup> Section 11(4) of the Trade Marks Ordinance provides that a trademark shall not be registered if it is contrary to accepted principles of morality or likely to deceive the public.

11. Such expectations are particularly relevant given the difference in wording between the existing section 10(3) of the Ordinance and the proposed version under clause 11 of the Bill. Under the existing law, trademarks containing the words now prohibited by clause 11 may be registered and used provided that “the cigarettes have been determined under section 16 and the regulations to have a tar yield of 9 milligrams or less” (section 10(3) of the Ordinance). Thus owners of the relevant trademarks who have successfully applied for registration of the trademarks on the basis that the tar yield of the relevant cigarettes satisfied the original requirements in section 10(3) may expect that the trademarks may be lawfully used at least during the period for which they have been registered.

### **Trademarks duly registered after the gazetting of the Bill and before its enactment and commencement**

12. As regards the effect of deprivation of property discussed above produced by the Bill and the Ordinance, the considerations above apply to a certain extent to trademarks registered after the gazetting of the Bill but before the Bill is passed. Whether the Registrar of Trademarks at a point in time after the Bill was gazetted should accept for registration trademarks incorporating the prohibited words in clause 11 of the Bill is a different question. After the Bill is passed, section 11(5) of the Trade Marks Ordinance may operate to prohibit the registration of such trademarks as their “use is prohibited in Hong Kong under or by virtue of any law”.

### **Conclusion**

13. In view of the serious risk highlighted above, it is decided that “grandfathering” provision (with notation) is to be introduced to cover the registered trademarks referred to in paras 9 and 12 above.

Department of Justice  
Health, Welfare and Food Bureau  
Intellectual Property Department

June 2006

Smoking (Public Health) (Amendment) Bill 2005  
Hong Kong SAR's  
International Intellectual Property Legal Obligations

*Introduction*

This brief note highlights the object and purpose of the *Smoking (Public Health) (Amendment) Bill 2005* (Bill) from the international intellectual property treaty law perspective.

*Public health and intellectual property*

2 In formulating the contents of the Bill, the Hong Kong SAR has to ensure its provisions are also consistent with its international intellectual property legal obligations, namely, those under the *Paris Convention for the Protection of Industrial Property* (Paris Convention), and the *WTO Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS). Article 1 (Nature and Scope of Obligations) of TRIPS provides that “*Members shall give effect to the provisions of this Agreement...*”

*Trade marks as intellectual property*

3 Trade marks, including unregistered well-known marks, are categories of intellectual property. Article 1(2) (Scope of intellectual property) of the Paris Convention provides that: “*The protection of industrial property has as its object ... trade marks,... and the repression of unfair competition.*” Article 1 of TRIPS provides that “*...the term “intellectual property” refers to all categories of intellectual property that are subject to Sections 1 (Section 2: Trademarks) through 7 of Part II.*”

### *Protectable trade marks*

4 Section 2: Article 15 (1) (Protectable Subject Matter) provides that: *“Any sign, or any combination of signs, capable of distinguishing the goods and services of one undertaking from those of other undertakings, shall be capable of constituting a trade mark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combination of colours as well as any combination of such signs, shall be eligible for registration of trademarks.”*

5 Article 15(2) (Protectable Subject Matter) of TRIPS provides that *“Paragraph 1 shall not be understood to prevent a Member from denying registration of a trade mark on other grounds, provided that they do not derogate from the provision of the Paris Convention (1967).”*

### *Unregistered well-known marks*

6 Article 6bis (Well-Known Marks) of the Paris Convention provides that: *“The countries of the Union undertake ... to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.”*

### *Unregistered trade names*

7 In addition, Article 8 of the Paris Convention provides that “A

*trade name shall be protected ... without the obligation of filing or registration, whether or not it forms part of a trademark.”*

### *Denial of registration*

8 The Hong Kong SAR has the permissible power to provide for the denial or invalidation of trade marks when they are of such a nature as to deceive the public. Article 6quinquies B (Protection of Marks Registered) of the Paris Convention provides that: *“Trademarks covered by this Article may be neither denied registration nor invalidated except in the following cases:*

...

*3. when they are ... of such a nature as to deceive the public...”*

### *No unjustifiable encumbrance*

9 Article 20 (Other Requirements) of TRIPS provides that: *“The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements ... 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.”*

### *Protection of Existing Subject Matter*

10 Article 70 (2) (Protection of Existing Subject Matter) of TRIPS provides that: *“... this Agreement gives rise to obligations in respect of all subject matter existing at the date of application of this Agreement for the Member in question, and which is protected in that Member on the said date, or which meets or comes subsequently to meet the criteria for protection under the terms of this Agreement...”*

### *WTO Dispute Settlement*

11 Disputes between WTO Members are concerning their rights and obligations under TRIPS are settled through the rules and procedures under the *WTO Understanding on Rules and Procedures Governing the Settlement of Disputes* (Understanding).

### *Compensation*

12 Where a WTO Dispute Settlement Panel or the Appellate Body concludes that e.g. a regional/domestic measure under TRIPS is inconsistent with TRIPS, that Member has to bring the measure into conformity with TRIPS. Article 22 (Compensation and the Suspension of Concessions) of the Understanding provides that: “*Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time...*”

### *Conclusion*

13 In pre-empting the risk of litigation through this legislative exercise, it is therefore necessary to anticipate not just the domestic ones, but the possibility of those at the international level.

**INTELLECTUAL PROPERTY DEPARTMENT**

June 2006