

LS/B/24/04-05
2869 9370
2877 5029

Secretary for Health, Welfare and Food
Health, Welfare and Food Bureau
(Attn: Mrs Ingrid YEUNG, DS(H)2)
19/F, Murray Building
Garden Road, Hong Kong

By Fax (2840 0467) and By Post

24 June 2006

Dear Mrs YEUNG

Smoking (Public Health) (Amendment) Bill 2005 (“the Bill”)

I refer to the Administration’s proposed Committee Stage amendments on the proposed section 10(3) in the Bill (“section 10(3)”) sent on 23 June 2006 (“the new CSAs”) and have the following comments:

- (A) Whether the prohibition under section 10(3) “goes further” beyond the requirements of Article 11(a) of the WHO Framework Convention on Tobacco Control (“FTCT”)
-

The words “低焦油”, “淡味” and “柔和” will be prohibited, in addition to the list of prohibited words specified in section 10(3) (collectively called “the Prohibited Words”). The express specification of words to be prohibited in section 10(3) was queried by the Department of Justice in April 2006 in paragraph 9 of Annex II to CB(2)1897/05-06(01) as “goes further” beyond the requirements of Article 11(a) of the FTCT. Please clarify the policy intent of the express specification of the Prohibition Words and the addition of new words in the new CSAs in the light of the view of the Department of Justice.

- (B) Whether there is “serous risk” that the prohibition of Prohibited Words in section 10(3) amounts to “徵用” or “deprivation” of property under Basic Law Article 105 and whether drafting of the new CSAs reflect the Administration’s proposed policy
-

The Administration has advised members of the Bills Committee that the “grandfathering and notation” approach has to be adopted because of the opinion of the Department of Justice that there is “serous risk” that the prohibition of words specified in section 10(3) arguably amounts to “徵用” or

“deprivation” of property under Basic Law Article 105. Discussion of this issue mainly focused on trade marks registered under the Trade Marks Ordinance (Cap. 559) (“the Trade Marks Ordinance”).

Trade Mark registered under the Trade Marks Ordinance (“registered trade mark”)

The owner of a registered trade mark who complies with the following requirements set out in section 4 of Schedule 5A will be exempted from the prohibition set out in section 10(3):

- (a) the date of registration of that trade mark is before the appointed day;
- (b) that trade mark is registered in respect of tobacco products; and
- (c) that trade mark remains registered in the register at the time when the tobacco products are sold by the specified person.

The Administration has advised members of the Bills Committee that applications for registration of trade mark containing the Prohibited Words which are filed after the announcement of the “grandfathering” approach by the Administration in January 2006 (“the Applications”) are not accepted by the Intellectual Property Department.

In paragraph 10 of LC Paper No. CB(2)2406/05-06(01), the Administration advised that “as far as registered trade marks are concerned, under section 42(1) of the Trade Marks Ordinance, 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. Section 11(4) of the Trade Marks Ordinance provides that a trade mark shall not be registered if it is contrary to accepted principles of morality or likely to deceive the public.”.

Please confirm whether the Applications are refused because the Prohibited Words are contrary to accepted principles of morality or likely to deceive the public. If the Registrar is of the opinion that the Prohibited Words are contrary to accepted principles of morality or likely to deceive the public, will the Registrar apply to revoke the existing registered trade marks containing the Prohibited Words under section 52 of the Trade Marks Ordinance or declare the existing registered trade marks containing the Prohibited Words to be invalid under section 53 of the Trade Marks Ordinance?

If the Applications are not refused on the absolute grounds of refusal of

registration, does it mean that the Registrar is not able to reject the Applications and according to section 4 of Schedule 5A, the Applicants of the Applications will be exempted from section 10(3) if the trade marks are registered before the appointed day?

Unregistered trade mark

The issue of trade marks of tobacco products that are on sale in Hong Kong but for different reasons, have not been registered under the Trade Marks Ordinance was first raised in the Administration's LC Paper No. CB(2)1897/05-06(01) on the following reason:

“Legal advice has noted that these unregistered trade marks may also be protected by the common law action of passing off against those who have used his mark or a similar mark provided that he can fulfill the following conditions:

- (i) his goods or services, with the use of the trade mark, have acquired a goodwill or reputation in the market;
- (ii) there is misrepresentation by other traders leading or likely to lead the public to believe that the goods or services offered by them are his goods or services;
and
- (iii) he has suffered or is likely to suffer damage as a result of other traders' misrepresentation.

The remedies available to the owner of an unregistered trade mark who succeeds in the passing off action includes injunction, damages or an account of profits.”.

(a) Unregistered trade mark is not protected by the action of passing off, nor the Trade Marks Ordinance and is not property to be “徵用” or “deprived” under Basic Law Article 105

(i) An unregistered trade mark is not a property protected by the action of passing off

In The Law of Passing-off, Unfair Competition by Misrepresentation by Christopher Wadlow, Third Edition, 2004, Wadlow is of the following views:

(a) Passing-off requires only that damage should be caused to

the goodwill of the claimant's business as a result of the defendant's misrepresentation. Since the right of property protected by the action for passing-off is the goodwill of the claimant's business as a whole, **passing-off does not directly protect marks, get-up or other signs and indicia¹, nor does it recognize them as forms of property in their own right.** There is no such thing as an action for infringement of a common-law trade mark.²

Goodwill is "a right of property in the business or goodwill in connection with which the mark was being used"³ **which the action is protecting, not any goodwill in the mark itself.**

"On the one hand, **apart from the laws as to trade marks, no one can claim monopoly rights in the use of a word or name.** On the other hand, no one is entitled by the use of any word or name, or indeed in any other way, to represent his goods as being the goods of another to that other's injury. If an injunction be granted restraining the use of a word or name, it is no doubt granted to protect property, but the property, to protect which it is granted, is not property in the word or name, but property in the trade or goodwill which will be injured by its use."⁴

- (ii) The right to bring an action for infringement of an unregistered trade mark is excluded by the Trade Marks Ordinance

Section 10(3) of the Trade Marks Ordinance provides that "No proceedings lie to prevent, or to recover damages for, the infringement of an unregistered trade mark".

- (iii) Goodwill of a business is not deprived by prohibition of use of unregistered trade mark

In *IRC v Muller & Co's Margarine Ltd* [1901] AC 217, goodwill has been described as:

¹ *Payton & Co v Snelling, Lampard & Co* (1899) 17 R.P.C. 48 affirmed [1901] A.C. 308, 17 R.P.C. 628; *Burberrys v J C Cording & Co Ltd* (1909) 26 R.P.C. 693.

² Trade Marks Act 1994, s.2(2); and see *Inter Lotto (UK) Ltd v Camelot Group plc* [2003] EWHC 1256; [2003] 3 All E.R. 191, (Laddie J.) affirmed [2003] EWCA Civ 1132, CA.

³ *per* Lord Diplock in *Star Industrial Co Ltd V Yap Kwee Kor* [1976] F.S.R. 256, 271, PC.

⁴ *per* Parker J. in *Burberrys v J C Cording & Co Ltd* (1909) 26 R.P.C. 693.

- “the attractive force which brings in custom. It is the one thing which distinguishes an old established business from a new business at its first start.’ (at 223, per Lord Macnaghten);
- ‘The term goodwill is nothing more than a summary of the rights accruing to the [purchasers] from their purchase of the business and property employed in it.’ (at 227 per Lord Davey); and
- ‘I understand the word to include whatever adds value to a business by reason of situation, name, and reputation, connection, introduction to old customers, and agreed absence from competition, or any of these things.’ (at 235 per Lord Lindley)”.

My view is that even if the owner of a business is prohibited from using his unregistered trade mark, the goodwill of his business is unlikely to be destroyed. The prohibition in section 10(3) is unlikely to be held as amount to ‘徵用’ or a ‘deprivation’ of property under Basic Law Article 105.

(b) Drafting of Schedule 5A does not reflect the policy intent

Even if the Administration has decided to exempt those persons who are entitled to take the action of passing off, the drafting of section 5 of Schedule 5A does not reflect the policy intent.

(i) Use of a trade mark in business is not equivalent to goodwill in business

Section 5(a) of Schedule 5A provides that a specified person who has begun to use his unregistered trade mark or trade name in good faith continuously in the course of retail sale of tobacco products in Hong Kong before the appointed day is to be exempted from section 10(3).

However, it seems that the drafting of section 5 of Schedule 5A will exempt persons who are not to be exempted under the policy mentioned in the Administration’s paper:

- The words “begun to use the trade mark or trade name”, “in good faith” and “use the trade mark or trade name continuously” are not defined.

- A person who “has begun to use the trade mark or trade name” and “has used the trade mark or trade name continuously before the appointed day” does not necessary mean that the person has goodwill in his business which entitles him to take the passing off action.
- Goodwill of a business is unrelated to whether a trade mark or trade name is used in good faith.

(ii) Uncertainty of the class of persons to be exempted under section 5 of Schedule 5A

As goodwill of a business may be extinguished, a person who at one time before the appointed day (“Day A”) is entitled to take the action of passing off to protect the goodwill of his business may not necessary mean that he is entitled to take the action of passing off at another time before the appointed day (“Day B”) if the goodwill of his business no long exists. This situation is not reflected in the drafting of section 5 of Schedule 5A.

(iii) Uncertainty of the status of the exempted person under section 5 of Schedule 5A

The new section 10(4) provides that section 10(3) does not apply to a person who is exempt from that subsection under Schedule 5A.

Section 2 of Schedule 5A provides that “For the purposes of section 10(4) of the Ordinance, a specified person who sells any cigarettes which have on their packet or retail container any proscribed term is exempt from section 10(3) of the Ordinance **if he proves that...**”.

Section 3 of Schedule 5A provides that “For the purposes of section 10(4) of the Ordinance, a specified person who sells any specified tobacco products which have on their retail container any proscribed term is exempt from section 10(3) of the Ordinance **if he proves that...**”.

Please clarify the mechanism under which a person is exempted from section 10(3). As sections 2 and 3 of Schedule 5A require the specified person to prove compliance of the requirements set out in the respective provisions, it appears that the burden of proof is on the specified person to prove that he is exempted from

section 10(3). So if a specified person regards himself as exempted from section 10(3), whether he should:

- proceed to use his trade mark on the packet or retail container of his products, namely, cigarettes or specified tobacco products and, when he is prosecuted for breach of section 10(3), raises the defence that he is exempted from section 10(3) by proving compliance of the requirements under Schedule 5A; or
- prove compliance of the requirements under Schedule 5A and is certain that he is exempted from section 10(3) before he uses his trade mark which contains the Prohibited Words on the packet or retail container of his products, namely, cigarettes or specified tobacco products.

(iv) Difficulty of proving compliance with the requirements under Schedule 5A

If a person is exempted from section 10(3) before the appointed day, he is entitled to use his unregistered trade mark at any time after the appointed day. So if the exempted person ceases to use his trade mark after the appointed day and uses his trade mark again many years after the appointed day, it may be very difficult for him to prove that he is exempted under Schedule 5A.

Well-known trade mark

Well-known trade mark has never been discussed before. The new CSAs propose to exempt the owner of a well-known trade mark from section 10(3) if he can prove compliance of the requirements set out in section 6 of Schedule 5A.

(a) Meaning of well-known trade mark

(i) Section 4(1) of the Trade Marks Ordinance provides that “references in Trade Marks Ordinance to a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark shall be construed as references to a trade mark which is well known in Hong Kong and which is the trade mark of a person who-

- (a) is a national of, or is domiciled or ordinarily resident in, a Paris Convention country or WTO member;
- (b) has a right of abode in Hong Kong; or
- (c) has a real and effective industrial or commercial

establishment in a Paris Convention country, WTO member or Hong Kong,

whether or not that person carries on business in Hong Kong or owns any goodwill in a business in Hong Kong.”.

(ii) Schedule 2 to the Trade Marks Ordinance provides that:

“(1) In determining for the purposes of section 4 (meaning of “well-known trade mark”) whether a trade mark is well known in Hong Kong, the Registrar or the court shall take into account any factors from which it may be inferred that the trade mark is well known in Hong Kong.

(2) In particular, the Registrar or the court shall consider any information submitted to the Registrar or the court from which it may be inferred that the trade mark is, or is not, well known in Hong Kong, including, but not limited to, information concerning the following –

- (a) the degree of knowledge or recognition of the trade mark in the relevant sectors of the public;
- (b) the duration, extent and geographical area of any use of the trade mark;
- (c) the duration, extent and geographical area of any promotion of the trade mark, including advertising or publicity and the presentation, at fairs or exhibitions, of the goods or services to which the trade mark applies;
- (d) the duration and geographical area of any registrations, or any applications for registration, of the trade mark, to the extent that they reflect use or recognition of the trade mark;
- (e) the record of successful enforcement of rights in the trade mark, in particular, the extent to which the trade mark has been recognized as a well-known trade mark by competent

authorities in foreign jurisdictions; and

- (f) the value associated with the trade mark.”.
- (iii) Section 3 further provides that the determination in each case will depend upon the particular circumstances of that case.
- (iv) It appears that it is uncertain whether a trade mark is a well-known trade mark unless determined by the Registrar or the Court.
- (b) Whether a well-known trade mark amounts to a property within the scope of Basic Law Article 105 and prohibition proposed in section 10(3) amounts to “徵用” or “deprivation” of a well-known trade mark
 - (i) While section 10 of the Trade Marks Ordinance expressly provides that a registered trade mark is property right, the status of a well-known trade mark is not mentioned in the Ordinance.
 - (ii) The rights of a well-known trade mark mentioned in the Trade Marks Ordinance are:
 - Opposition to application for registration of trade mark under the Trade Marks Ordinance under section 12(4) which provides that:

“Subject to subsection (6), a trade mark which is-

 - (a) identical or similar to an earlier trade mark; and
 - (b) proposed to be registered for goods or services which are not identical or similar to those for which the earlier trade mark is protected,

shall not be registered if, or to the extent that, the earlier trade mark is entitled to protection under the Paris Convention as a well-known trade mark and the use of the later trade mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or repute of the earlier trade mark.”.

- Infringement action under section 18(4)(b) of the Trade Marks Ordinance which provides that:

“A person infringes a registered trade mark if the trade mark is entitled to protection under the Paris Convention as a well-known trade mark.”.

- Injunction against infringement under section 63(1) of the Trade Marks Ordinance which provides that:

“Subject to section 59 (effect of acquiescence), the owner of a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark is entitled to restrain by injunction the use in Hong Kong of a trade mark which, or the essential part of which, is identical or similar to his trade mark, in relation to identical or similar goods or services, where such use is likely to cause confusion on the part of the public.”.

- (iii) However, the rights of a well-known trade mark is not absolute. It is subject to the following conditions:

- Section 63(2) of the Ordinance provides that the right of a well-known trade mark as provided in subsection (1) does not affect the continuation of any use in good faith of a trade mark which was begun before the commencement of this section.
- Article 6quinquies B (Protection of Marks Registered) of the Paris Convention provides that: “Trade marks 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...”

- (iv) Therefore, it is doubtful whether the rights of the owner a trade mark which has not been determined by the Court of the Registrar as a well-known trade mark amount to “property” to be protected under Basic Law Article 105 and the prohibition proposed under section 10(3) amounts to “徵用” or “deprivation” of property under Basic Law Article 105.

(c) Uncertainty of the class of persons to be exempted as owners of well-known trade marks

- (i) It is uncertain whether a trade mark is a well-known trade mark unless it is determined by the Court of the Registrar.
- (ii) A trade mark is well known in Hong Kong at one time before the appointed day (“Day A”) may not necessary mean that the trade mark is well known in Hong Kong at another time before the appointed day (“Day B”). This situation is not reflected in the drafting of Schedule 5A.

(d) Uncertainty of the status of an exempted well-known trade mark under Schedule 5A

Please clarify the mechanism under which a well-known trade mark is exempted from section 10(3). If a specified person regards himself as exempted from section 10(3) because he is the owner of a well-known trade mark, whether he should:

- (a) proceed to use his trade mark and, when he is prosecuted for breach of section 10(3), raises the defence that he is exempted from section 10(3) by proving compliance of the requirements under Schedule 5A; or
- (b) prove compliance of the requirements under Schedule 5A and is certain that he is exempted from section 10(3) before he uses his trade mark.

(e) Difficulty of proving compliance with the requirements under Schedule 5A

If a person is exempted from section 10(3) as owner of a well-known trade mark, he is entitled to use his trade mark at any time after the appointed day. So if the exempted person uses his well-known trade mark many years after the appointed day, it may be very difficult for him to prove that he is exempted under Schedule 5A.

It is appreciated that your reply in both Chinese and English could reach us as soon as possible.

Yours sincerely

(Monna LAI)
Assistant Legal Adviser