

Our Ref.: () in HWF CR 52/581/89

Tel: 2973 8111
Fax: 2840 0467
2869 4376

29 August 2006

Ms Monna LAI
Assistant Legal Adviser
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Fax: 2877 5029

Dear Ms Lai,

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

Thank you for your letter of 28 July 2006. Our response to questions raised therein is as follows:

Your view that the grandfathering exemption does not appear to comply with Hong Kong's obligation under TRIPS and that TRIPS only require MFN Treatment and National Treatment to apply to "like products" (pages 1 and 2 of your letter).

Our last letter of 26 July 2006 has cited the TRIPS provisions concerning National Treatment ("NT") and MFN Treatment (i.e. Articles 3 and 4 and the Notes to those articles) not for the purpose of illustrating a potential breach of the MFN and NT principles in Articles 3 and 4 of TRIPS if unregistered and well-known trade marks are not grandfathered, but for the purpose of answering the general question at paragraph (a)(i) on page 3 of your letter dated 18 July 2006, i.e. the "protection" required by TRIPS for intellectual property in general includes "matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property

rights as well as those matters affecting the use of intellectual property rights”.

Our last letter then went on to explain that according to Article 1(2) (nature and scope of obligations) of TRIPS, the HKSAR needs to give adequate protection to “all categories of intellectual property”, including trade marks and trade names, whether registered or not. If this Bill grandfathers existing registered trade marks only, it may be challenged as being inconsistent with TRIPS for providing inadequate protection to other categories of intellectual property.

The legal basis for the protection of different categories of intellectual property was set out on pages 3 and 4 of our previous letter dated 14 July 2006 and the relevant articles in TRIPS were quoted in the footnotes to that letter. To recap -

- (a) Under Article 1(1) of TRIPS, members shall give effect to the provisions of TRIPS.
- (b) Under Section 2 of TRIPS which relates to trade marks, 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.” A distinction is not made between trade marks and trade names in TRIPS. In any event, Article 8 (Trade Names) of the Paris Convention provides that: “A trade name shall be protected in all the countries of the Union without the obligation of filing or registration, whether or not it forms part of a trade mark.” In a WTO Dispute Settlement Case: United States-Section 211 Omnibus Appropriation Act of 1998, the Appellate Body finds that “WTO Members do have an obligation under the TRIPS Agreement to provide protection to trade names” (ref. WT/DS176/AB/R, para 273(g)).
- (c) Owners of well-known marks have specific rights. 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.”

- (d) Unregistered trade names (like unregistered trade marks) which embody the goodwill of businesses can be protected internationally under Article 10bis (Unfair Competition) of the Paris Convention, and domestically through the common law passing off action.
- (e) 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 the subject of Sections 1 through 7 of Part II:” The provisions on trademarks are contained in Section 2 of Part II. Article 15(2) of TRIPS permits Members to deny trademark registration on grounds other than those expressly provided for in TRIPS and in the Paris Convention. Denial of registration on “other grounds” would derogate from the Paris Convention only if the denial was on grounds that are inconsistent with the provisions of that Convention (ref. Appellate Body Report on US – Section 211 Appropriation Act, paras. 171, 177 and 178).

Your view that TRIPS do not require the grandfathering arrangement relating to registered trade marks to be extended to unregistered trade marks and well-known trade marks as they are not “like products”.

Broadly speaking, we agree with your understanding of the basic WTO principles of MFN and NT, i.e. with respect to MFN, all other WTO Members should be treated equally; with respect to NT, other WTO Members should be treated no less favourably than ourselves (i.e. HKC). However, as the document “Understanding the WTO” explains, “in each agreement” (i.e. the GATT, the GATS and TRIPS), the principle[s] [are] handled slightly differently” – see “Basics – Principles of the WTO”. In the case of the GATT, there is a reference to no less favourable treatment of “like products” (see Articles I(1) and III(4) of the GATT). However, in the case of TRIPS, the relevant provisions (Articles 3 and 4) refer to no less favourable treatment “with regard to the protection of intellectual property”. That said, as explained above, our main concern with TRIPS is not with respect to breaches of the MFN and NT obligations.

Your observation that the WTO document expressly states that “National Treatment only applies once a product, service or item of intellectual property has entered the market.” and that TRIPS do not require the grandfathering arrangement relating to local registered trade mark be extended to well-known trade mark (1st paragraph on page 3 of your letter).

By this observation we understand that it is your view that as an unregistered and well-known trade mark has not entered the local market, it may not be necessary to grandfather such well-known trade marks under TRIPS. Leaving aside the MFN and NT obligations, which are not our main focus here, as explained above, the HKSAR needs to observe its international obligations to give adequate protection to “all categories of intellectual property” under TRIPS and the Paris Convention. On the one hand, TRIPS does not refer to unregistered and well-known marks that have “entered into the market” as such. On the other hand, TRIPS (Article 2.1) deals with well-known marks [by requiring] Article 6bis of the Paris Convention to be complied with. Article 6bis is to extend protection to a trade mark that is well-known in a member country even though it is not registered or used in that country (see para. 5.82 of WIPO Intellectual Property Handbook.) Having taken into account the provisions of the Paris Convention in relation to the protection of well-known marks, WIPO issued a Joint Recommendation Concerning Provisions on the Protection of Well-known Marks in 2000 as guidelines for the protection for well-known marks. In Article 2(3)(a)(i) of Part I of the Joint Recommendation, it expressly provides that a member state shall not require, as a condition for determining whether a mark is a well-known mark, that the mark has been used in, or that the mark has been registered in the member.

Exceptions to TRIPS and Paris Convention (paragraphs (a) to (c) and the last paragraph on page 3 of your letter)

Our statement that “[T]here is no precise provision in TRIPS that deals expressly with trade marks containing the proscribed words” was merely intended to state the fact that there are no provisions in TRIPS which specifically relate to the use of the particular words like “mild” and “light” etc.

You have quoted several provisions in TRIPS and the Paris Convention which you consider as entitling parties to these treaties not to protect trade marks that are “liable to mislead or deceive the public”. Our views on those provisions are as follows.

- (a) Although Article 6^{quinquies} B.3 of the Paris Convention (not Article 6^{septies} B) permits the denial or invalidation of marks that are “of such a nature as to deceive the public”, such denial or invalidation of the mark has to be justified on the basis that the marks are actually of such a nature as to deceive the public. Clause 11 of the original Bill cannot be justified as such because it will make the use of certain specified words on tobacco product packages automatically an offence without the need to prove whether those words will actually deceive the public.
- (b) Article 10^{bis} of the Paris Convention relates to the members’ obligation to accord effective protection against unfair competition. Article 10^{bis}(3)3 is targeted only at indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quality, of the goods. Clause 11 of the original Bill cannot be justified under this Article because it will make the use of certain specified words on tobacco product packages automatically an offence without the need to prove whether those words will actually mislead the public.
- (c) Under Article 17 of TRIPS, only limited exemptions created to enable fair use of trade marks by third parties would be permitted. A general legal prohibition of the use of certain trade marks as proposed by the original Bill that has not taken sufficient account of the legitimate interests of both the owners of the marks and of the third parties is not likely to fall within the limited exceptions.

Furthermore, Article XX of the GATT concerns obligations under the GATT, and would not directly apply to obligations under TRIPS. We also believe that the notation approach under the proposed grandfathering arrangement would be able to minimise the possibility of the proscribed words being “liable to mislead or deceive the public”.

Your view that the proposed grandfathering arrangement is in breach of HKSAR’s obligations under TRIPS (paragraphs (a), (b) and (c) on page 4 of your letter)

In paragraph (a), you ask why trade marks containing the “proscribed words” will be exempted “but not other trade marks which are also likely to mislead or deceive the public (trade marks which imply or suggest that those products are less harmful than other tobacco products)”. According to paragraph (b) of the definition of “proscribed term” in section 1 of the proposed Schedule 5A, “proscribed term” also means other words which imply or suggest that any tobacco products are less harmful than others.

Therefore, trade marks which contain other words which imply or suggest that the relevant products are less harmful than other tobacco products may also be exempted on compliance with all the applicable conditions in the proposed Schedule 5A.

In paragraph (b), you ask why unregistered trade marks and well-known trade marks used or well-known before the Appointed Date will be exempted “but not the new comers”. The spirit of the grandfathering provisions is to protect, without any discrimination, all intellectual property that has been accorded protection under TRIPS prior to the enactment of the Bill including existing registered trade marks, unregistered trade marks and trade names in use, and trade marks “well-known” in Hong Kong before the appointed day.

In paragraph (c), you ask why the policy does not amount to a “means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade”. As explained above, our main concern with TRIPS is not with respect to breaches of the MFN and NT obligations in Articles 3 and 4 of TRIPS. That said, the proposed Schedule 5A applies to registered trade marks, unregistered trade marks, trade names and well-known marks used on tobacco products regardless of the origin of the tobacco products or the intellectual property rights, or the nationality of the relevant intellectual property owners. We consider that the proposed arrangement is consistent with MFN and NT principles. The arrangement does not amount to a means of arbitrary or unjustifiable discrimination between countries, nor a disguised restriction on international trade.

Your view that use of a trade mark in tobacco advertisement is NOT a protection to be afforded by the Trade Marks Ordinance (Cap. 559) (“TMO”) nor the Paris Convention (2nd heading on page 4 of your letter).

Your letter dated 18 July 2006 asks us to note your focus on “to attract customers’ attention to the product” instead of on advertisement. It therefore appears to us that your emphasis is on whether using a trade mark generally in advertising to attract customers’ attention is a protection afforded by the TMO and the Paris Convention. As also noted on pages 6 and 8 of your letter dated 6 June 2006, the use of a trade mark includes the use in advertising under section 18 (infringement of registered trade mark) of the TMO.

Regarding the use of a trade mark specifically for tobacco advertising, the wider Basic Law issue is the impact on the property rights of trademark owners arising from the cumulative restrictions on advertising and use of the relevant trademarks under existing laws and the Bill (if passed without

amendment to Clause 11). The core function of a trademark that can be derived from its definition is to distinguish the goods and services of one undertaking from other undertakings. The infringement provision in section 18 of the TMO is a reflection of this core function. In particular, under section 18(5) of the TMO, the "use of a sign" relevant for the purposes of infringement includes applying the sign to goods or their packaging, putting goods on the market under the sign, using the sign in advertising (section 18(5)(a), (c) and (g)). The reference to attracting customers' attention to the product in the Administration's earlier papers and comments should therefore be understood in the light of the above core function of a trademark, i.e. identifying the relevant brand to customers and distinguishing it from other brands.

Given the extensive restrictions on tobacco advertising (existing and proposed), an absolute ban on the use of the such words as "mild", "light" etc in registered trade marks would arguably leave no meaningful alternative use of such marks from the property right angle. As pointed out in the Administration's earlier papers and comments in June 2006, for almost all practical purposes, the relevant trademarks cannot be made visible to potential customers for the purpose of identifying the brand and distinguishing it from other brands. This would substantially undermine the core function of a trademark.

Principle of Proportionality

According to the second last paragraph on page 5 of your letter, we note your point that you have never applied the 'principle of proportionality' in your analysis of property right protection under Basic Law Article 105.

You have (in the same paragraph at page 5 of your letter) indicated that you have no comment on the Administration's view that "the European version of the proportionality test cannot be assumed to be applicable to the rule requiring compensation for lawful deprivation under BL 105". We wish to reiterate our view that the ECJ approach to the principle of proportionality cannot be assumed to be applicable in the present matter. It follows that the serious risk of successful legal challenge the Administration has identified under BL 105 in respect of relevant registered trademarks would remain to be addressed under the absolute ban provision in Clause 11 of the Bill. The Administration's proposed grandfathering provision is one of the ways to address this serious risk.

We look forward to receiving a copy of the Chinese version of your letter of 28 July 2006 for our record.

Yours sincerely,

(Ms Julina Chan)
for Secretary for Health, Welfare and Food