Bills Committee on
Smoking (Public Health) (Amendment) Bill 2005

Administration's response to Members' views on
LC Paper No. CB(2)901/05-06(03) discussed at
the Bills Committee meeting on 27 February 2006

PURPOSE

This paper provides justifications as to why further provisions have to be introduced in relation to Clause 11 of the Amendment Bill.

BACKGROUND

2. The Bills Committee discussed LC Paper No. CB(2)901/05-06(03) at its meeting on 27 February 2006. The Administration proposed the approach of grandfathering the existing use of registered trade marks and trade marks already in use that contain the words "light", "lights", "mild", "milds", "low tar" or other words that may have misleading effects on any package of cigarettes, and prohibiting the future use of trade marks with any of these words. Members of the Bills Committee would like to know the legal advice leading to this decision.

ADMINISTRATION'S RESPONSE

3. According to the legal advice we have obtained, there could be revocation where a mark had not been genuinely used for a continuous period of at least 3 years. The fact that the proposed legislative amendments would result in a permanent prohibition under which use of the mark could never be resumed will likely be taken into account by the court and made it more likely for an application for revocation to succeed.

4. Under section 10(1) of the Trade Marks Ordinance (Cap. 559), a registered trade mark is a property right obtained by the registration of the trade mark under the Ordinance. The owner of a registered trade mark has the rights and is entitled to the remedies provided by the Ordinance.

5. The following two articles of the Basic Law are relevant in this discussion –

Article 6
The Hong Kong Special Administrative Region shall protect the right of private ownership of property in accordance with law.

Article 105
The Hong Kong Special Administrative Region shall, in accordance with law, protect the right of individuals and legal persons to the acquisition, use, disposal and inheritance of property and their right to compensation for lawful deprivation of their property.
Such compensation shall correspond to the real value of the property concerned at the time and shall be freely convertible and paid without undue delay.
The ownership of enterprises and the investments from outside the Region shall be protected by law.

6. In the light of the above constitutional protection of property rights, it is necessary to consider whether there is any deprivation (and de facto deprivation) arising from the proposed offence. Even if there is no deprivation, it would also be prudent to consider whether a fair balance would be struck between the overriding interest in protecting public health and the property right of the relevant trade marks owner, should local court adopt the 'fair balance' test developed under European jurisprudence.

7. In the present case, the critical issue is whether clause 11 of the Bill would cause de facto deprivation of the tobacco brands which are registered trade marks by restricting the use of the words such as "mild", "light" "lights" and so on. According to the review of Hong Kong, European and American jurisprudence on the issue of de facto deprivation,[1] a de facto deprivation exists if the property affected is left without any meaningful alternative use or if the restrictions have denied all economically viable use of the property.

8. A key question in the case of those registered trade marks would be whether clause 11 of the Bill would cause de facto deprivation of these trade

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[1] See paper attached at **Annex I** on the doctrine of de facto deprivation. In Canada, there is no constitutional obligation to offer compensation for an expropriation and economic rights are not protected under the Canadian Charter of Rights and Freedom, see *J.T.I. MacDonald Corporation v The Attorney General of Canada and the Canadian Cancer Society* (Superior Court of Quebec, Case No. : 500-05-031299-975, 13 December 2002) para 451-456 (citing, inter alia, Hogg, Constitutional Law of Canada (4th ed) at 713). The European Court of Justice has decided on the effect of Article 7 of the Directive 2001/37/EC of the European Parliament and of the Council of 5 June 2001 (which is similar to Article 11(a) of the WHO Framework Convention on Tobacco Control) in the case of *R v Secretary of State for Health, ex parte British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd (Japan Tobacco Inc. and JT International SA)* [2003] 1 CMLR 14. Comments of the Administration on this case are set out in **Annex II**.

mark by bringing about the result that the trade mark is left without any meaningful alternative use or if the restrictions have denied all economically viable use of the trade mark. The possibility of revocation under the Trade Marks Ordinance is a relevant consideration here.

9. In addition, since clause 11 of the Bill has the effect of making the use of the prohibited trade mark a criminal offence, there would be an arguable case by the owner of the trade mark of de facto deprivation if it could prove that clause 11 would have the effect of leaving its trade mark in relation to tobacco products without any meaningful alternative use or denying all economically viable use of the trade mark.

10. Moreover, should local courts apply the 'fair balance' test (developed under European jurisprudence) in the application of the property right guarantee in BL 105, there would also be the argument that the proposed offence would be an 'excessive burden' on the owner of the trade mark notwithstanding (a) the legitimate interest in protecting public health and (b) the wide margin of discretion that may be enjoyed by the legislature on property right issues under the fair balance test.

11. It is further noted that apart from trade marks that are registered under the Trade Marks Ordinance, there are other trade marks of tobacco products that are on sale in Hong Kong but for different reasons, have not been registered under the Ordinance. 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.

12. In view of the complexity of the legal issues involved as elucidated above, we are mindful of the risk that litigation may follow if Clause 11 is passed in the present form. This will undoubtedly impede the implementation of the relevant provisions. On balance, we believe that it is in the public interest to find an alternative means to satisfy the intended policy goal.

FOLLOW UP ACTIONS

13. The Bills Committee is invited to note the Administration's response. We will prepare the appropriate Committee Stage Amendment (CSA) relating to Clause 11 and will revert to this Committee in due course.

Health, Welfare and Food Bureau
April 2006

Annex I

Comparative Jurisprudence on the doctrine of De Facto Deprivation

This note sets out a review of the Hong Kong, European and American jurisprudence on the issue of de facto deprivation.

Local Jurisprudence

2. In *Kowloon Poultry Laan Merchants Association v Director of Agriculture Fisheries and Conservation* [2002]4 HKC 277, the appellants were prohibited by new subsidiary legislation to sell water birds in their rented stalls. The Court of Appeal held that this was not deprivation but rather control of use of land. The following observations made by the European Commission in the case of *Baner v Sweden* (App No.11763/1985, 60 DR 128) were cited with approval (at para 17):

> "As regards the question whether the applicant has been deprived of property, the Commission recalls that, according to the established case-law, deprivation of property within the meaning of Article 1 of Protocol No.1 is not limited to cases where property is formally expropriated, i.e. where there is a transfer of the title to the property. 'Deprivation' may also exist where the measure complained of affects the substance of the property to such a degree that there has been a de facto expropriation or where the measure complained of 'can be assimilated to a deprivation of possessions' (cf. Eur. Court H.R., Sporrong and Lonnroth judgment of 23 September 1982, Series A no.52 p. 24 para 63).
>
> It is clear that the applicant has not been formally deprived of his property. He still retains the title to it. The applicant has also not been deprived of his right to fish, including the right to fish with hand-held tackle. What he has lost is his right to exclude others from fishing with hand-held tackle.
>
> Legislation of a general character affecting and redefining the rights of property owners cannot normally be assimilated to expropriation even if some aspect of the property right is thereby interfered with or even taken

away. There are many examples in the Contracting States that the right to property is redefined as a result of legislative acts....."

3. The Court of Appeal, at para 18, further held:

"... If the appellant be correct in the view that they have taken, then it follows that future legislative restrictions on land use, such as planning control and zoning, can amount to 'deprivation of property' and would have to be compensated for under art 105. That cannot be correct and underlines the fallacy of the argument presented by the appellants."

4. In *Kaisilk Development Ltd v Urban Renewal Authority* [2004] 1 HKLRD 907, the Court of Appeal considered again the effect of restrictions imposed by general regulatory laws on the use of property. The case concerned the now repealed Land Development Corporation Ordinance under which the Land Development Corporation ("LDC") could prepare development scheme for approval by the Town Planning Board and request the Secretary for Planning, Environment and Lands to make a recommendation that land be resumed if the LDC was unable to acquire the land which was subject to the urban renewal project.

5. The plaintiff there argued that it was deprived of the right to use and dispose of its property by the "blighting effect" of the LDC scheme approved by the Town Planning Board in 1995 by reason of which it could no longer develop, mortgage or sell the property under the threat of resumption. The plaintiff sought to argue that BL105 supported its claim that the blighting effect of the LDC's development scheme on its property assisted in creating a cause of action against LDC for breach of statutory duty. The Court of Appeal rejected this argument.

6. The Court of Appeal (para 33 at 920I) referred to the following opinion of Lord Hoffmann in the Privy Council case of *Grape Bay Ltd v Attorney-General of Bermuda* [2000] 1 WLR 574 at 583C:

"It is well settled that restrictions on the use of property imposed in the public interest by general regulatory laws do not constitute a deprivation of that property for which compensation should be paid. The best example is planning control....."

7. The Court of Appeal (para 40 at 922D) further held that:

> "There is then the fact that the so-called blight amounts at the most to a restriction: it does not amount to an acquisition by the defendant of the plaintiff is property. The plaintiff's property is acquired on resumption....."

8. Although the doctrine of de facto deprivation was alluded to in the *Kowloon Poultry* case, neither of the above two cases adopts and applies the doctrine in the relevant decisions. Instead, they have found that restrictions on the use of property by general regulatory laws do not constitute a deprivation. However, in *Fine Tower Associates Ltd v Town Planning Board* HCAL 5/2004, the CFI, for the first time in local jurisprudence, has recognized that restrictions imposed by a draft OZP is capable in law of constituting a de facto deprivation of property (para 56).

9. In that case, Hartmann J, after citing the statement by Lord Hoffmann in the case of *Grape Bay Limited v Attorney General of Bermuda* [2001] 1 WLR 574, held (at para 52) that whether there has been a deprivation of property is a matter of substance not a matter of formality. He also pointed out that this principle was expressed in the European Commission of Human Rights's judgment in *Baner v Sweden* (see para 2 above). He further held (at para 53) that whether the restrictions in each case do or do not amount to a deprivation of property is a matter of degree. Although the CFI does not set out in very clear terms what the threshold is before the doctrine of de facto deprivation can be invoked, Hartmann J (at para 54) has made the following comments,

> "If measures restricting the use and enjoyment of property **go too far** that will be recognised under long-enshrined common law principles as constituting a taking; that is, a deprivation, in respect of which compensation must be paid." (emphasis added)

10. He then referred to the leading US case of *Pennsylvania Coal Co v Mahon* 260 US 393 (1922) and concluded that "the question depends on the particular facts".

11. By referring to the Privy Council's decision in *Grape Bay Limited*, the European Commission's decision in *Baner v Sweden* as well as the US Supreme Court's decision in *Pennsylvania Coal Co*, the test for de facto deprivation would involve consideration of the following –

(a) whether as a matter of substance (rather than formality), there is any deprivation of property;

(b) whether the measures complained of affects the substance of the property to such a degree that there is a de facto deprivation; and

(c) whether the measures restricting the use and enjoyment of property go too far, having regard to the extent of the diminution.

12. It appears that the threshold for finding de facto deprivation should be very high.

13. It would be useful to refer to overseas jurisprudence in this area in the light of the comparative jurisprudence relied on by Hartmann J.

European Jurisprudence – doctrine of de facto deprivation

14. Article 1 of the First Protocol of the European Convention of Human Rights provides for the protection of property right in the following terms:

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

15. The most obvious example of a "deprivation" of property within the meaning of Article 1 of the First Protocol is expropriation by the state. In certain circumstances, the loss of "rights", or a substantial part of rights over property that falls short of expropriation, may nevertheless amount to a deprivation. (see Simor & Emmerson (eds), *Human Rights Practice* (2005) para 15.021)

16. The Court will look at the reality of the situation, rather than at the legal

formalities. In *Sporrong and Lönnorth v Sweden* (1982) 5 EHRR 35, the Court held that :

> "In the absence of a formal expropriation, that is to say a transfer of ownership, the Court considers that it must look behind the appearance and investigate the realities of the situation complained of. Since the Convention is intended to guarantee rights that are 'practical and effective', it has to be ascertained whether that situation amounted to a *de facto* expropriation, as was argued by the applicants."

17. Under the European jurisprudence, the concept of "deprivation" thus includes measures which can be equated with a deprivation of possessions or which detract from the substance of ownership to such an extent that they are equivalent to expropriation. One of the issues in *Sporrong and Lönnorth v Sweden* was whether expropriation permits and building restrictions in force for considerable periods had interfered with the applicants' enjoyment of their land to such an extent that they amounted to a *de facto* deprivation of property. The Court considered that they had not, since, although the restrictions had made it more difficult for the applicants to sell their property, the possibility still remained, and they were in any event still able to use the property in question.

18. In the following cases, no de facto deprivation was found by the European Court of Human Rights. In *Pine Valley Development Ltd v Ireland* (1991) 14 EHRR 319, the applicants from Ireland purchased a plot of land relying on an existing grant of outline planning permission for industrial development. The planning permission was later invalidated as having been ultra vires and void *ad initio* by the Irish Supreme Court. The applicants argued that the Irish Supreme Court's decision holding the outline planning permission to be invalid, the State's alleged failure to validate that permission retrospectively or its failure to compensate for the reduction in value of their property infringed their property rights under Article I of the First Protocol of the European Convention.

19. The European Court of Human Rights held (at para 56) that there was no formal expropriation of property or de facto deprivation. The impugned measure was basically designed to ensure that the land was used in conformity with the relevant planning laws and title remained vested in the applicants, whose powers to take decisions concerning the property were unaffected. The land was not left **without any meaningful alternative** use, for it could have been farmed or leased. Finally, although the value of the site was substantially reduced, it was not

rendered worthless, as is evidenced by the fact that it was subsequently sold in the open market. The European Court also held that interference in this case must be considered as a control of use of property.

20. In *Matos e Silva, Lda and Others v Portugal* (1996) 24 EHRR 573, the applicant owned a piece of land which was affected by the creation of a nature reserve. The applicant challenged measures taken by the Portuguese Government affecting the land. Those measures included restrictions on development of farming, fish-farming and salt production as well as a ban on building and easements. The applicant submitted that the effect of the measures had resulted in a de facto expropriation of their possessions and that it was impossible to sell the land because potential purchasers would be deterred by the legal position.

21. In the opinion of the European Court (at para 85), there was no formal or de facto expropriation in the present case. The effects of the measures were not such that they could be equated with deprivation of possessions. The restrictions on the right to property stemmed from the reduced ability to dispose of the property and from the damage sustained by reason of the fact that expropriation was contemplated. **Although the rights in question had lost some of its substance, it had not disappeared** and the situation is not irreversible. The European Court noted, for example, that all reasonable manner of exploiting the property had not disappeared, seeing that the applicant continued to work the land.

22. In *Elia Srl v Italy* (2003) 36 EHRR 9, the applicant owned a plot of land for which the commune of Pomezia had approved plans for building to be carried out. Later, the Pomezia Municipal Authorities resolved to adopt a master development and town planning scheme, earmarking the applicant's land for the creation of a public park. Restrictions on building were subsequently imposed on the land. The applicant claimed that it was the victim of a de facto expropriation due to the combined effect of the prohibitions on construction for the purpose of expropriation of the land, which reduced the value thereof and the opportunity of using it to zero.

23. The European Court held (at para 56) that there was no formal or de facto deprivation or expropriation. All the effects complained of by the applicant stemmed from the reduction of the possibility of disposing of the property concerned. Those effects were occasioned by limitations imposed on the right of property and from the consequences of those limitations on the value of the premises. However, **although the right in question lost some of its substance,**

it did not disappear. The effects of the measures involved were not such that they could be assimilated to a deprivation of possessions. The Court observed that the applicant neither lost access to the land nor control over it and that in principle, although it became more difficult to sell the land, the possibility of selling subsisted.

24. The above three cases may be contrasted with the following example of de facto deprivation. In *Papamichalopoulos v Greece* (1993) 16 EHRR 440, the applicants owned a piece of land in Greece, which was transferred to the Navy Fund during the dictatorship established in 1967. After democracy had been restored, the authorities recognized the Applicants as the land owners and proposed an exchange scheme for that piece of land. Nevertheless, no suitable land was ever nominated for the exchange. The applicants could not restore their land and were not awarded any compensation. Since the applicants were unable either to make use of their property or to sell, bequeath, mortgage or make a gift of it and they were even refused to access to it, the European Court held (at para 45) that the loss of all ability to dispose of the land in issue, taken together with the failure of the attempts made so far to remedy the situation complained of, entailed sufficiently serious consequences for the applicants de facto to have expropriated in a manner incompatible with their right to the peaceful enjoyment of their possessions.

American Jurisprudence – doctrine of regulatory takings

25. Under the U.S. Constitution, protection of property right is provided for under the Fifth Amendment and the Fourteenth Amendment. The Fifth Amendment provides that "..... nor shall private property be taken for public use, without just compensation." Under the Fourteenth Amendment, it is provided that "..... nor shall any State deprive any person of life, liberty, or property, without due process of law ..... ."

26. Traditionally, US courts limited "taking" to situations where the government expropriated property or physically occupied it. However, the landmark case of *Pennsylvania Coal Co v Mahon* 260 US 393 (1922) (cited by Hartmann J in *Fine Tower Associated Ltd v Town Planning Board* (see para 54)) introduced the doctrine of regulatory takings (similar to the notion of de facto deprivation under European jurisprudence). The current rule on regulatory

takings, however, was laid down by the Supreme Court in *Penn Central Transportation Co. v City of New York* 438 US 104 (1978) (cited by the Court of Appeal in *Kaisilk Development Ltd v Urban Renewal Authority,* at 921 E-J).

27. In *Pennsylvania Coal Co. v Mahon*, Pennsylvania Coal Co. executed in 1878 a deed conveying rights in the surface of a parcel of land. By the terms of the deed, the company had the right to mine under the surface and the grantee assumed all the risk of subsidence caused by the mining. In 1921, the Pennsylvania legislature enacted the Kohler Act, which prohibited mining in a way that would cause the subsidence of a structure used for human habitation. The grantee of the deed attempted to use this new Act to restrict Pennsylvania Coal from mining under their surface land. The US Supreme Court held that the Act was unconstitutional. Justice Holmes opined that the regulation of property would be recognized as a taking **if it went too far**. He concluded that the Pennsylvania Act was a taking because it made it **commercially impracticable** to mine certain coal.

28. In *Penn Central Transportation Company v City of New York*, the New York City adopted a Landmarks Preservation Law in 1965. By the time the case reached the Supreme Court, 31 historic districts and over 400 individual landmarks had been designated including the petitioner's property, the Grand Central Terminal. Penn Central challenged the denial of its application for permission to construct an office building atop the Terminal. The question presented to the Supreme Court was whether the application of New York City's Landmarks Preservation Law to the parcel of land occupied by the Grand Central Terminal had taken the petitioner's property in violation of the Fifth and Fourteenth Amendments to the US Constitution. The Supreme Court found that the application of New York's Landmarks Preservation Law was not a taking. It emphasized that the Law **did not deny the owners all profitable use of the building** and **had not even precluded all development of the air rights above the building**. It also found that designating the building as a historic landmark had the effect only of decreasing the value of the property and the loss could be mitigated if the petitioner sold its transferable development rights.

29. *Penn Central* may be contrasted with *Lucas v South Carolina Coastal Council* 505 US 1003 (1992). In the *Lucas* case, the South Carolina Legislature enacted in 1988 the Breachfront Management Act which barred Lucas from building any permanent habitable structures on his land. According to the state trial court, the Act had the effect of making his land valueless. The Supreme

Court of South Carolina found Lucas' planned building to be public nuisance and ruled that the State's police power allowed the government to stop him without paying compensation. The US Supreme Court disagreed and found that a regulation that prohibited **all economically beneficial or productive use of land** to be a taking per se.

30. It thus is clear that, at the very least, there is not a regulatory taking when the government's action leaves **reasonable economically viable use** of the property. (see Chemerinsky, *Constitutional Law : Principles and Policies* (2nd Ed, 2002) p 624) A number of US Supreme Court decisions in the area of planning control are particularly relevant. In *Euclid v Amber Realty Co.* 272 US 365 (1926), a tract of vacant land was zoned for industrial uses and had a market value of about $10,000 per acre. The land was rezoned so that it could be used only for residential purposes, and its value was reduced to about $2,500 an acre. The Supreme Court rejected a due process challenge to the revised zoning ordinance. In *Goldblatt v Town of Hempstead* 369 US 590 (1962), a city's zoning ordinance prevented further excavation of a stone and gravel quarry that had been in operation for over 30 years. The Supreme Court rejected the takings claim because there was no evidence which even remotely suggested that prohibition of further development would reduce the value of the lot in question. The fact that the ordinance deprived the property of its **most beneficial use** did not render it unconstitutional.

31. In *Agins v Tiburon* 447 US 255 (1980), the Supreme Court rejected a takings clause challenge to a zoning ordinance that required that property be used for single family homes rather than multiple family dwellings. Whereas previously the owners might have constructed apartment or condominium buildings, the City of Tiburon adopted a zoning ordinance limiting construction to single family homes. The effect of the ordinance was to substantially reduce the value of the property. But the Supreme Court concluded that there was not a taking because the owner still had **reasonable economically viable use** of the property.

32. In *Palazzolo v Rhode Island* 533 US 606 (2001), Palazzolo formed a company to purchase and develop coastal property in Rhode Island. After several proposals for development were rejected by the state, the corporation stopped functioning and ultimately was dissolved under the state's law. Palazzolo was deemed the owner under the terms of this law. Subsequently, he presented additional proposals for development, which were denied by the Coastal

Commission. He sued claiming a taking because the government was preventing all development of his property. The Supreme Court found that there was not a taking when environmental protection laws prevented development of property **because some economically viable use remained**. Although coastal protection laws prevented most development of the property, the owner was still allowed to build a residence on an 18-acre parcel worth about $200,000. This was enough to preclude a finding of a regulatory taking even though far more valuable developments were prevented.

Summary

33. It can be seen from the cases discussed above that the European Court of Human Rights has, since the case of *Pine Valley Developments Ltd*, adopted a high threshold in considering whether a de facto deprivation exists for the purpose of Article 1 of Protocol No.1 of the European Convention of Human Rights. The European Court has been very cautious about accepting that a de facto deprivation has been established. It is clear that the European Court would find a de facto deprivation if the property is left without any meaningful alternative use[1] (see para 19 above). However, if the right in question has only lost some of its substance, but has not disappeared, there will not be any de facto deprivation. The European Court would take into account whether all reasonable manner of exploiting the property has disappeared or whether any possibility of selling the property still subsists. (see para. 21 and 23 above)

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[1] In *Pine Valley Developments Ltd*, the European Court also considered (at para 56) that, although the value of the site was substantially reduced, it was not rendered worthless, as is evidenced by the fact that it was subsequently sold in the open market. This aspect of the case is noted in Leigh-Ann Mulcahy, *Human Rights and Civil Practice* (2001) para 16.72. However, this aspect of the case, i.e. whether the property in question was rendered worthless, has not been further developed in the subsequent cases such as *Matos e Silva, Lda and Others v Portugal* and *Elia Srl v Italy*. It would be prudent to wait and see how this aspect of *Pine Valley Developments Ltd* would be developed in later decisions of the European Court before this aspect of the case be relied on as a separate ground for deciding whether there is de facto deprivation.

[2] In *Pine Valley Developments Ltd*, the European Court also considered (at para 56) that, although the value of the site was substantially reduced, it was not rendered worthless, as is evidenced by the fact that it was subsequently sold in the open market. This aspect of the case is noted in Leigh-Ann Mulcahy, *Human Rights and Civil Practice* (2001) para 16.72. However, this aspect of the case, i.e. whether the property in question was rendered

34. As regards the position in the U.S., since the US Supreme Court decision in *Penn Central Transportation Co.*, it seems very difficult, in particular in the area of planning control, to persuade the Supreme Court that restrictions on use of property constitute a taking (a notion similar to deprivation) unless the restrictions have denied all economically viable use of property, as was the situation in *Lucas v South Carolina Coastal Council* (see para 29 above). There would not be a taking if the owner still has reasonable economically viable use of the property (see para 31 and 32 above).

35. In the absence of authoritative local jurisprudence on the question of de facto deprivation, it is very likely that Hong Kong courts would give due regard to the jurisprudence developed by the European Court of Human Rights and the US Supreme Court in the light of the CFI's comparative approach in the case of *Fine Tower Associates Ltd.* Hong Kong courts would likely refuse to find that a de facto deprivation exists unless the property affected is left without any meaningful alternative use or the restrictions have denied all economically viable use of the property.

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worthless, has not been further developed in the subsequent cases such as *Matos e Silva, Lda and Others v Portugal* and *Elia Srl v Italy*. It would be prudent to wait and see how this aspect of *Pine Valley Developments Ltd* would be developed in later decisions of the European Court before this aspect of the case be relied on as a separate ground for deciding whether there is de facto deprivation.

Comments of the Administration on the Judgment of the European Court of Justice in the Case of *R v Secretary of State for Health ex parte British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd (Japan Tobacco Inc. and JT International SA)*

In *R v Secretary of State for Health, ex parte British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd (Japan Tobacco Inc. and JT International SA)* [2003] 1 CMLR 14, the European Court of Justice ("ECJ") decided that Article 7 of the Directive 2001/37/EC of the European Parliament and the Council of 5 June 2001 ("EU Directive") did not infringe the right to property which formed part of the general principles of the European Community Law. This note explains why the ECJ judgment is distinguishable and therefore does not provide a direct bearing on the issue of property right under BL 105 as discussed in the main paper. To summarize, firstly, that case was not decided on the basis that Article 7 of the EU Directive did not cause a deprivation of the property rights of the owners of relevant trade marks and, secondly, clause 11 of the Bill carries a much greater risk of property right challenge under the doctrine of de facto deprivation (when compared with Article 7) given that it imposes an absolute ban on the use of such term as "mild".

2. Article 7 of the EU Directive provides that with effect from 30 September 2003, texts, names, trade marks and figurative or other signs suggesting that a particular tobacco product is less harmful than others shall not be used on the packaging of tobacco products. The applicant tobacco companies, British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd, sought judicial review before the English High Court of the intention and/or obligation of the UK to transpose the EU Directive into national law. The English High Court then referred to the ECJ for a preliminary ruling several questions on the validity of the EU Directive. It asked, inter alia, whether the EU Directive was invalid in whole or in part by reason of infringement of Article 295 of the Treaty Establishing the European Community (EU Treaty),[1] the fundamental right to property.

3. In its submission, Japan Tobacco argued that Article 7 of the EU Directive prohibited it from exercising its intellectual property rights by preventing it from using its trade mark "Mild Seven" in the European Community and by depriving it of the economic benefit of its exclusive licences for that trade mark. Such a result entailed infringement of the fundamental right to property, which is recognised to be a fundamental human right in the community legal order, protected by the first subparagraph of Article 1 of the First Protocol to the

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[1] Article 295 provides that "[t]his Treaty shall in no way prejudice the rules in member states governing the system of property ownership."

European Convention on Human Rights ("ECHR") and enshrined in Article 17 of the Charter of the Fundamental Rights of the European Union. In this connection, the Greek and Luxemburg Governments also submitted that Article 7 interfered with the intellectual property rights of the manufacturers of tobacco products and caused damage to their financial results since, by prohibiting absolutely the use of certain descriptive terms, its effect was purely and simply to prohibit certain trade marks duly registered by those manufacturers (see paras 144-5).

4. On the above property right issue, the ECJ held:

(a) With regard to Article 295 of the EU Treaty, it must be borne in mind that according to that provision the Treaty shall in no way prejudice the rules in Member States governing the system of property ownership. That provision merely recognises the power of Member States to define the rules governing the system of property ownership and does not exclude any influence whatever of Community law on the exercise of national property rights (para 147).

(b) It was consistently held by the ECJ that while the right to property formed part of **the general principles of the European Community law**, it was not an absolute right and must be viewed in relation to its social function. Consequently, its exercise might be restricted, provided that those restrictions in fact corresponded to objectives of general interest pursued by the European Community and did not constitute a disproportionate and intolerable interference, impairing the very substance of the rights guaranteed (para 149).

(c) Article 7 was intended to ensure, in a manner in keeping with the principle of proportionality under the European Community law, a high level of health protection on the harmonization of the provisions applicable to the description of tobacco products (para 151).

(d) The above principle of proportionality required that measures implemented through Community provision should be appropriate for attaining the objective pursued and must not go beyond what was necessary to achieve it (para 122).

(e) Article 7 was consistent with the above principle of proportionality because:

(i) The 27th recital in the preamble to the EU Directive made it clear that the reason for the ban on the use on tobacco product packaging of certain texts, names, etc was the fear that consumers might be misled into the belief that such products were less harmful, giving rise to changes in consumption. The use of such terms might undermine the labeling requirements set out in the EU Directive (para 134).

(ii) Article 7 thus had the purpose of ensuring that consumers were given objective information concerning the toxicity of tobacco products (para 135). Such a requirement to supply information is appropriate for attaining a high level of health protection (para 136).

(iii) It was possible for the Community legislature to take the view, without overstepping the bounds of its discretion, that the use of descriptors such as those referred to Article 7 did not ensure that consumers would be given objective information (para 137).

(iv) Those descriptors were liable to mislead consumers (para 138).

(v) It was possible for the Community legislature to take the view, without going beyond its bounds of discretion, that the prohibition laid down in Article 7 was necessary in order to ensure that consumers be given objective information concerning the toxicity of tobacco products and that, specifically, there was no alternative measure which could have attained that objective as efficiently while being less restrictive of the rights of the manufacturers of tobacco products (para 139).

(vi) It was not clear that merely regulating the use of the descriptions referred to in Article 7, or saying on the tobacco products' packaging that the amounts of noxious substances inhaled depended also on the user's smoking behaviour would have ensured that consumers received objective information, having regard to the fact that those descriptions were in any event likely, by their very nature, to encourage smoking (para 140).

(f) While Article 7 entailed prohibition, in relation only to the packaging of tobacco products, on using a trade mark incorporating one of the descriptors referred to in that provision, the fact remained that a manufacturer of tobacco products might continue, notwithstanding the removal of that description from the packaging, to distinguish its product by using other distinctive signs. In addition, the EU Directive provided for a sufficient period of time between its adoption and the entry into force of the prohibition under Article 7 (para 152).

(g) In the light of the foregoing, it must be held that restrictions on the trade mark right which might be caused by Article 7 did in fact correspond to objectives of general interests pursued by the European Community and did not constitute a disproportionate and intolerable interference, impairing the very substance of that right (para 153).

5. It is noted that in the findings of the ECJ, the ECJ has not directly addressed the issue of whether Article 7 of the EU Directive would have the effect of causing deprivation (or de facto deprivation) of the property right in the trade marks. In the light of the submissions made by the claimants in the main proceedings, Japan Tobacco and the Greek and Luxembourg Governments (para 143 to 145), it can be assumed that the ECJ would have regard to the provisions of Article 1 of the First Protocol to the ECHR as part of "the general principles of the European Community law" rather than by way of strict application of the European Convention on Human Rights which the ECJ is not tasked to enforce (the relevant organ being the European Court of Human Rights). However, it is significant to note that the relevant text (i.e. Article 295) of the EU Treaty reads as follows :

> "This Treaty shall in no way prejudice the rules in member states governing the system of property ownership."

6. Article 295 of the EU Treaty can be contrasted with the more detailed terms in Article 1 of the First Protocol of the ECHR that provides for the protection of property right :

> "Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law.
>
> The preceding provisions shall not, however, in any way impair the

right of a State to enforce such laws as it deems necessary to control the use of the property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties."

7. Against the above background, it is apparent from the judgment of ECJ (para 149, 151 to 153) that it does not deal with the issue of whether Article 7 of the EU Directive has the effect of causing a deprivation (formal or de facto) of the property right of the owners of the relevant trade marks. This may be contrasted with the European decisions discussed under the doctrine of de facto deprivation in Annex I to the main paper.

8. Therefore, in considering whether a domestic legislation which seeks to give effect to Article 11(a) of the WHO Framework Convention on Tobacco Control (which is similar to Article 7 of the EU Directive) would cause a deprivation of the property right of the trade marks affected for the purpose of BL 105, it is unsafe to rely on the above case of the ECJ which does not deal directly with the issue of deprivation.

9. Secondly, it should be noted, though, Article 7 of the EU Directive only bans the use on the packaging of tobacco products texts, names, trade marks and figurative or other signs suggesting that a particular tobacco product is less harmful than others. It does not absolutely prohibit the use of terms such as "low tar", "light", "ultra-light" or "mild": whether they are going to be banned would depend on whether they in fact carry the above suggestion. This approach is similar to Article 11(a) of the WHO Framework Convention on Tobacco Control, which states that misleading descriptors may include the said terms. However, clause 11 of the Bill goes further by providing for an absolute ban of the use of "light", "lights", "mild", "milds", "low tar", "醇" and "焦油含量低", in addition to any other words which imply or suggest that the cigarettes concerned are less harmful than others. In other words, clause 11 of the Bill, unlike Article 7 of the EU Directive or Article 11(a) of the WHO Framework Convention on Tobacco Control, imposes an absolute ban on the use of such terms as "mild", regardless of whether they are in fact misleading in a particular case.

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