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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

6 June 2006

Dear Mrs YEUNG

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

I refer to the possible impact of the proposed amendment to section 10(3) (“Section 10(3)”) of the Smoking (Public Health) Ordinance (Cap. 371) (“the Ordinance”) on a trade mark registered in Hong Kong under the Trade Marks Ordinance (Cap 559) (“the Trade Marks Ordinance”) and an unregistered trade mark used in Hong Kong and have the following comments:

ISSUE RAISED

- (A) Japan Tobacco (Hong Kong) Limited in their letter to the Chairman of the Bills Committee dated 15 May 2006 submitted that Section 10(3) would amount to a prohibition of their trade mark Mild Seven and thus, would:
- (1) be a “de facto” deprivation of their property under Basic Law Article 105; and
 - (2) fail the “fair and balance test” as the ban on their trade mark is disproportionate.
- (B) Administration’s concern set out in paragraph 11 of LC Paper No. CB(2)1897/05-06(01) on the possible impact of Section 10(3) on the right of the owner of an unregistered trade mark of tobacco product that is on sale in Hong Kong which may be protected by the common law action of passing off against those who have used his mark or a similar mark.

RIGHT OF OWNER OF UNREGISTERED TRADE MARK

The owner of an unregistered trade mark is protected by the common

law action of passing off against those who have used his mark or a similar mark due to goodwill or reputation in the market acquired by him from the use of his trade mark in his goods or services. In my opinion, he is not in a better position than the owner of a registered trade mark. My comments on the right of the owner of a registered trade mark, therefore, apply to owner of an unregistered trade mark.

LEGAL PRINCIPLES ON DEPRIVATION OF PROPERTY

I concur with the Administration's following views on the construction of "deprivation of property" under Basic Law Article 105 set out in LC Paper No. CB(2)1897/05-06(01):

- (A) deprivation of property exist where property is formally expropriated, i.e. where there is a transfer of the title to the property;
- (B) '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';
- (C) **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 Court's comparative approach in Fine Tower Associates Ltd v Town Planning Board HCAL 5/2004 ;**
- (D) the European Court of Human Rights has adopted a high threshold in considering whether a de facto deprivation exists. 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. 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;
- (E) as regards the position in the U.S., it seems very difficult, 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. There would not be a taking if the owner still has reasonable economically viable use of the property; and

- (F) it appears that the **threshold for finding de facto deprivation should be very high**. 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**.

Therefore, the answer to the issues raised depends on whether upon the operation of Section 10(3), the owner of a registered or unregistered trade mark of tobacco product, which falls within the scope of Section 10(3), is left without any meaningful alternative use or the restrictions have denied all economically viable use of his trade mark.

POSSIBLE IMPACT OF SECTION 10(3)

(A) The ban proposed under Section 10(3)

- (1) The Administration proposes to amend Section 10(3) as follow:

“Any manufacturer of cigarettes or his agent and any wholesale distributor of cigarettes who sells, offers for sale or possesses for the purpose of sale any cigarettes to which section 8 applies which have on their packet or their retail container the words “light”, “lights”, “mild”, “milds”, “low tar”, “醇” or “焦油含量低”, or other words which imply or suggest that the cigarettes are less harmful than others, commits an offence and is liable on summary conviction to a fine at level 5.”

- (2) The ban proposed under Section 10(3) consists of two parts:

- (a) the ban on the use of the words “light”, “lights”, “mild”, “milds”, “low tar”, “醇” or “焦油含量低” (“the Prohibited Words”); and
- (b) the ban on the use of “words which imply or suggest that the cigarettes are less harmful than others”.

(B) Administration’s reason for proposing Section 10(3)

- (1) The Administration has advised members of the Bills Committee that Section 10(3) is to give effect to Article 11(1)(a) of the WHO Framework Convention on Tobacco Control (“FCTC”) which provides that:

“Each Party shall, within a period of three years after entry into force of this Convention for that Party, adopt and implement, in accordance with its national law, effective measures to ensure that **tobacco product packaging** and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics, health effect, hazards or emissions, including any term, descriptor, **trademark**, figurative or any other sign that directly or indirectly **creates the false impression that a particular tobacco product is less harmful than other tobacco product. These may include terms such as “low tar”, “light”, “ultra-light”, or “mild”.**”

- (2) The Administration explained in LC Paper No. CB(2)901/05-06(03) the reason for the express provision of the Prohibited Words:

“7. With regard to Baker & McKenzie’s allegation that there is an erroneous application of the application of FCTC as a basis for the proposed amendment, we wish to draw Members’ attention to the “Model Legislation for Tobacco Control: A Policy Development and Legislative Drafting Manual” (the Manual), which was published by the International Union for Health Promotion and Education (IUHPE).

8. According to IUHPE, the Manual was developed after studying tobacco control laws and regulations from countries and regions of the world. It then went through a rigorous review process by a diverse group of tobacco control experts with legal, policy, scientific and programming experience to ensure its broad applicability for countries ready for tobacco control legislation. It should be further noted that the Framework Convention Alliance also recommended the Manual for tobacco control efforts.

9. In the first part of the Manual, it is stated that “Following the Manual should ensure that national tobacco control legislation is FCTC compliant.”. Then in the second part, under article 26 of the recommended legislative text, it is provided that:

“26 Prohibition on deceptive or misleading information.

No tobacco product package or label shall contain any information that is false, misleading, or deceptive, or that is likely or intended to create an erroneous impression about the characteristics, health effects, or health or other hazards of the tobacco product or its emissions. **This prohibition includes, but is not limited to, the use of: words or descriptors, whether or not part of the brand name, such as “light”, “ultra light”, “mild”, “low tar”, “slim” or similar words or descriptors; any graphics associated with, or likely or intended to be associated with, such words or descriptors; and any product package design characteristics, associated with, or likely or intended to be associated with, such descriptors.”**

(C) Possible impact of Section 10(3) on property rights of a registered trade mark and an unregistered trade mark

(1) Development of law relating to registered trade mark and passing off

According to paragraphs 1 and 3 of Halsbury’s Law of England Vol. 48:

“In early times trade and industry were concentrated in London and other large towns where the merchants and craftsmen organized themselves into guilds. Many guilds were established as corporations either by statute or by charter and the trade and craft of these were supervised under byelaws. Those statutes and byelaws contained provisions for the **allocation and use of trade marks**. Sometimes the use of trade marks was made compulsory to avoid deceit. With the onset of the industrial revolution the guilds lost control over manufacturers, and trade marks and passing off began to develop as matters of the general law.

Both because litigation was expensive and because there was a need for greater certainty as to what trade marks were already the property of others, trade mark registration was introduced by the Trade Marks Registration Act 1875.”

(2) Trade Marks Ordinance

(a) Exclusive rights in a registered trade mark

The Trade Marks Ordinance was enacted in 2003 to make provision in respect of registration of trade mark. Section 14(1) provides that “The owner of a registered trade mark (“Owner”) has **exclusive rights** in the trade mark which are **infringed by use** of the trade mark in Hong Kong **without his consent.**”

The Ordinance does not elaborate on the exclusive rights of an Owner in his registered trade mark, in particular, his rights to use of the mark. The exclusive rights of the Owner are given effect in his entitlement to take action against other parties who use his trade mark without his consent.

The Ordinance has shed right on the use of a registered mark in section 18(5) by providing that the use of a trade mark by parties other than the Owner in the following manners are “infringement of a registered trade mark”:

- (i) applies it to goods or their packaging;
- (ii) offers or exposes goods for sale under the sign;
- (iii) puts goods on the market under the sign;
- (iv) stocks goods under the sign for the purpose of offering or exposing them for sale or of putting them on the market;
- (v) offers or supplies services under the sign;
- (vi) imports and exports goods under the sign; or
- (vii) uses the sign on business papers or in advertising.

(b) Existing prohibitions on trade mark or trade name of tobacco product and name or trade name of any person associated with the marketing of any tobacco product

Part IV of the Ordinance has already prohibited, inter alia, the name or trade name of any person associated with the marketing of any tobacco product, or any trade mark or brand name of a

tobacco product, or any pictorial device or part thereof commonly associated therewith in:

- (i) an advertisement (other than in advertisement exclusively for a non-tobacco product or service or for job recruitment purposes); and
- (ii) any object, other than a tobacco product, which is displayed to the public, whether for sale or otherwise, in the course of conducting any business or providing any service.

The prohibition applies to printed publication, broadcast by radio or visual images, film and Internet.

- (c) The Administration's proposal to expand the existing prohibitions under Part IV of the Ordinance

Under clause 15(a) of the Bill, the Administration proposes to restrict the scope of the exception to the existing prohibitions:

“The name or trade name of any person associated with the marketing of any tobacco product, or any trade mark or brand name of a tobacco product, or any pictorial device or part thereof commonly associated therewith in advertisement or object exclusively for a non-tobacco product or service or job recruitment purposes is only allowed if it does not form a prominent part of the advertisement or object.”

- (d) Section 10(3) – an additional restriction on property rights of a registered trade mark

- (i) Trade Marks Ordinance

It appears that section 10(3)(a):

- 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;

- is an additional restriction on the use of a trade mark of a tobacco product by prohibiting the Prohibited Words or other words which imply or suggest that the cigarettes are less harmful than others on the cigarettes packets or their retail container; and
- the owner is still entitled to use his trade mark in other aspects, including the uses set out under section 18(5). 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.

(3) Court of Justice of the European Communities in *The Queen and Secretary of State for Health Case No. C-491/01* (“ECJ”) - ban of Prohibited Words on tobacco packaging is not deprivation of intellectual property right

In ECJ, upon the application for judicial review of “the intention and/or obligation” of the United Kingdom to transpose, inter alia, Article 7¹ of Directive 2001/37/EC (“the Directive”) into national law, Japan Tobacco Inc., the trade mark owner and JT International SA, the exclusive licensee of the ‘Mild Seven’ trade mark for cigarettes, submitted that “**Article 7** of the Directive, in so far as it is to be interpreted as applying to established trade marks, **will preclude Japan Tobacco from having the benefit of or using**, within the Community, **the intellectual property in the ‘Mild Seven’ trade mark**, which, when that provision enters into force, will cause severe damage to the value of the brand worldwide.”²

“According to Japan Tobacco, Article 7 of the Directive **prohibits it from exercising its intellectual property rights by preventing it from using its trade mark Mild Seven** in the Community and by **depriving** it of the economic benefit of its exclusive licences for that trade mark. Such a result entails **infringement of the right** to property.”³

¹ According to paragraph 19 of ECJ, Article 7 of the Directive, entitled ‘Product descriptions’, is worded as follows:

With effect from 30 September 2003, and without prejudice to Article 5(1), 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.**

² paragraph 7 of ECJ.

³ paragraph 144 of ECJ.

On the question whether the Directive is invalid by reason of infringement of fundamental right to property, the Court made the following decision:

“As regards the validity of the Directive in respect of the **right to property**, the Court has consistently held that, while that right forms part of the general principles of Community law, it is **not an absolute right and must be viewed in relation to its social function. Consequently, its exercise may be restricted, provided that those restrictions in fact correspond to objectives of general interest pursued by the Community and do not constitute a disproportionate and intolerable interference, impairing the very substance of the rights guaranteed.**

The only effect produced by Article 5 of the Directive is to restrict the right of manufacturers of tobacco products to use the space on some sides of cigarette packets or unit **packets of tobacco products to show their trade marks, without prejudicing the substance of their trade mark rights**, the purpose being to ensure a high level of health protection when the obstacles created by national laws on labelling are eliminated. In the light of this analysis, Article 5 constitutes a proportionate restriction on the use of the right to property compatible with the protection afforded that right by Community law.

Article 7 of the Directive is intended to ensure, in a manner in keeping with the principle of proportionality, a high level of health protection on the harmonisation of the provisions applicable to the description of tobacco products.

While that article entails **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 remains that a **manufacturer of tobacco products may continue, notwithstanding the removal of that description from the packaging, to distinguish its product by using other distinctive signs.** In addition, the Directive provides for a sufficient period of time between its adoption and the entry into force of the prohibition under Article 7.

In light of the foregoing, it must be held that the **restrictions on the trade mark right** which may be caused by Article 7 of the Directive do in fact **correspond to objectives of general interest pursued by the Community and do not constitute a disproportionate and intolerable interference, impairing the very substance of that right.**⁴

(4) Article 105 of the Basic Law

In the light of the due regard given by the Hong Kong courts to the jurisprudences developed by the European Court of Justice, if the decision in ECJ is adopted in local courts, the ban proposed under Section 10(3) on tobacco packages is likely to be decided as a restriction on a registered trade mark only and not amount to deprivation of the intellectual property right of the owner. The issue whether there is de facto deprivation of property under Basic Law Article 105 will not arise as property or rights of the Owner will not be deprived by the operation of Section 10(3).

MISLEADING OR DECEPTIVE TRADE MARK – REVOCABLE UNDER THE TRADE MARKS ORDINANCE OR OWNER IS NOT ENTITLED TO TAKE LEGAL ACTION AGAINST INFRINGEMENT

The right of the owner a registered trade mark and unregistered trade mark is not absolute. A misleading trade mark is revocable under the Trade Marks Ordinance and the Owner is not entitled to take legal action against infringement under common law.

(A) Trade Marks Ordinance

Section 52(2)(c) provides that the registration of a **trade mark may be revoked** on the ground that in consequence of the use made of it by the owner or with his consent, in relation to the goods or services for which it is registered, **the trade mark is liable to mislead the public**, particularly as to the nature, quality or geographical origin of those goods or services.

(B) Common Law

A claimant may be disentitled to protection in a passing-off action if the name

⁴ paragraphs 149 to 153 of ECJ.

of mark which he seeks to protect is fraudulent or deceptive.⁵ In Leather Cloth Co Ltd v American Leather Cloth Co Ltd (1865) 11 HL Cas 523, the court held that:

- (1) a trader may be guilty of such misrepresentations with respect to his goods, as to amount to a fraud upon the public, and to disentitle him on that ground, as against a rival trader, to the relief in a court of equity which he might otherwise claim; and
 - (2) a **misrepresentation** of a material fact, **calculated to mislead the public** is sufficient to debar the Plaintiff from relief against piracy in a court of equity.
- (C) ECJ – Court of Justice of the European Communities held that use of certain texts, such as ‘low-tar’, ‘light’, ‘ultra-light’, ‘mild’, names, pictures and figurative or other signs and tobacco product packaging are likely to mislead the public into the belief that such products are less harmful and to encourage smoking

The Court held that:

- (1) the purpose of Article 7 is explained in the 27th recital in the preamble to the Directive, which makes it clear that the reason for the ban on the use on tobacco product packaging of certain texts, such as ‘low-tar’, ‘light’, ‘ultra-light’, **‘mild’, names, pictures and figurative or other signs** is the **fear that consumers may be misled into the belief that such products are less harmful, giving rise to changes in consumption**; and
 - (2) it is a fact that **those descriptions are in any event likely, by their very nature, to encourage smoking**.
- (D) Undertaking to the Australian Competition and Consumer Commission (“the Commission”) given for the purposes of Section 87B of the Trade Practices Act 1974 by Imperial Tobacco Australia Limited (“Imperial Tobacco”) on 3 November 2005 (“the ACCC Undertaking”) – use of “Mild” in a Brand Name

⁵ paragraph 339 of Halsbury’s Law of England Vol. 48.

or on Cigarette packaging is a conduct that is misleading or deceptive or likely to mislead or deceive and will mislead the public as to the characteristics of the cigarettes

According to the ACCC Undertaking which is court enforceable:

- (1) (a) “Brand Name(s)” includes but is not restricted to trade mark brand names of Cigarettes and **includes any words forming part of such Brand Name** or trade mark;
 - (b) “**Descriptors**” means the use of any of the following words either alone or in combination with each other **in a Brand Name or on Cigarette packaging**:
 - “Light”; “Low”; “Medium”; “**Mild**”; “**Ultra Mild**”; “**Extra Mild**”; “**Super Mild**”; “**Special Mild**”, “Super Lights”; “Micro”; “**Micro Mild**”; “Ultra Lights”; “Extra Lights”; and
 - (c) “Low Yield Cigarettes” means Cigarettes that have a machine tested average Tar delivery of 8mg of less, or have a machine tested average Tar delivery in excess of 8mg and which **bear the Descriptors** or any one of them.
- (2) Imperial Tobacco sold cigarettes under brands and sub-brands which featured the Descriptors as part of the Brand Names in Australia at various times since September 1999.
 - (3) Annexure “A” to the ACCC Undertaking is a schedule identifying the Brand Names of the Low Yield Cigarettes sold by Imperial Tobacco, part of which is as follow:

Japan Tobacco International’s Low Yield Cigarette Brands
which have been imported by Imperial Tobacco

<u>Imperial Tobacco Low Yield Cigarette Brand/SKU</u>	<u>Pack Size</u>
MILD SEVEN Lights	20
MILD SEVEN Super Lights	20

- (4) Since at least 2001, the Commission has been investigating (“the Commission’s Investigation”) allegations and concluded that, among other things, Imperial Tobacco has, in trade or commerce, through the use of **Descriptors on Cigarette packaging**, made the following

representations about Low Yield Cigarettes in contravention of the Trade Practices Act 1974 (“the Act”), namely that Low Yield Cigarettes:

- (a) **are less harmful to the health of a smoker compared to High Yield Cigarettes;**
- (5) The evidence gathered by the Commission in the course of the Commission’s Investigation has led the Commission to form the view that Low Yield Cigarettes are not necessarily less harmful to the health of the smoker compared to High Yield Cigarettes.
- (6) **The Commission considers** that by making one or more of the Representations, **Imperial Tobacco** has:
- (a) **engaged in conduct that is misleading or deceptive or likely to mislead or deceive** in contravention of section 52 of the Act;
 - (b) falsely represented that Low Yield Cigarettes are of a particular standard, quality, value, grade, composition, style or model, in contravention of section 53(a) of the Act;
 - (c) represented that the Low Yield Cigarettes have performance characteristics or benefits which they do not have, in contravention of section 53(c) of the Act; and/or
 - (d) **misled the public as to the characteristics of Low Yield Cigarettes** in contravention of section 55 of the Act.
- (7) In order to resolve the Commission’s Investigation and without any admission of liability, Imperial Tobacco undertakes that:
- (a) effective from 1 October 2005 in relation to Cigarettes manufactured in Australia; and
 - (b) effective from 24 October 2005 in relation to Cigarettes imported into Australia
- Imperial Tobacco will cease using, publishing or displaying, or causing to be used, published or displayed, the Descriptors**
- (c) **on the packaging of its Cigarettes** (including Inserts and the Cigarettes themselves) manufactured or imported for supply in Australia; and

- (d) on material intended to be disseminated to members of the general public in Australia in relation to the marketing or sale of Cigarettes.
- (8) **Imperial Tobacco will**, within 7 days of the ACCC Undertaking coming into effect, **pay to the Commission the amount of one million dollars (\$1,000,000)** with the intention that the Commission will, without limitation, direct these funds:
 - (a) to an advertising campaign designed, without limitation, to include information that will draw to the attention of consumers that Low Yield cigarettes are not necessarily less harmful to consumers than High Yield cigarettes; and
 - (b) to programs related to the health issues associated with Cigarette use.
- (E) Basic Law Article 105

If the views on misleading or deceptive trade marks as reflected in ECJ and the ACCC Undertaking are adopted in local courts, trade marks consist of the Prohibited Words are likely to be held as deceptive or misleading the public into the belief that products bearing such marks are less harmful. Registration of such trade marks is liable to be revoked under the Trade Marks Ordinance or the Owners will lose their rights to take legal action against infringement. In these circumstances, it is doubtful whether the ban proposed under Section 10(3) will amount to deprivation of property of the deceptive or misleading trade marks under Basic Law Article 105.

PRINCIPLE OF PROPORTIONALITY- WHETHER THE RESTRICTION IMPOSED IS PROPORTIONAL TO THE AIM SOUGHT TO BE ACHIEVED

(A) Issues

- (1) Whether the ban proposed under Section 10(3) will fail the “fair and balance test” as alleged in Japan Tobacco (Hong Kong) Limited’s letter; or
- (2) the Administration’s concern as set out in paragraph 10 of LC Paper No. CB(2)1897/05-06(01) “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.”.

(B) Reference from overseas jurisprudence - in the lack of local authorities, reference can be drawn from ECJ and the Canadian Case of J.T.I. Macdonald v. the A.G. of Canada (“the Macdonald’s case)

(1) ECJ - Article 7 of the Directive is not invalid by reason of infringement of the principle of proportionality

On the question whether the Directive is invalid in whole or in part by reason of infringement of the principle of proportionality, **the Court held that Article 7 of the Directive is not invalid by reason of infringement of the principle of proportionality:**

“(a) Article 7 of the Directive calls for the following observations.

(b) The purpose of that provision is explained in the 27th recital in the preamble to the Directive, which makes it clear that **the reason for the ban on the use on tobacco product packaging of certain texts, such as ‘low-tar’, ‘light’, ‘ultra-light’, ‘mild’, names, pictures and figurative or other signs is the fear that consumers may be misled into the belief that such products are less harmful, giving rise to changes in consumption.** That recital states in this connection that the level of inhaled substances is determined not only by the quantities of certain substances contained in the product before consumption, but also smoking behaviour and addiction, which fact is not reflected in the use of such terms and so may undermine the labelling requirements set out in the Directive.

(c) Read in the light of the 27th recital in the preamble, **Article 7 of the Directive has the purpose therefore of ensuring that consumers are given objective information** concerning the toxicity of tobacco products.

(d) **Such a requirement to supply information is appropriate for attaining a high level of health protection** on the harmonisation of the provisions applicable to the description of tobacco products.

- (e) **It was possible for the Community legislature to take the view that the use of descriptors such as those referred to in Article 7 of the Directive did not ensure that consumers would be given objective information.**
- (f) **As the Advocate General has pointed out, those descriptors are liable to mislead consumers.** In the first place, they might, like the word 'mild', for example, indicate a sensation of taste, without any connection with the product's level of noxious substances. In the second place, terms such as 'low-tar', 'light', 'ultra-light', do not, in the absence of rules governing the use of those terms, refer to specific quantitative limits. In the third place, even if the product in question is lower in tar, nicotine and carbon monoxide than other products the fact remains that the amount of those substances actually inhaled by consumers depends on their manner of smoking and that that product may contain other harmful substances. In the fourth place, the use of descriptions which suggest that consumption of a certain tobacco product is beneficial to health, compared with other tobacco products, is liable to encourage smoking.
- (g) Furthermore, **it was possible for the Community legislature to take the view, that the prohibition laid down in Article 7 of the Directive 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.
- (h) It is not clear that merely regulating the use of the descriptions referred to in Article 7, as proposed by the claimants in the main proceedings and by the German, Greek and Luxembourg Governments, or saying on the tobacco products' packaging, as proposed by Japan Tobacco, that the amounts of noxious substances inhaled depend also on the user's smoking behaviour would have ensured that consumers received objective information, having regard to the fact that **those descriptions are in any event likely, by their very nature, to encourage**

smoking.

- (i) **It follows from the preceding considerations that the Directive is not invalid by reason of infringement of the principle of proportionality.**⁶

- (2) The Canadian case of *J.T.I. Macdonald v the A.G. of Canada – Government’s duty to protect public health is preferred to freedom of expression of the tobacco companies*
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In this case, the Plaintiffs, including Imperial Tobacco Canada Limited, tried to impugn the legality of certain provisions of the Tobacco Act, 45-46 Elizabeth II, c. 38, as amended by the Act to amend the Tobacco Act, 46-47 Elizabeth II, c. 38, and of two regulations enacted pursuant to the Act.

Section 20 of the Tobacco Act provides that “No person shall promote a tobacco product by any means, including by means of the packaging, that are false, misleading or deceptive or that are likely to create an erroneous impression about the characteristics, health effects or health hazards of the tobacco product or its emissions.”.

On 13 December 2002, the Quebec Superior Court, on balancing the freedom of expression of tobacco companies and the government’s duty to protect public health by prohibiting tobacco advertising, to be effected by, inter alia, section 20, dismissed the tobacco companies’ action because “their rights cannot be given the legitimacy as the government’s duty to protect public health”:

- (a) The Court has done its utmost to address all the questions of law raised by the parties and offer its opinion, an opinion guided by the principle of the rule of law.
- (b) The rule of law comprises the guidelines we as human beings set for ourselves so that we can live together in relative, if not perfect, harmony.
- (c) **Our concept of the rule of law is constantly evolving and is rooted in common sense.**
- (d) Nicotine is powerfully addictive. This is not mere conjecture. It is a fact.
- (e) The evidence shows that second-hand smoke harms everyone,

⁶ paragraphs 133 to 141 of ECJ.

both smokers and non-smokers, and that the children of smokers are particularly affected. This is not an attempt to lay blame. It is a fact.

- (f) Fact: there is incontrovertible evidence that advertising and sponsorship encourage people, especially adolescents, to consume tobacco products. Advertising is designed to reassure smokers and relies on associating cigarettes with a positive lifestyle.
- (g) Fact: the supposedly less-irritating cigarette is merely the creation of a tobacco company's marketing department; filters allow every single carcinogenic gas contained in cigarette smoke to pass through; and there is no such thing as a "light" or "healthier" cigarette.
- (h) It should therefore come as no surprise that the government, as fiduciary of public health, would so doggedly pursue a comprehensive policy aimed at curbing smoking and informing Canadians about tobacco's effects.
- (i) This is not to suggest that freedom of expression can be bought off for a fistful of dollars. At issue is painful social problem, as well as **freedom of expression** that, it must be said, has hitherto **not been used appropriately**.
- (j) The tobacco companies are in a particularly difficult position. They sell a harmful product and know it. They have the right to sell it because outright prohibition would be unrealistic.
- (k) **They offer no evidence to rebut the claimed ill effects of cigarettes because there is none.** Their evidence respecting the effects of advertising was unconvincing.
- (l) **Their rights, however, cannot be given the same legitimacy as the government's duty to protect public health.**
- (m) **Parliament is seeking to prohibit tobacco advertising, with a few specific exceptions. This is part of a worldwide trend, one that is far from unreasonable.**
- (n) **The evidence at trial compels the Court to exercise the degree of deference that common sense would dictate.**

- (o) Therefore, this Court dismisses plaintiffs' actions.

On appeal, the Court of Appeal on 22 August 2005 upheld the prohibition provided under section 20 except the words "by means likely to create an erroneous impression".⁷

(C) Conclusion

If the stance taken in ECJ and the Macdonald's case is adopted in the local court, public health will also be preferred. The restriction on trade marks as proposed under Section 10(3) is unlikely to be held to fail "the fair and balance test".

DOUBTS TO BE CLARIFIED

Please clarify the follow doubts arising in the discussion of the possible impact of Section 10(3):

- (A) According to South China Morning Post dated 26 February 2006, the World Health Organization is "extremely concerned" that trade marks consist of the Prohibited Words will be allowed to be used on packaging of tobacco products. Please confirm whether, in the light of ECJ, the Macdonald's case and the ACCC Undertaking, amendments to Section 10(3) in line with the notation and grandfathering approach proposed by Japan Tobacco Hong Kong Limited will amount to a breach of Hong Kong's obligation under Article 11 of the FCTC.
- (B) The Department of Justice, in paragraph 9 of Annex II to LC Paper No. CB(2)1897/05-06(01), seems to cast doubt on the first part of the ban proposed under Section 10(3):

"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

⁷ The case is now under appeal.

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 term as “mild”, regardless of whether they are in fact misleading in a particular case.”

Japan tobacco (Hong Kong) Limited states in their letter that the Department of Justice “has conceded that Clause 11 of the Bill goes further than Article 11(a) of the FCTC.”.

However, these views appear to be inconsistent with:

- (1) the Administration’s explanation for the ban of the Prohibited Words; and
- (2) the legislative intent of Article 7 as explained in the 27th recital in the preamble to the Directive that the reason for the ban on the use on tobacco product packaging of certain texts, such as ‘low-tar’, ‘light’, ‘ultra-light’, ‘mild’, names, pictures and figurative or other signs is the fear that consumers may be misled into the belief that such products are less harmful.

Please clarify the Administration’s view.

- (C) Japan Tobacco Hong Kong Limited’s claim that “the Department of Justice’s paper added that a ban on trade marks would be an ‘excessive burden’ on the owner of the trade mark. Our legal counsel shares the same view.”. Please clarify the view of the Department of Justice in this aspect.
- (D) In paragraph 11 of LC Paper No. CB(2)1259/05-06, the Administration states:

“We understand that Japan and Taiwan has adopted the notation and grandfathering approach respectively. Relevant excerpts of their legislation are attached at Annex for Members’ reference.”

Japan Tobacco (Hong Kong) Limited advised members of the Bills Committee in the meeting held on 23 May 2005 that the “grandfathering” legislation in Taiwan has not been passed. Please clarify.

It is appreciated that your reply in both Chinese and English could reach us by 13 June 2006.

Yours sincerely

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