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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

28 July 2006

Dear Mrs YEUNG

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

I refer to your letter of 26 July 2006 and have the following comments:

**Grandfather exemption to unregistered trade mark and well-known trade mark which contains the proscribed words does not appear to comply with Hong Kong’s obligation under TRIPS**

I note your view that:

- (a) the relevant requirements are set out in Articles 3 and 4 of TRIPS and the Note to those articles; and
- (b) if the Bill is passed with a general legal prohibition of use of certain trade marks or names as represented by the Bill without a full grandfathering provision of existing registered trade marks, unregistered trade marks in use, existing well-known marks and existing trade names in use bearing the proscribed words, the law as such would be inconsistent with TRIPS.

However, upon a closer look of the principles underlying Articles 3 and 4 of TRIPS, doubt arises that:

- (a) TRIPS do not require the grandfathering arrangement relating to registered trade mark be extended to unregistered trade marks and well-known trade mark as proposed in section 10(3) and the Schedule 5A in the Committee Stage amendments; and

- (b) the proposed grandfathering arrangement is in breach of HKSAR's obligations under TRIPS.

I enclose an excerpt of the document "Understanding the WTO" ("WTO Document") written and published by WTO Information and Media Relations Division which sets out the fundamental principles of the WTO agreements for your reference. According to the WTO Document, the underlying principle behind TRIPS Articles 3 and 4 is "Trade without discrimination" and the two facets of this principle are:

- (a) The principle known as Most-Favoured-Nation ("MFN") Treatment (Article 4) i.e. each member treats all the other members equally as "most-favoured" trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same "best" treatment to all the other WTO members so that they all remain "most-favoured".
- (b) The principle known as National Treatment ("NT") (Article 3) i.e. imported and locally-produced goods should be treated equally.

*TRIPS only require MFN Treatment and National Treatment to apply to "like products". TRIPS do not require the grandfathering arrangement relating to registered trade mark be extended to unregistered trade marks and well-known trade mark as they are not "like products".*

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The Administration proposed section 10(3) in the Bill to "prohibits the appearance of the words "light", "lights", "mild", "milds", "low tar" or other words that may have similar misleading effects on any package of tobacco product" so as to be "in line with international practice" (LegCo Brief para. 14). The Administration then advised the Bills Committee that "registered trade marks containing the proscribed words (words "likely to deceive the public")" have to be exempted from the ban due to "serious risk of litigation". Later, the Administration advised the Bills Committee that unregistered trade mark and well-known trade mark which contain "the proscribed words" have to be exempted from the ban "because we have to ensure that Hong Kong, China ("HKC") continues to be in full compliance with the WTO TRIPS."

As the Administration has advised the Bills Committee that the "risk of litigation" in respect of unregistered trade mark and well-known trade mark is "smaller", the registered trade mark and unregistered trade mark and well-known trade mark are not "like products" and it seems that the grandfathering treatment given to the local "registered trade mark" is not required to be given to the unregistered trade mark and well-known trade mark under TRIPS.

*The WTO document expressly states that "National Treatment only applies once a*

*product, service or item of intellectual property has entered the market.”. TRIPS do not require the grandfathering arrangement relating to local registered trade mark be extended to well-known trade mark.*

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As the well-known trade mark has not entered into the local market, it seems that the treatment given to registered trade mark is not required to be extended to well-known trade mark.

#### Exceptions to TRIPS and Paris Convention

I do not share your view that “There is no precise provision in TRIPS that deals expressly with trade marks containing the proscribed words”. There are several provisions in TRIPS and the Paris Convention that deals with misleading trade marks. Basically, parties to these treaties are entitled not to protect trade mark which is “liable to mislead or deceive the public”:

- (a) Article 6<sup>septies</sup> B of the Paris Convention provides that trade marks covered by this Article may be neither denied registration nor invalidated except in the following cases:

- when they are contrary to morality or public order and, in particular, of such a nature as to deceive the public.

- (b) Article 10<sup>bis</sup>(3)3 of the Paris Convention provides that the following in particular shall be prohibited:

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 quantity, of the goods.

- (c) Article 17 of TRIPS provides that members may provide limited exceptions to the rights conferred by a trade mark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trade mark and of third parties.

Furthermore, Article XX of GATT provides that subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

- (b) necessary to protect human, animal or plant life or health.

*The proposed grandfathering arrangement is in breach of HKSAR's obligations under TRIPS*

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If appears that while Hong Kong is not required to apply the grandfather exemption to unregistered trade mark and well-known trade mark as they are not “like products” to the registered trade mark or Hong Kong can claim exception to the TRIPS and GATTs due to the misleading or deceptive nature of the unregistered trade mark and well-known trade mark, the Administration’s policy is to grant exemption to unregistered trade mark and well-known trade mark which contains the “proscribed words” used or well-known before the Appointed Date. Please account for:

- (a) the reason for exempting those unregistered trade mark and well-known trade mark which contains the “proscribed words” but not other trade marks which are also likely to mislead or deceive the public (trade mark which imply or suggest that those products are less harmful than other tobacco products).
- (b) the reason for exempting unregistered trade mark and well-known trade mark used or well-known before the Appointed Date but not the new comers.
- (c) 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.

**Use of a trade mark in tobacco advertisement is NOT a protection to be afforded by the Trade Marks Ordinance (Cap. 559) (“the Ordinance”) nor the Paris Convention**

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As in the current issue of whether a ban on the use of misleading/deceptive trade mark on tobacco packaging is an infringement of the various rights alleged by the tobacco companies, various tobacco companies had instituted legal proceedings against governments that ban tobacco advertisements and I am not aware of their success in these cases. Ban on tobacco advertisement is an international practice and in many jurisdiction, the ban on tobacco advertisement has been extended to non-tobacco products. In Hong Kong, tobacco advertisement is expressly prohibited and non-tobacco advertisement is restricted under the Ordinance. The restriction on non-tobacco advertisement is proposed to be extended under the Bill and the Administration has undertaken to the Bills Committee to consider prohibition of non-tobacco advertisement. The heading of my analysis on this issue in my letter dated 19 June 2006 is “Tobacco advertisement – not to be protected by registration of trade mark” I fail to see how “you note my view which appears to accept that use of a trade mark in advertisement is a protection to be afforded by the Trade Marks Ordinance (Cap. 559) (“TMO”) and the Paris Convention”, nor your reason to examine the possibility of using the trade marks in question in tobacco

advertisements to attract customers' attention to the product.

**Principle of proportionality**

You mentioned that "To recap, our view is that the European version of the proportionality test cannot be assumed to be applicable to the rule requiring compensation for lawful deprivation under BL105".

It appears that you have mixed up my analysis of the issue relating to property right protection under Basic Law Article 105 and the issue relating to "principle of proportionality". Please note that they are two entirely different legal issues. My analysis of "principle of proportionality" and the relevance of ECJ, the Macdonald's case and the views of the Australian Commission is in response to paragraph 6 of your paper no. LC Paper No. CB(2)1897/05-06(01) that "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."

I have never applied the "principle of proportionality" in my analysis of property right protection under Basic Law Article 105. I do not see the reason for your analysis that European version of proportionality test cannot be assumed to be applicable to the rule requiring compensation for lawful deprivation under BL105 and I have no comment on your view.

It is appreciated that your reply in both Chinese and English could reach us by noon, 31 July 2006.

Yours sincerely

(Monna LAI)  
Assistant Legal Adviser

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