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Clerk to Panel on Health Services
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Hong Kong, 9th January 2017

Proposal to amend the health warnings on packets and retail containers of tobacco products

Dear Sir or Madam

We refer to the invitation for submissions from the Panel on Health Services in respect of the proposal to amend the health warnings on packets and retail containers of tobacco products.

For Panel members' reference, we enclose an article we authored which appeared in the *Journal of Intellectual Property Law & Practice*, a peer-reviewed journal published by the Oxford University Press. The article discusses the relevance of Hong Kong's Basic Law to the proposal.

Please note that the article was written before Hong Kong's Court of Final Appeal handed down the judgment in *Leighton Property Co Ltd v Town Planning Board* [2016] HKCFA 67. That case made clear that if a government action encroaches upon property rights, that action would be subject to proportionality review. In our view, the new tobacco health warnings requirement may either be considered a deprivation of property rights under Article 105 of the Basic Law or, falling short of that, a restriction on use. According to the Court of Final Appeal, regardless of whether the requirement is a deprivation or a restriction of use, it will be scrutinized by the court. This weakens the government's case.

In any event, our analysis in the enclosed article remains unaffected by the judgment.

Thank you for the opportunity to present our views.

Yours faithfully



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Current Intelligence

■ State deprivation of IP rights: the case of tobacco trade marks in Hong Kong

Proposed amendments to Hong Kong's Smoking (Public Health) (Notices) Order (Chapter 371B of the Laws of Hong Kong); *British American Tobacco v Secretary of State for Health* [2016] EWHC 1169 (Admin)

An analysis of Hong Kong's tobacco health warning laws, which restrict the display of tobacco trade marks, in the light of a recent decision of the High Court of England and Wales demonstrates the potential viability of constitutional challenges against State deprivation of IP rights, such as the prohibition of certain descriptors.

Legal context and facts

In the latest defeat of the tobacco industry's attempt to challenge the ever-tightening tobacco control regulations, the High Court of England and Wales dismissed a judicial review of the tobacco products standardized packaging regulations in *British American Tobacco v Secretary of State for Health* [2016] EWHC 1169 (Admin). One of the tobacco companies' arguments in that case was that the regulations, which prohibit any branding elements on the packaging of tobacco products, unduly trumped their IP rights, as protected by the First Protocol of the European Convention on Human Rights (ECHR).

In multiple jurisdictions, tobacco companies have invoked IP protection to object proposed regulations on tobacco products packaging. While regulators around the world may find reasons to be emboldened by the UK decision, this note examines the case of Hong Kong and argues that similar arguments may be more viable in the city-State where property rights are more strongly protected.

In May 2015, the Hong Kong government first proposed to increase the area of graphic health warnings on tobacco products from covering 50 per cent of the largest surfaces of the packaging to 85 per cent. One year later, in May 2016, the government wrote to tobacco companies reiterating this proposal, citing the World Health Organization's recent call for Member States to 'get ready for plain (standardized) packaging of tobacco products, which is in line with the latest international trend'.¹ The letter was sent despite objections, including on legal grounds, being raised by the tobacco industry in the preceding months.

Tobacco companies, in their submissions to Hong Kong's legislative body, claimed that the proposed health warning regulations would prevent them from using certain non-verbal trade marks as registered. Given that product packaging is the only medium where tobacco trade marks are legally permitted to be displayed, they argued

that the proposed regulations would violate, among other things, Article 105 of the Basic Law (Hong Kong's constitutional document), which provides for the right to compensation for lawful deprivation of property.

Analysis

The test for what constitutes 'deprivation of property' under this provision has been settled in the case of *Fine Tower Associates Ltd v Town Planning Board* [2008] 1 HKLRD 553, where the Hong Kong Court of Appeal held that in the absence of formal expropriation of property, if the 'removal of any meaningful use, of all economically viable use' of property has been contemplated, it would amount to de facto property deprivation (para 24).

It should be noted here that Article 105 of the Hong Kong Basic Law is markedly different from the property-rights-related provisions in the ECHR (which are comparable to Article 6 of the Basic Law, which protects property rights in general). The former does not protect property rights per se, but instead protects the *right to compensation* in case of property deprivation, regardless of the lawfulness of that deprivation. As the right to compensation and any public interest considerations behind the proposed health-warning regulations are not competing interests, on a purely logical level the State's ability to honour the right to compensation under Article 105 should be unimpeded by any form of such regulations—whether justified or not. It may even be arguable that the present case falls squarely within the range of scenarios contemplated by Article 105: assuming that the proposed health warning regulations are proportionate and therefore 'lawful', on a plain reading, this triggers the State's obligation to pay compensation in the event of property deprivation.

To illustrate this further, the High Court of England and Wales applied a 'fair balance' test (paras 789 ff), and held that no compensation was payable because the standardized packaging regulations were 'justified and proportionate in the public interest' (para 711). On the other hand, in the case of Article 105 of the Basic Law, it is unclear how the proportionality test may be formulated. The argument that restrictions on the right to compensation are somehow justified by public health or related public interest considerations seems plainly unconvincing.

The ultimate question in the Hong Kong's case should be whether the 85 per cent health warning regulations would really deprive tobacco companies of their own trade marks. The High Court of England and Wales was of the view that standardized packaging does not constitute de facto deprivation, notwithstanding that tobacco companies

¹ http://www.fhb.gov.hk/download/press_and_publications/otherinfo/health_warnings_on_tobacco_products_packets_retail_containers_e.pdf.

would be prevented from using any non-verbal trade marks. Green J observed that:

In reality in this market the word and figurative marks are used in conjunction with each other to convey a collective message to consumers. In this case in the context of [Article 1 of Protocol 1 to the ECHR] it is necessary to consider the use of the property rights in the round and collectively. (para 747)

Green J went on to say that there has been ‘no real or material scope for a sign or symbol to develop an ability which is independent from the name mark to act as an identifier of source which can inure to the benefit of the reputation of the proprietor’ (para 750). Green J therefore concluded that:

whilst it is true that each trade mark is in legal terms an independent property it is nonetheless the cumulative effect of the rights that matters when the issue is examined (as the Claimants submit it should be under A1P1) from the perspective of real life substance and not form. (para 753)

With respect, Green J’s reasoning is hard to follow. It is indisputable (and Green J also acknowledged this) that each registered trade mark constitutes an individual property (see Trade Marks Act 1994, s 22; Hong Kong Trade Marks Ordinance, s 10(1)). If a mark is denied all meaningful use, then, for all intents and purposes, this amounts to a deprivation of the property *in that mark*. If one accepts that the cumulative effects of all tobacco trade marks are greater than the sum of the value of each individual mark, then the inevitable conclusion is that, in ‘real life’ where non-verbal marks and word marks are concurrently used, by being deprived of their non-verbal marks and significantly reducing the visibility of word marks, trade mark owners would suffer *a greater loss* than in a hypothetical world in which there

are only non-verbal marks. And, presumably, in that hypothetical world, Green J would have arrived at the conclusion that *de facto* deprivation did occur. It is therefore very curious that, in the real world, where regulations result in a greater loss being borne by trade mark owners, the conclusion should be different.

For all the above reasons, the judgment of the High Court of England and Wales will be of limited referential value in Hong Kong. In establishing *de facto* deprivation, the tobacco companies’ biggest hurdle would likely be the fact that non-verbal marks are still technically allowed, albeit on a much more limited area of the packaging and have to be significantly scaled down. As observed by the Hong Kong Court of Appeal in *Fine Tower* (para 18), the question of *de facto* deprivation is case-specific and a matter of fact and degree. Nevertheless, given an arguably stronger case from the tobacco companies’ perspective, as compared to cases in the UK and Australia where they had previously suffered defeat, Hong Kong’s proposed health-warning regulations are doomed to be contentious.

Practical significance

Tobacco health warning regulations are a rare juncture where IP protection meets constitutional law. The on-going developments in this area of law globally will provide IP practitioners with a fresh perspective from which to assess state actions that would result in the loss of value in IP rights.

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