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# Kluwer Arbitration Blog

## Investor-State Arbitration and Plain Packaging: The New 'Anti-Tobacco Movement' Has Begun

J. Martin Hunter (Essex Court Chambers) · Sunday, January 29th, 2012 · Institute for Transnational Arbitration (ITA), Academic Council

In February 2010, Philip Morris International (PMI) filed a request for arbitration under the ICSID Convention against the Republic of Uruguay.<sup>1)</sup> The claim relates to two pieces of legislation enacted by Uruguay which require tobacco companies to comply with strict plain packaging measures. These regulations limit the use of registered tobacco trademarks, allowing the brand name of the tobacco product to be written in a standard font only. In addition, health warnings will be displayed on the package, which will leave tobacco corporations with no option but to sell cigarettes in generic packages.

PMI contends that the Uruguayan regulations violate several provisions of the Switzerland-Uruguay BIT. Furthermore, PMI is arguing, *inter alia*, that the intellectual property rights of Abal Hermanos (PMI's subsidiary in Uruguay) have been infringed as a consequence of the limitations imposed on the right to use its legally protected trademarks.<sup>2)</sup> This is not, however, the only case where this international corporation has launched an arbitration claim against a state as a result of similar plain packaging measures.

In November 2011, Hong Kong-based Philip Morris Asia Limited (PM Asia), which owns Australian affiliate Philip Morris Limited, initiated arbitration proceedings against the Australian government over new legislation on plain packaging of cigarettes. The new Australian law imposes strict limitations on the use of registered trademarks. For instance, it requires cigarettes to be sold in generic olive green packages, without brands or logos. This legislation is expected to come into force in December 2012.<sup>3)</sup>

As in the claims of PMI against Uruguay, PM Asia is arguing, *inter alia*, that it has, whether as owner or licensee, rights to use registered and unregistered trademarks. PM Asia claims that the new Australian legislation infringes its intellectual property rights and diminishes the value of its trademarks. Furthermore, it contends there has been a violation of the Australia-Hong Kong BIT.<sup>4)</sup>

At this stage, it is important to distinguish between two different types of trademarks:

non-word marks and word marks. Plain packaging of tobacco products involves the prohibition of the use of non-word marks (such as logos, colour schemes and graphics) and the limitation on the use of word marks (brand name).

Several questions arise in relation to these two arbitration claims. One of them is whether these anti-tobacco schemes contravene the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) and the Paris Convention for the Protection of Industrial Property (Paris Convention). In particular, whether plain packaging infringes the right to use trademarks as well as affects the core function of trademarks.

There are strong arguments to suggest that the plain packaging measures adopted by Uruguay and Australia are consistent with their international obligations under the TRIPS Agreement and the Paris Convention. In this sense, it is important to point out that these measures do not impose limitations on the sale of tobacco products but on the use of trademarks related to such products.

The tobacco corporation claims that plain packaging unfairly limits its rights to use its legally protected trade mark. However, the right to use trademarks is not expressly granted by the TRIPS Agreement and the Paris Convention. Trademark owners only have the exclusive right to prevent third parties from using their trademarks without their consent. This is a negative right relating to the 'exclusion' of use rather than to the use *per se*.<sup>5)</sup> Neither PMI nor PM Asia are claiming protection from an unlawful use of their trademark by a third party.

It can nonetheless be argued that the registration of a trademark provides an inherent right to use it. In this sense, under the TRIPS Agreement, WTO Members may make registrability depend on use.<sup>6)</sup> This argument could therefore be sustained in cases where the WTO Member in question established that the use of a trademark is a compulsory requirement for obtaining its registration.

In addition, it might be argued that plain packaging prevents consumers from distinguishing PMI's tobacco products from others competitors, thereby affecting the core function of a trademark.<sup>7)</sup> A trademark would lose its value if it creates the likelihood of confusion with other trademarks. However, the fact that the brand name can be displayed in the package raises doubts as to the strength of this argument.

The outcome of these cases will certainly set a precedent that could be adopted by future arbitral tribunals and national courts deciding disputes arising out of plain packaging schemes. Furthermore, the decisions adopted by the respective tribunals will have significant repercussions on the investment relationships between PMI and the countries in which it operates.

This 'anti-tobacco movement' has just begun. In fact, other countries, such as the United Kingdom, Canada and New Zealand, are considering introducing similar measures in their national laws, which will inevitably lead to an increasing wave of investment claims brought by tobacco companies against states.

There are of course further questions that arise in the context. For example, does plain packaging amount to indirect expropriation? Is it possible to strike a balance between the WTO Members' obligations under the World Health Organisation Convention on Tobacco Control (WHO FCTC) and the intellectual property rights conferred to investors such as PMI? Does plain packaging amount to an unfair and inequitable treatment under the said BITs? Such questions will be examined in upcoming blogs. For now, we open the floor for discussion and invite the readers to comment on what has been discussed in this blog.

By Martin Hunter and Javier García Olmedo

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References

- Philip Morris Brand Sàrl (Switzerland), Philip Morris Products S.A. (Switzerland) and Abal Hermanos S.A. (Uruguay) v. Oriental Republic of Uruguay (ICSID Case No. ARB/10/7). Pending (the Respondent filed a memorial on jurisdiction on September 24, 2011). See <http://icsid.worldbank.org/ICSID/FrontServlet?requestType=GenCaseDtlsRH&actionVal=ListPending>
- Request for Arbitration, FTR Holdings S.A. (Switzerland) v. Oriental Republic of Uruguay, ICSID case no. ARB/10/7 (February 19, 2010), available at [http://www.smoke-free.ca/eng\\_home/2010/PMIvsUruguay/PMI-Uruguay%20complaint0001.pdf](http://www.smoke-free.ca/eng_home/2010/PMIvsUruguay/PMI-Uruguay%20complaint0001.pdf)
- The text of the bill is available at <http://www.aph.gov.au/house/committee/haa/billtobaccopackage/documents/doc01.pdf>
- Written Notification of Claim by Philips Morris Asia Limited to the Commonwealth Australia pursuant to Australia/Hong Kong Agreement for the Promotion of Investments. Available at <http://www.dfat.gov.au/foi/downloads/dfat-foi-11-20550.pdf>
- Article 16 TRIPS Agreement
- Id, Article 15.3
- Id, Article 15.1

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