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Plain Packaging and Expropriation

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In a previous blog we discussed the concept of plain packaging of tobacco products and the pending investment arbitration claims brought by Philip Morris International (PMI) against Uruguay and Australia. The question raised was 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 and/or interferes with the core function of trademarks. The present contribution is intended to open the floor for discussion as to whether plain packaging amounts to compensable expropriation.

Plain packaging of tobacco products does not affect the ownership of PMI's trademark rights, nor does it prohibit PMI from selling tobacco products in Australia or Uruguay. In this sense, considering that plain packaging measures only involve prohibition of the use of non-word marks (such as logos, colour schemes and graphics) and restrictions on the use of word marks (brand names), it can only amount to indirect expropriation of PMI's intellectual property rights. Intellectual property rights, such as trademarks, are considered valuable intangible assets and are thus a form of investment. Article 1 of the Switzerland-Uruguay BIT includes in its definition of investment any kind of asset, including industrial property rights such as trademarks. Similarly, Article 1 of the Australia-Hong Kong BIT defines an investment as any type of asset, including intellectual property rights arising out of trademarks.

PMI claims that the measures adopted by Uruguay and Australia amount to indirect expropriation of its investment due to the substantial deprivation of its intellectual property rights. The tobacco company contends that such expropriation is unlawful as it does not meet certain fundamental requirements under the BITs in question, including the failure to provide adequate and effective compensation.[1)] Two issues for discussion arise at this stage; first, whether plain packaging measures 'substantially' interfere with PMI's investment or its economic benefit; secondly, whether, in the event that indirect expropriation occurred, such expropriation is compensable.

Regarding the first issue, there is no doubt that the measures taken by Uruguay and Australia do interfere with PMI's use and enjoyment of its trademarks. PMI is not only obliged to reserve 80% of the surface area of each pack for health warning images, but it is also forced to display the cigarette brand name in a prescribed small font size. This may prevent consumers from

distinguishing the investor's tobacco products from those of its competitors, thereby affecting the economic value of the particular brand. It is nonetheless important to consider that the right to use trademarks is not expressly granted by the TRIPS Agreement or the Paris Convention. Furthermore, the fact that the brand name may be displayed on the pack, albeit in small print, raises the issue as to whether or not PMI has been 'substantially' deprived of the use and enjoyment of its trademarks.

Regarding the second issue, in deciding whether to award compensation for indirect expropriation, arbitral tribunals have taken into account situations in which a non-discriminatory measure has been adopted and enforced, in good faith, for the protection of legitimate public health. For instance, in *Methanex Corporation v. United States of America* the tribunal noted that:

as a matter of general international law, a non-discriminatory regulation for a public purpose, which is enacted in accordance with due process and, which affects, inter alios, a foreign investor or investment is not deemed expropriatory and compensable unless specific commitments had been given by the regulating government to the then putative foreign investor contemplating investment that the government would refrain from such regulation.[2)]

Australia and Uruguay might therefore argue that, even if there had been a substantial deprivation of PMI's use and enjoyment of its investment, plain packaging measures should not give rise to compensable expropriation because such measures were adopted for a public purpose. However, the burden of proof is on the two respondent governments. They will have to show not only a clear and genuine intention to protect public health, but also that such measures are effective in reducing tobacco consumption.

PMI is not alone in taking legal action as result of Australia's new anti-tobacco legislation. In March and April 2012, respectively, Ukraine and Honduras filed a dispute at the WTO against Australia in connection with the new plain packaging measures covering tobacco products. Ukraine claims that:

Australia's measures, especially viewed in the context of Australia's comprehensive tobacco regulatory regime, appear to be inconsistent with a number of Australia's obligations under the TRIPS Agreement, the TBT Agreement, and GATT 1994.

Similarly, Honduras argues that:

measures regulating the plain packaging and appearance of tobacco products for retail sale appear to be inconsistent with Australia's obligations under […] the TRIPS Agreement, the TBT Agreement and the GATT 1994.

These issues (and those raised in our earlier blog) are by no means the only questions to be considered in connection with the modern 'tobacco wars'. Our next contribution will review the prospects of striking a balance between, on the one hand, the obligations of WTO Members' under the World Health Organisation Convention on Tobacco Control and, on the other hand, intellectual property rights conferred on investors such as PMI under national and international law.

For now, we open the floor for discussion and invite readers to comment on the matters discussed in this contribution and our earlier blog on 'plain packaging' regulation.

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References

?1 See Written Notification of Claim by Philips Morris Asia Limited to the Commonwealth of Australia pursuant to Australia/Hong Kong Agreement for the Promotion of Investments. Available at https://www.dfat.gov.au/foi/downloads/dfat-foi-11-20550.pdf: and, Request for Arbitration, FTR Holdings S.A. (Switzerland) v. Oriental Republic of Uruguay, ICSID case no. ARB/10/7 (February 19, 2010), available at https://www.smoke-free.ca/eng_home/2010/PMIvsUruguay/PMI-Uruguay%20complaint0001.pdf

?2 Methanex Corporation v United States, Final Award on Jurisdiction and Merits, Ad hoc – NAFTA/UNCITRAL Arbitration Rules, para. 7

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