

CONSULTATION

“PLAIN AND STANDARDIZED PACKAGING” FOR TOBACCO PRODUCTS
*POTENTIAL MEASURES FOR REGULATING THE APPEARANCE, SHAPE AND SIZE OF
TOBACCO PACKAGES AND OF TOBACCO PRODUCTS*

SUBMISSION TO

THE TOBACCO PRODUCTS REGULATORY OFFICE
HEALTH CANADA

AUGUST 31, 2016



INTELLECTUAL PROPERTY INSTITUTE OF CANADA
INSTITUT DE LA PROPRIÉTÉ INTELLECTUELLE DU CANADA

INTRODUCTION

The Intellectual Property Institute of Canada (IPIC) is the professional association of trademark agents, patent agents and lawyers practising in all areas of intellectual property law. Our membership totals over 1,700 individuals, consisting of practitioners in law firms and agencies of all sizes, sole practitioners, in-house corporate intellectual property professionals, government personnel, and academics. Our members' clients include virtually all Canadian businesses, universities and other institutions that have an interest in intellectual property (e.g. trademarks, patents, copyright and industrial designs) in Canada or elsewhere, and also foreign companies who hold intellectual property rights in Canada.

EXECUTIVE SUMMARY

The Intellectual Property Institute of Canada (IPIC) is responding to Health Canada's Consultation on "Plain and Standardized Packaging" ("PSP") for Tobacco Products. IPIC views the PSP as primarily a health policy matter and is not expressing an opinion on health policy *per se*. Rather, the purpose of this submission is to ensure that Health Canada is aware of how the PSP would affect trademark rights for brand owners in Canada, as well as Canada's International Treaty obligations in respect of same.

CANADA'S INTERNATIONAL TREATY OBLIGATIONS

The enactment of the PSP may contravene several of Canada's treaty obligations, namely:

1. TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights)

- a. Article 20 states "the use of a trade-mark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trade-mark, use in a special form, or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings."
- b. Article 15 states "the nature of the goods or services to which a trade-mark is to be applied shall in no case form an obstacle to registration of the trade-mark."

2. NAFTA (North American Free Trade Agreement)

Article 1708 states that "the nature of the goods or services to which a trade-mark is to be applied shall in no case form an obstacle to the registration of the trade-mark." Article 1110 states "no party may directly or indirectly nationalize or expropriate an investment of an investor of another party in its territory or take a measure tantamount to nationalize or expropriation of such an investment ..."

LOSS OF TRADEMARK RIGHTS

Overview of Canadian Trademarks and Effect of Legislation

Implementing the proposed terms of PSP will effectively prevent brand owners from protecting their trademarks for use in association with tobacco products. Trademark rights are acquired through use, and lost through non-use. Rights must be enforced to prevent infringement. These requirements are specific to each word or design mark and each of the goods and services in respect of which a trademark is registered. The investments in obtaining, maintaining, and protecting trademarks are substantial, and the rights acquired are significant intellectual property assets.

Section 4 of the *Trade-marks Act (TMA)* provides that:

“a trade-mark is deemed to be used in association with goods if, at the time of the transfer of the property in or possession of the goods, in the normal course of trade, it is marked on the goods themselves, or on the packages in which they are distributed or it is in any other manner so associated with the goods that notice of the association is then given to the person to whom the property or possession is transferred.”

Design marks, in the context of tobacco packaging, can include one or more colours, fonts, and logos, such as camels, cowboys, trees, etc. In terms of numbers of trademarks associated with tobacco products, there are hundreds of applied-for and registered trademarks in Canada for use in association with "cigarettes", "tobacco" and / or "cigars". There are also potentially a large number of unregistered "common law" trademark rights (i.e. rights which have accrued solely through use of a trademark without being registered). Such unregistered rights may still be enforceable through the tort of passing off. In terms of percentages, design marks appear to make up 40 – 60% of all applied-for and registered trademarks with the remainder being word marks.¹

If legislation regulating PSP comes into force, the use of design marks on tobacco packaging will be prohibited outright. Unless there is another means by which trademark owners can provide consumers with notice of the design marks, owners cannot achieve "use" as required by the *TMA*. Without use, trademark rights cannot be obtained and existing rights are subject to cancellation. The following non-exhaustive list itemizes how trademark rights may be lost:

A. EFFECT OF LEGISLATION ON DESIGN MARKS

1. New Design Marks Will Be Unobtainable and Existing Design Mark Registrations Will Be Unenforceable

¹ These numbers are based on a search of the Canadian Trade-marks Registry for active trademark registrations and applications for use in association with goods that include any of the terms "tobacco", "cigarettes" and "cigars", which turns up 2,915 results for designs and 2,340 results for word marks as of August 7, 2016. Many of these results are for smokers' articles, such as cigar cases and tobacco pouches, accessories, such as pipes, and electronic cigarette products. It would be very laborious to attempt to sort which trademark applications and registrations are for products that will be caught by the legislation enforcing PSP and which are not. For that reason, we have expressed the number as an order of magnitude (i.e. "hundreds") rather than provide specific numbers.

Under the current *TMA*, owners of trademark applications filed on the basis of actual use of that trademark in Canada must be able to provide evidence of such use in the context of adversarial proceedings, such as administrative proceedings before the Trademarks Opposition Board and court proceedings for trademark infringement and passing off. If a brand owner cannot demonstrate continued use of its design marks, it will not be successful in defending an opposition proceeding in which use of the trademark is questioned, nor will it be successful in enforcing or defending its rights against others.

2. Existing "Proposed Use" Trade-mark Applications Will Not Proceed to Registration

Applicants may currently apply to register a trademark on the basis of their intention to use the design marks in Canada. However, before the application can mature to registration, the applicant must file a declaration that the trademark is in use in Canada. If legislation imposing the proposed terms of the PSP comes into force, any pending trademark application based on an intention to use a design mark will be unable to proceed because the proposed terms of the PSP effectively prohibit such use.²

3. Existing Registrations Will Be Subject to Cancellation due to Non-Use

If a trademark registration is obtained, but the owner cannot subsequently show use of its design mark, then the mark is subject to cancellation by third parties. This restricts a brand owner's ability to effectively protect or defend its trademark rights.

4. Loss of "Common Law" Rights in Design Marks

The rights afforded to unregistered or "common law" trademarks are determined by use in the marketplace. Therefore, the PSP will effectively prevent brand owners of unregistered design marks in association with tobacco products from asserting their rights and protecting their trademarks in Canada. A common law trademark will presumably cease to have any associated goodwill, rendering it unenforceable.

B. EFFECT OF LEGISLATION ON WORD MARKS

The PSP could also affect the extent of protection available to brand owners in word marks by limiting the number of words permitted on one package.

There are two proposals which would appear to affect word marks. The first is "limits on the number of words in the brand name displayed." This proposal may limit the number of separate word marks a tobacco manufacturer could use on a single package. Often, trademark owners will use more than one word mark on packaging (e.g. a "house brand" name, and a slogan or a "sub brand"). This will limit the use of more than one word mark on a package. Additionally, depending on the word limit, it may force trademark owners to abandon or be susceptible to cancellation on longer word marks.

² A false declaration will also invalidate the subsequent registration. Amendments to the *Trade-marks Act*, which have not yet come into force, have removed the requirement of a declaration of use. If those amendments come into force before any legislative amendments for Health Canada's PSP, then proposed use trademark applications will be able to proceed to registration.

For example, if the word limit was less than four, the word mark CHAMPIONS BRAND ULTRA SMOOTH (invented word) would no longer be in use and therefore susceptible to cancellation.

C. CANADA’S TREATY OBLIGATIONS

As indicated above, in considering legislation in relation to PSP, Parliament should be cognizant of Canada’s international treaty obligations. Requiring tobacco companies to remove their logos from cigarette packaging could potentially conflict with the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the North American Free Trade Agreement (NAFTA).

TRIPS

Article 20 of TRIPS, to which Canada is a signatory member, states “the use of a trade-mark in the course of trade shall not be unjustifiably encumbered by special requirements, such as the use with another trade-mark, use in a special form or **use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings...**” [Emphasis added]. Canada currently complies with this obligation by allowing the owner of a registered trademark to use that mark to distinguish his products. In prohibiting the use of logos on tobacco products, Parliament may be encumbering a brand owner’s right to use its logos, contrary to Article 20 of TRIPS.

In addition, the proposed terms of the PSP may also conflict with Article 15 of TRIPS, which requires that “the nature of goods to which a trade-mark is applied shall in no case form an obstacle to the registration of the trade-mark”. If the PSP prohibits the use of design marks on tobacco packaging because the product is tobacco, then this could potentially be violating TRIPS because the product would be an obstacle for brand owners to enforce their trademark rights.

NAFTA

The PSP may also contravene Article 1108 and 1708 of NAFTA. Chapter 11 of NAFTA relates to the protection of investment interests between Canada, Mexico and the United States.

To this end, Article 1110 states that:

“no party may directly or indirectly nationalize or expropriate an investment of an investor of another party in its territory or take a measure tantamount to nationalize or expropriation of such an investment, except:

- (a) for a public purpose;
- (b) on a non-discriminatory basis;
- (c) in accordance with due process of the law and Article 1105(1); and
- (d) on payment of compensation”

If the PSP prevents a brand owner from using its design marks, the PSP may operate to expropriate the brand owner’s investment in that design mark in Canada. Importantly, Article 2101 of NAFTA specifically excludes foreign investments from the “public purpose” exception in article 1110.

Therefore, unless the Canadian government is willing to compensate trademark holders with a fair market value for their marks, legislation that requires the use of PSP may conflict with NAFTA.

The proposed terms of the PSP may also conflict with Article 1708(5) of NAFTA which, similar to Article 15 of TRIPS, provides that “The nature of the goods or services to which a trade-mark is to be applied shall in no case form an obstacle to the registration of the trade-mark”. Prohibiting the use of design marks on packaging simply because the product is tobacco may conflict with this provision.

IPIC’s RECOMMENDATIONS

IPIC does not have a position on the PSP on matters related to health policy. However, it is important to ensure that Health Canada is aware of the potential consequences in trademark law. Therefore, IPIC is providing recommendations which may ameliorate some of these consequences.

A. International Obligations

The proposed terms of the PSP may potentially be in conflict with several international treaties.

Recommendation: Canada should allow some use of design marks, including logos, colour and font, on packaging of tobacco products.

B. Cancellation of Design Marks

The proposed terms of the PSP could result in the abandonment of all applications covering design marks for use in association with tobacco products. This could result in the cancellation of registrations which have acquired significant goodwill over many years. Further, the PSP will result in limiting the ability of brand owners to protect and assert their rights in such design marks.

Recommendation: The terms of the PSP should allow some use of design marks, including logos, colours and font.

C. Abandonment of Word Marks

The proposed terms of the PSP could also effectively result in an increase in abandonment or cancellation of many word marks as applied to tobacco products. The restriction on the word length of the brand name could prevent brand owners from continuing to use or protect such marks,

Recommendation: The PSP should not restrict the number of words contained in trademarks used in association with tobacco products. If necessary, smaller type font for words over a reasonable limit could be imposed.