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R.J. Reynolds Tobacco Company
401 North Main Street
Winston-Salem, North Carolina 27102

Philip Morris International Inc.
800 Westchester Avenue
Rye Brook, New York 10573

Re: Legal Opinion With Regard to Plain Packaging of
Tobacco Products Requirement Under International
Agreements

Dear Sirs:

You have asked us to provide a legal opinion analyzing the consistency of the plain packaging requirement for cigarettes being considered by the Standing Committee on Health of the House of Commons of the Canadian Parliament with relevant international intellectual property agreements.

It is our opinion that a plain packaging proposal¹ would infringe the trademark rights of foreign investors who own or control the trademarks on cigarettes sold in Canada, in violation of the Government of Canada's obligations under:

¹ For purposes of this opinion, we assume that a plain packaging proposal would severely restrict the use of trademarks and trade dress in Canada.

- 1) the Paris Convention for the Protection of Industrial Property;
- 2) the North American Free Trade Agreement ("NAFTA"); and
- 3) the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods ("TRIPS") contained in the recently signed Final Act embodying the results of the Uruguay Round Multilateral Trade Negotiations.

It is also our opinion that, under NAFTA, any such plain packaging requirement would constitute an expropriation of the investments of U.S. manufacturers of tobacco products and their subsidiaries in Canada, requiring substantial compensation, which you have told us would be in excess of hundreds of millions of dollars.

I. STATEMENT OF FACTS

The proposal currently before the Standing Committee on Health requiring plain packaging of cigarettes does not provide any information on the specific type of plain packaging requirements that would be imposed.

All cigarettes sold in Canada are branded with distinctive trademarks and trade dress, and a major portion of those brands are protected by trademarks owned or controlled by foreign investors. As is the case with most consumer product manufacturers, manufacturers of tobacco products have spent large amounts of money and time in developing and achieving market share in Canada with its product trademark and trade dress, which are major company assets.

A plain packaging requirement that interferes with the use of the trademark or trade dress of cigarette packaging, which includes distinctive lettering, design or coloring, would cause consumer confusion and significant commercial damage. Such plain packaging requirement would significantly encumber the use of a company trademark or trade dress and would substantially diminish the worth of these highly valuable company assets, thereby resulting in tremendous losses.

II. THE PLAIN PACKAGING REQUIREMENT WOULD VIOLATE TRADEMARK RIGHTS UNDER INTERNATIONAL AGREEMENTS

Protection of foreign manufacturers and trademark owners engaging in business in Canada is provided under three agreements: the Paris Convention for the Protection of Industrial Property (most recently revised at Stockholm in 1967), the NAFTA, and the recently signed Uruguay Round TRIPS Agreement. Canada is a signatory to all three agreements. Together, they provide fundamental rights with respect to the registration, use and enforcement of trademarks.

A. Paris Convention For the Protection of Industrial Property

1. Scope of Protection

Canada is a member of the union of countries formed under the Paris Convention for the Protection of Industrial Property. As a result of its membership in the Paris Union, Canada has assumed

certain specific legal obligations to protect industrial property.² The Convention states, *inter alia*, that the "protection of industrial property has as its object . . . trademarks" The authoritative Guide to the Application of the Paris Convention For the Protection of Industrial Property (hereinafter WIPO Guide), published by the World Intellectual Property Organization ("WIPO"), which administers the Paris Convention,⁴ defines a trademark as "a sign serving to distinguish the goods of one enterprise from those of other enterprises."

The proprietor of a trademark generally has the exclusive right to use the trademark⁵ and may request a member country:

to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a

² Paris Convention for the Protection of Industrial Property, Article 1(1).

³ *Id.* at Article 1(2). The Canadian Trade-Marks Act provides that: "trade-mark means (a) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares . . . manufactured [or] sold . . . by him from those manufactured [or] sold . . . by others, (b) a certification mark, (c) a distinguishing guise, or (d) a proposed trade-mark. "Distinguishing guise" means (a) a shaping of wares or their containers, or (b) a mode, a wrapping or packaging wares the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish wares . . . manufactured [or] sold . . . by him from those manufactured [or] sold . . . by others." Canadian Trade-Marks Act Annotated at 2-2, 2-4 (1991).

⁴ Technically, the Guide was published by the WIPO's predecessor organization, the United International Bureau for the Protection of Intellectual Property (BIRPI).

⁵ G.H.C. Bodenhausen, Guide to the Application of the Paris Convention For the Protection of Industrial Property, 22 (BIRPI 1968).

⁶ *Id.*

translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods."⁷

The WIPO Guide notes that confusion can be created by the use of identical or similar trademarks or form of packaging.⁸

In addition, Article 6quinquies(A) provides that, once registered, a trademark must be protected, subject to the limited reservations set forth in Article 6quinquies(B). These reservations, indicated in a limited enumeration, provide grounds for refusal or invalidation.⁹ A member country may invalidate trademark registration only if:

- 1) the mark infringes rights already acquired in the country in which protection is claimed (a similar trademark is already protected in Canada);¹⁰
- 2) the mark is devoid of any distinctive character¹¹, merely descriptive or a generic name; or
- 3) the mark is contrary to morality or public order.¹²

⁷ Paris Convention, Article 6bis(1) (emphasis added).

⁸ WIPO Guide at 145.

⁹ Id. at 111.

¹⁰ Id. at 115.

¹¹ The WIPO Guide notes that a mark may be devoid of any distinctive character when it is too simple (a single star, crown or letter) or too complicated (giving the impression of being an adornment or decoration of the goods concerned, or of being merely a slogan consisting of recommendations to buy or use such goods). Id.

¹² A mark contrary to morality would, for example, be a mark containing an obscene picture. Examples of marks contrary to public order could be a mark containing a religious symbol, or a

If the exceptions do not apply, a trademark "may be neither denied registration nor invalidated."¹³ Signatories may not apply other grounds for refusal or invalidation of the registration of trademarks.¹⁴

The "repression of unfair competition" is a separate obligation under the Paris Convention and is an important element in the protection of industrial property.¹⁵ In fact, one of the justifications for requiring the protection of marks is that the use of a confusingly similar mark will, in most cases, amount to an act of unfair competition and be considered prejudicial to the interests of those who will be misled.¹⁶ Article 10bis(1) requires the countries of the Union to assure nationals of other member countries effective protection against unfair competition and prohibits "all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor."¹⁷ The WIPO Guide states that "in many cases, infringement of industrial property

mark containing an emblem of a forbidden political party. *Id.* at 116.

¹³ Paris Convention, Article 6quinquies(B) (emphasis added).

¹⁴ The trademarks must be "covered" by this Article in order to be protected. "Covered" trademarks are those trademarks which are duly registered in the country of origin and which, with regard to the signs of which they are composed, must be accepted for filing and protected, subject to the provisions in Article 6quinquies. WIPO Guide at 116.

¹⁵ *Id.* at 23; Paris Convention, Article 1(1).

¹⁶ WIPO Guide at 90-91.

¹⁷ Paris Convention, Article 10bis(3)(1).

rights, such as the right to a trademark or a trade name, . . . will at the same time be an act of unfair competition."¹⁹ Also, as noted above, any act which creates confusion with the goods of a competitor may constitute unfair competition.

Finally, Article 7 prohibits the nature of the goods to which a trademark is to be applied from being an obstacle to the registration of the mark.²⁰ The interpretive history²¹ of the provision strongly suggests that most countries, including Canada, recognize their obligations under Article 7, not only to register all marks regardless of the nature of the product, but also to refrain from "suppressing or limiting" the exclusive right of the trademark owner to use a mark as long as the sale of the product is legal. Under Canadian law, use of a mark in commerce is required for both registration and renewal of a trademark, and non-use is a grounds for cancellation.

It should be added that, as a general principle of customary international law, countries can temporarily set aside their treaty obligations if necessary to deal with an unexpected emergency. A fundamental change of circumstances which was not foreseen by the parties when they signed a treaty can justify the temporary

¹⁹ *Id.*

²⁰ *Id.* at Article 7. Note that NAFTA Article 1708(5) contains parallel language ("the nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to the registration of the trademark").

²¹ Actes de Lisbonne at 694-704, 761-763 (1958); *see generally*, Stephen P. Ladas, Patent Trademarks and Related Rights Vol. II at 1247-1249 (1975).

suspension of a specific provision of a treaty.²¹ During the suspension, the larger legal relations between the parties established by the treaty will not be affected, and the parties will refrain from acts that would tend to obstruct the full resumption of the operation of the treaty after the emergency passes.²²

2. Violation of Obligations

The plain packaging requirement for cigarettes would violate Canada's obligations to protect trademarks and trade dress, pursuant to Articles 1, 6bis, 6quinquies(A), 7 and 10bis of the Paris Convention. The proposal undermines the value of the mark protected by Articles 1(2), 6bis, 6quinquies(A) and fails the 'likelihood of confusion' test by requiring packaging that makes the products nearly indistinguishable in the marketplace. Similarly, requiring virtually identical marks for different brands of cigarettes is an infringement of trademark and trade dress rights and would itself constitute a form of unfair competition in violation of Article 1, paragraph 2 and Article 10bis. In addition, the plain packaging proposal undermines Canada's obligation under Article 10bis to prevent confusion and unfair

²¹ Vienna Convention on the Law of Treaties, Article 62(3); see also Article 44. (The Vienna Convention formalizes the well-established customary principles of international treaty law, and Canada is a signatory. Even though the United States is not a signatory of the Convention, it scrupulously adheres to its precepts).

²² Id. at Article 72.

competition because in eliminating distinctive marks, it makes both inevitable.

The plain packaging proposal cannot be justified under the limited exceptions set forth in *Équiniss*(B). The plain packaging proposal would not fall within any of the three enumerated exceptions because the trademarks at issue do not "invalidate other trademarks", are not "devoid of any distinctive character," and are not "contrary to morality or public order."

The plain packaging proposal also would violate Article 7 of the Paris Convention because it would effectively prohibit use of cigarette trademarks in commerce. If the non-use results in the cancellation of existing marks or an inability to register new marks, it would constitute a breach of Canada's obligations under Article 7.

Finally, the plain packaging proposal cannot be justified under the general principle under customary international law allowing for temporary measures in unexpected emergency situations. Nothing in the proposal suggests that it would be a temporary measure. If anything, the clear implication is that the ban on the use of the trademark would be permanent. Therefore, the "fundamental change of circumstances" escape clause under international law would not permit Canada to deprive trademark owners of their substantive rights under the Paris Convention and could lead to an abrogation of Canada's obligations under the Agreement.

B. North American Free Trade Agreement

1. Scope of Protection

Canada also has ratified the North American Free Trade Agreement and has agreed to provide adequate and effective protection for the trademarks of U.S. corporations pursuant to Chapter 17,²⁵ which requires adherence to the Paris Convention. Indeed, NAFTA contains far more specific definitions and requirements than the Convention itself.

NAFTA Article 1708 defines a trademark as consisting of any sign or any combination of signs, capable of distinguishing the goods of one person from those of another, including personal names, designs, letters, numerals, colors, figurative elements, or the shape of goods or of their packaging.²⁶ To ensure adequate and effective protection, each NAFTA Party is required to provide a registration system²⁷ and specify what conditions may be placed on registration.²⁸ In addition, a Party may not register trademarks that misrepresent geographic origin, that generally designate goods to which the trademark applies, or that consist of immoral, deceptive or scandalous matter.²⁹

²⁵ NAFTA Article 1701.

²⁶ *Id.* at Article 1708.

²⁷ *Id.* at 1708(4).

²⁸ *Id.* at Article 1708(3). A Party must require the use of a trademark to maintain a registration. *Id.* at Article 1708(8)-1708(9).

²⁹ *Id.* at Articles 1708(13); 1708(14).

NAFTA sets forth the rights of trademark owners after registration. Specifically, paragraph 2 of Article 1708 requires NAFTA Parties to provide registered trademark owners with the right to prevent other persons from using identical or similar marks for identical or similar goods, where such use would result in a likelihood of confusion.²⁸ In addition to providing protection against infringement by private parties, NAFTA places limits on the extent to which a signatory government may provide exceptions that encumber trademark rights. Paragraph 5 of Article 1708 provides that a Party may not make "the nature of the good" an obstacle to registration. Article 1708(10) further provides that "a Party may not encumber the use of a trademark in commerce by special requirements such as a use that reduces a trademark's function as an indication of source."²⁹

It is important to note that in terms of providing for general exceptions from NAFTA obligations for reasons such as health and safety, as set out in NAFTA Article 2101(1),³⁰ Chapter 17

²⁸ Id. at Article 1708(7). These rights must extend for at least ten years and must be indefinitely renewable if the terms for renewal are met for not less than ten years.

²⁹ Id. at Article 1708(10) (emphasis added).

³⁰ For the purposes of:

- (a) Part Two (Trade in Goods), except to the extent that a provision of that Part applies to services or investment, and
- (b) Part Three (Technical Barriers to Trade), except to the extent that a provision of that Part applies to services.

(Intellectual Property) was specifically excluded. Therefore, there are no general or specific exceptions that would permit a NAFTA Party to avoid its obligation to provide trademark protection under Article 1708.

Violations of NAFTA may be raised on a government-to-government basis or by private parties through Canada's domestic legal system. Chapter 20 sets forth NAFTA's general dispute settlement provisions, based on GATT dispute settlement procedures, which include consultations and panel review.²¹ NAFTA also provides remedies to private parties under domestic law, including the right to seek injunctive relief and damages through civil court proceedings or arbitration.²²

GATT Article XX and its interpretative notes, or any equivalent provision of a successor agreement to which all Parties are party, are incorporated into and made part of this Agreement. The Parties understand that the measures referred to in GATT Article XX(b) include environmental measures necessary to protect human, animal or plant life or health, and that GATT Article XX(g) applies to measures relating to the conservation of living and non-living exhaustible natural resources. *Id.* at Article 2101 (General Exceptions).

²¹ Under NAFTA, the Free Trade Commission oversees implementation of the Agreement and dispute settlement. The Free Trade Commission ("FTC") was established pursuant to NAFTA Article 2001. The standard dispute settlement process, under the NAFTA, entails consultations between the disputing parties, a meeting with the Free Trade Commission if the consultations fail, and as a last resort, the convening of an arbitration panel.

As a general matter, disputes regarding any matter arising under both NAFTA and GATT or any agreement negotiated thereunder, may be settled in either forum at the discretion of the complaining Party. *See* NAFTA Article 2005.

²² *Id.* at Articles 1714, 2022.

2. Violation of Obligations

The plain packaging proposal would, if adopted, violate Canada's obligations under NAFTA Article 1701, as well as paragraphs 2 and 10 of Article 1708. The proposal would seriously diminish the integrity of the trademark and substantially degrade the value of the distinctive packaging, or trade dress, in which the companies have invested heavily over the years. Therefore, the proposal would deny adequate and effective protection to basic trademark intellectual property rights in violation of NAFTA Article 1701.

In mandating plain packaging, Canada would create "confusion as to the source of the products," in violation of paragraph 2 of Article 1708. It also would violate paragraph 10 of Article 1708 by encumbering the use of the trademark by reducing the function of the trademark as an indication of source. These violations are made more egregious by the fact that the elimination of brand distinctiveness is not an unintended consequence, but rather a deliberate objective of the proposal.

C. Uruguay Round Agreement on Trade Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods

1. Scope of Protection

The TRIPS Agreement, included in the provisions of the recently signed Final Act embodying the results of the Uruguay Round of Multilateral Trade Negotiations, contains a broad definition of trademark rights. Specifically:

any sign, or combination of signs, capable of distinguishing the goods or services of one

undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs are eligible for registration as trademarks.³⁵

Once registered pursuant to paragraph (1) of Article 16, the owner of a trademark has the right to prevent others from using identical or similar marks for goods that are identical or similar, where such use would result in a likelihood of confusion.³⁶ Initial trademark registration, and each renewal of registration, is for a term of no less than seven years and is renewable indefinitely.³⁷ Pursuant to Article 20, the use of a trademark in the course of trade may not be unjustifiably encumbered by special requirements, such as use in a manner detrimental to its capability to distinguish the goods of one undertaking from those of other undertakings.³⁸ This Article parallels NAFTA Article 1708, paragraph 10. Finally, the TRIPS Agreement requires a Party to adhere to the standards set forth in the Paris Convention.³⁹

TRIPS provides for the enforcement of intellectual property rights at the domestic and international level. Members are required to ensure that civil judicial procedures concerning the enforcement of any intellectual property rights covered by the

³⁵ TRIPS Article 15 (Protectable Subject Matter).

³⁶ *Id.* at Article 16 (1) (Rights Conferred).

³⁷ *Id.* at Article 18 (Term of Protection).

³⁸ *Id.* at Article 20.

³⁹ *Id.* at Article 2(1).

Agreement are available to the rights holders.³³ TRIPS Article 64 provides that the procedures set forth in the Understanding on Rules Governing the Settlement of Disputes, administered by the Dispute Settlement Body ("DSB"), are available for government-to-government dispute resolution, which may include conciliation, arbitration, and review by a panel.³⁴ If the panel concludes that the offending Party's measure is inconsistent with an agreement, compensation or suspension of tariff concessions may be authorized if the Party does not follow the panel's recommendations.³⁵

The TRIPS Agreement contains two reservations that limit the protection given to trademark holders. First, Article 17 (Exceptions) allows the Signatories "to provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of

³³ TRIPS Articles 41, 42.

³⁴ Note: disputes which do not allege specific violations of the TRIPS Agreement (Sub-paragraphs XXIII:1(b) and XXIII:1(c) of the GATT 1994) will not be permitted to participate in the dispute settlement procedure for a period of five years from the entry into force of the Agreement establishing the World Trade Organization (to be established as the successor entity to the GATT upon implementation). During this time period, the TRIPS Council will examine the scope and modalities for Article XX:III:1(b) and Article XX:III:1(c) type complaints made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. See TRIPS Article 64.

³⁵ The level of the suspension of concessions authorized by the DSB will be equivalent to the level of the nullification or impairment. If the Member concerned objects to the level of suspension proposed or claims that certain principles or procedures have not been met, the matter will be referred to arbitration. See TRIPS Understanding on Rules and Procedures Governing the Settlement of Disputes, para. 22.6. The parties must accept the arbitrator's decision as final and shall not seek a second arbitration. Panel Report at para. 22.7.

the legitimate interests of the owner of the trademark and of third parties."⁴¹ Second, according to Article 8 (Principles), "Members may, in formulating or amending their national laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement."⁴²

We note that GATT Article XX(b) (General Exceptions) contains a similar exemption allowing a Contracting Party to adopt or enforce measures necessary to protect human, animal or plant life or health as long as the measure is necessary and does not constitute a disguised restriction on trade.⁴³ GATT Article XX(b) is intended to allow Contracting Parties to impose trade-restrictive measures inconsistent with the General Agreement to pursue overriding public policy goals only to the extent that such inconsistencies are unavoidable." As Canada pointed out in recent GATT dispute settlement proceedings,⁴⁴ the proponent of the public

⁴¹ Id. at Article 17 (Exceptions) (emphasis added).

⁴² Id. at Article 8 (Principles) (emphasis added).

⁴³ GATT Article XX(b); Panel Report, United States - Restrictions on Imports of Tuna, Int'l. Legal Materials, Vol. XIX, No. 6, 1598 at para. 5.27 (1991) (hereinafter Panel Report).

⁴⁴ Id. citing Panel Report on "Thailand - Restrictions on Importation of and Internal Taxes on Cigarettes", adopted 7 November 1990, BISD 379/200, 222-223, paras. 73-74.

⁴⁵ Id. at para. 4.9. (The United States had not demonstrated to the Panel - as required of the Party invoking an Article XX exception - that it had exhausted all options reasonably

health exception has the burden of proving the imposed measure is "necessary." The burden of proof also would rest on the proponent trying to establish that the trademark violations are unavoidable. To meet the burden of proof, the Government would have to demonstrate that alternatives do not exist which could achieve the Government's objective without violating valuable trademark rights.

2. Violation of Obligations

Canada has recently signed the Uruguay Round Agreement. Although it is not yet in force, as a signatory, Canada has agreed to bring itself into compliance with the TRIPS Agreement upon implementation.

The plain packaging requirement violates TRIPS Articles 16 and 20. Plain packaging for all cigarettes would result in exactly the type of confusion proscribed by paragraph (1) of Article 16 of the Agreement, since the appearance of the products would be substantially similar regardless of the manufacturer. Plain packaging also would be a special requirement which would unjustifiably encumber the use of a trademark in violation of Article 20 in absence of evidence that such measure was justified.

The public health exceptions set forth in TRIPS Article 8⁴ would not apply in this case since, regardless of the public health or other public interest motivations behind the legislation, it would be inconsistent with the TRIPS Agreement itself. GATT

available to it to pursue its dolphin protection objectives through measures consistent with the GATT).

⁴ TRIPS Article 8(1); GATT Article XX(b).

Article XX(b) also would not apply in this case and would not relieve Canada of its obligations under the Agreement since, according to the record of the proceedings, the Canadian Health Department has conceded that there is no reliable evidence that plain packaging would reduce the sale of cigarettes. Therefore, the Government, by its own admission, cannot satisfy the burden of proof necessary to invoke the GATT Article XX(b) exception.

III. THE PLAIN PACKAGING REQUIREMENT WOULD CONSTITUTE AN EXPROPRIATION OF THE EXISTING INVESTMENT OF U.S. MANUFACTURERS OF TOBACCO PRODUCTS IN CANADA UNDER NAFTA ARTICLE 1101(10)

Imposition of the plain packaging requirement would give foreign investors the right to invoke Canada's obligations under Chapter 11 of NAFTA pertaining to investment.⁴⁷ Specifically, the requirement would amount to an expropriation of a lawfully registered trademark in violation of Article 1110(1), giving rise to massive compensation claims.⁴⁸

A. Scope of Protection

The investment provisions contained in Chapter 11 of NAFTA protect the investments of investors of Parties to NAFTA through provision of non-discriminatory treatment (Articles 1102 and 1103); freedom from performance requirements (Article 1106); free transfer of investment-related funds (Article 1109); and the requirement

⁴⁷ NAFTA Article 1101.

⁴⁸ Id. at Article 1110.

economic benefit or other business purposes¹³ Thus, as intangible property, trademarks clearly are within the scope of what is considered an "investment" for the purposes of Chapter 11. Article 1139 also defines an investor as "a Party or state enterprise thereof, or a national or an enterprise of such Party, that seeks to make, is making or has made an investment."¹⁴ To qualify for Chapter 11's protections, an investor of a Party must own or control directly or indirectly the investment as defined under Article 1139(a) through (h).

It is important to note that paragraph 7 of Article 1110 provides that its requirements do not apply to the issuance of compulsory licenses, or to the revocation, limitation or creation of intellectual property rights, as long as such actions are consistent with the requirements of Chapter 17 pertaining to intellectual property.¹⁵ As discussed above, the plain packaging requirement would be inconsistent with the provisions of Chapter 17, in particular Article 1708(10) (which prohibits the imposition of special requirements that encumber trademark use), and therefore would not be exempt from Article 1110.

B. Requirement of Compensation

The plain packaging requirement significantly encumbers the right to use a particular word in a trademark or a logo (a logo may include design and color), and as such, trademark rights, as

¹³ Id. at Article 1139(g).

¹⁴ Id. at Article 1139.

¹⁵ Id. at Article 1110(7).

IV. CONCLUSION

As outlined in the preceding sections, the plain packaging requirement would violate the Paris Convention on Industrial Property; Chapter 17 of NAFTA, specifically Article 1701, and paragraphs 2 and 10 of Article 1708; and Articles 16 and 20 of the TRIPS Agreement. These violations would give rise to claims by foreign manufacturers of tobacco products in Canadian courts for injunctive relief and damages and the possibility of government-to-government dispute settlement proceedings. In addition, the proposal would amount to an expropriation of property rights of foreign investors under NAFTA Article 1110(1), requiring the payment of prompt, adequate, and fully realizable compensation.

In evaluating the legality of the proposed plain packaging requirements under international agreements, we are in no way questioning the Canadian Government's authority to prohibit that which can be shown to be harmful to health. However, Canada cannot attempt to discourage the use of such products by undermining the value of a trademark, or encumbering its patent system, or weakening the level of copyright protection. For example, if, in an effort to make soft drinks that contain sugar and caffeine less attractive to children, Canada required the companies to market the product in a plain white can with the brand name written in black in a non-distinctive small type along the bottom of the can, Canada would violate its obligations to protect trademarks and prevent unfair competition under both NAFTA and the Paris Convention.

It is instructive to note that the Canadian plain packaging proposal is not without antecedents. In 1990, the International Trademark Association ("INTA"), a not-for-profit association with a worldwide membership of over 2700, including close to 100 Canadian members, opposed "The Tobacco Control and Health Protection Act," a similar trademark-restrictive proposal, which was pending before the U.S. Congress. The legislation would have, among other things, imposed limits on the use and display of trademarks in cigarette packaging and advertising. Although much less draconian than the Canadian proposal, experts weighed in against the proposal on the grounds that it placed unreasonable restrictions on trademark owners. They argued that these restrictions would interfere with the historic purpose of trademarks -- to permit consumers to distinguish between competing brands:

Regulating a particular product by placing limits on the form or style in which its trademark may be used... sets an unsound legislative precedent. If such restrictions are put into effect for tobacco products, they could easily be extended to any product that Congress seeks to regulate, be it high-sugared, high-cholesterol, alcoholic, or whatever is the product of concern at the moment. Such legislative activity would result in a large number of products that could not be distinguished by their trademarks and to widespread destruction of many trademark identities that consumers rely on to recognize the products of their choice."

¹⁷ Hearings on the U.S. Tobacco Export and Marketing Practices and the Tobacco Control and Health Protection Act, Before the Subcomm. on Health and the Environment of the Comm. on Energy and Commerce, House of Representatives, 101 Cong., 2d Sess. 828 (1990) (letter from Mr. Garo A. Partoyan, President, U.S. Trademark Association) (currently known as the Int'l. Trademark Association).

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Regulating a particular product by placing limits on the form or style in which its trademark may be used... sets an unsound legislative precedent. If such restrictions are put into effect for tobacco products, they could easily be extended to any product that Congress seeks to regulate, be it high-sugared, high-cholesterol, alcoholic, or whatever is the product of concern at the moment. Such legislative activity would result in a large number of products that could not be distinguished by their trademarks and to widespread destruction of many trademark identities that consumers rely on to recognize the products of their choice."

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In short, INTA opposed the bill as an unjustified restriction on the rights of trademark owners to use and display their logos or symbols. The measure died in committee, and has not been revived. For the same reasons, the current proposal should be rejected.

The enactment of a plain packaging requirement by the Canadian Parliament would be a blatant violation of the Paris Convention, NAFTA, and the GATT/TRIPS Agreement which Canada has agreed to implement. Not only would it infringe the trademark rights of foreign investors protected under international agreements, but it would also amount to an expropriation of property rights requiring the payment of significant amounts in compensation.

JUDGE ROSE GUTHRIE ALEXANDER
& PERDON

By:


Carla A. Hills

09:37 JUN 17, 1994

TEL NO: 202 3963692

June 16, 1994

MEMORANDUM TO: Governors
 State Points of Contact
 Attorney Generals
 Multistate Tax Commission
 Federation of Tax Administrators
 National Conference of State Legislatures
 National Governors' Association
 Western Governors' Association

FROM: Debbie Leilani Shon
 Assistant U.S. Trade Representative Intergovernmental
 Affairs / Public Liaison

RE: Draft U.S. GATS Reservations to National Treatment of
 Sub-Federal Tax and Subsidy Measures

To ensure that the U.S. reservations are complete and that inconsistent state practices are fully protected, USTR has obtained a brief extension of the previous May 15 deadline.

Attached for your review are the draft reservations to national treatment of sub-federal tax and subsidy measures to the General Agreement on Trade in Services (GATS). We believe that these reservations cover the inconsistent practices of your state.

If you have any comments or questions please contact Clayton Parker via facsimile at (202) 398 3693 or call (202) 398-6130. Comments must be received no later than close of business on June 23, 1994.

Attachments

*LORI + PATTI:
 Here are blanket
 State Reservations.
 What strikes you
 As left out?
 Andrew
 959 9696*

09:28 JUN 17, 1994

**ADDENDUM TO GATS SCHEDULE
OF SPECIFIC COMMITMENTS FOR THE UNITED STATES**

The United States submits the following amendment to its list of limitations on national treatment in relation to subsidies at the sub-federal level:

1. Sub-federal subsidies measures which afford more favorable treatment to socially or economically disadvantaged groups, including measures which provide incentives, benefits or other assistance. These groups may include women, veterans, racial minorities, physically disadvantaged persons, students, youths, and small businesses.
2. Subsidies measures of a sub-federal jurisdiction which are available only to juridical persons of another Member which are incorporated in that jurisdiction.

¹ This reservation may not be necessary should discussion on the scope of the GATS resolve that measures of this nature are outside the scope of the GATS.

09:29 JUN 17, 1994

TEL NO: 202 3953672

- * the service is performed or consumed, or the service provider is located, in a jurisdiction with which a sub-federal jurisdiction has arrangements for tax cooperation and assistance;
 - * the application of a sub-federal jurisdiction's property tax classification system, including appraisal methods applicable to the classification;
4. Sub-federal measures substantially incorporating provisions of federal law subject to a national treatment reservation under this agreement
 5. Sub-federal tax measures reflecting restrictions placed on sub-federal taxing power by federal legislation

Ambassador Carla A. Hills was the United States Trade Representative from 1989-93. In that capacity, Ambassador Hills negotiated the North American Free Trade Agreement, a multitude of trade agreements, market-opening agreements, investment treaties as well as intellectual property protection agreements with a host of countries. Prior to becoming President Bush's chief trade advisor and negotiator, she founded successful law firms in Los Angeles and Washington, D.C., and served as Secretary of Housing and Urban Development (1975-77), and Assistant Attorney General (Civil Division, 1974). She serves on the boards of several multinational corporations.

Ambassador Julius L. Katz is President of Hills & Company, International Consultants. He served as the senior Deputy United States Trade Representative from 1989-93, where he was the chief negotiator of the North American Free Trade Agreement, led the negotiations for the United States - U.S.S.R. Trade Agreement, and oversaw the Uruguay Round of multilateral trade negotiations. Prior to joining USTR, Ambassador Katz worked in the private sector in international trade facilitation. He was Chairman and Chief Executive Officer of the futures brokerage activities of Donaldson, Luffin and Jenrette (1980-85). Ambassador Katz served 30 years in the Department of State, holding senior positions in economic and business-related posts, including Assistant Secretary of State for Economic and Business Affairs (1976-79).

Mr. David Palmetier is a well known expert in the field of international trade law. He has represented various manufacturers that export to the United States, including Canadian enterprises, in a multitude of antidumping, countervailing duty, tariff and customs matters. He has authored a number of essays, articles and book reviews on international trade. He presently co-authors the CCH publication NAFTA WATCH with Richard Dearden.

Mr. Richard Dearden is also a well known expert in international trade law. He has been appointed to Canada's roster of panelists used to resolve trade disputes between Canada and the United States pursuant to the Canada-U.S. Free Trade Agreement and has represented a number of clients in trade related matters. He is a frequent speaker and a prolific writer in the area of international trade law.

**ADDENDUM TO GATS SCHEDULE
OF SPECIFIC COMMITMENTS FOR THE UNITED STATES**

The United States submits the following amendment to its list of limitations on national treatment in relation to taxes at the sub-federal level:

1. Sub-federal tax measures which afford less favorable treatment to services or service suppliers within a sub-federal jurisdiction than the treatment which would be provided to those services or service suppliers by another sub-federal jurisdiction.
2. Sub-federal tax measures which afford less favorable treatment to services or service suppliers of another Member based on the method of allocating or apportioning the income or assets of such service suppliers or the proceeds of a services transaction.
3. Sub-federal tax measures affording less favorable treatment to service suppliers or to services based on one of the following criteria:
 - * the size or income of service supplier or the scale or methods (including environmental and health and safety measures) of performance;
 - * the extent of ownership or participation by minority or other disadvantaged groups (whether or not subject to citizenship or residence requirements);¹
 - * the eligibility for differential tax treatment of Indians (Native Americans), an Indian tribe, or tribal land;
 - * eligibility for tax exemption and other tax benefits derived from non-profit status;
 - * eligibility for federal immunity to taxation, including exemption from sub-federal tax on U.S. government or in-state obligations or contracts;

¹ This reservation may not be necessary should discussion on the scope of the GATS resolve that measures of this nature are outside the scope of the GATS.