1. Trade mark investment disputes: case studies

1. ORIGINS OF TM INVESTMENT DISPUTES

Trade mark disputes is a term usually used to refer to private disputes between TM proprietors and their competitors over the use of identical or similar signs, which are likely to cause confusion among consumers as to the commercial source of goods. There has been expansion of litigation to include non-competing businesses that use signs identical or similar to well-known marks. TM rights were traditionally not asserted against states.

The legal landscape has changed since 2010. Investors have filed their first TM cases against states in response to state regulation, which limited the use of trade marks and brands in the course of trade. If these cases came as a surprise to most of the legal community, they are now accepted as part of reality. States that adopt measures which might adversely affect the value of investment put into brands, trade marks or other IPRs may be exposed to international liability under IIAs. Whereas investors are claiming expropriation and unlawful interference with their investment assets, states are confident that their regulatory measures are legitimate and based on international rules.

This chapter introduces four case studies, of which one represents an actual dispute (tobacco) and the other three represent hypothetical situations (unhealthy food regulation; infant formula; and disparaging or scandalous TMs). The first two case studies fall within the broader framework of non-communicable diseases (NCDs) prevention regulation, which represents a current challenge for states as public health regulators.1 The aim of the regulation is to reduce risks related to certain lifestyle choices. The third case study shares with the first two its legitimate aim of public health protection.

1 TRIPS Council, ‘Meeting on 24–25 October and 17 November 2011’ (IP/C/M/67), WHO Representative [442].
In 2000 the World Health Organization started with calls to action in respect of a new type of public health regulation. NCDs have a devastating contribution to world mortality rates and states have renewed commitment to NCDs prevention in 2017. The four common sources of NCDs are tobacco, alcohol, unhealthy foods and beverages and lack of physical activity. States’ commitment to NCDs prevention is global and can be demonstrated by numerous instruments, such as the Moscow Declaration on NCDs, endorsed by the Ministers of Health in May 2011; the United Nations Political Declaration on NCDs, endorsed by the Heads of State and Government in September 2011; and the UN General Assembly resolution 66/2, Political Declaration on the High-Level Meeting of the General Assembly on the Prevention and Control of NCDs on 24 January 2012. These declarations were reinforced in the WHO Global Action Plan for the Prevention and Control of the NCDs 2013–2020 (GAP). The aim is to have a world free of the “avoidable burden” of NCDs and to reduce their role as “a barrier to well-being or socioeconomic development”.

NCDs regulation is justified by a set of framework principles, but the actual implementation is at significant discretion of Member States.

---

5 GAP (n4) 1.
6 GAP (n4) aims to operationalise commitments from UNGA, ‘Political Declaration of the High-level Meeting of the General Assembly on the Prevention and Control of NCDs’ (67th session, 24 January 2012, Resolution A/RES/66/2).
7 GAP (n4) 9.
8 GAP (n4) 12.
9 GAP (n4) 30.
of the fundamental principles is the right to health as a fundamental human right. The latter is also at the forefront of breast-feeding regulations, which seek to decrease infant mortality.

The last case study considered in this book is of a different origin. It does not fall within public health regulation, rather it investigates the role of morality in TM law and the limits imposed on property for reasons of morality and public order. In aiming to stop discrimination or offensive speech, states walk a difficult line between two human rights: equal treatment and freedom of expression.

2. CASE STUDY 1: TOBACCO TRADE MARKS

2.1 International Framework

Tobacco sales have been extensively regulated for decades. On an international level, the WHO negotiated the Framework Convention on Tobacco Control (FCTC), which represents “a paradigm shift in developing a regulatory strategy to address addictive substances”. It is a response to a growing tobacco epidemic and it stresses the importance of both demand reduction strategies and supply related issues. The FCTC is a “global trend-setter” in prioritising public health as a value of the utmost importance. Its lessons will prove to be invaluable in the broader framework of NCDs prevention.

The FCTC Preamble highlights the importance of everyone’s right to the enjoyment of the highest attainable standard of physical and mental health. This is in line with Article 12 of the Universal Declaration of Human Rights (UDHR) and Article 14 of the European Convention on Human Rights (ECHR), which guarantees the right to freedom of thought, conscience and religion. The enjoyment of these rights is not to be subject to any discrimination on the grounds of race, sex, language, or religion.

The FCTC represents a significant step forward in the fight against tobacco control. It provides a framework for countries to implement effective measures to reduce the demand for tobacco products and to control the supply of tobacco products. This is achieved through a range of measures, including taxation, advertising, and packaging requirements.

10 GAP (n4) 12 (HRs approach to NCDs regulation; with a guarantee against discrimination as enshrined in the Universal Declaration of Human Rights); Sofia Gruskin and others, ‘Noncommunicable Diseases and Human Rights: A Promising Synergy’ (2014) 104(5) Am J Public Health 773 [SSRN] (conflicts with other laws could be managed through tools in HR law).

11 Detailed in s.4.

12 UDHR Art.2. Similarly, ECHR Art.14 [Prohibition of Discrimination] “The enjoyment of the rights and freedoms set forth in this Convention shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status”.

13 FCTC (n3).

14 FCTC (n3) [1]–[2].

15 FCTC (n3) [1]–[2].

16 FCTC (n3) [3].

17 FCTC (n3) Preamble [1].
health,\textsuperscript{18} as stated in Article 12 of the International Covenant on Economic, Social and Cultural Rights.\textsuperscript{19} The FCTC warns of the negative role tobacco companies have played in hindering regulation in this field, “Recognising the need to be alert to any efforts by the tobacco industry to undermine or subvert tobacco control efforts and the need to be informed of activities of the tobacco industry that have a negative impact on tobacco control efforts…”\textsuperscript{20} The FCTC aims to guide Contracting Parties in respect to “the impact of all forms of advertising, promotion and sponsorship aimed at encouraging the use of tobacco products”.\textsuperscript{21} Tobacco advertising and promotion are defined as “any form of commercial communication, recommendation or action, with the aim, effect or likely effect of promoting a tobacco product or tobacco use either directly, or indirectly”.\textsuperscript{22} Tobacco sponsorship is defined as “any form of contribution to any event, activity or individual with the aim, effect or likely effect of promoting a tobacco product or tobacco use directly or indirectly”.\textsuperscript{23} Measures that could be seen as adversely affecting IPRs, in particular TM rights, fall in the category of tobacco advertising, promotion or sponsorship and are listed in Article 11 FCTC, which deals with packaging and labelling of tobacco products.

The FCTC is not novel for introducing tobacco control measures. To the contrary, limitations to tobacco advertising have been introduced in national legislations well before 2003. FCTC is however the first instrument to adopt a harmonised approach to mandatory health warnings on the product itself. Article 11 FCTC requires Contracting States to adopt effective measures that prohibit tobacco product packaging or labelling that are false, misleading, deceptive or likely to create an erroneous impression about tobacco’s health effects, hazards or emissions. These include any term, descriptor, trade mark, figurative or any other sign that directly or indirectly creates the false impression that a particular tobacco product is less harmful than other types of tobacco.\textsuperscript{24} Moreover, Contracting States must adopt a system of mandatory health warnings, that should cover minimum of 50\% (or more) of the principal

\begin{flushleft}
\textsuperscript{18} FCTC (n3) Preamble [19].
\textsuperscript{19} ICESCR (General Assembly Resolution 2200A (XXI), 16 December 1966) 993 UNTS 3.
\textsuperscript{20} FCTC (n3) Preamble [18].
\textsuperscript{21} FCTC (n3) Preamble [11].
\textsuperscript{22} FCTC (n3) Article 1(c).
\textsuperscript{23} FCTC (n3) Article 1(g).
\textsuperscript{24} Referring to terms such as “low tar”, “light”, “ultra-light” or “mild”: FCTC (n3) Art.11(1)(a).
\end{flushleft}
display areas, but no less than 30%. Health warnings may be in the form of or include pictures or pictograms. The word “may” in its text demonstrates that placement of pictorial health warnings is at the discretion of each Contracting State and is not mandated by FCTC.

FCTC Guidelines to Article 11 aim to increase the effectiveness of packaging and labelling measures. Although not mandatory, Guidelines strongly encourage Contracting Parties to include pictorial health warnings on tobacco packaging. They are more effective than text warnings, as they “disrupt the impact of brand imagery on packaging and decrease the overall attractiveness of the package”. As evident from the text of the Guidelines, FCTC drafters found branding to have a considerable role in increasing the attractiveness of tobacco packages to users. Pictorial health warnings should also be in colour, in contrast to black and white warnings, as that “affects the overall noticeability of pictorial elements of health warnings and messages”. For their maximum effect, health warnings and messages should be changed over time.

FCTC Guidelines further propose plain packaging, which targets the industry’s package design techniques that might suggest that some tobacco products are less harmful than others. Plain packaging is defined in FCTC Guidelines as “measures to restrict or prohibit the use of logos, colours, brand images or promotional information on packaging other than brand names and product names displayed in standard colour and font style …”.

Article 11 FCTC mandates implementation of its measures on a non-discriminatory basis. All packaging and labelling requirements for tobacco products must apply equally to all tobacco products sold within a single jurisdiction, including products that are manufactured domestically, are imported or intended for duty-free sale within the same single jurisdiction. Contracting Parties have the discretion to extend these measures to exported products.

---

25 FCTC (n3) Art.11(1)(b)(iv–v).
26 World Health Organization, ‘Guidelines to Implementation of Article 11 of the WHO Framework Convention on Tobacco Control; Packaging and Labelling of Tobacco Products’ (3rd session of Conference of the Parties, November 2008, Decision FCTC/COP3(10)) [1].
27 FCTC Guidelines (n26) [14]–[17].
28 FCTC Guidelines (n26) [16].
29 FCTC Guidelines (n26) [18].
30 FCTC Guidelines (n26) [20].
31 FCTC Guidelines (n26) [46].
32 FCTC Guidelines (n26) [49].
GAP reinforces the FCTC’s aims and objectives. It aims to contribute to the voluntary global target of a 30% relative reduction in prevalence of the existing tobacco use in persons above 15 years old. GAP aims to assist with, first, an acceleration of full implementation or further ratification of FCTC. Second, GAP aims to reduce tobacco use and tobacco exposure by fully using the FCTC Guidelines. To this aim GAP lists the following policy options: (1) protecting tobacco control policies from commercial or other vested interests of the tobacco industry; (2) legislating for 100% tobacco smoke free environment; (3) warning people of risks of tobacco use, including “through hard-hitting evidence-based mass media campaigns and large, visible and legible health warnings”; (4) implementing comprehensive bans on tobacco advertising and promotion or sponsorship; (5) cessation and support systems for tobacco users who wish to stop, in particular pregnant women; (6) disclosure of content requirements for tobacco manufacturers; and (7) increasing taxes on tobacco products.

2.2 Uruguay: Single Presentation Rule (SPR) and its Challenges

In 2008 and 2009 the Uruguayan Ministry of Public Health adopted several ordinances to regulate tobacco sales. The network of measures includes two particularly noticeable measures: first, the Single Presentation Rule (SPR) and second, the 80/80 rule. Uruguay followed the recommendations and evidence provided in FCTC. It implemented SPR with its Ordinance 514 (18 August 2008) and the 80/80 rule with the Presidential Decree 287/009 (15 June 2009). Ordinance 514 introduced graphic health warnings on tobacco packaging (Article 1), to accompany the textual warnings. To further increase

33 GAP (n4) 30.
34 FCTC (n3) Art.5.3.
35 FCTC (n3) Art.8.
36 FCTC (n3) Arts.11, 12.
37 FCTC (n3) Art.13.
38 FCTC (n3) Art.14.
39 FCTC (n3) Arts.9 and 10.
40 GAP (n4) 30–31, FCTC (n3) Art.6.
41 Philip Morris Brands Sàrl, Philip Morris Products SA and Abal Hermanos SA v Oriental Republic of Uruguay, (Decision on Jurisdiction, 2013 (PM v Uruguay); Award, 2016 (PM v Uruguay II)) ICSID Case No ARB/10/7 [Bernardini, Crawford, Born (concurring and dissenting)] [4].
42 These two measures are described in PM v Uruguay (n41) [7].
43 PM v Uruguay (n41) [5].
the effectiveness of these measures, Ordinance 514 mandates SPR, under which each cigarette brand shall have no more than one (single) brand in the market (Article 3). That meant that brands like Philip Morris (PM), which before this legislation sold brands Marlboro Red, Marlboro Gold and Marlboro Green, had to choose a single brand, and abandon the rest. Presidential Decree 287/009 mandated health warnings to appear on both sides of a cigarette packet and increased the size of the warnings from 50% to 80%. Both measures were confirmed with Ordinance 466, which was issued by the Ministry of Public Health on 1 September 2009.44

In response, Philip Morris initiated arbitration against Uruguay, by filing the request for arbitration on 19 February 2010.45 Claims were based on the Switzerland/Uruguay BIT and the proceedings ran under the ICSID Convention.46 The claimants relied on their investments in (1) significant manufacturing (tobacco) facilities in Uruguay, (2) registered trade marks (“Casino”, “Premier” and “Premier Extra”), and (3) licence agreements for the manufacturing and marketing of PM’s owned trade marks (by local subsidiary Abal), which PM had registered in Uruguay (“Marlboro”, “Fiesta”, “L&M” and “Philip Morris”).47 Products sold under the trade mark “Marlboro” were sold under product varieties (“Marlboro Red”, “Marlboro Gold”, “Marlboro Green” and “Marlboro Blue”), which had to be abandoned after the SPR came into force. The claims were based on the allegation that Uruguay’s tobacco targeting measures decreased the commercial value of its intellectual property and consequently substantially reduced the value of its overall business.48

Uruguay resisted these claims by first objecting to the jurisdiction of the arbitral tribunal in 2011. In the alternative and second, the respondent resisted the claims on their merits, arguing that the measures taken were legitimate public interest regulation, based on international law, and aimed at protection of public health. Such measures are arguably not compensable under the Switzerland/Uruguay BIT.

The arbitral tribunal bifurcated the proceedings and decided on its jurisdiction first. In its Decision on Jurisdiction on 2 July 201349 the

44 PM v Uruguay (n41) [6].
45 PM v Uruguay (n41); the dispute is based on Agreement on the Reciprocal Promotion and Protection of Investments concluded on 7 October 1988 between the Swiss Confederation and the Oriental Republic of Uruguay.
46 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, 575 UNTS 159.
47 Request for arbitration (2010) in PM v Uruguay (n41) [64].
48 Claims explored in detail in Chp.6.
49 PM v Uruguay (n41).
arbitral tribunal found in favour of the claimants, who successfully met all requirements of “investment definition” in the BIT, together with the test of “an investment dispute” under Article 25 ICSID Convention. All jurisdictional objections failed.\(^5\)

The arbitral tribunal rendered its final decision on the merits with its Award on 8 July 2016.\(^5\) With a split tribunal (two to one (dissenting arbitrator Born)) the decision favoured the respondent, where all claims were dismissed. The refusal of the expropriation claim was done unanimously, finding in particular that, first, the interference with trade marks was not substantial and, second, that the measures taken were a legitimate exercise of police powers, namely the state’s powers to protect public health. In its decision on the violation of the FET standard, the majority found in favour of the respondent, concluding there was no denial of justice. To the contrary, the dissenting arbitrator Born found that the procedural aspects of the case and the arbitrary nature of SPR should have led to the conclusion that Uruguay violated its commitments under the BIT to offer FET to the claimants.\(^5\)

### 2.3 Australia: Plain Packaging

Australia has long regulated tobacco trade, sales and advertising.\(^5\) In 2011, it was the first to introduce plain (generic) packaging for tobacco products.\(^5\) By doing so, it followed the FCTC Guidelines.\(^5\) The Australian Tobacco Plain Packaging 2011 Act (TPPA) is specifically designed to reduce the attractive force of trade marks for all tobacco products.\(^5\) It prohibits the use of brand logos, graphics and colours on tobacco products and packaging manufactured, sold or imported into Australia. Requirements for brand, business, company or variant names,
and relevant legislative requirements, are standardised for all tobacco sales.\textsuperscript{57} Retail packages must be the same drab dark brown colour,\textsuperscript{58} largely taken up by graphic and textual health warnings, with brand names appearing in the same font and limited size.\textsuperscript{59} As seen from the text of TPPA, there is no clear distinction between trade marks and brands.

\subsection*{2.3.1 National challenge}
Several tobacco companies challenged the TPPA. The challenge rested on section 51(xxxi) of the Australian Constitution. The plaintiffs argued that the TPPA effected an acquisition of their IPRs and goodwill on “other than just terms”, contrary to section 51(xxxi) of the Constitution. In 2012 the High Court of Australia rejected plaintiffs’ contentions by majority.\textsuperscript{60} The basis for the rejection rested on the finding that there had been no acquisition of plaintiffs’ property within the meaning of section 51(xxxi) of the Constitution.

Section 51(xxxi) of the Constitution allows for acquisition of property on just terms from any state or person for any purpose in respect of which the Parliament has power to make laws. As the necessary first step in “taking of property” or “deprivation” analysis, the court must identify rights, which constitute the property in question.\textsuperscript{61} In the TPPA case, the court accepted trade marks as such property rights,\textsuperscript{62} as registered TMs have always been “a species of property of the person whom the statute describes as its registered proprietor”\textsuperscript{63}. Among these are the exclusive right to use the trade mark in relation to the goods and/or services in respect of which the trade mark is registered and the right to assign or

\textsuperscript{57} Further requirements for TMs are set out in TPPA s.21. Any brand, business or company name, or any variant name, for tobacco products that appears on the retail packaging of those products must comply with any requirements prescribed by the regulations.

\textsuperscript{58} TPPA s.19(2)(b)(ii).

\textsuperscript{59} No TM may appear anywhere on the retail packaging of tobacco products, other than as permitted by TPPA s.20(3).

\textsuperscript{60} \textit{JT International v Australia} (n53) (in majority: Justices French, Gummow, Hayne, Bell, Crennan, Kiefel; dissenting Justice Heydon).

\textsuperscript{61} \textit{JT International v Australia} (n53) [108] (Gummow J).

\textsuperscript{62} \textit{JT International v Australia} (n53) [71], [137] (Gummow J) (concluding that these exclusive rights of IP owner may properly be regarded as proprietary in nature for the purposes of section 51(xxxi) of the Constitution); [202], [207] (Heydon J); [267] (Crennan J); and [346] (Kiefel J).

\textsuperscript{63} \textit{JT International v Australia} (n53) [31] (French CJ); [105] (Gummow J); [273] (Crennan J).
transmit these rights. A right to exclude others from use is of no value unless the TM owner can engage in use. The concept of use is integral to the definition of a trade mark.

The nature of rights (negative/positive spectrum) was not definitive to the acquisition analysis. The court first confirmed that trade marks are negative in nature. Equally however, the court held that the negative character of TM rights cannot serve as support for the proposition that property was not taken, although it might be relevant in determining whether there was acquisition of property rights. Justice Gummow disagreed with this finding but stressed that this proposition is not decisive for the operation of section 51(xxxi) of the Constitution. Similarly, Justice Crennan noted that the question of whether there has been an acquisition cannot be confined to the consideration that the TPPA preserves a registered owner’s right to seek relief in respect of infringement.

As the second step in its analysis, the court examined “taking of property”. To answer this question, the level of interference of the TPPA with TM rights was operative. All but one, Justice Crennan, found that there was a taking of property in the present case. Justice Heydon found the highest level of interference because the operation of the TPPA left the plaintiffs with only hollow rights and that the interference amounted to an effective sterilisation of the rights in question, leaving them completely worthless. The most valuable use of the marks is removed in that the connection with retail customers as they purchase and use tobacco products no longer exists. Similarly, Justice Gummow found rights vested in registered trade marks to have been in substance, if

---

64 JT International v Australia (n53) [31] (French CJ); similarly [71] (Gummow J relying on TMA s.20(1)).
65 JT International v Australia (n53) [208] (Heydon J); [37] (French CJ: ‘Rights to exclude others from using property have no substance if all use of the property is prohibited’).
66 JT International v Australia (n53) [300] (Crennan J).
67 JT International v Australia (n53) [38] (French CJ).
68 JT International v Australia (n53) [76] (Gummow J, accepting Respondent’s proposition that only the exclusive right to exclude others from the use of TMs constituted personal property and that TPPA in no way impinged upon the rights of exclusion of others conferred by TMs upon registered owners).
69 JT International v Australia (n53) [77] (Gummow J).
70 JT International v Australia (n53) [276] (Crennan J).
71 JT International v Australia (n53) [216] (Heydon J).
72 JT International v Australia (n53) [216] (Heydon J).
73 JT International v Australia (n53) [223] (Heydon J).
74 JT International v Australia (n53) [214] (Heydon J).
Arbitrating brands

not in form, denuded of their value and thus of their utility. With respect to the very nature of interference, Justice Gummow held that the TPPA is designed to discourage consumers from the use of tobacco products, even if that is what they would otherwise want to do. Justices Hayne and Bell found the proposition that the TPPA takes plaintiffs’ property hard to deny, but this proposition in their view did not demand a full examination, because the relevant issue turned on the question of acquisition. Stressing the importance of the acquisition requirement Justice Kiefel did not explore in detail the plaintiffs’ proposition that the operation of TPPA left them with an empty husk of their rights, because even if true it does not necessarily lead to a finding of acquisition.

Differing in her opinion, Justice Crennan held that the TPPA did not amount to taking of the plaintiffs’ intellectual property. With respect to registered trade marks, the plaintiffs relied mostly on the impairment of the advertising or promotional functions of their trade marks. The plaintiffs did not show that a brand name appearing as a word mark or part of a composite mark did not constitute an essential feature of such a registered trade mark. It was not suggested that consumers purchase tobacco products by any other reference than their brand name. Trade marks in form of brand names are still permitted by the TPPA and thus are still capable to perform the core function of trade marks, i.e. distinguishing the registered owner’s goods from those of another trader, thereby attracting and maintaining goodwill. Although the TPPA might reduce the volume of the plaintiffs’ sales of tobacco products in retail trade, the mere extinguishing of the plaintiffs’ pre-existing rights to use their property for advertising or promotional purposes, does not lead to the conclusion that TPPA constitutes “a taking” or “an indirect acquisition”.

The question of expropriation (“taking of property”) was not the determinative question in this case. To start with, the standards of

75 JT International v Australia (n53) [138] (Gummow J).
76 JT International v Australia (n53) [139] (Gummow J).
77 JT International v Australia (n53) [164] (Hayne and Bell JJ).
78 JT International v Australia (n53) [354] (Kiefel J).
79 JT International v Australia (n53) [287] (Crennan J).
80 JT International v Australia (n53) [288] (Crennan J).
81 JT International v Australia (n53) [293] (Crennan J).
82 JT International v Australia (n53) [295] (Crennan J).
83 JT International v Australia (n53) [296] (Crennan J).
“taking/deprivation” have been distinguished from the standard of “acquisition”. Taking involves deprivation of property seen from the perspective of the owner. In contrast, acquisition involves the receipt of something seen from the perspective of the acquirer, the respondent in this case. Even if rights are extinguished, that does not guarantee a finding of acquisition. Section 51(xxxi) of the Constitution protects against acquisition of property without just terms but there is no protection of “the general commercial and economic position of traders”. The majority agreed that the Commonwealth did not acquire a benefit or advantage, which is proprietary in nature. In his dissenting opinion Justice Heydon did not find it necessary for the Commonwealth or some other person to acquire an interest in property under section 51(xxxi) of the Constitution. What must be shown is that the Commonwealth or some other person has obtained some identifiable benefit or advantage relating to the ownership or use of property. With this interpretation of acquisition Justice Heydon found for the plaintiffs.

2.3.2 WTO challenge

Australia’s plain packaging legislation was challenged under WTO DSU rules. The challenge argued violation of TRIPS, mainly for breach of Articles 15, 16 and 20. Complainants argued that the TPPA interferes with the TM rights as guaranteed under TRIPS and does not amount to a “justifiable encumbrance of use” under Article 20. Australia rejected all

---

84 JT International v Australia (n53) [109]–[118], [152] (Gummow J: indiscriminate use of US case law on the takings law would be misplaced, as there are differences to acquisition).
85 Prohibition of deprivation of investment is the relevant standard of Art.6 Australia/Hong Kong BIT.
86 JT International v Australia (n53) [42] (French CJ); similarly [100] (Gummow J); [169] (Hayne and Bell JJ identify acquisition of property as the ‘bedrock principle’ of section 51(xxxi) of the Constitution).
87 JT International v Australia (n53) [47] (Gummow J); [167] (Hayne and Bell JJ).
88 JT International v Australia (n53) [43]–[44] (French CJ); [147] (Gummow J); [188] (Hayne and Bell JJ); similarly [303], [306] (Crennan J); and [357], [362] (Kiefel J).
89 JT International v Australia (n53) [200] (Heydon J).
90 Australia-Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, Reports of the Panel (2018) WT/DS435/R, WT/DS441/R, WT/DS458/R, WT/DS467/R; complainants are Cuba, Dominican Republic, Honduras and Indonesia. Ukraine has withdrawn its initial challenge.
91 Australia Plain Packaging (n90).
allegations of TRIPS violation, supporting its position with WHO FCTC and its scientific base, its own evidence and arguments of legal nature. Australia argued that the registration of trade marks is preserved (Articles 15 and 19), that there is no right to use a trade mark, as TM rights are merely negative rights (Article 16) and finally, that the TPPA represents a legitimate public health regulation, which amounts to justifiable encumbrance of TM use in the course of trade (Article 20).

Australia has prevailed on all accounts under TRIPS. This book does not focus on the WTO forum or its dispute resolution mechanism, because it is a state-state dispute settlement mechanism only. Where relevant however, this book refers its reader to the relevant reading of TM law under TRIPS.

2.3.3 Investment treaty arbitration challenge

As a result of the announcement of the TPPA, Philip Morris initiated arbitration against Australia, by filing the notice of arbitration on 21 November 2011, following its notice of claim from 22 June 2011. Claims were based on the Australia/Hong Kong BIT and the proceedings ran under the 1976 UNCITRAL Arbitration Rules. The claimants relied on their investments in (1) 100% ownership of the subsidiary company, manufacturing and sale of tobacco and (2) ownership or licensing over “registered and unregistered trade marks; copyright works; registered and unregistered design; know-how; trade secrets; and overall get up of the product packaging (‘intellectual property’) on and in relation to Philip Morris’ tobacco products and packaging.” The claimants further relied on (3) the substantial goodwill generated through the use of their intellectual property. Due to the limitation on TM use the claimants’ branding capability was adversely affected, substantially depriving them of their investment.

Australia resisted all claims of IIA liability in its response on 21 December 2011. In essence Australia’s arguments were alternative. First, the arbitral tribunal lacks jurisdiction, because the investor abused its

---

92 Australia Plain Packaging (n90).
93 Detailed in Chp.4 and Chp.6.
94 All case details, information and documents are available at www.italaw.com/cases/851, accessed 26 December 2018.
96 Notice of Claim (n95) [9].
97 Notice of Arbitration (2011) in PM v Australia (n95) [1.5].
Trade mark investment disputes: case studies

rights by restructuring its business in a way, which allowed it to gain access of the investor-state arbitration under the Australia/Hong Kong BIT. In the alternative, Australia objected to the claims on the merits. The TPPA, as a legitimate, non-discriminatory public interest regulation, does not amount to indirect expropriation or violation of the FET standard.

The case never reached the merits stage. At the end of 2015 the arbitral tribunal found in favour of Australia’s jurisdictional objections and held that the claimants abused their procedural rights, resulting in the inadmissibility of all claims and preclusion of the tribunal to exercise jurisdiction in this case:98

The Tribunal cannot but conclude that the initiation of this arbitration constitutes an abuse of rights, as the corporate restructuring by which the Claimant acquired the Australian subsidiaries occurred at a time when there was a reasonable prospect that the dispute would materialise and as it was carried out for the principal, if not sole, purpose of gaining Treaty protection.99

2.4 United Kingdom: Standardised Packaging and its Challenges

Drawing on the experience in Australia, the UK was the second country to adopt plain packaging.100 The Parliament promulgated the Standardised Packaging of Tobacco Products Regulations in 2015, and these came into force on 20 May 2016. The UK decided to build on its obligation under the 2014 Tobacco Products Directive, as permitted in Article 24.101

---

98 PM v Australia (n95) [588].
99 PM v Australia (n95) [588].
100 Evidence from Australia examined in detail by Justice Green in British American Tobacco (UK) Limited, British American Tobacco (Brands) Inc, British American Tobacco (Investments) Limited v Secretary of State for Health; and Philip Morris Brands SARL, Philip Morris Products SA and Philip Morris Limited v Secretary of State for Health; and JT International SA and Gallagher Limited v Secretary State of Health; and Imperial Tobacco Limited v Secretary of State for Health (intervener: Action on Smoking and Health); [2016] EWHC 1169 (Admin) (2016) (BAT v Secretary for Health) [35].
101 Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and the sale of tobacco and related products (repealing Directive 2001/37/EC) (Tobacco Directive). The directive has been challenged for inconsistency with EU law, but the CJEU affirmed its validity in Case C-547/14 Philip Morris Brands SARL and Others (2016) ECLI:EU:C:2016:325. At present France also adopted plain packaging; Germany is however unlikely to follow suit, unless mandated by the EU.
Identically to the TPPA in Australia, the 2015 Regulations impose a substantial limitation on the ability of manufacturers to advertise or place branding or TMs on the outer packaging or the tobacco products (cigarettes) itself. The Regulations do not impose a complete ban on differentiation in the sale of tobacco products. It is still permitted to place the brand name and variant name upon the box/pouch of tobacco. The manner in which manufacturers can use their branding names is strictly regulated, permitting only standardised format of the brand name (size, font, type).\textsuperscript{102} As in Australian legislation, rights of registration are expressly preserved,\textsuperscript{103} and the state is under a continuous obligation to evaluate the effectiveness of the Regulations in the aim pursued (reduction of uptake in smoking).\textsuperscript{104}

Tobacco companies challenged the 2015 Regulations as unlawful under international law, EU law and the domestic common law.\textsuperscript{105} In total, the applicants raised 17 grounds of challenge,\textsuperscript{106} which were all dismissed in the High Court Judgment on 19 May 2016\textsuperscript{107} and its decision confirmed on appeal. There is no investment arbitration claim filed against the UK at present,\textsuperscript{108} and the discussion of legal issues raised by this legislation in alleged conflict with IIAs is hypothetical.\textsuperscript{109}

First, the claimants submitted that the TPD itself is illegal. The TPD, together with the FCTC, is the legal basis for the implementation of the 2015 Regulations.\textsuperscript{110} Second, the claimants submitted that the handling of their evidence was treated unfairly by the Government, by not
attributing it sufficient weight. Third, the claimants challenged the Regulations for their lack of proportionality, stating that the measures are not suitable or appropriate to achieve their stated goal, and equally, that they are not necessary, because there are less extreme measures, which could have been adopted to achieve equally efficient results.

Next, the claimants submitted that the 2015 Regulations violated the principle of respect for property. This submission was based on, first, Article 1 of the First Protocol to ECHR; second, on Article 17 of the Charter of Fundamental Rights of the European Union; and third, on common law. Further, the claimants argued that the Regulations were adopted *ultra vires* were in violation of broad EU law provisions (including Article 34 TFEU on the free movement of goods, and Article 16 CFREU on freedom to trade). Finally, the claimants challenged the legality of the consultation process, which, as it was submitted, was conducted in a manner that treated them unfairly and unlawfully.

The High Court dismissed all challenges. Specifically, it found that the Secretary of State adduced ample evidence to support the suitability and appropriateness of Regulations, and rejected the allegation that there were less intrusive, yet equally effective means of addressing the Government’s health concerns. Overall, the court found the Regulations to be a legitimate and proportional response to the present public health concerns. The court further rejected all challenges in relation to

---

111 *BAT v Secretary for Health* (n100) [10].
112 *BAT v Secretary for Health* (n100) [11] (three grounds specifically addressing the alleged lack of proportionality).
113 *BAT v Secretary for Health* (n100) [12].
114 *BAT v Secretary for Health* (n100) [13].
115 *BAT v Secretary for Health* (n100) [14].
116 *BAT v Secretary for Health* (n100) [15].
117 *BAT v Secretary for Health* (n100) [35].
118 *BAT v Secretary for Health* (n100) [36].
119 *BAT v Secretary for Health* (n100) [267]–[275] (analysis on the broader challenge of proportionality); [405]–[649] (suitability and appropriateness of Regulations; the Court finds the evidence submitted by the Government to be sufficient; and equally finds that a broad margin of appreciation is to be given to the Parliament as to the evidence, which was in front of it at the time of passing the Regulations, when viewed “through the up to date evidential optic of the proceedings before this Court”); [650]–[679] (necessity; rejecting the claim that there were other, less restrictive measures, which would have been equally effective); [680]–[710] (proportionality *stricto sensu*); [711] (“the application of the overall proportionality, ‘fair balance’ test leads, overwhelmingly to the conclusion that Regulations are justified and proportionate in the public interest”).
the claims of ultra vires,\textsuperscript{120} and challenges under the TFEU (Articles 34 and 16),\textsuperscript{121} which failed as the result of failed property challenges.\textsuperscript{122} Finally, the court rejected all objections to the consultation process, as the Regulations were “subjected to vigorous debate and that many parliamentarians spoke out for the position of the tobacco companies”.\textsuperscript{123} There was nothing unfair in the proceedings as conducted.

In refusing the “unlawfulness” of the Regulations submission, the court found the Regulations to be lawful in that they do not intrude on TM rights or cause impairment to them, beyond what is permitted under the law.\textsuperscript{124} The court held that the law was very clear.

It is no part of international, EU or domestic common law on intellectual property that the legitimate function of a trade mark (i.e. its essence or substance) should be defined to include a right to use the mark to harm public health, and the Member States have a broad power to adopt health legislation even when it intrudes upon other rights belonging to manufacturers of product which cause the health problem. The technical arguments to the contrary were advanced with forensic skill but stripped down to below their respectable veneers their bare essentials are exposed as unsustainable.\textsuperscript{125}

The court confirmed that trade marks fall within the category of protected “possessions” under A1P1,\textsuperscript{126} or equally under Article 17

\textsuperscript{120} BAT v Secretary for Health (n100) [40] (for a summary of findings); [251]–[266] (finding that TPD is lawful); [884]–[904] (finding that Article 24(2) TPD complaint was misapplied); [905]–[917] (finding that Parliament had competence (jurisdiction) to adopt the Regulations).

\textsuperscript{121} BAT v Secretary for Health (n100) [858]–[864] (on Art.16 TFEU); [933]–[934] (on Art.34 TFEU).

\textsuperscript{122} BAT v Secretary for Health (n100) [41].

\textsuperscript{123} BAT v Secretary for Health (n100) [42]–[43]; [919]–[934] (detailed analysis on the consultation process).

\textsuperscript{124} BAT v Secretary for Health (n100) [176]–[186] (TM under TRIPS; it is plain, that IPRs are not absolute and must be balanced against other competing public interests); [187]–[208] (TM under TMD; TM rights under TMD are subject to all overarching relevant Treaty rules); [209]–[223] (TM under CTM Regulation); [865]–[879] (finding that is no violation of the unitary character of CTM); [880]–[882] (finding no violation of the Community Designs Regulation No 6/2002).

\textsuperscript{125} BAT v Secretary for Health (n100) [40], BAT v Secretary for Health (n100) [716]–[717] (TM as possessions); [718]–[731] (goodwill as possession); [732]–[812] (expropriation versus control of use under A1P1; court finds in favour of the respondent).
Nevertheless, the court rejected the submission that there was expropriation of such property, under either of the two (European) instruments or common law, because these rights in the hands of claimants remain important, as the “word marks can still be used on packaging and will serve their traditional function as an identifier of origin”. Regulations “pursue a legitimate public health based interest” and that was a conclusion, which the claimants never challenged. In the alternative, the court rejected any right of compensation. Rejection is possible in exceptional circumstances, even if there is true expropriation. In support of its finding that such circumstances exist in the present case, the Court observed, that “[t]obacco usage is classified as health evil albeit it remains lawful. There is no precedent where the law has provided for compensation for the suppression of a property right which facilitates and furthers, quite deliberately, a health epidemic”. Putting this alternative finding aside, the Court was of the opinion that this case fell within “curtailment of use”, not expropriation, where compensation is only due if the Regulations fail the “fair balance test”. Finding that the test was met, all claims for compensation were rejected.

The decision was confirmed on appeal in 2016. In a much shorter decision, the Court of Appeal stressed that trade marks, as other IPRs, are negative rights:

---

127 **BAT v Secretary for Health** (n100) [813]–[843] (protection under Art.17, as defined by Art.52 CFREU; the Court found that Art.17 CFREU does not go beyond the protection available in A1P1).

128 **BAT v Secretary for Health** (n100) [844]–[857] (common law develops in line with ECHR and cannot offer the right of compensation if one does not exist under ECHR); [856] (“A1P1 is brought into domestic law through the Human Rights Act 1998. It reflects the common law tradition and, in my view, this includes not only the right but also its limitations”).

129 **BAT v Secretary for Health** (n100) [38].

130 **BAT v Secretary for Health** (n100) [38].

131 **BAT v Secretary for Health** (n100) [38].

132 **BAT v Secretary for Health** (n100) [39].


134 CA in **BAT** (n133) [46].
The fact that a sign fulfills all these functions does not entail the proposition that the positive right to use a sign for these functions is conferred by registration of the sign as a trade mark. What it does mean is that the negative rights conferred by the registration may be used to protect these functions.\footnote{CA in \textit{BAT} (n133) [57].} \footnote{CA in \textit{BAT} (n133) [80].} \footnote{CA in \textit{BAT} (n133) [105].} \footnote{CA in \textit{BAT} (n133) [106], [111] (finding also that any branding value is to be considered under the notion of goodwill; in the present case, there was no deprivation of goodwill).} At this stage we are concerned simply with the question of whether the registration of a trade mark gives rise to a positive legal right to use it. We answer that question: “No.”\footnote{CA in \textit{BAT} (n133) [80].}

The Court of Appeal dismissed the appeal on all points and held that there was a residual utility in TM negative rights, coupled with the retention of legal title, subject to control of use. These measures were proportionate and did not entitle the claimants to compensation. In particular, the Court of Appeal agreed with the finding of the High Court in that:

“… The case law of the ECtHR stresses the need to look at the reality of the situation; and the reality is that the marks are not used individually. We agree with the judge at [74]: “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 A1P1 it is necessary to consider the use of the property rights in the round and collectively.””\footnote{CA in \textit{BAT} (n133) [105].}

Therefore, confirming the decision of the High Court, the Court of Appeal found no deprivation of trade marks, even if the Regulations reduce their value, “[b]ut the fact that there is a residual utility in these negative rights coupled with the retention of legal title means, in our judgment, that it cannot be said that the Tobacco Appellants have been deprived of their national marks.”\footnote{CA in \textit{BAT} (n133) [106], [111] (finding also that any branding value is to be considered under the notion of goodwill; in the present case, there was no deprivation of goodwill).}

3. CASE STUDY 2: UNHEALTHY FOOD AND BEVERAGES TRADE MARKS

3.1 Chile: Unhealthy Food and Beverages Marketing to Children

Chile is facing high levels of obesity in children and adults and has taken proactive measures in order to reduce obesity and its resulting diseases.
(NCDs). Specifically, in the area of food regulation to children (which includes beverages), Chile has followed the legal and evidentiary framework provided by the Pan American Health Organization (PAHO) in its Plan of Action for the Prevention of Obesity in Children and Adolescents 2014.\textsuperscript{139} Relevant to the regulation of the use of brands and trade marks in advertising, the PAHO and WHO encourage food regulation that limits the use of tools, which target vulnerability of children,

Because of children’s greater vulnerability to the persuasive power of marketing messages (for example, television and internet commercials, celebrity endorsements, in-store marketing, and toy co-branding), WHO … and PAHO … have published recommendations to limit the negative impact of food marketing to children and adolescents with a view to reducing consumption of energy-dense nutrient-poor products, fast foods, and sugar-sweetened beverages.\textsuperscript{140}

Brands and trade marks are affected by Law No. 20.606 on the Nutritional Composition of Food and its Advertising,\textsuperscript{141} as amended by Law No. 20.869 on Food Advertising.\textsuperscript{142} Companies which sell unhealthy foods must place relevant information about the food content on its packaging in the form of “high in” labels.\textsuperscript{143} Equally, companies cannot advertise their unhealthy products to children and adolescents.\textsuperscript{144} Article 8 stipulates:

\begin{itemize}
\item \textsuperscript{140} PAHO Action Plan (n139) [24].
\item \textsuperscript{143} Law No 20.606 Art. 5 stipulates: “The Ministry of Health will determine which foods, according to weight unit, volume, or portion size, have in their composition high nutritional content in calories, fats, sugars, salt or other ingredients determined by the regulations. These foods should be labelled as ‘high in calories,’ ‘high salt’ or an equivalent designation, pertinent to each case”.
\item \textsuperscript{144} Law No 20.606 Art.7 stipulates: “Advertising of products described in Article 5, [may in no way] be directed [at] children under the age of fourteen. For purposes of this law, advertising shall be understood as any form of marketing, communication, recommendation, propaganda, information or action intended to promote the consumption of a product”.
\end{itemize}


Arbitrating brands

(1) The promotion of [food labelled “high in”] shall not be performed using advertising hooks that do not relate to the product itself when directed to children under the age of fourteen. (2) Under no circumstance must advertising hooks such as toys, accessories, stickers, or similar be used as incentives.

In 2016 the Ministry of Public Health issued Decree No 13,\textsuperscript{145} which further elaborates a network of measures, which prohibit advertising and targeting of children under the age of 14, when food products are designated with a label “high in [sugar; sodium; caloric value; or saturated fat]” and therefore unhealthy.\textsuperscript{146} The use of animated characters, logos or cartoons is prohibited on unhealthy products under Article 110\textit{bis} of the Decree, because the use of such characters is deemed to constitute “advertising” and all advertising of “high-in” food and beverages to children under fourteen is prohibited, “[Advertising is aimed at children under the age of 14] if it uses, among other elements, children’s characters and figures, animations, drawn animations, toys, children’s music, or if it includes the presence of people or animals that attract the interest of children under 14 years old …”\textsuperscript{147}

Concerns over its continuous use of brands and trade marks after the passing of Law No 20.606 prompted PepsiCo to challenge Decree No 13 for expropriation of its trade marks and brands, but the outcome of the case is not yet known.\textsuperscript{148} As an American company investing in Chile, PepsiCo could also seek protection for its investment under Chapter 10 of the Chile/US FTA.\textsuperscript{149} Equally, Chile could be exposed to claims of


\textsuperscript{146} Boza and others, ‘Recent Challenges in Food Labelling Regulations in Latin America: The Cases of Chile and Peru’ (2017) Working Paper No 04/2017 (WTI).

\textsuperscript{147} Original Spanish text reads: “Para estos efectos, se podrá considerar que la publicidad está dirigida a este grupo etario si emplea, entre otros elementos, personajes y figuras infantiles, animaciones, dibujos animados, juguetes, música infantil, si contempla la presencia de personas o animales que atraigan el interés de menores de 14 años …”.


\textsuperscript{149} Chp.10 Investment Protection (Art. 10.9 expropriation).
investors from other countries, as it is bound by 38 BITs currently in force.\textsuperscript{150} Chile’s champion food advertising legislation is observed by health regulators globally.\textsuperscript{151}

3.2 Peru: Unhealthy Food and Beverages TMs

Building on the PAHO evidence and reports Peru identified the role advertising and marketing to children and adolescents play in dictating consumer habits in choice of food and beverages.\textsuperscript{152} Peru developed draft legislation with the aim to reduce, or completely eliminate serious health consequences of childhood and adolescent excessive weight and obesity. Accordingly, Law No 30021/2013\textsuperscript{153} mandates the use of warning labels “high-in (sodium/sugar/saturated fat): avoid excessive consumption” and “contains trans fats: avoid consumption” on unhealthy or “junk” food and introduces other educational and sales measures to achieve the purported aim.\textsuperscript{154}

It has been reported that the industry sector and business associations in the food and beverages industry have “consistently expressed their disagreement with this type of regulation”,\textsuperscript{155} where this Law will restrict commercialisation of 95% processed food and, arguably, it represents

\textsuperscript{150} Including BITs with Germany, Switzerland and UK: http://investmentpolicyhub.unctad.org/IIA/CountryBits/41\#iaIinnerMenu, accessed 26 December 2018.

\textsuperscript{151} House of Commons Health Committee, ‘Childhood Obesity: Time for Action’ (23 May 2018) available https://publications.parliament.uk/pa/cm201719/cmselect/cmhealth/882/882.pdf, accessed 26 December 2018, [47] (in UK there is a call to regulate brand sponsorship of HFSS foods and to ban the use of “child-friendly” imagery, which could entice children towards HFSS consumption: “[Government’s future plan should] include a ban on brand generated cartoon characters or licensed TV and film characters from being used to promote high fat, sugar and salt products in non-broadcast media”).

\textsuperscript{152} Boza and others (n146) part 4.


\textsuperscript{154} The Law is subject to continuous amendment proposals, but the health warnings remain part of it, Boza and others (n146) part 5; on legislative amendments see Peruvian Congress, www.congreso.gob.pe/pley-2016-2021, accessed 26 December 2018.

\textsuperscript{155} Boza and others (n146) part 6.
regulation which is “contrary to international practice”. Peru is a party to numerous international investment agreements, as for example the Peru/US FTA\textsuperscript{157} or one of 28 BITs.\textsuperscript{158}

4. CASE STUDY 3: INFANT FORMULA TRADE MARKS

4.1 International Framework

Regulation of infant formula sales and advertising originates from several scandals in the 1980s regarding the safety of infant formula in the developing states. Consequently, the WHO adopted the International Code of Marketing of Breast-Milk Substitutes.\textsuperscript{159} Whereas the use of infant formula might be necessary in certain cases, it should not be promoted or encouraged. The Code is not legally binding but aims to regulate the field by setting an example of best practice. Arguably the Code represents the minimum of acceptable requirements with respect to marketing and advertising of breast-milk substitutes.\textsuperscript{160}

The Code sets requirements of acceptable labelling in Article 9. A “label” is defined in Article 3 as, “[a]ny tag, brand, mark, pictorial or other descriptive matter, written, printed, stencilled, marked, embossed or impressed on, or attached to, a container … of any products within the scope of this Code”. The Code’s requirement of labelling will therefore affect both packaging of “breast-milk substitutes”, advertising with respect to them and any trade marks or other signs used to describe the product. The text itself does not refer to trade marks, rather “brands” and “marks”. Labels, as defined in the Code, should be designed with the aim of conferring the necessary information on the appropriate use of the product. Labels

\textsuperscript{156} Boza and others (n146) part 6.
\textsuperscript{157} Investment protection in Chp.10.
\textsuperscript{158} Peru has valid BITs with Germany, Switzerland, UK and 25 other countries: http://investmentpolicyhub.unctad.org/IIA/CountryBits/165#iaInInnerMenu, accessed 26 December 2018.
\textsuperscript{159} Annex 1 to the Resolution WHA34.22, by which the Code was adopted. The Code is not implemented in its entirety in the EU or the UK, Roger Lee Mendoza, ’Breast Milk Versus Formula: Courts, Health Marketing, and Asymmetric Information’ (2010) 2(1) ICAN: Infant, Child & Adolescent Nutrition 9.
\textsuperscript{160} Lize Mills, ‘The Regulations Relating to Foodstuffs for Infants and Young Children (R 991): A Formula for the Promotion of Breastfeeding or Censorship of Commercial Speech?’ (2014) 17(1) PER/PELJ 253, 259.
should not however discourage breast-feeding. Labels should carry detailed information and an “Important Notice” or an equivalent; (a) a statement on superiority of breast-feeding; (b) a statement that the product should only be used on the advice of a health worker and information with regard to the proper method of use; and (c) instructions for appropriate preparation and warnings of failing to do so.

The Code regulates trade marks in Article 9.2, second sentence, according to which the use of pictorial and word marks for infant formula is prohibited, “[n]either the container nor the label should have pictures of infants, nor should they have other pictures or text, which may idealise the use of infant formula”. Any pictures, whether they are used as ornaments, or they constitute part of a trade mark, cannot be used, if they idealise the use of infant formula. Limitations are also imposed on the use of word marks, whereas “[t]he terms ‘humanised’, ‘maternalised’ or similar terms should not be used.”

4.2 South Africa

The Code was fully implemented in South Africa from 2012, specifically with respect to the use of trade marks. The Regulations are based on Section 15(1) of the Foodstuffs, Cosmetics and Disinfectants Act, and impose restrictions on labelling, advertising and promotion of infant and follow-up formula (and other related products). Restrictions on the use of trade marks are set in Section 2(3), according to which “[t]he company logo, brand name, and logos indicating endorsement by specific religious organisations shall be permitted, provided they do not contain a picture of an infant, young child or other humanised figure”.

The South African Regulations closely follow the language of Article 9.2 of the Code. The Regulations do not have express provisions to safeguard TM registration against a future invalidation claim for reasons of non-use. Trade marks, which include or consist solely of pictures of an

161 Code Art.9.1.
162 Code Art.9.2.
163 Code Art.9.2, fourth sentence.
164 The Code was never implemented in full in the United States, even though the scandals relating to Nestlé originated from the United States. The new Regulations in South Africa and their constitutionality are discussed by Mills (n160).
165 Regulations published in GN R 991 and GG 35941 of 6 December 2012 (Regulations Relating to Foodstuffs for Infants and Young Children); in relation to Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972 (as amended in 2007).
infant, young child or other humanised figure will, after five years of non-use, be open to invalidation for non-use.\textsuperscript{166} It has been argued that Regulations may fail the test of proportionality under Section 36 of the Constitution.\textsuperscript{167}

5. CASE STUDY 4: DISPARAGING, IMMORAL AND SCANDALOUS TRADE MARKS

5.1 International Framework

States may refuse benefits of TM registration to signs, (1) which may disparage persons, institutions or beliefs or bring them into contempt or disrepute; or (2) marks, which are contrary to morality or public order (scandalous marks). Whereas states’ power to refuse registration is clear from international TM sources,\textsuperscript{168} the position is less clear in situations where a business used its (unregistered) trade mark in commerce and built substantial goodwill on it. In addition, any states’ interference with commercial speech is subject to freedom of expression scrutiny.\textsuperscript{169}

States’ duty to stop discrimination is obvious, whereas their powers to censor speech, which could be offensive only, is subject to considerable discussion.\textsuperscript{170} Article 2 of the Universal Declaration of Human Rights, prohibits discrimination based on,

\textsuperscript{166} Mills (n160) 283–84.

\textsuperscript{167} Mills (n160) 287 (argues that limitations imposed on TMs and marketing as per 2012 Regulations are not necessarily consistent with requirements of s.16 Constitution (freedom of expression), because these measures are not reasonable and proportionate (as per test in s.36 Constitution; which has also been explored by the South African Supreme Court of Appeal in the tobacco case British American Tobacco South Africa (Pty) Limited v Minister of Health 463/2011 [2012] ZASCA 107 (20 June 2012) in which limitations on tobacco advertising and promotion (not plain packaging) were found constitutional (compliant with s.36 Constitution)).

\textsuperscript{168} Paris Convention Art. 6\textsuperscript{quinquies} (B)(3) (“Trademarks [may be denied registration or invalidated] when they are contrary to morality or public order …”); TRIPS Art. 15(2) (refers to Paris Convention); detailed in Chp.4.

\textsuperscript{169} ECHR Art.10; interface with TMs detailed in Chp.4.

\textsuperscript{170} Arcos Ziemer and others, ‘Morality and Trademarks: the South American Approach’ (2017) 40 Suffolk Transnat’l L Rev 221, 229 (arguing for a role of morality in TM law); McDowall and Pearce, ‘Morality and All That Jazz: The Role of Moral Objections in Trade Mark Law – the US Supreme Court Decision in Matal v Tam’ (2018) 40(3) EIPR 145, 148 (“trade mark examiners should not be required to be the arbiters of morality”).
race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty.\footnote{UDHR Art.2. Similarly, ECHR Art.14.}

5.2 United States

Countries have regularly refused registration of immoral, scandalous, offensive or disparaging marks and their power to do so has, until recently, remained unchecked.\footnote{A comparative overview detailed in Chp.4.} In a recent line of US cases, the “disparaging clause” was rendered unconstitutional, with the faith of the “scandalous clause” still pending. The consequences of such a decision, if unchanged, could lead to an expropriation claim, as the TM proprietor was denied TM registration, after having built and used its trade mark in commerce for a number of decades.\footnote{D Marlan, ‘Trademark Takings: Trademarks as Constitutional Property under the Fifth Amendment Takings Clause’ (2013) 15 U Pa J Const L 1581, 1599 (argues that TMs are constitutional property and thereby subject to the takings clause).} With the developments elaborated below, future expropriation claims are unlikely to occur.

Section 2(a) of the Lanham Act states in the relevant part that a trade mark will be refused registration, if it “[c]ontains of, or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute, …” [emphasis added]. Based on this provision, the USPTO Trademark Trial and Appeal Board (TTAB)\footnote{USPTO Trademark Trial and Appeal Board.} and courts have refused registration or cancelled it for numerous trade marks, both disparaging and scandalous. In recent years however, this provision has been challenged for its lack of constitutionality. The “disparaging clause” is examined first.

In 2015 the US District Court cancelled the TM Redskins.\footnote{Pro-Football, Inc v Blackhorse, 112 F Supp 3d 439 (ED Va, 2015); history explored in: Mark A Conrad, ‘Mutual v Tam-A Victory for The Slants, a Touchdown for the Redskins, but an Ambiguous Journey for the First Amendment and Trademark Law’ (2018) 36 Cardozo Arts & Ent LJ 83, 105–12.} The decision was justified by an evidentiary finding that six (now cancelled) trade marks were disparaging at the time of their registration (even if...
decades back). *Redskins* trade marks have been used for decades by its proprietor to advertise and promote its football team and related activities (merchandise). Once cancelled, the owner of the *Redskins* trade marks challenged this decision and claimed that its marks have been taken through regulatory action. These claims have been rejected by the court and the appeal is currently pending. The District Court held that section 2(a) disparaging clause does not suppress speech, as trade marks are to be distinguished from TM registrations. To put it differently, the court characterised this case to be about TM registrations and their associated benefits and not the use of trade marks, which remains unencumbered after the cancellation of TM registrations. In the alternative, even if the case falls within its scope, section 2(a) Lanham Act is exempt from free speech scrutiny, as TM registrations constitute government speech. With the developments in the *Matel v Tam* case however, it is unlikely that the *Redskins* appeal will see a decision on the merits of the regulatory takings claim.

Following the *Redskins* cancellation, the disparaging clause prominently featured in another case under section 2(a) Lanham Act. In 2016 the application of the Asian-American rock band for the registration of *The Slants* trade mark was refused, because the TTAB decided this mark to be disparaging of the Asian population in America. On appeal, the District Court overturned the TTAB’s cancellation and declared section 2(a) Lanham “disparaging clause” unconstitutional for violation of the First Amendment freedom of expression clause. Rejecting all US Government’s arguments to the contrary, the Supreme Court held that (1) trade marks are private, not government speech; and (2) that section 2(a) disparaging clause amounted to viewpoint discrimination. According to the Supreme Court section 2(a) Lanham Act is too vague to stop anti-discrimination. Instead, the aim of the provision is to ban offensive

---

176 The District Court rejected the Takings Clause claim because “a trademark registration is not considered property under the Fifth Amendment”. *Pro-Football v Blackhorse* (n175) 464.

177 Conrad (n175) 109.


179 *Matal v Tam* (n178) 1763, 1765, 1764–65 (Alito J: this imposition on commercial speech failed the *Central Hudson* test, because the prohibition [s.2(a)] was not narrowly drawn to a substantial government interest).
As such, the prohibition to register disparaging trade marks is unconstitutional, as it violates the First Amendment: “[i]t is not an anti-discrimination clause; it is a happy-talk clause. In this way, it goes much further than is necessary to serve the interests asserted”.181

Section 2(a) immoral and scandalous clause has also been declared unconstitutional, although the appeal has not (yet) been resolved by the Supreme Court. In order to safeguard freedom of expression in the US, the Court of Appeals for the Federal Circuit declared section 2(a) unconstitutional, overturned the TTAB’s refusal to register and confirmed the registrability of the “FUCT” TM. Although it found the mark FUCT to be vulgar and with it, immoral or scandalous, it held that section 2(a) immoral and scandalous clause “impermissibly discriminates based on content in violation of the First Amendment”.182 With this development, the US will be in the unique position of potential registrability of offensive trade marks, unlike many other countries worldwide.

These cases confirm the strong protection of free speech in the US and do not, to the contrary, originate from the proprietary character of trade marks in US law. The Court in Brunetti expressly referred to the Matal v Tam decision, in which the Supreme Court reaffirmed the “expressive content of trademarks”:

“[t]rademarks – including immoral or scandalous trademarks – also “often have an expressive content.” … For immoral and scandalous marks, this message is often uncouth. But it can espouse a powerful cause. … While the speech expressed in trademarks is brief, “powerful messages can sometimes be conveyed in just a few words.”183

6. CONCLUSION

Most TM disputes remain private disputes, litigated or arbitrated among private parties, who seek to protect their goodwill and position in the market. As seen in this chapter, there are new TM cases on the horizon, which target states and their regulation that aims to regulate the use of brands and trade marks in the course of trade. Arbitrated in the international framework, these TM disputes present a new challenge,

180 Matal v Tam (n178) 1751 (Alito J: disparagement clause contradicts First Amendment clause, “[s]peech may not be banned on the ground that it expresses ideas that offend”).
181 Matal v Tam (n178) 1765 (Alito J).
183 Brunetti (n182) 26 (referring to Matal v Tam (n178) 1760).
equally for all parties involved: (1) states as regulators of trade marks and as addressees of the claims; (2) arbitrators as newly appointed decision-makers in TM disputes; and (3) TM owners re-characterising their TM rights as investment assets. Whereas this book explores these questions in detail, it first asks the question of whether trade marks, as a sub-category of IP, represent a special type or category of investment assets? And if they do, should they be treated differently to other investment assets protected under IIAs? This is examined in the next chapter.