International Trademark Association

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Messrs.
Andrew Wyckoff
Director of Science, Technology and Innovation Department

Josée Fecteau
Director of the Legal Affairs Department
The Organization for Economic Co-operation and Development (OECD)
2, rue André Pascal
75016 Paris

RE: Notice on Brand Restrictions as an Emerging Barrier to Economic Growth and Trade.

Dear Sirs:

The International Trademark Association (INTA) would like to invite you to our Brand Restrictions Committee meeting on May 7 at 8:00 ET, during the Annual INTA Leadership Meeting. We would like to discuss and to present to the Organization for Economic Cooperation and Development (OECD) INTA's position on the emerging threat of brand restrictions to global trade and economic growth, which has targeted essential intellectual property rights that protect consumers, foster fair and effective international commerce and incentivize innovation. We believe that the OECD's mission to support trade and growth will be severely impacted by the growing trend of brand restrictions. Following is an outline of issue that concern our industry group about this novel and emerging problem.

After consideration of these issues we hope you find them as compelling as we do and are able to join us at our Leadership Meeting in May to participate in the discussion.

Overview

INTA is a global association of brand owners and professionals dedicated to supporting trademarks and related intellectual property (IP) to foster consumer trust, economic growth, and innovation. Members include nearly 6,500 organizations, representing more than 34,350 individuals (trademark owners, professionals, and academics) from 185 countries, who benefit from the Association's global trademark resources, policy development, education and training, and international network. Founded in 1878, INTA, a not-for-profit organization, is headquartered

in New York City, with offices in Brussels, Santiago, Beijing, Singapore, and Washington, D.C., and a representative in New Delhi. For more information, visit www.inta.org.

In brief, brand restrictions entail regulatory burdens on the use of legitimately granted trademark rights in order to achieve purported public health or other policy goals. Although evidence suggests brand restrictions do not work, countries continue to implement these policies without proper review or understanding of the negative and unintended effects, including the violation of local and international law, destruction of economic value of trademarks, consumer confusion, increasing consumer fraud and counterfeits, barriers to market access, interference with fair competition and the creation of adverse impacts on innovation and entrepreneurship.

Regulatory Encroachment on Trademark Rights

In recent years, INTA has observed an alarming increase in regulatory encroachment on intellectual property rights, specifically, through the adoption of restrictions on brand use, including the required use of specific words, pictures, colors or other brand indicia. Typically, these regulations are said to be justified under the rubric of public health with the typical goal of consumer protection from certain types of goods (and possibly certain services), the implication being that trademarks and the use of brands cause consumers harm. Often the measures are enacted without any directly relevant research or more importantly, with little to no proof of any effectiveness to stop, or even curb the behaviors deemed unhealthy or undesirable by activists and certain authorities. The prototypical example is the forced removal of branding on tobacco product packaging, i.e., "plain packaging" but other examples include the removal of branded images, colors and other brand indica on products sold to children or for children – such as baby formula or snack foods.

While there is no evidence that such measures work, these restrictions also potentially violate international laws and private property rights. [1]

INTA's Position

INTA has taken decisive action against these policies, including adoption of a Board Resolution in 2019 on this issue.[2] In this Resolution, INTA asserts that trademarks are intangible personal private property rights (positive rights) and should be protected to the same extent and degree as all other forms of personal private property. It was further resolved that any government measure restricting the means, or manner, in which a brand symbol can be used, or displayed, should *prima facie* not be valid unless the measure is based on public interest that outweighs both the brand owner's rights to the brand and the public benefits associated with exercise of that right, and *proportional to the alleged harm*, *evidence-based,* and no more restrictive than necessary to achieve its legitimate objective.

Such a stance is justifiable because:

[1] Evidence indicates plain packaging creates negative health outcomes: "…plain packaging caused an increase in consumption equivalent to 6.5 cigarettes per week, compared to the consumption in New Zealand…". Nature Human Behaviour. 2020, "The effectiveness of plain packaging in discouraging tobacco consumption."

[2] https://www.inta.org/wp-content/uploads/public-files/advocacy/board-resolutions/Brand-Restrictions-11.2019.pdf

- brands provide tremendous economic value, not just to their owners, but to the larger society as a whole;
- national laws and international treaties have clear provisions against imposing restrictions on trademarks, yet such restrictions are increasingly common and expanding beyond tobacco products to other products such that they now impact statutory and common law protection regarding trademarks;
- restrictions on the use of brands jeopardize and confuse consumer choice, impede market competition, benefit counterfeiting and other illegal activity, erode brand value and restrict freedom of expression; and
- brand restrictions are being imposed without adequate and transparent impact assessments or credible evidence to demonstrate their effectiveness, and without consideration of other, less drastic, means.

Problematically, brand restrictions are being imposed or considered without adequate marketplace impact assessments and credible evidence to reasonably demonstrate that such measures effectively achieve their intended results.

Indeed, a disturbing dynamic is emerging: Some countries are blindly following the example of others, without taking into account the specificities of the tobacco case at the World Trade Organization (WTO) and its outcome, and in particular the facts that very strict escalation steps in the measures have to be undertaken before any kind of soft brand restrictions can even be considered. In addition, a growing body of evidence that brand restrictions are not effective is simply ignored, all of which may result in negative social and health outcomes.

Trademarks Create Economic Value

In 2017 and again in 2019, leading brand valuation and strategy consultancy Brand Finance analyzed the projected financial impact on brand and enterprise values if plain packaging were to be introduced globally across four non-tobacco sectors: alcohol, confectionary, snacks and drinks.[3] [4]

The portfolios of eight major brand-owning companies were analyzed: AB InBev, The Coca-Cola Company, Danone, Heineken, Mondelēz International, Nestlé, PepsiCo, and Pernod Ricard. Between them, these parent companies control 1,242 brands, 907 of which are used to market alcohol, confectionary, snacks, and drinks.

The updated 2019 Report concluded that US$234 billion of enterprise value stands to be lost if plain packaging were to be implemented across these eight companies, with the implied loss across the total beverage industry standing at US$430.8 billion. In the case of alcohol companies AB InBev, Heineken and Pernod Ricard 100% of revenue would be exposed. PepsiCo and The Coca-Cola Company could each see over 25% of their enterprise value at risk. Companies with more diverse portfolios, such as Nestlé and Mondelēz had reduced exposure when compared to

[3] Brand Finance Plain Packaging Report – December 2017 (2017 Report): https://brandfinance.com/wp-content/uploads/1/brand_finance_plain_packaging_report.pdf

[4] Brand Finance Plain Packaging Report – September 2019 (2019 Report): https://brandirectory.com/download-report/Plain%20Packaging%202019%20FINAL.pdf

those in the drinks industry. However, the only company in the sample to avoid damage was Danone.

The $243 billion loss in collective enterprise value represents a 37.1% drop in the value of brand contribution and a 19.5% fall in total enterprise value across the eight companies. Critically, it is also an increased loss of $50 billion on the $186.7 billion calculated in 2017, due to the growth of brand values over the two-year period. At page 11 of the 2019 Report, it is concluded that "This should raise concerns not only for brand owners, but also for governments, policy makers, marketers, and campaigners."

Impact on other Rights

In addition to the core public health questions around brand restrictions, governments restricting brands have not taken into consideration other negative impacts, such as:

- the elimination of the consumer's right to choose in connection with the fundamental right of free personality development;
- market competition restrictions;
- facilitation of counterfeiting and other illegal trade activities;
- violation of the rights of the illiterate or disabled by excluding them from access to brand information contained in colors or images on packaging;
- the safety features of product trade dress as it contributes to avoiding confusion between products (in case of allergies for example)
- the erosion of brand value; and
- restrictions of freedom of expression.

INTA also believes that depending on the degree of restrictions there are additional basic or constitutional rights that may be impinged, such as:

- private property rights;
- moral rights – such as the right to have and develop rights of personality for purposes of trade and commerce, or the rights of consumers to affiliate and associate with brands as a part of their personality or self-image;
- the right to work-- for all those people working in the directly affected industries and associated industries such as the entertainment, advertisement, marketing, sports, media, networks, broadcasting, advertising agencies and many other industry fields;
- the right of freedom of speech – in particular corporate speech;
- the right to enter a market free of monopoly and compete-- brands help differentiate businesses, and in particular new market entrants, and is an essential and often overlooked aspect of innovation in a competitive open market liberal economy; and
- the innovation incentive and reward -- brands are and effective tool to communicate the innovative content of an either new or different product, and without them, this differentiation mechanism is severely diminished if not abolished.

A discussion of the global trade framework as embodied in WTO is important to underscore the grave direction in which brand restrictions can undermine the rights enumerated above.

Flawed Conclusions: WTO Appellate Body Tobacco Plain Packaging Decision

The WTO Appellate Body concluded in 2020 a long-running dispute directly addressing the issue of brand restrictions against Australia's Tobacco Plain Packaging Act (TPPA) ruling that Australia did not violate any international treaties such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) or the General Agreement on Tariffs and Trade ("GATT") in implementing its tobacco plain packaging measures.

TRIPS Article 20 (Art. 20) was at the heart of the decision as it concerns restrictions placed upon trademarks and places importance on trademarks not being "unjustifiably encumbered by special requirements." Examples of such restrictions are the plain packaging measures for tobacco products in Australia or infant nutritional supplements that no longer allow such products to be marketed with pictures of infants in South Africa.

The WTO Appellate Body correctly confirmed that Australia's plain packaging measures encumbered the rights of trademark owners, but erroneously stated that Australia was justified in doing so, by interpreting Art. 20 according to Articles related to public health within the TRIPS Agreement.

INTA believes that, the WTO Appellate body failed to give proper attention to the purpose of the TRIPS Agreement and its related treaties, such as the GATT. When understood in in its correct context it would have become apparent that the essential element of TRIPS is to protect private property rights as an essential pillar of fair global commerce and to ensure consumers can distinguish between lawful products being offered for sale in an open marketplace.

Burden of Proof

While accepting that Australia encumbered the rights of trademark owners, the WTO Appellate body confirmed that such encumbrances must be justified in order to restrict such rights, and thereby set an unreasonably low bar for this provision.

INTA believes that Australia failed to adequately show such justification. The TPPA served to preclude the source-identifying function of trademarks by completely eliminating on tobacco products themselves and on their packaging, the use of certain trademarks and curtailing word marks on packaging to a standard font and size. Therefore, there is a huge difference between creating encumbrances to the use of trademarks and eliminating them. Erasing the right to use a trademark is not an encumbrance, it is the abolition of an acquired right and the right to use a trademark.

Additionally, the legal standard that Australia had to meet to justify its encumbrance of tobacco trademark rights was lower than what should reasonably be allowed. The Appellate Body decision suggested that a basic standard was sufficient to support such encumbrances, but in this case, Australia could rely on justifications based on conjecture, anecdotal information, speculation or unquantifiable good intentions (so-called barebone "reasons").

As such, the encumbrances caused by the plain packaging measures were not justifiable even if, ostensibly, they were introduced in furtherance of a public health objective. Under such a low bar – any public health "reason" – no matter how far-fetched or unscientific – could be used as a justification for an encumbrance of trademarks.

A reasonable, fact-based approach to understanding the standard set by Art. 20 should also weigh in the balance any increased health and/or social harms arising as a result of the

encumbrances, including for example, an increase in the illicit trade in tobacco products. In other words, there is also a difference in providing justifiable evidence to encumber trademarks right to use, than merely using the public health catch-all argument.

Less Drastic Alternatives

One of the country parties in the TPPA case against Australia, argued that there were less drastic alternatives available in order to achieve Australia's desired public health goal. To which, the WTO Appellate Body admitted that the initial decision, in assessing the available alternatives, made by the WTO Panel was wrong. Notably, there was no evidence that such packaging is less effective in reducing smoking than the complete elimination of almost all branding elements required by Australia. In fact, there was and is evidence that smoking rates in Australia have either stabilized or increased since the introduction of both plain packaging and higher taxes on tobacco products.

Yet, the WTO Appellate Body decided that Australia had discretion in choosing a more restrictive measure, and that such measures may be reviewed in other cases. This issue was not substantive enough to hold consistently over future cases, and INTA believes that the WTO Appellate Body should have considered the less drastic alternatives in its decision.

Accordingly, INTA holds that should the trademark rights of trademark owners in other industries, for example food, pharmaceuticals or gaming, be considered for restriction, less drastic alternatives should be considered. Only where there have been be escalated measures, adequate and transparent impact assessments, compelling data and credible evidence to demonstrate effectiveness should restrictions of validly existing legal property rights such as trademarks be considered .

Increased Likelihood of Confusion

Another significant argument that INTA noted was not properly addressed in the WTO Appellate Board Decision is that encumbrances on trademarks will likely lead to the increased likelihood of confusion between products by consumers. Australia's overreach in restricting and preventing the use of trademarks associated with tobacco has impaired the ability of consumers to distinguish between the goods and services from one entity to another. Much evidence supports the inability of consumers to distinguish goods, and for suppliers and merchants to properly manage inventories.

A fundamental tenet of trademark law worldwide is that consumers can distinguish between goods/services, and identify the origin of goods/services, by their trademark. Plain packaging of goods removes the distinctiveness of products to a level at which a consumer cannot reasonably be expected to operate – particular in the fast-moving consumer goods category.

This is harmful because it creates a presumption of equivalence between products without regard to quality and safety standards. For example, tobacco companies may be discouraged from improving their products if they do not have the means to differentiate their current (and future improved) products from their competitors. Should the WTO be presented with another dispute over brand restrictions, but in relation to products or services which see regular improvements in quality or safety, that the body should take a more thoughtful approach than as it did with tobacco.

Increased Counterfeit Products

Brand restrictions also cause or at least contribute to an increase in counterfeit and unauthorized products, particularly when applied to products associated with high levels of excise and other taxes, such as tobacco and alcohol.

The WTO Appellate Body did not provide any significant analysis on this issue. With brand restrictions, counterfeit and unauthorized products will increase as it becomes easier for criminals to counterfeit standardized plain packaged tobacco. Plain packaging for tobacco products also makes it more difficult for consumers to identify counterfeit products and so as discussed below, they are being sold illegal tobacco products by unscrupulous traders.

Such products would not meet the necessary health and safety requirements or enjoy customer support or complaint platforms as genuine products do which increases the risk of harm to consumers. Such a risk makes it even more necessary for nations to properly justify trademark encumbrances, given that counterfeit goods across many industries may have a serious impact on the health and safety of the consuming public. [In relation to counterfeit tobacco products, such products may also be contaminated, for example with heavy metals].[5]

Data coming from KPMG[6] in Australia where brand restrictions in the tobacco field have been implemented for several years suggests that plain packaging, at the very least, contributes to illicit trade of cigarettes. Indeed, data reveals a significant increase of over 50% of consumption of illegal tobacco since 2012.

While other factors such as price increase also play a role in such illegal tobacco consumption, it cannot be a coincidence that after 2012 the figures linked to illicit tobacco were always higher than in 2012, particularly in light of the fact that there were some reductions between 2010 and 2012.

Similarly, a report in Ireland demonstrates that since the implementation of plain packaging in that country in 2017, there is a marked increase in illicit tobacco.[7]

Positive Rights to Use Trademarks

In addition to a more accurate interpretation of Art. 20, a legal argument may also be available in those jurisdictions whose trademark law sets out a "positive" right to use trademarks as opposed to Australia's legislation which adopts a RELATIVE "negative" rights approach to prevent others from using the owner's trademark. While TRIPS Article 16.1 adopts a "negative" rights approach, many other jurisdictions have adopted "positive" and even hybrid "negative and positive" rights approach to trademark usage.[8] In such jurisdictions, attempts to encroach upon trademarks would likely give rise to an action against the regulatory authority attempting such encroachment to compensate the trademark owner for their taking of the trademark owner's personal property right.

[5] https://pubs.acs.org/doi/abs/10.1021/es049038s
[6] https://www.stopillegal.com/docs/default-source/external-docs/kpmg-project-stella/kpmg---illicit-tobacco-in-australia---2019-full-year-report.pdf
[7] https://www.revenue.ie/en/corporate/documents/research/tobacco-products-research-results-2018.pdf
[8] This World Intellectual Property Organization manual rightly notes that positive rights should be adopted in national trademark laws. See page 53: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_653

Advertisements and Trademarks

The stated goal of many brand restriction initiatives is to reduce or remove “advertisements” which erroneously target trademarks as part of packaging design visible to the public. It is legally and practically incorrect to conflate the two separate legal and business functions of trademarks and advertisements. As an example, Singapore’s Trademarks Act Section 27(4)(e) and 5(b) reflect the basic principle that signs (or trademarks) can be used “in advertising,” but that does not make them advertisements in themselves. In the same way, signs can be used on invoices, price lists, etc. but that does not make them invoices or price lists.

The role of a trademark is to distinguish a product or service in the market, while the role of advertising is to promote the consumption of a certain product or service. Therefore, both are diverse legal institutions that cannot be equated. When a trademark is applied to a product it is being used for its primary function to distinguish, it cannot be considered as advertising and it does not develop an advertising objective.

A brand can be used for advertising purposes, in order to "position" the product and "promote" its consumption, but for this, the brand is taken out of its role to distinguish and used in advertising.

Therefore, legal provisions that regulate advertising should not apply to trademarks since they are used to distinguish products (or services) from the rest of the market competitors.

Additional Considerations: A precipitous decline in trademark renewals

Brand restrictions can put at risk revenues of IP Offices; for example, INTA has studied in a few countries the trademark renewal figures in the relevant class 34 of the International classification of Nice in the years preceding the implementation of the brand restrictions in the tobacco industry. What can be generally observed is a reduction and quite often a significant drop in the number of trademarks renewed in that class. As a consequence, if brand restrictions were to spread to other fields it is more than likely that the same trend would occur, and it would have important negative consequences on the financial considerations of the IP Offices, which may need to implement measures not favorable to brand owners to compensate for the losses, and/or reduce the resources destined to the promotion of the use of the IP system.[9]

Conclusion

Fundamental questions have been raised in recent years about the ability of the global trade framework as embodied in the WTO to promote fair and effective commerce. A lack of attention to protecting intellectual property rights has been a part of this reassessment. Recent attacks on

[9] If we take New-Zealand where the brand restriction measures started being discussed in 2014 and implemented in March 2018, we observe that in 2014, the non-renewed marks in class 34 more than doubled compared to figures in 2011 to 2013 (110 compared to 40 to 51 in 2011 to 2013), they almost tripled in 2015 and reached in 2016 almost 4 times the figure of 2013. In Norway, although it is too early to analyze the post brand restrictions figures in depth since it was only implemented end of 2017, the non-renewals of 2018 were around 50% higher than the previous year in the relevant class 34. In France the non-renewals have been much higher in 2016, 2017 and 2018 than they were in 2015. For example, in 2017, the year of the implementation of plain packaging in France, 35% more marks were not renewed compared to 2015 in this country.

trademark rights through brand restrictions may continue to erode trust in the rules of trade if not properly addressed.

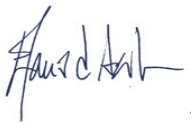
A correct understanding and enforcement of Art. 20 such as outlined above will provide robust and adequate protection for trademarks in light of decisions made by governments to restrict brands. It is imperative that regulators show adequate justification for such encroachments and use the least restrictive measures available.

In line with the above, brands should not be perceived as an advertising tool only. This perception is leaving behind their fundamental nature and purpose: the source identification of the goods and/or services in the market, hence they carry an inherent history of all the efforts done since their inception to maintain and increase reputation of companies who have made important innovation investments to meet consumers and regulations demands. As acknowledged by the Global Innovation index, a brand is "an important way for firms to secure returns on their R&D investments." [10]

In summary, we believe that any restriction on trademarks should be both proportional to the alleged harm, and based on quantifiable evidence, no more restrictive than necessary to achieve legitimate public health or safety objectives; and governments should be required to always apply the least drastic alternative and show that other measures such as public education campaigns, reasonable health warnings, fiscal pressure or other available tools for addressing health risks that may accompany use of certain consumer products, have proven ineffective.

This letter was prepared by INTA's Brand Restrictions Committee and staff. If you have any questions or concerns, please contact Mr. José Luis Londoño, INTA Chief Representative, Latin America (jlondono@inta.org) or Mr. Seth Hays, INTA Chief Representative Asia-Pacific (shays@inta.org).

Sincerely,



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INTA CEO

[10] Global Innovation Index 2020: "Who will finance innovation". Page. 26. WIPO. INSEAD. Cornell SC Johnson College of Business.