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Attention: J. Michael Robinson, Q.C.

**Would Plain Packaging for Cigarettes Violate Canada's
International Trade Obligations?**

You have consulted me on the above-noted question asking my opinion.

Relevant to this opinion, Canada is a party to the GATT, the 1979 Agreement on Technical Barriers to Trade (Standards Code), the FTA, the NAFTA, the Paris Convention on the Protection of Industrial Property 1967 and has just signed (December, 1993) the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations.

One must consider the impact of these agreements upon the proposed plain packaging legislation.

At the outset it must be emphasized that the purpose of the proposed plain packaging legislation is to reduce the consumption of tobacco products, especially cigarettes. It has to do with the protection of the life and health of the Canadian people and is related to the sale of goods, to trade in goods. It is only incidentally that the proposed legislation is related to the use of a trademark and possibly to an investment in a trademark since goods are usually identified by a trademark.

1. Health Exception

A. The GATT

The GATT as presently in force deals with trade in goods. It is clear that Article XX(b) would justify the adoption of plain packaging legislation by the Canadian Parliament.

"Article XX

General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries when the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures.

(b) necessary to protect human, animal or plant life or health; ..."

Provided the legislation is applied on a non discriminatory basis to foreign as well as Canadian cigarettes and other tobacco products, it would not violate GATT Article III.4 (National Treatment) which provides, in part, that:

"4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use."

This was the opinion of a GATT panel in a decision involving Thailand released in 1990. The Panel recognized that GATT Article XX(b) allows a contracting party to give priority to human health over trade liberalization

provided the measure is necessary. The proposed plain packaging legislation can be considered necessary as there is no alternative measure consistent with the GATT which Canada could reasonably be expected to employ to achieve the health policy objective of protecting the public from the harmful effects of tobacco and to reduce the consumption of cigarettes by young persons.

The GATT does not cover trade related aspects of intellectual property rights and trade related investment measures, which are now included in the Final Act of the Uruguay Round but are not yet in force.

I am of the opinion that since, according to GATT Article XX(b), in order to protect human life or health Canada could, if necessary, ban outright the import of cigarettes as goods covered by GATT, provided the sale of domestic made cigarettes and tobacco products is also prohibited, any protection of the intellectual property rights connected with the product under the Paris Convention, NAFTA or the Final Act, would be terminated. It is obvious that, in such a case, the US manufacturer would lose the value of its trade marks in Canada. As already indicated, the protection of the trade mark involved is not the issue. The issue is the protection of the life and health of the public using goods covered by GATT whose regulation by the proposed Canadian legislation would be legitimate under Article XX(b) of the GATT.

B. The Final Act of the Uruguay Round does not modify Article XX(b) (see Annex IA)

C. The F.T.A. (No longer in force in its entirety).

Article 1201 incorporated Article XX(b) of the GATT into Part Two, Trade in Goods, of the FTA, subject to the provisions of Articles 409 and 904 (which are not relevant to our topic). Therefore, as with respect to the GATT, the plain packaging legislation would have been justified under Article 1201. The FTA did not cover intellectual property rights but dealt with investment in Chapter 16. National treatment had to be provided (Art 1602). Investment meant, in part, "(d) the share or other investment interest in such business enterprise owned by the investor" (Art. 1611). Did it cover intellectual property? No. Is intellectual property an investment in Canada? Not under the FTA. Article 1602 imposing the national treatment obligation referred to measures affecting "(c) the conduct and operation of business enterprises located in its territory". Would there have been a violation of this obligation by packaging legislation applicable to domestic and U.S. cigarettes? No.

It is true that Article 1605 dealt with direct and indirect expropriation of an investment in Canada. Can it be said under the FTA that a cigarette package including a trademark was an investment in Canada? I think not.

International law recognizes confiscation without compensation of products harmful to health. Here we are concerned with a harmful product, not with the protection of intellectual property and its alleged expropriation.

D. NAFTA (see infra)

2. Technical Barriers to Trade

A. Tokyo Round Agreement on Technical Barriers to Trade (Standards Code) 1979

This Code commits Canada to ensure that the adoption of technical regulations or standards, including packaging, marking, and labelling for reasons, *inter alia* health, do not create unnecessary barriers to trade. The adoption of plain packaging legislation is clearly justified under this agreement.

B. FTA Chapter Six: Technical Standards

This chapter reaffirms Canada's right under the 1979 GATT Agreement to maintain regulations to protect human life, provided the measures are designed to achieve a legitimate domestic objective and do not create unnecessary barriers to trade (Article 603). They must be imposed on both imported and domestically produced goods. Thus, the packaging requirements would have been justifiable under the FTA.

C. Uruguay Round Agreement on Technical Barriers to Trade (not yet in force)

This Agreement, which is intended to replace the 1979 Agreement, stresses that no country should be prevented from taking measures necessary to ensure the protection of human life or health, at the levels it considers appropriate, subject to the requirement that they are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade (Article 2, esp. 2.2 of this Agreement).

D. NAFTA: (see infra)

3. NAFTA

A. Health Exception

Article 2101 provides as follows:

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

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

2. Provided that such measures are not applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on trade between the Parties, nothing in:

- (a) Part Two (Trade in Goods), to the extent that a provision of that Part applies to services,
- (b) Part Three (Technical Barriers to Trade), to the extent that a provision of that Part applies to services,
- (c) Chapter Twelve (Cross-Border Trade in Services), and
- (d) Chapter Thirteen (Telecommunications),

shall be construed to prevent the adoption or enforcement by any Party of measures necessary to secure compliance with laws or regulations that are not inconsistent with the provisions of this Agreement, including those relating to health and safety and consumer protection."

Article 2101.1 makes the provisions of GATT Article XX(b) applicable to the NAFTA provisions dealing with trade in goods (Part Two) and technical barriers to trade (Part Three). Therefore, with respect to cigarettes considered as goods, plain packaging legislation would not violate NAFTA.

Article 2101.2 permits measures relating to health as an exception to Part Three and Chapter Twelve obligations respecting services. Therefore, with respect to packaging of cigarettes considered as a service, the plain packaging legislation would not violate NAFTA.

B. Technical Barriers to Trade: Chapter Nine Standards Related Measures

This chapter, which was negotiated in light of the text then being developed in the Uruguay Round of GATT negotiations, expands upon both the GATT and FTA experiences. It reaffirms the rights and obligations of the parties under the GATT Agreement on Technical Barriers to Trade and other international agreements, including environmental and conservation agreements (Art. 903).

Article 904 is at the core of the issue as it details the basic rights and obligations of the parties. The protection of human life and health is specifically mentioned as justification for taking standards related measures (Art. 904.2). There is no doubt in my mind that the plain packaging legislation would be justified under Chapter 9 of NAFTA.

4. Intellectual Property Rights

A. Final Act of the Uruguay Round December 1993 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)
(not yet in force)

This Agreement addresses the trade related aspects of intellectual property protection in order to resolve any differences in national regimes, on the basis of consultation, negotiation and dispute settlement, rather than confrontation and retaliation. It provides that each member state shall

accord to the nationals of other member states treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property (Art. 3).

Article 8 is most relevant. It states that member states may, in formulating or amending their national laws and regulations, adopt measures necessary to protect public health. Thus, Canada will be able to limit the rights of trademark owners in order to protect public health under the TRIPS.

Article 17 recognizes that limited exceptions to the rights conferred by a trademark may be introduced, provided that such exceptions take account of the legitimate interests of the owner of the trademark and third parties. Finally, Article 19 states that circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as government requirements for goods provided by the trademark, shall be recognized as valid reasons for non use. This constitutes an indirect acknowledgement that measures such as plain packaging may be imposed as a legitimate obstacle to the use of the trademark.

B. NAFTA Part Six Intellectual Property Chapter 17

This Chapter was negotiated contemporaneously with the Uruguay Round Agreement on Trade Related Aspects of Intellectual Property Rights. It requires Canada to provide a high level of minimum protection for intellectual property rights relating *inter alia* to trademarks which are incidentally involved in connection with plain packaging of tobacco products.

Canada must accord to nationals of another Party treatment no less favourable than that it accords to its own nationals with regard to the protection and enforcement of all intellectual property rights (Art. 1703).

I interpret this national treatment clause as clearly allowing a restrictive treatment, as long as it applies to Canadian nationals. Thus, if as a result of plain packaging the enjoyment of the rights of U.S. trademark owners is limited, there is no violation of Article 1703, provided Canadian owners are treated in the same manner.

Article 1708(12) recognizes that a "party may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take into account the legitimate interests of the trademark owner and of other persons". This provision, which in my

view can be interpreted as broad enough to encompass plain packaging, should be read as a qualification to Article 1708(10), which provides that "No Party may encumber the use of a trademark in commerce by special requirements, such as use that reduces the trademark's function as an indication of source or a use with another trademark." Plain packaging would not accomplish such a reduction of function since, as I understand the proposed plain packaging legislation as now envisaged, the name of the company and the brand would still be printed on the package. As in the Uruguay Round text, Article 1708 (8) recognizes that non use can be due to government requirement for goods or services identified by a trademark.

It would be offensive if NAFTA were to allow a trademark to be used in Canada in violation of this country's public policy in matters of health and this is somewhat acknowledged in paragraph 14 of Article 1708.

Another central issue is whether NAFTA article 2101 dealing with free trade in goods should be superseded by NAFTA provisions on intellectual property which are only incidentally relevant. In case of an inconsistency, the objective of national treatment (Art. 102) should prevail since NAFTA deals primarily with free trade in goods and services.

No absolute rights are conferred by NAFTA chapter 17, or for that matter by any international convention, most of which contain an exception clause based on public order or public policy, expressed or implied. Furthermore, in interpreting a treaty one must avoid a result which is manifestly unreasonable (Art. 31(b) Vienna Convention on the Law of Treaties). It would be unreasonable to interpret NAFTA chapter 17, especially article 1708(12), in a way which would prevent Canada from adopting measures designed to protect the public health.

C. Paris Convention on the Protection of Industrial Property 1967

The most relevant provision of the Paris Convention is Article 6 quinquies (a) (1) which provides that every trademark duly registered in the country of origin shall be accepted for filing and protected as in the other countries of the Union. However, trademarks covered by this article may be invalidated:

"(b) (3) when they are contrary to morality or public order and, in particular, of such a nature as to deceive the public. It is understood that a mark may not be considered contrary to public order for the

sole reason that it does not conform to a provision of the legislation on marks, except if such provision itself relates to public order."

I am of the opinion that the notion of public order is broad enough to include laws requiring plain packaging made for the protection of health which could result in the use of the trademark being *de facto* partially invalidated. Once the legislation is passed, the trademark would become contrary to public order.

5. Investment

NAFTA, Part Five, Chapter 11

Article 1102 requires Canada to accord U.S. investors treatment no less favourable than that it accords, in like circumstances, to its own investors with respect to, *inter alia*, conduct and operation of investments.

Assuming, for purposes of argument, that the issue involved in plain packaging is one that relates to the operation of a trademark as an investment, Canada would not violate NAFTA national treatment obligations since the plain packaging legislation would apply to both Canadian and U.S. tobacco companies owning trademarks.

Article 1106 (6) (b) clearly supports the proposed plain packaging legislation. It provides:

"Provided that such measures are not applied in an arbitrary or unjustifiable manner, or do not constitute a disguised restriction on international trade or investment, nothing in paragraph 1(b) or (c) or 3(a) or (b) shall be construed to prevent any Party from adopting or maintaining measures, including environmental measures"

(b) Necessary to protect human life or health.,

Here, we find GATT Article XX (b) and NAFTA Article 2102(1) applicable to trade in goods transposed to apply also to investments.

Note also that Article 1114, Paragraph 2, recognizes that it is "inappropriate" to encourage investments by relaxing domestic health measures. This indicates the Parties' concern for the protection of health.

Article 1106, Paragraph 2, also gives support to plain packaging legislation. It is a measure that requires that if the the investment uses technology, it shall meet Canadian health requirements in so doing.

Therefore, even if one considers that the use of a trademark in Canada is an investment in Canada (see definition of investment in Article 1139, paragraph (g): "... other property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes") Article 1106 (6)(b) allows Canada to restrict such investment to protect human life or health.

With respect to the expropriation and compensations rights for investors provided for in Article 1110, there would be no obligation to pay compensation to the owner of the trademark in that event since plain packaging legislation, being justified, could not then be an expropriation or measure tantamount to an expropriation. Also, it is possible that trademark ownership or a licence in a trademark may not be tangible property acquired for a business purpose within the meaning of para. (g) of the definition of investment in Article 1139. Even if Article 1106(6)(b) were to be inapplicable, I strongly doubt that the plain packaging legislation is "tantamount to an expropriation" of any investment, trademark or other.

Also, Article 1110(7) provides that the whole expropriation Article is inapplicable to the limitation of intellectual property rights permitted under Article 1708(12). As stated above, I regard the plain packaging legislation as a limitation of intellectual property rights within the meaning of Article 1708(12).

Furthermore, according to Article 1112, Paragraph 1, in the event of any inconsistency between Chapter 11 and another chapter of NAFTA, the other chapter shall prevail to the extent of the inconsistency. I interpret this provision as giving precedence to Chapter Nine (standard related measures) and Twenty-One (exceptions) which recognize the health exception to be applicable to the import of goods. Again, it must be emphasized that plain packaging has more to do with trade in goods than intellectual property and investments, which are only side issues.

B. GATT Final Act of the Uruguay Round, December, 1993
Agreement on Trade Related Investment Measures

This agreement will have no direct impact on the proposed plain packaging legislation.

Conclusion

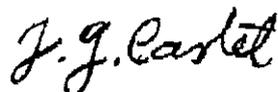
Although plain packaging legislation as proposed by health groups may incidentally affect the use of trademarks and the rights of their owners or licensors, this is not the true issue.

We are principally concerned with trade in goods and more specifically with technical barriers to trade which includes packaging as they relate to such goods and not with intellectual property and investment since plain packaging aims at reducing the consumption of tobacco products.

Under the 1979 GATT Agreement on Technical Barriers to trade, as well as, NAFTA Chapter 9, GATT, Article XX (b), and NAFTA Article 2101, Canada would be justified in adopting plain packaging legislation developed to protect the life and health of its citizens and would not violate her international obligations in doing so.

Furthermore, my interpretation of the relevant GATT and NAFTA provisions dealing with intellectual property rights and investment leads me to the conclusion that the proposed legislation would not violate Canada's international trade obligations in these specific areas.

Yours very truly,

A handwritten signature in cursive script that reads "J. G. Castel".

J. -G. Castel

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October 1992

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- Doctor Science Jurisprudence (Harvard) 1958
- Docteur honoris causa (Aix-Marseille) 1988
- Diploma, Institute of Comparative Law (Paris) 1950
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- Diploma honoris causa Institute of Comparative Law (Mexico) 1963
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- Associate member of the International Academy of Comparative Law
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- Killam Senior Research Fellow, 1986-88
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II. PROFESSIONAL STATUS

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- Barrister and Solicitor, Notary Public, member of the Ontario Bar (Called June 1960, Q.C. (1980))
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IV. PROFESSIONAL ACTIVITIES

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- Member of roster of Arbitrators for the Court of Arbitration of the International Chamber of Commerce (Paris)
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