Legal Backgrounder

Washington Legal Foundation
Advocate for freedom and justice®
2009 Massachusetts Avenue, NW
Washington, DC 20036
202.588.0302

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AUSTRALIA'S PLAIN PACKAGING RULING AN OPENING SALVO IN A LENGTHY BATTLE

by
Richard A. Samp

On August, 15, 2012, the High Court of Australia rejected a tobacco industry challenge to that nation's "plain packaging" law, thereby opening the door to implementation of the law on December 1. Australia is the first country to require that tobacco products be packaged plainly, *e.g.*, devoid of all distinctive features other than the name of the product being sold, with the product name printed in a standardized font. Other nations are considering adoption of similar packaging restrictions.

It would be a mistake, however, to view the Australia ruling as an indication that other legal challenges will be similarly unsuccessful. The Australia ruling was quite limited in scope. It addressed only a single legal claim: whether Australia's Tobacco Plain Packaging Act of 2011 (the TPP Act) violated a provision of the Australia constitution that prohibits Australia from acquiring private or State property (in this instance, trademarks and other intellectual property rights) without providing "just terms." At least three nations have initiated proceedings before the World Trade Organization (WTO), contending that the TTP Act's restrictions on use of trademarks violate a number of Australia's international treaty obligations. Free speech claims were not at issue in the Australia proceeding; such claims could well succeed in any country with a tradition (lacking in Australia) of providing constitutional protection to commercial speech. Moreover, the "just terms" provision of the Australia Constitution is considerably narrower than similar provisions in the constitutions of other nations. Accordingly, the Australia ruling is not a strong indication that the courts of other nations will similarly reject claims that plain packaging requirements amount to an unconstitutional confiscation of private property.

In sum, the Australia ruling — issued over a strong dissent — is but the opening salvo of what is likely to be a lengthy battle between proponents and opponents of plain packaging requirements for tobacco products.

The TPP Act. As is true of other nations, Australia has for many years regulated the packaging of tobacco requirements. Most notably, it has long required cigarette manufacturers to include on their packaging detailed warnings regarding the health dangers of smoking. The TPP Act and its implementing regulations ramp up the packaging requirements considerably. It prohibits the use of virtually all trademarks on tobacco packaging other than the brand name of the product offered for sale. Cigarette cartons and packages must be rectangular, have only a matte finish with no "embellishments,"

Richard A. Samp is Chief Counsel of Washington Legal Foundation.

and use a standardized color (drab dark brown, chosen because it was deemed highly unattractive). The size and appearance of the brand name is highly regulated to ensure drabness and uniformity. The percentage of packaging required to be devoted to health warnings has also been increased considerably. Hereafter, health warning statements and accompanying graphics must cover at least 75% of the front of packaging and 90% of the back. And the top and bottom of each pack must use the same drab color and may not include any additional trademarks.

The Australian Parliament listed several goals it hoped to achieve through adoption of the TPP Act. Those goals included: (1) reducing the attractiveness and appeal of tobacco products to consumers, particularly young people; (2) increasing the noticeability and effectiveness of mandated health warnings; (3) reducing tobacco product packaging's ability to mislead consumers about the harms of smoking; and (4) contributing to the reduction of smoking rates.

The result is a substantial change in the appearance of tobacco packaging. Gone, for example, will be pictures of a camel at an oasis, long the symbol of Camel cigarettes, as well as the elaborate symbols associated with other popular brands. Instead, all cigarette packages in Australia — whether branded or generic — will look substantially similar to one another.

The Australia Litigation. Before the TPP Act could take effect, two tobacco companies — British American Tobacco (BAT) and JT International (a Swiss company) — challenged the Act as a violation of the "just terms" provision of the Australia constitution. That provision confers on Parliament the power to make laws with respect to "[t]he acquisition of property on just terms from any State or person for any purpose in respect to which the Parliament has power to make law."[1] The plaintiffs contended that the their product trademarks, copyrights, designs, and patents were valuable private property, that the TPP Act destroyed their property by prohibiting any continued beneficial use, and that § 51(xxxi) requires "just terms" (*i.e.*, compensation) for their losses.

The High Court of Australia unanimously agreed with the plaintiffs that their trademarks and other intellectual property were constitutionally protected private property. But by a 6-1 vote, the justices held that § 51(xxxi) did not require payment of compensation.[2] In arriving at that decision, each of the justices focused on § 51(xxxi)'s use of the term "acquisition." The majority concluded that Australia itself could not be said to have acquired the trademarks for its own proprietary benefit. Although they conceded that the TPP Act constituted an "impairment" and "taking" of property by rendering the industry's trademarks and other intellectual property essentially worthless, they held that§ 51(xxxi) is not violated unless the government goes a step further and begins to make some use of the property in question — and thereby acquires a "proprietary benefit" in the property. Because Australia is merely regulating the use of tobacco industry trademarks and is not attempting to appropriate them for its own benefit, the High Court held that§ 51(xxxi) was not violated.[3]

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[1] Section 51(xxxi), Australia constitution.

[2] Matter No. S409/2011, *JT International SA and Commonwealth of Australia*; and Matter No. S389/2011, *British American Tobacco Australasia Limited & ORS and The Commonwealth of Australia* (Aug. 15. 2012) (hereinafter, "Opinion"). On October 5, 2012, the justices issued six separate opinions explaining the reasons for their decision.

[3] *See, e.g.*, Opinion of Gummow, J., slip op. at 49 (no constitutional violation exists because "pursuit of the legislative objectives stated in [the TPP Act] does not yield a benefit or advantage to the Commonwealth which is proprietary in nature.").

The Limited Nature of the Australia Decision. As the High Court's decision illustrates, the "just terms" provision of the Australia constitution is more limited than analogous provisions of other national constitutions — thereby reducing the likelihood that constitutional challenges to other nations' "plain packaging" laws will suffer a similar fate. The High Court focused on the word "acquisition," a word not contained in the "just compensation" clauses of other constitutions. For example, the United States Constitution provides, "[N]or shall private property be taken for public use, without just compensation."[4] In decisions issued throughout the past century, the U.S. Supreme Court has held that government regulation that deprives an individual of all beneficial use of his property is compensable under the Fifth Amendment's Takings Clause, regardless whether the government actually acquires or otherwise makes use of the property in question.[5] That rule applies not only to tangible property but to intellectual property as well.[6] Thus, in a "just compensation" challenge to plain packaging requirements adopted in countries such as the United States, the decision of the High Court of Australia — with its reliance on the absence of government "acquisition" of the intellectual property in question — would be of little relevance to the issue of whether compensation would be required.

Indeed, in rejecting claims for compensation under § 51(xxxi), the High Court of Australia repeatedly emphasized that that constitutional provision has been interpreted more narrowly than the Fifth Amendment of the U.S. Constitution.[7] In sum, the High Court's rejection of the tobacco industry's "just terms" claims should not be viewed as a harbinger of similar decisions in other countries.

Potential Treaty Violations. Australia has entered into numerous treaties whereby it has agreed to respect intellectual property rights. Those treaties include, among others, the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement"); the Paris Convention for the Protection of Industrial Property; the WTO Agreement on Technical Barriers to Trade (the "TBT Agreement"); and the U.S.-Australia Free Trade Agreement. The High Court decision did not address whether the TPP Act violates Australia's obligations under any of those treaties.

At least three countries — the Dominican Republic, Honduras, and Ukraine — have initiated proceedings with the World Trade Organization in response to Australia's adoption of the TPP Act.[8] Each contends that the TPP Act places Australia in violations of its obligations under various treaties. In addition, Philip Morris Asia has initiated arbitration proceedings against Australia, asserting that the TPP Act violates Australia's obligations under the nation's Bilateral Investment Treaty (BIT) with Hong Kong.[9] Nothing in the High Court of Australia's decision can be used by Australia to bolster its defense in those proceedings. Indeed, the High Court's finding that the TPP Act constitutes a "taking" of

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[4] U.S. CONST., AMEND. v.

[5] *See, e.g., Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922) (Holmes, J.) (stating that "if regulation [of property] goes too far, it will be recognized as a taking"); *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003 (1992).

[6] *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984).

[7] *See, e.g.*, Opinion of Kiefel, J., slip op. at 124 (stating that the Fifth Amendment's Takings Clause "has not been regarded as the source of § 51(xxxi) and the jurisprudence concerning takings has not been applied as relevant to its operation.").

[8] *See* Request for Consultations by the Dominican Republic, WT/DS441/1; Request for the Establishment of Panel by Honduras, WT/DS435/16; Request for Consultations by Ukraine, WT/DS434/1

[9] *See* http://222.ag.gov.au/internationallaw/Pages/Investor-State-Arbitration—Tobacco-Plain-Packaging.aspx (providing link to all documents related to the dispute, which is scheduled to be brought before an arbitration tribunal under UNCITRAL rules).

tobacco companies' intellectual property may well be cited by the Claimant in support of its claims in the BIT proceedings.

Free Speech Considerations. By imposing restrictions on how tobacco products may be labeled, the TPP Act imposes considerable restraints on tobacco manufacturers' speech rights. The plaintiffs in the Australia court proceedings did not challenge the TPP Act on free speech grounds — presumably because Australia lacks a tradition of providing constitutional protection to commercial speakers.

Other nations — particularly the United States — do provide such protection. In those nations, plain packaging legislation is likely to find itself subject to challenge based on claims that the legislation violates constitutionally protected free speech rights. Obviously, the High Court of Australia's decision will have no bearing on such decisions.

The U.S. Supreme Court recently held that when — as is the case with plain packaging legislation — commercial speech is regulated on the basis of its content and not because it is deemed false or misleading, the regulation is subjected to "heightened scrutiny" under the U.S. Constitution.[10] Whether plain packaging requirements could withstand challenge under the U.S. Constitution is subject to considerable doubt. Indeed, several provisions of U.S. law regulating the packaging of tobacco products have been struck down by federal appellate courts, and the U.S. Supreme Court may agree to hear the issue within the next several months.[11]

Conclusion. As a result of the decision of the High Court of Australia, the Australian law providing for plain packaging of tobacco products took effect as scheduled on December 1, 2012. But the jury is still out on whether such legislation will ultimately be upheld by courts and administrative tribunals throughout the world.

[10] *Sorrell v. IMS Health Inc.*, 131 S. Ct. 2653 (2011).

[11] *See American Snuff Co. v. United States*, U.S. Supreme Court No. 12-521 (Petition for a Writ of Certiorari, filed October 26, 2012).