SUBMISSION BY

PHILIP MORRIS INTERNATIONAL INC.

IN RESPONSE TO

THE NATIONAL CENTER FOR
STANDARDS AND CERTIFICATION INFORMATION
FOREIGN TRADE NOTIFICATION NO. G/TBT/N/CAN/22

I. Introduction

Philip Morris International Inc. ("Philip Morris") submits these comments on the regulations proposed by the Government of Canada to "prohibit the display of 'light' and 'mild' descriptors on tobacco packaging." *Canada Gazette,* December 1, 2001 (the "Notice") at 4299.[1]

Philip Morris supports the public health community's goal of ensuring that consumers do not believe that descriptors mean that low tar yield brands of cigarettes have been proven to be less harmful than other brands. As a matter of law and policy, however, we do not agree that banning the use of descriptors is an appropriate or necessary step. Manufacturers should be permitted to continue to use descriptors such as "light," and "ultra light". These are legitimate terms that are useful guides to describe brand styles with differing taste characteristics and reported tar and nicotine yields. Instead of a ban, which as discussed below would violate applicable trade and investment protections, public health goals can be achieved by regulating the use of descriptors. As the Canadian manufacturers have already stated, the government should consider regulatory alternatives rather than summarily issue a ban stripping manufacturers of their property rights.

[1] Philip Morris is interested in this issue because certain of its subsidiaries are investors with protectable interests in Rothmans, Benson & Hedges Inc., including its intellectual property, and a potential exporter and licensor of low-yield brands in Canada.

II. Summary

Philip Morris believes that banning descriptive terms on tobacco packaging would violate Canada's obligations under the North American Free Trade Agreement ("NAFTA"), the World Trade Organization's Agreement on Technical Barriers to Trade ("TBT") and the Agreement on Trade Related Aspects of Intellectual Property ("TRIPS"). The descriptive terms Canada seeks to ban are contained in lawfully-registered Canadian trademarks. Consumers understand these trademarks to designate distinct brands of low yield cigarettes with characteristic tastes and corresponding tar and nicotine yields. Prohibiting the use of these descriptive terms would effectively ban the display of trademarks containing them. If enacted, the proposed ban would therefore expropriate and destroy the affected trademarks and brands in Canada as well as the substantial goodwill that accompanies them in violation of both NAFTA and TRIPS.

A ban also would be unfair and inequitable and a violation of NAFTA. For decades beginning in the 1960's, the Government of Canada urged tobacco companies to develop and market low tar cigarettes. The companies did so, adopting and registering trademarks containing descriptive terms to identify these brands for the public. The companies also invested substantial sums in developing brand identity and loyalty among consumers for products sold under these marks.

If enacted, the proposed ban would be unfair and inequitable because an effective and less restrictive alternative to a ban exists, for example, a communication that would reaffirm for consumers that low yield cigarettes have not been established to be safer than other tobacco products. Finally, a ban would create a barrier to the possible sale or licensing in Canada of popular low yield brands sold elsewhere under trademarks containing descriptive terms. Because a ban is unnecessary, and because an effective and less restrictive alternative exists to a ban on descriptive terms, the ban would violate the TBT Agreement.

III. The Development of Low Yield Brands and Brand Equity

Philip Morris recognizes that today many public health officials have concluded that there is no overall health benefit to low-yield cigarettes. Nonetheless, Government health officials and members of the public health community in the United States and Canada long encouraged tobacco companies to develop and market cigarette brands with lower tar yields and encouraged smokers who wished to continue smoking to choose low yield brands. As the National Cancer Institute recognized in its recently published monograph, "independent scientists and public health authorities recommended that cigarettes which reduced tobacco smoke delivery to the smoker be developed and marketed by tobacco companies." [2]

In its notice of proposed regulations, Canada acknowledges that, as early as the 1960's, the "U.S. National Cancer Institute embarked on the 'low tar' cigarette program which influenced public policy in many countries, including Canada. In the 1970's, the Canadian government and the tobacco industry made efforts to collaborate to reduce the 'tar' yields." [3] As former Canadian Health Minister Monique Bégin explained in 1978: "in response to our efforts, the manufacturers are now providing cigarettes which produce smoke containing substantially lower levels of tar and nicotine." [4]

---

[2] National Cancer Institute, *Risks Associated with Smoking Cigarettes with Low Machine-Measured Yields of Tar and Nicotine*, Smoking and Tobacco Control Monograph No. 13, NIH Pub. No. 02-5074 (October 2001) ("NCI Monograph") at 69. Although the monograph concludes that "[t]here is no convincing evidence" that tar and nicotine reductions "have resulted in an important decrease in the disease burden," it also acknowledges that the available evidence "provide[s] somewhat inconsistent findings." Id. at 145 -146.

[3] Notice at 4300.

[4] Letter from Health Minister Bégin to J. C. Douglas dated October 10, 1978.

Indeed, tobacco companies began to manufacture and market "low yield" cigarettes in the 1970's and used terms such as "light" and "ultra light" to identify these products for consumers. These terms identified and continue to identify cigarettes with different taste characteristics and with lower tar and nicotine yields compared to regular, full flavor cigarettes and to other low-yield products in the same brand family. For example, *Benson & Hedges 100's, Benson & Hedges 100's Lights*, and *Benson & Hedges 100's Deluxe Ultra* Lights each have different tastes as well as different tar and nicotine yields.

To safeguard their investments, tobacco companies registered separate trademarks for their low yield products. For example, the Canadian Registrar of Trade-marks (the "Registrar") granted a registration for the mark *Benson & Hedges Lights* in 1982 (based on use since March 1977) and granted a registration for *Rothmans Extra Light* in 1991 (based on use since at least October 1980). Descriptive terms such as "lights" are an integral part of these registered trademarks.

Descriptors enable consumers to distinguish among brands and to identify their favorite brand. As the NCI monograph reports, the vast majority of consumers identify descriptors such as "light" with taste characteristics. Specifically, based on a U.S. telephone study, the NCI reports that 81% of daily smokers interviewed stated that they chose to smoke light cigarettes because they "prefer the taste."[5]

IV. The Proposed Ban Is Unjustified, But Reasonable Regulatory Alternatives Exist

Philip Morris agrees that consumers should not be given the message that descriptors mean that any brand of cigarettes has been shown to be less harmful than other brands.

---

[5] NCI Monograph at 195 (reporting on 1999 Kozlowski study.)

Accordingly, Philip Morris fully supports additional regulations that reaffirm to consumers that (1) "light" cigarettes have not been shown to be safer than other cigarettes and (2) there are limitations to the standard tar and nicotine yield measurements to which descriptors relate. Philip Morris does not agree, however, that the wholesale prohibition of all descriptors is justified.

All tobacco products sold in Canada contain the same prominent health warning messages regardless of whether the brand is low yield or full flavor. Beyond that, on its website, Philip Morris makes clear that smokers "should not assume that low-yield cigarettes are safe or safer than full-flavor brands."

> It is important to remember that, as of today, there is no cigarette on the market which the public health community endorses as offering "reduced risk," and it continues to be the case that, if smokers are concerned about the risks of smoking, quitting is by far their best alternative for reducing those risks.[6]

Philip Morris also advises the public on its website of the potential for "compensation" and provides links to public health community websites addressing the issue:

> No two smokers smoke cigarettes exactly the same way. The tar and nicotine yield numbers that are reported for cigarette brands are not meant (and were never intended) to communicate the precise amount of tar or nicotine inhaled by any individual smoker from any particular cigarette. . . .
>
> It is claimed that smokers "compensate" for the reduced tar and nicotine yields of some brands by smoking them differently than smokers of higher yield brands. For example, they may take more or larger puffs, smoke more of the cigarette or block ventilation holes that contribute to the lower reported yields of some brands. Generally speaking, the more intensely a smoker smokes a

[6] *See* www.pmintl.com/tobacco_issues/issues6.html.

cigarette, the more tar and nicotine he or she will inhale from that cigarette. [7]

In addition to these communications already in place, Philip Morris supports regulatory measures designed to address public health issues about the use of descriptors. For instance, Philip Morris supports regulations that would require a statement to consumers (in addition to the already-required health warnings) for "light" cigarettes, such as "Light cigarettes not established to be less harmful than other cigarettes." Philip Morris also supports measures that would require manufacturers to apply descriptors in a uniform manner, so that a specific descriptor consistently signifies specific ranges of reported tar and nicotine yields.

In short, Philip Morris believes regulatory measures can strike an appropriate balance between public health objectives and the manufacturers' and consumers' interest in the continued use of established trademarks and descriptors to differentiate among brands. Further, these measures can meet the stated objective of eliminating possible consumer confusion concerning the meaning of descriptors without erecting unnecessary barriers to trade or otherwise violating the protections afforded by NAFTA, TRIPS and TBT.[8]

V. A Ban Would Violate NAFTA

The proposed ban on descriptive terms in trademarks would, if enacted, violate NAFTA. First, the ban would be tantamount to an expropriation of tobacco trademarks containing descriptive terms as well as of the substantial investment in and goodwill associated with those marks and the brands they represent. *See* NAFTA Article 1110. Second, given the years of

---

[7] *See* www.pmintl.com/tobacco_issues/issues6.html.

[8] In enacting national regulations, Canada is required to honor its obligations under NAFTA, TRIPS and TBT. *See Government of Canada Regulatory Policy*, Privy Council Office, Appendix A, November 1999.

official encouragement to produce and market low yield brands and the fact that descriptors are associated with distinct taste characteristics, the proposed ban would be unfair and inequitable under any measure. *See* NAFTA Article 1105.

A. A Ban Would Be Expropriatory

Under NAFTA Article 1110, Canada must compensate foreign investors when measures expropriate, or are tantamount to expropriation of, investments in Canada. As one NAFTA arbitration tribunal recently observed:

> Thus, expropriation . . . includes not only open, deliberate and acknowledged takings of property . . . but also covert or incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or reasonably-to-be-expected economic benefit of property, even if not necessarily to the obvious benefit of the host state.[9]

Here, tobacco companies developed and marketed low yield brands with the express encouragement and approval of the Canadian government. They obtained valid, registered trademarks containing terms identifying these brands, and invested substantial sums to develop brand identity and consumer loyalty for these low yield products. Moreover, descriptors denote clear taste differences within brand families and have, over the decades, become markers for those taste differences. Indeed, brand styles with descriptors have their own specific identity and loyal consumer following. Banning these terms would destroy these valuable trademarks and the specific brands and goodwill they represent. Following a ban, the affected trademarks would simply disappear from the Canadian market. This measure would be inconsistent with the

---

[9] *Metalclad v. United Mexican States* (Aug. 30, 2000) at ¶ 103, *aff'd in part and rev'd in part on other grounds*, 2001 BCSC 664 (Sup. Ct. Brit. Colum. 2001).

protections afforded intellectual property under Chapter 17 of NAFTA[10] and would constitute an expropriation of that property and the investments underlying it in violation of Article 1110.[11]

B. A Ban Would Be Unfair and Inequitable

Under NAFTA Article 1105, the Government of Canada must afford investors "treatment in accordance with international law, including fair and equitable treatment and full protection and security." Canada's proposed ban on tobacco trademarks containing descriptive terms that identify low yield products would violate Article 1105 under any reasonable definition of this standard.[12]

As discussed above, government officials from Canada and the United States (as well as other members of the public health community) actively encouraged tobacco companies to develop and market low yield cigarettes. The Canadian government registered trademarks containing descriptive terms used to identify these products for consumers. Although the public health community does not currently endorse smoking low yield cigarettes as a less risky

---

[10] A ban on the use of descriptive terms in tobacco trademarks is plainly a "special requirement" that "encumber[s] the use" of the mark in violation of Article 1708(10).

[11] That low-yield products could continue to be sold under new names would not obviate the economic and competitive harm caused by the wholesale destruction of long established and well-recognized trademarks and brands.

[12] NAFTA tribunals have found that measures enacted by the Canadian government have violated the protections of Article 1105. *See, e.g., S.D. Myers, Inc. v. Canada,* Partial Award (Nov. 13, 2000); *Pope & Talbot, Inc. v. Canada* (Apr. 10, 2001). On July 31, 2001, the NAFTA Free Trade Commission issued an "interpretation" of Chapter 11 on July 31, 2001 stating, among other things: "The concepts of 'fair and equitable treatment' and 'full protection and security' do not require treatment in addition to or beyond that which is required by the customary international law minimum standard of treatment for aliens." This "interpretation" notwithstanding, the proposed ban violates Article 1105 as its protections are understood and have developed in international law, particularly in the context of foreign investment protection.

alternative to smoking full-flavored brands, public health concerns can be addressed through regulations that fall short of a ban.

Under these circumstances, banning the use of descriptive terms would be unfair and inequitable. Prohibiting the use of descriptors in trademarks long used to identify these products would destroy existing trademarks, brands and goodwill. Destroying longstanding investments and property rights would be egregious because an effective and fair alternative in the form of regulations governing the use of descriptors is readily available.

VI. A Ban Would Violate TRIPS

Article 20 of the TRIPS Agreement provides as follows:

> The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings.

Prohibiting the use of descriptive terms in tobacco trademarks would violate Article 20.[13] The proposed ban unquestionably would constitute a "special requirement" that would encumber the use and function of valuable, well known tobacco trademarks. A ban would substantially impede the ability of manufacturers to distinguish regular, full flavor brands from their low yield counterparts. In addition, given the increasingly generic appearance of tobacco packaging caused by the recently mandated graphic warnings, and the universal ban on tobacco product advertising in Canada, removing additional identifying features from the pack face would further undermine the ability of tobacco trademarks to distinguish the goods of different manufacturers.

---

[13] WTO members may adopt measures necessary to protect public health, but only if those measures are "consistent with the provisions of this [TRIPS] Agreement." TRIPS Art. 8. Because the proposed ban would violate Article 20, it plainly is not "consistent" with TRIPS.

This encumbrance also would be unjustifiable because reasonable alternatives exist that would meet the asserted regulatory objective without ruining valuable trademarks.

VII. A Ban Would Violate the TBT Agreement

The TBT Agreement is designed to assure that regulations and standards adopted by members of the WTO do not create unnecessary obstacles to trade. Under Article 2.2 of the TBT Agreement, Canada must assure that national technical regulations, such as the proposed ban on descriptors, do not have "the effect of creating unnecessary obstacles to international trade" and are "not . . . more trade restrictive than necessary to fulfill a legitimate objective." *See also* NAFTA Art. 904(4). Article 2.2 effectuates the intent of the TBT, expressed in its fifth recital, that "packaging, marking and labelling requirements . . . not create unnecessary obstacles to trade."

A ban on descriptors in tobacco packaging, and hence in tobacco trademarks, would erect a barrier to trade in violation of the TBT Agreement. Canada could invoke the ban to bar the potential sale or licensing for sale in Canada of popular brands sold in the United States and elsewhere under trademarks containing descriptive terms such as "light" and "ultra light." Moreover, because reasonable regulatory alternatives to a ban exist, any such barrier would be wholly unnecessary.

VIII. At a Minimum a Ban Would Nullify and Impair the Protections Afforded by NAFTA, TRIPS and TBT

For the reasons set forth above, the proposed ban on descriptive terms would violate key provisions of NAFTA, TRIPS, and TBT. Even if the ban were interpreted not to violate these treaties expressly, however, it would nonetheless nullify and impair the reasonably expected benefits from those treaties concerning technical barriers to trade (TBT and NAFTA) and the use and enjoyment of intellectual property (NAFTA and TRIPS). *See* NAFTA Annex 2004; TRIPS

Art. 64; Art. XXIII of GATT 1994. Simply put, the proposed measure could inhibit trade in low yield tobacco products and related investment by forcing manufacturers, without reasonable justification, to stop using valuable trademarks containing descriptive terms that have long identified low yield brands for consumers.[14]

IX. Conclusion

Philip Morris believes that these comments will assist Canada in developing effective and sensible tobacco control policies that protect and inform consumers without violating the trade and investment rights of tobacco companies attendant to the manufacture and sale of a legal product. We firmly believe that the best approach is to provide consumers with *more* information, and not with *less* information, as Canada proposes.

---

[14] In this regard, Canada acknowledged in 1999 that its tobacco control policies may nullify and impair the protections afforded by TRIPS, stating:

> The exercise of normal governmental powers often results in a change in the conditions of doing business. Such changes may involve the diminishment of the value of an intellectual property right. For example, a requirement for plain packaging of cigarettes [a measure previously considered and abandoned by Canada] could be seen as "nullifying or impairing" the benefit which cigarette-exporting countries expected their nationals to derive from their trademark rights.

See Communication from Canada to Council for Trade Related Aspects of Intellectual Property dated February 5, 1999 concerning Non-Violation Nullification and Impairment Under TRIPS, p. 3. Like plain packaging, a ban on the use of descriptive terms would effectively prohibit tobacco manufacturers from using registered trademarks containing these terms to identify low yield products for consumers.