Plain packaging

Victoria Brigden reports on *JT International SA v Commonwealth of Australia*; *British American Tobacco Australasia Limited v the Commonwealth* [2012] HCA 43 (5 October 2012)

On 15 August 2012 the High Court rejected the constitutional challenge brought by tobacco companies in respect of the federal government's controversial 'plain packaging' legislation for tobacco products. The court published its reasons on 5 October 2012 in six separate judgments, those of French CJ, Gummow J, Hayne and Bell JJ, Heydon J (dissenting), Crennan J and Kiefel J.

The *Tobacco Plain Packaging Act 2011* (Cth) (Packaging Act) regulated the appearance and packaging of retail tobacco products, including prohibiting the use of various trade marks on packaging, other than the use of a brand, business or company name for the relevant product.

JT International SA (JTI) and members of the British American Tobacco Group (BAT) brought separate proceedings in which they contended that the Packaging Act effected an acquisition of property otherwise than on just terms, in contravention of s51(xxxi) of the Constitution.

Each plaintiff company owned or exclusively licensed registered trade marks, designs or patents in various cigarette brands, and argued that they held various rights as a result, including those in trademarks and get-up, copyright, substantial reputation and goodwill, registered designs, patents, packaging rights and intellectual property licence rights.

The court held that the Packaging Act would not result in an acquisition of property of the plaintiffs otherwise than on just terms.

A number of issues were considered by the court in determining whether there was an acquisition of property under s51(xxxi) including:

- whether the plaintiffs' intellectual property rights constituted property for the purposes of s51(xxxi);
- whether the Commonwealth 'controlled' the plaintiffs' use of their intellectual property by the Packaging Act and in so doing, effected an indirect acquisition of property; and
- whether the restrictions and stricter requirements as to packaging imposed by the Packaging Act resulted in a benefit or advantage 'relating to' the ownership or use of property[1] to the Commonwealth so as to trigger the 'just terms' requirement.

French CJ

His Honour found that the asserted property was a mixture of statutory or derivative non-statutory rights. His Honour noted that it is settled that goodwill is a form of property, and that the rights associated with a get-up are rights to protect goodwill. In this context, his Honour found that while there is no 'property' in a get-up, rights associated with the plaintiffs' get-up are exclusive rights which are negative in character and support protective actions against the invasion of goodwill.[2]

His Honour recognised that there was an important distinction between the taking of property and its acquisition, and held that the mere extinguishment of rights was not an acquisition. His Honour cited with approval an observation made by Mason J in *The Commonwealth v Tasmania* (Tasmanian Dam Case)[3], approved by the majority in *Australian Tape Manufacturers Association Ltd v The Commonwealth4 that*:

> ....it is not enough that legislation adversely affects or terminates a pre-existing right that an owner enjoys in relation to his property; there must be an acquisition whereby the Commonwealth or another acquires an interest in property, however slight or insubstantial it may be.[5]

His Honour held that on no view could it be said that the Commonwealth acquired a benefit of proprietary character by reason of the operation of the Packaging Act on the plaintiffs' property rights, agreeing with the reasons of Gummow J, and Hayne and Bell JJ.[6]

His Honour observed that the legislative scheme imposes controls on the marketing of tobacco products. While that may constitute a 'taking' of rights in that it limits the plaintiffs' enjoyment of their rights, it does not involve the accrual of a benefit of a proprietary character to the Commonwealth which would constitute an acquisition.[7]

Gummow J

Gummow J held that there was sufficient impairment of the plaintiffs' statutory intellectual property to amount to a 'taking' of the plaintiffs' property. However, this was not an acquisition.

His Honour noted that it could not be said that the various species of statutory intellectual property rights

such as those arising from trade marks, designs, patents and copyright did not fall within the ambit of s51(xxxi) merely because other rights conferred by federal statute had been held to fall outside it.[8] His Honour observed that at general law the goodwill attached to the business of the plaintiffs from exploitation of trade marks and get-up is property,[9] but noted that these were not affirmative rights.[10]

His Honour considered the position in the United States in relation to the taking clause of the Fifth Amendment. His Honour considered that there were important distinctions between the US and Australian constitutions in relation to 'taking' and 'acquisition', and emphasised that s51(xxxi) is concerned with an acquisition, rather than taking, of property.[11]

Gummow J then considered three leading decisions in relation to involuntary taking of propertyin order to determine the extent of impairment of proprietary rights necessary to enliven s51(xxxi): *Minister of State for the Army v Dalziel*[12], *Bank of NSW v the Commonwealth*[13] and *The Tasmanian Dam Case*[14].

His Honour concluded that the operation of the Packaging Act would result in a taking of the various items of intellectual property,[15] but held that the goodwill associated with the get-up of packaging required further consideration.[16]

His Honour rejected JTI's contention that there could be an acquisition within s51(xxxi) which is not proprietary in nature for being inconsistent with authorities, and rejected the further contention that the pursuit of the objects of improvement of public health as set out in s3 of the Packaging Act confers an advantage upon the Commonwealth amounting to an acquisition, because the Commonwealth did not receive a benefit or advantage which was proprietary in nature.[17]

In relation to the 'control' and 'benefit and advantage' arguments, Gummow J agreed with the reasons of Hayne and Bell JJ that to characterise compliance with federal law as to the appearance of cigarette packaging as 'control' by the Commonwealth had no bearing upon the question of whether there was a proprietary relationship between the Commonwealth and packaging.[18]

Hayne and Bell JJ

Hayne and Bell JJ likewise found that there was no acquisition, even assuming that the Packaging Act effected a 'taking'.[19]

Their Honours noted that s51(xxxi) was concerned with matters of substance rather than form and that 'acquisition' and 'property' were to be construed liberally. However, a liberal construction did not 'erode the bedrock' of s51(xxxi), namely, that there be an acquisition of property.[20] For this reason the plaintiffs' argument that s51(xxxi) could be engaged even when no 'property' was acquired was rejected.

In considering whether the Commonwealth obtained a benefit or advantage that was proprietary in nature, their Honours found that the effect of the Packaging Act was no different from legislation requiring warning labels to be placed on products, and that such legislation typically effected no acquisition of property.[21] Their honours further held that compliance with the Packaging Act created no proprietary interest.[22]

Crennan J

Her Honour noted that the Packaging Act did not effect a transfer of the plaintiffs' rights to the Commonwealth or any other person of their intellectual property.

Her Honour noted that a brand name appeared to be the essential aspect of distinction of a product from competitors' products[23] and that, used alone, the brand names in question had the capacity to attract and maintain goodwill. An exclusive right to generate sales volume by reference to a distinctive brand name was a valuable right.[24]

Crennan J found, therefore, that this case was not analogous to authorities as to deprivation of the substance and reality of proprietorship because the plaintiffs in this case still had the ability to use their brand names to distinguish between their products and therefore to generate custom and goodwill.[25] Her Honour held that s51(xxxi) was not directed to preserving the value of a commercial business or item of property. That did not constitute a taking equivalent to an indirect acquisition.

As to control, her Honour found that because actions in respect of trade marks and product get-up remained open to the plaintiffs, it could not be said that there was an indirect acquisition of the plaintiffs' rights and entitlement not to use their property.[26]

Kiefel J

Kiefel J held that the mere restriction on a right of property, or its extinction, did not mean that a proprietary right had been acquired by another.[27] Her Honour distinguished *Dalziel*, and the *Bank Nationalisation Case* from the present,[28] and held that a closer analogy to the restrictions placed upon the plaintiffs was that of restrictions placed on land for town planning and other public purposes. Her Honour noted that these would not normally constitute an acquisition of land by a local authority.[29]

Her Honour rejected the plaintiffs' argument that the possible achievement of the statutory objectives under the Packaging Act was enough to amount to an acquisition. Her Honour commented that there may be a statutory objective of acquiring property, as in the *Bank Nationalisation Case*, but there was no such purpose apparent in this case. While the plaintiffs' businesses may be harmed as a result of the Packaging Act, the Commonwealth did not acquire property.[30]

Heydon J

Brief mention must be made of Heydon J's dissenting judgment.

After reviewing the relevant authorities, his Honour found it unnecessary for the Commonwealth or some other person to acquire an interest in property for s51(xxxi) to apply, but only to show that the Commonwealth or some other person obtained some identifiable benefit or advantage relating to the ownership or use of the property.[31]

His Honour rejected the submissions of the Commonwealth that the right of JTI and BAT to use their intellectual property on cigarette packaging was not property, and observed that by the removal of the right the proprietors were denied the use of the 'last valuable place on which their intellectual property could lawfully be used', bringing about 'an effective sterilisation of the rights constituting the property in question'.[32]

Therefore, the legislation deprived the proprietors of their statutory and common law intellectual property rights, and gave new, related rights to the Commonwealth, being the rights of control over the plaintiffs' intellectual property and the surfaces of the plaintiffs' chattels[33]. That control was a 'central element of proprietorship'.[34] Heydon J held that such rights were closely connected to the proprietors' former property rights.[35] His Honour described the control as a 'measurable and identifiable advantage relating to the ownership or use of property'.[36]

His Honour rejected the Commonwealth's argument that the Packaging Act provided 'just terms' in the form of fair dealing between the tobacco companies and the Australian nation.[37]

Finally, his Honour highlighted the significance of this and further decisions on s51(xxxi):

> After a 'great' constitutional case, the tumult and the shouting dies. The captains and the kings depart. Or at least the captains do; the Queen in Parliament remains forever. Solicitors-General go. New Solicitors-General come. This world is transitory. But some things never change. The flame of the Commonwealth's hatred for that beneficial constitutional guarantee, s 51(xxxi), may flicker, but it will not die. That is why it is eternally important to ensure that that flame does not start a destructive blaze.[38]

Endnotes

1. *Mutual Pools & Staff Pty Ltd v the Commonwealth* (1994) 179 CLR 155 at 185 per Deane and Gaudron JJ.
2. At [39].
3. (1983) 158 CLR 1.
4. (1993) 176 CLR 480 at 499-500 per Mason CJ, Brennan, Deane and Gaudron JJ.
5. At [42].
6. At [42].
7. At [44].
8. At [103] – [105].
9. At [106].
10. At [107].
11. At [118].
12. (1944) 68 CLR 261.
13. (1948) 76 CLR 1.
14. (1983) 158 CLR 1.
15. At [141].
16. At [142] – [143].
17. At [147].
18. At [150].
19. At [164].
20. At [169].
21. At [181].
22. At [183].
23. At [288].
24. At [293].
25. At [294].
26. At [300].
27. At [357].
28. At [358] – [362].
29. At [363].
30. At [372].
31. At [200].
32. At [216]; *Newcrest Mining (WA) v The Commonwealth* (1997) 190 CLR 513 at 635 per Gummow J.
33. At [217].
34. At [224].
35. At [218].
36. At [226].
37. At [236].
38. At [241].