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Recently Adopted EU Legislation

Not seeing the forest through the trees? The European Parliament is preparing a resolution on palm oil and the deforestation of rain forests

On 28 November 2016, the European Parliament’s Committee on the Environment, Public Health and Food Safety (hereinafter, ENVI Committee) discussed the Draft Report on “Palm oil and deforestation of rainforests” (hereinafter, the Draft Report), prepared by the Rapporteur and Member of the European Parliament (hereinafter, MEP) Kateřina Konečná, which was published on 3 November 2016. At the same time, reports about the felling of protected EU forests for biofuel production showcase the two-faced approach by and within the European Union (hereinafter, EU) and the need for a more balanced and legally-informed debate on the issue.

The issue of palm oil and deforestation has been a focus of the ENVI Committee since the beginning of the year. On 17 March 2016, the ENVI Committee held a Public Hearing on the topic of ‘Palm oil and rainforests: what can the EU do to stop deforestation?’. The aim of the meeting was to exchange views on the environmental impact of the palm oil industry. The hearing was initiated by MEP Kateřina Konečná, from the Czech Republic. The Draft Report is a so-called ‘Own-initiative report’ (abbreviated INI). Such reports are an important tool by the European Parliament to influence the legislative agenda and public debate and, more importantly, they aim at influencing the future work of the European Commission (hereinafter, Commission).

The Draft Report provides a motion for a European Parliament Resolution, as well as an explanatory statement. The Committees on Agriculture and Rural Development, on International Trade, and on Development of the European Parliament will give their opinion on this delicate matter. The already publicly available draft opinions by the Committees on Agriculture and Rural Development, as well as that of the International Trade Committee, do not appear to contribute to a balanced report. The draft opinion of the Committee on International Trade calls for a ban on EU imports of biodiesel derived from palm oil and stresses that the EU-Indonesia negotiations for a free trade agreement should not cover palm oil. The Committee on Agriculture and Rural Development underlines the nature of palm oil as a driver for deforestation.

A legally significant aspect of the Draft Report is the issue of market access of palm oil. Recommendation no. 10 of the Draft Report “calls on the Commission to increase import duties on palm oil that is directly linked to deforestation and that does not reflect the real costs associated with the environmental burden; notes that this instrument will require the
importance of certification schemes”. The issue of tariffs and import duties is delicate and highly regulated through multilateral (i.e., through the rules elaborated within the context of the WTO), bilateral (i.e., through preferential trade agreements) and unilateral (i.e., through schemes like the Generalised System of Preferences, hereinafter, GSP) commitments and those commitments lay out the scope of measures affecting duties.

Import duties on palm oil depend on the specific palm oil product and almost 50% of EU palm oil imports currently enter the EU duty free. Crude palm oil for foodstuffs is currently subject to a most-favoured nation (hereinafter, MFN) duty rate of 3.8%, while countries benefitting from GSP (excluding Indonesia), GSP+ and Economic Partnership Agreements (EPAs), benefit from a 0% duty rate. Biodiesel imports into the EU are subject to a 6.5% most-favoured nation duty rate and, again, a 0% duty rate under the GSP (excluding India and Indonesia) and GSP+ schemes. An analysis of the proposed recommendation underlines the impracticalities of this idea. The recommendation aims at increasing import duties only for palm oil that is “directly linked to deforestation and that does not reflect the real costs associated with the environmental burden”. That this link might pose a problem is reflected by the second element, noting that this would require “the involvement of certification schemes”. But what is palm oil that is “directly linked to deforestation”? How are the “real costs associated with the environmental burden” determined and taken into account?

Apart from the legal issues related to implementing new import duties, the current practical realities do not appear to allow for an introduction of any such import duties, in particular without the existence of a globally agreed standard on sustainable palm oil. Additionally, under Article II of the General Agreement on Tariffs and Trade (hereinafter, GATT), the EU may only increase its import duties on an MFN basis if its bound rates allow it. If there is no margin of manoeuvre (i.e., if the EU import rates are already bound at 0% or if the EU’s applied rates are already as high as the bound rates), the EU could only increase import duties through complex tariff renegotiations or by breaking current WTO rules, which does not appear to be a viable way forward. When dealing with import duties on palm oil, it must be considered that the EU is currently negotiating, in bilateral contexts, a number of preferential free trade agreements with palm oil producing countries, including with Indonesia and Malaysia, which are by far the biggest producers of palm oil worldwide. In those negotiations, the issue of import duties and, more generally, palm oil and sustainability, plays a significant role. Therefore, the recommendation of the European Parliament’s Committee on International Trade to exclude palm oil from such negotiations appears highly misplaced and questionable.

Apart from the international trade issue of import duties, a number of EU Member States are considering excise taxes on vegetable oils and, in particular, on palm oil. Over the course of 2016, the French legislature intensively debated the issue of a special tax on palm oil, palm kernel oil and coconut oil as part of the French biodiversity law (see Trade Perspectives, Issue No. 2 of 29 January 2016). Proposals included a tax of up to EUR 900.00 per metric tonne. Due to the successful interventions by palm oil producing countries and like-minded EU stakeholders, the final biodiversity law does not include any discriminatory increase in palm oil taxation. However, the law now contains a provision with the request for the French State to establish, within 6 months from the promulgation of the biodiversity law, a “simple, harmonised and non-discriminatory” taxation of all vegetable oils that privileges oils that are produced in a sustainable way. Additionally, sustainability is supposed to be certified based on objective criteria. Therefore, this debate is poised to gain traction again in 2017, when a proposal for a reform of vegetable oil taxation in France is to be expected. Palm oil producing countries, led by Indonesia and Malaysia, should get involved in order to prevent that this issue continues to be dominated by non-producing countries and their constituencies, with potentially protectionist interests. The perspective of palm oil producing countries, the achievements with respect to sustainable palm oil and the important benefits of palm oil cultivation for smallholders and the local economies in palm oil producing countries must be present to guarantee a balanced debate and non-discriminatory measures.
Another important aspect of the Draft Report, which was highlighted during the debate on 28 November 2016, is the issue of biofuels. The Draft Report “calls on the Commission to push for the use of palm oil as a component of biodiesel to be phased out by 2020 at the latest”. MEPs taking the floor during the 28 November 2016 discussion stated that this should only apply to unsustainable palm oil, while another MEP argued that biodiesel used in the EU should be sourced from crops that grow in the EU. However, going forward, the debate on bioenergy and biofuels should also take account of the apparent environmental destructions taking place in the EU itself. Indeed, in parallel to the debate in the European Parliament, reports indicated that protected forests are being felled in the EU for the production of bioenergy. The use of wood pellets and chips has drastically increased over the last few years and, while officially bioenergy from wood is supposed to be sourced from residue only, such as forest waste, current EU regulation does not require bioenergy plants in the EU to provide proof that the wood products were actually produced sustainably. A report by a non-governmental organisation alleges that logging in preservation zones was disguised as flood-risk mitigation, when, in fact, the timber was intended for bioenergy. High demand for raw materials by large power plants is blamed for this development. The increased demand for biofuels within the EU and around the world does have significant effects on the demand for raw materials. The EU is currently debating the revision and update of its biofuel policies and, on 30 November 2016, the Commission published a proposal for a revised Renewable Energy Directive.

The Rapporteur for the Draft Report stressed that the matter of palm oil and deforestation is a complex matter that requires action by everyone. Therefore, this should also include the involvement and engagement of countries and stakeholders from outside the EU, especially the producing countries that will likely be most affected by new EU regulations. MEPs have until 5 December 2016 to submit amendments to the Draft Report. The ENVI Committee will then work on the final draft of the Report and a vote within the ENVI Committee has been scheduled for 9 March 2017. Afterwards, the Report will be submitted to the European Parliament and a plenary vote will likely be scheduled sometime in the first half of 2017. While work on the issue is well-advanced in the ENVI Committee, the timeframe still allows for interested parties to have a say in the process. Both interested governments and private parties should do so urgently.

The EU agrees on how it will regulate the importation of conflict minerals

On 22 November 2016, the EU announced that an agreement on the final aspects of a regulation on conflict materials, brokered by the Commission, has been reached between the Council of the EU and the European Parliament. The regulation will aim at stopping the financing of armed groups in developing countries through the trade of tin, tantalum, tungsten and gold, by ensuring that such metals are sourced and imported into the EU in a responsible manner.

The Commission originally proposed a Regulation of the European Parliament and of the Council setting up an EU framework for supply chain due diligence through the self-certification of responsible importers of tin, tantalum, tungsten and gold originating in conflict-affected and high-risk areas in March 2014. The original framework proposed by the Commission centred on a voluntary mechanism that incentivised importers through a certification scheme. The European Parliament disagreed with the Commission’s voluntary approach, and in May 2015, adopted amendments to the proposal to make it a mandatory monitoring system for minerals originating in conflict-affected and high-risk areas (see Trade Perspectives, Issue No. 8 of 22 April 2016). The Council of the EU, which had originally agreed with the voluntary approach of the Commission, later agreed, in December 2015, with the compulsory approach of the European Parliament. While core issues remained, most were settled by the Council of the EU and the European Parliament in June 2016. The last remaining key issue was how and when to apply the regulation to EU importers.
The result of continued negotiations is that the EU's conflict minerals regulation will ensure sustainable sourcing for more than 95% of all EU imports of tin, tantalum, tungsten and gold. The agreed due diligence provisions will enter into effect on 1 January 2021. The agreement was outlined by Trade Commissioner Cecilia Malmström in a post on the Commission's website. There, Commissioner Malmström explains that ‘upstream’ companies, such as those in the EU that import raw materials for smelting and refinery, will have mandatory due diligence obligations, but that exceptions will be in place for recycled minerals and companies that import small volumes of minerals. For ‘downstream’ companies, which use minerals in components and goods, the Commission will develop reporting mechanisms and standards to increase due diligence in the supply chain, including a transparency database. The Commission plans to provide support for importers (i.e., drafting a handbook including non-binding guidelines and identifying conflicted-affected and high-risk areas), which will be geared towards small-to-medium-sized enterprises. In addition, the Commission will review and report to the Council of the EU and to the European Parliament on the effectiveness of the regulation, two years after the date of its implementation, and every three years thereafter.

As a general point, it should be noted that the EU agreement will build on the existing internationally accepted due diligence principles and refers to the ‘OECD Due Diligence Guidance for Responsible Supply Chains on Minerals from Conflict-Affected and High-Risk Areas’, but it will differ in approach to that of the US. In the US, Section 1502 of the Dodd-Frank Act makes it mandatory for publicly-traded companies to disclose annually the use of (potential conflict) minerals, and the scope of the legislation is limited to minerals originating from the Democratic Republic of Congo or an adjoining country. That is to say, the US approach regulates the matter through a ‘top-down’ approach, pressuring large ‘downstream’ companies to ensure that the ‘upstream’ supply chain is in compliance. The EU has opted for a ‘bottom-up’ approach, making the mandatory provisions of its regulation apply to ‘upstream’ companies in the supply chain and encouraging ‘downstream’ companies to voluntarily register in the system. The EU has also expanded the geographic scope of the regulation, compared to that in the US, to include any “conflict-affected and high-risk areas”, rather than just the Democratic Republic of Congo and adjoining countries.

The next step for the EU regulation on conflict materials, as agreed, is that the Presidency of the Council is to present, on 7 December 2016, the text of the agreement to the Permanent Representatives Committee (i.e., COREPER). A vote in the European Parliament is expected during the first half of 2017. Technical details are still being developed, and thus interested stakeholders may still have a say with respect to the final adopted text. Nonetheless, affected parties should begin preparing to ensure that they are in compliance with the law as of 1 January 2021, or whether they may qualify for one of its exceptions.

The relationship between public health and IP rights: Chile prosecutes Kellogg’s, Nestlé and Masterfoods for using cartoons aimed at children

On 22 November 2016, Chile’s national consumer agency (Servicio Nacional del Consumidor, hereinafter, SERNAC) announced that it is prosecuting Kellogg’s, Nestlé and Masterfoods (the importer and distributor of M&Ms) for infringing Chile’s Consumer Protection Law (i.e., the Ley de Protección de los Derechos de los Consumidores) and the Food Labelling and Advertising Law (i.e., Ley de Etiquetado y Publicidad de Alimentos, hereinafter LEP), because the companies maintained advertising, including cartoons addressed at children below the age of 14 years, on products containing so-called ‘critical’ nutrients (i.e., nutrientes críticos) and that are labelled with an ‘ALTO EN…’ (meaning ‘HIGH IN…’) STOP sign. Prior to launching the three infringement procedures, companies like Ferrero, McDonald’s and Burger King already experienced measures under the new laws and other companies have been informed of the new rules.

Although novel in the food sector, Chile’s measure is part of a trend of public policies aimed at tackling so-called ‘lifestyle risks’ by conveying certain information to the public. While
warning messages that reduce the visual appeal of the packaging of products are ubiquitous in the tobacco sector, these types of messages are now also gradually being extended to the alcoholic beverages and food sectors. The LEP, which entered into effect on 26 June 2016, regulates food advertising and, in this sense, expressly prohibits advertising of products that are labelled with a black octagon with the text ‘HIGH IN...’ sugar, fat or salt and that are targeted at children under 14, as well as the use for such products of commercial ‘hooks’ that attract children, such as, inter alia, gifts, contests or games. In this case, manufacturers are banned from putting children’s cartoon characters on products such as sugary breakfast cereals. The limits triggering the ‘HIGH IN...’ labels will be lowered (i.e., made stricter) over time. For example, as of 27 June 2016, solid food with 22.5g/100g of sugar (and liquid foods with 6g/100g) will need to be labelled with a black octagon that states ‘HIGH IN SUGAR’, while, as of 27 June 2017, this obligation will already apply to solid foods containing 15g/100g of sugars (and liquid foods containing 5g/100g). As of 27 June 2018, ‘HIGH IN SUGAR’ labels will be required for solid foods containing 10g/100g of sugars (and liquid foods containing 5g/100g). In a similar way, the limits for energy, sodium and saturated fats in solid and liquid foods will be tightened over the same period (see for more details Trade Perspectives, Issue No. 16 of 11 September 2015).

The LEP also prohibits the selling of sweets that include toys, such as Ferrero’s ‘Kinder Surprise’ chocolate eggs, which have apparently been de facto banned in Chile. The Italian company issued an official statement directed to Chile’s sanitary and health authorities stating that it received with dismay the announcement of a senior official of Chile’s Ministry of Health that the sale of the product ‘Kinder Surprise’ would be banned in Chile from 26 June 2016 because the toy contained in the chocolate egg is a ‘hook’ to attract children. Ferrero emphasised that, since its beginnings more than 40 years ago, the little toy in the ‘Kinder Surprise’ is an essential and integral part of the product, which constitutes a single unit. Ferrero argues that the surprise is the very essence of the chocolate egg and, in no case, can be considered a ‘hook’ for consumption. Consequently, Ferrero reserves the right to obtain a legal solution to this situation, which affects the reputation of one of its most popular and highest quality products.

In mid-July 2016, SERNAC notified McDonald’s Chile and Burger King, to inquire about the measures that the companies are taking to comply with the LEP, in particular in relation to advertising and the prohibition to use commercial ‘hooks’ in their premises for foods addressed at children below 14 years of age. Burger King, in its response, indicated that it had already withdrawn all existing communications concerning children’s toys, putting an end to all advertising aimed at children under 14 years and establishing the end of the delivery of toys in all their restaurants. The case of McDonald’s ‘Happy Meal’ is different. McDonald’s announced that it would reformulate the products contained in its ‘Happy Meals’ and would continue giving out toys with it. At an inspection of a McDonald’s restaurant in Ñuñoa in early July, it was detected that the chicken nuggets and the mustard in ‘Happy Meal’ menus contained too much salt and would not be allowed to be accompanied by toys. The respective restaurant had to cease selling ‘Happy Meals’, which were, however, still available in the country’s other 77 McDonald’s restaurants. McDonald’s announced that it would carry out new laboratory testing to make sure that the products in the ‘Happy Meals’ were not high in energy, fat, sugar and salt.

Between July and September 2016, after receiving several complaints and detecting eventual infringements of the LEP, SERNAC notified further food business operators, including Nestlé, Carozzi, Coca Cola, Watts, Danone Chile, Unilever Chile, Soprole, Agrofrut-El Vergel, Ideal, Evercrisp Snack Productos de Chile and Kellogg’s Chile, to inquire about the measures they were taking to comply with the new food labelling laws. In the last 24 months, Coca Cola reportedly changed 59 formulas and lowered the sugar content in 29 of its products. Recipes had to be readjusted with new ingredients, to maintain the flavour of its 68 products, in order to comply with the LEP. Coca Cola announced that it planned to use this experience in Peru and Bolivia where similar measures are currently prepared. After receiving the responses of all operators, SERNAC detected that three of them continued using children’s cartoon characters as commercial ‘hooks’ on the packaging of products that
are catalogued as ‘HIGH IN’ energy, sugar, fats and/or salt. Chilean politicians have called for a rigorous enforcement of the new rules, noting that there was unfair competition as the majority of operators has removed cartoons from their products that have ‘STOP’ signs and that permitting infringements would reward the cheaters.

However, *Kellogg’s*, *Nestlé* and *Masterfoods* appear to argue that they have a right to use the illustrated children’s characters as brand symbols. They accompany the products and, in the opinion of the companies, correspond to trademarks protected by Chile’s Intellectual Property Law. According to AB Chile, the National Food and Drink industry body (*i.e.*, Alimentos y Bebidas de Chile A.G.), the trademark must be properly registered and subject to the intellectual property rights of each company. This is a good that is protected and the authorities have been clear in saying that it would not be affected by the LEP. SERNAC maintains that the use and protection of intellectual property (hereinafter, IP) rights, including trademarks, must also comply with the Consumer Protection Law and the LEP. In particular, SERNAC argues that true, verifiable and not misleading advertising be provided and that the three companies are violating both laws. Therefore, SERNAC is demanding that the three operators be subjected to a fine amounting to around 76 million Chilean pesos (or EUR 106,115) each. SERNAC will continue to closely monitor the media to ensure that all advertising aimed at children under the age of 14 complies with the LEP, as well as with the Consumer Protection Law.

In fact, during the legislative procedure, it had been argued within the WTO Committee on Technical Barriers to Trade’s meeting of 5-6 November 2014, that Chile’s measure prohibiting the labelling and advertising (invoking, for example, children’s characters, animations, cartoons, animals and toys) for some products could have an impact on protected existing and future trademarks. IP rights may be affected by Chile’s measures and Article 20 of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter, TRIPs Agreement) provides that 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”.

IP protection may indeed sometimes interfere with public policies aimed at enhancing human health. The question is whether IP can be protected as a fundamental right, or as a form of international investment, if this results in limiting Governments’ actions aimed at reducing known health risks caused by the consumption of products that are deemed unhealthy. It remains to be seen whether such restrictions (*e.g.*, plain packaging of cigarettes or the prohibition of advertising of products that are targeted at children, with cartoons as well as the use of so-called commercial ‘hooks’ that attract children for such products) are compliant with IP regimes. Another question is whether such measures are also capable of meeting the expectations that exist for public health measures designed to reduce the appeal of packaging and, thereby, to prompt people not to consume potentially harmful products and to make more educated purchasing choices (see for more detail, "*The New Intellectual Property of Health - Beyond Plain Packaging*" (Elgar 2016, edited by Alberto Alemanno and Enrico Bonadio), providing the first legal and policy analysis of the IP aspects of a rapidly-growing category of regulatory measures affecting the presentation and advertising of certain health-related goods, namely tobacco, alcohol, food, and pharmaceuticals).

The implementation of this new category of regulatory requirements, aimed at protecting public health, raises significant challenges for IP regimes. This is true insofar as measures, such as plain packaging or the use of children’s character’s cartoons tend to limit the ability of IP holders to fully exploit their IP portfolio. These regulatory requirements raise, in particular, three major issues: 1) the nature of rights offered by IP legislation, especially in relation to trademarks; 2) the balancing of IP rights protection with the promotion of public health; and 3) the relationship between IP law and the protection of fundamental rights.

M&M’s trademark is often associated with the personification of the colourful button-shaped candies as cartoons characters representing each one a colour. The two ‘Ms’ represent the
names of the founders of the company in 1941, Forrest E. Mars Sr., and Bruce Murrie, son of Hershey Chocolate’s president. Kellogg’s trademarked Frosted Flakes breakfast cereals (sugar-coated corn flakes with a crunchy taste) are notorious for its mascot known as ‘Tony the Tiger’, which has been the centre of most Kellogg’s Frosted Flakes advertisements since 1952. However, Kellogg’s uses many other cartoon characters to advertise its products and it is not clear which characters have been challenged in Chile.

Traffic signs ‘alerting’ consumers about HFSS foods have become popular in some countries. In addition to ‘traffic light labelling’, there are now ‘STOP’ signs and advertising bans, which may affect IP rights. Interested parties should continue to carefully assess measures that may, although pursuing a public health objective, affect trade and discriminate against certain products, or violate IP rights. This applies to Chile’s warning statements and advertising bans, but also to proposed measures by other WTO Members. Further to the debates in the WTO TBT Committee, Chile’s measures and its likely effect on IP rights were apparently not debated in the Council for Trade-Related Aspects of Intellectual Property Rights. Normally, the TBT Committee is the appropriate venue for WTO Members to voice the concerns of their food industry. Chile’s measure may be inconsistent with provisions of the TRIPs Agreement and with certain provisions of the TBT Agreement, in particular, Article 2.2 thereof, which provides that technical regulations need not create unnecessary obstacles to international trade, and Article 2.4, which requires that technical regulations be based on the relevant international standards (i.e., in this case, the Codex Guidelines on Nutrition Labelling; Codex Guidelines for Use of Nutrition and Health Claims and Codex General Guidelines on Claims). Businesses and economic operators must monitor the TBT Committee’s discussions and systematically assist their governments and WTO representatives to ensure that adopted measures are fully in compliance with WTO law and constitute the least trade-distortive measure. The outcome of the infringement procedures against Kellogg’s, Nestlé and Masterfoods and the likely appeal procedures in Chilean courts may shed some light on the legally-challenging relationship between public health and IP rights in the advertisement and labelling of foods.

Recently Adopted EU Legislation

Market Access

- Partnership Agreement on Relations and Cooperation between the European Union and its Member States, of the one part, and New Zealand, of the other part

Trade Remedies


Customs Law


- Amendment to the Customs Convention on the International Transport of Goods Under the Cover of TIR Carnets (TIR Convention, 1975)
Food and Agricultural Law


- Council Decision (EU) 2016/2087 of 14 November 2016 on the signing, on behalf of the European Union, of the Agreement in the form of an Exchange of Letters between the European Union and Iceland concerning additional trade preferences in agricultural products


Other


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