TRAPPED BY TRIPS? INTELLECTUAL PROPERTY RIGHTS, THE COLD WAR, AND THE CUBAN EMBARGO REVISITED

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"Logical consequences are the scarecrows of fools and the beacons of wise men."
Thomas Henry Huxley

I. INTRODUCTION

In our global market economy, international trade and international brand marketing have become increasingly important for multinational corporations seeking to acquire and maintain an economic and competitive advantage in the marketplace. Accordingly, these multinational corporations have felt an increasing need to protect and police their intellectual property rights internationally. Historically, multi-lateral international treaties have helped to strike a balance among the prevailing international laws and individual domestic laws of member countries, with the admirable objective of advancing a successful global trading system. When this balance is not struck, however, the consequences can be quite surprising.

The Second Circuit recently gave force to Congress' clear intent in construing domestic embargo legislation, but by doing so may have given credence to the law of unintended consequences. In *Havana Club Holding, S.A. v. Galleon, S.A.*,[1] the court held that United States law barred Cuban companies' possession or transfer of United States trademarks and/or trade names that had been confiscated by the Cuban government from their prior owners. While this seems like a straightforward application, and consequence, of the United States embargo of Cuba, the ruling is complicated by apparent conflicts with several international treaties to which the United States is a party. The

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1. 203 F.3d 116 (2d Cir. 2000).

international treaties seem to require the United States to recognize those trademarks, trade names, and their transfer. As a result, the European Community ("EC") has asked the World Trade Organization ("WTO") to conclude that America has violated those treaties, as a prelude to possible sanctions against American companies. It seems that Castro is causing us trouble again, but this time he has our allies on his side.

II. HORNS OF THE DILEMMA

The problem in *Havana Club* began in 1960, when the Cuban government, without compensation, seized and expropriated the property of Jose Arechabala, S.A. ("JASA"), a Cuban corporation owned by members of the Arechabala family. Part of that property included the rights to market "Havana Club" rum. Empresa Cubana Exportadora De Alimentos y Productos Varios ("Cubaexport") exported "Havana Club" rum from 1972 to 1993, although not to the United States because of the trade embargo enacted in 1963. Nevertheless, in 1974, Cubaexport registered the "Havana Club" trademark, with the United States Patent and Trademark Office, intending to export "Havana Club" rum to the United States, if and when the embargo was lifted. In 1993, Cubaexport sought and found a foreign partner for its rum business—Pernod Ricard, S.A. ("Pernod"), a French company. Cubaexport transferred its registration for the "Havana Club" trademark to a newly formed Cuban corporation, Havana Rum & Liquors, S.A. ("HR & L"), which entered into an agreement with Pernod. HR & L and Pernod formed Havana Club Holding, S.A. ("HCH"), and Havana Club International, S.A. ("HCI"), and transferred the "Havana Club" trademark to HCH, which granted an exclusive license to HCI to manufacture and market "Havana Club" rum. In 1995, Galleon, S.A., a company that later merged into Bacardi, manufactured rum bearing the "Havana Club" name in the Bahamas and distributed it in the United States. HCH and HCI then sued to enjoin Bacardi from using the "Havana Club" trademark. Later, in 1997, Bacardi & Co. purchased the Arechabala family's rights, if any, to the "Havana Club" trademark.[2]

This was not just a straightforward action based upon the unlicensed use of a trademark since the action involved Cuban intellectual property assets. Pursuant to the 1963 Cuban Assets Control

2. *See id.* at 119-21.

Regulations ("CACR"),[3] Cubaexport needed a specific license that allowed it to transfer its trademarks to HR & L and, subsequently, to HCH from the Office of Foreign Assets Control ("OFAC"). OFAC granted this license on November 13, 1995, but later made a retroactive revocation on April 17, 1997. The Second Circuit held that this revocation was within the discretion of OFAC, and thus, Cubaexport, lacking the requisite license, could not transfer its "Havana Club" trademark.[4]

III. THE DOMESTIC FORUM

In its lawsuit in the United States, HCH contended that the transfer was authorized by the original license granted by OFAC. In addition, HCH contended that failure to recognize the transfer violated a multinational treaty to which the United States was a signatory. More specifically, HCH claimed that, pursuant to article eleven of the General Inter-American Convention for Trademark and Commercial Protection ("IAC"),[5] the United States was required to recognize the transfer. This treaty required that all parties to it recognize the transfer of ownership of a registered mark if that transfer was accomplished in accordance with the internal law of the nation in which the transfer took place. In 1996, however, Congress enacted the Cuban Liberty and Democratic Solidarity Act ("LIBERTAD"),[6] which, *inter alia*, codified the CACR. This statute, enacted after the IAC treaty, abrogated the treaty obligation, which otherwise existed, to apply article eleven to transfers within Cuba.[7] Such abrogation was re-affirmed by section 211(a)(1) of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 ("Omnibus Act"),[8] which expresses Congress' intent not to permit assignments of Cuban trademarks without the consent of the original owner.[9]

Section 211(b) of the Omnibus Act also precluded a successful Lanham Act claim by HCH to have the "Havana Club" trade name protected by the IAC, for reasons analogous to those precluding a successful trademark claim. More specifically, section 211(b) prohibits

3. 31 C.F.R. §§ 515.101-515.901 (1999).
4. *Havana Club*, 203 F.3d at 122-24.
5. Feb. 20, 1929, 46 Stat. 2907, 2926-30.
6. Pub. L. No. 104-114, 110 Stat. 785 (1996).
7. *Havana Club*, 203 F.3d at 124-25.
8. Pub. L. No. 105-277, 112 Stat. 2681, 88 (1998).
9. *Havana Club*, 203 F.3d at 126.

any United States court from recognizing or enforcing rights under the Lanham Act, which is the United States' statute that implements the IAC, if the trade name were confiscated, unless the original owner consents. Since there was no consent in the matter at bar, the court was clearly prohibited from enforcing HCH's claim to the "Havana Club" trade name.[10]

Lastly, HCH did not have standing to assert a false designation of origin claim against Bacardi since there was no threat of competitive injury to HCH. Section 43(a) of the Lanham Act provides that any person who believes that he would be damaged by any other person's sale of a product that falsely describes its origins, can bring a civil action for damages.[11] HCH claimed that Bacardi's "Havana Club" rum had such a false designation because Havana was not the country of origin for the product. Rather, it was made in the Bahamas. Nonetheless, there was a "catch-22" precluding relief. More specifically, because of the Cuban embargo, HCH had no realistic possibility of selling its "Havana Club" rum in the United States; therefore, it had no possibility of injury, and hence no standing to assert the false designation of origin claim.[12]

The Supreme Court recently denied certiorari with respect to the Second Circuit's decision against HCH.[13]

IV. THE INTERNATIONAL FORUM

After the Supreme Court denied certiorari to the Second Circuit's decision, HCH's opportunity for relief under the United States judicial system was foreclosed. Nonetheless, HCH recognized another possibility for achieving its objectives; namely, a complaint to the WTO that the United States was violating the Trade-Related Aspects of Intellectual Property Rights Agreement[14] ("TRIPS Agreement") by not

10. *Id.* at 129-30.
11. 15 U.S.C. § 1125(a)(1) (2001).
12. *Havana Club*, 203 F.3d at 130-34.
13. Havana Club, S.A. v. Bacardi & Co., Ltd., 531 U.S. 918 (2000).
14. Agreement on Trade-Related Aspects of Intellectual Prpoerty Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization [hereinafter WTO Agreement], Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement]. The United States became a member of the WTO on December 8, 1994, when President Clinton signed the Uruguay Round Agreements Act ("URAA"). 19 U.S.C. § 3511 (1999). The URAA implemented the General Agreement on Tariffs and Trade ("GATT"), which includes the TRIPS Agreeement. The United States obligations under the TRIPS Agreement

recognizing its "Havana Club" trademark. The EC has filed just such a complaint.[15]

The EC complaint against the United States is based upon several provisions of the TRIPS Agreement: (1) a state may not treat foreign nationals less favorably than its own nationals, or nationals of one country less favorably than nationals of a different country;[16] (2) a state may not condition the transfer of a trademark upon the consent of a former owner that abandoned the mark;[17] (3) the geographic origin of a product, especially wines or spirits, may not be misidentified;[18] and (4) WTO member countries have the right to determine conditions for licensing and assignment of trademarks.[19]

The United States could offer, as a defense to the EC complaint, that its courts have not actually decided that any rights under the TRIPS Agreement would be superceded by section 211, because the *Havana Club* treaty claim was based upon the IAC, not the TRIPS Agreement. In fact, the *Havana Club* plaintiffs could not have presented claims under the TRIPS Agreement, primarily because such private causes of action are specifically precluded.[20] Even though the TRIPS Agreement was agreed to, however, and its implementing legislation was passed before Congress passed section 211, the Second Circuit's language regarding Congress' intent to abrogate, by virtue of section 211, whatever treaty rights there might be, could conceivably apply to the TRIPS Agreement, just as it did to the IAC in the Second Circuit's opinion. In any event, the question posed to the WTO's dispute settlement body ("DSB") was not whether, under United States law, section 211 abrogates the TRIPS Agreement implementing legislation, but rather whether section 211 violates the United States' obligations under the TRIPS Agreement.

became effective on January 1, 1996.

15. *See* World Trade Organization, *Panel Set Up To Consder U.S. Trademark Dispute* (Sept. 28, 2000), *available at* http://www.wto.org/english/news_e/news00_e.htm (last visited Oct. 11, 2001); *see also* Europa, *Geneva Confirms U.S. Law Violates WTO Intellectual Property Rules in 'Havana Club' Dispute* (Aug. 6, 2001), *available at* http://www.europa.eu.int/comm/trade/miti/dispute/hava.htm. (last visited Oct. 11, 2001).

16. TRIPS Agreement arts. 3, 4.

17. TRIPS Agreement art. 16.

18. TRIPS Agreement arts. 22, 23.

19. TRIPS Agreement art. 21.

20. 19 U.S.C. § 3512(c)(1)(A) (1999).

V. OUTLOOK AND FACE-SAVING POSSIBILITY

The most favorable outcome for the United States, and its companies, would obviously be a favorable ruling from the DSB. If the DSB decides, however, that section 211 does violate the TRIPS Agreement, and the United States loses any possible appeals, then the DSB would doubtless first "encourage" the United States to bring its law in line with the TRIPS Agreement. If the United States government were unwilling or unable to do so, the DSB might ask for compensation on behalf of the aggrieved parties until the offending United States statute is changed. Finally, if the parties cannot agree on satisfactory compensation, the DSB could order suspension of concessions under the TRIPS Agreement or impose other sanctions. Illustratively, foreign nations might conceivably be exempted from respecting the trademarks of United States corporations. If EC nations were able to abrogate intellectual property rights of American companies abroad, the effect on those companies obviously could be disastrous, even if the suspension was only temporary.

Is there a face-saving way for the United States to eliminate, or mitigate, conflicts between IP obligations under its multi-lateral treaties, and existing domestic legislation relating to the Cuban embargo? There appears to be no easy answer. One might speculate, however, that the Bush administration will be less likely, as compared to the Clinton administration, to encourage modification of the embargo statutes, particularly in view of the hard-line stance President Bush took on Cuba during the 2000 election campaign. Nonetheless, at least part of Congress' motivation for passing the LIBERTAD act, and section 211, was apparently attributable to former President Clinton's support for at least a partial lifting of the Cuban trade embargo. Given that President Bush is not likely to be perceived as willing to lift the embargo, Congress might be willing to consider relaxing the embargo legislation a bit. Interestingly, Attorney General John Ashcroft was one of the principle sponsors of legislation that has lifted some of the sanctions on Cuba.[21] Under these circumstances, the Bush administration may be willing to consider concessions with respect to intellectual property components of the Cuban embargo in order to insure protection of American companies' interests at home and abroad within the framework of the United State's multi-lateral treaty obligations.

21. Anthony DePalma, *Waiting at the Gate for Trade with Cuba*, N.Y. TIMES, Feb. 4, 2001, at C4.

VI. POSTCRIPT

Since this Article was written, the DSB convened a panel to rule on the EC complaint. In August 2001, the panel issued a report confirming that, because section 211 prevents lawful trademark owners from asserting their rights in court, this statute violates article 42 of the TRIPS Agreement.[22] On the other issues, the panel disagreed with the EC's complaint, and the panel concluded that the TRIPS Agreement does not apply to trade names and does not cover questions of intellectual property ownership.[23] On this basis, the EC appealed the panel's decision in spite of the favorable ruling with respect to the article 42 violation.[24]

In view of the EC's appeal, the panel's recommendations will not result in any near-term resolution of the issues. Nonetheless, assuming that the panel's ruling with respect to the article 42 violation is adopted by the DSB, the United States risks sanctions from the WTO.[25] Further, adoption of this ruling by the DSB clears the way for HCH to re-assert its claim before United States courts. Perhaps ironically, an ultimate decision that HCH is not the lawful owner of the trademark seemingly provides a basis for once again dismissing HCH's trademark claims in the domestic forum, as well as for side-stepping the article 42 violation.

22. Europa, *Geneva Confirms U.S. Law Violates WTO Intellectual Property Rules in 'Havana Club' Dispute* (Aug. 6, 2001), *available at* http://www.europa.eu.int/comm/trade/miti/dispute/hava.htm. (last visited Nov. 8, 2001).

23. *Id.*

24. World Trade Organization, *Notification of an Appeal by the European Communities Under Paragraph 4 of Article 16 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)* (Oct. 4, 2001), *available at* http://mkaccdb.eu.int/dsu/doc/ds176-5.doc (last visited Nov. 8, 2001).

25. Bruce Ramsey, *WTO Panel May Have to Crack a Case of Rum* (Sept. 29, 1999), *available at* http://seattlep-i.nwsource.com/business/rams29.shtml.