Order Code RS21764
March 9, 2004

CRS Report for Congress

Distributed by Penny Hill Press http://pennyhill.com

Restricting Trademark Rights of Cubans: WTO Decision and Congressional Response

Margaret Mikyung Lee
Legislative Attorney
American Law Division

Summary

The Dispute Settlement Body (DSB) of the World Trade Organization (WTO) has ruled against certain restrictions on the trademark rights of Cubans imposed under § 211 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1998. Congress has responded with several proposals to comply with the ruling, some focused on repeal of § 211 as part of broader proposed amendments to Cuban trade sanctions, others on repeal coupled with alternative methods of ensuring Cuba's protection of trademark rights of Americans. This report will be updated as legislative activity occurs or other events warrant.

Background

Congress enacted § 211 of the Omnibus Appropriations Act of 1998[1] effectively to prohibit Cuban nationals or their non-Cuban successors in interest from protecting certain trademarks or trade names in the United States.[2] Congress did so partly as a result of a dispute between two claimants to the "Havana Club" trademark for a brand of rum, one of whom (Bacardi & Company, Ltd.) was a successor to the interest of the original trademark owner (José Arechabala, S.A.), who at one point apparently abandoned the trademark, and the other (Havana Club Holding, S.A.) a successor/partner to the interest of the Cuban Government in the expropriated trademark.[3] Under § 211, unless the original owners have expressly consented, the U.S. Patent and Trademark Office is prohibited from accepting or renewing the registration of a trademark, trade name or commercial name by, and U.S. courts are prohibited from considering or enforcing the trademark claims of, Cuban nationals (or their successors in interest) who acquired the

[1] P.L. 105-277, § 212, 112 Stat. 2681, 2681-88 (1998).

[2] H.Rept. 105-485, at 174-175 (1999).

[3] Peter H. Stone, Louis Jacobson, Shawn Zeller, *K Street for April 28, 2001: Latest Rum War Saga*, 33 National Journal (April 28, 2001); Misha Gregory Macaw, *Note: The New Rum War: Havana Club as a Threat to the U.S. Interest in International Trademark Harmonization*, 18 B.U. Int'l L.J. 291 (2000).

trademark or trade name from the Cuban Government, where the trademark or trade name had been used in connection with property confiscated on or after January 1, 1959, without compensation to the original owners. This provision was challenged by the European Community in the World Trade Organization as being inconsistent with U.S. obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Federal courts have held that § 211 and related Cuban-embargo provisions bar infringement suits by successors-in-interest to a Cuban corporation.[4]

A DSB panel issued a decision finding that § 211 was inconsistent with the TRIPS Agreement in some respects, but was either not inconsistent in other respects or not proven to be inconsistent in other respects by the European Community.[5] The European Community appealed the panel ruling and the Appellate Body issued a decision which reversed the lower panel's ruling in some respects[6]; the rulings and recommendations were formally adopted by the DSB on February 1, 2002.[7] Essentially, the Appellate Body held that subsections 211(a)(2) and 211(b), concerning court recognition or enforcement of trademark rights, were inconsistent with the national treatment requirements of the TRIPS Agreement and the Paris Convention (1967)[8] (parts of which were incorporated by reference into the TRIPS Agreement) and with the most-favored-nation requirement of the TRIPS Agreement.

Under Articles 21 and 22 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), a WTO Member whose measure is found to be inconsistent with WTO obligations must inform the DSB of its intentions with regard to implementation of the rulings and recommendations of the DSB. The implementation is to take place within a "reasonable period of time." Although the complaining WTO Member may be granted compensation and suspension of concessions or other obligations if compliance does not take place within a reasonable period of time, such compensation and suspension are intended to be temporary and the respondent Member is expected to bring inconsistent measures into compliance with WTO obligations. Initially, the United States and the European Community agreed that a reasonable period of time for the United States to amend § 211 to be consistent with WTO obligations would expire on December 31, 2002, or the date of adjournment of the 107th Congress, whichever was later, but not later than January 3, 2003.[9] Subsequently, the two parties to the dispute agreed three times to extend the final deadline, most recently to December 31, 2004.[10]

---

[4] *Havana Club Holding, S.A. v. Galleon, S.A.*, 203 F.3d 116 (2d Cir. 2000); cert. denied by *Havana Club Holding, S.A. v. Bacardi & Co.*, 531 U.S. 918 (2000).

[5] WTO Dispute Settlement Panel, *United States – Section 211 Omnibus Appropriations Act of 1998* [hereinafter *§ 211 Case*], WT/DS176/R (Aug. 6, 2001).

[6] WTO Dispute Settlement Appellate Body, *§ 211 Case*, WT/DS176/AB/R (Jan. 2, 2002).

[7] WTO Dispute Settlement Appellate Body, *§ 211 Case*, WT/DS176/9 (Feb. 6, 2002).

[8] The Stockholm Act (Convention revising the Paris Convention of March, 20, 1883, as revised, for the Protection of Industrial Property), July 14, 1967, 21 U.S.T. 1583, 24 U.S.T. 2140.

[9] WTO Dispute Settlement Appellate Body, *§ 211 Case*, WT/DS176/10 (April 5, 2002).

[10] WTO Dispute Settlement Appellate Body, *§ 211 Case*, WT/DS176/14 (Dec. 24, 2003).

The United States continues to submit status reports to the DSB, noting that the Administration has been consulting with the 108th Congress.[11]

Ruling of the DSB Appellate Body

The Appellate Body noted that the European Community was challenging subsections 211(a) and (b) on their face, and not as applied. This meant the Appellate Body did not specifically concern itself with whether the U.S. decision in the Havana Club case was consistent with the TRIPS Agreement. The Appellate Body further noted that neither the Cuban Foreign Assets Control (CFAC) regulations nor the Trading with the Enemy Act, under which the regulations were promulgated, was at issue.

Paragraph 211(a)(1) prohibits the approval or authorization under 31 C.F.R. § 515.527 (the CFAC regulation concerning transactions related to the registration and renewal of intellectual property with the relevant U.S. agencies) of any payment or transaction with respect to a trademark, trade name or commercial name that is the same as or substantially similar to those used in connection with assets which have been confiscated (defined in the CFAC regulations as expropriation by the Cuban Government without compensation) unless the original owner or the owner's successor-in-interest has expressly consented. Although the European Community challenged this paragraph as inconsistent with various articles of the TRIPS Agreement, ultimately the DSB ruled that this was not inconsistent, holding, *inter alia*, that the United States was not obligated to accept the registration of a trademark which did not satisfy the substantive registration requirements of U.S. law (in this case, that the registrant be the rightful owner under U.S. law) although the trademark was already registered in another Member of the WTO or the Paris Union (Paris Convention organization).

Paragraph 211(a)(2) prohibits U.S. courts from recognizing, enforcing or otherwise validating any assertion of rights by a "designated national" based on U.S. common-law trademark rights or on U.S. trademark registration of a confiscated trademark, trade name, or commercial name. Subsection 211(b) prohibits U.S. courts from recognizing, enforcing or otherwise validating any assertion of treaty rights by a "designated national" or its successor-in-interest for a U.S. trademark, trade name, or commercial name that is the same as or substantially similar to those used in connection with assets which have been confiscated, unless the original owner or the owner's successor-in-interest has expressly consented. The term "designated national" is defined in subsection 211(d) by reference to the CFAC regulations as including Cuba, Cuban nationals (including corporations controlled by the Cuban Government), and additionally, a foreign national who is a successor-in-interest to a designated national.

The Appellate Body of the DSB analyzed the meaning of paragraph 211(a)(2) and subsection 211(b) with regard to trademarks separately from the meaning of these provisions in the context of trade names because the lower panel had ruled that trade names were not covered under the TRIPS Agreement and thus WTO Members had no obligation to protect trade names. The Appellate Body of the DSB ruled that with regard to original owners of U.S. trademarks, paragraph 211(a)(2) and subsection 211(b) are inconsistent with the national treatment requirements in the TRIPS Agreement and the

---

[11] WTO Dispute Settlement Appellate Body, *§ 211 Case*, WT/DS176/11/Add.16 (Feb. 6, 2004).

Paris Convention. National treatment means that a WTO Member must extend to owners of U.S. trademarks who are nationals of other WTO Members the same protections and remedies available to U.S. owners of U.S. trademarks. By making a distinction between the abilities of U.S. owners and Cuban owners of U.S. trademarks to protect their trademarks in U.S. courts, paragraph 211(a)(2) and subsection 211(b) violated the national treatment obligation.

This conclusion was based upon hypothetical circumstances posed by the European Community, substantially as follows. A U.S. national acquires rights in the U.S. to "Trademark A." A separate entity acquires separate rights to the same, or a substantially similar, trademark in Cuba. The Cuban rights are subsequently confiscated. Under paragraph 211(a)(2) and subsection 211(b), the ability of the U.S. national owner of "Trademark A" to assert its U.S. rights in U.S. courts is not affected by this confiscation. By contrast, suppose a Cuban national had originally acquired the U.S. rights to "Trademark A" and a separate entity had acquired the separate Cuban rights to the same, or substantially similar, trademark in Cuba. Upon confiscation of the Cuban right in Cuba, the original Cuban owner of the U.S. rights to "Trademark A' becomes subject to the enforcement restrictions of paragraph 211(a)(2) and subsection 211(b) because the Cuban owner is a "designated national": the ability of the original Cuban owner of the *U.S. rights* to enforce them in U.S. courts depends upon the consent of the successor-in-interest to the separate, confiscated *Cuban rights*. In this situation, the U.S. owner clearly receives better treatment than would the Cuban owner.

The Appellate Body of the DSB ruled that with regard to successors-in-interest to the original owners of trademarks, paragraph 211(a)(2) is inconsistent with the national treatment requirements in the TRIPS Agreement and the Paris Convention. Paragraph 211(a)(2) discriminates between the rights of a U.S. successor-in-interest, who is not included in the definition of a designated national, and a foreign successor-in-interest, who is included in the definition of a designated national. The United States argued that, in practice, a U.S. national would never be granted a license to become a successor-in-interest under the CFAC regulations and therefore there was no discrimination under paragraph 211(a)(2). But the European Community argued, and the Appellate Body agreed, that although a would-be U.S. successor-in-interest may be barred under the CFAC regulations alone, a would-be foreign successor-in-interest faced two hurdles to asserting rights – the CFAC licensing regulations and paragraph 211(a).

With regard to successors-in-interest to original owners of trademarks, subsection 211(b) was found not to be inconsistent with the national treatment provisions of the TRIPS Agreement and the Paris Convention, because subsection 211(b) limits the enforceability of trademark treaty rights of a designated national *or its successor-in-interest*, who might be either a U.S. or a foreign national. Therefore, there is no discrimination between U.S. and foreign successors-in-interest that would be inconsistent with WTO obligations.

The Appellate Body of the DSB ruled that with regard to original owners of trademarks, paragraph 211(a)(2) and subsection 211(b) are inconsistent with the most-favored-nation requirements in the TRIPS Agreement. Most-favored-nation treatment effectively means that a WTO Member must extend to nationals of all other WTO Members any protections or rights that it extends to nationals of any WTO Member, so there is no discrimination among other WTO Members (regional trade agreements/groups

such as the North American Free Trade Agreement or the European Community are a special circumstance within the WTO). Although all foreign successors-in-interest are at an equal disadvantage under paragraph 211(a)(2) and subsection 211(b), only Cuban original owners are at a disadvantage compared with the nationals of all other WTO Members. The scenario described above concerning two pre-confiscation original owners of U.S. trademarks operates to illustrate the violation of the most-favored-nation requirement. Under that scenario, the non-Cuban foreign original owner of a U.S. trademark similar to a Cuban trademark for a confiscated business or assets would be able to assert its rights in U.S. courts, while a Cuban original owner would not.

The Appellate Body of the DSB disagreed with the lower panel's ruling with regard to the protection of trade names, ruling that trade names were covered under the TRIPS Agreement and therefore WTO Members were obligated to extend protections to trade names under the TRIPS Agreement. Under the same rationale described above for trademarks, with regard to original owners of trade names, paragraph 211(a)(2) and subsection 211(b) were found to be inconsistent with the national treatment requirements in the TRIPS Agreement and the Paris Convention. Similarly, with regard to successors-in-interest to owners of trade names, 211(a)(2) was found to be inconsistent with the national treatment requirements in the TRIPS Agreement and the Paris Convention, but subsection 211(b) was not. Finally, with regard to trade names, paragraph 211(a)(2) and subsection 211(b) were found to be inconsistent with the most-favored-nation provision of the TRIPS Agreement.

Proposed Legislation and Recent Developments

Six bills in the 108th Congress would bring the United States into compliance with the ruling of the Appellate Body. Some of these bills have compliance as the major focus. Others would include compliance as part of a broader rollback in Cuban sanctions. H.R. 188 (the Cuba Reconciliation Act), H.R. 1698, and S. 403 (the United States-Cuba Trade Act of 2003), would lift the trade embargo on Cuba by, among other things, repealing § 211. H.R. 3422 (the Bridges to the Cuban People Act of 2003) would ease the trade embargo on Cuba for certain purposes, such as export of food and medicine, and would repeal § 211 as part of its scheme to engage Cuba. H.R. 2494 and S. 2002 (both named the United States-Cuba Trademark Protection Act of 2003) seek to improve and promote compliance with international intellectual property obligations relating to Cuba by repealing § 211 and by further providing for amendments to current laws and regulations to implement the holdings of the Appellate Body. They would authorize assignment and enforcement of trademarks, trade names, or domain names in which a Cuban national has an interest; clarify that the Trademark Act of 1946 (popularly known as the Lanham Act, at 15 U.S.C. §§ 1051 *et. seq.*) applies to Cuban nationals to the extent necessary to give effect to their rights under treaties or reciprocity relating to trade or commercial names or repression of unfair competition; clarify that a manufacturer or distributor of spirits outside the United States who uses a mark or geographical indication for such spirits shall be considered damaged by a mark or geographical indication used by a competitor which deceptively indicates a place of origin other than the actual origin of the spirits; and authorize U.S. courts to recognize and enforce the rights of a Cuban national in a trademark or trade name based on common law or the Trademark Act of 1946. In order to ensure that trademarks owned by U.S. nationals will be adequately protected in Cuba, H.R. 2494 and S. 2002 provide for a registry of trademarks owned by U.S. nationals and registered in or submitted for registration in Cuba on or after January 1, 1959. The

President will direct the Secretary of State to negotiate with Cuba to assure that it will comply with international intellectual property agreements.

It has been reported that House and Senate conferees considered including amendments to § 211 in H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, which became P.L. 108-136, however, no such amendment was included.[12] Reportedly, Bacardi circulated a proposal to delete all references to "designated national" and its definition and to apply § 211 only to those who knew or had reason to know that a trademark was confiscated, but opponents of § 211 argued that any action less than a complete repeal would leave the United States open to further challenge by Cuba under the Inter-American Convention for Trademark and Commercial Protection.[13]

Both the European Union and Cuba have expressed concern about the lack of progress in U.S. compliance with the DSB's recommendations at regular meetings of the DSB.[14] The European Union asked in particular for clarification concerning the U.S. position on abandoned trademarks or trade names, noting that despite representations by the United States to the DSB panel that § 211 does not apply to abandoned trademarks, the U.S. courts have held otherwise, since the trademark "Havana Club" had apparently been abandoned upon the failure of the original owner to pay the required maintenance fee in 1973. The European Union has repeatedly asserted that the panel had relied on non-application to abandoned trademarks in reaching the conclusion that certain clauses of § 211 were consistent with the TRIPS. At the meeting on May 7, 2003, the United States replied that the panel decision did not relate to the issue of abandonment and that no U.S. court decision had been issued since the "Havana Club" litigation and the DBS panel decision. Although the Trademark Trial and Appeal Board is an administrative panel and not a U.S. court, in a recent non-precedential decision, the Board ruled against Havana Club Holding (HCH) partly because the Federal appellate court in the previous litigation had ruled that HCH was not the owner of the U.S. trademark for "Havana Club," since the assignment from Cubaexport, the Cuban owner since 1960, was barred by the Cuban embargo.[15] However, in another non-precedential decision of the Board, it dismissed Bacardi's cancellation petition claiming that Cubaexport is not the rightful owner, finding it to be a political question concerning the legitimacy of the Cuban government.[16] Therefore, arguably it remains unclear what effect repeal of § 211 would have beyond allowing litigation concerning disputed Cuban/U.S. trademarks to reach the substantive merits of the case.

---

[12] *House, Senate Conferees Consider Changes to Section 211 Trademark Law*, Inside U.S. Trade, October 3, 2003.

[13] *Id.*

[14] *See, e.g.*, WTO Dispute Settlement Appellate Body, Minutes of Meeting, WT/DSB/M/157 (Dec. 18, 2003), WT/DSB/M/145 (May 7, 2003); WT/DSB/M/142 (March 6, 2003).

[15] Havana Club Holding S.A. v. Jimmy Buffett, Opposition No. 91116754, 2003 TTAB LEXIS 129 (U.S. Patent and Trademark Office March 13, 2003).

[16] Galleon, S.A. v. Havana Club Holding, S.A., Cancellation No. 92024108, 2004 TTAB LEXIS 38 (U.S. Patent and Trademark Office Jan. 29, 2004).