Testimony of William A. Reinsch, President of the National Foreign Trade Council Before the House Committee on the Judiciary March 3, 2010

Thank you, Mr. Chairman. My name is William Reinsch, and I am President of the National Foreign Trade Council, which represents 250 American companies engaged in global commerce. I appreciate the opportunity to appear today regarding an important intellectual property issue that, if not resolved correctly, will adversely affect our country's standing in international organizations and its ability to lead the global policy debate on intellectual property rights. Failure to act will also jeopardize the status of the more than 5000 U.S. trademarks registered in Cuba by over 400 U.S. companies.

On behalf of NFTC, I am testifying today in support of repealing Section 211 of the FY 1999 Department of Commerce and Related Agencies Appropriations Act, a provision that is contained in several House bills, notably H.R. 1530 and 1531, both introduced by Congressman Rangel, as well as H.R. 188 by Mr. Serrano, and H.R. 2272 by Mr. Rush. I also want to oppose H.R. 1103, which purports to address this problem in a different way, but in fact would only exacerbate it.

Repeal of Section 211 would remedy the U.S. breach of obligations under the General Inter-American Convention for Trademarks and Commercial Protection<sup>1</sup> as well as World Trade Organization rules, and remove any pretext for the Castro regime to retaliate against trademarks currently registered in Cuba by U.S. companies. Repeal would ensure continued U.S. leadership on intellectual property issues by bringing the U.S. into compliance with all existing treaty obligations and by exemplifying high standards of intellectual property protection, including our commitment not to assign trademarks based on political criteria. It would also reaffirm that trademark decisions properly are the responsibility of the Patent and Trademark Office and the courts.

My remarks today are on behalf of my organization, but they are consistent with a number of trade associations and companies that have been on the record in support of repeal of Section 211. These trade associations

<sup>&</sup>lt;sup>1</sup> Feb. 20, 1929, 46 Stat. 2907, 2930-34.

include the Grocery Manufacturers of America, the Emergency Committee for American Trade, the U.S. Council for International Business, the Coalition for Employment through Exports, and the Organization for International Investment.

Section 211 prohibits the United States from honoring trademarks of Cuban origin that are the same or substantially similar to those used in connection with businesses that were nationalized by the Cuban government in the early 1960s. Section 211 was enacted solely to help one of the litigants in a particular dispute before the U.S. courts by preempting the court's right to make a judgment. Repeal will restore this matter to the courts where it belongs. Alternatively, if the provision is maintained in law, its long term impact will be to jeopardize U.S. standing in the global intellectual property debate and to invite retaliation by Cuba, which could jeopardize trademark protection for over 5,000 U.S. trademarks currently registered in Cuba by more than 400 American companies. The provision has no benefits for the U.S. business community and is far more likely to cause significant damage.

The only effective remedy is repeal. H.R. 1103, or other proposals short of full repeal, will only make things worse. For the benefit of a single company, the supporters of Section 211 and H.R. 1103 are asking the Congress (i) to make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against counterfeiters and infringers, (ii) to keep U.S. companies exposed to the risk of retaliation abroad and the type of injury suffered in South Africa, and (iii) to continue putting U.S. law at cross-purposes with longstanding principles of U.S. trademark law and important intellectual property and trade policy objectives of the U.S. business community and the U.S. Government.

Despite the nearly fifty year-long embargo on trade with Cuba, both countries have reciprocally recognized trademark and trade name rights since 1929 as signatories to the General Inter-American Convention for Trademarks and Commercial Protection. Both Cuba and the United States are parties to the Inter-American Convention, and the treaty remains in force between us notwithstanding the embargo on trade between the two countries.<sup>2</sup> Less than ten years ago, U.S. federal courts reiterated the enduring vitality of the Inter-American Convention, and treated it and the

<sup>&</sup>lt;sup>2</sup> U.S. Dep't of State, Treaties in Force 393 (2000).

Paris Convention for the Protection of Industrial Property as cornerstones of trademark and trade name relations between the two countries.<sup>3</sup>

The continuation of this essential policy paves the way for future U.S. commercial engagement, and guards against prejudice to valuable intellectual property rights in the interim. Currently, under the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), American companies are legally exporting branded food and medical products to Cuba, making these protections all the more essential. Section 211 contradicts this policy in far-reaching ways that threaten to expose the trademarks and trade names of U.S. companies to retaliation in Cuba and undercuts our international position on intellectual property issues.

Section 211 violates the Inter-American Convention because it denies registration and renewal of trademarks on grounds other than those permitted by Article 3, which requires registration and legal protection "upon compliance with the formal provisions of the domestic law of such States."<sup>4</sup> By prohibiting U.S. courts from recognizing rights arising from prior use of a trademark in another treaty country, or from determining whether an earlier U.S. trademark has been abandoned, Section 211 expressly violates Article 8 and Article 9. By prohibiting U.S. courts from recognizing certain trade name rights, Section 211 violates Article 18, which gives the owner of an existing trade name in any treaty signatory the right to obtain cancellation of and an injunction against an identical trademark for similar products. And, by depriving U.S. courts of the authority to issue injunctions and other equitable relief against trademark or trade name infringement, Section 211 violates Articles 29 and 30.

Unlike disputes under other agreements, dispute settlement does not appear a practical means for the United States and Cuba to try to resolve their disagreement. Because Section 211 specifically denies U.S. courts the authority to enforce the "treaty rights" otherwise available to a party (including those available under the Inter-American Convention), it obviates Article 32 of the Inter-American Convention, which provides for national courts to resolve questions of interpretation.

<sup>&</sup>lt;sup>3</sup> Empresa Cubana del Tabaco v. Culbro Corp., 213 F. Supp. 2d 247, 279 (S.D.N.Y. 2002).

<sup>&</sup>lt;sup>4</sup> The distinction is important because the United States argued before the WTO that "Section 211(a)(1) does not deal with the form of the trademark," and the WTO Appellate Body concluded that Section 211 "deal[s] with the *substantive* requirements of ownership in a defined category of trademarks." Appellate Body, *United States – Section 211 Omnibus Appropriations Act*, WT/DS176/AB/R (Jan. 2, 2002), at ¶60, ¶222 (referring to ¶121 specifically addressing Section 211(a)(1)).

Therefore, Section 211 compels any dispute against the United States alleging violation of the terms of the Inter-American Convention to be resolved through customary international law. Customary international law permits "a party specially affected by the breach to invoke it as a ground for suspending the operation of the agreement in whole or in part in the relations between itself and the defaulting state."<sup>5</sup> Suspension of the operation of the Inter-American Convention, were it to occur, would result in substantial uncertainty regarding the legal status in Cuba of the trademarks and trade names of U.S. companies.

Fidel Castro and his foreign relations officials have on several occasions threatened to withdraw the protections afforded by the Inter-American Convention. Withdrawing these protections would put in doubt the trademark and trade name rights of U.S. companies in Cuba. Should Congress fail to repeal Section 211, the United States will have handed the Castro regime the legal grounds for withdrawing these protections.

Whether the Castro regime would take such action is anyone's guess, but, given the experience of NFTC members in a comparable situation in South Africa, we are reluctant to take that risk. South Africa is an important precedent because it demonstrates the mischief that results when trade embargoes inhibit reciprocal trademark recognition.

Under the U.S. trade embargo of South Africa, U.S. companies were prohibited from paying the fees necessary to either file trademark applications or maintain existing trademark registrations in South Africa. When the embargo ended, a number of U.S. companies with internationallyrecognized trademarks, including BURGER KING, TOYS R US, 7 ELEVEN, and VICTORIA'S SECRET, discovered that their trademarks in South Africa had been appropriated by unauthorized persons during the apartheid era. These difficulties led the U.S. Trade Representative to identify South Africa as a "Special 301" country in 1996. Recovering the rights to their trademarks necessitated lengthy and expensive litigation and attempts to encourage the South African government to amend its laws.

Had the U.S. government maintained consistent and predictable intellectual property relations with South Africa during the U.S. embargo, it would have spared many U.S. companies significant legal expense and loss of trademark goodwill, while facilitating reform in that country. It would be

<sup>&</sup>lt;sup>5</sup> Restatement 3d of the Foreign Relations Law of the U.S., § 335.

unfortunate if American companies were required to do the same in Cuba because Congress failed to repeal Section 211. According to a 2003 survey conducted for the American Intellectual Property Law Association, the median inclusive costs of a trademark infringement suit in the United States ranged from \$298,000 to over \$1 million.<sup>6</sup> This history should be a carefully heeded lesson as we consider how best to maintain a consistent and predictable intellectual property policy with Cuba during the trade embargo, and thus remove the threat of retaliation against the trademarks of U.S. companies that are registered there.

Repealing Section 211 in its entirety would deny the Castro regime any rationale for retaliating against trademarks of U.S. companies, and thereby increase the likelihood that the Cuban government will continue to uphold its obligations under international intellectual property agreements.

H.R. 1103, in contrast, would seek to apply section 211 to both U.S. nationals and foreign trademark holders. However, such an amendment has significant drawbacks when compared with repeal, the main one being that it would not address any of the inconsistencies of Section 211 with the Inter-American Convention.

In addition to the risk to U.S. companies abroad, such a partial approach would also lead to increased litigation and legal uncertainty at home. Indeed, U.S. companies seeking to enforce their trademark and trade name rights against infringers and counterfeiters would likely be faced with the ill-begotten progeny of Section 211 -- "zombie" trademarks. No, this is not a dark fantasy of director George Romero, but a real problem for U.S. trademark and trade name owners.

By making U.S. nationals subject to the restrictions of Section 211, H.R. 1103 apparently creates a new defense - independent of the Lanham Act – for trademark infringement and counterfeiting. At issue would be whether the trademark and trade name rights being asserted by a U.S. national are "the same or substantially similar" to a trademark that was used in connection with a business in pre-Castro Cuba and confiscated over 40 years ago. If so, U.S. courts would be precluded from recognizing or enforcing the trademark or trade name rights against infringers and counterfeiters unless the trademark owner first obtains the consent of the owner or successor of that business in Cuba.

<sup>&</sup>lt;sup>6</sup> American Intellectual Property Law Association, Report of the Economic Survey – 2003, pp. 21-22.

Under existing law in the Lanham Act, a trademark is presumed to be abandoned, and thus cannot be used to impose liability on third parties, when it has not been used for two years, and there is no intent to resume using it. Under Section 211, however, U.S. courts are precluded from considering whether trademark rights in the U.S., held in connection with a business in pre-Castro Cuba, have been abandoned.

As a result, while these trademarks would be considered "dead" and thus without legal rights under longstanding trademark law, they are "undead" under Section 211 because their owners – who may have long since died or cannot be located – and their successors can deny their use by third parties for an indefinite and unlimited period of time. That is why we call them "zombie" trademarks. They illustrate how Section 211 departs from fundamental principles of U.S. trademark law and threatens to cause headaches for the very U.S. businesses that law is supposed to protect.

The trademark laws that this committee has drafted and that Congress has enacted have consistently sought to reduce the number of "deadwood" marks, by ensuring that businesses may adopt without liability a trademark that has been abandoned by its previous owner. Your laws have also sought to provide security to businesses adopting trademarks, by providing a rebuttable presumption of abandonment. Section 211 runs against both of these long-standing policies by creating uncertain and even unascertainable bases for potential liability when a business wishes to use an abandoned "deadwood" trademark.

These "zombie" trademarks are clear examples of how Section 211 has put the U.S. Government at cross-purposes in its efforts to provide adequate and effective legal protection for trademarks and trade names abroad. In defending Section 211 before a dispute settlement panel of the World Trade Organization, the United States asserted that the restrictions of Section 211 would not apply if the earlier trademark or trade name had been abandoned. While the WTO proceeding was in progress, however, the U.S. Court of Appeals for the Second Circuit ruled that Section 211 as enacted by Congress provided no such abandonment exception. Moreover, while USTR was defending Section 211 and its creation of a class of trademarks insulated from the conventional rules of abandonment, the same USTR was calling on our trading partners to adopt rules for trademark abandonment consistent with the Lanham Act. H.R. 1103 would also require the courts to decide whether the U.S. company asserting trademark or trade name rights "knew or had reason to know" that its trademark or trade name was "the same or substantially similar" to a trademark that was used in connection with a business – any business -- in pre-Castro Cuba . This question might be difficult or expensive to answer. In addition, the bill would require the courts to determine whether such the trademark owner knew or had reason to know "at the time when the person or entity acquired the rights asserted" – which in the case of certain U.S. companies could be over 100 years ago. If experience is to be our guide, such a significant change in U.S. trademark law is likely to result in substantial new burdens on U.S. trademark owners in the form of increased litigation, discovery "fishing expeditions," increased legal costs of hundreds of thousands if not millions of dollars, and reduced legal and business certainty.

In conclusion, Section 211 and H.R. 1103 benefit only a single company, and promise no benefits for U.S. business. Rather, they will make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against counterfeiters and infringers, keep U.S. companies exposed to the risk of legal uncertainty and retaliation abroad, and continue putting U.S. law at cross-purposes with longstanding principles of intellectual property and trade policy objectives of the U.S. government and the business community.

For NFTC members, this is a bad bargain that harms both U.S. business and U.S. national interests. Instead, we urge Congress to repeal Section 211 in its entirety. Repeal of Section 211 is the only means that will provide full compliance with all current U.S. trade obligations and deny other governments any rationale for suspending their treaty obligations or retaliating against the trademark and trade name rights of U.S. businesses.

It is important to note that repeal does not take sides in the underlying dispute over the Havana Club trademark, and it would not settle that question. Rather, it would return it to the Patent and Trademark Office and the courts where it belongs.

The United States has long been a leader in securing intellectual property rights globally. Repeal of Section 211 will help sustain the U.S. position in this regard by providing assurance that American trademarks and trade names will be protected even when held by representatives of governments with which we have difficult relations. In contrast, failing to repeal Section 211 threaten to overshadow the important contributions being made by the Congress and the Executive Branch to a consistent and predictable international intellectual property policy that serves the needs of U.S. business.