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Committee on the Judiciary
United States House of Representatives
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Good morning Mr. Chairman and Members of the Committee. I would like to thank you for the opportunity to share my views on an important issue involving the intellectual property policy of our country.

I have the greatest respect for this Committee, having served many years ago as one of its staff counsel where I assisted Members in oversight and legislation regarding intellectual property law and policy. Since that time I have been a lawyer in private practice and also had the great privilege of serving as the head of the Patent and Trademark Office under President Clinton. In recent years I have spent most of my time working for a nonprofit organization I founded for the purpose of helping developing countries to more effectively use intellectual property rights as a tool of their economic growth and development.

The views I am expressing today are my own and do not represent those of any organization of which I am an officer or member. Since leaving government service I have on fourteen occasions been asked to provide expert testimony in the litigation of intellectual property disputes. And, twice before, I have been privileged to provide testimony (on intellectual property issues) to the Senate Judiciary Committee, including testimony on the issue before you today.

During my tenure as head of the Patent & Trademark Office from 1993 through 1998, I was often the United States Government's point person in international negotiations on intellectual property rights. The United States' position in those negotiations was, and remains today, clear and consistent – the rights of trademark owners should be recognized and upheld in every nation around the world, and piracy as well as confiscation of intellectual property rights should not be tolerated.

This hearing is entitled "Domestic and International Trademark Implications of HAVANA CLUB and Section 211 of the Omnibus Appropriations Act of 1999." That Act amended the Cuban Liberty and Democratic Solidarity Act of 1996, 22 U.S.C. §§ 6021-6091 by codifying longstanding U.S. policy as it pertains to Cuba. Section 211 provides that the United States will not recognize claims by the Cuban government or its nationals to trademarks that were used as a part of a business whose assets were confiscated in Cuba, unless the original owners or their bona fide successors in interest have consented.

On its surface this matter appears to be about U.S. compliance with the TRIPS Agreement and resolution of a dispute over the use of a trademark between two companies, Bacardi and Havana Club Holdings, the joint venture between Pernod Ricard and the Cuban government. However under the surface, it involves much more.

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[1] As a result of legislation this position is now Undersecretary of Commerce and Director of the United States Patent and Trademark Office. However, its placement in the Presidential chain of command and its responsibilities are unchanged.

The dispute which gave rise to Section 211 involves competing claims by two companies, Bacardi and Havana Club Holdings (Pernod Ricard's joint venture with the Cuban government), regarding rights to the trademark, *Havana Club*, used in connection with the distillation and marketing of rum.

These competing claims have affected licensing agreements and business deals involving the *Havana Club* mark, competition among distributors of distilled spirits, Cuban state enterprises, United States trade and intellectual property diplomacy, national security policy, administrative and judicial litigation of trademark disputes, and Congressional oversight and legislation regarding intellectual property rights.

The following is my attempt to explain this complicated controversy and provide the committee with my observations and recommendations as to what, if any, interventions it may choose to make in the matter.

Historical Background

Bacardi both distills and markets rum within the territory of the United States labeled with the *Havana Club* trademark. **Bacardi acquired the rights to the trademark from the Arechabala family**, who began distilling and selling rum in Cuba 138 years ago, and created and used the trademark in Cuba, the United States, and other countries.

Pernod Ricard currently distributes rum which is distilled in Cuba and sold in certain countries using the *Havana Club* label. **Pernod Ricard obtained those distribution rights as part of a joint venture with the Cuban government.** Because of the longstanding embargo of Cuban imports, Pernod Ricard is not able to market in the United States rum distilled in Cuba regardless of whether *Havana Club* or any other trademark is used on the label.

The distillery which eventually became incorporated as José Arechabala S.A. was founded in Cardenas, Cuba in 1878. In the early 1930s, this company began exporting rum to the United States labeled with the *Havana Club* trademark. The family-owned company registered its trademark with the United States Patent & Trademark Office in 1935 and for the next 25 years operated its business as it had done without interruption since its founding. However, in 1960 the Arechabala family business was caught up in the violent upheaval of the Cuban Revolution which resulted in the establishment of a one-party, autocratic state that continues to the present day.

On October 14, 1960 the revolutionary government, under the leadership of Fidel Castro, formally expropriated the Cuban assets of the Arechabala family, including its distillery and all means of producing the products that had been associated with it for the previous 82 years. The family has never received compensation for this expropriation.

Like many Cubans, members of the Arechabala family fled to the United States and other countries where they found safety. At least one of the family members who remained behind was imprisoned for a period of ten years.

The Castro government quickly embraced a Marxist Leninist ideology and established a centrally planned economy patterned after that of the Soviet Union. With the abolition of private ownership the Arechablala family's company was combined with other rum distilleries into a state-owned monopoly. Exports of Cuban rum were primarily redirected to the Soviet Union and other communist states as part of trade agreements between Cuba and those countries. *Havana Club* became the principal brand name adopted by Cuba's state-owned monopoly for these rum exports after Cuba's attempt at using the trademark *Bacardi* failed. No permission was ever sought or received from the Arechabala family for the use of its trademark, including use of the registered trademark in the United States.

In 1973 – two years prior to the expiration of the 20 year term of José Arechabala S.A.'s trademark registration – the state export monopoly, Cubaexport, applied to the USPTO for the registration of the *Havana Club* trademark. Even though the embargo was in effect and Cubaexport could not distribute rum in the United States, it was permitted to intervene to keep the registration in force through an exception to the embargo prohibitions. And, even though Cubaexport was not able to satisfy the requirement that the trademark be in-use, it was able to register its claim anyway because of excusable non use, the excuse being the restrictions imposed by the embargo regulations. The now penniless Arechabalas living in the United States lacked the financial resources to contest it.

In January 1976 the USPTO registered the trademark in Cubaexport's name. For the next 17 years Cubaexport's registration in the USPTO remained dormant. However, with the collapse of the Soviet Union and the agreements by which Cuba traded sugar and rum for oil and other goods from its communist trading partners, the Cuban government began to look for new ways to earn hard currency from sales to market economy countries.

In 1993, as one of a number of joint ventures with companies in Europe and elsewhere, Cuba's government trading monopoly entered into a 50-50 joint venture agreement with Pernod Ricard to create Havana Club Holdings (HCH) for the purpose of holding rights to the trademark, and to create Havana Club International for the purpose of distributing Cuban distilled rum internationally using the *Havana Club* label.

One impediment to this deal was the continuing rights of the Arechabala family in the *Havana Club* mark. Pernod Ricard attempted to remove this impediment by offering to buy the family's rights, However, the Arechabalas chose to deal with Bacardi. They decided initially to license, later to sell, their rights to Bacardi. Pursuant to this sale Bacardi currently is producing rum in Puerto Rico and selling it in parts of the United States using the *Havana Club* mark.

It is important to know that Pernod Ricard's joint venture with Cuba's rum monopoly – HCH – has never had and does not now have an enforceable trademark registration in the United States for *Havana Club.*

<u>Pernod Ricard and OFAC</u>

Following the creation of HCH, this joint venture company formed by Pernod Ricard and the Cuban government, attempted to obtain U.S. trademark rights in October 1995 by applying to the Treasury Department's Office of Foreign Assets Control (OFAC) for permission to transfer to it the trademark registration that had been issued to Cubaexport in 1975. Initially, OFAC granted the request. And, based on this permission HCH took action, as assignee of the 1975 Cubaexport registration, to renew it for another 20 years. But, after further investigation, on April 17, 1997, OFAC ordered revocation of this permission "*retroactive to the date of issuance.*" (Emphasis supplied.)

Because OFAC's investigations often involve sensitive national security information, the details of those investigations are not made public. However, during the course of litigation involving this matter, it has been established that OFAC's investigation revealed that material facts had been withheld. Namely, that the attempted transfer of the trademark registration was not merely an internal reorganization of the Cuban rum industry as Cubaexport had represented , but rather a transaction that had involved the transfer of hard currency to the Cuban partner in the joint venture in violation of the long standing embargo regulations issued pursuant to the Trading with the Enemy Act, the statutory basis for all embargo regulations. The opinion of Judge Scheindlin in *Havana Club Holdings v Galleon S.A.*, 974 F. Supp. 302, contains a detailed explanation of this is

Pernod Ricard's infringement suit against Bacardi

Shortly following Cubaexport's application to OFAC for permission to assign its rights under its registration, the joint venture attempted to stop Bacardi from using the rights it had acquired from the Arechabalas by suing Bacardi and its subsidiary Galleon, S.A., for trademark infringement in connection with the use of *Havana Club*. As I have stated, the result was that Judge Scheindlin on October 20, 1997 dismissed the infringement suit against Bacardi "with prejudice." In doing so the judge concluded that Pernod Ricard's joint venture, HCH, had no rights to the trademark, *Havana Club,* or any U. S. registration of that mark. This decision was upheld on appeal to the Second Circuit and the Supreme Court declined to review the appellate court's holding.

Administrative Litigation in the USPTO

Another forum in which this dispute has been fought is the USPTO and its Trademark Trial and Appeal Board (TTAB). Since I headed this agency for nearly six years (1993-1998), I have a special interest in and serious concerns with the way this matter was handled by the TTAB.

As I have stated, due to the fact that they lacked the resources to track the Official Gazette of USPTO and to hire counsel to represent them, the Arechabala family was unaware that Cubaexport (the Cuban state monopoly) – pursuant to a limited exception under the embargo regulations – had applied in 1973 to register the *Havana Club* trademark in its name, attempting thereby to usurp the Arechabala's rights to the trademark registration then in effect.

In 1995, following Bacardi's acquisition of the Arechabala family's trademark rights, Bacardi petitioned the USPTO to cancel the registration to the *Havana Club* mark claimed by the Cuba-Pernod Ricard joint venture, HCH. Action on this petition was suspended pending disposition of the infringement lawsuit that HCH had initiated against Bacardi and Galleon, S.A.

In 2003, after dismissal of the infringement suit against Bacardi, the cancellation proceeding in the USPTO resumed. In response to the judgment of the U.S. District Court dismissing HCH's lawsuit against Bacardi, the Commissioner of Trademarks implemented the Court's decision in the narrowest possible manner. She invalidated the illegal assignment of trademark rights from Cubaexport to the joint venture. However, the Commissioner did not cancel Cubaexport's registration, even though it had expired and could only be considered to remain in force if the joint venture's renewal as transferee of the rights was recognized as valid. She failed to give recognition to Judge Scheindlin's determination that this transfer had never had any legal effect because of his finding that OFAC had annulled its permission to the transfer "retroactive to the date of issuance."

Shockingly, in my view, the Trademark Trial and Appeal Board upheld the Commissioner's mistaken and narrow view of the effect of Judge Schindlein's holding and OFAC's actions invalidating the joint venture's permission to function as the transferee of Cubaexport's rights in the *Havana Club* registration. The case decided by Judge Scheindlin was brought by the Cuba-Pernod Ricard joint venture against Bacardi/Galleon. Cubaexport was not a party. Indeed, the joint venture's position was that it, not Cubaexport, was the owner of the purported trademark registration. But Judge Sheindlein had held that the joint venture had never acquired any valid rights. Yet, the TTAB failed to give full effect to that holding. If the joint venture never had any rights, it could not have validly renewed the registration.

Further, the TTAB refused to find fault with Cubaexport's assertions, at the time of its registration, that it lawfully owned the *Havana Club* mark even though such claims were based on confiscation by force of arms because "Cubaexport merely *believed* that it was the owner of the mark in the original application."

As one who once had supervisory authority over the TTAB, I am deeply distressed that the board would grant credence to a registrant's assertion of "belief" when it was virtually impossible for Bacardi to engage in the discovery and other fact-finding necessary to impeach this alleged "belief," because of the impossibility of penetrating Cuba's police state which precludes any access to Cubaexport's officers, employees and records. The presumption should be precisely the opposite of that made by the TTAB. In other words, in light of the Arechabalas' registration, Cubaexports' asserted right to standing as purported owner should have been denied barring a rebuttable evidentiary showing that there was a basis for its asserted "belief."

The TTAB also failed to give effect to OFAC's retroactive invalidation of its permission for the transfer of the registration on the grounds that OFAC "did not explain why it revoked the license…" Yet, under its statutory authorization, OFAC is not required to give any reason for its revocations of such license even though those reasons had been revealed in documentation made available during the infringement litigation before Judge Scheindlein.

The TTAB's decision makes a mockery of OFAC's authority and undermines its function of preventing valuable assets to come under the control of states or entities subject to embargos which are initiated in the interest of national security. In my view, this egregious decision of the TTAB in itself would have justified Congressional intervention to clarify U.S. law and policy as reflected in Section 211.

U. S. Treaty Obligations

Three International Treaties to which the United States is a party form the international law that is the background of the *Havana Club* controversy. These are: the 1994 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) which is an annex to the World Trade Organization (WTO) Treaty, the 1883 Paris Convention on Industrial Property, and the 1929 General Inter American Convention for Trademark and Commercial Protection. Of these three treaties the only one that imposes any meaningful obligation on the United States with regard to the Section 211 is the TRIPS Agreement. That obligation and my recommendations with regard to meeting those obligations are described below.

The Paris Convention

This treaty, adopted in 1883, is the primary international agreement setting forth harmonized principles for national patent and trademark laws. It provides for international recognition of trademarks of domiciliaries of contracting states, but leaves considerable discretion to those states as to how to provide that protection. For purposes of the *Havana Club* controversy, the provisions dealing with national treatment, "morality and public order and "unfair competition" are most relevant. The national treatment provisions of the treaty provide that contracting states provide to nationals of other contracting states the same "advantages" and "protections" as provided to their own nationals. This principle is adopted by reference in the TRIPS Agreement and is the basis for the limited correction in U.S. law necessary to bring U.S. law into conformity with the findings of the WTO dispute resolution panel that considered European Union complaints regarding Section 211.

The public order and morality provisions of the Paris Convention give contracting states the right to legislate against the use of trademarks in a manner that is 'contrary to morality or public order." This provision clearly supports the right of the United States to refuse recognition of stolen or confiscated marks. Similarly, the unfair competition provisions of the Paris Convention prohibit acts that "create confusion", involve "false allegations' and "mislead the public." These provisions of the Paris Convention clearly support the right – and obligation – of Congress to protect the public against misrepresentations inherent in the use of confiscated and stolen trademarks.

The Inter American Convention

In past testimony to Congress and in litigation, opponents of Section 211and supporters of the rights of Cuba's state monopoly to use and license the expropriated *Havana Club* mark have cited this convention to support their claims. However, like the Paris Convention, it does not prevent the United States from refusing to register marks contrary to its public policy and, indeed, specifically gives contracting states considerable discretion to regulate transfer of rights in marks such as the revocation of Cubaexport's transfer of its registration to Pernod Ricard/HCH. In dismissing HCH's infringement suit against Bacardi/Galleon, Judge Scheindlein discussed in some detail the relationship of the Inter American convention to Pernod Ricard's claims and concluded that the Convention provides no support for those claims.

The TRIPS Agreement

As discussed above, the TRIPS Agreement incorporates by reference the provisions of the Paris Convention on Industrial Property as they relate to trademarks, including the obligation to provide national treatment. A primary difference between TRIPS and the Paris Convention is that the TRIPS Agreement includes a dispute resolution procedure which was used by the European Union to bring a complaint against the United States regarding Section 211. **However, the decision of the WTO dispute resolution panel in this case in no way requires the United States to repeal Section 211. All that is needed to bring Section 211 in compliance with the national treatment obligations of both the Paris Convention and TRIPS agreement s to make Section 211 applicable to nationals of all countries.**

<u>Recommendations</u>

It seems the reason this matter is receiving the attention of Congress is that – following the complaint by the European Union – an adjudicatory panel of the World Trade Organization found that one aspect of Section 211 is not in compliance with U.S. obligations under TRIPS.

While the WTO panel found that nothing in the TRIPS Agreement prevented the United States from refusing to enforce claims of the Cuban government or its nationals to trademarks of businesses whose assets were confiscated without consent of their owners, it held that Section 211 is defective because it does not apply equally to U.S. nationals and to citizens of any country who claims ownership of trademarks based on assets that have been confiscated by the Cuban government.

This inconsistency with the TRIPS Agreement is easily correctible by making a technical amendment to Section 211 making it clear that it applies to all parties claiming rights in Cuban-confiscated trademarks, regardless of nationality. Such a technical correction will satisfy the WTO ruling, bring Section 211 into full compliance with the TRIPs agreement, and preclude the European Union from applying trade sanctions against the United States.

I regret that some opponents of the United States trade embargo on Cuba seem to be against Section 211. There is no logical connection between the two issues. I strongly support the policy behind Section 211 while at the same time questioning the effectiveness of the embargo. Section 211 is not an embargo issue; it is an intellectual property rights issue. The debate on the embargo centers on whether it helps or hinders Cuba's transition to a free-market economy. This goal is not advanced by giving effect to Cuban confiscatory measures in the United States, particularly where it happens to meet the parochial business strategy of an individual company by extending Cuba's rum monopoly to the global market place.

The traditional United States position, reflected in long-standing United States law and public policy, as well as in Section 211, is that all foreign confiscations are wrong and should have no effect on United States property. Whether one believes in the merits of the embargo or desires that it be lifted, I believe strongly that this is the policy we should maintain. Therefore, I urge the Committee to oppose repeal of Section 211 and to recommend to the full House of Representatives an amendment applying that statute to everyone, regardless of nationality. To do otherwise would send a terrible signal to those throughout the world who wish to devalue intellectual property rights and deprive their lawful owners of effective enforcement of those rights. Since the United States enjoys a comparative advantage in industries built on strong intellectual property protection and enforcement this is the only legislative response to the *Havana Club* dispute that serves the national interest.

Thank you, Mr. Chairman. I will be happy to answer any questions.