DOMESTIC AND INTERNATIONAL TRADEMARK IMPLICATIONS OF HAVANA CLUB AND SECTION 211 OF THE OMNIBUS APPROPRIATIONS ACT OF 1999

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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DOMESTIC AND INTERNATIONAL TRADEMARK IMPLICATIONS OF HAVANA CLUB AND SECTION 211 OF THE OMNIBUS APPROPRIATIONS ACT OF 1999

WEDNESDAY, MARCH 3, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 10:26 a.m., in room 2141, Rayburn House Office Building, the Honorable John Conyers, Jr. (Chairman of the Committee) presiding.

Present: Representatives Conyers, Watt, Wasserman Schultz, Quigley, Coble, Goodlatte, Issa, Jordan, and Nye.

Staff present: (Majority) Perry Apelbaum, Staff Director and Chief Counsel; Christal Sheppard, Counsel; Eric Garduno, Counsel; (Minority) Sean McLaughlin, Chief of Staff and General Counsel; and Blaine Merritt, Counsel.

Mr. CONYERS. The Committee will come to order. Good morning.

The hearing is on the "Domestic and International Trademark Implications of Havana Club and Section 211 of the Omnibus Appropriations Act of 1999." And our purpose is to examine Section 211 and consider what changes, if any, should be made to that section.

This is a fascinating subject that brings the Judiciary Committee together. It goes back into our recent history dealing with a number of issues back through the days of our former colleague, Tom DeLay, as the majority leader, the Elian Gonzalez case, Fidel Castro, and the special law for the Bacardi trademark.

Whether or not the Congress should make trademark decisions or the Court there are at least two measures introduced into the Congress in connection with this subject. One is by Chairman of Ways and Means, Charles Rangel; the other is by Debbie Wasserman Schultz, formerly introduced previously by our former Member, Mr. Wexler.

One method deals with the repeal of the law—the repeal of Section 211—and the other is one that attempts to modify the existing law. You remember that Mr. Castro sold the Bacardi trademark to a French company, Pernod. The World Trade Organization, through its international property—their court, in effect, held that the United States violated international rights.

And so we have found to be in violation of international obligations from one point of view. The United States takes its treaty obligations, of course, seriously, and there has been agreement to take corrective action.

The question that brings us here is what corrective action we should take. The European Union court, in effect, has held off taking any action on their part as they wait to determine what it is that we are going to do.

So I am left with these further observations, and then I will yield to Bob Goodlatte. The seizure of property by Castro was unjust, obviously, and no one should be able to profit from that wrongdoing. And what we are trying to focus on is how the Judiciary Committee should recommend to the House how we should move forward.

We have treaty obligations, and the one thing that hangs over all of our heads is the fact that if we don't uphold these obligations there could be some grave implications of what will happen around the world with our own trademarks if we don't resolve this in the effective and fair manner.

And I welcome our witnesses. They have a great deal of experience. And I thank them, of course, for appearing with us today.

On that note I will recognize the acting Ranking Member from Virginia, Bob Goodlatte.

Mr. GOODLATTE. Mr. Chairman, thank you, and I appreciate you calling this hearing on an obscure and rummy but important issue. The United States is the leader in property rights protections of all stripes, including intellectual property rights. The founders realized that the protection of private property rights would be crucial to building a prosperous country.

It is through this lens that we are examining today the issues surrounding Section 211 of the 1998 Omnibus Appropriations Act and its effect on trademark rights. In 1960 the communist state in Cuba formally seized numerous industrial facilities and assets on the island, including a rum factory and other property belonging to the Arechabala family.

The Arechabalas founded their business in the late 19th century and marketed much of their product under the name Havana Club, which as registered as a U.S. trademark in 1935. Their business was seized at gunpoint by the Castro regime and its owners were forced out of the business and the country.

Due to circumstances caused by the communist takeover of their business, the family didn't renew their U.S. registration for Havana Club in 1973 because they were not able to use the trademark in commerce by producing and selling rum, and thus the U.S. trademark became abandoned. Then the Cuban government, which had seized all of the family's corporate assets without compensating them, applied for the Havana Club trademark in the U.S. through a state-sponsored enterprise called Cuba Export.

Three years later the Patent and Trademark Office granted the Havana Club registration to Cuba Export. In 1993 Cuba Export joined with Pernod Ricard, the French distillery, to form Havana Club Holdings for the purpose of marketing rum using the contested trademark. Tellingly, Pernod attempted 1 year earlier to purchase the trademark from the Arechabalas but failed. Instead, the Arechabala family sold their rights to the Bacardi distillery in 1994.

In 1998 Congress attempted to settle the ownership dispute by passing an omnibus appropriations bill that includes a provision commonly cited as Section 211. This statute withholds U.S. protection for any trademark that is identical or substantially similar to another trademark used in connection with a confiscated business or asset without the consent of the original owner.

Havana Club Holding brought suit against Bacardi the following year and the new statute prevented any recourse in the U.S., as designed. The district court dismissed the claims against Bacardi and the Second Circuit affirmed, stating that Pernod had no enforceable U.S. rights to the Havana Club trademark.

At the behest of Pernod, the European Union challenged the Section 211 before the World Trade Organization. The WTO ruled against Pernod on 13 claims. As a technical matter, however, the panel also determined that the wording of Section 211 violated our obligations under TRIPS, the intellectual property component of the GATT Agreement.

The problem is that Section 211 is directed at designated nationals and their successors in interest, meaning Cubans. TRIPS and other international obligations require U.S. law to treat all holders of U.S. trademarks equally. This means Cubans and any other non-American nationals can't have fewer rights than U.S. citizens even if the rationale behind the disparate treatment is otherwise understandable.

The WTO ruling was issued about 8 years ago. Today we are examining ways to correct Section 211 to demonstrate our commitment to the rule of law as well as private property rights, including intellectual property rights.

Another aspect of this issue, and about which there appears to be considerable disagreement among our witnesses today, is whether Section 211 and some proposed legislative fixes also violate the 1929 General Inter-American Convention for Trademark and Commercial Protection. I look forward to hearing more about the legal arguments surrounding compliance with that treaty this morning.

Some have argued that Section 211 must be repealed entirely. Many U.S. businesses own trademarks in Cuba and fear retaliation by the Castro regime. For example, he could start selling the Cuban version of Coca-Cola using that company's trademarks.

Others have argued that legislation like H.R. 1103, Representative Wexler and now, I think, Wasserman Schultz's bill, that narrowly conformed Section 211 to the WTO ruling by expanding its restrictions to nationals of all countries, should be enacted. Today we will hear from expert witnesses who will help us determine whether there is a way to maintain our international treaty obligations while also protecting U.S. trademarks in Cuba and not rewarding Castro's totalitarian regime for confiscating private property at gunpoint.

Mr. Chairman, this should be one rum-good hearing today, and I look forward to hearing from our witnesses.

Mr. CONYERS. Very funny. I mean, thank you for your statement and your humor.

The Chair recognizes Debbie Wasserman Schultz, a distinguished and effective Member of the Committee.

Ms. WASSERMAN SCHULTZ. Thank you so much, Mr. Chairman, and thank you for holding this hearing today.

I welcome the opportunity to discuss the very important intellectual property principles implicated by the Havana Club trademark issue with this balanced panel of esteemed witnesses. In my view, this hearing boils down to one issue: whether our Nation will continue to uphold the principle that trademarks stolen in another country will not be recognized in the United States.

And, Mr. Chairman, I thank you for recognizing that this is a question that boils down to theft of a stolen trademark.

Way back in 1878 the Arechabala family established a rum company in Cuba. They coined the Havana Club trademark and registered the mark with the United States Patent and Trademark Office in 1935.

In 1960 armed communist insurgents swept into power in Cuba and seized control of all private companies. Like a lot of business owners, the Arechabalas had their distillery and all of their property stolen from them, in their case literally at gunpoint.

Mr. Chairman, I seek unanimous consent to enter into the record the 2004 Senate testimony of Ramon Arechabala, who wanted to be here today.

Mr. CONYERS. Without objection, so ordered.

[The information referred to follows:]

PREPARED STATEMENT OF RAMON ARECHABALA

STATEMENT OF RAMON ARECHABALA
Senate Committee on the Judiciary
An Examination of Section 211 of the Omnibus Appropriations Act of 1999
July 13, 2004

Mr. Chairman, good afternoon, my name is Ramón Arechabala. I am here today to testify in support of S. 2373. My life was changed forever on New Year's Day 1960 when the Castro government took over the rum business that my family founded in 1878. The revolutionary regime called it intervention. They promised us we would eventually be paid, but we never got a red cent. The simple truth is our property was stolen.

I am a Cuban American and U.S. citizen. My family moved to Cuba from Spain when I was a boy. My father went to work for our family company, Jose Arechabala, S.A. (JASA), in Cardenas, Cuba, which made fine rums sold under the ARECHABALA and HAVANA CLUB brands. We exported HAVANA CLUB rum that was made by JASA according to a secret family formula to the U.S. and elsewhere. JASA began selling HAVANA CLUB rum in the U.S. in the early 1930's. I believe that the HAVANA CLUB mark, at one time, was registered in the United States, Spain, Cuba and other countries. My cousin, Javier Arechabla, the company's lawyer, took care of those things. After the Bay of Pigs, Javier was thrown in jail on trumped up charges and did not get out for many years.

I worked as a sales manager at JASA after I got out of school. Special forces led by Calixto Lopez broke into JASA's offices and seized the company on December 31, 1959. Calixto pointed a machine gun at me and said from now on he was "Pepe." Pepe is my uncle who has since moved to Spain. He was JASA's President then. Calixto meant he was now the boss. All JASA's books and records were seized. My brother, Jose Miguel, who also worked at JASA, and I were searched when we left to make sure we did not sneak out any important papers. As soon as I could, I telephoned my uncle and other family members who were in the U.S. and Spain for the Christmas holidays to let them know what had happened and to tell them not to return to Cuba. I was afraid that if they returned, they would be tossed in jail.

The next day I went back to work. Lopez and his cronies knew nothing about making rum. He even gave away the oak barrels used to age the rum. For several months I stayed at JASA without pay, but Lopez didn't want me there. I had to leave.

The company's business was booming when Castro took it over. My uncle, who was responsible for selling HAVANA CLUB rum in the U.S., had gotten HAVANA CLUB on the shelves at the Stork Club and other famous restaurants in U.S. I later learned that in October 1960, the Cuban government issued Law No. 890, to try to legitimize the confiscations of the assets of JASA and dozens of other private companies. Law No. 890 promised that my family and I would be paid a fair price for the property that was taken but that promise was false. No one in my family was ever paid anything.

My family never gave up hope of getting our rum business back. The rule of law, we felt sure, would be restored to Cuba and with it, our stolen property. In the meantime, I worked at odd jobs in Cuba. But every time my business showed signs of getting off the ground, the government closed me down. My background made me unreliable, particularly after the Bay of Pigs. Eventually, I was thrown in jail by the Castro government after I organized a party for foreign embassy employees. My jailer then gave me a choice, leave Cuba or face the prospect of staying in jail indefinitely on some phony charge.

I left Cuba with my wife and infant son, Miguel. By then I had lost everything, including my home and Cuban bank account. The clothes on our backs were the only things we were allowed to take. The guards at the airport even took Miguel's diaper bag because it looked expensive. What the guards couldn't take was my knowledge of the secret formula for making HAVANA CLUB rum. My brother and I had committed this secret formula to memory when Lopez took over our company and I was determined to put it to good use.

My family and I first went to Madrid and then left for the United States. After a brief stay in Philadelphia with my brother we moved in 1967 to Miami where I still live. I kept trying to put enough money together to make HAVANA CLUB rum, but I was penniless when I arrived in the United States. I worked hard to build a car dealership, but when my franchise was canceled, I was forced into bankruptcy in 1974. Throughout this period, I kept looking for a partner for a joint venture to make HAVANA CLUB rum. In 1974, I flew to Nassau to meet with Orfilio Peláez of Bacardi, to discuss the possibility of Bacardi making HAVANA CLUB rum for us. When I toured Bacardi's distillery, I broke down in tears as it was the first time I had seen a rum distillery since I left JASA. I discussed this meeting with my brother, José Miguel, but we never heard back from Mr. Peláez. I later found out that after our meeting he had fallen ill and died.

Also in 1974, I discussed with a lawyer, whose name I have forgotten, whether JASA's U.S. registration of our HAVANA CLUB label could be renewed. Javier, my cousin and the company's lawyer, was still in a Cuban prison and I knew nothing about the corporate law. I was told I could not file a renewal statement under oath because we had no means of making HAVANA CLUB rum at the time.

While trying to get the family rum business going again, I worked as an auto repairman and in sales. In the late 1980's I set up a freight forwarding company. But I had to retire in 1997 after I suffered a major stroke. In 1993, a Miami newspaper article said that Pernod-Ricard was negotiating a joint venture with the Cuban government to make and sell HAVANA CLUB rum. I was furious. I wrote a letter to Mr. Patrick Ricard, the head of Pernod, to let him know my family owned JASA and the HAVANA CLUB mark. Pernod could never make real HAVANA CLUB rum without the family's secret recipe. Mr. Ricard did answer my letter, but he basically told me that he would not let the injustice done to my family interfere with the bargain Pernod was getting from Castro. However, Pernod was worried about us taking legal action. In 1993, a lawyer for Pernod, Emilio Cuatrecasas, approached the Arechabalas in Spain about buying the worldwide rights to the HAVANA CLUB mark. The family turned down Pernod's offer as it was ridiculously low.

Before hearing about Pernod's deal, I had met with Mr. Juan Prado of Bacardi to pick up on my earlier talks with Mr. Peláez. My discussions with Mr. Prado eventually led to an agreement in principle in 1995 between the members of my family, who owned JASA, and

Bacardi, giving Bacardi the right to make and sell HAVANA CLUB rum. As part of that deal, JASA assigned to Bacardi our rights to the HAVANA CLUB mark, the related goodwill of the business and other remaining JASA assets, including the family's secret HAVANA CLUB recipe. With our permission, Bacardi began selling HAVANA CLUB rum in the U.S. in mid-1995. A formal agreement was signed with Bacardi in 1997.

The Pernod-Cuban joint venture sued Bacardi in federal court in New York. I testified at the trial on February 3, 1999. I basically said then what I am telling you today. The court ruled in Bacardi's favor partly because of Section 211. Section 211 prohibits recognition in the U.S. of claims to own rights in a trademark or commercial name like HAVANA CLUB that had been confiscated by the Castro government unless the one claiming the trademark had gotten the consent of the original owner of that mark in the U.S. which in the case of HAVANA CLUB was the Arechabala family. In other words, rights to the U.S. trademark JASA owned cannot be transferred by Cuba, which confiscated JASA's Cuban assets, to the Cuban-Pernod joint venture or anyone else without JASA's consent as the original owner of the related U.S. trademark. This seems fair. I am told that paintings discovered in the U.S. that had been seized by the Nazis in World War II, are returned to their true owners. While the Castro regime has denied us our rights in Cuba, Section 211 has protected our U.S. trademark and shows that in the United States, at least, private property cannot be taken away at the whim of a foreign tyrant. This is why I am so proud to live in America.

Pernod says we abandoned the HAVANA CLUB trademark when we failed to file the renewal papers with the U.S. government. I am not a lawyer and I did not have the money to have a lawyer research the law for me. I was told that unless JASA was making and selling HAVANA CLUB rum in the U.S. the registration could not be renewed. I believed this and was not going to make a false statement to the U.S. government, which had given me and my family refuge. I do know, however, that Pernod was aware that the Arechabala distillery and the HAVANA CLUB trademark was seized at gun point. Pernod's attempt to buy the mark from us also shows Pernod knew that we never abandoned our trademarks and that we were trying to get our business back. Why else would Pernod have tried to buy our rights in 1993? What Pernod apparently concluded was that we did not have the means to fight them in court. Pernod is a huge company and I and my brother and cousins only made modest livings. But Bacardi, which also was victimized by Law No. 890, knew we were morally and legally the rightful owners of the HAVANA CLUB mark. Bacardi paid us fairly for our HAVANA CLUB rights and took up the court fight.

What happened to my family was wrong. We wanted to keep selling HAVANA CLUB rum but were prevented from doing this because of the confiscation of our distillery. Castro's wrong to me and my family continues today because the Cuban/Pernod venture continues to trade off HAVANA CLUB's reputation with a product that can never be the true HAVANA CLUB rum. Castro's government stole my assets, my family heritage, and much of my children's future. Section 211 prevents that wrong from spreading into the United States. Its protection should not be denied because of veiled threats made by Pernod on behalf of its partner, Cuba.

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Ms. WASSERMAN SCHULTZ. Thank you.

Sadly, Ramon passed away 2 weeks ago. He was present at the distillery that fateful day in 1960 when the company was taken by force. His memory continues to represent—represents the

Arechabala's struggle over many decades to maintain the Havana Club trademark.

Even after the confiscation Ramon continued to work at the distillery. He was promised compensation from the Castro regime but never received a penny.

Eventually he was forced to leave the country and, like many Cuban nationals persecuted by the Cuban regime, found his way to South Florida and to Miami. It was only after he learned that the Cuban regime intended to sell his family's stolen rights to the Havana Club rights to the French company Pernod Ricard that he and his family turned to Bacardi for help in regaining the Havana Club brand.

In 1998 Congress enacted Section 211 to protect U.S. trademarks and their legitimate owners from the effects of the confiscations decreed by the Cuban government. Congress acted on a relatively noncontroversial principle, that while America cannot impose respect for intellectual property on Communist dictators who seize power by force, the United States can and must ensure that U.S. law will never be forced to recognize this theft as applied to U.S. property. To be clear, Section 211 prohibits enforcement of U.S. rights to trademarks confiscated by the Cuban government unless one has the consent of the legitimate owner.

Furthermore, neither the Arechabala family nor any legitimate successor has ever consented to the assertion of rights to the Havana Club trademark by the joint venture between the Cuban government and Pernod Ricard. In fact, the Arechabalas refused to sell their interest in the Havana Club mark to Pernod Ricard in 1993 when Pernod approached them about purchasing that interest.

Section 211 was challenged in the WTO by the European Union. The WTO appellate body resolved that challenge by finding in favor of the United States on all points except one. The appellate body made a narrow finding that because Section 211, on its face, does not apply to U.S. nationals as well as Cuban nationals it is inconsistent with the national treatment and most favored nation principles under the TRIPS Agreement, as Mr. Goodlatte asserted.

The appellate body fully supported the equitable principles embodied in Section 211, specifically that the United States need not recognize uncompensated confiscation or protect stolen intellectual property rights. Instead, Congress need only broaden its application of Section 211 to include U.S. nationals. This amounts to no more than a minor technical fix.

H.R. 1103, originally introduced this session by my friend and Florida colleague, former Representative Robert Wexler and for which I substituted in as the bill's first sponsor last week, provides this narrow technical fix. It clarifies that these well-founded principles of equity in Section 211 apply to all parties claiming rights in confiscated Cuban trademarks regardless of nationality.

H.R. 1103 will bring Section 211 into compliance with the WTO ruling. It will protect the original owners of confiscated Cuban trademarks. It will apply to all people, regardless of nationality. And most importantly, it will clarify that trademarks and trade names confiscated by the Cuban government will not be recognized in the United States when the assertion is being made by someone, like the joint venture between the Cuban government and Pernod

Ricard, who knew or had reason to know that the mark was confiscated.

Some believe the time has come to fully repeal Section 211. Repeal is not the answer.

Repeal would put intellectual property at much greater risk. Whether we are talking about pirated movies, music, computer software, pharmaceuticals, or yes, even rum, we must never forget that our intellectual property laws are our engines for innovation and prosperity.

That is why our founding fathers insisted upon including intellectual property rights in our Constitution, because they knew America could never become the world leader in technology we are today without it. I believe that property rights must be respected and that it is wrong for governments to take property from individuals or companies, whether nationals or foreigners, without payment of prompt, adequate, and effective compensation.

It is hard to understand how anyone could think otherwise. Foreign confiscatory measures have never been given effect on properties situated in the United States and they must never be.

Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. CONYERS. Thank you very much.

We welcome our witnesses, John Veroneau, of Covington & Burling; Bill Reinsch, president of the National Foreign Trade Council——

Mr. ISSA. I am sorry, Mr. Chairman. I was shaking yes when you asked.

Mr. CONYERS. Oh, I am sorry. The gentleman from California is recognized.

Mr. ISSA. I thank you, Mr. Chairman. I ask unanimous consent to have my entire opening statement put in the record——*

Mr. CONYERS. Without objection.

Mr. ISSA [continuing]. And briefly, I look forward to working with the gentlelady from Florida, having worked with the gentleman from Florida previously. Former Member Wexler and I felt that this was the narrowest fix, not necessarily a fix for all the problems of Cuban theft in the 1960's, and we did so for a reason. This is one of the few successful programs that has existed throughout the past.

As you can imagine, Mr. Chairman, the assets seized in the 1960 uprising in fact have all depreciated. They are gone. Tangible assets have become worth little or nothing in Cuba. Even the land, without investments in infrastructure, are worth very little—the factories. The Coca-Cola factory would be of no value to Coca-Cola today.

And yet, the intellectual property that was not abandoned, but stolen, is in fact the one place in which the pressure for the Cuban government to find a reasonable way to unravel what in fact no longer exists in Russia, no longer exists anywhere in the former Soviet Union, and even does not exist in China today—Cuba remains virtually isolated as a country that does not respect the property

*At thie time of the printing of this hearing, the Committee had not received the opening statement of Mr. Issa.

which it seized at gunpoint which still has significant value to the now descendants of those it was taken from.

So, Mr. Chairman, I believe that H.R. 1103 was crafted to do the right thing for the right reason in the right way. It is a minimalist fix, as Representative Wasserman Schultz said. I think that we will find today that some will not agree with the premise of withholding anything that Cuba believes that it has as a result of its violent takeover outside of any legitimacy after Castro was elected—he seized power and he seized assets.

So, Mr. Chairman, I do believe that there are those who will say there is a better technical fix. I know that the gentlelady from Florida and myself would happily listen to it. But I believe that when Rob Wexler originally envisioned this he did so because it was the simplest, narrowest, and most guaranteed to succeed to restore what this Congress has already voted for and the people on both sides of the aisle—the vast majority—agree with.

So, Mr. Chairman, I thank you, look forward to our witnesses, and yield back.

Mr. CONYERS. Thank you, Mr. Issa.

Our witnesses are John Veroneau, of Covington & Burling; Bill Reinsch, president of the National Foreign Trade Council; Mr. Mark Esper, executive vice president, Global Intellectual Property Center at the Chamber of Commerce; Bruce Lehman, well-known to this Committee as former counsel and works in the—a former assistant in the Commerce and the Trademark and Patent Office. And our first witness is Mark Orr, vice president of North American affairs for Pernod Ricard. Mr. Orr handles issues ranging from public policy and regulatory matters to trade and industry affairs.

All your statements will be introduced into the record, and we welcome you all and invite Mr. Orr to begin our testimony.

TESTIMONY OF MARK Z. ORR, VICE PRESIDENT OF NORTH AMERICAN AFFAIRS, PERNOD RICARD

Mr. ORR. Thank you very much, Mr. Chairman.

I am Mark Orr, vice president for North American affairs with Pernod Ricard. I want to commend you and the Members of the Committee for holding this hearing.

It is the first time this Committee or any other Committee of the House of Representatives has examined the merits of Section 211. No such opportunity was presented prior to Section 211's enactment.

Mr. Chairman, I have listened very carefully to the opening statements of Members of the Committee. You would not be surprised that we have a different recollection of the events that have been described.

Pernod Ricard's joint venture, Havana Club Holding, sells Havana Club rum in more than 120 countries around the world. Havana Club is an authentic Cuban rum made only in Cuba from Cuban sugar cane, not available in the United States at the present time due to the U.S. embargo on Cuban products.

We are most interested in having the opportunity to sell Havana Club rum in the U.S. market when the U.S. embargo eventually is lifted, but one of our principal competitors, our good friends at Bacardi, the world's leading rum company and the dominant rum supplier to the U.S. market, is equally interested in denying this opportunity to us. For the past 15 years they have pursued a concerted strategy to gain control over the rights to the U.S. Havana Club trademark and eliminate the prospect of having to compete against genuine Havana Club rum in the U.S. market.

Section 211 is and has been the lynchpin to their strategy. It was designed with a specific purpose of interfering in a pending trademark infringement suit brought by our joint venture against them and it stripped the Federal judge of all authority to decide the case under longstanding rules of trademark law. The effect has been to prevent our joint venture from using the U.S. courts to stop infringing sales of imitation Havana Club by our Bacardi friends on two separate occasions. It has also prevented our Cuban partners, who have owned the U.S. registration for the Havana Club trademark since 1976, from renewing their registration for an additional 10-year term, an otherwise very routine procedure.

The dispute between Pernod Ricard and Bacardi over ownership of the Havana Club trademark in the United States is extremely complex, involving difficult and arcane elements of trademark law, but one point is very clear: Unless Congress repeals Section 211 it will have decided the dispute in Bacardi's favor and no Federal judge anywhere or at any time will have ruled on the merits of the two parties' competing claims to ownership of the Havana Club trademark in the United States.

Now, Mr. Chairman, defenders of Section 211 assert that it is necessary to give full effect to longstanding U.S. policy not to recognize the uncompensated confiscation of property by foreign governments, yet the property at the heart of this dispute, the U.S. registration for the Havana Club trademark, is property created here in the United States—cannot be and never was confiscated by the Castro government. Instead, it was abandoned by the previous owners in 1973, a fact confirmed by the U.S. Patent and Trademark Office in 2004.

Defenders also assert that it is a necessary element of U.S. sanctions policy. Yet, genuine Havana Club cannot be sold in the United States due to the embargo, and under U.S. law the Castro regime must cede power before the embargo can be lifted. So there is no benefit today from the U.S. registration to the Castro regime and no chance of future benefit to the Castro regime from sales of genuine Havana Club.

U.S. policy with regard to confiscations has been quite clear for many years. The enactment of Section 211, frankly, in 1998 was a superfluous and necessary—unnecessary addition. The only beneficiary was Bacardi.

Mr. Chairman, Congress should repeal Section 211 in its entirety and as soon as possible. Repeal would restore the full authority of the courts to resolving the competing claims of Pernod Ricard and Bacardi to the Havana Club trademark in the United States. Repeal would not benefit one party over the other; rather, it would leave the courts free to determine fairly on the merits which party's claim to the mark is superior, just as they could have done before Section 211 was enacted.

Courts have compiled a long and outstanding record of resolving complex disputes over trademark rights in accordance with longstanding rules of law and equity. We should not fear the result of such consideration in the present dispute.

Mr. Chairman, thank you very much for the opportunity to present our views on this issue today.

[The prepared statement of Mr. Orr follows:]

PREPARED STATEMENT OF MARK Z. ORR

Testimony of MARK Z. ORR
Vice President, North American Affairs, Pernod Ricard

Before the Committee on the Judiciary
U.S. House of Representatives

March 3, 2010

I. Introduction

Thank you and good morning, Mr. Chairman, members of the Committee. My name is Mark Orr. I am Vice President for North American Affairs, with Pernod Ricard.

Pernod Ricard is the world's co-leader in wines and spirits, with global sales in 2008/9 of approximately $10 billion. Headquartered in Paris, France, Pernod Ricard has 70 distribution companies around the world and employs nearly 19,000 people.

Pernod Ricard has been invested in the United States for more than 30 years. Our U.S. subsidiary has headquarters in New York, production facilities in Arkansas and California, and we employ approximately 1000 people across the country.

II. Pernod Ricard's Interest

Pernod Ricard's joint venture, Havana Club Holding, through its subsidiary Havana Club International, sells Havana Club rum in more than 120 countries around the world. Havana Club rum is authentic Cuban rum made in Cuba from Cuban sugar cane. Because it can be made only in Cuba, genuine Havana Club rum is not available in the United States at the present time due to the U.S. embargo imposed on imports of Cuban products in 1962.

Pernod Ricard is not seeking the early elimination of U.S. sanctions on Cuba. That is a policy matter properly reserved for the U.S. Government to decide. However, once the U.S. embargo on Cuban products eventually is lifted, Pernod Ricard is most interested in having the opportunity to sell, through its joint venture, genuine Havana Club Cuban rum in the U.S. market.

One of our principal competitors – Bacardi, the world's leading rum company and the largest supplier of rum to the U.S. market – is most interested in preventing us from having this opportunity. For the past fifteen years, they have pursued a concerted strategy designed to eliminate the prospect of having to compete against genuine Havana Club Cuban rum after the embargo is lifted.

III. <u>Section 211's Origin</u>

Mr. Chairman, I wish to commend you and the Committee for holding this hearing this morning. It is the first time that this Committee – or any other Committee of the House of Representatives -- has had the opportunity to consider Section 211 on its merits.

Prior to enactment, Section 211 never had such an open and transparent consideration. In October 1998, Section 211 was slipped into the conference report on the 1999 Omnibus Appropriations Act at the behest of a single company, Bacardi, just before the final vote was taken. The committees of jurisdiction were bypassed; no hearings were held in either house; and the provision was never marked up or voted upon. It was weeks before the provision was discovered in the 4,000 page Omnibus Appropriations Act, and then only after President Clinton already had signed it into law.

IV. <u>Section 211's Purpose</u>

With Section 211, Bacardi sought to achieve through legislative action what it had been unable to achieve on the merits in court. Bacardi designed Section 211 with the specific purpose of interfering in a pending trademark infringement case brought by Pernod Ricard's joint venture, Havana Club Holding, against Bacardi. In that case, Havana Club Holding had objected to Bacardi's sale in the United States of a product produced in the Bahamas, which Bacardi called "Havana Club." Because Havana Club Holding, at that time, owned the U.S. trademark rights to the HAVANA CLUB name, Bacardi's sale of its own imitation Havana Club rum constituted trademark infringement.

Bacardi also persuaded the Treasury Department to retroactively revoke permission for the transfer of the U.S. registration of the HAVANA CLUB trademark to Havana Club Holding, with the result that a different entity, Cubaexport, now owns the registration in the United States, while Havana Club Holding owns it everywhere else in the world.

These two actions stripped the federal judge hearing Havana Club Holding's case against Bacardi of all authority to decide the case under longstanding rules of trademark law. In May 1999, the judge, barred by Section 211 from ruling on the merits of the case, dismissed Havana Club Holding's claims of infringement. The practical effect was to leave Havana Club Holding and Cubaexport powerless to prevent the infringing activities of suppliers of imitation "Havana Club" products.

Years later, in 2006, the Bush Administration invoked Section 211 in an effort to prevent Cubaexport from renewing its registration for an additional ten year term. Section 211(a)(1) bars payment of the fee required by the U.S. Patent and Trademark Office to process a renewal application, unless specifically authorized by the Treasury Department. Cubaexport sought and was denied authorization to make the payment and its renewal application was rejected by the U.S Patent and Trademark Office.

Immediately thereafter, Bacardi again began selling in the U.S. market a product called "Havana Club" rum, this time made in Puerto Rico, knowing that Section 211 rendered Havana Club Holding and Cubaexport powerless to rely on their trademark registration to stop this latest infringement.

Cubaexport is in the process of appealing the Bush Administration's decision not to allow Cubaexport to renew its registration with the U.S. Patent and Trademark Office. Should that appeal be unsuccessful, Section 211 will have forced the cancellation of Cubaexport's ownership rights in the United States, clearing the way for Bacardi to claim ownership. No federal judge, anywhere or at anytime, will have ruled on the merits of the competing claims to ownership of the Havana Club trademark in the United States.

V. The Purported Rationale for Section 211

So what was the rationale for enacting Section 211? After the fact, some supporters have asserted that enacting section 211 was necessary to give full effect to longstanding U.S. policy not to recognize and legitimize the confiscation of property by foreign governments. Yet the property in dispute – the U.S. registration for the Havana Club trademark – never was confiscated by the Castro government. It is U.S. property, created here in the United States, and cannot be confiscated by a foreign government.

Indeed, the original Cuban owners – Jose Arechebala SA (JASA) -- maintained their ownership of the U.S. registration until 1973, long after their properties in Cuba had been nationalized by the Castro government in 1960. They could easily have perpetuated their ownership by filing an application for renewal of the registration for an additional 20 year term in 1973. For whatever reason, they did not do that.

In 2004, the U.S. Patent and Trademark Office found that JASA likely had abandoned their registration in the United States in 1973. In subsequent testimony before the Senate Judiciary Committee in July 2004, a representative of JASA admitted that the company could have renewed its trademark rights in the United States but failed to do so. It was only after JASA decided to abandon its U.S. trademark rights that Cubaexport submitted its application to register HAVANA CLUB in the United States. That registration, with an original design never used or registered by JASA, was granted by the U.S. Patent and Trademark Office in 1976.

Moreover, if section 211 was such a necessary addition to U.S. policy regarding confiscations, why was no effort made to enact such provisions when Cubaexport first applied to register the trademark in the U.S. in 1974? Instead, the USPTO granted the registration to Cubaexport, no objections were filed by the owners of the previous registration, Bacardi, or anyone else, and no effort was made in Congress to block Cubaexport's application.

In evaluating the "necessity" of Section 211, one might reasonably come to the exact opposite conclusion. U.S. policy with regard to confiscations is and has been quite clear and consistent for many, many years. The enactment of Section 211 in 1998 was a superfluous addition to this policy and totally unnecessary to give the policy its full effect.

Supporters of Section 211 also have asserted that it is a necessary element of U.S. sanctions policy toward Cuba, which is intended, *inter alia,* to deny hard currency to the Castro government. But, the product itself – Havana Club – is genuine Cuban rum which can be produced only in Cuba. As such, it cannot be sold in the United States at the present time due to the U.S. embargo on imports of Cuban products.

Moreover, the sanctions imposed by the United States in 1962, and codified by the Congress in subsequent legislation, require, *inter alia*, a change in government in Cuba before the U.S. embargo can be lifted. Thus, the Castro regime derives no benefit at the present time from Cubaexport's ownership of the U.S. registration and will not benefit at any time in the future because, according to the terms of U.S. law, the regime must depart power before sales of Havana Club can take place in the U.S. market.

There also can be no plausible argument that Section 211 is needed to permit Jose Arechabala SA to recover its abandoned U.S registration and re-establish its rum business. JASA sold whatever rights it purported to still have in the Havana Club trademark to Bacardi in 1997, prior to the enactment of Section 211, and more than 30 years after exiting the rum business.

The real reason for Section 211 is clear. Section 211 applies only to the specific set of circumstances surrounding the Havana Club trademark. No other Cuban-origin trademark is affected and no other company besides Pernod Ricard and its joint venture partners has been disadvantaged. And only one company – Bacardi -- has benefited.

For the past fifteen years, Bacardi has sought through a series of legal and legislative maneuvers to gain control of the U.S. rights to the Havana Club trademark. Section 211 has been the linchpin of this effort. Its real purpose can only be to enable Bacardi to prevent Pernod Ricard from selling Havana Club rum in the United States, and thereby safeguard the dominant competitive position Bacardi enjoys in the world's largest rum market.

VI. The Impact of Section 211

More than a decade later, it is quite clear that section 211 has failed to meet whatever laudatory aims its supporters ascribe to it, with one exception: it has significantly weakened the ability of Pernod Ricard and its joint venture partners to battle Bacardi's efforts to gain control of the U.S. registration, so that it does not have to compete against Havana Club rum once the embargo on Cuban products is lifted.

But the negative repercussions for the United States have been considerable. In 2002, the World Trade Organization ruled that Section 211 was inconsistent with the fundamental WTO principles of non-discrimination and national treatment. The United States still has not complied with the ruling eight years later, despite mounting criticism from U.S. trading partners.

Section 211 also has placed the United States in breach of its obligations vis-à-vis Cuba under the Inter-American Convention on the Protection of Trademarks and Commercial Property, exposing U.S. trademark holders to possible loss of protection in Cuba. To date, Cuba has respected U.S. and other foreign intellectual property rights, in recognition of the importance of securing reciprocal protection for its own trademarks abroad. One can only imagine how U.S. trademark owners would have reacted, though, if Cuba had instead blocked ownership of such well-known U.S. trademarks as General Motors, Exxon, Hewlett-Packard, Federal Express, Pfizer, Brinks, Bank of America, Maytag, Goodyear, Sears and Kohl's, and allowed their foreign competitors to sell under those brands.

Section 211 also provides a pretext for other countries to create loopholes in the protection they afford intellectual property owners in order to suit their own narrow parochial interests. Left unaddressed by Congress, Section 211 will continue to undermine the ability of the United States to lead efforts internationally to secure stronger protection of intellectual property at a critical time for the U.S. economy.

VII. Conclusion

Congress should repeal Section 211 in its entirety as soon as possible and restore the full authority of the courts to resolve the competing claims to the ownership of the Havana Club trademark in the United States. Repeal will not unfairly benefit Pernod Ricard, Bacardi, or any other party – it would leave the courts free to determine fairly, on the merits, which party owns the HAVANA CLUB trademark, just as they could have done before Section 211 was enacted. The courts have compiled a long and admirable record of resolving complex disputes over trademark rights in accordance with longstanding rules of law and equity. We should not fear the result of such consideration in the present dispute.

Thank you very much.

Mr. CONYERS. Thank you.

Our next witness is Bruce Lehman, former assistant secretary of commerce and director of the United States Patent and Trademark Office. Today he is representing Bacardi as an expert counsel.

We welcome him for his many years being in and out of this Committee hearing room.

TESTIMONY OF BRUCE A. LEHMAN, FORMER ASSISTANT SECRETARY OF COMMERCE AND EXPERT COUNSEL FOR BACARDI, USA

Mr. LEHMAN. Thank you very much, Mr. Chairman. It is very nice for you to invite me to be here, and I really appreciate it.

I think it is an understatement to say that this matter has an extremely complicated history involving Treasury Department investigations, trademark infringement lawsuits, registration disputes at the USPTO and international trade disputes. And I have submitted a written statement that I hope brings some light to all of that history and will help the Committee, when you look at it, understand this very complicated issue.

So in my oral statement I would like to just address some of the most important points. First, proponents of the repeal of Section 211 assert that it violates existing U.S. treaty commitments, particularly the 1929 Inter-American Convention for Trademark Protection. In fact, both the Paris Convention and the Inter-American treaty give signatory states a great deal of discretion to refuse to recognize trademarks when they find those trademarks either contrary to morality or public order or unfair competition. And I think the United States is very much within its rights to make that finding here as it has in Section 211.

Opponents of Section 211 also argue that it exposes large U.S. multinational companies—I think you will hear that later—such as those represented by my colleague here from the Chamber of Commerce, to potential retaliation by the communist government of Cuba, and that it will disadvantage them in a method similar to the embargo of South Africa during the apartheid period. Well, Mr. Chairman, I think if there was ever a reasonable request of U.S. corporate citizens to forego for a short period of time the freedom to exploit a foreign market it was apartheid South Africa.

However, the situation in apartheid South Africa was quite different from that of Cuba. While Cuba admirably does not condone state-sponsored racism, it is not a market economy. In apartheid South Africa loss of a trademark might have been given an opening to a competitor that wasn't encumbered by the embargo, but that competitor would not have enjoyed the monopoly right to substitute its products for those of the embargoed trademark owner.

In contrast, trademark law is almost meaningless in Cuba since no one can sell anything, whether identified by a particular trademark or not, without the permission of the Cuban state. And this permission is often granted by a monopoly concession. Indeed that is the case here. The Cuban state has given a monopoly concession for international distribution to one company, Pernod Ricard, which because of its joint venture virtually has a lock on the international market for the sale of rum labeled as Havana Club by Cuba.

Opponents of Section 211 argue that it would create zombie Cuban trademarks that would haunt the use of these trademarks in the future. Mr. Chairman, I think that is just not correct. That is based on a reading of a Second Circuit Court of Appeals opinion, which, by the way, affirmed the dismissal of a trademark suit against Bacardi and its use of Havana Club.

Opponents of Section 211 argue that it only benefits one company. Well, Mr. Chairman, I think that in fact the current situation in Cuba, the monopoly concession granted to one company, benefits one company, and that is largely what this issue is all about here today and why U.S. policy under Section 211 needs to be maintained.

Finally, opponents of Section 211 argue that it abrogates U.S. leadership in intellectual property matters. I think the exact opposite is the case. The very essence of U.S. intellectual property policy under Administrations of both parties has been that the use of intellectual property rights without permission of the rights-holder is contrary to the national interest.

Any act of Congress that would repeal legislation based on this principle would send a very strong message to the world that U.S. opposition to confiscation of patents, trademarks, and copyrights is country-specific. We would be broadcasting to the world the message made clear in statements to this Committee today that if you interfere with the nationalization of companies and the confiscation of their trademarks the U.S. can be held hostage by the threat that others will meet the same fate if a single agrieved party complains.

Thank you, Mr. Chairman, and I am happy to answer any questions about this complicated matter if you wish.

[The prepared statement of Mr. Lehman follows:]

PREPARED STATEMENT OF BRUCE A. LEHMAN

STATEMENT OF BRUCE A. LEHMAN
FORMER ASSISTANT SECRETARY OF COMMERCE
AND COMMISSIONER OF PATENTS AND TRADEMARKS[1]

Committee on the Judiciary
United States House of Representatives
March 3, 2010

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.

[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.

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Mr. CONYERS. Thank you very much, Mr. Lehman.

Our next witness is Dr. Mark Esper, executive vice president of Global Intellectual Property Center at the Chamber of Commerce. Before joining the Chamber Mr. Esper was on Capitol Hill working for the Senate majority leader then, Bill Frist, and as Committee staff.

Welcome back to your old digs.

TESTIMONY OF MARK T. ESPER, EXECUTIVE VICE PRESIDENT, GLOBAL INTELLECTUAL PROPERTY CENTER, U.S. CHAMBER OF COMMERCE

Mr. ESPER. Thank you, Mr. Chairman. I also worked in the House too, so it was a very, very good time. But thank you, and I want to thank the Members of the Committee.

I appreciate the opportunity to testify today on behalf of the U.S. Chamber of Commerce's Global Intellectual Property Center. The GIPC, as we call it, and its members believe that strong intellectual property rights are essential to driving the innovation and creativity necessary to create jobs, save lives, advance economic growth, and generate breakthrough solutions.

There is little question that America has led the international community in developing the laws and norms that have defined the global system of I.P. rights as well as today's rules-based global trading system, which includes the World Trade Organization. This system has benefited us greatly in many ways. In order to live up to our treaty obligations, honor our history of leadership when it comes to defending I.P. rights and the rule of law, and to protect American trademark-holders, the Global I.P. Center recommends full repeal of Section 211.

The United States is party to many multilateral and bilateral trade agreements that require our laws to meet certain standards with respect to the treatment of I.P. rights, regardless of whether they are owned by United States citizens or foreign nationals. The Global I.P. Center works hard every day to protect these rights because we believe it is in America's best interests to do so.

Unfortunately, Section 211 has put the United States in violation of its international treaty obligations. The WTO has ruled that Section 211 violates two basic principles of the Trade Related Aspects of Intellectual Property Agreement: national treatment and most-favored nation status. The WTO has also noted that Section 211 invites arbitrary treatment of U.S. trademarks overseas.

Section 211 also puts the United States in breach of its obligations under the General Inter-American Convention for Trademark and Commercial Protection, a reciprocal I.P. agreement signed in 1929 that governs trademark protection between the United States and Cuba to this day and which gives Cuba the legal opportunity to withdraw the protections it currently provides U.S. trademarks. The Cuban government has threatened in the past to retaliate against American companies with interests in Cuba, jeopardizing trademark protection for over 5,000 U.S. marks currently registered in Cuba by more than 400 American companies.

Few realize that the United States is the largest supplier of food and agricultural products to the Cuban people, with American companies exporting approximately $500 million in food and agricultural goods each year. For U.S. companies exporting branded foods to the Cuban people, a threat by the Cuban government to retaliate over this issue remains a concern. Any retaliation would, of course, endanger their trademarks as well as the status of other U.S. brand-owners' marks currently registered in Cuba.

Some have proposed amending Section 211 to achieve only WTO compliance by applying it to both U.S. national and foreign trademark-holders. However, this is an incomplete solution as it does not solve our noncompliance with the Inter-American Convention because Section 211 denies trademark registration and renewal on grounds other than those permitted under this treaty.

Finally, it is important to note that by calling for full repeal of Section 211 the Global I.P. Center is in no way taking a position on the case between the two private parties engaged in the Havana Club trademark dispute, nor are we questioning the United States foreign policy with regard to Cuba, and we certainly are not condoning the actions taken by Fidel Castro to confiscate the property of Americans and others.

Rather, we are recommending, Mr. Chairman, that the United States abide by its international obligations and follow the rule of law. Repealing Section 211 and allowing U.S. courts to decide the merits of the Havana Club case will do this.

In conclusion, the Chamber's Global I.P. Center recommends the Committee advance legislation to repeal fully Section 211. Doing so will ensure the United States complies with its various treaty obligations and will protect the trademarks and interests of hundreds of U.S. companies.

Full repeal of Section 211 will also help preserve the global I.P. system—the global system of I.P. rights, laws, and norms, and America's standing in it, for which we have long been both a strong proponent and a major benefactor.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Esper follows:]

PREPARED STATEMENT OF MARK T. ESPER

Testimony of Dr. Mark T. Esper
Executive Vice President
Global Intellectual Property Center
U.S. Chamber of Commerce

Chairman Conyers, Ranking Member Smith, and Members of the Committee:

I appreciate the opportunity to testify today on behalf of the U.S. Chamber of Commerce's Global Intellectual Property Center (GIPC). The GIPC and its members believe that strong intellectual property (IP) rights are essential to driving the innovation and creativity necessary to create jobs, save lives, advance economic growth and development around the world, and generate breakthrough solutions to global challenges.

Experts and officials in the United States from all political persuasions agree that IP rights both incentivize and protect the inventors, artists, researchers, entrepreneurs and others who deliver new products and services, create jobs in their communities, and help advance society. They also recognize that America has led the international community in developing the laws and norms that have defined the global system of IP rights, as well as today's rules-based global trading system, which includes the World Trade Organization.

In order to live up to our treaty obligations, and indeed honor our reputation and history of leadership when it comes to defending intellectual property rights and the rule of law, the GIPC strongly recommends full repeal of Section 211 of the FY 1999 Omnibus Appropriations Act.

Background

The laws that safeguard intellectual property—those "creations of the mind" that are protected by copyrights, patents, and trademarks—both drive and protect the innovation and creativity that have marked American ingenuity, and indeed our nation's global competitiveness, for generations.

In today's global economy, trademarks—such as the Nike "swoosh," the "golden arches" of McDonalds, or the "jolly green giant" of the Green Giant food company—provide an important means for companies of all sizes to distinguish their products in the international marketplace. Trademarks also help to inform consumer choices about the goods and services they buy based on the qualities and reputations associated with certain brands. Reputations that have been earned through diligence, excellence and a commitment to quality.

The United States is party to many multilateral and bilateral trade agreements that require our laws to meet certain standards with respect to the treatment of IP rights, including trademark rights, regardless of whether they are owned by United States citizens or foreign nationals. The Global IP Center works every day to protect these rights, whether it is bolstering our laws and enforcement efforts to stop counterfeiters who use stolen trademarks to sell their fakes, or working with our trading partners to defend rights holders in international fora such as the World Intellectual Property Organization.

Unfortunately, Section 211 of the FY 1999 Omnibus Appropriations Act has put the United States in violation of its international treaty obligations and needlessly endangers the intellectual property rights of American companies. Further, it undermines the United States' credibility when we argue in defense of IP laws in U.N. organizations and when dealing with other governments. Not surprisingly, this is what can happen when legislative provisions are passed without debate, hearings, or consideration by the appropriate House and Senate committees of jurisdiction.

International Obligations

The World Trade Organization (WTO) has ruled that Section 211 violates two basic principles of the Trade Related Aspects of Intellectual Property (TRIPS) agreement, the international agreement between WTO members that governs intellectual property: national treatment and most-favored nation status.

The WTO's ruling is based on the fact that Section 211 only prohibits Cuban owners of Cuban-origin trademarks and their successors-in-interest to assert rights to such marks in the U.S. and not U.S. nationals or nationals of other countries. The WTO gave the Congress until January 3, 2003 to provide a remedy that would make Section 211 compliant with TRIPs.

Both the Bush and Obama administrations have acknowledged that this is a matter that must be addressed and committed to working with the United States Congress with respect to appropriate statutory measures that would resolve this matter. Moreover, we understand the United States has appeared before the WTO more than twenty times assuring the body that it would honor its obligations and get into compliance.

While the WTO and U.S. trading partners have repeatedly pressed the Administration to work with Congress to provide a remedy that would make Section 211 compliant with TRIPS, the U.S. has yet to comply. As the WTO has noted, Section 211 invites arbitrary treatment of U.S. trademarks overseas. It also provides a model for other countries that wish to make it more difficult for U.S. intellectual property holders to protect and enforce their rights abroad.

Still, seven years later, the world's foremost proponent of a rules-based international trading system managed by the WTO—the United States—has not fixed this problem.

Section 211 also puts the United States in breach of its obligations under the General Inter-American Convention for Trademark and Commercial Protection, a reciprocal intellectual property agreement signed in 1929 that governs trademark protection between the United States and Cuba to this day, and which gives Cuba the legal opportunity to withdraw the protections it currently provides U.S. trademarks. The Cuban government has threatened in the past to retaliate against American companies with interests in Cuba, jeopardizing trademark protection for over 5,000 U.S. trademarks currently registered in Cuba by more than 400 American companies.

Few realize that the United States is the largest supplier of food and agricultural products to the Cuban people, with American companies exporting approximately $500 million in food and agricultural goods each year. For U.S. companies exporting branded foods to the Cuban people, a threat by the Cuban government to retaliate over this issue remains a concern. Any retaliation would, of course, endanger their trademarks as well as the status of other U.S. brand owners' marks currently registered in Cuba.

Lastly, it is fair to add that Section 211 is an invitation to other countries to adopt similar provisions that discriminate against U.S. trademarks on political grounds, thereby endangering U.S. trademarks globally and undermining our status as an international champion of intellectual property protection.

Recommended Action

Only complete repeal of Section 211 will provide full compliance with all current United States trade obligations, ensure no retaliation or penalties against the United States or American companies, and safeguard our nation's reputation as a strong defender of the global system of IP rights, laws, and norms.

Some have proposed amending Section 211 to achieve only WTO compliance by applying it to both U.S. nationals and foreign trademark holders. However, this is an incomplete solution as it does not solve our noncompliance with the Inter-American Convention—which I mentioned earlier—because Section 211 denies trademark registration and renewal on grounds other than those permitted under this treaty.

Finally, it is important to note that by calling for full repeal of Section 211, the Global IP Center is in no way taking a position on the case between the two private parties engaged in the "Havana Club" trademark dispute, nor are we questioning the United States foreign policy with regard to Cuba, and we certainly are not condoning the actions taken by Fidel Castro in the 1960s to confiscate Americans' property. Just the opposite.

Rather, we are recommending that the United States abide by its international obligations, that we follow the rule of law, and that we continue to defend the rights, principles, and institutions that generations of Americans worked so hard to build. Repealing Section 211 and allowing U.S. courts to decide the merits of the "Havana Club" case free of outside intervention will do this.

Conclusion

In conclusion, the Chamber's Global Intellectual Property Center urges the Committee to advance legislation to fully repeal Section 211 this year. Doing so will ensure the United States complies with its various treaty obligations and will protect the trademarks and interests of hundreds of U.S. companies that are otherwise at risk. Repeal of Section 211 will also help preserve the global system of IP rights, laws and norms—and America's standing in it—for which we have long been both a strong proponent and a major benefactor. Thank you.

Mr. CONYERS. Thank you very much, Dr. Esper.

The Committee will stand in recess briefly because Jack Murtha is being memorialized here on the Hill. And so we will resume very shortly afterward. Committee stands in recess.

[Recess.]

Mr. CONYERS. Committee will come to order. Thank you, gentlemen, for your forbearance.

We are now pleased to recognize Bill Reinsch, president of the National Foreign Trade Council, representing some 400 companies on focuses—and focuses on trade policy issues, a member of the U.S.-China Economic and Security Review Commission.

We have your testimony. You may proceed, sir.

TESTIMONY OF WILLIAM A. REINSCH, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

Mr. REINSCH. Thank you, Mr. Chairman. Pleasure to be here.

I am testifying today in support of repealing Section 211 and against proposals such as H.R. 1103, which purports to address this problem in a different way, but in our view 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 as well as WTO 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 for intellectual property protection, including our commitment not to assign trademarks based on political criteria. It would also reaffirm that trademarks decisions properly are the responsibility of the Patent and Trademark Office and the courts.

Section 211 was enacted solely to help one of the litigants in a particular dispute before the U.S. courts by preempting the courts' 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, many of them my members. Despite the nearly 50-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.

Section 211 violates that convention because it denies registration and renewal of trademarks on grounds other than those permitted by Article 3. 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 Articles 8 and Article—Articles 8 and 9.

By prohibiting U.S. courts from recognizing certain trade name rights Section 211 violates Article 18. 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. Because Section 211 specifically denies U.S. courts the authority to enforce the treaty rights otherwise available to a party it obviates Article 32, which provides for national courts to resolve questions of interpretation.

Let me just say also, if one accepts the interpretation of the public order clause articulated by Mr. Lehman, and I suspect also by

Mr. Veroneau in a few minutes, you create an exception that is so large that it swallows the treaty and would permit governments to do virtually anything they wanted. We don't believe that clause is an adequate defense, in this case.

Section 211, because of these violations—particularly because of the last one I mentioned—compels any dispute against the United States alleging violation of the terms of the Convention to be resolved through customary international law. Customary international law permits a party specifically affected by the breach to invoke it as a ground for suspending the operation of the agreement in whole or in part. If suspension of the operation of the convention were to occur it would result in substantial uncertainty regarding the legal status in Cuba of the trademarks and trade names of U.S. companies.

Castro and his foreign relations officials have, on several occasions, threatened to withdraw the protections afforded by the Inter-American Convention. Withdrawing those 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 he would do that 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. And the issue with South Africa is not what happened while companies were barred there but what happened afterwards.

It is an important precedent because it demonstrates the problems that result when trade embargoes inhibit reciprocal trademark recognition. Under the 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 and companies returned with internationally-recognized trademarks, including Burger King, Toys 'R' Us, 7-Eleven, and Victoria's Secret, they discovered that their trademarks in South Africa had been appropriated by unauthorized persons during the apartheid era. Recovering the rights of their trademarks necessitated a lengthy and expensive litigation and attempts to encourage the South African government to amend its laws.

Repealing 211 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 compared to repeal, the main one being that it would not address any of the inconsistencies of Section 211 with the Inter-American Convention.

It would also lead to increased litigation and legal uncertainty at home, which I detail in—at some length in my written statement, Mr. Chairman, including the discussion of the zombies that Mr. Lehman referred to.

Finally, Mr. Chairman, Section 211 and H.R. 1103 benefit only a single a 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 to cross-purposes with longstanding principles of intellectual property protection and trade policy objectives of the U.S. government and the business community.

Repeal is the only action that will provide full compliance with all current U.S. trade obligations and deny other governments any rationale for retaliation. In addition, it is important to point out, as Mr. Orr did, repeal would not take sides in the underlying dispute over the Havana Club trademark and it would not settle that question. Rather, it would return that question to the Patent and Trademark Office and to the courts where it belongs.

Thank you.

[The prepared statement of Mr. Reinsch follows:]

PREPARED STATEMENT OF WILLIAM A. REINSCH

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[1] 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

[1] 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.[2] Less than ten years ago, U.S. federal courts reiterated the enduring vitality of the Inter-American Convention, and treated it and the

[2] 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.[3]

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."[4] 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.

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[3] *Empresa Cubana del Tabaco v. Culbro Corp.*, 213 F. Supp. 2d 247, 279 (S.D.N.Y. 2002).

[4] 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."[5] 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 internationally-recognized 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

[5] 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.[6] 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.

[6] 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.

Mr. CONYERS. Thank you, Bill Reinsch.

And now, John Veroneau, Covington and Burling, United States trade rep deputy and general counsel, we welcome your testimony here this afternoon.

TESTIMONY OF JOHN K. VERONEAU, PARTNER, COVINGTON & BURLING, LLP

Mr. VERONEAU. Thank you, Mr. Chairman, Mr. Goodlatte, and Mr. Coble.

I think there are three issues here that continue to get pushed together and make this issue more complicated than it really is. The first issue I would submit is there is a food fight between some litigants and there are many court cases ongoing that will continue, and the issues there will be sorted out in the courts.

The second issue is the substantive merits of Section 211, and the substantive merits of 211 I have not heard challenged. And the substance of 211 is that it codifies a court rule that has been in place since the Supreme Court ruled in 1911, and that rule is quite straightforward. It says we cannot stop foreign governments from confiscating property, but we in the United States have the right not to recognize that confiscation of U.S. property in the U.S. So 211 simply codifies, as Congress often does, court law in this area.

The real issue, it seems to me, is the prerogatives of the Congress. When I met, Mr. Chairman, you and Mr. Goodlatte in the past in my capacity as general counsel and deputy USTR your message to me was often, "In the WTO negotiations, in the DOHA negotiations don't fence me in. Don't limit the prerogatives of Congress to legislate."

That really is the issue that is at play here today. The question before the WTO several years ago was whether the WTO prohibits the Congress from legislating as it did in Section 211. The WTO answered that question. It did not say that Congress cannot legislate in the way that it did with 211. It did say that 211 didn't go far enough. It didn't apply broadly to all nationals.

And in that sense, the WTO, while it rejected 13 out of the 14 claims that were made, it did find that national treatment and most-favored nation requirements were not met. Those can be met quite simply by amending Section 211 by making it applicable to all nationals.

As general counsel I was asked by Senator Leahy in 2004 whether, from our perspective at USTR, repeal of 211 was necessary to comply with that ruling, and I answered in a letter that it did not require repeal, that it could be amended and preserved. I stand by that testimony. I obviously no longer speak for the government, but I have heard no compelling arguments that that legal opinion has changed, and to my knowledge the USTR has not changed its position on that matter.

Typically when the WTO rules against the U.S. we try to preserve the U.S. law to every extent as possible. This Committee is familiar with Section 337, which allows the U.S. to block imports that infringe U.S. patents; 337 was challenged in the WTO.

The response of the Congress and the Administration at the time was not to repeal Section 337 but rather to make changes that were necessary to comply, but to go no further. My message on the

WTO matter is simple: There is a clear path to compliance, and we should adopt it.

The second argument that has emerged has been that Congress' ability to legislate in this space is restricted by the Inter-America Convention. I submit that that cannot be true.

If the WTO agreements ever purported to restrain Congress' ability to establish ownership rules of trademark, I am certain that any USTR would be thrown out of the room for even suggesting it. The Inter-America Convention, which has been in play since 1929, simply has a mutual recognition of registration. Registration is not the same as ownership, and there is a public exception to the Convention.

Congress, in 1998, chose to codify a rule that has been in place since 1911. That rule seems sensible, namely that we should not give effect in the U.S. to foreign confiscation. It would be remarkable, I think, for any tribunal to find that that is not a legitimate public interest of the United States. It is an interest that is shared by many other countries.

So in conclusion, Mr. Chairman, I would say that there is no international treaty or trade obligation that restricts the ability of the Congress to codify this longstanding practice in the way that Congress did in 1998.

Thank you.

[The prepared statement of Mr. Veroneau follows:]

PREPARED STATEMENT OF JOHN K. VERONEAU

STATEMENT OF JOHN K VERONEAU

Committee on the Judiciary
United States House of Representatives
March 3, 2010

Thank you, Mr. Chairman. I am pleased to testify before this committee today.

My name is John Veroneau. I am a partner in the Washington office of the law firm of Covington & Burling. I specialize in international trade and investment law.

From March 2003 to February 2005, I served as General Counsel in the Office of the United States Trade Representative. As General Counsel, I was responsible for advising on U.S. obligations under the World Trade Organization (WTO) and other trade agreements to which the United States is a party.

From October 2006 to January 2009, I served as Deputy U.S. Trade Representative. My responsibilities in that position included broad oversight of U.S. policy with regard to the WTO.

During my tenure as USTR General Counsel, I was involved in responding to the WTO Appellate Body findings that certain aspects of Section 211 of the U.S. Omnibus Appropriations Act of 1998 are inconsistent with U.S. obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights, commonly knows as the TRIPS Agreement.

As you know, Section 211 was designed to reflect – in statute - limits that U.S. courts have placed historically on extra-territorial enforcement of expropriations by foreign governments.

In 2000, the European Commission (EC) initiated a WTO dispute, arguing that Section 211 was inconsistent with a wide range of U.S. obligations under the TRIPS agreement. The panel that was established to hear this dispute rejected nearly every claim made by the EC. The panel did find, however, that Section 211 violated the principle of "national treatment" insofar as it could cause Cubans to be treated less favorably than U.S. nationals.

The WTO Appellate Body upheld the panel's "national treatment" findings. The Appellate Body also found Section 211 to be inconsistent with U.S. "most favored nation" (MFN) obligations under the TRIPS agreement, insofar as Cuba could be treated less favorably than other WTO members.

Complying with the WTO findings with regard to Section 211 would require Congressional action since the national treatment and MFN problems cannot be fixed through administrative action alone. Various bills have been introduced in recent years to amend or repeal Section 211 but, as you know, none has been acted upon.

In 2004, while serving as USTR General Counsel, the Senate Judiciary Committee sought my opinion with regard to the steps necessary to comply with the 2002 WTO findings regarding Section 211. In a letter to Senator Patrick Leahy, dated July 13, 2004, I stated that meeting our WTO obligations would not require repealing Section 211, but rather that "legislation to clarify that Section 211 applies to all nationals, without discrimination, would address the WTO findings."

Of course, I no longer speak for the U.S. Government. But, as a practitioner, I continue to believe that the United States can readily meet its WTO obligations through simple amendment to Section 211 and that WTO compliance does not require repealing Section 211.

The 2002 WTO ruling exhaustively rejected more than a dozen claims made by the EC in relation to Section 211. The only deficiencies ultimately found to exist with regard to Section 211 can be easily addressed. The United States could comply with the WTO ruling simply by clarifying that the provisions apply equally to U.S. nationals and other WTO members. This can be achieved by simple amendments to Section 211, such as those proposed by H.R. 1103, originally introduced by Congressman Wexler. As a policy matter, it would seem reasonable for Congress to clarify that confiscated trademarks should not be recognized, regardless of the nationality of the party claiming rights based on confiscation.

Subsequent to the WTO proceedings, it has been suggested that Section 211 runs afoul of U.S. obligations under the General Inter-American Convention on Trademarks and Commercial Protection. There is no basis to reach this conclusion.

The Convention, established in 1929, generally requires a State Party to register and protect trademarks from another country *unless doing so would be "contrary to public order."* The international concept of "public order" is equivalent to the U.S. concept of "public policy."

United States courts have consistently refused to give effect in the United States to foreign confiscations of trademarks or other assets. Courts have adopted this view on the ground that doing so would be contrary to established U.S. public policy.

In adopting Section 211, Congress embraced this same public policy. It seems unassailable that a country might view non-recognition of confiscated trademarks as an appropriate expression of public policy. As such, there is no basis to conclude that Section 211 is inconsistent with U.S. obligations under the Inter-American Convention.

The United States should take all necessary and appropriate steps to meet its international trade obligations. Failure to comply with WTO obligations undermines our moral authority to insist that others meet their obligations. With minimal changes, Section 211 could be made to comply fully with our WTO obligations.

In closing, I would like to be clear that my testimony today reflects my own judgment and legal opinion. The views I express today regarding the WTO were formed in 2004 while serving as USTR General Counsel. The views I express today regarding the Inter-American Convention reflect research I have done in preparation for this hearing. I would like the committee to know, however, that the Bacardi company is a long-standing client of my firm on a wide range of matters, including intellectual property. I am a registered advisor on U.S.-Cuba trade policy but do not participate in the company's Congressional outreach regarding Section 211.

I appreciate the opportunity to testify before the committee and would be pleased to answer any questions.

Mr. CONYERS. Thank you very much, all of you.

Dr. Esper, you are the only one on this panel that isn't a lawyer. You don't feel isolated or uncomfortable at all up here this afternoon, do you?

Mr. ESPER. Well, I guess that is true. I am not a lawyer. I think this matter is one that comes down to the jurisprudence of the courts, which is why at the end of the day the position we have taken is that, in order to comply with our international trade and treaty obligations and to resolve this in a way that doesn't affect American businesses, the prudent way to go is to allow the courts to decide this; to weigh all the facts, all the arguments. You have heard several of those points of contention here amongst the witnesses at the table—but leave it to the courts and let the courts decide, consistent with precedent, with the law, with our treaty obligations, as has been done in the past.

Mr. CONYERS. What have you heard here today with all your friendly legal fellow panelists that you would like to leave on the record or would like to tactfully correct or amend?

Mr. ESPER. Well, I think we need to take a look at the big picture here, and the big picture is: what is the future of America's credibility within the World Trade Organization and with the I.P. laws that undergird it and how do we want to approach intellectual property rights? How do we want to be treated—and our companies treated—vis-a-vis other nations and how they regard it?

And again, I think there are some key facts in dispute. I know it was just mentioned that the Supreme Court made a decision with regard to confiscation of American property. My reading of the case here is that there was not a confiscation of property, but that the trademark was abandoned and it was legally reregistered by someone else; and secondly, that it was not American property, it was the property of foreign nationals.

So to me those are two key parts—two key elements in dispute by all sides here that again, we should leave it to the courts to decide. Was the trademark owned or was it abandoned? What is the legal status of different parties involved? And let the courts decide it.

Mr. CONYERS. You sound as much like a lawyer as anybody else here this afternoon. I can't help but worry about what is going to happen to any reciprocity to our brands. If we start doing this I don't know how we are going to tell everybody else that they have got to adhere to the WTO except in our case this is special, we are going to legislate. We don't want to wait for the courts.

Mr. ESPER. Right, Mr. Chairman. That is the concern of our members who have trademarks not only in Cuba but other countries around the world.

The Chamber is constantly involved in debate and negotiations as an outside party in negotiations all around the world where we are trying to uphold I.P. laws and norms and defend them. Needless to say, our I.P.—our intellectual property—our rights are constantly under challenge from countries, governments, from activists involved in this issue.

And so it is very important to us, as the Global I.P. Center, to constantly fight for strong I.P. laws, to defend them, and to make sure that we preserve those protections for America's innovators, for our creators, for all those people out there—our workers—who are creating this ingenuity, these innovations that are really driving our economic growth. And this is just—this Section 211 is just another example of something that chips away at our ability to credibly make those arguments in multilateral FORA.

Mr. CONYERS. Well now, Mark Orr, Bob Goodlatte and Howard Coble are with the Chamber of Commerce. What is going on here this afternoon? Here more of my colleagues on this side of the aisle are with the Chamber. This afternoon I don't know if that is the case or not. And of course, Bob will have the mike in a minute. How do you account for that?

Mr. ORR. Well, that is a very difficult question for me to respond, Mr. Chairman. I do know, however, that both Mr. Goodlatte and Mr. Coble have a strong respect for the judiciary system and a long admiration for the ability of the courts to resolve conflicts, issues involving intellectual property. So frankly, it is somewhat puzzling to me but I am sure that they will illuminate——

Mr. GOODLATTE. Don't let the Chairman put words in my mouth or yours.

Mr. ORR. Over to you, sir. Perhaps you could enlighten me.

Mr. CONYERS. Well, you are very diplomatic this afternoon, Mr. Orr. I will say that.

Mr. Reinsch, what have you heard here this morning and afternoon that you would like to correct, you would like to diplomatically take an exception to?

Mr. REINSCH. A couple things, Mr. Chairman—thank you for the question. I may have misheard, but I thought I heard Mr. Veroneau say that there is an underlying issue between the two companies here, which of course is correct, but that that was an issue that would eventually be settled in the courts. And of course, I think the point of our side is that it can't be settled in the courts because Section 211 precludes the courts from addressing the issue on the merits.

We would like to get back there to do precisely what I think he has recommended, which is to let the court settle it. The only way to get back there to allow the courts to address the issue on the merits is repeal.

The other comment I would make is to pick up something that Dr. Esper said. I was distressed to hear Ms. Wasserman Schultz mention that Mr. Arechabala had passed away; I didn't know that. I testified with him on this same subject 6 years ago and had the opportunity to meet him. We didn't agree, but it was a real pleasure for me to meet him.

I did sit right next to him in the hearing and listen to him testify that they had abandoned the trademark, that he said they got bad legal advice, which, you know, is an issue that he, I assume, took up with his lawyer at the appropriate time, but there wasn't any question in the Senate hearing what had happened, what the fact surrounding the abandonment of the trademark by the Arechabala family and the subsequent assignment of the trademark to Cuba Export was. At the end of the day that will be settled by the courts but I think it is appropriate to get that on the record.

Beyond that, Mr. Chairman, I——

Mr. GOODLATTE. Objection, your honor. That is hearsay. [Laughter.]

Mr. REINSCH. I think Dr. Esper made the larger point about the U.S. role in the world, as did you, better than I could, and I will stop at this point.

Mr. CONYERS. Bob Goodlatte, the floor is yours.

Mr. GOODLATTE. Well, thank you, Mr. Chairman. This has been very interesting and I think it is a quandary for the courts but I also think it is a quandary for us. There are certainly extra legal measures that have been taken in looking at the whole history of what happened here when this was taken at gunpoint from the Arechabala family.

You know, I guess, Mr. Orr, I would like to hear from you how we make that family whole from the standpoint of the fact that yes, we can talk about what happened here in the United States with that trademark, but it is very clear to me that if the whole incident had not taken place in Cuba that that family would have renewed their valuable U.S. trademark and we wouldn't be here discussing it today.

And the other concern I have about it, I think, relates to the fact that it was indeed the Cuban government that was allowed, notwithstanding the fact that they had seized this and had been the subject of an embargo in the United States because of exceptions in the law, been able to go ahead and grab that trademark in the United States under circumstances that I think most people looking at it objectively would say, "Well, that is the last thing in the world we would have thought was a fair thing to have resulted for them."

And I know Pernod Ricard came in to this whole situation after that, and you are relying upon certain decisions made in our courts, but I would like to ask all of the witnesses, are there people other than the Arechabalas that Section 211 could help who were either forced to abandon their marks or who were jailed by the Cuban government, thus effectively forcing them to abandon their rights to their trademarks?

Mr. ORR. Mr. Goodlatte, if I might comment on your—of several—there is no doubt that the Arechabala family was not treated appropriately in Cuba. And yes, it is true—I don't know if there were guns involved at the time. That seems to be, you know, lore that has become fact, but it makes for—what happened was not——

Mr. GOODLATTE. Either way, you would agree that the Cuban government should not have seized——

Mr. ORR. Absolutely.

Mr. GOODLATTE [continuing]. Their business.

Mr. ORR. Absolutely. Governments have the right to nationalize properties but they also have the obligation to provide compensation to the owners of those properties. That did not take place in this case.

But there is quite a different thing here, and that is that the Arechabala family did maintain their trademark rights in the United States for another 13 years thereafter, and they easily could have continued to do that by simply filing a certificate of excusable nonuse, citing the embargo, and continued on to this very day to maintain those trademark rights here in the United States irrespective of the loss of their properties in Cuba. For whatever reason they didn't do that.

In essence what is being asked here is to restore those rights that they, by their own actions took, to allow expire at some point far down the road, and in this particular instance award them to a very large competitor of ours who, quite frankly, can do just fine without having those rights. What have we accomplished here——

Mr. GOODLATTE. Let me interrupt you, and I want to give Mr. Lehman a chance. Do you know of any other entities of Cuban origin that would benefit from Section 211 or have benefited from Section 211 other than——

Mr. ORR. No, sir, not to our knowledge the——

Mr. GOODLATTE. Then let me turn to Mr. Lehman and say this: First of all, do you know of any other entities that benefit from Section 211? And secondly, if not, then Section 211 seems to be almost in the form a private bill, even though I am sure it doesn't directly recognize the Arechabala family.

But ordinarily when you have a private bill one of the things that this Committee looks at very closely is whether it was an action beyond the control of the individual receiving the benefit of it or is it, as Mr. Orr says, something that that family could have protected themselves against, even though obviously their circumstances were extremely adverse at the time, that they did not renew that. How would you respond to him, and do you know of anybody else who benefits from this?

Mr. LEHMAN. You are asking me, Mr. Goodlatte?

Mr. GOODLATTE. Right.

Mr. LEHMAN. First of all, I would state that this Section 211 does apply to others, and——

Mr. GOODLATTE. Do you know of any others that it——

Mr. LEHMAN. There have been other situations, I believe, where it has applied, and, you know, I have got a stack like this, and I will get that to you.

Mr. GOODLATTE. If you would submit that, because it would be——

Mr. LEHMAN. But I think what is more important than that, and you mentioned this is like a private bill. It is not even remotely like a private bill.

Mr. GOODLATTE. It has been shown by counsel that the Trinidad U.S.A. Corporation that produces cigars and Jimmy Buffet, whose registered mark "Havanas and Bananas" was challenged by Havana Club Holdings as a dilution of the Havana Club mark, so there are others who have utilized Section 211.

Mr. LEHMAN. That is what my colleagues here have just given me, and some of those—and those are situations and there are probably some others. And those can be documented and we will put them in the record.

But I think I want to—my point was, that I wanted to make, when you said this is like a private bill, this isn't remotely like a private bill. First of all, as you have just acknowledged, other people were affected and there have been——

Mr. GOODLATTE. That takes——

Mr. LEHMAN [continuing]. But this is precisely the kind of situation, in my view, that calls for congressional policy, because the policy is the relationship between confiscation by force of arms and recognition of trademarks. That is not a private bill; that is an overall policy——

Mr. GOODLATTE. I understand, I understand. But what do you say to Mr. Orr's contention that it is not about the confiscation, it is about the decision made in 1993—whatever that date was—to not seek to renew the trademark?

Mr. LEHMAN. Well, first of all, Mr. Orr's company doesn't own the trademark, doesn't own the registration to the extent that there is a valid registration—and my testimony goes into that—to the Havana Club mark. In fact, they tried to assert that ownership right and were found not to have it because the transfer to their joint venture with the Cuban government was held by U.S. district court to violate an order of the Office of Foreign Assets Control of the Treasury Department.

And by the way—for all this talk of litigation there has been one infringement lawsuit brought and one decision that has been made, that was appealed to the second circuit, cert denied at the Supreme Court, and that was the lawsuit that Mr. Orr's company brought against Bacardi for their use of Havana Club. And they lost.

So, I would have to say I have, myself, little doubt that if this tortured process continues that eventually Pernod Ricard will probably not be found to have valid trademark rights in the Havana Club mark in the United States. But the issue here is that Congress intervened to establish an overall policy, and that is exactly what Section 211 was. Now, maybe——

Mr. GOODLATTE. I know the history of Section 211——

Mr. LEHMAN. Yes.

Mr. GOODLATTE [continuing]. And how it came about. It didn't go through this Committee, and so this is our opportunity to review that.

What recourse would Bacardi have in the U.S. courts if not for Section 211? Does the trademark law provide exceptions in special cases like this or are the rules cut and dry and if you don't renew your mark you lose your mark?

Mr. LEHMAN. Well, first of all, there continues to be ongoing litigation, including ongoing litigation about decisions made in the Patent and Trademark Office. You know, if I can maybe just go back and describe a little bit about how this mark——

Mr. GOODLATTE. I just want an answer.

Mr. Veroneau, would you want to take a shot at that?

Mr. VERONEAU. Yes, Mr. Goodlatte. I think it is important to understand that, as I said in my opening remarks, this principle that Section 211 embodies has been in U.S. law, albeit case law, since 1911. So the notion that this is a new limit on Cuban expropriation is simply not true. There have been 13 cases where Federal courts have invoked this principle of not recognizing, here in the United States, foreign confiscations. Four of those 13 involved Cuban entities.

So what I would submit, Mr. Goodlatte, is that Section 211 simply codifies U.S. law as it has existed since 1911. So in that regard, this isn't special legislation for one company; this is just Congress, in its—within its prerogatives—to codify what has been law for many a time, and there will unavoidably be other individuals who will benefit from this principle, whether it is codified by Congress or simply continued in the courts as it will be.

Mr. GOODLATTE. And you think that Ms. Wasserman Schultz's legislation would correct that as to the one WTO finding that went against Bacardi, or went in favor of Pernod Ricard.

What about the discussion that several have mentioned about the General Inter-American Convention for Trademark and Commercial Protection? Would applying Section 211 restrictions to nationals of all countries solve those problems—the problems with that statute?

Mr. VERONEAU. Well, I don't believe there is an underlying problem and conflict with the Convention in the first place, so I don't think we need to even discuss how to fix a potential problem. The Convention very simply says that there is a mutual obligation to register trademarks, but the Convention does not in any way limit Congress' prerogatives to determine what the ownership standard should be in this country. That is your prerogative.

And I would suggest that if the WTO encroached upon that you would not take a favorable view of that. I assure you the Convention doesn't do that, because if it did the U.S. has been in violation since the Supreme Court decision that was in place when the Convention was signed in 1929.

So in that sense, we are talking about Section 211 but the U.S. law, in terms of our case law, has been in place since 1911, and that is simply a recognition that we don't recognize foreign confiscations.

Mr. GOODLATTE. What do you say in response to Mr. Orr's complaint that this is just about somebody who could have renewed their trademark and simply failed to do so, it is like any other case, leave Cuba aside? Guy is here in the United States; he has got a right to apply for a renewal; he fails to renew and he simply doesn't do it.

That obviously happens many times with just people who hold trademarks in this country. They abandon them for a variety of reasons. Does he have an argument?

Mr. VERONEAU. That is a factual question that the courts have been sorting their way through. Part of the WTO challenge was that Section 211 prevents the defense of abandonment. The WTO agreed with the United States that Section 211, on its face, does not prevent a defense of abandonment.

In this particular litigation that is being discussed today, there was a finding by the Second Circuit that the abandonment defense was not permissible in the facts of that case, but that is not—that is very different than saying that Section 211, as a general principle and on its face, prevents the defense of abandonment. It does not, and the WTO found so.

Mr. LEHMAN. Mr. Goodlatte, I would like to try to answer your question again, and I just wanted to point out that——

Mr. GOODLATTE. It is up to the Chairman. I have exceeded my time. And I know Mr. Reinsch wants to jump in here too, so——

Mr. LEHMAN. There is a difference between registration and trademark ownership, and I would assert that the Arechabala's never abandoned their trademark ownership, that those rights have been transferred to Bacardi. Bacardi, indeed, is using those rights. Bacardi has registered those rights with state trademark offices; it has common law rights. The only issue is what goes on with regard to the registration.

At the moment the registration, facially, belongs to Cuba Export. There is a big question—and that was a question in litigation—as to whether that registration has expired because there is a question whether or not it was renewed basically dishonestly by failing to permission to do so from the Treasury Department. And the Tresury Department denied that permission. The reason it did is because it found that money had changed hands for that registration that had gone to Cuba by Mr. Orr's company in violation of the embargo.

Mr. GOODLATTE. Thank you.

Mr. Reinsch?

Mr. REINSCH. I would like to comment on a couple things that Mr. Veroneau said, if I may. First, the question of abandonment or not is a question of fact, and the courts were sorting that out until Section 211 came along and took away their right to do so. Had Section 211 not been enacted the court would have ruled on that matter in 1999, I guess, or 1998, and we wouldn't be here. So if you want to get back to that point, which we do, I think you have to undertake repeal.

So now, with respect to the Inter-American Convention, its—Mr. Veroneau doesn't think that we are in violation, I think—consideration is what the Cubans think, because they are the ones that have to act. And the Cubans have addressed that issue in writing in a letter to Senator Leahy prior to the last hearing—or I guess it was prior to the last hearing—in which they made clear that they believe the United States is in violation of its obligations under the Inter-American Convention.

There is no dispute resolution mechanism within the Convention. The Cubans are in a position, if they believe that we violated it, to take appropriate action under international law. They have not chosen to do anything so far, but this is exactly what concerns the business community, what they might do, and it is really a matter of their call. The fact that the United States government——

Mr. GOODLATTE. It seems hardly fair, though, that the guy with the gun is going to write the rule that says that we don't agree that this Convention, which has no mechanism for resolving itself, justifies our taking action in our country that could be to the detriment of—it seems like what we have got to do in this Committee is figure out what is fair and right and do that, and then defend that both with the Cubans and internationally.

Mr. REINSCH. Well, with respect to fairness and rightness I also want to make one point about I think your initial question to Mr. Orr. One thing I would urge the Committee to keep in mind is that neither of the remedies on the table, as I understand them, are going to benefit the Arechabala family and the victims of the original injustice. To the extent that the Arechabala family had any rights they have given—they have sold those rights to Bacardi.

So the outcome of this issue is going to benefit one or the other of two large companies. The Arechabalas are out of luck either way.

Mr. GOODLATTE. But one decision could also benefit the perpetrator of the original wrongful act.

Mr. REINSCH. Well, not in—actually, no, because the product is embargoed and can't be sold in the United States.

Mr. GOODLATTE. Well then, the whole fight is moot unless somebody thinks at some point in time that embargo is going to get lifted——

Mr. REINSCH. Well, exactly. But if you will refer back to Helms Burton and the operative U.S. law in that question, that is not going to happen until Castro is not there anymore and there has been a change of government. So the perpetrators of the crime, if you will, unless Congress changes—you know, repeals Helms Burton, which is your matter not mine—but under that law, you know, the embargo is not going to go away until he and his regime are gone, at which point it will be a different government and presumably, you know, the circumstances will change, and you will have a different view about this trademark, and you will have a different view about Cuba export.

Mr. GOODLATTE. Point taken.

Thank you, Mr. Chairman.

Mr. VERONEAU. Mr. Chairman, could I respond to the retaliation point, please?

Mr. CONYERS. If Howard Coble consents, yes.

Mr. COBLE. Well, I have got a 1:15 meeting, but go ahead, sir, and then I will——

Mr. VERONEAU. Thank you very much, Mr. Coble. I will be very brief.

First of all, a country—a member who is party to the Inter-American Convention—does not have the right to decide for itself whether there has been a violation. It must be determined by a tribunal, and under the Convention the tribunals that are authorized to reach those conclusions are the tribunals in the country where the alleged violation occurs. So I don't think we could allow a situation where we are permitting Cuba to determine, on its own, whether there is a violation. I don't believe any tribunal could find substance to a claim of violation.

Secondly, if the issue here really is would you, Congress, forgive and forfeit its prerogatives to legislate in this space simply because someone else thinks there might be a violation and do some horrible things. I find that, number one, doubtful—the U.S. and Cuba, despite the embargo, continue to register each other's trademarks. There is great mutual interest despite the intense litigation among the parties involved in this case.

Secondly, I don't think it is appropriate for Congress to relinquish its authority to legislate in a way that it apparently determined was sensible, namely to codify that foreign confiscation shouldn't be honored. You shouldn't relinquish that simply because some other actor might take unlawful steps.

Mr. CONYERS. Thanks for your forbearance, Howard.

Mr. COBLE. Thank you. I was wondering when the gentleman from Virginia was going to exhaust his time, but I am patient. I am a patient guy.

Thank you, Mr. Chairman.

Good to have you all with us.

Mr. Goodlatte, the gentleman from Virginia, referred to this matter as obscure. Mr. Lehman referred to it as complicated. And they are both right—it is obscurely complicated.

And we may get into some repetition here, but let me put a question to Mr. Veroneau and Mr. Lehman: Does it matter if the Arechabala legally abandoned their work given that their business and holdings were expropriated in 1960?

Mr. Veroneau?

Mr. VERONEAU. Whether there was an abandonment is a question of fact, and I would say that the case law on this question is that abandonment is an equitable defense. And at the risk of sounding overly lawyerish, when one wants to raise an equitable defense, one must come with clean hands. It is doubtful that in a U.S. court any defense of abandonment would be successful if brought by anyone where the chain of ownership involves a party who may not have acted with clean hands. And in 1960 it sounds like there is agreement among all panelists that there was inappropriate action by the Cuban government.

Mr. COBLE. Mr. Lehman?

Mr. LEHMAN. Well, first I would say that there is a difference—I would just reemphasize that there is a difference between having a trademark and registering a trademark, unlike patent law. Under patent law you only have a patent if the U.S. Patent and Trademark Office gives you one.

That is not true with trademarks. You have a trademark because you are using the mark and it has come to identify the particular goods or services that you are offering the public. The U.S. Patent and Trademark Office's role is to register that mark.

The Arechabalas originally registered this mark because they were in business, and they were using it, and everyone understood that it described their product. Their business was confiscated, and then the product went for a period of time in the United States where it wasn't used very much in the market.

But the Cuban government chose, under an exception, by the way to the Embargo Act, chose to register that mark with title being in its state monopoly. And there have been a couple of registrations, and some of the litigation that is going on right now is whether or not those registrations were valid because of misrepresentations and fraud in those representations to the Patent Office.

The fact is that whatever happens to the registrations, the Arechabala mark, in my view, is not abandoned, and it is not abandoned because they continued to try to use the mark and their rights were later sold to Bacardi. Now Bacardi has indeed revived the sale of the product in the United States. And so today the company that has the trademark in the United States by virtue of use is Bacardi.

Now, what will happen eventually is if the Patent and Trademark Office decides that there is no effective registration, regardless of whoever is asking for it, Bacardi will be in a position to go to the United States Patent and Trademark Office and register that mark based on their use.

Mr. COBLE. Thank you, Mr. Lehman.

And Mr. Veroneau, I think you responded to Mr. Goodlatte's question regarding exceptions to the law of abandonment. I think you addressed that, did you not? You want to do it again briefly?

Mr. VERONEAU. No, I am comfortable with the answer I provided, Mr. Coble.

Mr. COBLE. Okay.

Mr. VERONEAU. Thank you, though.

Mr. COBLE. Mr. Orr, will the repeal of Section 211 enhance or diminish respect for intellectual property rights, in your opinion?

Mr. ORR. Congressman—excuse me—Congressman, I think it will enhance respect for intellectual property rights in two respects: because it will restore the full authority of the courts to sort out competing claims to intellectual rights—and important intellectual property rights.

And frankly, once again, from the standpoint of the United States it will reestablish our leadership in encouraging others to promote the stronger protection of intellectual property. Right now we are the laughingstock of the WTO membership. In Geneva there isn't a month that goes by in the dispute settlement body in which such paradigms of intellectual property protection like India and China and Brazil draw attention to the fact that we have not complied with our obligations, and we have created, for narrow parochial purposes, an opening to protect the interests of one company over another.

So yes, sir, I think repeal would certainly strengthen protection for intellectual property.

Mr. COBLE. Thank you, Mr. Orr.

Let me finally bring Dr. Esper and Mr. Reinsch on this question: How likely is it—strike that. Different question. What happens, gentlemen, if we don't amend 211 or repeal it, and what will the WTO do, Doctor and Mr. Reinsch?

Mr. REINSCH. In other words, if you do nothing and the status quo continues?

Mr. COBLE. Yes.

Mr. REINSCH. I think in terms of international reaction—Mr. Orr is probably in a better position to talk about what the WTO will do. There has been an informal truce, if you will, for the last several years. At some point the E.U. may run out of patience, and they will be in a position, as with other cases where a country doesn't comply, to retaliate. They will have to make an initial judgment about how much that would be and in what form and then the United States would probably object, and it would be a, you know, a substantial period of arguing about it that would result in some E.U. action against us along with anybody else who wanted to climb aboard the train.

The other piece, of course, is what the Cubans might do, which is, I think, far more significant, potentially, in dollar terms because of the U.S. trademarks that are registered there and the fact that because of TSRA, the Trade Sanctions Reform Act that Congress enacted in 2000 as I recall, there is now beginning on the agriculture side—you know, agricultural branded agricultural commodities are flowing to Cuba in small amounts, so this is actually an issue there.

Nobody knows what they will do. My sense is that they are waiting for Congress to resolve this issue before they will act, and so if you—once you act definitively, I think they will do what they think is best.

Mr. COBLE. Doctor, you want to weigh in?

Mr. ESPER. I would agree. I think the issue with the WTO remains as it was in 2003, that we are still in noncompliance, that at some point there will be pressure to move forward if Congress doesn't act one way or the other. I think with regard to the Inter-American Convention there still remains that uncertainty as to what could or might be done and so there remains uncertainty for our companies who own trademarks and are doing business.

And on the third point, the larger point I think is it continues to erode our ability to credibly make the case on other I.P. cases that come before the World Intellectual Property Organization, the WTO, or other FORA where we are trying to argue that we need to both strengthen and defend I.P. rights.

Mr. COBLE. Well, gentlemen, I respect the private property rights, and I also respect the role of the courts. And I think you can do both without being inconsistent.

And I appreciate you all being here.

Thank you, Mr. Chairman. I yield back.

Mr. CONYERS. The honorable Darrell Issa?

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Orr, has your company ever sold Havana Club in the United States?

Mr. ORR. No, sir. No, sir——

Mr. ISSA. So how can you have a valid mark or even an intent to use? How can you, in fact, file to ever own the mark if you neither had the ability to sell it nor did you sell it?

Mr. ORR. Havana Club is a genuine Cuban product made only in Cuba as——

Mr. ISSA. No, it isn't anything in the U.S. to your company, is it?

Mr. ORR. No, actually it is quite valuable for the future opportunity of being to sell it——

Mr. ISSA. Does the Trademark Office, Mr. Lehman—does the Trademark Office recognize the intent to use someday far away in applications?

Mr. LEHMAN. No, and that is not the basis for whatever registration was made. Cuba Export was permitted to register their mark even though they weren't using it because of the excusable nonuse doctrine, the excuse being that there is an embargo and they can't——

Mr. ISSA. So the Menendez brothers' defense that they were orphans would have been just as valid, wouldn't it?

Mr. LEHMAN. Yes——

Mr. ISSA. You seized an asset that didn't belong to your government; the government now has sold it to a third party with funds received that, in fact, no American company could pay. Whether there is an abandonment or not, the claim by Ricard that they had a right to go after it even though they couldn't use it, but their defense was they couldn't use it even though the abandonment clearly was because whether it was a valid abandonment or not, the abandonment was because another group couldn't actually use it because their assets had been screened.

So I think for the Chairman, I agree: This is incredibly complicated—until you look at it in the same light that you look at the murder of the Menendez brothers' parents, and then suddenly it is not so hard.

Castro stole an asset of another group of people. Your company, Mr. Orr, has purchased a stolen asset, and you are marketing it all around the world. The rest of the world is perfectly willing to let you do it, and you are sitting here today saying, why won't you let us do it, too? The rest of the world is complaining that you won't let us market the genuine Cuban brand that, in fact, was stolen from a group of individuals.

Whether it was sold to Bacardi or not to me is sort of immaterial. They had a right to sell it to who they wanted if they owned it. You didn't own it, and you didn't buy it from a lawful owner under America's interpretation of the seizure of these assets. Isn't that true, Mr. Orr?

Mr. ORR. No, it is not.

Mr. ISSA. So on what basis do you think that you have clean title to the underlying rights? Where do you get clean title? From the Cuban government, is that correct?

Mr. ORR. Once again, the U.S. registration——

Mr. ISSA. No, no. Excuse me, Mr. Orr. One of the things about sitting here this long and being a coauthor of this bill is I get to ask the questions and expect the answer. Where do you think you get clean title for this asset?

Isn't it true you got it from the Cuban government, which seized it in 1960, owned it, and gave you the rights to export their sugarcane-produced product, which is the rum, around the world under a name that they sold you? Isn't that where you got the right—your company got the right?

Mr. ORR. No, sir.

Mr. ISSA. Where did you company get the right to sell in Great Britain?

Mr. ORR. There were no existing trademark rights from the previous owner in any country outside of the United States——

Mr. ISSA. Okay, well let us switch this around. Where did you get the right to export rum from Cuba?

Mr. ORR. We entered into a joint venture—sorry, sir—we entered into a joint venture with the Cuban company in——

Mr. ISSA. The Cuban company being a wholly-owned asset of the Cuban government, correct?

Mr. ORR. It is a Cuban state trading entity, yes.

Mr. ISSA. Okay, so you entered into—it doesn't matter if you create a, quote, company. If it is 100 percent owned by the government you bought the right in a venture with the Cuban government to export Cuban product. You keep telling us—and I appreciate that—that Havana Club is only, quote, made from cane harvested in Cuba and distilled in Cuba, and then that rum is exported. That is the only way to get Havana Club. I appreciate that.

You know, in my district they make Blue Agave, and they can't call it tequila. I appreciate people having these sort of discussions.

But I have to get back to the question of whether this bill, if it seeks to do what it seeks to do, is doing it for the correct reason. The trademark which existed, the good will that existed, the past sales that existed in the United States prior to 1960, who did they belong to?

Mr. ORR. Prior to 1960?

Mr. ISSA. Yes, sir.

Mr. ORR. They belonged to the Jose Arechabala company.

Mr. ISSA. Okay. And did the owners of that company abandon willingly the pursuit of and the continuation of that good will, profit, and sales?

Mr. ORR. Here in the United States, yes they did.

Mr. ISSA. And how did they abandon it? Did they ever manufacture in the U.S., or was it, in fact, only Cuban-made rum, which had to be made from the cane there in Cuba in order to be authentic?

Mr. ORR. That is exactly why the reason that they could have continued to maintain their rights here in the United States even though it was not possible to sell a Cuban product here.

Mr. ISSA. So they couldn't sell the product but they could continue paying the Patent and Trademark Office——

Mr. ORR. Absolutely.

Mr. ISSA [continuing]. And they could use a rather complicated request to the PTO to maintain their right even though they didn't have continuous use?

Mr. ORR. Not a complicated request at all, Congressman. It is a very simple application. You pay your renewal fee, file a certificate of nonuse, you are good for another 10 years—20 years at that time.

Mr. ISSA. Okay.

Mr. Lehman, isn't it true that you can have an abandonment, and that abandonment can be permissible for any company as long as the PTO accepts that reason for abandonment? For example, your factor burns down and it take 4 years to rebuild—aren't you allowed to say that even though I did not have on sale and use that I had a justified reason, and therefore the abandonment was not a deliberate abandonment?

Mr. LEHMAN. I wouldn't call that abandonment; I would call that excusable nonuse.

Mr. ISSA. Okay, so going back—and I realize you are an expert witness for the now-owner, but—isn't the fact that you can't source the material, you can't sell the product, you are literally kept from producing and selling the product that bears the name that your family invented and promoted—isn't that an acceptable nonuse?

Mr. LEHMAN. Well, yes, but that—keep in mind again, that only relates to the registration. I would assert that the Arechabalas never abandoned their trademark, and continued to have it, and properly conveyed their rights to Bacardi. Bacardi is using the mark in the United States right now. They were sued for infringement; they won the lawsuit, so they own the mark.

The only question is the registration at the USPTO and the status of it, which is currently in the name of Cuba export—by the way. There was an attempt to transfer that registration to HCH, the holding company half-owned by Mr. Orr's company. That attempt failed because the U.S. district court held it invalid. The Foreign Assets Control agency at the Treasury Department held it invalid. And the U.S. Patent and Trademark held that transfer invalid.

So to the extent that there is a registration on file now—a registration which, in my view, has a very clouded title—that is Cuba Exports' registration. But the trademark, as it is used in the United States, is being used by Bacardi under a continuous chain of ownership from the Arechabala's rights.

Mr. ISSA. You know, I have to admit that I probably came to this Committee with some preconceived agenda. And, Mr. Orr, if that offends you I apologize.

But what is amazing is that I have a hard time not seeing Raul and Fidel when you sit there, because I am looking and saying, "You are, in fact, an economic legacy of this taking," and I am trying to figure out how in the world, even though you have gained financial benefit around the world from what would otherwise belong to a family that created it, invented it, and undeniably had it taken wrongfully, that the one place you don't have it you are trying to get it here. And I am befuddled.

So let me ask a question to the rest of the panel—and I realize they are fairly diverse—but taking it completely away from rum and completely away from trademarks, let us just say that trademark—common law trademark rights are real property even though they are not—you can't put your fingers on them.

If in World War II a painting were taken from somebody's home in occupied France, and it ended up being purchased by somebody who bought it from the German colonel who came home with it as a prize, and it was later discovered, what would—the rest of the panel, what would you have us do as to the ownership of that asset? Would you have us recognize that the person who paid for it paid for it with money, or would be just as much be bound to try to have that asset returned to the lawful owner that it was taken from even though an intervening party had paid good money for it?

I would like to go down the panel. And like I say, let us—for a moment I have to put my hat on and say, "You know, the only way I can justify intellectual property is I consider it real property," so I put it in the terms of real property. It is a painting taken from occupied France in World War II and bought by intervening parties.

What do we do there, Doctor?

Mr. ESPER. Well, it is hard to translate into the terms the scenario you have put forward because it is the difference between real property and intellectual property, per se. And the scenario you portray is complicated. I mean, that is why the position we take is, "Let the courts decide this, let the courts look at international law, let the courts look at our requirements, and let them decide, based on all the merits of the case"——

Mr. ISSA. So your first thing is, let the U.S. courts make a decision based on foreign courts?

Mr. ESPER. Again——

Mr. ISSA. No, seriously, let us follow up on this. When does the U.S. court—and this is a pretty popular discussion up here on the dais—when did the U.S. courts look at international law for purposes of fairness in the U.S.? I know of no valid reason, and I think the Supreme Court has been torn on this but they have made it pretty clear that U.S. law governs U.S. courts. We do not read into U.S. law foreign law unless we adopt it.

Mr. ESPER. No, no. To be clear, Congressman, I mean, the laws we are bound to by our treaty obligations. We are bound by our treaty obligations to do that. That is why in this case the—and you have heard this on the panel—the issues that—a key issue here that is the pivot point is whether or not the Arechabala family did or did not abandon its trademark. That decision can take us one way or the other.

Mr. ISSA. Well, no. Mr. Lehman has said it pretty well. Let us assume they abandoned their registration. On what basis did they abandon their other rights?

Mr. ESPER. Well, my understanding of simply reading it, not as a lawyer, as the Chairman has asserted, is that they simply failed to reregister, to fill out the forms, submit a check, and register, something they could have done. I think if you go back into the testimony from the Senate in 2004, Mr. Arechabala, who testified at the time, acknowledged as much.

Mr. ISSA. Okay, I am going to yield back here. I guess I am going to close by saying, you know, whether it is my old company's Viper trademark or any number of other products, when I was taught trademark law—and I was taught it one check at a time I had to write to attorneys as a businessman—it was very clear that my first use and sale gave me inherent rights, those common rights were in every state in which I had done business or sold, and that if I only sold in a couple of states I might only have common rights in the state.

And the reason I went to the Federal trademark was, even if I was only selling in 35 states I wanted to be covered for the whole country because a uniform brand for my products were important. But I came to the Federal registration with some very strong common rights that I had designed, created unique or stylized marks, and that I brought those in saying, "I have already used these in commerce or intended to use them in commerce."

So I guess my whole problem is, here, I believe, what we are deciding is whether or not common rights existed. And we are probably to a great extent saying we don't want the courts—and I believe the Chairman would agree that this thing will take it away from the courts perhaps because the issue is bigger than a registration or the outcome of registration arguments; it is about a basic common right that was taken away by force in 1960, has not been restored or paid for—and I appreciate the fact the original owners have been paid for at some diminished amount when they chose to sell to Bacardi compared to what it would have been had they continued to be able to make and sell their product around their world.

So, Mr. Chairman, you have been very, very kind with your time. Hopefully I have been as balanced as you would expect me to be in this case, and I yield back.

Mr. CONYERS. Well, could I just ask this one question of you—and you are a past member of the Chamber of Commerce: Why aren't you with them this time?

Mr. ISSA. I am glad you asked me that question, Mr. Chairman. I believe the Chamber of Commerce, who has come to me over the years asking me to lift the embargo on Iran even though it would endanger Israel, it would endanger the United States, and they continue to try to produce a nuclear weapon—it is the same Chamber whose answer always is, "Please let our companies sell all over the world without any restraint."

No, I appreciate the Chamber does a great deal, and I was a board member of the San Diego chamber and an active participant, but at some point our obligation is to say to the companies who would like to sell bulldozers in Tehran or a myriad of products in Cuba that foreign policy, for valid reason, is something we have a constitutional obligation. So I respectfully disagree with the Chamber because I think they are consistent, and I would like to be consistent too.

Mr. CONYERS. Well, I am not surprise that your independence would be reflected even with the Chamber of Commerce or anybody else.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much.

Mr. Reinsch, you get the last word.

Mr. REINSCH. I get the last word. Well, I appreciate that—not a chance—— [Laughter.]

I think I would come back to where Dr. Esper just finished. There are a lot of facts here that are circling around that are in dispute. There are a lot of rights being asserted, I think, in response to what—the direction that Mr. Issa was going down. Once can assert one's rights but we are in a situation here where someone else has come in and said you don't have those rights, or you ought not to have those rights, and there has to be a process for sorting that out.

My organization's view consistently has been the right place to sort those things out is first at PTO when they make a decision about registration, and second, in the courts. And we are—as with the Chamber, we don't have a position on who owns this trademark. We are content to go along with whatever the courts decide. What we are supporting is getting back to the courts to let them make that decision.

My view of the litigation history of all this—and there has been a lot of—there have been lots of pieces of it. I have got a file this high back in my office and they have got files that are even thicker than that—it has been that in the instant case was there was going to be a decision made on precisely that question on the merits and this section came along and trumped that. And we would simply like to restore the status colante, and I think the implications of not doing that end up being quite significant for all the reasons that Dr. Esper said.

Thank you.

Mr. CONYERS. Mr. Goodlatte?

Mr. GOODLATTE. Thank you, Mr. Chairman. Mr. Chairman, the only thing I would add, if I get a word beyond the last word, would be that I think the solution we should look for is one that does not give effect to—in the United States—to foreign confiscation. And I second what Mr. Veroneau said about that. How we get about doing that and who wins and who loses in this regard I am not completely clear.

But I would like to, in furtherance of what the gentleman from California said, ask that a letter to you, Mr. Chairman, and to Ranking Member Smith, from Jaime Suchlicki, who is a professor at the University of Miami and the director of the Institute for Cuban American Studies and offers his opinion on what impact this might have in Cuba, with regard to any retaliation on the part of the Castro regime—I would ask that that be made a part of the record.

Mr. CONYERS. Without objection, so ordered.

[The information referred to follows:]

LETTER FROM JAIME SUCHLICKI, PROFESSOR AND DIRECTOR, UNITED OF MIAMI, SUBMITTED BY THE HONORABLE BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA, AND ACTING RANKING MEMBER, COMMITTEE ON THE JUDICIARY

UNIVERSITY OF Miami

March 2, 2010

The Honorable John Conyers
United States Congress
2138 Rayburn House Office Bldg.
Washington, D.C. 20515

The Honorable Lamar Smith
United States Congress
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Conyers and Congressman Smith:

I would like to bring to your attention an issue of importance concerning the non-recognition of confiscated Cuban trademarks.

As you may know, Senator Joe Lieberman and Congressman Wexler have introduced legislation to make a technical correction to an existing law referred to as Section 211 to make the law compliant with the World Trade Organization (WTO). Section 211 provides generally that U.S. courts must not recognize claims by the Cuban government, or its nationals, to trademarks which were used as part of a business whose properties were confiscated in Cuba unless the original owners have consented.

I am aware that the opponents of this law have continued to make claims that the Castro regime may retaliate against U.S. products regarding this law. As an expert in Cuban history, policies and political framework, and Director of the Institute for Cuban and Cuban-American Studies at the University of Miami, I assure you that it is not in the Cuban government's best interest to retaliate nor do they have any rights to retaliate. Fidel Castro has issued threats against the U.S. in the past only to retract them soon thereafter. His brother General Raul Castro, now governing Cuba since 2008, has not issued any such threats.

Any retaliatory measures against American products would antagonize the American public and American companies at a time the Cuban government is trying to promote the lifting of the U.S. travel ban and U.S. sales of products to Cuba.

I applaud these efforts to strengthen Section 211 and reinforce the principles of property protection under U.S. law. The Castro regime should not be allowed to profit from the effects of illegal confiscations made in Cuba. Thank you for your consideration of this matter.

Sincerely,

Jaime Suchlicki

Jaime Suchlicki
Professor and Director

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Mr. CONYERS. We thank you all very, very much.

The Committee is adjourned.

[Whereupon, at 1:51 p.m., the Committee was adjourned.]