HAVANA CLUB: A CASE SUMMARY AND AN ANALYSIS OF SELECTED LEGAL ISSUES

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In 1996, Havana Club Holding, S.A, and Havana Club International, S.A. ("Plaintiffs"), two corporations jointly owned by Cubaexport[1] and the French firm Pernod Ricard, sued Galleon, S.A., Bacardi-Martini USA, Inc., Gallo Wine Distributors, Inc., G.W.D. Holdings, Inc., and Premier Wine and Spirits ("Defendants") in the U.S. District Court for the Southern District claiming trademark infringement for use of the famous Havana Club mark.[2]

This deceptively simple trademark claim blossomed into a two-year litigation yielding four district court decisions and prompting a flurry of alarmist — and often inaccurate — media reports. It has also led to a Havana Club lawsuit filed in Spain[3] on behalf of the José Arechabala family;[4] a probable European Union challenge before the World Trade Organization over one of the U.S. laws applied in the district court;[5] threats of a U.S.-Cuba trade war;[6] and cries by Fidel Castro threatening to produce Cuban Coca-Cola.[7]

One might well ask how this happened and what its legal and commercial implications are. Unfortunately, the Havana Club dispute raises more questions than answers. Nevertheless, we can begin to find those answers by untangling the tight knot of facts and law involved in the case. Understanding the dispute calls for a review of the *Havana Club* litigation decisions. It also requires consideration of relevant U.S. and international laws. Only then will we be able to answer such questions as:

- What legal issues did the district court actually resolve—and which remain open?
- Who owns the Havana Club trademark in the United States?
- What questions under U.S. law still surround the now-infamous § 211 that the court applied in its last decision?
- Does § 211 conflict with U.S. obligations to World Trade Organization members?

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1. Cubaexport's official name is Empresa Cubana Exportadora de Alimentos y Productos Varios; see Havana Club Holding, S.A. and Havana Club Int'l, S.A. v. Galleon, S.A., Bacardi-Martini U.S.A., Inc., Gallo Wine Distribs., Inc., G.W.D. Holdings, Inc. and Premier Wine and Spirits, 1998 WL 150983, at *1 (S.D.N.Y. Mar. 31, 1998) [hereinafter Havana Club III].

2. Havana Club Holding, S.A. and Havana Club Int'l, S.A. v. Galleon S.A., Bacardi-Martini USA, Inc., Gallo Wine Distribs., Inc., G.W.D. Holdings, Inc. and Premier Wine and Spirits, 961 F. Supp. 498 (S.D.N.Y. 1997) [hereinafter Havana Club I].

3. Juan O. Tamayo, *Cuban Rum War in Spanish Court*, MIAMI HERALD, June 24, 1999, [hereinafter Tamayo, *Cuban Rum War*).

4. *See* Havana Club Holding, S.A. and Havana Club Int'l, S.A. v. Galleon S.A., Bacardi-Martini U.S.A., Inc., Gallo Wine Distribs., Inc., G.W.D. Holdings, Inc. and Premier Wine and Spirits, 1999 WL 219906, at *3 (S.D.N.Y. Apr. 14, 1999) [hereinafter Havana Club IV] (José Arechabala, S.A., a Cuban corporation, was "[t]he original producer of Cuban rum under the trademark 'Havana Club.'").

5. David I. Oyama, *EU to Challenge U.S. over Dispute of Pernod, Bacardi*, WALL ST. J., June 14, 1999, at A12 [hereinafter Oyama].

6. *Cuba Warns of Trade War in US Trademark Dispute*, J. COM., May 25, 1999, at 3A [hereinafter *Cuba Warns of Trade War*].

7. Juan O. Tamayo, *Fidel Threat: We'll Make Our Own Coke*, MIAMI HERALD, May 11, 1999,[hereinafter Tamayo, *Fidel Threat*].

- How might Cuba respond to the *Havana Club* case, and what are the implications for U.S. trademark stability in Cuba?

FACTUAL SUMMARY

Until 1960, the Cuban corporation José Arechabala, S.A. ("JASA") held the original Havana Club trademark, manufactured the rum in Cuba, and sold it in Cuba and overseas.[8] On or around January 1, 1960, the Cuban government forcibly expropriated all of JASA's assets and property without ever offering or paying compensation.[9] Judge Shira Scheindlin, who decided the case for the U.S. District Court for the Southern District, laid out the following facts:

- From 1972 until some time in 1993,… ("Cubaexport"), a Cuban state foreign trade enterprise established by the Cuban Ministry of Foreign Commerce, was the exclusive exporter of Havana Club rum, primarily to the Soviet Union and Eastern Europe. [10]
- Under Section 44 of the Lanham Act, foreign entities are permitted to register trademarks in the United States. Pursuant to Section 44, the Havana Club mark was registered in the United States in 1976 by Cubaexport,… based on Cubaexport's registration of the mark in Cuba. Cubaexport continued to market Havana Club rum internationally from 1972 until 1993.[11]

In 1993, Cubaexport's Havana Club rum business was reorganized to incorporate a foreign partner. Cubaexport reached an agreement with Pernod Richard, S.A. ("Pernod"), an international distributor of liquor, to form two companies: (1) Havana Club Holding ("HC Holding"), of which 50% equity and board representation was to be held by a newly formed Cuban company, Havana Rum & Liquors, S.A., and 50% by Pernod; and (2) Havana Club International ("HCI"), which has a 50-50 equity split between Havana Rum & Liquors and Pernod, both through direct holdings and through holdings in HC Holding. Plaintiffs allege that all of the assets associated with the Havana Club trademark were transferred as part of this reorganization by Cubaexport to Havana Rum & Liquors, which then transferred them to HC Holding. HC Holding then granted HCI an exclusive license to sell Havana Club rum and to use the Havana Club trademark.[12]

Sometime in 1993, either prior to Pernod Ricard's entering into … [its agreement with Cubaexport] … or soon thereafter, a legal advisor to the company, Emilio Cuatrecasas, met with members of the Arechabala family to discuss purchasing their waiver of any claims to the Havana Club name that they may have had. Ultimately, no agreement was reached between the Arechabalas and Pernod Ricard.[13]

The Arechabalas subsequently attempted to reach an agreement with International Distillers & Vintners Limited ("IDV"), an international distilled spirits company, with respect to Havana Club rum, but IDV advised the Arechabalas in or about March 1995 that it did not wish to enter into any such agreement. The Arechabalas, however, found a willing partner in Bacardi & Co., and following negotiations beginning in or about 1995, the parties entered into a formal Share Purchase Agreement in April 1997. Pursuant to this agreement, Bacardi & Co. purchased the Havana Club trademark, the related goodwill of the the [sic] business and any rum business assets that still existed from the Arechabalas.[14]

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8. Havana Club IV, *supra* note 4, at *3.
9. *Id.* at *3.
10. *Id.* (citations omitted).
11. Havana Club Holding, S.A. and Havana Club Int'l, S.A. v. Galleon S.A., Bacardi-Martini USA, Inc., Gallo Wine Distribs., Inc., G.W.D. Holdings, Inc. and Premier Wine and Spirits, 974 F. Supp. 302, 305 (S.D.N.Y. 1997) [hereinafter Havana Club II] (citations omitted).
12. *Id.* at 305-306 (citations omitted).
13. Havana Club IV, *supra* note 4, at *3 (citations omitted).
14. *Id.*

On October 5, 1995, Plaintiffs applied to OFAC[15] for a specific license authorizing the assignment of the Havana Club trademark, Registration No. 1,031,651, from Cubaexport to Havana Rum & Liquors, S.A. to Havana Club Holdings, S.A. On November 13, 1995, OFAC issued License No. C-18147, which approved the assignment and authorized all necessary transactions incident to the assignment of the mark. However, on April 17, 1997, OFAC issued a Notice of Revocation stating that "as a result of facts and circumstances that have come to the attention of this Office which were not included in the application of October 5, 1995, License No. C-18147… is hereby revoked retroactive to the date of issuance." OFAC did not further explain the grounds for the revocation but did state that any action taken under the license is null and void as to matters under its jurisdiction.[16]

In 1995, Bacardi-Martini began to distribute rum in the United States which was produced in the Bahamas under the authority of Galleon, Bacardi & Co.'s predeccessor-in-interest [sic], bearing the trademark Havana Club. This distribution consisted of sixteen cases of rum shipped to four U.S. distributors. From May 1996 through August 1996, Bacardi distributed an additional 906 cases of Havana Club rum to distributors in seven states. Bacardi has not distributed any Havana Club rum since 1996, pursuant to an agreement reached with [P]laintiffs to halt such sales pending the outcome of this litigation.[17]

HAVANA CLUB I

Plaintiffs sought to enjoin Defendants "from using the words 'Havana Club' as part of any trademark, service mark, brand name, trade name or other business or commercial designation in connection with the sale, distribution, advertising or promotion of rum or rum products in the United States"[18] and claimed that Defendants' use of the famous rum trademark violated Plaintiffs' rights under the Lanham Act.[19]

Defendants alleged that Havana Club Holding obtained rights to the Havana Club trademark in violation of the Cuban Asset Control Regulations ("CACR") and the Lanham Act.[20] They claimed that Havana Club Holding had no rights to the trademark since they defrauded OFAC into "authorizing the assignment of the ... mark."[21]

While Plaintiffs' motion for an injunction remained pending, U.S. district court judge Shira Scheindlin wrote "only to consider the issue of whether this Court ha[d] the power to review OFAC's issuance of this license, and if so, whether this review might result in invalidating the license."[22] Following a two-and-a-half page discussion of the Cuban embargo (including a summary of arguments against it), Judge Scheindlin decided that:

1. Defendants lacked standing under either constitutional standards or under the Administrative Procedure Act ("APA) to challenge OFAC's licensure of Cubaexport's transfer of the Havana Club trademark registration to Plaintiffs.[23] Under constitutional standards, Defendants (a) did not suffer injury in fact, (b) could not show causation "between the injury [claimed] and the offending conduct,"[24] and (c) did not raise a re-

15. The Office of Foreign Assets Control, a division of the U.S. Department of the Treasury.
16. Havana Club II, *supra* note 11, at 306 (citations omitted).
17. Havana Club IV, *supra* note 4, at *4 (citations omitted).
18. Havana Club I, *supra* note 2, at 499.
19. *Id.*; Trademark Act of 1946 (Lanham Trade-Mark Act), 15 U.S.C.A. § 1051 (1946) [hereinafter Lanham Act].
20. Havana Club I, *supra* note 2, at 499.
21. *Id.*
22. *Id.*
23. *Id.* at 503-504.
24. *Id.* at 503.

dressable claim.[25] Defendants' standing failed under APA standards because they could not show injury in fact or show that their injury fell "'within the "zone of interests" sought to be protected by the statutory provision [here, the CACR] whose violation forms the basis for... [the] ... complaint.'"[26] Because Defendants were not involved with the licensing proceeding and because they did not fall within the "range of foreign policy concerns that make up United States-Cuban relations [i.e., the CACR's 'zone of interests'],"[27] Defendants lacked APA standing to oppose OFAC's licensing decision.

2. OFAC's issuance of the license to Plaintiffs was an exercise of regulatory authority under the CACR that "rest[ed] upon foreign policy considerations and judgments of the Executive Branch that should not be disturbed by the courts."[28] Here, Scheindlin quoted the Supreme Court: "'[M]atters relating "to the conduct of foreign relations … are so exclusively entrusted to the political branches of government as to be largely immune from judicial inquiry or interference."'"[29] Because the CACR and OFAC's actions reflect executive power over foreign policy, and because these circumstances fell within that arena, the court determined the matter to be beyond its purview.[30]

3. The APA barred the court's review of OFAC's licensing decision because that office's licensing determinations constitute agency action that is "'committed to agency discretion by law'"[31] and therefore beyond the court's review.

HAVANA CLUB II

By the time Judge Scheindlin issued her second opinion in the *Havana Club* case, OFAC, acting on later-acquired information, revoked the license it had granted authorizing Cubaexport's transfer of its U.S.-based Havana Club trademark registration to Havana Rum & Liquors and from there to Havana Club Holdings.[32]

At this stage, Defendants moved for summary judgment under the Federal Rules of Civil Procedure on a counterclaim that Plaintiffs' registration of the Havana Club trademark and design in the U.S. Patent and Trademark Office ("PTO") should be cancelled.[33] Defendants asserted that Plaintiffs lost any rights to the trademark, causing "the mark to be abandoned,"[34] because Plaintiffs' "attempt[ed] to secure their rights … without approval of … [OFAC]."[35] Defendants also argued that, because Plaintiffs had "no right to use the mark,"[36] the court should cancel the trademark registration entered on the PTO's books.[37]

Plaintiffs, meanwhile, argued that the CACR required only a general license, rather than a specific license, for the authorized transfer of their trademark

25. *Id.* at 503-504 (citing Lujan v. Defenders of Wildlife, 504 U.S. 555, 560 (1992).

26. *Id.* at 504 (quoting Air Courier Conference of American v. American Postal Workers Union AFL-CIO, 498 U.S. 517, 523 (1991)).

27. *Id.*

28. Havana Club I, *supra* note 2, at 503.

29. *Id.* at 504 (quoting Regan v. Wald, 468 U.S. 222, 242 (1984) (quoting Harisiades v. Shaughnessy, 342 U.S. 580, 589 (1952))).

30. *Id.* at 504-505.

31. *Id.* at 505 (quoting 5 U.S.C. § 701(a)(2)).

32. Havana Club II, *supra* note 11, at 306.

33. *Id.* at 304.

34. *Id.*

35. *Id.*

36. Havana Club II, *supra* note 11, at 304.

37. *Id.*

registration. Thus, in the absence of a specific license from OFAC, they argued, a general license would suffice.[38] Plaintiffs also asserted that the transfer was valid under the Inter-American Convention, which "binds the United States and all other member nations to give effect to and record upon its registry a valid transfer of a trademark that has occurred in another member nation."[39] Therefore, the "transfer of a trademark in Cuba has the effect of transferring the trademark in the United States, and the United States is obligated to record this transfer on its registry."[40]

Plaintiffs further argued that due process rights arising under the U.S. Constitution's Fifth Amendment[41] precluded a CACR-based distinction between a registration assignment (for which OFAC denied authorization) and a new trademark registration (the latter permitted under the CACR without a specific license from OFAC).[42] In addition, Plaintiffs claimed that "no OFAC license, general or specific, was needed to transfer the mark because the registration … [was] … not property within the scope of the TWEA [Trading With the Enemy Act][43] or the CACR."[44]

Lastly, Plaintiffs sought leave to amend their complaint to add two causes of action. The first alleged Defendants' violation of the Inter-American Convention[45] and the Lanham Act for using "the Havana Club trademark in the United States notwithstanding their knowledge of the prior protection, existence and use of the trademark in other countries that are signatories to the Inter-American Convention, including Cuba."[46] The second proposed claim alleged that Defendants violated the Inter-American Convention and the Lanham Act by using "Havana Club as a trademark for rum in the United States notwithstanding that its distinguishing elements consist of a part of Plaintiffs' commercial names, which were previously used by them in Cuba."[47]

Judge Scheindlin deftly sorted through these claims and counterclaims and decided as follows:

1. Contrary to Plaintiffs' claims, the CACR require a specific license for the transfer of a trademark registration. While the CACR provide a general license "for the registration and renewal of trademarks"[48] "'in which the Government of Cuba or a Cuban national has an interest,'"[49] the general license provisions "do not contain express authorization for the transfer of rights to trademarks."[50] Therefore, Judge Scheindlin wrote, "an individual or company seeking to assign a trademark is therefore required to obtain a specific license,"[51] which, in this instance, OFAC granted and then revoked. This conclusion, she continued, was consistent with OFAC's own un-

38. *Id.* at 306.

39. *Id.* at 308 (citing General Inter-American Convention for Trade Mark and Commercial Protection, Feb. 20, 1929, ch. II, art. 11, 46 Stat. 2907, 2922-2924, T.S. 833, 124 L.N.T.S. 357, 2 Bevans 751 [hereinafter Inter-American Convention]).

40. *Id.*

41. *Id.* at 306.

42. *Id.* at 310.

43. Trading with the Enemy Act, 50 U.S.C.A. app. § 1 (1917).

44. Havana Club II, *supra* note 11, at 310.

45. The first new claim sought relief under Chapter IV of the Inter-American Convention, while the second asserted rights under Chapter III. Because Plaintiffs did not adequately assert Chapter IV claims in documents filed with the court, the judge denied Plaintiffs permission to assert a Chapter IV claim (Havana Club II, *supra* note 11, at 312, n.10).

46. Havana Club II, *supra* note 11, at 312.

47. *Id.*

48. *Id.* at 307.

49. *Id.* (quoting 31 C.F.R. § 515.527(a)).

50. *Id.*

51. *Id.*

derstanding of the CACR[52] and with Supreme Court deference to Executive Branch interpretation of statutes administered by that arm of the federal government.[53]

2. The CACR supercede the Inter-American Convention for purposes of Plaintiffs' claim that the convention required the United States to recognize the trademark registration transfer.[54] Therefore, Plaintiffs have no rights to the Havana Club trademark under the CACR.[55]

   The convention, "a multi-lateral regional trademark treaty between the United States and several Latin American countries [including Cuba], compels signatory nations to grant to the nationals of other signatory nations the same rights and remedies which their laws extend to their own nationals."[56] The convention also requires the United States to register trademark transfers validly executed in other member nations.[57] However, the CACR and the Inter-American Convention conflict in this regard. Resolution of this conflict is found in the principle that where a later-enacted statute conflicts with a treaty, "'the statute to the extent of the conflict renders the treaty null,'"[58] provided the legislature's intent to supercede is clear.[59] Here, OFAC's construction of the CACR licensing provisions (i.e., that a specific license was required for transfer) "strongly suggests that the CACR constitutes an implied repeal of … [the] … earlier convention."[60]

3. Requiring a specific license for Plaintiffs' trademark registration transfer did not violate Plaintiffs' due process rights.[61] The government's distinction between assignment and registration for licensing purposes is not "'irrational, arbitrary or capricious'"[62] such that due process rights would be abridged. Rather, the government's policy of trying to "thwart the flow of funds into Cuba provides a rational basis for OFAC's distinction between registrations and assignments."[63]

4. "Plaintiffs have no rights to the Havana Club trademark" in the United States.[64] Contrary to Plaintiffs' claim, a trademark registration constitutes property under the CACR. The CACR regard trademarks as property governed by the regulations,[65] and the CACR also bar transactions "in which Cuban nationals 'at any time … had any interest … direct or indirect'"[66] in such property. Because (a) Plaintiffs' registration evidences rights in the mark's future use;[67] (b) the registration constitutes an "'interest of any na-

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52. *Id.* (Judge Scheindlin quotes OFAC director Richard Newcomb: "'[T]he general license allows only for the registration and renewal of intellectual property; § 515.527 does not convey … the authority to assign the registrant's interest in a … trademark registered in the United States to another person.'").

53. *Id.* (quoting Chevron U.S.A. v. Natural Res. Def. Council, 467 U.S. 837, 844 (1984)).

54. *Id.*

55. Havana Club II, *supra* note 11, at 315.

56. *Id.* at 307 (citing Inter-American Convention, *supra* note 39, at ch. I, art. 1, 46 Stat. 2907, 2912).

57. *Id.* at 308 (citing Inter-American Convention, *supra* note 39, at ch. II, art. 11, 46 Stat. 2907, 2922-2924).

58. *Id.* (quoting Reid v. Covert, 354 U.S. 1, 18 (1957)) (other citations omitted).

59. *Id.* at 309 (citing Posadas v. National City Bank of New York, 296 U.S. 497, 503 (1936)).

60. *Id.*

61. *Id.* at 310.

62. *Id.* (quoting Pollnow v. Glennon, 757 F.2d 496, 501 (2d Cir. 1985)).

63. *Id.*

64. *Id.* at 311.

65. *Id.* at 310.

66. Havana Club II, *supra* note 11, at 310 (quoting 31 C.F.R. § 515.201(b)(1)).

67. *Id.*

ture whatsoever, direct or indirect,'"[68] in the trademark; and (c) Plaintiffs designated a U.S.-based agent for service of process in accordance with the Lanham Act,[69] the registration transfer fell under the CACR.[70] Revocation of the license meant "Plaintiffs' only claim to ownership … [was] … by assignment."[71]

5. Defendants' motion to cancel the U.S. trademark registration was denied since Cubaexport, "restored as the owner of the registration,"[72] "inevitably had an interest in the outcome of the registration issue."[73] Because Cubaexport was not a party in this suit,[74] cancellation would adversely affect that interest without offering Cubaexport an opportunity to be heard.[75] Since "all rights to the registration revert[ed] to Cubaexport,"[76] and because Cubaexport was now a necessary party,[77] cancellation was denied.

6. Plaintiffs could not assert the first of their proposed claims under either the Lanham Act or the Inter-American Convention because Plaintiffs had no U.S. rights to the Havana Club trademark.[78]

7. Plaintiffs could bring a trade name infringement claim under both the Lanham Act and the Inter-American Convention.[79] Unlike a trademark, which is used for "'identifying goods and distinguishing them from those produced by other producers,'"[80] "'a trade name is usually adopted for the purpose of identifying the company and distinguishing it from other producers …'"[81] "'Likelihood of [consumer] confusion'"[82] is the standard for determining trade name infringement. Plaintiffs proposed a permissible claim that they had "used their trade name in a manner which identifies their business"[83] and that Defendants' use of the same name allegedly would "lead to consumer confusion and error."[84]

8. "In light of the decision to restore Cubaexport's rights to the mark"[85] and because "Cubaexport should now be a participant in this action,"[86] Judge Scheindlin declined to rule on Plaintiffs' motion to dismiss Defendants' counterclaims. Those counterclaims (a) sought a declaratory judgment that Defendants held a superior and sole right to the Havana Club trademark, (b) sought the registration's cancellation under Lan-

68. *Id.* (quoting 31 C.F.R. § 515.201(b)(1)).

69. *Id.* at 311.

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.* at 312.

76. *Id.*

77. *Id.* at 311.

78. *Id.* at 313-314.

79. Havana Club II, *supra* note 11, at 314-315.

80. *Id.* at 314 (quoting 1 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 9.13 (3d ed. 1997)).

81. *Id.*

82. *Id.* (quoting Lang v. Retirement Living Publishing Co., 949 F.2d 576, 579-580 (2d Cir. 1991)).

83. *Id.*

84. *Id.*

85. *Id.* at 315.

86. *Id.*

ham Act principles, and (c) alleged fraud on the part of Cubaexport.[87]

HAVANA CLUB III

Plaintiffs filed an amended complaint charging that they "own[ed] the rights to the term 'Havana Club' as a trade name and that [D]efendants' use of … [that] name … [was] … misleading because their rum is made in the Bahamas rather than Cuba."[88] Defendants raised the following "[a]ffirmative defenses and/or counterclaims: (1) Violation of the Lanham Act, (2) Abandonment, (3) Misrepresentation of Goods, (4) Unclean Hands, (5) Declaratory Judgment, and (6) Failure to State a Claim."[89]

Plaintiffs moved for dismissal of five of these claims, and Judge Scheindlin ruled as follows:

1. Plaintiffs' motion to dismiss Defendants' Lanham Act counterclaim was granted[90] since Defendants' Lanham Act–based allegations of incurred legal costs and lost sales due to "[P]laintiffs' falsely procured [trademark] registration"[91] were "so sparse, and their apparent theory of how sales were lost so byzantine, that [P]laintiffs ha[d] not received fair notice of their claim."[92]

2. Plaintiffs' motion to dismiss Defendants' abandonment claim was granted.[93] An abandonment defense requires "'non-use of the name by the legal owner and no intent by that … [owner] … to resume use in the reasonably foreseeable future.'"[94] Since Defendants failed to allege Plaintiffs' nonuse of the Havana Club trade name, "they fail[ed] to state a viable abandonment defense."[95]

3. Plaintiffs' motion to dismiss Defendants' misrepresentation of goods counterclaim was granted.[96] Defendants claimed that Plaintiffs' Havana Club trademark should be canceled under the Lanham Act because "it includes elements intended to lead the public to mistake [P]laintiffs' rum for"[97] Defendants' product. Because Judge Scheindlin had earlier held that Cubaexport's attempted trademark registration transfer was invalid, Plaintiffs had "no trademark to cancel,"[98] rendering Defendants' counterclaim "irrelevant."[99]

4. Plaintiffs' motion to dismiss Defendants' unclean hands defense was denied in part. Under the unclean hands principle, "'the plaintiff's fault, like the defendant's, may be relevant to the question of what if any remedy the plaintiff is entitled to.'"[100] In trademark cases, "the availability of injunctive relief is … only affected when a plaintiff attempts to enforce a right acquired through inequitable conduct."[101] Defen-

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87. *Id.*

88. Havana Club III, *supra* note 1, at *1.

89. Havana Club III, *supra* note 1, at *1.

90. *Id.* at *3.

91. *Id.* at *2.

92. *Id.* at *3.

93. *Id.* at *4.

94. *Id.* (quoting Stetson v. Howard D. Wolf & Assocs., 955 F.2d 847, 850 (2d Cir. 1992) (citing Silverman v. CBS, Inc., 870 F.2d 40, 48 (2d Cir. 1989), *cert. denied*, 492 U.S. 907 (1989))).

95. *Id.*

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.* at *6.

100. Havana Club III, *supra* note 1, at *5 (quoting Shondel v. McDermott, 775 F.2d 859, 868 (7th Cir. 1985)).

101. *Id.*

dants adequately pleaded an unclean hands defense, "but only as to the alleged mislabelling of plaintiffs' rum,"[102] since, if Plaintiffs were selling a great deal of Havana Club rum that was actually made in Panama,[103] Defendants "could show that the right [P]laintiffs assert[ed] … [was] … premised on fraudulent conduct."[104]

5. Plaintiffs' motion to dismiss Defendants' counterclaim for a declaratory judgment was denied[105] "[b]ecause [D]efendants claim[ed] first use of the 'Havana Club' mark, and because [P]laintiffs … [could not] … demonstrate that [D]efendants abandoned the mark as a matter of law [contrary to Plaintiffs' assertions]."[106]

HAVANA CLUB IV

At this fourth and final stage in the district court case, Plaintiffs, who "currently have no rights to the use of the Havana Club trademark,"[107] held two outstanding claims that were earlier raised in their amended complaint.[108] The first alleged that Defendants infringed Plaintiffs' Havana Club trade name rights in violation of the Inter-American Convention and the Lanham Act. The second asserted that Defendants' use of the name was geographically misdescriptive, and thus in violation of the Lanham Act, because the rum, produced outside Cuba, could mislead consumers as to its geographic origin.[109] Defendants asserted an unclean hands defense "on the basis that [P]laintiffs have used ingredients of non-Cuban origin in a significant amount of their 'Cuban' rum."[110]

Judge Scheindlin granted Defendants' motion to disallow Havana Club Holding's ability to assert Inter-American Convention claims, since the company was "organized under the laws of Luxembourg, which is not a party to the … [convention]."[111] Judge Scheindlin then found "for [D]efendants on all of [P]laintiffs' claims"[112] as follows:

1. Section 211 of the 1998 Omnibus Consolidated and Emergency Supplemental Appropriations Act[113] barred the court from entertaining Havana Club International's (HCI) trade name claims under the Inter-American Convention and the Lanham Act. Plaintiff's *convention*-based trade name claims were barred since "Congress may pass legislation [here, § 211] that effectively takes away rights to which the parties were previously entitled by virtue of U.S. treaty obligations."[114]

   The general principle applicable here is that a later-in-time statute supercedes a treaty to the extent the two conflict on their face.[115] Alternatively, treaty abrogation by implication holds when

102. *Id.*; Judge Scheindlin granted Plaintiffs' motion to deny two of Defendants' unclean hands allegations. Those denied allegations asserted that Plaintiffs willfully violated civil and criminal laws in trying to ensure ownership of the Havana Club trademark and that Plaintiffs' use of the mark's design was meant to confuse consumers as to the parties' respective products.

103. *Id.*

104. *Id.*

105. *Id.* at *6.

106. *Id.*

107. Havana Club IV, *supra* note 4, at *1

108. Havana Club III, *supra* note 1, at *1.

109. Havana Club IV, *supra* note 4, at *1.

110. Havana Club IV, *supra* note 4, at *1.

111. *Id.* at *2.

112. *Id.* at *14.

113. Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999, Pub. L. No. 105-277, § 211, 112 Stat. 2681, *2681-__ (1998).

114. Havana Club IV, *supra* note 4, at *4.

115. *Id.* (quoting Reid v. Covert, *supra* note 58, at 18).

the two cannot be reconciled or when the law "'covers the whole subject of the earlier [treaty], and is clearly intended as a substitute.'"[116] In all instances, Congress' intention to override "must be clear."[117]

Here, Congress clearly and intentionally enacted § 211 "to repeal rights in marks and trade names derived from treaties"[118] where the law's conditions are met. The court held that because the new law bars "'assertion of treaty rights … under'"[119] the Lanham Act, and because the Lanham Act "provide[s] the framework for the assertion of all trademark and trade name treaty rights,"[120] (including those under the convention), HCI could not assert its trade name infringement claims under either the Inter-American Convention or the Lanham Act. Importantly, however, the court did determine that § 211 did not "prevent HCI from asserting its false designation of origin claim"[121] or "abrogate [its] rights to bring an unfair competition claim."[122] Thus, the court left open the possibility of an unfair competition suit, though that was not a claim asserted here.

In addition to rebuffing Havana Club International's objection that § 211 did not apply because the Inter-American Convention created a private right of action apart from the Lanham Act,[123] the court also held that the new law did not provide an abandonment defense,[124] that it was not impermissibly retroactive,[125] and that it did not violate the Separation of Powers doctrine.[126] On this last point, the court ruled that contrary to impermissibly "directing [a] particular result[] in [a] particular case[],"[127] § 211 merely and validly "effected a change in the underlying law applicable to this case."[128]

2. Plaintiffs lacked standing to assert their Lanham Act claim, which alleged that because Bacardi's rum is made in the Bahamas, "Bacardi's use of the 'Havana Club' trademark and the label used on the rum … constitute a false designation of geographic origin."[129] Although Plaintiffs hold a "fixed intention to enter the U.S. market as soon as they are legally able,"[130] the U.S. embargo prevents direct market competition between the parties,[131] thereby precluding the consumer confusion that "is at the heart of the purpose of the Lanham Act."[132] As importantly, case law does not uphold "standing on the sole basis [put forth

116. *Id.* (quoting Posadas v. National City Bank of New York, *supra* note 59, at 503).

117. *Id.* (citing Posadas v. National City Bank of New York, *supra* note 59, at 503).

118. *Id.* at *5.

119. *Id.* at *4 (quoting Omnibus Consolidated and Emergency Supplemental Appropriations Act, *supra* note 113, at § 211(b)).

120. Havana Club IV, *supra* note 4, at *6.

121. *Id.*

122. *Id.*

123. *Id.*

124. *Id.* at *7.

125. *Id.* at *7-*8; Abandonment and impermissible retroactivity, addressed later in this paper, are issues that will probably arise on appeal.

126. *Id.* at *8.

127. *Id.*

128. *Id.*

129. *Id.* at *9.

130. *Id.* at *12.

131. Havana Club IV, *supra* note 4, at *10.

132. *Id.* at *9.

> here by Plaintiffs] that … [a] … plaintiff … [is] … from the locality falsely designated as the origin of defendant's product."[133]

In addition, Plaintiffs' injury is too remote:

> Finally, Plaintiffs' claim that "[D]efendants' false designation of Cuban origin on their rum will impair [P]laintiffs' sales to United States visitors to Cuba"[134] was deemed to be without merit. U.S. travelers are limited in number, and those authorized to travel "are certainly aware of the embargo and the fact that Cuban products are not available in the United States."[135] Therefore, the court found it "highly unlikely that those travelers seeking genuine Cuban rum would be deterred by sales of [D]efendants' rum in the United States."[136] Significantly, however, the court stated that Plaintiffs' lack of standing did "not automatically mean that [D]efendants' alleged false designation of origin … will go unremedied."[137] Other rum producers that compete with Bacardi "are likely to have standing to seek redress"[138] if they can "show reliance by consumers on such designation and their own consequent loss of sales."[139]

A few months later, Plaintiffs moved to amend the following sentence from the fourth opinion:

> Pursuant to this agreement, Bacardi & Co. purchased the Havana Club trademark, the related goodwill of the the [sic] business and any rum business assets that still existed from the Arechabalas.[140]

Plaintiffs argued that the sentence could "'be read as finding, and may well be misconstrued and misunderstood to find, that in 1997 the Arechabalas owned a valid Havana Club trademark.'"[141] Judge Scheindlin granted the motion on the grounds that the "[c]ourt had no reason to decide—and did not decide —whether or not the Arechabalas owned a valid trademark in the Havana Club name at the time they entered into an agreement with Bacardi & Co."[142] Because the court "made no finding on this issue one way or the other,"[143] the judge accepted Plaintiffs' suggested revision and reissued her fourth decision with the sentence amended to read:

> Pursuant to this agreement, Bacardi & Co. purchased whatever rights (if any) the Arechabalas possessed in any Havana Club trademark, the related goodwill of the business and any rum business assets that the Arechabalas still owned.[144]

U.S. OWNERSHIP OF THE HAVANA CLUB TRADEMARK

The question remains: Does Cubaexport or Bacardi own the Havana Club trademark in the United States?[145] In her June 1999 Order, Judge Scheindlin made it clear that this case never determined "whether … the Arechabalas owned a valid trademark … at the time"[146] they contracted with Bacardi. There are, however, plausible arguments on both sides of the debate.

133. *Id.* at *11.

134. *Id.*

135. *Id.*

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.*

140. Order of the U.S. District Court, 1, 1 (June 25, 1999) (quoting Havana Club IV, *supra* note 4, at *3).

141. *Id.*

142. *Id.* at 2.

143. *Id.*

144. *Id.* at 1-2.

145. *See* Pamela S. Falk, *Visions of Embargo Falling Spark U.S.-Cuba IP Battles*, NAT'L L. J., April 6, 1998, at B7 for a solid analysis of the rum and cigar brand disputes between the United States and Cuba [hereinafter Falk, *Visions of Embargo*].

146. Order of the U.S. District Court, *supra* note 141, at 2.

In her second *Havana Club* decision,[147] Judge Scheindlin made it clear that because the Cuban Asset Control Regulations superceded Plaintiffs' asserted Inter-American Convention rights,[148] the attempted transfer of the Havana Club trademark registration in the United States was invalid.[149] OFAC's revocation of Plaintiffs' transfer license[150] was justified under embargo law,[151] leaving Plaintiffs with "no rights to the Havana Club trademark"[152] in the United States. "As a result of the invalid transfer …," Judge Scheindlin concluded, "Cubaexport's rights to the mark … [were] … restored."[153]

According to the unofficial perspective of representatives at the PTO,[154] Cubaexport is the official holder of both the Havana Club trademark registration and the trademark itself.[155] While the latter may be harder to substantiate, the PTO's Web site records show that Cubaexport's registration, originally granted in 1976, was renewed in 1996 and remains on the books.[156] All other alcohol-related Havana Club applications, including that of the Arechabala family, Galleon S.A., and Havana Club Holding, S.A., have either been suspended or "published for opposition."[157] In addition, there have been no court orders for trademark cancellation proceedings regarding Cubaexport's rights; the PTO Commissioner has not issued any new regulations regarding the mark; and OFAC's revised regulations have not changed the mark's status.[158]

There is in fact an argument that the Arechabala family abandoned the Havana Club trademark and therefore forfeited their ownership of and rights to it.[159] If that is so, one could argue that the Arechabalas had no valid mark to sell to Bacardi.[160]

The abandonment principle is a creature of both statutory and case law. Under the Lanham Act,[161]

> A mark shall be deemed to be "abandoned" ... (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in the mark.[162]

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147. Havana Club II, *supra* note 11.

148. *See Id.* at 305-310.

149. See Id.

150. Havana Club II, *supra* note 11, at 306.

151. *See Id.* at 305-310.

152. *Id.* at 311.

153. *Id.* at 315.

154. Telephone Interview with David C. Reihner, Esq., Trademark Examining Attorney, U.S. Patent and Trademark Office (May 1999); Telephone Interview with Lynne Beresford, Office of Legislative and International Affairs, U.S. Patent and Trademark Office (July 6, 1999).

155. *Id.*

156. U.S. Patent and Trademark Office registration records are available at *www.uspto.gov.*

157. See www.uspto.gov.

158. Telephone Interview with Lynne Beresford, *supra* note 155.

159. *Id.*

160. This question was never resolved by the district court; s*ee* Order of the U.S. District Court, *supra* note 141, at 2 ("This Court had no reason to decide—and did not decide—whether or not the Arechabalas owned a valid trademark in the Havana Club name at the time they entered into an agreement with Bacardi & Co. This Court made no finding on this issue one way or the other.").

161. Lanham Act, *supra* note 19, at § 1051.

162. *Id.* at § 1127(2)(1); *see also Id.* at § 1115(b)(2), which establishes abandonment as a legal defense.

Case law,[163] which has refined and clarified the concept, holds that "a trademark or trade name is abandoned ... [when] ... two elements ... [are] ....satisfied: non-use of the name by the legal owner and no intent by that person or entity to resume use in the reasonably foreseeable future."[164] Nonuse *without* intent to abandon a mark does not suffice.[165] Intent to abandon may be construed from all the facts and circumstances of a given case,[166] including the amount of time during which the mark remains unused.[167] In addition, a party can adopt and claim a trademark that another has legally abandoned.[168] Finally, while short-term disuse without intent to abandon does not necessarily constitute abandonment[169] (particularly under circumstances that excuse nonuse),[170] one who discontinues use of a trademark for a significant period of time[171] and who never acts to defend against another's use of the mark may be said to have abandoned the mark and thus lost rights to it.[172]

In the Havana Club context, abandonment could arguably attach to the Arechabala mark. Though the family's discontinued use of the mark was involuntary due to Cuba's 1960 expropriation (an important fact which weighs in the Arechabala's favor in this debate), PTO records do not show that the Arechabalas ever registered "Havana Club" between 1960 and 1974, when Cubaexport first filed for registration.[173] Furthermore, there is no indication in any of Judge Scheindlin's decisions (including in her recounting of the facts underlying the case) that the family ever used or intended to use the mark for rum or other spirits. The length of time of disuse (here 14 years before Cuba's filing and over 30 years before the sale to Bacardi); the fact that the family arguably never demonstrated that they used or intended to use the mark other than by selling it to Bacardi; and the fact that they never defended their rights against Cuba's use creates a plausible legal argument that the Arechabalas had abandoned the mark and therefore had no U.S.-based property to transfer to Bacardi.

Bacardi, however, also has viable arguments in *its* favor. In the Factual Background section of her third *Havana Club* decision, Judge Scheindlin states that "Bacardi & Co. owns the 'Havana Club' mark for rum in the United States."[174] While this statement of fact is not a legal ruling and therefore does not carry

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163. *See* General Cigar Co., Inc. v. G.D.M. Inc., 988 F. Supp. 647, 657-658 (S.D.N.Y. 1997) for a particularly helpful summary of abandonment principles.

164. Stetson v. Howard D. Wolf & Associates , *supra* note 94, at 850 (citing Silverman v. CBS Inc., *supra* note 94, at 45 (citing Saratoga Vichy Spring Co. v. Lehman, 625 F.2d 1037, 1043 (2d Cir.1980))).

165. Sheila's Shine Products, Inc. v. Sheila Shine, Inc., 486 F.2d 114 (5th Cir. 1973).

166. Oklahoma Beverage Co. v. Dr. Pepper Love Bottling Co. (of Muskogee), 565 F.2d 629, 194 (10th Cir. 1977); Sheila's Shine Products, Inc. v. Sheila Shine, Inc., *supra* note 166.

167. Gold Seal Associates v. Gold Seal Associates, 56 F.2d 452 (S.D.N.Y. 1932).

168. Rome Mach. & Foundry Co. v. Davis Foundry & Mach. Works, 135 Ga. 17, 68 S.E. 800 (1910); Rosenburg v. Freemont Undertaking Co., 63 Wash. 52, 114 P. 886 (1911); W.A. Gaines & Co. v. E. Whyte Grocery, Fruit & Wine Co., 107 Mo. App. 507, 81 S.W. 648 (Mo. Ct. App. 1904).

169. Beech-Nut Packing Co. v. P. Lorillard Co., 273 U.S. 629 (1927).

170. Saratoga Vichy Spring Co., Inc. v. Lehman, 491 F. Supp. 141, 155 (N.D.N.Y. 1979), *aff'd*, Saratoga Vichy Spring Co. v. Lehman, *supra* note 165 (citing Menendez v. Saks & Co., 485 F.2d 1355, 1377 (2d Cir. 1973), *rev'd on other grounds sub nom*. Alfred Dunhill of London, Inc., v. Cuba, 425 U.S. 682 (1976); Garcia v. Montecrispi Cigar Co., 409 F.2d 14 (5th Cir. 1969)).

171. Merriam-Webster, Inc. v. Random House, Inc., 35 F.3d 65, 74 (2d Cir. 1994) ("mark unprotected when discontinued for over 20 years and no plans existed for use in reasonably foreseeable future" (citing Silverman v. CBS, Inc., *supra* note 94, at 47; Oklahoma Beverage Co. v. Dr. Pepper Love Bottling Co. (of Muskogee), *supra* note 167; Wallace & Co. v. Repetti, Inc., 266 F. 307 (2d Cir. 1920), *cert. denied*, 254 U.S. 639 (1920).

172. Saxlehner v. Eisner & Mendelson Co., 179 U.S. 19 (1900); Uncas Mfg. Co. v. Clark & Coombs Co., 200 F. Supp. 831 (D.C.R.I. 1962), *aff'd*, 309 F.2d 818 (1st Cir. 1962); Wallace & Co. v. Repetti, Inc., *supra* note 172.

173. Telephone Interview with Lynne Beresford, *supra* note 155.

174. Havana Club III, *supra* note 1, at *1.

the weight of her earlier decision that Cubaexport again holds the U.S. trademark registration, Judge Scheindlin does state that it is "presumed to be true."[175] Since she was the initial finder of fact in this case, this statement does have some impact.

More importantly, perhaps, § 211 may effectively hamstring Cubaexport's trademark rights in the United States. Though Cubaexport is the holder of record for the Havana Club trademark registration, § 211 (discussed later in greater detail) would prevent all U.S. courts from recognizing or enforcing Cubaexport's mark if the Cuban company were to file for infringement. That raises the question: What value do Cuban trademarks that fall under § 211 have if they are unenforceable in U.S. courts? It would appear that such trademarks are valid only until defended or challenged in court.

It is also not certain that the Arechabalas abandoned the mark, and in fact no judge has yet so found. Abandonment is an affirmative defense; therefore, Cubaexport or one of the Plaintiffs in the *Havana Club* case would have to raise and prove abandonment should Bacardi or the Arechabalas sue for infringement.

Several factors weigh against a finding that the Arechabalas abandoned the mark. First, because the Cuban government forcibly expropriated the Arechabalas' business (including the trademark),[176] the family did not voluntarily cease using the Havana Club mark. The family could not be said, therefore, to have intended to abandon the mark in 1960 and never resume use.[177] Furthermore, expropriation is not abandonment for purposes of U.S. trademarks.[178] As federal cases involving Cuban cigar trademark disputes made clear, Cuba's expropriation of a given cigar trademark in Cuba did not effect an expropriation or abandonment of that mark in the United States. In one case, for instance, the U.S.-registered cigar trademark was deemed U.S. property and thus well beyond the Cuban government's reach.[179] And the fact that the Cuban cigar company's owners, subsequently living in exile, were unable to immediately resume commercial use of their marks did not mean they had abandoned them.[180]

Other case law arguably supports a finding that the Arechabalas did not abandon the Havana Club mark. First, even one instance of a mark's good faith use by the owner during a period of lessened use can suffice to rebut an abandonment claim.[181] Even disuse for an extended period will not strip an owner of his rights

175. *Id.*

176. Havana Club IV, *supra* note 4, at *3.

177. Telephone Interview with William Golden, Esq., attorney for Defendants, Kelley Drye & Warren LLP (July 6, 1999).

178. Cuban Cigar Brands N. V. v. Upmann Intern., Inc. , 457 F. Supp. 1090, 1101 (S.D.N.Y. 1978) ("As our Court of Appeals has held, the fact that plaintiff was intervened by the Cuban government and thus prevented from exporting H. Upmanns to this country until recently does not constitute an abandonment of the mark." (citing Menendez v. Faber, Coe & Gregg, Inc., 345 F. Supp. 527 (S.D.N.Y. 1972), *aff'd sub nom.* Menendez v. Saks & Co., *supra* note 171, *cert. denied*, 425 U.S. 991 (1976))); F. Palicio y Compania, S. A. v. Brush, 256 F. Supp. 481 (S.D.N.Y. 1966), *aff'd*, 375 F.2d 1011 (2d Cir. 1967), *cert. denied*, 389 U.S. 830 (1967).

179. *see* F. Palicio y Compania, S. A. v. Brush, *supra* note 179, at 487 ("'[W]hen property confiscated is within the United States at the time of the attempted confiscation, our courts will give effect to acts of state 'only if they are consistent with the policy and law of the United States'' (quoting Republic of Iraq v. First Nat'l City Bank, 353 F.2d 47, 51 (2d Cir. 1965) (quoting RESTATEMENT, FOREIGN RELATIONS LAW OF THE UNITED STATES § 46 (1962)))); *see Id.* at 488 ("[O]ur courts will not give 'extraterritorial effect' to a confiscatory decree of a foreign state, even where directed against its own nationals."); *see Id.* at 491 (citing Roger & Gallet v. Janmarie, Inc., 245 F.2d 505 (1957)) ("[T]rademarks registered in this country are generally deemed to have a local identity—and situs—apart from the foreign manufacturer."); *see Id.* at 491-492 (citing A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Watson v. E. Leitz, Inc., 254 F.2d 777 (D.C. Cir. 1958); Hoffman-LaRoche Chemical Works v. Morganstern & Co., 281 F. 923 (2d Cir. 1922), *cert. denied*, 260 U.S. 729 (1922)) ("There is other authority for the view that United States trademarks of goods produced abroad may have a separate legal existence apart from the foreign manufacturer."); *see Id.* at 492 (citing Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 638-641 (2d Cir. 1956)) ("[T]rademark rights in this country cannot be affected by the decisions of foreign courts.").

180. *Id.* at 493; *see* Menendez v. Saks & Co., *supra* note 171, at 1377; *see* Gold Seal Associates v. Gold Seal Associates, *supra* note 168.

181. Carter-Wallace, Inc. v. Procter & Gamble Co., 434 F.2d 794 (9th Cir. 1970).

if there was no intent to abandon.[182] Furthermore, evidence of abandonment can be overcome when unusual circumstances explain and excuse nonuse.[183] In the Arechabalas' case, one could argue that forcible expropriation and subsequent lack of capital to resume business would excuse the mark's nonuse.

The Arechabalas' fundamental problem in defeating an abandonment claim is that they apparently failed to use the mark for over thirty years and seemingly never objected to or defended against the mark's use by others. Those circumstances could arguably constitute abandonment.[184] The time factor alone is troubling. For example, in one case, a mere five years' disuse was held to trigger abandonment where the original holder sought to reassert its rights after a rival had built a solid business upon the mark.[185] As importantly, we have seen that failure to take any action against another's use of the mark during the period of the original holder's disuse can support a finding of abandonment.[186]

Unlike the Cuban cigar-producing families or their successors-in-interest, who established cigar companies outside of Cuba under world-famous trademarks such as Partagás and H. Upmann (registered and/or used outside Cuba and untouched by Cuban expropriation), the Arechabalas never regrouped to commercially exploit the Havana Club mark. In fact, they and Bacardi never made substantial use of the mark, did not enter the trademark fray until the 1990s, and failed to defend their rights until the *Havana Club* Plaintiffs filed suit. Use, after all, is the primary benchmark for the creation of trademark rights. As Judge Scheindlin stated, quoting a circuit court decision, "'the right to exclusive use of a trademark derives from its appropriation and use in the marketplace.'"[187] Ultimately, however, only a court or other finder of fact can resolve these abandonment issues here. Until then, we can only raise and the analyze the relevant legal arguments.

SECTION 211: ABANDONMENT AND IMPERMISSIBLE RETROACTIVITY

The abandonment issue arises again in the context of § 211, that part of the Omnibus Consolidated and Emergency Supplemental Appropriations Act[188] that Judge Scheindlin concluded prevented her from enforcing Havana Club International's trade name claims.[189] Section 211, enacted while *Havana Club* was pending, bars transactions or payments "'with respect to a mark, trade name, or commercial name that is the same or substantially similar ... [to one] ... used in connection with a business or assets that were confiscated [by Cuba] unless the original owner ... [of such intellectual property] … or the bona fide successor-in-interest has expressly consented.'"[190] The law also bars U.S. courts from "recogniz[ing], enforc[ing], or otherwise validat[ing] any assertion"[191] of rights "by a designated national based on

182. Corkran, Hill & Co. v. A.H. Kuhlemann Co., 136 Md. 525, 111 A. 471 (1920).

183. Saratoga Vichy Spring Co., Inc. v. Lehman, *supra* note 171.

184. Wallace & Co. v. Repetti, Inc., *supra* note 172 (Original owners permitted mark's use, while in the *Havana Club* case, we cannot say the Arechabalas affirmatively permitted Cuba's use of the mark.).

185. Levering Coffee Co. v. Merchants Coffee Co., 39 App. D.C. 151 (D.C. Cir. 1912); *see* Blackwell v. Dibrell, 3 F. Cas. 549 (C.C.E.D. Va.1878) (No. 1475) (Eight years' disuse meant forfeiture of rights to mark during period of disuse.).

186. Wallace & Co. v. Repetti, Inc., *supra* note 172.

187. Havana Club III, *supra* note 1, at *6 (quoting La Societe Anonyme des Parfums Le Galion v. Jean Patou, Inc., 495 F.2d 1265, 1271 (2d Cir. 1974)).

188. Omnibus Consolidated and Emergency Supplemental Appropriations Act, *supra* note 113.

189. Havana Club IV, *supra* note 4, at *4-*8.

190. Omnibus Consolidated and Emergency Supplemental Appropriations Act, *supra* note 113, at

§ 211(a)(1), *reprinted in* Havana Club IV, *supra* note 4, at *4.

191. *Id.* at § 211(a)(2), *reprinted in* Havana Club IV, *supra* note 4, at *4.

common law rights or registration"[192] or rights arising under treaty.[193]

In response to Havana Club International's assertion "that § 211 does not require the abrogation of treaty rights in circumstances where the original owner of the trademark or trade name has abandoned its rights in the mark,"[194] Judge Scheindlin held that "[t]he statute does not require continuous use or provide a defense of abandonment."[195] Whether the judge was correct, however, is debatable. Since, as Judge Scheindlin admits, "there is no official legislative history surrounding the enactment of § 211"[196] and there is no other case law applying this statute, we are limited to the law's plain meaning.

However, there is a legitimate question as to whether the law's wording alone suffices to decisively conclude that Congress meant to foreclose the abandonment defense. If Congress did intend to bar the abandonment argument, then the law arguably grants original Cuban trademark owners or their successors-in-interest a perpetual blocking right against others' use of relevant trademarks, trade names, and commercial names.[197] Such a right might run counter to settled U.S. (and possibly international) trademark law by attaching a permanent property right to trademarks, trade names, and commercial names that are, by law and by their nature, impermanent. Trademarks, even those that have been expropriated, are not tangible, real property such as land—or such as money or artwork stolen by the Nazis.[198] The property rights they involve depend on use and are therefore perishable and transcient. A legally abandoned trademark no longer belongs to the original owner. If anything, it passes into the public domain.[199] As morally repugnant as forcible expropriation is, § 211 will doubtless raise eyebrows if it is deemed to create a fixed property right in marks that have gone unused and undefended for decades.

Impermissible retroactivity is another key § 211 issue, and it is likely to come up on appeal.[200] During the *Havana Club* litigation, Havana Club International argued that § 211 was inapplicable "because such application would retroactively impair trade name rights possessed by HCI [Havana Club International] prior to ... [the law's] ... enactment."[201] Judge Scheindlin disagreed, applying the Supreme

192. *Id.*, *reprinted in* Havana Club IV, *supra* note 4, at *4.

193. *Id.* at § 211(b), *reprinted in* Havana Club IV, *supra* note 4, at *4.

194. Havana Club IV, *supra* note 4, at *7.

195. *Id.*

196. *Id.* at *4, n.5.

197. Telephone Interview with Charles Sims, Esq., attorney for Plaintiffs, Proskauer Rose LLP (July 7, 1999).

198. *Contra* Tom Carter, *Court Ruling Stirs Battle over What Goes in Cuba Libre*, WASH. TIMES, June 17, 1999, at A16 [hereinafter Carter] ("'How is this different from the rights of Jews whose property was confiscated by the Nazis?' said Doug Gibson, attorney for Bacardi Ltd.").

199. General Cigar Co., Inc. v. G.D.M. Inc., *supra* note 164, at 658 ("A determination that a mark has been abandoned defeats the alleged owner's claim of priority: Once abandoned, the mark reverts back to the public domain whereupon it may be appropriated by anyone who adopts the mark for his or her own use."); *see* Du Pont Cellophane Co. v. Waxed Products Co., 6 F. Supp. 859, 881 (E.D.N.Y. 1934) ("The law is well settled that a fanciful word which has become a trade-mark cannot pass into the public domain unless it is abandoned by its owner …" (citations omitted)), *modified*, 85 F.2d 75 (2d Cir. 1936), *cert. denied*, 299 U.S. 601 (1936); *see also* Defiance Button Machine Co. v. C & C Metal Products Corp., 759 F.2d 1053 (2d Cir. 1985) ("[I]f the owner expressly abandons his mark, such as by cancelling it, or discontinues using it with the intent not to resume use, others are no longer restrained from using it since it ceases to be associated in the public's mind with the owner's goods or services." (citing Manhattan Industries, Inc. v. Sweater Bee by Banff, Ltd., 627 F.2d 628, 630 (2d Cir. 1980))).

200. Telephone Interview with Charles Sims, Esq., *supra* note 198; a July 6, 1999, telephone conversation with the clerk of the court for the U.S. Court of Appeals for the Second Circuit revealed that Plaintiffs have filed a Notice of Appeal, though no briefing calendar had yet been established.

201. Havana Club IV, *supra* note 4, at *7.

Court's *Landgraf*[202] reasoning to hold that the law was "silent as to its application to cases pending prior to its enactment"[203] and that retroactivity was not triggered where, as here, Plaintiffs sought "prospective relief"[204] in the form of an injunction.[205]

A look at the Supreme Court's most recent decision regarding retroactivity may assist us in determining whether Judge Scheindlin correctly applied the law. In its June 1999 decision *Martin v. Hadix,*[206] the Supreme Court addressed this "recurring question in the law: When should a new federal statute be applied to pending cases?"[207] Like Judge Scheindlin, the Court applied the *Landgraf* standard: "[W]e ask first 'whether Congress has expressly prescribed the statute's proper reach.'[208] If there is no congressional directive on the temporal reach of a statute, we determine whether the application of the statute to the conduct at issue would result in a retroactive effect.[209] If so, then in keeping with our 'traditional presumption' against retroactivity, we presume that the statute does not apply to that conduct."[210]

The Supreme Court in *Martin v. Hadix* found that the language of the statute in question fell "short of demonstrating a 'clear congressional intent' favoring retroactive application"[211] and that the law's wording lacked the "'unambiguous directive' or 'express command' that the statute … [was] ... to be applied retroactively."[212] The Court reached this conclusion despite one party's assertion that the word "any" as used in the statute's "any action" language was a "broad, encompassing word"[213] demonstrating Congress' intent to apply the law retroactively.[214] In addition, the Court would not accept mere speculation about congressional intent based on the law's legislative history.[215]

Concluding that Congress had not "'expressly prescribed' the [law's] proper reach,"[216] the Supreme Court then considered whether the statute in question "would have retroactive effects inconsistent with the usual rule that legislation is deemed to be prospective."[217] Such an inquiry, the Court stated, "demands a common sense, functional judgment about 'whether the new provision attaches new legal consequences to events completed before its enactment.'"[218] Furthermore, "[t]his judgment should be informed and guided by 'familiar considerations of fair notice, reasonable reliance, and settled expecta-

202. Landgraf v. USI Film Products, 511 U.S. 244 (1994).

203. Havana Club IV, *supra* note 4, at *7.

204. Havana Club IV, *supra* note 4, at *7.

205. *Id.*

206. Martin v. Hadix, 119 S.Ct. 1998 (1999).

207. *Id.* at 2003.

208. *Id.* (quoting Landgraf v. USI Film Products, *supra* note 203, at 280).

209. *Id.* (citing Landgraf v. USI Film Products, *supra* note 203, at 280).

210. *Id.* (citing Landgraf v. USI Film Products, *supra* note 203, at 280; Hughes Aircraft Co. v. United States ex rel. Schumer, 520 U.S. 939, 946 (1997)).

211. *Id.* at 2004 (quoting Landgraf v. USI Film Products, *supra* note 203, at 280).

212. *Id.* (quoting Landgraf v. USI Film Products, *supra* note 203, at 263, 280).

213. *Id.*

214. *Id.*

215. *Id.* at 2005-2006.

216. Martin v. Hadix, *supra* note 207, at 2006 (quoting Landgraf v. USI Film Products, *supra* note 203, at 280).

217. *Id.*

218. *Id.* (quoting Landgraf v. USI Film Products, *supra* note 203, at 270).

tions.'"[219] In this case, the Court found that the law did have a retroactive effect on settled expectations and that such effect was impermissible without a clear expression of congressional intent to apply the law retroactively.[220] Without such clear expression, then, prospectivity is the default rule,[221] and retroactivity is impermissible.

In *Havana Club*, Judge Scheindlin seems correct in concluding that § 211 does not prescribe or indicate an intended temporal reach. The law as written does not contain express language regarding Congress' intent to apply the law retroactively, and § 211 has no legislative history upon which to base a contrary result. Furthermore, even if, on appeal, Defendants were to assert that the "'any assertion of [trademark, trade name, or commercial name] rights'"[222] language signaled Congress' retroactive intent, the Court of Appeals could easily look to *Martin v. Hadix* to disagree.

Applying the Supreme Court's second line of questioning, Judge Scheindlin found that § 211, unlike the law in *Martin v. Hadix*, was *not* retroactive. Citing *Landgraf* and other cases, the judge stated that the injunctive relief Plaintiffs sought was prospective rather than retroactive: "'When the intervening statute authorizes or affects the propriety of prospective relief, application of the new provision is not retroactive.'"[223] Relying on other cases as well, Judge Scheindlin held that "§ 211 would not have an impermissibly retroactive effect"[224] since prospective relief (here, an injunction) "affect[s] the future rather than remed[ies] the past"[225] and because the law's "application would not unfairly upset HCI's settled expectations or unfairly impair its investment."[226]

The Court of Appeals, however, could reasonably hold that § 211 is indeed retroactive. *Landgraf,* in fact, spells out examples of when a law would trigger retroactivity: a law whose application "would impair rights a party possessed when he acted, increase a party's liability for past conduct, or impose new duties with respect to transactions already completed."[227] In the *Havana Club* case, which was pending when § 211 was enacted, the new law might be construed to have impaired Havana Club International's right to have its Inter-American Convention and Lanham Act claims heard—rights that would have attached but for § 211. In addition, because Havana Club International is now arguably an infringer per se under § 211 for using the Havana Club name without express permission, § 211 could be said to increase its liability for past conduct (here, relying on and commercially using that name). Finally, Havana Club International could argue that § 211's requirement of obtaining permission for use of relevant trademarks, trade names, and commercial names imposes a "new duty with respect to [the business and commercial] transactions [it has] already completed." Of course, these arguments are simply speculative, and it is up

219. *Id.* (quoting Landgraf v. USI Film Products, *supra* note 203, at 270).

220. *Id.* at 2006-2008.

221. Landgraf v. USI Film Products, *supra* note 203, at 272 ("[P]rospectivity remains the appropriate default rule. Because it accords with widely held intuitions about how statutes ordinarily operate, a presumption against retroactivity will generally coincide with legislative and public expectations. Requiring clear intent assures that Congress itself has affirmatively considered the potential unfairness of retroactive application and determined that it is an acceptable price.").

222. Omnibus Consolidated and Emergency Supplemental Appropriations Act, *supra* note 113, at

§ 211(a)(2), (b), *reprinted in* Havana Club IV, *supra* note 4, at *4 (emphasis added).

223. Havana Club IV, *supra* note 4, at *7 (quoting Landgraf v. USI Film Products, *supra* note 203, at 273).

224. *Id.*

225. *Id.*

226. *Id.*

227. Landgraf v. USI Film Products, *supra* note 203, at 280.

to the Court of Appeals to judge the merits of these and any other § 211 claims.[228]

U.S.-CUBA TRADEMARK OBLIGATIONS

The *Havana Club* decisions have sparked news reports that Bacardi and the Arechabalas will pursue their trademark claims in Spain,[229] that Cuba may create its own version of Coca-Cola,[230] that Cuba may start a trade war with the United States,[231] and that the European Union will dispute § 211 before the World Trade Organization.[232] To understand what Cuba's legitimate options are in response to Judge Scheindlin's holdings and to avoid alarmist predictions about U.S. trademark protection in Cuba, it is necessary to briefly review applicable Cuban and international trademark norms and explore how § 211 might violate the United States' World Trade Organization ("WTO") obligations. Only then can we speculate as to the viability of U.S. trademarks registered in Cuba.

Cuban law provides for foreign trademark registration and protection in Cuba.[233] A registration is valid for ten years and can be renewed in ten-year increments. The trademark registrant must use the mark for it to remain valid. Nonuse for three consecutive years triggers the mark's expiration if another party files a petition for such expiration.[234] Four hundred U.S. companies reportedly have trademarks registered in Cuba.[235]

In addition to other international agreements, Cuba is a party to the General Inter-American Convention for Trade Mark and Commercial Protection,[236] the WTO,[237] and as a WTO member, the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS").[238]

As Judge Scheindlin discussed in *Havana Club,* the Inter-American Convention is "multi-lateral trademark treaty … [that] … compels signatory nations to grant to the nationals of other signatory nations the same rights and remedies which their laws extend to their own nationals."[239] The convention also requires members to recognize and record trademark transfers validly executed in other states parties.[240]

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228. Telephone Interview with Charles Sims, Esq., *supra* note 198 (indicating that Plaintiffs would probably appeal Judge Scheindlin's conclusions regarding § 211's retroactivity.).

229. Tamayo, *Cuban Rum War*, *supra* note 3.

230. Carter, *supra* note 199; Tamayo, *Fidel Threat*, *supra* note 7.

231. *Cuba Warns of Trade War*, *supra* note 6.

232. Oyama, *supra* note 5.

233. Decree-Law No. 68 on Inventions, Scientific Discoveries, Industrial Models, Trademarks and Denominations of Origin (May 14, 1983); *see* Falk, *Visions of Embargo*, *supra* note 145; *see* the U.S.-Cuba Trade and Economic Council's Web site (*www.cubatrade.org*) for helpful information.

234. Falk, *Visions of Embargo*, *supra* note 145; U.S.-Cuba Trade and Economic Council Web site, www.cubatrade.org, *supra* note 234.

235. Carter, *supra* note 199; *see* Falk, *Visions of Embargo*, *supra* note 145 ("Hundreds of U.S. companies have registered marks and copyrights in Cuba."); *see* U.S.-Cuba Trade and Economic Council Web site, *www.cubatrade.org*, *supra* note 234, for a list of U.S. companies and their Cuba-registered marks.

236. Inter-American Convention, *supra* note 39; U.S. DEP'T ST., TREATIES IN FORCE: A LIST OF TREATIES AND OTHER INTERNATIONAL AGREEMENTS OF THE UNITED STATES IN FORCE ON JANUARY 1, 1999, 1, 391 (1999) [hereinafter TREATIES IN FORCE).

237. Convention Establishing the World Trade Organization, 21 U.S.T. 1749, T.I.A.S. No. 6932, 828 U.N.T.S. 3, July 14, 1967; TREATIES IN FORCE, *supra* note 237, at 393.

238. Agreement on Trade-Related Aspects of Intellectual Property Rights, T.I.A.S. No. ____, 33 I.L.M. 81, April 15, 1994 [hereinafter TRIPS]; TREATIES IN FORCE, *supra* note 237, at 467-468; *see also* World Trade Organization Web site, *www.wto.org*.

239. Havana Club II, *supra* note 11, at 307 (citing Inter-American Convention, *supra* note 39, at ch. I, art. 1, 46 Stat. 2907, 2912).

240. *Id.* at 308 (citing Inter-American Convention, *supra* note 39, at ch. II, art. 11, 46 Stat. 2907, 2922-2924).

TRIPS requires "[e]ach member … [to] … accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property."[241] TRIPS also provides that "[w]ith regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members."[242] Most importantly, TRIPS provides that:

1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

2. …In determining whether a trademark is well-known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.[243]

As Judge Scheindlin noted in *Havana Club*, § 211 runs counter to and supercedes the Inter-American Convention rights that Havana Club International asserted.[244] Whether her conclusion was correct may become a matter for the Court of Appeals to decide. Given the impending WTO dispute, however, it seems more pressing to consider § 211 in relation to TRIPS.[245]

It is not certain that § 211 violates TRIPS.[246] Arguments supporting a finding of violation[247] would include the conflict between § 211's bar to court enforcement of trademarks associated with expropriated Cuban property and TRIPS' requirement that members afford every other member's nationals with no less intellectual property protection than that assured their own nationals.[248] Similarly, one could argue that § 211 violates the provision (reprinted above) that bars one's use of an identical or similar mark already used by another for like goods. In this instance, § 211 would run counter to that provision by disallowing enforcement of trademarks that fall within the law's parameters and by permitting parties who have abandoned their marks to block all others from using them without express permission. The new U.S. law might also conflict with TRIPS by "unjustifiably encumber[ing]"[249] "the use of a trademark in the course of trade"[250] "by [impos-

241. TRIPS, *supra* note 239, at pt. I, art. 3, 1.

242. *Id.* at pt. I, art. 4.

243. *Id.* at pt. II, § 2, art. 16, 1-2.

244. *See* Havana Club IV, *supra* note 4, at *4-*6.

245. Application of case law principles governing when a later-in-time statute supercedes treaty obligations could reasonably lead a judge to conclude that § 211 overrides TRIPS to the extent the two conflict. Such a finding would not, however, "relieve the United States of its international obligation [under TRIPS] or of the consequences of a violation of that obligation." (RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 115(1)(b) (1986)) [hereinafter RESTATEMENT (THIRD)].

246. Telephone interview with Lynne Beresford, *supra* note 155 (Ms. Beresford speculated that § 211 is arguably in sync with both TRIPS and the Inter-American Convention.).

247. Arguments that § 211 does not violate TRIPS have been omitted since, in the Havana Club context, they would involve abandonment issues which are discussed earlier in this paper.

248. TRIPS, *supra* note 239, at pt. I, art. 3(1).

249. *Id.* at pt. II, § 2, art. 20.

250. *Id.*

ing] special requirements"[251]—in this case, § 211's making relevant trademarks' enforceability contingent on express permission from the marks' original owners or their successors-in-interest. In addition, because TRIPS Articles 22 and 23 bar marks indicating a false geographic origin,[252] WTO disputants parties might claim that § 211 violates these provisions by carving out a permanent market niche for trademarks that may be geographically misdescriptive (e.g., Havana Club). Finally, by effectively closing the courthouse door to trademark claimants whose marks fall under § 211, the new law may conflict with TRIPS Article 41, which requires members to ensure legal enforcement procedures in their respective countries so as to prevent infringements and to "avoid … barriers to legitimate trade."[253]

If it is concluded that § 211 does indeed violate TRIPS, Cuba could suspend its TRIPS obligations toward the United States and thus, toward U.S. trademark holders. Under international law norms that may be applicable here, one party's material breach of an multilateral agreement 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."[254] If Cuba or the WTO does perceive § 211's application to the Havana Club mark to constitute a breach of TRIPS, it is possible that Cuba will cease to honor U.S. trademarks. According to one recognized authority on U.S.-Cuban affairs, Cuba's use of U.S. trademarks on its own products, for example, would be retaliation for the actions of companies such as Bacardi.[255]

Such results are perceived by to be unlikely, however.[256] Cuba relies heavily on foreign investment and over time has welcomed visits by U.S. businesspeople exploring post-embargo opportunities. Though we can only speculate as to what Cuba's response would be to a finding that § 211 violates our international obligations, Cuba hardly appears ready to sacrifice future U.S. private investment. However, Cuba is no stranger to government expropriations, and trademark registrations remain vulnerable in a country balancing communism and capitalist experimentation. While foreign intellectual property's safety in Cuba cannot be guaranteed, in the end, Cuba's gradual incorporation of economic reforms and a predicted post-Castro return to a free-market economy raise the hope that Cuba will preserve trademark protection as a foundation upon which foreign investors can build.

251. *Id.*

252. *Id.* at pt. II, § 2, arts. 22-23.

253. *Id.* at pt. III, § 1, art. 41(1).

254. RESTATEMENT (THIRD), *supra* note 246, at § 335(2)(b) (Note, however, that this section is based on the Vienna Convention on the Law of Treaties, to which the United States is not a party. It is unclear, therefore, if this provision would apply.).

255. Juan O. Tamayo, *Castro Threatens to Fake U.S. Brands*, ORANGE COUNTY REGISTER, May 11, 1999, at C05 ("'As far as Cuba is concerned, Bacardi is faking Havana Club, so they would be merely retaliating,' said Pamela Falk, professor of international trade and business law at the City University of New York.").

256. Carter, *supra* note 199 ("U.S. analysts familiar with Cuba say ... Cuba is unlikely to begin violating U.S. trademarks.... 'Cuba does not want to get on the bad side of U.S. business,' said John Kavulich, of the U.S.-Cuba Trade and Economic Council.").