

HAVANA CLUB IN THE WTO: HEREIN OF INTERNATIONAL LAW AND AMERICAN POWER

Alan Swan

There has risen today a relatively new voice in American policy making circles. A voice that degrades international law and trumpets the virtues of unilateralism. Much of the academic writing in support of this viewpoint is a singular concatenation of confused concepts. Much of it is pure isolationism wrapped in the flag of Constitutional preservation. And much of it is unadulterated arrogance—the view that because our power is so great we can unilaterally, if we apply our power effectively, get other nations to do pretty much what we want without having to tie ourselves down with treaties and other reciprocal obligations that only limit our sovereignty. A reinvented Hobbesian state of nature.

This is neither the time nor place to take on the whole of the unilateralist mindset. Here I have only one fundamental and very practical point to make. The problem is that the unilateralists don't understand one of the most potent sources of American power; our international legal obligations, particularly our treaties.

Few treaties comprehensive enough to be important to the preservation of world order—whether they deal with national security, trade, other economic matters, the environment, human rights, disarmament or any other subject—can be at all effective without the active support and participation of the United States. That's the first elementary lesson that comes with power—we're needed. The second elementary lesson is that if needed we can more often than not turn treaty commitments to our advantage—they can become a direct complement

to and extension of the more immediate military and economic instruments of our national power. In particular they can legitimate and hence command adherence by other Nations to those principles of international conduct that serve our own long-term national interests—which is, of course, the ultimate object of having power. And this is precisely the lesson to emerge in very practical terms from litigation between the European Union and the United States in the World Trade Organization (WTO), litigation which, with a touch of poetic justice, starts in a law suit over rights to an American trademark for Cuban rum—Havana Club.

So, I begin with a brief description of the Havana Club litigation. It involved an infringement claim brought by a joint venture between the Cuban government and Pernod, a French company—what I'll call the Cuban-Pernod Group—against Bacardi. Ultimately the U.S. courts dismissed the claim largely on the strength of §211 of the 1998 Omnibus Appropriations Act. This led the European Union to challenge the validity of §211 in the WTO on the ground that the U.S. statute violated the TRIPS agreement. (TRIPS stands for Trade Related Intellectual Property Rights and is one of the basic agreements under the WTO umbrella.)

Before getting into the details of the WTO case, however, I want to talk briefly about the importance of the TRIPS to the global economic and ultimately political interests of the United States. Only against that background can one begin to fully appreciate not only why the U.S. may rightfully claim to have

won a very substantial victory in the §211 case, but also why that victory illustrates how important our international legal entanglements can be to the preservation even extension of America's capacity to influence events in the world in which we liveæ America's power.

How did this occur? It occurred because the underlying policy rationale used by the U.S. to support its core legal contention in the case was given full recognition by the WTO's Appellate Body. That underlying policy, in turn, is and will continue to be vital to preserving the safety and integrity of U.S foreign investments around the globe. Yet, it is a policy much contested by other nations. Its recognition, arguably its endorsement, by the WTO Appellate Body, therefore, represents a major step toward legitimating the U.S. position; one more example of how American power can be and often is utterly dependent for its preservation upon international law.

HAVANA CLUB IN THE U.S. COURTS

Now let me turn to the Havana Club litigation in the U.S. courts, a story well known to many of you perhaps better than I. Up until 1960, Cuban rum marketed under the Havana Club label was sold world wide including sales to the U.S. by JASA, a Cuban company owned by the Arechabala family. In 1960 JASA was confiscated by the Cuban government and the exportation of rum taken over by Cubaexport, a Government enterprise, which could not, of course, sell to the U.S. because of the trade embargo.

In 1976, Cubaexport registered the Havana Club trademark with the U.S. Patent and Trademark Office. Then in 1993, after the fall of the Soviet Union, Cubaexport entered into a 50/50 joint venture with Pernod a French company. In 1995, Cubaexport obtained from the U.S. Treasury Department's, Office of Foreign Assets Control (OFAC), a license to assign the U.S Havana Club trademark to its several subsidiaries. While OFAC subsequently rescinded the license, the reasons for its initial issuance have interesting implications.

Because they could not sell Cuban rum into the U.S. market at the time, what the Cuban-Pernod Group was doing when they first registered the Havana

Club mark with the U.S. Trademark office, then renewed that registration and received the OFAC license, was protecting their future position in that market anticipating that the legal barrier would someday be lifted. At the time, American companies were doing the same thing; preserving their future position in the Cuban market. Over 400 U.S. companies had registered their trademarks in Cuba even though they could not then export their products to Cuba. Quite plainly actions by OFAC and the U.S. Trademark Office were carefully crafted to avoid any retaliatory action by the Cuban government against those American companies.

Also, by protecting the Cuban-Pernod claim to the Havana Club mark, OFAC was preserving the commercial value of that claim for future use as a potentially major addition to any pool of Cuban assets turned over to the United States for the settlement of American claims against Cuba; an advantage completely dissipated by the enactment of §211 and the failure of the United States to honor the Cuban-Pernod rights.

Finally, in 1997, the Arechabala family sold out all of its interests in Havana Club to Bacardi who, in anticipation of that sale commenced, in 1995, to sell a small quantity of Bahamian rum to the United States under the Havana Club trademark. Whereupon the Cuban-Pernod Group sued Bacardi for trademark infringement

Before the infringement issue was tried, but well after the litigation had commenced, Congress enacted §211 of the 1998 Omnibus Appropriation Act, and on the strength of that statute the Cuban-Pernod infringement claim was dismissed. This occurred in 1999. Late the same year the European Union filed a claim with the WTO alleging that §211 violated the TRIPS agreement.

TRIPS AND THE GLOBAL PROTECTION OF U.S. INTELLECTUAL PROPERTY

At this point let me turn to the agreement on Trade-Related Aspects of International Property Rights (TRIPS) and its importance to the United States. Understand that we have never had, nor is there today, a truly international patent or international

trademark or copyright. Intellectual property rights still remain creatures of national or what international lawyers call “municipal law.” There have long been in place, however, a number of treaties setting out procedures by which a patent, trademark or copyright owner in one country signatory to one of these treaties could perfect his rights to a patent, trademark or copyright under the national law of another signatory. These treaties also laid-down certain minimum substantive standards that the national intellectual property laws of each signatory had to meet and then established two very critical principles of nondiscrimination: the “national treatment” and the Most Favored Nation, or MFN, principle.

This cooperative system was built upon two principal treaties: the Paris Convention of 1884, governing patents and trademarks, and the 1886 Berne Convention, governing copyrights.

While the system worked reasonably well for the industrialized countries that had well developed research and inventive capabilities, there was nothing it in for countries that did not have inventions, ideas and distinctive product names and marks to protect. Their optimal strategy was to import products and various copyrighted media, do the reverse engineering, replicate the technology, affix the traditional names and trademarks, copy the books, the artwork, the other media all without obtaining permission from or paying royalties to the owners of these valuable properties. In this category were most of the nations in the world. Almost all the signatories to the Paris and Berne Conventions were industrialized countries. The developing countries, including those with some of the World’s most promising markets—China, India, Korea, Brazil, Mexico and others—not only shunned the treaties, but steadfastly refused to enact even the most rudimentary intellectual property laws of their own. At one point before negotiation of the WTO agreements, the U.S. Department of Commerce estimated that U.S. companies were losing in excess of \$4 billion a year in royalties they would otherwise earn if the Paris-Berne system were in effect worldwide.

Quite naturally, when it came to the Uruguay Round of Multilateral Trade Negotiations, the United

States, the European Union and Japan pushed hard for the establishment of a credible system of intellectual property rights protection to which all nations would have to adhere if they wanted to participate in the world trading system. This led to the negotiation of the TRIPS Agreement which: (1) incorporated most of the important provisions of the Paris and Berne Conventions; (2) added some additional procedural and substantive undertakings to which national law had to conform; and (3) reinforced the “national treatment” and MFN provisions in those earlier treaties. Most significantly, there was no escape. Any nation that wanted to benefit from the WTO trade rules would have to adhere to the TRIPS Agreement. As of January 1, there were 144 such nations.

Yet, as one might expect the transition has not been easy for some developing countries. You are all aware, I am sure, of the African drug issue. Then there is the disgraceful way in which the United States and the Europeans have reneged on their promise to liberalize imports of agricultural goods, textiles and garments from developing countries in exchange for TRIPS. So adjustments will be made. But the adjustments won’t change the fact that the core TRIPS regime is a vital addition to the arsenal of American economic power in the World; a regime critical to the retention by the United States of its current dominant position in the world of high technology.

THE WTO LITIGATION

Now, bear with me. Against this background let me take you through the §211 case as it played out in the WTO dispute settlement process. The provisions of §211 at issue were:

- First, a provision prohibiting OFAC from issuing any license to register or otherwise deal in a trademark similar to a mark used in a business confiscated by the Castro government unless the original owner of the mark expressly consented thereto.
- Second, two separate subsections of §211 barring the U.S. courts from enforcing or otherwise recognizing any rights to a trademark confiscated

by the Cuban government, if those rights were asserted by the Cuban government, a Cuban national or successor-in-interest (e.g., Pernod) without the consent of the original owner.

As one can readily see each of these provisions effectively barred the Cuban-Pernod Group from asserting any rights against Bacardi for infringement of the Havana Club trademark in the U.S. courts. Certainly, the Arechbala interests had never consented to the assertion of those rights. This, in turn, led the European Union to contend that the United States had violated the following provisions of the TRIPS Agreement:

1. A provision taken from Article 6 of the Paris Convention requiring all trademarks duly registered in a country of origin (e.g., Cuba) to be “accepted for filing and protected as is” in all other signatory countries (e.g., the United States), subject only to such exceptions as were expressly listed in that provision. There was no express exception for confiscated trademarks.

The Europeans argued, of course, that this provision, contrary to §211, required the United States to honor the Cuban-Pernod Group’s claims under the Havana Club trademark as registered in Cuba. In response, the United States argued that a fundamental structural principle of the TRIPS Agreement was that questions relating to the “ownership” of trademarks had been left to national law and were not controlled by TRIPS or the other treaties. Article 6 of the Paris Convention, in other words, had to be construed narrowly as pertaining only to questions of form, not to questions of ownership. §211 pertained to ownership, not form. Stated another way, according to the United States, Article 6 only required that a trademark duly registered in one signatory not be rejected by another merely for a failure to meet the latter’s requirements as to “form.” It did not require the latter to recognize ownership rights conferred by the first country; the country of origin because ownership was strictly a matter for the second country’s own national law—including, for the United States, §211. Ultimately the U.S. won on this point.

The interesting point for our purposes, however, is why it won—a matter to which I shall return shortly.

2. Next the EU cited Article 15 of the TRIPS which stipulates that any sign or combination of signs, including names, numerals, pictures, etc, capable of “distinguishing goods and services” was to be “capable of constituting a trademark” and hence “eligible for registration as a trademark.”

This provision, the EU argued, was mandatory. Anything “capable” of being a trademark, such as the Havana Club label, had to be treated *in all respects* by the WTO members as a valid subsisting trademark. Again, the United States met this contention by emphasizing the overall structural principle; questions of ownership were left to national law not to the treaties. To be consistent with that principle, Article 15 could only be read as saying that if a sign was physically “capable” of being a trademark it had to be treated by every WTO member as legally “eligible” for recognition as a trademark, but without prejudice to the right of each member to determine under its national law who owned the mark. This is precisely what §211 did. It assigned ownership of a confiscated mark to the original owner as against the confiscating power or its successors-in-interest. Again, the United States won on this point, but again the intriguing question is why it won.

3. The European Union next turned to Article 16 of the TRIPS agreement granting to the “owner” of every trademark registered in a member State the “exclusive right to prevent all third parties not having the owner’s consent from using” the mark in connection with trading goods or services similar to those in respect of which the trademark was registered.

Again relying upon the preclusive right of national law to determine ownership, the United States responded with the rather obvious point that since under §211 the Cuban-Pernod Group could not qualify as “owners” of the Havana Club mark, they had no Article 16 rights of

which they could be deprived. Again the United States won its point.

Although it lost on two other points, both the result of careless drafting that Congress can easily remedy, it is clear that the United States won a singular victory in the §211 case. The key to that victory was unequivocally the decision by the Appellate Body that issues of trademark ownership were, under the law of the treaties, to be left to national law and not controlled by TRIPS or the other applicable treaties, subject only to national treatment and MFN.

Now, mark the next point well, for it is the most important point. Adoption of that rule was decisively, in my judgment, the result of a fundamental policy decision by the Appellate Body. National law control over trademark ownership was absolutely essential to preserving for trademarks the broader principle that under international law no nation was required to honor rights in or claims to property that had been expropriated or otherwise taken from its citizens by another nation without adequate compensation; the so-called doctrine of State Responsibility for alien property. There was no such exception for confiscated trademarks in the rules of recognition found in TRIPS or the other treaties. If there was to be any such rule for trademarks, questions of trademark ownership had, as a matter of treaty law, to be taken out of the hands of the treaties and left to national law—to laws such as §211. A point repeatedly acknowledged by the Appellate Body.

That the Appellate Body attached such seminal weight to the Doctrine of State Responsibility—that it in effect endorsed that doctrine as a critical element in the broader configuration of international economic law—is manifest, in my view, by the risk it took. By turning the issue of trademark ownership over to national law, rather than keeping it strictly within the confines of TRIPS and the other treaties, the Appellate Body knew it was opening the matter up for genuine abuse as nations would undoubtedly be tempted to craft many and novel discriminatory limitations on the recognition of foreign trademarks. Having won its victory, the United States certainly

must now keep a sharp outlook for just such opportunistic behavior. But that the Appellate Body took the risk of exposing the TRIPS regime to such a danger, is overwhelming evidence, in my view, of the importance that it assigned to preserving and expanding the international doctrine of State Responsibility for alien property.

That doctrine, of course, has long been under attack. While it has undergone something of a renaissance through the hundreds of Bilateral Investment Treaties (BITs), through NAFTA and through decisions by the Iranian-U.S. Claims Tribunal, it is still under attack, this time by the environmentalists on the left and the unilateralists on the right. Its continuing vitality will be a matter tested—perhaps sorely tested—in the negotiation of an agreement for the Free Trade Area of the Americas, a matter I would think of some interest to this Association.

But this aside, the fact remains that the principle of international law upon whose behalf the Appellate Body took such risks, is a principle critical to the continuing ability of the United States to work effectively for a free, global economy run by private enterprises operating under market disciplines for the economic benefit of all mankind; indeed for the World's political benefit as well—for a truly democratic world. As such the §211 case is one more example of how quietly, yet effectively, American power can and is everyday extended through international law. One more example of precisely how an international judicial process—the Appellate Body of the WTO—working in the best traditions of the common law to perfect a comprehensive treaty regime through the careful application of customary international law, can serve as a powerful instrument for the advance of America's vital interests. One more example of why the unilateralists caught in the trap of their own ideological premises bated so artfully by their own overwhelming arrogance, fail repeatedly to understand how disastrously they would and already have robbed this Nation of one of the most potent sources of its continuing power over the course of events in the world round us—the power of international law.