TESTIMONY OF IGNACIO SANCHEZ

FOR BACARDI-MARTINI

BEFORE THE HOUSE JUDICIARY SUBCOMMITTEE

ON COURTS AND INTELLECTUAL PROPERTY

MAY 21, 1998

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify today on the subject of international expropriation of U.S. registered trademarks. My name is Ignacio Sanchez and I serve as outside counsel to Bacardi-Martini, Inc. While I will explain Bacardi's unique situation in my testimony, I want to stress the importance of the larger issue at stake here -- the need to close a loophole in U.S. law that allows registration of confiscated trademarks in the U.S. Without prompt legislative action, what is happening to Bacardi-Martini could happen to others.

The United States Patent & Trademark Office ("PTO") has permitted the registration of trademarks that were illegally confiscated from their private owners. The PTO's present practice is wholly inconsistent with the emphatic law and public policy of the United States over many generations that uncompensated confiscations of property are disapproved and not given effect within the United States, including trademarks.(1)

"Acts of intervention and nationalization which do not afford compensation to the persons adversely affected are undoubtedly inconsistent with our policy and laws." See F. Palicio y Compania, S.A. v. Brush, 256 F. Supp. 481, 488 (S.D.N.Y. 1966). Such uncompensated confiscation is simply "repugnant to our fundamental concept of justice." See Republic of Iraq v. First National City Bank, 241 F. Supp. 567, 574 (S.D.N.Y. 1965). Thus, as stated in Maltina Corp. v. Cawy Bottling Co., 462 F.2d 1021 (5th Cir. 1972), and cases cited therein, "our courts will not give 'extra-territorial effect' to a confiscatory decree of a foreign state, even where directed against its own nationals." Id. at 1025.

With respect to Cuba, this policy was reiterated in 1996 with the passage of the Cuban Liberty and Democratic Solidarity Act of 1996. P.L. 104-114. Titles III and IV of that Act impose specific penalties upon persons who "traffic" in property that was illegally confiscated by the Cuban government. The Act defined "property" to include trademarks and other forms of intellectual property. 22 U.S.C. ¤ 6023(12).

The U.S. is not alone in asserting this policy. The courts of many other nations have refused to recognize uncompensated state confiscation.(2) With respect to Cuba, as recent as three days ago our State Department announced that the European Union had recognized the illegality of property confiscations by the Castro regime and would also take measures to discourage businesses from participating with the Castro regime in transactions that involve uncompensated confiscations.

The problem is compounded by the PTO's adoption of a policy that puts U.S. companies, particularly those with a Cuban heritage, at a distinct disadvantage with regard to registering trademarks that have a Cuban theme.

At present, the state-run enterprises of the Castro regime and their European trading partners are permitted to register Cuban theme trademarks but exiled Cubans, in fact any U.S. nationals, are denied the right to register these trademarks because the marks arguably have geographic significance with respect to Cuba.

The result of this PTO policy, ironically enough, is that when a democratic government is reestablished in Cuba and goods from Cuba are once again allowed into the United States, the Cuban state enterprises or their assigns could have an advantage over U.S. nationals that observed the U.S. embargo. Under the PTO's present policy, only after the embargo is lifted and U.S. companies have actually set up facilities in Cuba will they be allowed to register Cuban theme trademarks.

To illustrate the problems caused by the PTO's policy, let me explain the present situation involving the "Havana Club" mark for rum. From the 1930's to 1960, Jose Arechabala, S.A., a Cuban company owned by the Arechabala family, produced Havana Club rum at its distillery in Cardenas, Cuba and sold it in the United States. In 1935, 1936 and 1953, Jose Arechabala, S.A. was issued U.S. trademark registrations for the Havana Club mark.

In October of 1960, the Cuban assets of Jose Arechabala, S.A., along with other Cuban companies, were seized without compensation by the Castro government pursuant to Cuban Decree No. 890.(3) The confiscation was carried out by armed members of the military. A member of the confiscating force installed himself as the company's director. Not surprisingly, the business soon deteriorated. The Arechabala family members were told not to report back to work. Today, all but one of the living shareholders of Jose Arechabala, S.A. reside in exile outside of Cuba.

In 1976, a Cuban state enterprise, Cubaexport, registered the "Havana Club" mark in the U.S. In 1993, Cubaexport's Havana rum business was reorganized to incorporate a foreign partner. Cubaexport reached agreement with the French liquor distributor, Pernod Ricard, S.A., to form two companies: (1) Havana Club Holding, of which 50% equity and board representation was to be held by a newly formed Cuban company, Havana Rum & Liquor, S.A., and 50% by Pernod; and (2) Havana Club International, which has a 50-50 equity split between Havana Rum Liquors and Pernod, both through direct holdings and through holdings in Havana Club Holding. As part of this reorganization, the Havana Club trademark was transferred by Cubaexport to Havana Rum & Liquors, which then transferred it to Havana Club Holding. Havana Club Holding then granted Havana Club International an exclusive license to sell Havana Club Rum and to use the Havana Club trademark. As part of this transaction, Cubaexport applied for and obtained from the PTO an assignment of the 1976 Havana Club trademark registration in the U.S. Pursuant to the assignment, the U.S. trademark registration for Havana Club was transferred to Havana Club Holding.

While Cubaexport and Pernod Ricard were working on their joint venture, the Arechabala family was still trying to get back into the rum business and seeking a partner who could assist them in re-establishing their rum business outside of Cuba. After speaking to other possible partners, the Arechabala family chose to enter into an agreement with Bacardi, whose officers and shareholders were sympathetic to the Arechabala family's plight having suffered the confiscation of their Cuban assets at the hands of the Castro regime.

Bacardi began distilling Havana Club rum and distributing it in the United States. As a result, in December of 1996, the Cuban government's joint venture entities with Pernod Ricard, namely Havana Club Holding and Havana Club International, sued Bacardi and its distributors alleging federal trademark infringement of the trademark registration granted by the PTO. The lawsuit was filed in the United States District Court for the Southern District of New York, Case No. 96-CIV.-9655(SAS).

The lawsuit presents the unbelievable scenario of the successor-in-interest to the government that illegally confiscated the trademark being able to sue the legitimate and original owner. Worse still, the claim is made in the United States under federal trademark law.

The Arechabala family and Bacardi continue to fight in the U.S. and abroad to retrieve that which was illegally confiscated from the Arechabalas without compensation by the Castro regime and which legitimately belonged to the Arechabala family. In fact, in August of 1997, Bacardi was able to obtain favorable rulings on a motion for summary judgment. See Havana Club Holding S.A., et al. v. Galleon S.A., et al., 974 F.S. 302 (S.D.N.Y. 1997). The matter is still pending and based on many of the same legal points raised here, Bacardi and the Arechabala family feel confident that they will ultimately prevail. The fact, however, remains that this scenario should never have existed.

Legislation is, therefore, appropriate to correct the unfairness of this situation and others like it. Contrary to U.S. policy and American jurisprudence, uncompensated foreign confiscations should not give rise to assertion of U.S. rights by the confiscator. The PTO should be directed to deny registration by the Cuban government (or its partners) of trademarks obtained through uncompensated confiscation. The PTO should instead register Cuban-theme trademarks in favor of the legitimate former owners notwithstanding that the goods cannot be produced in Cuba.

While it is unknown if similar situations presently exist with respect to other countries, they could arise with respect to any country which, in the past or in the future, confiscates property without compensation, including trademarks which may have U.S. equivalents or for which U.S. equivalents are subsequently sought. Since the appropriate principles are the same regardless of what country is involved, any proposed legislation should be of general application.

The following language, if added as a new section to Title 15 U.S.C., should cure the inequities outlined above:

Notwithstanding any other provision of this Title or of any other law,

(a) No trademark shall be refused registration on the ground that such mark is either deceptive or primarily geographically deceptively misdescriptive with respect to a particular foreign country, and no action shall lie against any person for the use of such mark or the importation of goods bearing such mark, if the applicant or person demonstrates:

(1) that he, or a predecessor in interest, was at any time after January 1, 1959, the owner or registrant of the same mark for the same or similar goods or services in that foreign country;

(2) that the mark, or a business or property associated with the mark, was

expropriated in that foreign country from him, or a predecessor in interest, without the payment of just compensation, and

(3) that neither he nor any predecessor in interest has authorized any other person to make exclusive use of the mark.

(b) No trademark shall be registered, and no assignment or transfer of a trademark shall be recorded or recognized, if an opposer demonstrates that:

(1) the same mark for the same or similar goods or services, or a business or property associated with the mark, was at any time since January 1, 1959, expropriated in a particular foreign country without the payment of just compensation, and

(2) that, at any time following such expropriation, the purported present owner of the mark or applicant for the registration, assignment or transfer, or any predecessor in interest, acquired his claim to or registration of the mark in that foreign country without the authorization of the person from whom the mark, or a business or property associated with the mark, had been expropriated or of a successor in interest of such person.

Mr. Chairman and members of the Committee, thank you for your time and consideration of this issue.

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1. Merely as a few examples, see Baglin v. Cusenier Co., 221 U.S. 580 (1911); Republic of Iraq v. First National City Bank, 241 F. Supp. 567 (S.D.N.Y. 1965), aff'd, 353 F.2d 47 (2d Cir. 1965), cert. denied, 382 U.S. 1027 (1966); Vladikavkazsky Ry. Co. v. New York Trust Co., 189 N.E. 456 (N.Y. 1934); Zwack v. Kraus Bros. & Co., 237 F.2d 255 (2d Cir. 1956); F. Palicio y Compania, S.A. v. Brush, 256 F. Supp. 481, 490-93 (S.D.N.Y. 1966), aff'd, 375 F.2d 1011 (2d Cir. 1967), cert. denied, 389 U.S. 830 (1967); Carl Zeiss Stiftung v. V.E.B. Carl Zeiss Jena, 293 F. Supp. 892, 896-97 (S.D.N.Y. 1968), aff'd as modified, 433 F.2d 686 (2d Cir. 1970), cert. denied, 403 U.S. 905 (1971); Maltina Corp. v. Cawy Bottling Co., 462 F.2d 1021 (5th Cir. 1972), cert. denied, 409 U.S. 1060 (1972); Castro v. ITT Corp., 598 A.2d 674, 678-80 (Del. Ch. 1991); Williams & Humbert Ltd. v. W. & H. Trade Marks (Jersey) Ltd., 840 F.2d 72, 75 (D.C. Cir. 1988); Financial Matters, Inc. v. Pepsico, Inc., 806 F. Supp. 480, 484 (S.D.N.Y. 1992); Restatement (3d), Foreign Relations Law of the United States ¤ 443 reporters' note 4 at 375-76, and earlier authorities cited in all of the above. "[T]he public policy of our nation is antithetical to the recognition of the Cuban government's confiscatory decree with respect to property outside CubaÉ." Compania Ron Bacardi, S.A. v. Bank of Nova Scotia, 193 F. Supp. 814, 815 (S.D.N.Y. 1961).

2. 0E.g., Argentina - Enterprise Nationale L. & C. Hardtmuth v. L. & C. Hardtmuth Inc. (Federal District Court, Buenos Aires, July 16, 1960) (1964 PropriŽtŽ Industrielle p. 179) (The 1948 confiscation of a Czech family's company by the new communist government of Czechoslovakia was not recognized in Argentina and the company's trademarks were held to belong to the original owners. The expropriations without compensation were held unconstitutional under Argentine law).

Austria - Hans Hoffman v. Jii Dralle (S. Ct. May 10, 1950) (1950 PropriŽtŽ Industrielle, p. 219 and 1957 p. 204) (The 1945 nationalization by the Czech

government of a German company's local subsidiary, pursuant to wartime legislation, was found insufficient to transfer Austrian trademarks to the Czech government under the nationalization); Jenaer Glaswerk Schott & Gen. v. WaldmŸller (S. Ct., December 19, 1957) (24 I.L.R. 42) (The Austrian Supreme Court found in favor of a German family who had their company confiscated in East Germany and moved to West Germany where they resumed production under the original company's name and trademarks and asserted that trademark against the nationalized enterprise in East Germany).

Belgium - Cie Belgo-Lithuaniennne ElectricitŽ (Brussels Appellate Court, June 25, 1947) (1948 Journales Tribunaux, p. 104, N. 3756) (A Lithuanian corporation with assets in Belgium was nationalized and dissolved following the Soviet occupation of Lithuania. The appellate court held that the Soviet nationalization was contrary to Belgian public policy and could not have any effect in Belgian territory).

France - Union des RŽpubliques Socialistes SoviŽtiques v. Intendant GŽnŽral Bourgeois (Court of Cassation, March 5, 1928) (A French court of appeals and later the Court of Cassation rejected the Soviet government's claim of ownership over certain assets belonging to a Russian navigation company where the Soviet government expropriated without any compensation the assets. The court held that, under French law, no one should be forced to give up his property without fair and prepaid compensation); Volatron v. Moulin, (Aix Appellate Court, March 25, 1939) (A French appellate court affirmed a lower court's decision not recognizing a Catalonian confiscatory decree where the foreign expropriation was not accompanied by just indemnification. The French court ruled that without such indemnification the decree was contrary to French public policy); Bauer Marchat et Cie v. Pioton and Others, (Court of Cassation, March 2, 1955) (22 I.L.R. 13) (The Court of Cassation refused to recognize a 1917 Russian Decree nationalizing a bank and finding that the Russian decree was confiscatory and had no legal effect in France. The court went on to hold that all the shareholders, regardless of their nationality, were entitled to share in the funds in an account in France.)

Germany - Trademark Expropriation Case, (Court of Appeal of DŸsseldorf, December 20, 1949) (16 I.L.R. 22) (A business in the Soviet occupied zone of Germany was confiscated by the Soviet authorities and its assets were transferred to a state enterprise. The former owners tried to restrain the state enterprise from using the trademark connected with the business in the western zones of Germany. The court granted an injunction in favor of the former owners and held that the Soviet confiscation did not have effect outside the Soviet zone; Confiscation of Trademarks Case (Federal Supreme Court, June 7, 1955) (22 I.L.R. 17) (A Czech firm owned trademarks registered in Germany. The firm was nationalized in Czechoslovakia and its property, including trademarks transferred to a state enterprise. The former owners of the firm tried to restrain the national enterprise from using the trademarks in Germany. The court granted an injunction in favor of the original owner.)

Italy - Svit Nsrodin Padnik & Bata A.S. v. Societa B.S.F. Stiftung and Others, (Bologna Appellate Court, April 1956) (An Italian appellate court refused to give effect to Czechoslovak nationalization decrees on the basis that they were contrary to Italian international public policy because the expropriations were without adequate and fair compensation); Societa Ornati v. Archimedes Rechenmaschinenfabrik Reinhold Pothig (Court of Cassation, October 5, 1959) (28 I.L.R. 110) (The Italian Court of Cassation refused to

recognize an East German expropriation of a trademark and ruled in favor of the daughter of the original owner of the expropriated East German company. Significantly, the court also held that even if the East German state enterprise had been able to prove prior use in Italy such prior use would not be recognized as it would have been based on the confiscation, and the confiscation was not entitled to recognition in Italy).

Switzerland - Bibliographisches Institut A.G. v. VEB Bibliographisches Institut, (Tribunal of Commerce of St. Gall, September 29, 1971) (71 I.L.R. 26) (In a dispute involving companies in East Germany and West Germany, both of whom claimed to be the rightful successor of a company established in Gotha in 1826, the court ruled in favor of the West German company on the basis that Switzerland would not recognize expropriations without compensation and, therefore, the rights stemming from the nationalization asserted by the East German company was given no extra territorial effect).

United Kingdom - Lecouturier v. Rey, (House of Lords, March 18, 1910) (1910 A.C. 262) (The House of Lords refused to recognize the French government's confiscation of the "Chartreuse" liqueur trademark.); Frankfurther v. W.L. Exner Ltd., (Chancery Division, June 23, 1947) (Ch. 629 [1947]) (The Chancery Division refused to give effect to a purported extraterritorial decree of the Nazi regime in Austria confiscating the property of Jews in Austria; Anglo-Iranian Oil Company Ltd. v. Jaffrate and Others (Supreme Court of Aden, January 9, 1953) (1 W.L.R. 246 [1953]) (The British court refused to recognize the expropriation without compensation by the Iranian government of oil concessions which had been granted to a British company.)

3. 0 Decree No. 890 violated Cuba's Constitution which required any government nationalization to be based on just cause and accompanied by full, fair and immediate indemnification.