

Testimony of William A. Reinsch,
President of the National Foreign Trade Council
Before the House Committee on the Judiciary
Subcommittee on the Courts, Intellectual Property and the Internet
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Thank you, Mr. Chairman. My name is William Reinsch, and I am President of the National Foreign Trade Council, which represents 200 American companies engaged in global commerce. The NFTC strongly supports the Obama Administration's efforts to place relations between the United States and Cuba on a more normal footing. Resolving satisfactorily the legitimate claims of U.S. citizens who had their property in Cuba confiscated by the Castro government is essential to creating the conditions in which a normal relationship with Cuba can thrive and endure. Constructing new impediments and perpetuating those that already exist will only complicate this process and make it more difficult to secure the recompense that U.S. property holders have sought for decades.

With these concerns in mind, I would like to focus my testimony today on an important intellectual property issue that, if not resolved correctly, will adversely affect our country's standing in international organizations, our ability to lead the global effort to protect intellectual property rights, and our efforts to protect the property of U.S. citizens and companies doing business in Cuba in the years ahead. That is Section 211 of the FY 1999 Department of Commerce and Related Agencies Appropriations Act.

As the Committee is aware from its hearing on this subject in March 2010, Section 211 was found in 2002 to be in violation of U.S. WTO obligations. Some 14 years later, the United States remains in non-compliance. Section 211 also has put the United States in violation of its obligations under the General Inter-American Convention for Trademarks and Commercial Protection¹

On behalf of NFTC, I wish to express our support for repeal of Section 211. Repeal provisions are contained in a number of bills, including H.R. 403 and 635, both introduced by Congressman Rangel, as well as H.R. 735 by Mr. Serrano, and H.R. 274 by Mr. Rush. I also want to express

¹ Feb. 20, 1929, 46 Stat. 2907, 2930-34.

NFTC's opposition to H.R. 1627, which purports to address this problem in a different way, but in fact would only exacerbate it.

Repeal of Section 211 would remedy the U.S. breach of its WTO obligations and the Inter-American Convention, while also removing any pretext for the Cuban government to remove protection of trademarks currently registered in Cuba by U.S. companies. At present, there are more than 5000 U.S. trademarks registered in Cuba by over 400 U.S. companies. Many of these companies look forward to the opportunity to sell their products in Cuba, and they will want to know with certainty that their trademarks will be protected by Cuba as they build their plans to develop that market.

Repeal of Section 211 also would restore the traditional U.S. leadership role on intellectual property issues which has been compromised by our failure to comply with the WTO ruling. This has provided over the past decade a convenient excuse for other WTO member countries, such as China and India, to ignore U.S. calls to improve their intellectual property laws. Repeal of Section 211 would confirm the U.S. commitment to providing high standards of intellectual property protection, including our commitment not to assign trademarks based on political criteria. Finally, it would reaffirm that resolving trademark disputes are properly the responsibility of the Patent and Trademark Office and the courts, based on the merits and not on political considerations.

Section 211 was not considered by this Committee or any other committee in either house of Congress before it was slipped into the 1998 Omnibus Appropriations Act in conference. It was enacted solely to help one of the litigants in a particular dispute before the U.S. courts by preempting the court from rendering judgment on the merits of the litigants' respective claims.

Section 211 has no benefits for the U.S. business community and is far more likely to cause significant damage. If Section 211 is maintained in law, it could provide a pretext for Cuba to withdraw protection for U.S. trademarks currently registered in Cuba by American companies. It could also become one more roadblock to the efforts to the United States to reach agreement with the Cuban government on a satisfactory resolution of the outstanding claims of U.S. citizens whose properties in Cuba were confiscated by the Castro regime more than 50 years ago.

The only effective remedy for the problems presented by Section 211 is to repeal it. H.R. 1627, or other proposals short of full repeal, will only make things worse. For the benefit of a single company, the proponents of Section 211 and H.R. 1627, in effect, are asking the Congress (i) to make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against spurious claims of ownership, (ii) to keep U.S. companies exposed to the risk of retaliation abroad and the type of injury suffered in South Africa, and (iii) to continue putting U.S. law at cross-purposes with longstanding principles of U.S. trademark law and important intellectual property and trade policy objectives of the U.S. business community and the U.S. Government.

Despite the more than fifty year embargo on trade with Cuba, both countries have reciprocally recognized trademark and trade name rights since 1929 as signatories to the General Inter-American Convention for Trademarks and Commercial Protection. Both Cuba and the United States are parties to the Convention, and it remains in force between us notwithstanding the trade embargo.² United States federal courts have reiterated the enduring vitality of the Inter-American Convention, and treated it and the Paris Convention for the Protection of Industrial Property as cornerstones of trademark and trade name relations between the two countries.³

Continuation of this policy is an essential pre-condition for future U.S. commercial engagement with Cuba and guards against prejudice to valuable intellectual property rights in the interim. Pursuant to the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), American companies are legally exporting branded food and medical products to Cuba, making these protections all the more essential. Section 211 contradicts this policy in ways that threaten to expose the trademarks and trade names of U.S. companies to retaliation in Cuba and undercuts our international position on intellectual property issues.

Section 211 violates the Inter-American Convention because it denies registration and renewal of trademarks on grounds other than those permitted by Article 3, which requires registration and legal protection “upon compliance with the formal provisions of the domestic law of such

² U.S. Dep't of State, Treaties in Force 393 (2000).

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

States.”⁴ By prohibiting U.S. courts from recognizing rights arising from prior use of a trademark in another treaty country, or from determining whether an earlier U.S. trademark has been abandoned, Section 211 expressly violates Article 8 and Article 9. By prohibiting U.S. courts from recognizing certain trade name rights, Section 211 violates Article 18, which gives the owner of an existing trade name in any treaty signatory the right to obtain cancellation of and an injunction against an identical trademark for similar products. And, by depriving U.S. courts of the authority to issue injunctions and other equitable relief against trademark or trade name infringement, Section 211 violates Articles 29 and 30.

Dispute settlement does not appear a practical means for the United States and Cuba to try to resolve disagreements over protection of trademark rights. Because Section 211 specifically denies U.S. courts the authority to enforce the “treaty rights” otherwise available to a party (including those available under the Inter-American Convention), it obviates Article 32 of the Inter-American Convention, which provides for national courts to resolve questions of interpretation.

As a result, Section 211 compels any dispute against the United States alleging violation of the terms of the Inter-American Convention to be resolved through customary international law. Customary international law permits “a party specially affected by the breach to invoke it as a ground for suspending the operation of the agreement in whole or in part in the relations between itself and the defaulting state.”⁵ Suspension of the operation of the Convention, were it to occur, would result in substantial uncertainty regarding the legal status in Cuba of the trademarks and trade names of U.S. companies.

On several occasions in the past, the Cuban government has raised the prospect of withdrawing the protections afforded by the Inter-American Convention. Should Congress fail to repeal Section 211, the United States will have handed the Cuban government the legal grounds for doing so.

Whether the Cuban government would take such action is anyone’s guess, but, given the experience of NAFTA members in a comparable

⁴ The distinction is important because the United States argued before the WTO that “Section 211(a)(1) does not deal with the form of the trademark,” and the WTO Appellate Body concluded that Section 211 “deal[s] with the *substantive* requirements of ownership in a defined category of trademarks.” Appellate Body, *United States – Section 211 Omnibus Appropriations Act*, WT/DS176/AB/R (Jan. 2, 2002), at ¶60, ¶222 (referring to ¶121 specifically addressing Section 211(a)(1)).

⁵ Restatement 3d of the Foreign Relations Law of the U.S., § 335.

situation in South Africa, we are reluctant to take that risk. South Africa is an important precedent because it demonstrates the mischief that results when trade embargoes inhibit reciprocal trademark recognition.

Under the U.S. trade embargo of South Africa, U.S. companies were prohibited from paying the fees necessary to either file trademark applications or maintain existing trademark registrations in South Africa. When the embargo ended, a number of U.S. companies with internationally-recognized trademarks, including BURGER KING, TOYS R US, 7 ELEVEN, and VICTORIA'S SECRET, discovered that their trademarks in South Africa had been appropriated by unauthorized persons. These difficulties led the U.S. Trade Representative to identify South Africa as a "Special 301" country in 1996. Recovering the rights to their trademarks necessitated lengthy and expensive litigation and attempts to encourage the South African government to amend its laws.

Had the U.S. government maintained consistent and predictable intellectual property relations with South Africa during the U.S. embargo, it would have spared many U.S. companies significant legal expense and loss of trademark goodwill, while facilitating reform in that country. It would be unfortunate if American companies were required to do the same in Cuba because Congress failed to repeal Section 211.

H.R. 1627, on the other hand, would seek to apply section 211 to both U.S. nationals and foreign trademark holders. However, such an amendment has significant drawbacks when compared with repeal, the main one being that it would not address any of the inconsistencies of Section 211 with the Inter-American Convention. In addition to the risk to U.S. companies abroad, such a partial approach would also lead to increased litigation and legal uncertainty at home.

By making U.S. nationals subject to the restrictions of Section 211, H.R. 1627 apparently creates a new defense - independent of the Lanham Act - for trademark infringement and counterfeiting. At issue would be whether the trademark and trade name rights being asserted by a U.S. national are "the same or substantially similar" to a trademark that was used in connection with a business in pre-Castro Cuba and confiscated over 50 years ago. If so, U.S. trademark owners would be required to obtain the consent of the owner or successor of that business in Cuba.

Under existing law in the Lanham Act, a trademark is presumed to be abandoned, and thus cannot be used to impose liability on third parties, when it has not been used for two years, and there is no intent to resume using it. While these trademarks would be considered “dead” and thus without legal rights under longstanding U.S. trademark law, they are “undead” under Section 211 because their owners – who may have long since died or cannot be located – and their successors can deny their use by third parties for an indefinite and unlimited period of time.

The trademark laws that Congress has enacted have consistently sought to reduce the number of “deadwood” trademarks, by ensuring that businesses may adopt without liability a trademark that has been abandoned by its previous owner. These laws have also sought to provide security to businesses adopting trademarks, by providing a rebuttable presumption of abandonment. Section 211 runs against both of these long-standing policies by creating uncertain and even unascertainable bases for potential liability when a business wishes to use an abandoned “deadwood” trademark.

H.R. 1627 would also establish an additional condition whereby a U.S. company asserting trademark or trade name rights would need to demonstrate whether it “knew or had reason to know” that its trademark or trade name was “the same or substantially similar” to a trademark that was used in connection with a business – any business – in pre-Castro Cuba. This question could be difficult or expensive to answer. In addition, the bill would require the courts to determine whether the trademark owner knew or had reason to know “at the time when the person or entity acquired the rights asserted” – which in the case of certain U.S. companies could be over 100 years ago. If prior experience is any guide, such a significant change in U.S. trademark law would result in substantial new burdens on U.S. trademark owners in the form of increased litigation, discovery “fishing expeditions,” increased legal costs of hundreds of thousands if not millions of dollars, and reduced legal and business certainty.

In sum, Section 211, even if amended by H.R. 1627, would continue to benefit only a single company, and provide no benefits for U.S. business. Instead, it would make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against counterfeiters and infringers and, keep U.S. companies exposed to the risk of legal uncertainty and retaliation abroad. It would further complicate their efforts to develop the Cuban market for their products and services in the years ahead.

For NFTC members, this is a bad bargain that harms both U.S. business and U.S. national interests. Instead, we urge Congress to repeal Section 211 in its entirety. Repeal is the only action that will provide full compliance with all current U.S. trade obligations and deny other governments any rationale for suspending their treaty obligations or retaliating against the trademark and trade name rights of U.S. businesses.

It is important to note that repeal of Section 211 would not take sides in the underlying dispute over the Havana Club trademark, and it would not settle that question. Rather, it would return the dispute to the Patent and Trademark Office and the courts where it belongs. Experience shows that the courts are more than capable of reaching a just and equitable resolution of that dispute based on the merits.

The United States has long been a leader in securing intellectual property rights globally. Repeal of Section 211 will help sustain the U.S. position in this regard by providing assurance that American trademarks and trade names will be protected even when held by representatives of governments with which we have difficult relations. In contrast, failing to repeal Section 211 threatens to overshadow the important contributions being made by the Congress and the Executive Branch to a consistent and predictable international intellectual property policy that serves the needs of U.S. business.

This is all the more important as the United States moves to re-establish a normalized relationship with Cuba. Repeal of Section 211 is an essential element of establishing that relationship.