



Vol. 15 No. 22

November 4, 2005

COURTS, NOT CONGRESS SHOULD RESOLVE TRADEMARK DISPUTES

by
Tracy-Gene G. Durkin

An important debate has emerged in the last few years over the proper role of the courts in our constitutional democracy. Some elected officials have decried rulings which, in their opinion, tread on Congress's authority. Such concerns merit attention, but often overlooked in that debate is our federal legislators' own failure to recognize that it is the courts', not Congress's, responsibility "to determine actual controversies arising between litigants, duly instituted in courts of proper jurisdiction." *Muskrat v. United States*, 219 U.S. 346, 361 (1911). An ongoing dispute involving the ownership of a federal trademark provides one example where Congress failed to respect the constitutional separation of powers.

The dispute involves the ownership, under laws and treaties of the United States, of the trademark "Havana Club" in the U.S. The product at issue is "Cuban" rum. In 1953, a Cuban company, Jose Arechabalas S.A. (JASA), registered the "Havana Club" trademark in the U.S., providing it with legal protection for that name for a twenty year period. Upon seizing power in 1960, the Castro regime nationalized JASA's distillery and assets in Cuba and the company stopped producing rum. This action did not affect JASA's ownership of the "Havana Club" mark in the U.S. However, in 1973, JASA, perhaps under the misimpression that it had to be selling rum in the U.S. in order to renew its U.S. trademark, *see James Cox, Rum Rivals Fight Castro on U.S. Trademark Turf*, USA TODAY, Aug. 11, 1999, allowed its registration for "Havana Club" to expire.

In 1976, the U.S. Patent and Trademark Office granted a trademark, without opposition, for "Havana Club" to state-owned Cuban company, Cubaexport. Cubaexport in 1993 entered into a joint venture with a foreign partner, and transferred worldwide holdings of the "Havana Club" mark to Havana Club Holdings (HCH), and HCH renewed its U.S. trademark rights to "Havana Club" for another ten years in 1996. The controversy over the ownership of the mark ripened that year when the Arechabalas family sold whatever

Tracy-Gene G. Durkin is a director with the law firm Sterne, Kessler, Goldstein & Fox P.L.L.C. and leads the firm's trademark practice. **This publication reflects the present thoughts of the author, and should not be attributed to Sterne, Kessler, Goldstein & Fox P.L.L.C. or any of its former, current, or future clients. The content is for purposes of discussion and should not be considered legal advice. This publication should not be construed as an attempt to aid or hinder the passage of legislation.**

rights it held to the original “Havana Club” mark to a Bermuda company, Bacardi, which then produced and distributed its Havana Club rum in the U.S. In December of 1996, HCH sued Bacardi in federal district court. Just before the trial began in October 1998, the Senate, without any debate or attendant legislative history, adopted an amendment to the Department of Commerce and Related Agencies Appropriations Act. The amendment, known as Section 211, in effect prohibits U.S. courts from recognizing, enforcing, or otherwise validating any assertion of rights of trademarks used in connection with any business that was nationalized by the Cuban government. Section 211 had its intended effect, as on June 28, 1999, the federal district court, relying on that law, dismissed HCH’s claims. *Havana Club Holdings, S.A. v. Galleon, S.A.*, 62 F. Supp. 2d 1085 (S.D.N.Y. 1999). The U.S. Court of Appeals for the Second Circuit, also relying on Section 211, affirmed the district court. *Havana Club Holdings S.A. v. Galleon, S.A.*, 203 F.3d 116 (2d Cir. 2000).

Although the language of Section 211 is clearly broad, the highly political nature of the Bacardi-HCH dispute leaves little doubt that the amendment was targeted at least in part at the ongoing court dispute. The main criticisms of the law are that it completely ignores several long-standing principles of trademark law and stripped the courts’ ability to apply them to resolve highly complex, factual disputes. As one trademark expert has pointed out, “The effect of Section 211 . . . was and is to oust abandonment – in the specific context of U.S. rights purportedly held by Cuban entities – from the normal, critical role it has long played in U.S. Trademark Law.” Testimony of Professor Kenneth B. Germain, U.S. Senate Committee on the Judiciary, July 13, 2004. A key tenet of trademark law is demonstrated use of the mark, and HCH sought to prove in its suit that JASA abandoned its use of “Havana Club,” and failed to avail itself of special exceptions federal law provides for non-use. Bacardi, as the owner of JASA’s purported rights to “Havana Club,” has particular counterarguments to HCH’s abandonment defense. Rather than allow the courts to resolve the factual dispute over use of the mark, Congress dictated that use was irrelevant, and set in stone what federal law seeks to avoid – the existence of unused, “deadwood” marks which collect on the federal trademark rolls and potentially stoke consumer confusion. *See id.* Both the district and appellate courts explicitly held that there is no abandonment “exception” to Section 211. For at least this reason, the World Trade Organization has ruled that Section 211 violates basic principals of the Trade-Related Aspects of Intellectual Property Rights, or TRIPS, agreement.

Section 211’s proponents argue that the Congress needed to ensure that U.S. law did not advance the interests of those who arguably benefited from Castro’s expropriation actions over the interests of those whose property was seized. In fact, U.S. courts have “developed a multifaceted approach to foreign nationals who have suffered the dislocation of expropriation at home and own U.S. trademark registrations to preserve their rights pending appropriate efforts to resume use.” Answers of William A. Reinsch to Questions Submitted by Members of the Senate Committee on the Judiciary, Aug. 20, 2004. As the U.S. Court of Appeals for the Fifth Circuit stated in *Maltina Corp. v. Cawy Bottling Co., Inc.*, “it is settled by a long line of cases that ‘our courts will not give ‘extraterritorial effect’ to a confiscatory decree of a foreign state, even where directed against its own nationals.’ [citations omitted]. Thus, ‘foreign confiscatory decrees purporting to divest nationals and corporations of the foreign sovereign property located in the United States uniformly have been denied effect in our courts.’” 462 F.2d 1021, 1025 (5th Cir), *cert. denied*, 409 U.S. 1060 (1972). Rather than allow the federal courts to determine whether JASA could benefit from the presumption spelled out in *Maltina*, Section 211 created perpetual legal rights for one trade name or trademark owner who may have never even used that property in the U.S.

Given the history underlying the “Havana Club” ownership dispute, it is not surprising that politicians would demonstrate an interest in its outcome. But how they demonstrated that interest – by quietly stripping a court of jurisdiction to hear the dispute – did a disservice to intellectual property law and the courts that are constitutionally tasked with applying it. No matter how popular such an action may be with a certain constituency, Congress owes it to all litigants who come before federal courts seeking impartial justice to show more respect for the separation of powers.